

AUXILIARY ORGANIZATIONS

CALIFORNIA STATE UNIVERSITY, NORTHRIDGE

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ABBREVIATIONS

AICPA	American Institute of Certified Public Accountants
AR	Accounts Receivable
ASI	CSUN Associated Students, Inc.
CEO	Chief Executive Officer
CFO	Chief Financial Officer
Corporation	CSUN Corporation, Inc.
CSUN	California State University Northridge
Foundation	CSUN Foundation, Inc.
IRC	Internal Revenue Code
IRS	Internal Revenue Service
IS	Information Systems
IT	Information Technology
North Campus	North Campus University Park Development Corporation
RFSA	Resolution of the Committee on Faculty and Staff Affairs
SAM	State Administrative Manual
SRTC	State Revenue and Taxation Code
TIN	Taxpayer Identification Number
UBI	Unrelated Business Income
Union	CSUN University Student Union, Inc.

INTRODUCTION

PURPOSE

The principal audit objectives were to determine compliance with the Education Code, Title 5, and directives of the Board of Trustees and the Chancellor's Office, and to assess the adequacy of controls and systems. Specifically, we sought assurances that legal and regulatory requirements are complied with regarding the:

- ▶ formation of the auxiliary;
- ▶ functions the auxiliary performs on the campus;
- ▶ creation and operation of the auxiliary's board of directors;
- ▶ establishment of policies and procedures based upon sound business practices;
- ▶ observance of mandates to maintain an "arms-length" in business transactions between the auxiliary and the campus; and
- ▶ campus oversight of auxiliary operations.

In addition, we reviewed internal controls to assure that:

- ▶ accounting data is provided in an accurate, timely, complete, or otherwise reliable manner;
- ▶ assets are adequately safeguarded from loss, damage, or misappropriation;
- ▶ duties are appropriately segregated consistent with appropriate control objectives;
- ▶ transactions, accounting entries, or systems output is reviewed and approved;
- ▶ management does not intentionally override internal controls to the detriment of the overall internal control objectives;
- ▶ accounting and fiscal tasks, such as reconciliations are prepared properly and completed timely;
- ▶ deficiencies in internal controls previously identified were corrected satisfactorily and timely; and
- ▶ management seeks to prevent or detect erroneous record keeping, inappropriate accounting, fraudulent financial reporting, financial loss, and exposure.

SCOPE AND METHODOLOGY

Our management review emphasized, but was not limited to, compliance with state and federal laws and regulations, Board of Trustee policies, and Office of the Chancellor policies, letters, and directives as they relate to CSU auxiliaries. For those audit tests that required annualized data, fiscal years ended 1998 and 1999 were the primary periods reviewed. In certain instances, we were concerned with representations of the most current data—in such cases, the test period was extended to February 2000.

Our primary focus was on internal compliance and controls. Specifically, for the period reviewed, we examined compliance of the campus and each auxiliary with the Education Code and Title 5 as they relate to the operation of CSU auxiliary organizations.

The scope of our review, regarding internal compliance considerations, focused on areas which were identified during our preliminary assessment of risks related to the CSU and its requirements to exercise oversight of auxiliaries. (See Appendix B.)

The scope of our internal control review focused on separation of duties, safeguarding of assets, and reliability and integrity of information. Within these, we considered areas of risk identified during a preliminary survey of the campus' auxiliary operations in addition to risks related to the CSU and its oversight of auxiliaries. (See Appendix B.)

Our assessment of risk was based upon a systematic process, using professional judgments on probable adverse conditions and/or events that became the basis for development of our final scope. Risk was defined as the probability that an event or action would adversely affect the auxiliary and/or the campus. We sought to assign higher review priorities to activities with higher risks. As a result, not all risks identified were included within the scope of our review.

We have not performed reviews or analyses beyond the date of our report. Accordingly, our comments are based on our knowledge as of that date and should be read with that understanding. Since the purpose of our comments is to suggest areas for improvement, comments on favorable matters are not discussed.

BACKGROUND

Education Code §89900 states, in part, that the operation of auxiliary organizations shall be conducted in conformity with regulations established by the trustees.

Education Code §89904 states, in part, that the Trustees of the California State University and the governing boards of the various auxiliary organizations shall:

- ▶ institute a standard system-wide accounting and reporting system for businesslike management of the operation of such auxiliary organizations;
- ▶ implement financial standards that will assure the fiscal viability of such various auxiliary organizations. Such standards shall include proper provision for professional management, adequate working capital, adequate reserve funds for current operations and capital replacements, and adequate provisions for new business requirements;
- ▶ institute procedures to assure that transactions of the auxiliary organizations are within the educational mission of the state colleges; and
- ▶ develop policies for the appropriation of funds derived from indirect cost payments.

Executive Order No. 698, superseding Executive Order No. 682, was issued on March 3, 1999. In that directive, the president of each campus was instructed, in part, as follows:

Section 2. Authority and Responsibility of the Campus President. Title 5, §42402 establishes the authority of campus presidents to require auxiliary organizations to operate in conformity with policy of the Board of Trustees and the campus. The president is required to review auxiliary programs and budgets and to require

discontinuance of activities not in conformity with policies of the Board of Trustees and campus.

The following Trustee policy supplements the existing policy of §42402 and provides an additional mechanism for the president to administer his or her responsibilities concerning auxiliary organizations. Action taken by the Trustees' Committee on Audit at the January 1999 board meeting requires an internal compliance/internal control review to be performed by the University Auditor.

The Office of the University Auditor will perform an internal compliance/ internal control review of auxiliary organizations. The review will be used to determine compliance with law, including statutes in the Education Code and rules and regulations of Title 5, and compliance with policy of the Board of Trustees and of the campus, including appropriate separation of duties, safeguarding of assets and reliability and integrity of information. This review of each auxiliary organization shall be completed on a biennial basis pursuant to procedures established by the Chancellor.

This report represents our biennial review.

OPINION

We visited the CSU Northridge campus from October 1999 through February 2000 and reviewed the internal compliance and internal control structures in effect at that time. Our study and evaluation was conducted in accordance with the Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors, and included the audit tests we considered necessary in determining that accounting and administrative controls are in place and operative.

The campus and management at each auxiliary are responsible for establishing and maintaining adequate internal controls. This responsibility includes documenting internal controls, communicating requirements to employees, and assuring that internal controls are functioning as prescribed. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures.

The objectives of accounting and administrative controls are to provide management with reasonable, but not absolute, assurance that:

- ▶ assets are safeguarded against loss from unauthorized use or disposition;
- ▶ transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of reliable financial statements; and
- ▶ financial operations are conducted in accordance with policies and procedures established in the State Administrative Manual, Education Code, Title 5, and Trustee policy as applicable.

Our audit disclosed conditions which, in our opinion, would result in significant errors and irregularities if not corrected. These conditions, along with other weaknesses, are described in the Executive Summary

below and in the body of the report.

As a result of changing conditions and the degree of compliance with procedures, the effectiveness of controls change over time. Specific limitations that may hinder the effectiveness of an otherwise adequate system of controls include but are not limited to: resource constraints, faulty judgments, unintentional errors, circumvention by collusion, and management overrides. Establishing controls to prevent these limitations would not be cost effective; moreover, an audit may not always detect these limitations. (See Appendix C, *Statement of Internal Controls*.)

The provost and vice president for academic affairs and vice president for administration and finance indicated that improvement was needed in the oversight of auxiliary organizations. They noted there was a need for improved availability of, and easy access to, appropriate policy and procedures, knowledge by applicable personnel of adequate and effective internal controls, and on going training and education of personnel.

EXECUTIVE SUMMARY

The purpose of this section is to provide management with an overview of conditions requiring their attention. Areas of review not mentioned in this section were found to be satisfactory. Numbers in brackets [] refer to page numbers in the report.

CAMPUS OVERSIGHT

OVERSIGHT OF FUNDS HELD IN TRUST BY AUXILIARIES [13]

The campus did not always exercise complete, appropriate, and detailed controls over custodial funds held by its auxiliaries. Sufficient oversight of auxiliary management limits exposure to the campus and the CSU system to regulatory and legal consequences.

CAMPUS SUPPORT ORGANIZATIONS [14]

The campus had not fully implemented a policy to manage and a procedure to identify the non-profit organizations that operate in support of academic and non-academic programs. Increased oversight of on-campus non-profit organizations reduces exposure to regulatory and legal consequences.

FUND RAISING PROJECT MANAGEMENT [16]

The campus' policies and procedures addressing budgeting and project management for fundraising efforts were incomplete and not fully implemented. Providing optimal levels of oversight enhances internal controls and assures that projects are managed and accounted for appropriately.

CONFLICT OF INTEREST [16]

The campus had not provided guidance for its auxiliaries with regard to implementation of conflict of interest policies and procedures, including statements and disclosures from board members and management. Inclusion of standards for auxiliary boards and management in the conflict of interest code decreases liability for acts contrary to the code.

FUNDS ACCEPTANCE [18]

Written policies and procedures had not been fully implemented for auxiliary organizations to ensure that only grants, contracts, bequests, trusts or gift funds restricted to purposes consistent with CSU policies are accepted. Establishment of policies and procedures related to the acceptance of funds reduces the risk that inappropriately restricted funds will be accepted.

INTERNET POLICY [18]

Governance of the content of web page offerings presented by auxiliary and other organizations on the campus website are in need of improvement. Sufficient governance of web offerings reduces the risk that inappropriate or fraudulent web-based transactions will occur.

MEMORANDA OF UNDERSTANDING [19]

Memoranda of understanding between the campus and its auxiliaries were not properly executed. Obtaining proper approval for contracts reduces the risk that the campus will be held liable for erroneous or improperly executed agreements.

EDUCATIONAL SUPPORT [20]

Procedures to ensure that a confirmation of appropriate admission to the university was obtained prior to awarding a scholarship or issuing other related payments (e.g., stipend) had not been fully implemented between auxiliaries and the campus financial aid office. Increased coordination among those involved in making and authorizing distributions reduces the risk that payments will be made in error.

COORDINATION OF EFFORTS AMONG AUXILIARIES [20]

Operations of auxiliaries were not adequately coordinated for the benefit of the campus. Coordination of auxiliary resources enables the campus to better meet its educational mission.

MEETING AND HOSPITALITY DISBURSEMENTS [21]

Funds expended for meetings and hospitality at the university club were not always appropriately controlled. Fully documenting and communicating procedures concerning hospitality expenditures prevent internal controls from being compromised.

INDIRECT COSTS [22]

Justification and approval of below-cost reimbursements to the state on contracts and grants were not documented. Such documentation reduces the risk that indirect costs could be disallowed by granting agencies asserting that those costs were inappropriately shifted.

LEASING OF FACILITIES [23]

Arrangements and consideration for the reimbursement of campus facility space utilized by the Foundation were not sufficiently articulated within the operating and lease agreement between the Foundation and the campus. A properly developed written lease agreement between the campus and the Foundation, which delineates promises and considerations from both parties, decreases misunderstandings.

NON-STUDENT CUSTODIAL FUNDS [24]

Campus departments inappropriately established custodial accounts at the ASI that should have been placed into state trust accounts. Clearly establishing, documenting, and communicating the authority of an auxiliary to hold trust funds prevents operating effectiveness and efficiency, as well as internal controls, from being compromised.

FIXED ASSETS [25]

Controls over campus fixed assets in the custody of the USU were insufficient. Adequate documentation of fixed asset policies and procedures reduce the risk that property will be lost or stolen.

CSUN FOUNDATION, INC.

DISBURSEMENTS [26]

Our review of Foundation disbursement processes disclosed instances where expenditure controls were insufficient. Sufficient control over disbursements, in accordance with CSU and related standards reduces the risk that funds will be expended for inappropriate purposes.

ESTABLISHMENT AND MAINTENANCE OF CUSTODIAL FUND ACCOUNTS [26]

The Foundation's processes for establishing and maintaining accounts for custodial funds did not always provide appropriate control. Sufficient controls over account establishment and maintenance reduce the risk that donor/account holder instructions will not be met.

FIXED ASSETS [27]

Policies and procedures concerning fixed asset purchases made on behalf of the campus through Foundation operating accounts were inadequate. Fully addressing fixed asset purchase controls reduces the risk that property will be lost or stolen.

PERSONNEL AND PAYROLL PROCEDURES [28]

The annual (giving) fund personnel and payroll's policies and procedures were in need of improvement. Proper maintenance of policies and procedures improves internal controls.

INSURANCE [29]

The Foundation's insurance coverage was in need of review and revision. Adequate liability insurance coverage decreases loss from liability claims.

SEGREGATION OF DUTIES [30]

Cash receipting, disbursing and reconciling duties were not consistently segregated within the Foundation. Adequate separation of duties reduces the risk that errors and irregularities will not be detected timely.

GIFT RECONCILIATION [30]

Gift acknowledgements were not regularly and timely reconciled to gift deposits and other fund raising records, including college and departmental records. Reconciliations of gift receipts to collections increase the likelihood that errors or misappropriations will be identified.

CSUN CORPORATION, INC.

CASH HANDLING [32]

Written cash handling policies and procedures were in need of further development. Internal controls can be strengthened if policies and procedures are properly documented and communicated to employees.

FIXED ASSETS [32]

Controls over fixed asset purchases made on behalf of the campus and for the Corporation were insufficient. Adequately addressing fixed asset purchase controls reduces the risk that property will be lost or stolen.

ESTABLISHMENT AND MAINTENANCE OF CUSTODIAL FUND ACCOUNTS [33]

Policies and procedures have not been documented for establishing and maintaining accounts for funds held in trust. Proper controls reduce the risk that account holder instructions will not be met.

LEASE AGREEMENTS [34]

Consideration was not sufficiently articulated in lease agreements between the campus and the Corporation. Sufficient documentation of consideration decreases exposure that the equity of consideration might be questioned.

EMPLOYEE RETIREMENT [35]

The Corporation's employee retirement plan was not properly administered. Sufficient professional evaluation and advice reduce the risk that legally mandated fiduciary requirements will not be met.

FOR-PROFIT CORPORATION [36]

The benefits of the Corporation's current operation and management of a for-profit subsidiary were unclear. Clear corporate purposes and structures could prevent internal controls and operating effectiveness and efficiency from being compromised.

INVESTMENTS [38]

Certain investments were inadequately controlled and managed. Sufficient oversight of auxiliary operations reduces the risk of unchecked violations of fiduciary responsibility by auxiliary corporate directors.

PROCUREMENT PROCESS [39]

Procurement policies and procedures were not fully documented. Fully documenting and communicating procurement policies and procedures to auxiliary and campus personnel strengthen internal controls.

RESERVE POLICY [39]

The Corporation had not established a specific surplus funds/reserve policy, considering both short and long-term campus needs. Sufficient planning and policy development regarding surplus funds and reserves reduce the risk that an auxiliary will operate in a manner inconsistent with the educational mission of the campus.

RENTAL PROPERTY [40]

Bond accounting and covenant compliance policies and procedures for rental properties were in need of improvement. Fully documenting and communicating accounting and indenture compliance procedures facilitates in the prevention of compromising internal controls.

INVESTMENT POLICY [41]

A report detailing investment holdings reconciled and compared to the Corporation's investment policy was not regularly presented to its Board. Sufficient controls over investments reduce the risk that investment committee instructions are not met.

NORTH CAMPUS UNIVERSITY PARK DEVELOPMENT CORPORATION

OPERATING AGREEMENT AND BYLAWS [43]

The North Campus University Park Development Corporation (North Campus) operating agreement with the campus was not adequate and its bylaws were not current. An up-to-date written agreement reduces the risk of misunderstandings and miscommunications regarding rights and responsibilities.

REAL PROPERTY [43]

Contracts/business arrangements involving real property were not always entered into with prior approval of the campus president. Obtaining appropriate approval for auxiliary real estate transactions reduces the risk that an auxiliary will participate in transactions inconsistent with the educational mission of the campus.

SELF-SUFFICIENCY [44]

The North Campus did not operate on a self-sustaining basis. Self-sufficiency is likely to occur upon the establishment of a plan to reach that goal.

PERSONNEL AND PAYROLL PROCEDURES [45]

North Campus had not implemented personnel and payroll policies and procedures for intermittent employees. Properly developing, documenting, and communicating policies and procedures improve internal controls.

PROCUREMENT PROCESS [46]

Procurement policies and procedures were not fully documented. Fully documenting and communicating policies and procedures strengthen internal controls.

BUDGET APPROVAL [47]

North Campus did not prepare an annual budget subject to the approval of the campus president. Appropriate approval of an auxiliary's budget helps it to operate in a manner consistent with the educational mission of the campus.

RESERVES [47]

Establishing a reasonable provision for reserves had not been included within North Campus planning. Ensuring that sufficient reserves are in place reduces the risk that the campus will be required to fund future deficits.

INSURANCE [48]

The North Campus' insurance coverage needed to be reviewed and revised. Documentation to evidence appropriate liability insurance coverage reduces exposure to loss from damage claims not covered by the insurance provider.

SEGREGATION OF DUTIES [49]

Certain cash disbursing duties were not consistently segregated within North Campus. Adequate separation of duties reduces the risk that errors and irregularities will not be detected timely.

CSUN ASSOCIATED STUDENTS, INC.

AUXILIARY AUTHORIZATION [50]

The ASI's operating agreement with the CSU and the campus is not current and does not address all ASI commercial activities. Maintenance of an up-to-date written agreement decreases misunderstandings and miscommunications regarding rights and responsibilities.

STUDENT BODY FEES [50]

The chief fiscal officer of the campus was not acting as custodian of student body organization fees. Depositing such fees in the custody of the campus chief financial officer enables the campus to meet required oversight responsibility.

TICKET OFFICE [51]

ASI Ticket Office operations' policies and procedures were in need of improvement. Policies and procedures that sufficiently address controls over cash and other assets reduce the potential that they may be lost or stolen.

FIXED ASSETS [52]

ASI's policies and procedures concerning fixed assets were not adequately documented. Adequate documentation reduces the risk that property will be lost or stolen.

ESTABLISHMENT AND MAINTENANCE OF CUSTODIAL FUND ACCOUNTS [52]

ASI's processes for accounting for funds held in trust did not provide appropriate control over the establishment and maintenance of accounts. Proper controls reduce the risk that account holder instructions are met.

IS – DATA SECURITY [53]

The setup configuration of access security for the business systems was in need of improvement. Adequate system security software provides protection against unauthorized users who access business systems.

CSUN UNIVERSITY STUDENT UNION, INC.

RISK MANAGEMENT [55]

The Union did not consistently obtain documentation to evidence that the campus was protected against liability resulting from its licensing of USU facilities. Documentation evidencing appropriate liability insurance coverage reduces exposure to loss from damage claims not covered by the insurance provider.

FACILITY RENTAL DEPOSITS [55]

The Union's facility rental deposits' policies and procedures for student and non-student campus groups were not fully implemented. Sufficient and adequate accounting procedures enhance the efficiency and effectiveness of collection efforts.

ACCOUNTS RECEIVABLE [56]

The Union's administration of accounts receivable was inadequate. Aging accounts receivable and correcting inaccurate balances timely strengthens internal control.

CASH COLLECTION AND DEPOSIT [57]

The Union Performing Arts Center's (PAC) internal controls involving the collection and deposit of cash receipts were not adequate. Proper accounting and control of cash collections and deposits increase the likelihood that a loss of funds will be detected.

SEGREGATION OF DUTIES [58]

General ledger accounting duties were not consistently segregated from cash handling and receipting and disbursing duties within the Union. Adequate separation of duties reduces the risk that errors and irregularities will not be detected timely.

IS – DATA SECURITY [58]

The setup configuration of access security for the business systems was in need of improvement. Adequate system security software prevents unauthorized users from gaining access to systems and confidential data.

IS – SYSTEM CONTINUITY PLAN [59]

The student union did not have a fully implemented nor documented system continuity plan. A written plan enables the auxiliary to ensure continuity of computing operations for the support of critical applications, maximize the use of available resources, and achieve an orderly migration toward resumption of computing services after a disaster.

OBSERVATIONS, RECOMMENDATIONS, AND CAMPUS RESPONSES

CAMPUS OVERSIGHT

OVERSIGHT OF CUSTODIAL FUNDS HELD BY AUXILIARIES

The campus did not always exercise complete, appropriate, and detailed controls over custodial funds held by its auxiliaries.

Custodial funds were held by each of the campus auxiliary organizations. These accounts were maintained for student organizations, campus academics and administrators, and other officially recognized entities. In some instances, both auxiliaries and campus administration found the sources and uses of these funds to be unclear.

We noted that:

- ▶ funds received by the campus in accordance with Education Code §89721 were not consistently and appropriately deposited in local state agency trust accounts (CSU investment policy mandates deposit in accounts managed by the campus.);
- ▶ reimbursements of overhead received under contracts and grants (passed through the auxiliaries) and non-donation revenue earned through the efforts of state employees (advertising efforts and academic centers) had been inappropriately deposited in trust funds maintained by auxiliaries;
- ▶ campus employees, using funds deposited with auxiliaries, acted in the name of the university and, at times, outside of sufficient campus administrative oversight; and
- ▶ revenues and risks to the campus associated with the operation of these funds were not always fully and appropriately reported to senior management by Foundation and campus personnel.

As an example, campus centers and institutes maintained custodial accounts (campus programs) where they deposited program revenues and made expenditures with limited campus administrative oversight and knowledge. Using these independent operations-type funds (not annually appropriated state funds) and other funds (including donations, grants, etc.), state employees were operating centers and institutes in the name of the campus. Examples include:

- ▶ signing contracts where, in fact, they did not have express authority to encumber the campus;
- ▶ holding events, offering services and, in limited instances, products, often without advice and consent of campus risk management and campus administration;
- ▶ hiring employees and contractors, often without advice and consent of campus risk management and personnel administration; and
- ▶ disregarding revenues for campus financial reporting, including all those due to state accounts for reimbursement of costs paid by annually appropriated funds.

Title 5 §42401, §42402 and §42500 and Education Code §89900 establish a responsibility to operate in accordance with sound business practices in the interest of the campus. Education Code §89721 and various Chancellor's Office mandates establish standards for such operations and related fund management.

The provost and vice president for academic affairs and vice president for administration and finance indicated that historically the campus responsibility for oversight was decentralized. They noted that there is a need for improved availability of, and easy access to, appropriate policies and procedures, knowledge by applicable personnel of adequate and effective internal controls, and extensive on going training and education of personnel.

Insufficient oversight of auxiliary management exposes the campus and the CSU system to regulatory and legal consequences.

Recommendation 1

We recommend that the campus increase its oversight of auxiliary management, with particular emphasis in the area of custodial funds held by auxiliaries.

Campus Response

We concur. Discussions of these Auxiliary Audit findings and recommendations have already served to clarify and define the interrelationships between the campus and its auxiliaries. A plan to consolidate business functions of the auxiliaries has already been approved. As part of the consolidation effort, policies on appropriate actions regarding deposits and disbursements will be reviewed and updated. The first stage of that plan is the consolidation of accounting functions for three of the auxiliaries prior to June 30, 2001. Staff training will be provided later in 2001 following the consolidation of accounting functions.

CAMPUS SUPPORT ORGANIZATIONS

The campus had not fully implemented a policy to manage, and a procedure to identify, the non-profit organizations that operate in support of academic and non-academic programs.

Various non-profit organizations interact with campus departments and auxiliary organizations. These organizations present opportunities and liabilities to the campus and its auxiliary organizations. Some directly link to credited academic programs, and others operate solely for the general support of the campus mission through funds they generate. Opportunities include greater community involvement in the form of financial and non-financial support. Liabilities accrue as actions by the operators of these organizations become the legal responsibility of the campus or its auxiliaries.

Due to the perceived value to the campus and campus mission, services have been provided by campus and auxiliary personnel to these organizations. However, because these entities use campus resources (both time and materials), there is significant exposure to regulatory and other actions.

For example:

One center/institute, currently operating without a written agreement between the campus and the center, is separately incorporated as an IRS 501(c)3 non-profit corporation and offers childcare for children with special needs. This institute is:

- ▶ offering services to the public, beyond CSUN students and staff;
- ▶ administrated by a state employee, who is functioning as its director;
- ▶ represented on the campus web pages and web index;
- ▶ promulgating tax deductible donations in its public information; and
- ▶ receiving and administrating grants and gifts, using the campus name.

While this non-profit corporation clearly offers a needed service to the community, risks associated with its operation include:

- ▶ inappropriate uses of the state's and the campus' name;
- ▶ responsibilities associated with fair employment practices;
- ▶ legal liability associated with caring for small children; and
- ▶ licensing and indemnification of activities.

Title 5 §42402 and Education Code §89900 indicate that the president of each campus is responsible for the educational effectiveness, academic excellence, and general welfare of the campus, over which she presides.

The provost and vice president for academic affairs and vice president for administration and finance indicated that many of these support organizations, including centers and institutes have long operated in a decentralized manner.

A lack of sufficient campus and presidential oversight over non-profit organizations that operate on the campus in support of academic and non-academic programs exposes the campus and the CSU system to regulatory and legal consequences.

Recommendation 2

We recommend that the campus fully implement a policy to manage and a procedure to identify the non-profit organizations that operate in support of academic and non-academic programs.

Campus Response

We concur. In April 2000 the University revised and updated its policy governing creation and operation of centers and institutes on campus. This new policy is being used to educate and inform responsible parties. In addition, the campus is undertaking a systematic and comprehensive survey of non-profit organizations that support the educational mission of the University. The results of this survey will be completed by September 1, 2001, and will guide the University in either strengthening or severing the relationship with each organization.

FUND RAISING PROJECT MANAGEMENT

The campus' policies and procedures addressing budgeting and project management for fundraising efforts, were incomplete and not fully implemented.

Events are overseen and managed by various campus fund-raising project managers and the campus vice president for advancement. Budgeting is done at the account level; however, budget details were non-specific with respect to the control of project/event management and related expenditures.

Documentation would provide a means of communicating the scope of projects and facilitate acceptance of large projects by campus administration. As this process is documented, changes in campus personnel will not affect the continuity of successful events.

Education Code §89900 and Title 5 §42403 require that sufficient operating procedures have been established by the auxiliary to allow the campus president (or designee) to ascertain that all expenditures were in accordance with policies of the CSU Trustees, including the propriety of all expenditures and integrity of financial reporting.

The provost and vice president for academic affairs, vice president for administration and finance, and interim vice president for advancement indicated that occasionally there was inadequate coordination of fundraising detail expenditures.

Providing less than optimal levels of oversight results in a reduction in internal controls and an inability to assure that projects are appropriately managed and accounted.

Recommendation 3

We recommend that the campus continue to develop, document, and implement a policy addressing budget and project management processes for its major fundraising efforts.

Campus Response

We concur. Major fundraising efforts are planned, scheduled and budgeted well in advance. The following two actions will significantly improve our ability to track expenditures against project budgets. First, implementation of PeopleSoft during Summer 2001 will make it possible to "tag" fundraising revenues and expenditures by project. Second, a budget/financial analyst for the Advancement division will be hired by May 31, 2001. This person will assist Advancement management with this type of analysis.

CONFLICT OF INTEREST

The campus had not provided guidance for its auxiliaries with regard to implementation of conflict of interest's policies and procedures, including statements and disclosures from board members and management.

Each auxiliary on campus addressed, in some manner, conflict of interest requirements placed upon auxiliaries by Title 5. However, current policies and procedures did not fully address the following areas:

- ▶ conflict of interest procedures;
- ▶ records of proceedings relating to a possible or actual conflict;
- ▶ compensation;
- ▶ annual statements;
- ▶ periodic reviews;
- ▶ use of outside experts;
- ▶ duty to disclose;
- ▶ determination whether a conflict of interest exists;
- ▶ actions required in association with a conflict; and
- ▶ actions to be taken when violations of conflict of interest policy are discovered.

Education Code § 89906 states that no member of the governing board of an auxiliary organization shall be financially interested in any contract or other transaction entered into by the board of which he is a member, and any contract or transaction entered into in violation of this section is void. Title 5 §42401, §42402 and §42500 and Education Code §89900 establish a responsibility to operate in accordance with sound business practices in the interest of the campus. Good business practice would include establishing conflict policies and procedures to implement Education Code §89906 and other similar provisions to prevent imprudent or improper decisions by auxiliary board and management members.

The provost and vice president for academic affairs and vice president for administration and finance indicated that conflict of interest issues at the campus and auxiliary organizations were not fully and jointly coordinated in the past.

Failure to specifically address implementation of conflict of interest code policies and procedures for auxiliary boards and management increases liability for acts contrary to the code.

Recommendation 4

We recommend that the campus provide guidance for its auxiliaries with regard to implementation of conflict of interest policies and procedures, including statements and disclosures from board members and management.

Campus Response

We agree and have implemented the recommendation.

The University's director of human resources in consultation with the management of the affected auxiliary organizations has completed a revised conflict of interest policy. The review of this policy will be completed by July 1, 2001. The revised policy addresses the Title 5 requirements placed on the auxiliaries, and includes statements and disclosures from the governing board members and auxiliary management.

FUNDS ACCEPTANCE

Written policies and procedures had not been fully implemented for auxiliary organizations to ensure that only grants, contracts, bequests, trusts or gift funds restricted to purposes consistent with CSU policies are accepted.

Education Code §89903 requires an auxiliary only to accept a grant, contract, bequest, trust or gift, to be used for purposes consistent with the policies of the CSU Trustees.

The provost and vice president for academic affairs and vice president for administration and finance indicated that funds acceptance at the campus and auxiliary organizations were decentralized and at times, appropriate procedures were unclear to applicable campus personnel.

The lack of established policies and procedures regarding the acceptance of funds applicable to auxiliary organizations increases the risk that inappropriately restricted funds will be accepted.

Recommendation 5

We recommend that the campus fully implement written policies and procedures to ensure that only funds consistent with the purposes of the CSU and its policies be accepted by auxiliary organizations.

Campus Response

We concur. Each of the auxiliaries has (a) reviewed its policy on acceptance of funds; (b) reviewed and updated (if necessary) its account application form and deposit instruction documents; (c) reviewed its policy with auxiliary personnel involved with deposits; and (d) reviewed accounts for compliance with its policy and transferred to the appropriate entity funds considered not in compliance with the policy.

INTERNET POLICY

Governance of the content of web page offerings presented by auxiliary and other organizations on the campus website are in need of improvement.

Various auxiliary, campus and student support organizations have posted commercial and charitable web pages on the CSUN website. We noted web advertising banner links to commercial sites, web pages for other non-CSU organizations, and advertising which solicited merchandise sales and charitable donation opportunities. Fees and gifts received as a result of the campus' hosting of these web pages are deposited in auxiliary organizations.

The provost and vice president for academic affairs and vice president for administration and finance indicated that the campus computer use policy already addresses appropriate use of websites, though enforcement is problematic.

The lack of sufficient governance of web offerings increases the risk that inappropriate or fraudulent web based transactions will occur.

Recommendation 6

We recommend that the campus fully implement policies and procedures regarding governance of the content of the campus internet website as it relates to commercial and charitable solicitations.

Campus Response

We agree and have implemented this recommendation.

The university policy for use of computing resources provides guidelines for use of computers, networks (including the web), and computing facilities made available by the University for students, faculty, and staff. Use of computers, networks, and computing facilities for activities other than academic purposes or University business is not permitted. Commercial use of these resources is forbidden.

MEMORANDA OF UNDERSTANDING

Memoranda of understanding between the campus and its auxiliaries were not properly executed.

Memoranda were executed by campus department heads (i.e., personnel) with auxiliaries when these department heads were unable to legally bind the campus under such an agreement. Authorization from campus executive management or purchasing would normally be required.

Executive Order No. 615 delegated the procurement authority granted to the CSU to the campus president. This authority may be further delegated by the president to campus designees subject to the same conditions. Such authority must be formally delegated in writing.

The provost and vice president for academic affairs and vice president for administration and finance indicated that the establishment of memoranda of understanding was previously less formal than the current standard.

Failure to obtain appropriate approval for contracts increases the risk that the campus will be held liable for erroneous or improperly executed agreements.

Recommendation 7

We recommend that all memoranda of understanding between the campus and its auxiliaries be signed only by those campus personnel who are legally authorized to do so.

Campus Response

We concur. The Campus has implemented a procedure that creates a central repository of MOUs in the Controller's Office. All MOUs are reviewed to assure that the parties to the agreements are legally authorized to execute such agreements on behalf of their entities.

EDUCATIONAL SUPPORT

Procedures to ensure that a confirmation of appropriate admission to the university was obtained prior to awarding a scholarship or issuing other related payments (e.g., stipend) had not been fully implemented between auxiliaries and the campus financial aid office.

In addition, auxiliaries did not consistently obtain and retain evidence that educational financial support was given to admitted students only.

Title 5 §42500(d) states that auxiliaries should give loans, scholarships, stipends and grants-in-aid to currently admitted students only.

The provost and vice president for academic affairs, vice president for administration and finance, and vice president for student affairs indicated that, while campus financial aid and auxiliaries shared information about educational support on a periodic basis, it could be on a more formalized basis.

Failure to coordinate among those involved in making and authorizing distributions increases the risk that erroneous payments will be made.

Recommendation 8

We recommend that the campus fully implement procedures to coordinate among those offices involved in making and authorizing educational support distributions to ensure that, prior to disbursing funds, a determination is made that payees are admitted students.

Campus Response

We agree and have implemented the recommendation.

The financial aid office has developed and the university has approved and implemented a coordination of resources policy that addresses Title 5 requirements, as well as the coordination and distribution of educational support funds to students. The policy also stipulates that payees are admitted students.

COORDINATION OF EFFORTS AMONG AUXILIARIES

Operations of auxiliaries were not fully coordinated for the benefit of the campus.

Auxiliary resources are limited; they should be used to focus on the services provided by each. As an example, we observed that two auxiliaries negotiated separate contracts for convenience store services

with the same vendor.

Title 5 §42401 indicates that, in accordance with sound business practices, auxiliaries are to provide fiscal procedures and management systems that allow effective coordination of auxiliary activities with the campus. Sound business practice calls for these organizations to operate within their core competencies or provide the campus the service it does best.

The vice president for administration and finance indicated that the campus recognized the need to coordinate efforts; however, due to time constraints placed on campus management regarding the extensive construction taking place, coordination between auxiliaries only recently became a priority.

The provost and vice president for academic affairs and vice president for administration and finance indicated that the campus was already aware of the need for improved coordination and effort among auxiliaries for the benefit of the campus.

When available resources are not coordinated, the campus has failed to optimize its efforts to meet its educational mission.

Recommendation 9

We recommend that the campus fully implement procedures to coordinate the efforts of auxiliaries to produce the greatest benefit to the campus.

Campus Response

We concur. A study of the relationship between the Campus and its auxiliaries was conducted. That study recommended either consolidation or coordination of specific business functions. Consolidation of accounting functions for some of the auxiliaries is underway and expected to be completed by June 30, 2001.

MEETING AND HOSPITALITY DISBURSEMENTS

Funds expended for meetings and hospitality at the university club were not always appropriately controlled.

The business purpose of payments to the university club was not always sufficiently documented by campus managers. Check requests and other supporting documentation for trust and campus program funds expended for meals and entertainment at the university club did not consistently include a list of all those who attended business meetings, functions, programs, etc.

Further, an effective budget or accounting process to periodically analyze and report information regarding donations and campus program trust funds used to pay university club food, beverage, and service invoices, was not in place. The Foundation, which provided the information below, indicated that over \$200,000/year was expended during the fiscal years ended in June 1997, 1998, and 1999.

Finally, university club memberships were paid without consideration of the potential taxability of such payments. In some instances, club memberships were purchased with state funds held by the Foundation. Members were afforded substantial purchase discounts and other similar benefits as a result of membership.

Title 5 §42401, §42402 and §42500 and Education Code §89900 establish a responsibility to adequately manage and control disbursements which would include sufficient supporting documentation.

The provost and vice president for academic affairs and vice president for administration and finance indicated that these types of disbursements were sometimes necessary and reasonable given the specific circumstances to continue and generate public interest for the campus and its mission and objective.

If policies and procedures are not properly developed, documented and communicated to employees, internal controls can be compromised and inappropriate expenditures can be made.

Recommendation 10

We recommend that controls over funds expended for meetings and hospitality be improved by:

- a. implementing a campus-wide meeting and hospitality policy applicable to all auxiliaries;
- b. complete a written policy addressing the necessity for purchasing university club memberships (how it contributed to the educational missions of the campus) and the tax consequences of such;
- c. implement an effective method of periodic review; and
- d. fully documenting the purpose of payments.

Campus Response

We concur. The campus has revised and updated its policy on hospitality expenditures after extensive campus-wide consultation.

INDIRECT COSTS

Justification and approval of below-cost reimbursements to the state on contracts and grants was not documented.

Contracts and grants were charged varying amounts of overhead that included some component of state administrative direct and indirect cost reimbursement (due the university). In such cases, the amount reimbursed to the state was not always commensurate with the actual state costs associated with the contract or grant received. Reimbursements due the state were often left in accounts at the auxiliary in the name of the educational grantee and not remitted to the state general fund.

Education Code §89904 prescribes that an auxiliary use cost reimbursements in accordance with statutory requirements, including applicable Education and Government Code sections.

The executive director of the Corporation and the vice president for administration and finance indicated that campus guidance with respect to allocation of cost was not provided to the Corporation.

The provost and vice president for academic affairs and vice president for administration and finance indicated that campus personnel were sometimes not fully aware of the appropriate procedures to establish accounts in auxiliary organizations.

When reimbursements are not appropriately made to the campus and when justification and approval of below-cost rate reimbursements to the state on contracts and grants is not documented, there is an increased risk that indirect costs could be disallowed by granting agencies asserting that those costs were inappropriate.

Recommendation 11

We recommend that the Corporation document justification and approval of below-cost rate reimbursements on contracts and grants and appropriately reimburse the state general fund.

Campus Response

We concur. The campus is developing a policy and approval document related to below-cost rate reimbursements on contracts and grants. The policy and approval process is expected to be completed by June 30, 2001. In addition, the Campus will review and update its indirect cost recovery rate methodology by December 31, 2001.

LEASING OF FACILITIES

Arrangements and consideration for the reimbursement of campus facility space utilized by the Foundation were not sufficiently articulated within the operating and lease agreement between the Foundation and the campus.

Agreements did not describe all unique and specific benefits the campus will receive in return (consideration) for each lease or use of space or facilities granted to the Foundation. Agreements need to be established or existing agreements need to be amended to clearly demonstrate that the consideration received by the campus meets or exceeds the value of the campus facilities leased.

Education Code §89046 requires reimbursement to the campus for leased space. CSU Contract Services and Procurement prescribe the components of a facility lease between the trustees and a support services organization.

The provost and vice president for academic affairs and vice president for administration and finance indicated that the leasing of campus facilities was sometimes not fully centralized.

The absence of a properly developed operating and lease agreement between the campus and the Foundation, which delineates promises and considerations from both parties, increases the potential for misunderstandings.

Recommendation 12

We recommend that campus lease agreements with the Foundation be amended to clearly articulate consideration exchanged when a nominal exchange provision was included in such agreements.

Campus Response

We concur. Lease agreements between the Campus and the Foundation have been reviewed. Revised agreements which include justification for below-market lease payments are expected to be approved by June 30, 2001.

NON-STUDENT CUSTODIAL FUNDS

Campus departments inappropriately established custodial accounts at the ASI that should have been placed into state trust accounts.

The then executive director of the ASI indicated that they established trust funds at the request of campus department managers and that they were accepted only because it allowed an additional source of revenue to the ASI.

Title 5, §42500 and §42502, indicate the various functions that may be performed by an auxiliary and that an operating agreement should specify the function or functions the organization is to manage, operate, or administer.

The provost and vice president for academic affairs and vice president for administration and finance indicated that campus personnel were sometimes not fully aware of the appropriate procedures to establish accounts in auxiliary organizations.

If the authority of an auxiliary is not clearly established, documented, and communicated to campus departments and other auxiliaries, operating effectiveness and efficiency as well as internal controls can be compromised.

Recommendation 13

We recommend that the campus clearly establish, document, and communicate when the ASI has authority to hold and manage non-student trust funds and communicate this information to the campus departments and auxiliaries.

Campus Response

We concur and have implemented this recommendation. ASI's account application form and deposit instructions have been revised to more clearly identify the types of funds that ASI can hold.

FIXED ASSETS

Controls over campus fixed assets in the custody of the USU were insufficient.

Accounting controls, including reconciliations between property listing/location records and the general ledger, were not performed regularly. Asset inventory controls were similarly lacking. Specifically, all group II assets in the Union were not properly tagged and controlled.

Title 5 §42401 and §42402 indicate that the campus president shall require that auxiliary organizations operate in conformity with the policy of the Board of Trustees and the campus. One of the objectives of the auxiliary organizations is to provide fiscal procedures and management systems that allow effective coordination of the auxiliary activities with the campus in accordance with sound business practices. Sound business practice mandates regular (monthly or quarterly) fixed asset general ledger postings and regular (quarterly or annual) reconciliations between property listing/location records and the general ledger.

The provost and vice president for academic affairs and vice president for administration and finance indicated that a physical inventory count of campus fixed assets was in process at the time of the audit.

When policies and procedures do not sufficiently address fixed asset purchase controls, there is an increased potential that property will be lost or stolen.

Recommendation 14

We recommend that the campus in coordination with the Union, on work state group II property and regularly:

- a. record fixed asset purchases on the campus general ledger;
- b. complete reconciliations between property listing/location records and the campus general ledger;
and
- c. tag and periodically inspect all state property.

Campus Response

We concur. The Campus has initiated consultation with the Union to identify property purchased by the Union which has, or should have, been transferred to Campus records, as well as property owned by Campus which is in the custody of the Union. In addition, the Union's procedures for notifying Campus of property transfers is being reviewed. This consultation and review will be completed prior to June 30, 2001.

CSUN FOUNDATION, INC.

DISBURSEMENTS

Our review of Foundation disbursement processes disclosed instances where expenditure controls were insufficient.

We noted that:

- ▶ supervisory authorization was not required (e.g., subordinates authorized superior's expenditures and, in some instances, deans authorized their own expenditures);
- ▶ invoices were not consistently voided once processed (marking "paid" to prevent reprocessing);
- ▶ the key to the check stock cabinet was inadequately secured (maintained in the accounting technician's unlocked desk); and
- ▶ disbursements were made based upon a review of authorized signatures of account holders rather than supporting documentation.

The provost and vice president for academic affairs, vice president for administration and finance, and interim vice president for advancement indicated that in the past limited resources contributed to less than fully satisfactory controls over disbursements.

Title 5 §42401, §42402, §42500 and Education Code §89900 establish a responsibility to adequately manage and control disbursements which would include sufficient supporting documentation.

Insufficient control over disbursements, in accordance with CSU and related standards, increases the risk that funds will be expended for inappropriate purposes.

Recommendation 15

We recommend that the Foundation strengthen expenditure controls and ensure that funds are held in accordance with CSU and related standards.

Campus Response

We concur and have implemented this recommendation. Supervisors and staff who deal with expenditures have reviewed and updated procedures that control expenditures and safeguard funds.

ESTABLISHMENT AND MAINTENANCE OF CUSTODIAL FUND ACCOUNTS

The Foundation's processes for establishing and maintaining accounts for custodial funds did not always provide appropriate control.

We noted that:

- ▶ university advancement accounts were not consistently updated to include evidence of signature authorization for expenditures;

- ▶ accounts were determined to be restricted or unrestricted without support evidencing the source of receipts. Determinations were sometimes made solely upon the representations of the individual establishing the account; and
- ▶ documentation for non-endowment accounts did not consistently indicate that interest earned would be used to offset administrative overhead.

Title 5 §42401, §42402 and §42500 and Education Code §89900 establish a responsibility to operate in accordance with sound business practices in the interest of the campus. Further, Probate Code §16000 indicates that, upon acceptance of a trust, the trustee has a duty to administer the trust according to the trust instrument. A sufficiently documented trust arrangement is needed to meet the intent of these regulations.

The provost and vice president for academic affairs, vice president for administration and finance, and interim vice president for advancement indicated that foundation procedures did not always include simple and easy to follow instructions and guidance for the establishment of foundation accounts, methods to determine gift classification as restricted or unrestricted, and provide other appropriate disclosures.

Insufficient controls over account establishment and maintenance increase the risk that donor/account holder instructions are not met.

Recommendation 16

We recommend that the Foundation augment its process of accounting for funds held in trust by improving controls over establishment and maintenance of accounts. At a minimum, such processes should address documentation retention, methodology to determine if account is restricted or unrestricted, and use of interest earned.

Campus Response

We concur and have implemented this recommendation. Supervisors and staff have reviewed and updated procedures for establishing and classifying accounts. In addition, existing accounts have been reviewed to determine compliance with these procedures, and accounts considered out of compliance have been transferred to the appropriate entity on campus.

FIXED ASSETS

Policies and procedures concerning fixed asset purchases made on behalf of the campus through Foundation operating accounts were inadequate.

We found that Foundation controls did not fully address its responsibilities with regard to fixed assets it purchased on behalf of the campus, including:

- ▶ inventory counts and reconciliations to the general ledgers;
- ▶ procedures for disposal of property; and
- ▶ accountability for state assets purchased through trust funds maintained by the Foundation.

Title 5 §42401 requires auxiliaries to provide fiscal procedures and management systems that allow effective coordination of the auxiliary activities with the campus in accordance with sound business practices. Further, Probate Code § 16040 (a) places upon a trustee a requirement to act prudently.

The provost and vice president for academic affairs and vice president for administration and finance indicated that a physical inventory count of campus fixed assets was in process at the time of the audit.

When policies and procedures do not fully address fixed asset purchase controls, there is an increased potential for lost or stolen property.

Recommendation 17

We recommend that the Foundation enhance fixed asset policies and procedures. Such policies and procedures should include directions as to the reporting and accounting of campus fixed asset purchases made through Foundation accounts.

Campus Response

We concur. The Foundation policy and procedures regarding fixed asset purchases, both for Foundation use and for Campus use, are being revised. The revision is expected to be completed and approved by April 30, 2001.

PERSONNEL AND PAYROLL PROCEDURES

The annual (giving) fund personnel and payroll's policies and procedures were in need of improvement.

Annual giving payroll covers student callers (fund raisers) paid on an hourly basis. Currently, there are two possible hourly rates (training and calling), except for two supervisors. Based upon our limited sample, we found instances where:

- ▶ time sheets were not consistently signed by employees;
- ▶ payroll adjustments (e.g., increases, terminations) were not sufficiently supported by documentation;
- ▶ computer system records were not updated to reflect the status of terminated employees;
- ▶ employee application "For Office Only" section (i.e., start date, pay rate, class, total hours per week) was not consistently completed by the supervisor; and
- ▶ confidential employee personnel and medical information was unsecured and maintained in an open area.

Education Code §89900 and Title 5 §42403 require that sufficient operating procedures have been established by the auxiliary to allow the campus president (or designee) to ascertain that all expenditures are in accordance with policies of the CSU Trustees, including the propriety of all expenditures and the integrity of financial reporting.

The vice president for administration and finance and interim vice president for advancement indicated that certain employees were not fully knowledgeable of procedures for foundation personnel and payroll activities because documentation was not easily accessible.

Internal controls can be compromised if policies and procedures are not properly documented and communicated to employees.

Recommendation 18

We recommend that the Foundation work with the campus and strengthen policies and procedures to improve controls for annual (giving) fund personnel and payroll processes.

Campus Response

We concur and have implemented this recommendation. Annual Fund employees, both salaried and hourly, are employed by University Advancement. Salaried employees are paid by the Campus, as staff of University Advancement. Hourly employees are part-time student employees, and are paid through the Foundation. Foundation staff who process payroll have reviewed the written procedures, and worked with University Advancement staff to improve controls related to Annual Fund hourly employee payroll.

INSURANCE

The Foundation's insurance coverage was in need of review and revision.

The Foundation and the Corporation inappropriately shared a liability insurance policy purchased by the Corporation.

California Insurance Code §280 states that if a person or entity wishing to purchase insurance is found to have no insurable interest, that person or entity cannot legally obtain insurance.

The vice president for administration and finance and interim vice president for advancement indicated that, although insurance coverage was shared in the past, it should now be purchased separately.

Without documentation to evidence appropriate liability insurance coverage, the auxiliary and campus may risk exposure to loss from damage claims not covered by the insurance provider.

Recommendation 19

We recommend that the Foundation purchase separate liability insurance.

Campus Response

We concur. The Foundation has applied for separate liability insurance. An approved policy is expected to be in effect by May 1, 2001.

SEGREGATION OF DUTIES

Cash receipting, disbursing and reconciling duties were not consistently segregated within the Foundation.

CSU Executive Order No. 698 states that the review of auxiliary organizations will be used to determine appropriate separation of duties, safeguarding of assets, and reliability and integrity of information.

The vice president for administration and finance and interim vice president for advancement indicated that, due to limited resources for foundation personnel, it was sometimes difficult to implement appropriate separation of responsibilities when performing a variety of duties.

Inadequate separation of duties increases the risk that errors and irregularities will not be detected in a timely manner.

Recommendation 20

We recommend that the Foundation separate cash receipting, disbursing, and reconciling duties or institute mitigating controls approved by the campus.

Campus Response

We concur. Segregation of duties has been reaffirmed and refined. Pending consolidation of auxiliary accounting functions later this year, arrangements have been made for Accounting and Financial Services staff to back up Foundation staff if necessary to cover an extended absence.

GIFT RECONCILIATION

Gift acknowledgements were not regularly and timely reconciled to gift deposits and other fund raising records, including college and departmental records.

Advancement's gift acknowledgement subsidiary ledgers, including non-cash donations and departmental fund raising efforts, were not independently (someone not involved with the process) and regularly (e.g., monthly) reconciled to the Foundation's accounting general ledger and college and departmental records.

Title 5 §42401 and §42402 indicate that the campus president shall require that auxiliary organizations operate in conformity with policy of the Board of Trustees and the campus. One of the objectives of the auxiliary organizations is to provide fiscal procedures and management systems that allow effective coordination of the auxiliary activities with the campus in accordance with sound business practices. Sound business practice mandates an effective system of internal control, which includes regular reconciliations of control account totals to subsidiary accounting record totals.

The provost and vice president for academic affairs, vice president for administration and finance, and interim vice president for advancement indicated that reconciliations between relevant gift records were not coordinated jointly among areas including various key users.

Failure to reconcile gift receipts to collections may result in errors or misappropriation of gifts.

Recommendation 21

We recommend that the campus coordinate with the Foundation to ensure regular and timely independent reconciliations of deposits to the gift acknowledgement system, and document comparisons of gifts accepted and departmental records and other fund raising records.

Campus Response

We concur. This recommendation has been implemented. Gift deposits are reconciled monthly with Benefactor records. Reports of deposits to and disbursements from each account are submitted monthly to account holders. Gifts are reported monthly from Benefactor to individual development directors, and to Advancement management.

CSUN CORPORATION, INC.

CASH HANDLING

Written cash handling policies and procedures were in need of further development.

Written policies and procedures should include risk mitigating procedures for change fund and petty cash processes, cash transfer of accountability, cash processing facility access, and security over transporting cash between on-campus locations.

The executive director of the Corporation indicated that the preparation of written policies and procedures will be given a greater priority in the future.

Internal controls can be compromised if policies and procedures are not properly documented and communicated to employees.

Recommendation 22

We recommend that the Corporation expand written cash handling policies and incorporate procedures related to:

- a. change fund and petty cash processes;
- b. cash transfer of accountability;
- c. cash processing facility access; and
- d. security over transporting cash.

Campus Response

We concur with and have implemented the recommendation.

Policies and procedures have been updated to include additional detail, including risk mitigating procedures for change fund and petty cash processes; cash transfer of accountability; cash processing facility access; and security over transporting cash between on-campus locations.

FIXED ASSETS

Controls over fixed asset purchases made on behalf of the campus and for the Corporation were insufficient.

We found that campus and Corporation fixed asset controls did not sufficiently address:

- ▶ inventory counts and reconciliations to the general ledger;
- ▶ procedures for disposal of property; and
- ▶ transfer of accountability for assets with the campus when grants and contracts were complete.

Title 5 §42401 requires auxiliaries to provide fiscal procedures and management systems that allow effective coordination of the auxiliary activities with the campus in accordance with sound business practices.

The executive director indicated that the Corporation had maintained a low capitalization threshold for fixed assets which made it difficult to tag all items and to perform a bi-annual physical inventory of assets. Further, the Corporation is seeking to improve and implement its policies and procedures for the transfer of accountability for assets with the campus when grants and contracts are complete.

When policies and procedures do not sufficiently address fixed asset purchase controls, there is an increased potential for lost or stolen property.

Recommendation 23

We recommend that the campus and the Corporation address the need to establish controls related to:

- a. performance of inventory counts and reconciliations to the general ledger;
- b. establishment of procedures to report fixed asset purchases made through corporation trust accounts; and
- c. transfer accountability for fixed assets purchased under grants and contracts.

Campus Response

We concur with and have implemented the recommendation.

The University Corporation has implemented revised policies and procedures for performance of inventory counts and reconciliations to the general ledger; reporting fixed asset purchases made through Corporation trust accounts; and transferring accountability for fixed assets purchased under grants and contracts.

ESTABLISHMENT AND MAINTENANCE OF CUSTODIAL FUND ACCOUNTS

Policies and procedures have not been documented for establishing and maintaining accounts for funds held in trust.

Accounts were sometimes established solely upon the representations of the chair and/or dean of a department or school establishing the account. The Corporation's duties and responsibilities need to be clearly established legally, including confirmation of each account holder's expectations, and procedurally, including the opening, administering, and closing of trust accounts.

Title 5 §42401, §42402 and §42500 and Education Code §89900 establish a responsibility to operate in accordance with sound business practices in the interest of the campus. Further, Probate Code §16000 indicates that, upon acceptance of a trust, the trustee has a duty to administer the trust according to the trust instrument. A sufficiently documented trust arrangement is needed to meet the intent of these regulations.

The executive director of the Corporation indicated that better coordination between the campus and the Corporation was needed to ensure that procedures clearly establish duties and responsibilities, including those related to opening, administering, and closing trust accounts.

Insufficient control over account establishment and maintenance increases the risk that account holder instructions will not be met.

Recommendation 24

We recommend that the Corporation coordinate with the campus and agree upon account establishment criteria and trustee responsibilities.

Campus Response

We concur with and have implemented the recommendation.

The University Corporation's established procedures have been documented and coordinated with the CSUN Controller's Office. The procedures include clearly established duties and responsibilities for confirmation of each client's expectations, including the opening, administering, and closing of trust accounts with the objective of establishing a documented trust arrangement.

LEASE AGREEMENTS

Consideration was not sufficiently articulated in lease agreements between the campus and the Corporation.

Several agreements between the campus and the Corporation have been entered into whereby facilities and other state real estate holdings were leased at a nominal value, or a specific consideration for such was not clearly established. Agreements should describe all unique and specific benefits the campus will receive in return (consideration) for each lease or use of space or facilities granted to the Corporation. Agreements need to be established or existing agreements need to be amended to clearly demonstrate that the consideration received by the campus meets or exceeds the value of the campus facilities leased.

Education Code §89046, Title 5 §42601 and §42502 mandate that auxiliaries appropriately pay rent on space in tax-supported buildings.

The executive director of the Corporation indicated that consideration was deemed appropriate at the time agreements were executed, and a supplemental agreement had defined the the exchange of consideration.

Failure to sufficiently document consideration exposes the campus and the legally separate auxiliary organization to the risk that the equity of consideration might be questioned.

Recommendation 25

We recommend that the Corporation's lease agreements with the campus be amended to include clearly articulated and sufficient consideration when a nominal exchange provision is included in such agreements.

Campus Response

We concur with and have implemented the recommendation.

A quid pro quo is articulated in the Corporation's operating agreement with the campus. A supplemental agreement has been approved that specifies the arrangement.

EMPLOYEE RETIREMENT

The Corporation's employee retirement plan was not properly administered.

The retirement plan was not independently managed, exposing the Corporation to excessive fiduciary liability associated with the ERISA (Employee Retirement Income Security Act) and other regulations.

During our review, we found that the prior executive director of the Corporation, acting as plan administrator, significantly benefited from errors in administering the retirement plan (a self-managed plan that utilized a defined contribution methodology). The methodology, as incorrectly applied over the past 10 or more years, resulted in non-vested forfeitures reducing the employer retirement contribution. In 1998, a discrepancy was discovered between the retirement plan document and the summary document which, in the opinion of the Corporation's ERISA attorney, required these non-vested forfeitures plus imputed growth be distributed to all other employees. This resulted in a significant expense to the Corporation in fiscal 1998/1999. The acting plan administrator (the current executive director of the Corporation), in an effort to manage this risk and assure excess benefits do not accrue to employees at the expense of non-vested employees or the Corporation, transferred the plan to Teachers Insurance and Annuity Association College Retirement Equities Funds (TIAA-CREF) as of July 2000. The new plan was reviewed by counsel for ERISA compliance and funds all liabilities on an ongoing basis.

Title 5 §42401 and §42402 indicate that the campus president shall require that auxiliary organizations operate in conformity with policy of the Board of Trustees and the campus. One of the objectives of the auxiliary organizations is to provide fiscal procedures and management systems that allow effective coordination of the auxiliary activities with the campus in accordance with sound business practices. Sound business practices mandate that risks be appropriately mitigated where practicable.

The executive director of the Corporation indicated that, as plan administrator, he will continue to work with their ERISA attorney and TIAA-CREF personnel to ensure the revised plan remains equitable and ERISA compliant. The executive director's role will be in conjunction with services provided by TIAA-CREF personnel, who perform significant administrative services. Insufficient professional evaluation and advice increase the risk that legally mandated fiduciary requirements are not met.

Recommendation 26

We recommend that the Corporation continue to work with their ERISA attorney and TIAA-CREF personnel to ensure that the revised plan appropriately mitigates risk and remains ERISA and Title 5 compliant.

Campus Response

We concur with and have implemented the recommendation.

The Executive Director of the Corporation, as plan administrator, has continued to work with the ERISA attorney and TIAA-CREF personnel to ensure the revised plan remains equitable and ERISA compliant. The Executive Director's role will be in conjunction with services provided by TIAA-CREF personnel.

FOR-PROFIT CORPORATION

The benefits of the Corporation's current operation and management of a for-profit subsidiary were unclear.

According to Corporation management, the existence of a for-profit corporation known as NRJS, Inc. was to further the purposes and objectives of the Corporation. The University Improvement Corporation, the sole stockholder of NRJS, is dedicated to charitable and educational purposes. All property, assets, profits and net income of the University Improvement Corporation are "irrevocably dedicated" to these charitable purposes with all proceeds flowing to the Corporation and ultimately the university.

Formulated in 1989, the NRJS operating strategy was to seek businesses for purchase in the Los Angeles area and other nearby counties that were generally aligned with the Corporation's functions at the time, including real estate, retail management and food service. The Corporation's executive director indicates that potential benefits to Corporation and CSUN at the time of NRJS's formation included expanded scope of operations, retention of experienced management staff and generation of increased surpluses intended to augment the University Improvement Corporation's charitable and educational mission.

Our review of NRJS's operation and the Corporation's management of it presented the following concerns:

- ▶ The University Improvement Corporation is a non-profit corporation unrecognized by the CSU, operating on the campus under the supervision of the Corporation. While it is a subsidiary entity of the Corporation, there was no express statutory authority for a campus CSU auxiliary to operate a for-profit entity.
- ▶ Tax returns and other financial documents maintained by the Corporation indicated the for-profit company NRJS has operated at a loss for years.
- ▶ NRJS accounting was performed by the Corporation without an agreement or full re-charges.

- ▶ NRJS operates the food service and facility management for the campus university club (a separate non-profit corporation), which operates in a building on the campus under a long expired management agreement.
- ▶ NRJS financial reports for the university club operations indicate profits in that operation, but do not include allocation of administrative costs.
- ▶ Although NRJS divested itself of a vending machine company located in Ventura County during August 1998, it currently operates a student store for a small college located in Southern California that is not affiliated with the CSU.

Title 5 §42500 indicates various functions that may be performed by an auxiliary. Title 5 §42502 states that the operating agreement should specify the function or functions which the organization is to manage, operate or administer. Education Code §89900 and Title 5 §42403 require that sufficient operating procedures have been established by the auxiliary to allow the campus president (or designee) to ascertain that all expenditures were in accordance with policies of the CSU Trustees, including the propriety of all expenditures, and integrity of financial reporting. The current need for a university club type meeting and dining facility on the campus is not best served by this corporate configuration.

The executive director of the Corporation acknowledged the various issues described above and indicated that the Corporation's current relationship with all of the above entities was borne out of a desire to better provide funds to the campus. The Corporation is planning to transfer management of the university club from NRJS to the Corporation.

Ambiguous corporate purposes and structures could compromise internal controls and operating effectiveness and efficiency, which could result in inappropriate handling of assets.

Recommendation 27

We recommend that the campus and the Corporation address the legitimate need and statutory authority for the University Improvement Corporation and NRJS's operation.

Campus Response

We concur with and have implemented the recommendation.

The Corporation has implemented a plan to divest NRJS of businesses inconsistent with the Corporation's campus role. The plan is scheduled for completion by June 30, 2001. Significant milestones that have already been completed include the sale of Tri-County Vending and the cessation of management of the Art Center College of Design. The plan includes transferring management of the University Club from NRJS to the Corporation.

The Corporation has taken action related to justification for the legitimate need for the University Improvement Corporation and NRJS. Specifically, the Corporation has retained the firm of KPMG

to provide consultation on tax issues relating to dissolving NRJS should remain, steps will be taken to make it a sanctioned auxiliary of the California State University.

INVESTMENTS

Certain Corporation investments were inadequately controlled and managed.

At the direction of the prior Corporation executive director, several millions of dollars in HUD residential properties located in Tennessee were purchased and leased on a long-term basis. Authority of the board for an investment of this nature and extent was not obtained. Specifically, authority was granted to purchase, fix-up, and resell properties. However, a longer term rent-to-own program was implemented by the prior executive director. These properties were purchased through and managed by a single real estate agent in Tennessee. The agreement with this agent was inadequately constructed as signed by the prior Corporation executive director, and it was not properly authorized (as it lacked the campus president's written authorization). The agreement was silent as to Tennessee legal requirements, noting only California Law. In addition, sufficient liability assurances were not obtained prior to execution of the agreement.

The HUD loan agreements provide for a distribution of loan principal for rehabilitation. According to the Corporation, the vendor in Tennessee forwarded reimbursement requests directly to the escrow company and no further rehabilitation was to occur. (A review of rehabilitation accounts maintained in Tennessee was not included within the scope of this review.)

Title 5 §42500(c) requires appropriate authorization for real estate transactions. Corporation Code §5231 states that a director shall perform the duties of a director, in good faith and with due care, including reasonable inquiry, as an ordinarily prudent person in a like position would use under similar circumstances.

The executive director of the Corporation indicated that he understood the actions of the prior executive director as an attempt to maximize returns on investment.

Insufficient oversight of auxiliary operations can result in unchecked violations of regulations.

Recommendation 28

We recommend that the Corporation:

- a. consider the risk/benefit of its investment in properties located in the State of Tennessee and establish, through a final accounting, that Corporation funds were/are adequately safeguarded; and
- b. obtain appropriate approvals to continue to retain such investments or establish a prudent plan to divest of same.

Campus Response

We concur with and have implemented the recommendation.

The Corporation has implemented a plan to divest of the HUD properties. The first step in that plan was the engagement of a new property management company that will focus on the sale of the properties. The Corporation's goal is to sell the properties within a 5 year time period. The University Corporation has begun, and will continue, providing a quarterly status report to the Board of Directors on the progress of the sale of the HUD properties.

PROCUREMENT PROCESS

Procurement policies and procedures were not fully documented with respect to:

- ▶ vendor selection processes;
- ▶ verification of legal and contract provisions; and
- ▶ definition of prohibited purchases/purchasing practices.

Education Code §89900 and Title 5 §42403 require that sufficient operating procedures have been established by the auxiliary to allow the campus president (or designee) to ascertain that all expenditures were in accordance with policies of the CSU Trustees, including the propriety of all expenditures and integrity of financial reporting.

The executive director of the Corporation noted that presently the Corporation's procurement policies are based on CSU and campus policies and procedures.

Internal controls are compromised when policies and procedures concerning procurement are not fully documented and communicated to auxiliary and campus personnel.

Recommendation 29

We recommend that the Corporation work with the campus to document Corporation procurement policies and procedures.

Campus Response

We concur with and have implemented the recommendation.

The Corporation has worked with the campus in updating its policies. This item is completed.

RESERVE POLICY

The Corporation had not established a specific surplus funds/reserve policy, considering both short and long-term campus needs.

Current financial statements indicate that a significant fund balance was held by the Corporation at its discretion.

Education Code §89904(b), §89904.5, and §89905 indicate that reserve planning is necessary.

The executive director of the Corporation indicated that he is working with the Corporation's board and campus administration to establish a specific surplus policy to meet both short-term and long-term campus needs. He indicated that discussions are underway to determine the viability of directing undesignated funds to better meet the long-term needs of the campus.

A lack of sufficient planning and policy over surplus funds and reserves increases the risk that an auxiliary will operate in a manner inconsistent with the educational mission of the campus.

Recommendation 30

We recommend that the Corporation:

- a. establish a reasonable provision for surplus funds/reserves and include it in its reserve policy; and
- b. indicate the amount of surplus funds/reserves in each budget presentation to the campus president.

Campus Response

We concur and have implemented the recommendation.

On January 26, 2001, the Executive Committee of The University Corporation Board established and approved a reserve policy for The University Corporation. The University Corporation Board of Directors approved the policy at its February 28, 2001, meeting. The new policy provides for an annual review of the financial status of The University Corporation and an adjustment, if necessary, to the Undesignated/Unrestricted fund balances at the end of each fiscal year.

RENTAL PROPERTY

Bond accounting and covenant compliance's policies and procedures for rental properties were in need of improvement.

Title 5 §42401 requires auxiliaries to provide fiscal procedures and management systems that allow effective coordination of the auxiliary activities with the campus in accordance with sound business practices.

The executive director of the Corporation indicated that the development of bond accounting and compliance's policies and procedures will be given a higher priority. He began to fully document policies and procedures for rental property management in accordance with sound business practices and to ensure bond accounting and covenant compliance.

Internal controls are compromised when bond accounting and covenant compliance procedures are not fully documented and communicated.

Recommendation 31

We recommend that the Corporation continue to update its bond accounting and covenant compliance policies and procedures for rental properties.

Campus Response

We concur with and have implemented the recommendation.

A procedure is in place for verifying that potential lessees in the College Court Condominiums are faculty or staff of California State University, Northridge. Prior to leasing a condominium, the management company asks to see the University issued identification given to all faculty and staff. Additionally, the procedure has been strengthened to include semi-annual re-certification by the lessees of their continued status as faculty or staff of the university.

INVESTMENT POLICY

A report detailing all investment holdings, reconciled and compared to the Corporation's investment policy, was not regularly presented to its board of directors.

Regular reporting enables board members to further evaluate the need to change or amend the current investment strategy and policy.

Title 5 §42401 requires auxiliaries to provide fiscal procedures and management systems that allow effective coordination of the auxiliary activities with the campus in accordance with sound business practices. Such practices would include controls to ensure compliance with associated laws and investment policies.

The executive director of the Corporation indicated that an annual investment performance evaluation report is provided to the board; however, it did not include the full scope of the Corporation's investment.

Insufficient controls over investments increase the risk that investment committee instructions are not met.

Recommendation 32

We recommend that the Corporation prepare reports detailing investment holdings and make quarterly presentations of this information to its board.

Campus Response

We concur with and have implemented the recommendation.

The University Corporation commenced in December 2000 with providing a report detailing investment holdings to the Board on a quarterly basis. This report includes The University Corporation's entire investment holdings portfolio and will include detail on all real estate holdings.

NORTH CAMPUS UNIVERSITY PARK DEVELOPMENT CORPORATION

OPERATING AGREEMENT AND BYLAWS

The North Campus University Park Development Corporation (North Campus) operating agreement with the campus was not adequate and its bylaws were not current.

We found the agreement in place was long expired and that consideration was not sufficiently articulated. Further, the functions of the auxiliary, as described within the bylaws, were not consistent with the auxiliary's mission.

Education Code §89046, Title 5 §42601 and §42502 mandate comprehensive operating agreements, including proper consideration for the use of campus facilities as well as appropriately defined functions.

The executive director of North Campus indicated that the operating agreement with the campus needed revision and that the bylaws appeared to be too general in scope for the auxiliaries intended mission.

Operating in the absence of an up-to-date written agreement and bylaws increases the risk of misunderstandings and miscommunications regarding rights and responsibilities.

Recommendation 33

We recommend that North Campus revise its operating agreement with the campus and update its bylaws.

Campus Response

We concur and have implemented the recommendation.

The functions of the North Campus University Park Development Corporation as described within the bylaws were too general in scope for this auxiliary's intended mission. This item was discussed by the Board at its most recent meeting. The Board took formal action on February 4, 2001 and amended its bylaws to provide a more specific and focused definition under its general corporate powers section.

The operating agreement has also been brought up-to date, and consideration more clearly articulated. The Chancellor's Office was consulted in this revision process. It has been signed by the Executive Director as well as the President and the Vice President for Finance and Administration at CSUN and was forwarded to the Chancellor's Office.

REAL PROPERTY

Contracts/business arrangements involving real property were not always entered into with prior approval of the campus president.

Title 5 §42500(c) requires appropriate authorization for transactions.

The executive director of North Campus indicated that improvement is needed in obtaining proper authorization for transactions.

Failure to obtain appropriate approval for auxiliary real estate transactions increases the risk that an auxiliary will participate in transactions inconsistent with the educational mission of the campus.

Recommendation 34

We recommend that the North Campus obtain approval from the campus president prior to engaging in real estate transactions.

Campus Response

We concur with and have implemented the recommendation.

The campus President is an ex-officio member of the Board. As the MiniMed agreement, all future agreements will receive appropriate campus/Chancellor's Office approval. This was a Board discussion item at its February 5, 2001, and the record now reflects that the President will ensure the final sign-off of real estate agreements.

SELF-SUFFICIENCY

The North Campus did not operate on a self-sustaining basis.

State employees were utilized to manage portions of the North Campus' day-to-day operations and oversee and manage projects without full cost reimbursement. The campus had recently attempted to capture these costs.

CSU coded memorandum BA 83-30, Policy on Chargeable Services to Self-Supporting Operations, requires auxiliaries to be self-sufficient. The policy states that funds provided from the general fund may be used to provide support for auxiliary organizations if there is a recovery of the cost of such support.

The executive director of North Campus indicated that significant improvement had recently been made in this regard, and time to complete this effort is required.

Without a plan to achieve self-sufficiency, it is not likely to occur timely.

Recommendation 35

We recommend that the campus and North Campus develop and invoke a formal plan to ensure that the North Campus becomes and remains self-sufficient.

Campus Response

We concur and have implemented the recommendation.

All appropriate MOU's are in place. Additionally, we have prepared a three-year operating plan that demonstrates the North Campus will continue to be a self-sufficient operation.

PERSONNEL AND PAYROLL PROCEDURES

North Campus had not implemented personnel and payroll's policies and procedures for intermittent employees.

Most employment-type payments made by North Campus were for part-time or temporary employment. With regard to these intermittent employees, policies and procedures addressing the following had not been developed:

- ▶ payroll taxes;
- ▶ non-discrimination and other compliance oriented requirements;
- ▶ maintenance of lists of authorized signatories and other accounting related controls;
- ▶ employee rights and responsibilities and other management controls; and
- ▶ hiring and termination standards including employee clearance requirements.

Education Code §89900 and Title 5 §42403 require that sufficient operating procedures have been established by the auxiliary to allow the campus president (or designee) to ascertain that all expenditures are in accordance with policies of the CSU Trustees, including the propriety of all expenditures and the integrity of financial reporting.

The executive director of North Campus indicated that the business risks and responsibilities associated with the hiring of intermittent employees had not been fully contemplated in prior years.

If policies and procedures are not properly developed, documented, and communicated to employees, internal controls can be compromised.

Recommendation 36

We recommend that the North Campus implement personnel and payroll's policies and procedures for intermittent employees.

Campus Response

We concur and have implemented the recommendation.

The North Campus is not an employer. Accordingly, the North Campus Auxiliary Corporation contracts with The University Corporation for any labor needs. Any such persons are the employees of The University Corporation. The University Corporation has comprehensive personnel and payroll policies and procedures which apply to their employees.

PROCUREMENT PROCESS

Procurement policies and procedures were not fully documented.

North Campus' policies and procedures addressing the following types of purchasing issues need revision to fully consider the variety of procurement situations that would involve, for example:

- ▶ vendor selection processes;
- ▶ verification of legal and contract provisions; and
- ▶ definition of prohibited purchases/purchasing practices.

Education Code §89900 and Title 5 §42403 require that sufficient operating procedures have been established by the auxiliary to allow the campus president (or designee) to ascertain that all expenditures are in accordance with policies of the CSU Trustees, including the propriety of all expenditures, and integrity of financial reporting.

The executive director of North Campus noted that presently the Corporation procurement processes are based on CSU and campus policies and procedures.

Internal controls are compromised when policies and procedures concerning procurement are not fully documented and communicated to auxiliary and campus personnel.

Recommendation 37

We recommend that the North Campus work with the campus to fully document procurement policies and procedures.

Campus Response

We concur and have implemented the recommendation. We worked with the campus and have documented our procurement policies and procedures.

BUDGET APPROVAL

North Campus did not prepare an annual budget subject to the approval of the campus president.

The campus president was aware of general activities and expenditures; however, a formal budgeting process was not in place.

Title 5 §42402 requires the auxiliary to submit its programs and budgets for review in a timely manner as specified by the president (or designee).

The executive director of North Campus indicated that the lack of a formal budget was an oversight that has been corrected.

The lack of appropriate approval of auxiliary budgets increases the risk that the auxiliary will operate in a manner inconsistent with the educational mission of the campus.

Recommendation 38

We recommend that North Campus prepare annual budgets and work with the campus to establish a policy as to the manner and method for campus presidential approval.

Campus Response

We concur and have implemented the recommendation.

At its June 2000 meeting of the North Campus University Park Development Corporation a FY 2000/01 Annual Budget was presented and approved by the Board. As discussed at the June 2000 Board meeting this budget, and all future budgets, will be presented to Board and the campus President for approval.

RESERVES

Establishing a reasonable provision for reserves had not been included within North Campus planning.

Education Code §89904(b), §89904.5, and §89905 indicate that reserve planning is necessary.

The executive director of North Campus indicated that he is working with North Campus' Board and campus administration to establish a specific surplus policy to meet both short-term and long-term campus needs. He indicated that currently, discussions are underway to determine the viability of directing undesignated funds to better meet the long-term needs of the campus.

Insufficient reserve planning places the auxiliary at risk to fund future deficits.

Recommendation 39

We recommend that the North Campus:

- a. establish a reasonable provision for reserves and include it in its reserve policy; and
- b. indicate the amount of reserves in each budget presentation to the campus president.

Campus Response

We concur and have implemented the recommendation.

North Campus worked with the University administration to establish a specific reserve policy to ensure a sufficient level of reserves is maintained. The Board of Directors approved a new reserve policy on February 5, 2001. The new policy provides for an annual review of the financial status of the North Campus and an adjustment, if necessary, to the Undesignated/Unrestricted fund balances at the end of each fiscal year.

INSURANCE

The North Campus' insurance coverage needed to be reviewed and revised.

North Campus and the Corporation inappropriately shared a liability insurance policy purchased by the Corporation.

California Insurance Code §280 states that if a person or entity wishing to purchase insurance is found to have no insurable interest, that person or entity cannot legally obtain insurance.

The executive director of North Campus indicated that the Corporation had acted in error, but in good faith, when it made its insurance arrangements with North Campus.

Without documentation to evidence appropriate liability insurance coverage, the auxiliary and campus may risk exposure to loss from damage claims not covered by the insurance provider.

Recommendation 40

We recommend that the North Campus purchase an individual liability insurance policy and name the CSU Trustees as an additional insured.

Campus Response

We concur with and have implemented the recommendation.

The North Campus University Park Development Corporation has obtained its own liability insurance. The policy includes the CSU Trustees as an additional insured.

SEGREGATION OF DUTIES

Certain cash disbursing duties were not consistently segregated within North Campus.

One person:

- ▶ receives and deposits refunds, vendor abatements, undeliverable checks;
- ▶ mails or distribute checks;
- ▶ compares requests for checks with authorizations and supporting documents;
- ▶ prepares lists of checks to be paid;
- ▶ compares invoices with receiving reports;
- ▶ matches invoices with purchase orders and contracts; and
- ▶ has access to blank check stock.

CSU Executive Order No. 698 states that the review of auxiliary organizations will be used to determine appropriate separation of duties, safeguarding of assets, and reliability and integrity of information.

The executive director of North Campus indicated that improvement is needed associated with the segregation of duties. He noted that financial administration of the North Campus would be substantially revised to allow for adequate segregation of duties on a consistent basis.

Inadequate separation of duties increases the risk that errors and irregularities will not be detected in a timely manner.

Recommendation 41

We recommend that North Campus either separate cash disbursing duties or institute mitigating controls approved by the campus chief financial officer.

Campus Response

We concur and have implemented the recommendation.

CSUN ASSOCIATED STUDENTS, INC.

AUXILIARY AUTHORIZATION

The ASI's operating agreement with the CSU and the campus is not current and does not address all ASI commercial activities.

Title 5 §42502 states that the operating agreement should specify the function or functions which the organization is to manage, operate or administer.

The then current executive director of the ASI indicated that a current operating agreement with the campus would help spell out expectations on both sides.

Operating in the absence of an up-to-date written agreement increases the risk of misunderstandings and miscommunications regarding rights and responsibilities.

Recommendation 42

We recommend that the ASI update its operating agreement with the Campus to reflect current standards and to address all ASI commercial activities.

Campus Response

We concur. An updated operating agreement has been drafted and will be forwarded by March 31, 2001, to the Chancellor's Office for approval.

STUDENT BODY FEES

The chief fiscal officer of the campus was not acting as custodian of student body organization fees.

The campus collects ASI student body fees and immediately transmits these monies to the ASI. The ASI then invests and disburses these proceeds from accounts and acts as custodian of the funds. The ASI also invested over two million dollars in fees collected for a childcare center with the Corporation in anticipation of its development of a new center.

Title 5 §42403 (a) requires the campus chief fiscal officer to manage and serve as custodian of student body fees.

The then current executive director of the ASI indicated that he did not agree with the custody requirement and that funds were adequately controlled.

The campus' required oversight of student fees is limited when such fees are deposited outside the custody of the chief financial officer.

Recommendation 43

We recommend that the campus chief financial officer act as custodian of student body organization fees.

Campus Response

We concur and have implemented the recommendation.

The campus chief financial officer acts as the custodian of student body organization fees. Funds collected by the university for the Associated Students Fee will be deposited into the State Treasurer's banking system and accounted for in a university state trust account. The campus chief financial officer is the custodian of this fund.

TICKET OFFICE

ASI Ticket Office operations' policies and procedures were in need of improvement.

Policies and procedures were not fully documented for cash collection and accounting as well as for tickets held for resale or on consignment, including inventory control and recording in the ASI's general ledger.

Title 5 §42401 requires auxiliaries to provide fiscal procedures and management systems that allow effective coordination of the auxiliary activities with the campus in accordance with sound business practices.

The then current executive director of the ASI indicated that various controls are in place; however, policies and procedures had not been fully documented.

When policies and procedures do not sufficiently address controls over cash and other assets, there is an increased potential that they may be lost or stolen.

Recommendation 44

We recommend that the ASI fully implement appropriate written fiscal procedures and management systems for the ASI Ticket Office.

Campus Response

We concur and have implemented the recommendation.

The ASI Ticket Office has written fiscal procedures and management systems for its fiscal operations. These procedures include the areas of cash collection and accounting as well as tickets held for resale or on consignment, including inventory control and recording in ASI's general ledger.

FIXED ASSETS

ASI's policies and procedures concerning fixed assets were not adequately documented.

At the time of our fieldwork, there were no written policies and procedures for the accountability and control of ASI fixed assets.

Title 5 §42401 requires auxiliaries to provide fiscal procedures and management systems that allow effective coordination of the auxiliary activities with the campus in accordance with sound business practices.

The then current executive director of the ASI indicated his belief that fixed assets were reasonably controlled, but that written policies and procedures needed to be established.

When policies and procedures associated with fixed assets controls are not fully documented, there is an increased potential for lost or stolen property.

Recommendation 45

We recommend that the ASI adequately document fixed asset policies and procedures.

Campus Response

We concur and have implemented the recommendation.

ASI has developed and implemented written policies and procedures for the accountability and control of ASI fixed assets. These procedures include the definition, acquisition, identification, and annual reconciliation of fixed assets to the general ledger.

ESTABLISHMENT AND MAINTENANCE OF CUSTODIAL FUND ACCOUNTS

ASI's processes for accounting for funds held in trust did not provide appropriate control over the establishment and maintenance of accounts.

We found that trust account applications did not consistently require appropriate level approval for the establishment of the account, nor did it clearly document the terms and conditions of the account, including interest arrangements and account charges.

Title 5 §42401, §42402 and §42500 and Education Code §89900 establish a responsibility to operate in accordance with sound business practices in the interest of the campus. Further, Probate Code §16000 indicates that, upon acceptance of a trust, the trustee has a duty to administer the trust according to the trust instrument. A sufficiently documented trust arrangement is needed to meet the intent of these regulations.

The then current executive director of the ASI indicated that the expectations of account holders were clearly understood; however, he agreed that new trust agreements would provide evidence of agreement as to the establishment and maintenance of these accounts.

Inappropriate controls over account establishment and maintenance increase the risk that account holder instructions are not met.

Recommendation 46

We recommend that the ASI augment its process of accounting for funds held in trust by instituting appropriate controls regarding establishment and maintenance of accounts.

Campus Response

We concur and have implemented the recommendation.

ASI has augmented its process of accounting for funds by establishing controls that clarify the appropriate level of approval for the establishment of their accounts, the terms and conditions of their accounts, including interest arrangements and account charges.

IS – DATA SECURITY

The setup configuration of access security for the business systems was in need of improvement.

We found that the system does not:

- ▶ require a sufficient minimum password length based on the users level of access requirements; and
- ▶ lock out users after a specified number of unsuccessful password attempts.

Title 5 §42401 and §42402 indicate that the campus president shall require that auxiliary organizations operate in conformity with policy of the Board of Trustees and the campus. One of the objectives of the auxiliary organizations is to provide fiscal procedures and management systems that allow effective coordination of the auxiliary activities with the campus in accordance with sound business practices. Sound business practice mandates that the auxiliary ensure that passwords are not easily guessed, password configuration is of a minimum length, and users are locked out after a specified number of unsuccessful password attempts. Additionally, there must be a plan that limits access to auxiliary assets to authorized personnel who require these assets in the performance of their assigned duties.

The then current executive director of the ASI indicated that system security needed to be evaluated and appropriate improvements would be made.

Inadequate system security software could allow unauthorized users to guess passwords, thereby granting them access to systems and confidential data.

Recommendation 47

We recommend that the ASI improve its data access systems by requiring:

- a. a sufficient minimum number of password characters; and
- b. accounts to be locked after a specified number of unsuccessful password attempts.

Campus Response

We concur and have implemented the recommendation.

ASI has completed a comprehensive evaluation of its data security controls and has implemented numerous data security improvements. Some of these improvements include; a) setting default password lengths to a minimum of eight characters, b) account locking after bad attempts, and c) all old unused accounts have been removed or locked.

CSUN UNIVERSITY STUDENT UNION, INC.

RISK MANAGEMENT

The Union did not consistently obtain documentation to evidence that the campus was protected against liability resulting from its licensing of USU facilities.

In accordance with Union license agreements, adequate insurance coverage for events is to be provided by certain users. The USU did not always ensure adequate documentation of required liability insurance coverage for some on campus student groups (i.e. The Performing Arts Center – PAC).

Education Code §89905.5(c) states that an auxiliary needs to take measures to protect the campus from all possible liability associated with its service operations.

The executive director of the Union indicated that the USU's meeting services department is responsible for reserving rooms, but was not responsible for reservation in the PAC or for individual contracts with off-campus promoters.

Without documentation to evidence appropriate liability insurance coverage, the Union and campus may risk exposure to loss from damage claims not covered by the insurance provider.

Recommendation 48

We recommend that the Union obtain documentation from applicable users to evidence liability coverage for itself and the campus during licensing of Union facilities.

Campus Response

We concur and have implemented the recommendation.

A procedure has been implemented to ensure applicable users provide evidence of sufficient liability coverage during the licensing of Union facilities. On those occasions when prospective users are unable to provide the required Evidence of Coverage, a risk analysis will be conducted through the campus Risk Manager Officer to determine if the amount of insurance requested is appropriate.

FACILITY RENTAL DEPOSITS

The Union's facility rental deposits' policies and procedures for student and non-student campus groups were not fully implemented.

The Union was not always collecting deposits for estimated facility use costs from both on- and off-campus groups, resulting in some uncollectable amounts.

Title 5 §42401 and §42402 indicate that the campus president shall require that auxiliary organizations operate in conformity with policy of the Board of Trustees and the campus. One of the objectives of

the auxiliary organizations is to provide fiscal procedures and management systems that allow effective coordination of the auxiliary activities with the campus in accordance with sound business practices.

The executive director of the Union indicated that deposits are not always collected when establishing rental arrangements with a group. However, she noted that with campus support, most of these charges will be collected. She further indicated her belief that policies and procedures were in need of improvement.

A lack of sufficient and adequate policies and procedures limits the efficiency and effectiveness of collection efforts.

Recommendation 49

We recommend that the Union revise its room rental deposit procedures to assure deposit collection from applicable campus groups prior to events.

Campus Response

We concur and have implemented the recommendation.

The USU has implemented procedures to ensure that facility rental deposits, for both on- and off-campus groups, are collected prior to the event. These procedures were effective on January 29, 2001.

ACCOUNTS RECEIVABLE

The Union's administration of accounts receivable was inadequate.

Many long outstanding accounts were maintained, and inaccurate credit balances were being carried in accounts.

The executive director indicated that the Union had been under-staffed in the area of accounts receivable and collections and that the USU's financial statement auditor had identified weaknesses in its control over accounts receivable.

Internal control is compromised when accounts receivables are allowed to age and inaccurate entries are carried in balances.

Recommendation 50

We recommend that the Union reduce long outstanding accounts receivable and improve its maintenance of account balances.

Campus Response

We concur and have made significant improvements related to the recommendation.

Improved accounts receivable procedures have been implemented and resulted in a reduction of accounts receivable by 61 percent this past year. Further improvements in this area are anticipated as the plan for consolidation with university accounting services is completed this fiscal year.

CASH COLLECTION AND DEPOSIT

The Union Performing Arts Center's (PAC) internal controls involving the collection and deposit of cash receipts were not adequate.

We found that:

- ▶ PAC staff collected funds on the evenings/weekends of shows and did not always forward them to the Union cashing office in a timely manner; and
- ▶ deposits were forwarded to PAC management for handling rather than the cashier's office.

Title 5 §42401 and §42402 indicate that the campus president shall require that auxiliary organizations operate in conformity with policy of the Board of Trustees and the campus. One of the objectives of the auxiliary organizations is to provide fiscal procedures and management systems that allow effective coordination of the auxiliary activities with the campus in accordance with sound business practices. Sound business practice mandates adequate cash handling controls.

The executive director indicated that cash collection and deposit functions were not fully implemented and that the USU's financial statement auditor had identified weaknesses in its control over PAC cash handling.

Inadequate accounting and control of cash collections and deposits increase the risk that loss of funds will not be detected.

Recommendation 51

We recommend that the Union improve controls involving the collection and deposit of cash receipts.

Campus Response

We concur. The University Student Union has hired staff and changed procedures so that collection of all deposits and cash receipts are handled through the University Student Union cashier's office. In addition, day-to-day management of the Performing Arts Center, including collections and deposits have been transferred to the University's College of Arts, Media, and Communication under the auspices of the Center for Visual and Performing Arts.

SEGREGATION OF DUTIES

General ledger accounting duties were not consistently segregated from cash handling and receipting and disbursing duties within the Union.

CSU Executive Order No. 698 states that the review of auxiliary organizations will be used to determine appropriate separation of duties, safeguarding of assets, and reliability and integrity of information.

The executive director of the Union indicated that duties were occasionally difficult to segregate due to the small staff maintained to operate the Union.

Inadequate separation of duties increases the risk that errors and irregularities will not be detected in a timely manner.

Recommendation 52

We recommend that the Union segregate general ledger accounting duties from cash handling, receipting, and disbursing duties, or institute mitigating controls approved by the campus.

Campus Response

We concur and have implemented the recommendation.

The Union has improved the segregation of general ledger accounting duties from cash handling, receipting and disbursing duties, through the reassignment of responsibilities. This segregation will be enhanced through the consolidation later this year of accounting functions of the Foundation, Associated Students, and the Union. The accounting staff of the consolidated group will have specialized responsibilities, and will be cross-trained for backup, consistent with good internal control concepts.

IS – DATA SECURITY

The setup configuration of access security for the business systems was in need of improvement.

We found that the system does not:

- ▶ require a sufficient minimum password length based on the users level of access requirements; and
- ▶ lock out users after a specified number of unsuccessful password attempts.

Title 5, §42401 and §42402, indicate that the campus president shall require that auxiliary organizations operate in conformity with policy of the Board of Trustees and the campus. One of the objectives of the auxiliary organizations is to provide fiscal procedures and management systems that allow effective coordination of the auxiliary activities with the campus in accordance with sound business practices. Sound business practice mandates that the auxiliary ensure that passwords are not

easily guessed, password configuration is of a minimum length, and users are locked out after a specified number of unsuccessful password attempts. Additionally, there must be a plan that limits access to auxiliary assets to authorized personnel who require these assets in the performance of their assigned duties.

The executive director indicated that she recognized the need to improve system security procedures, but had only recently received funding to staff such a project.

Inadequate system security software could allow unauthorized users to guess passwords, thereby granting them access to systems and confidential data.

Recommendation 53

We recommend that Union improve its data access systems by requiring:

- a. a sufficient minimum number of password characters; and
- b. accounts to be locked after a specified number of unsuccessful password attempts.

Campus Response

We concur and have implemented the recommendation.

The Union has improved its data access security by establishing a minimum password length of six characters, and blocking access to accounts after three unsuccessful attempts.

IS – SYSTEM CONTINUITY PLAN

The student union did not have a fully implemented nor documented system continuity plan.

Specifically, we noted that:

- ▶ a disaster recovery plan was not written;
- ▶ a fire detection system to protect information systems hardware was not installed; and
- ▶ system and data backup tapes were not appropriately stored off-site. Backup media should be sent periodically to a location that is not located within the same vicinity and therefore subject to a concurrent disaster.

Effective risk management requires that the disaster recovery plan be updated and that adjustments, resulting from such changing circumstances as equipment configuration, be made.

The executive director indicated the need to establish a system continuity plan but had only recently received funding to staff such a project.

Without a written disaster plan, the auxiliary may not be able to ensure continuity of computing operations for the support of critical applications, maximize the use of available resources, or achieve

an orderly migration toward resumption of computing services after a disaster.

Recommendation 54

We recommend that the Union fully implement and document a written system continuity plan.

Campus Response

We concur and have made significant progress in the implementation of a system continuity plan.

Daily backup tapes are now stored in an off-site location to safeguard the Union's data. A memorandum of understanding has been signed with California State University, Long Beach that provides for an orderly migration of computing services after a disaster. The Union is soliciting bids for a fire suppression system to protect its information systems hardware. The Union anticipates that all required hardware will be in place by September 1, 2001.

APPENDIX A: PERSONNEL CONTACTED

Name

Title

CAMPUS

Jolene Koester	President
Robert Barker	Director of Financial Affairs
Peter Dinauer	Director of Internal Audit
Louanne Kennedy	Past President, Provost and Vice President Academic Affairs
Robert Kiddoo	Past Associate Vice President for Financial Affairs
William Outhouse	Past Vice President University Advancement
Mohammad Qayoumi	Vice President Administration and Finance
James Sullivan	Past Vice President Administration and Finance
Richard Tyler	Acting Vice President University Advancement

CSUN CORPORATION, INC.

Judy Berger	Sponsored Project Fiscal Coordinator
Dean Calvo	Manager, Retail and Food
Thomas McCarron	Executive Director
Kathy Searby	Cashroom Supervisor
Elizabeth Soto	Controller

CSUN FOUNDATION, INC.

Alison Fesler	Program Manager Annual Fund
Amy Griffith	Accounting Technician
Marilyn Mindoro	Controller/Director of Administrative Services
Marian Nobleza	Accountant
Janet Sennewald	Development Services Director

CSUN NORTH CAMPUS, INC.

Karen Clark	Manager Campus Licensing
Thomas McCarron	Executive Director
Elizabeth Soto	Acting Controller

ASSOCIATED STUDENTS, INC.

Kenneth Etter	Ticket Office Manager
William Foster	Past Executive Director
Diane Katayama	Accountant
Arlene Rhine	Children's Center Director

CSUN UNIVERSITY STUDENT UNION, INC.

Arna Fulcher	Associate Director Finance and Business
Debra Hammond	Executive Director
Dave Pier	Performing Arts Manager
Stephen Thomas	Senior Cashier

SCOPE

INTERNAL COMPLIANCE SCOPE

As discussed in the body of our report, we evaluated each organization's compliance with the Education Code and Title 5 as related to the operation of CSU auxiliary organizations.

Within the scope of our review, we included the following internal compliance considerations which were identified during our preliminary assessment of risks related to the CSU and its oversight of auxiliaries in determining whether:

- The auxiliary performed only those functions determined by the CSU Trustees to be appropriate for auxiliary organizations.
- The auxiliary performed only those functions authorized under a written agreement executed with the Chancellor.
- The auxiliary board of directors established provisions in either the articles of incorporation or constitution stating that, upon dissolution, net assets other than trust funds will be distributed to a successor approved by the campus president (or designee) and the CSU trustees.
- The auxiliary board of directors adopted a constitution and, if the auxiliary is not incorporated, has filed a copy of the constitution with the Chancellor (or designee).
- All leasing of campus facilities by the auxiliary was effected under provisions of Education Code §89046 or other laws governing the leasing of state facilities and whether it appropriately paid rent on space in tax-supported buildings on campus utilized by federally sponsored projects, unless the projects were excluded from space reimbursement requirements.
- All contracts or other business arrangements involving real property were entered into with prior approval of the campus president (or designee) and prior notification and consultation with the CSU Chancellor (or designee).
- The auxiliary board of directors met statutory requirements in size and composition.
- Statutory requirements applicable to public meetings were adhered to as applicable to the auxiliary.
- The auxiliary board of directors held business meetings at least once a quarter.
- The auxiliary was established by constitution, statute, bylaws or resolution, and there were provisions for election of officers and board members.

- Sufficient operating procedures had been established by the auxiliary to allow the campus president (or designee) to ascertain that expenditures were made in accordance with policies of the CSU Trustees.
- The auxiliary had all expenditures and fund appropriations approved by its board and whether it had fund appropriations for use outside of normal business operations of the auxiliary approved by an officer designated by the CSU Trustees.
- The auxiliary provided full-time employees salaries, working conditions and benefits comparable to those provided by the CSU.
- The auxiliary operated commercial services on a self-supporting basis.
- The auxiliary submitted its programs and budgets for review in a timely manner as specified by the president (or designee).
- The auxiliary maintained a reasonable provision for reserves and used surplus funds from commercial operations for purposes consistent with regulations of the CSU Trustees.
- The auxiliary used indirect cost reimbursements in accordance with statutory requirements.
- The auxiliary gave loans, scholarships, stipends and grants-in-aid to currently admitted students only.
- The auxiliary accepted grants, contracts, bequests, trusts or gifts, to be used only for purposes consistent with the policies of the CSU Trustees.
- The auxiliary forwarded records of student financial assistance to the campus financial aid office on a timely basis.
- Expenditures for public relations or other purposes which would serve to augment state appropriations for operation of the campus were approved by the governing body of the auxiliary organization and that this policy was filed with the Chancellor (or designee).
- The auxiliary had taken measures to protect the campus from all possible liability associated with the operation of commercial services.
- The auxiliary obtained indemnity bonds for officers and employees handling funds as statutorily mandated.
- Conflicts of interest statutes and regulations had been complied with, including but not limited to the prohibition of financial conflicts of interest or personal pecuniary gains in transactions with governing board members.
- The auxiliary adopted a non-discrimination and affirmative action in employment policy approved by the Chancellor (or designee).
- The student body organization auxiliary deposited in trust with the chief financial officer of the campus all student body organization fees or other funds and money under the programmatic control of the student body organizations, except for those collected from and used in or for major commercial services and agency funds.

- The student body organization auxiliary sufficiently enabled the chief fiscal officer of the campus to comply with legislative mandates by recommending the most appropriate institution or medium for investment of unexpended funds.
- The student body organization auxiliary submitted appropriate claim schedules to the chief fiscal officer of the campus after review and approval by an officer of the student body organization.

INTERNAL CONTROL SCOPE

As to the scope of our internal control review, our focus was on the separation of duties, safeguarding of assets and reliability and integrity of information. The areas included were identified through a preliminary survey and risk assessment of the operation of each auxiliary on the campus. Risks were defined as the probability that an event or action may adversely affect the auxiliary and/or the campus.

We generally considered that duties were adequately segregated when no individual performed more than one of the following duties: (1) receiving and depositing remittances; (2) authorizing disbursements; (3) preparing checks; (4) operating a check signing machine; (5) comparing signed checks with authorizations and supporting documents; (6) reconciling bank accounts and posting to the general ledger or any subsidiary ledger affected by cash transactions; and (7) initiating, or preparing invoices.

Within our general internal control focus we considered and reviewed, as deemed appropriate based upon our assessment of risk, the following:

- Procedures for receipting and storing cash, segregation of duties involving cash receipting, and recording of cash receipts.
- Establishment of receivables and adequate segregation of duties regarding billing for and payment of receivables.
- Approval of purchases, receiving procedures and reconciliation of expenditures to general ledger balances.
- Use of petty cash funds, periodic cash counts, and reconciliation of bank accounts.
- Authorization of personnel/payroll transactions.
- Posting of the property ledger, regular reconciliation of the property to the general ledger, and physical inventories.
- Access restrictions to automated accounting systems and proper documentation of the systems.
- Procedures for initiating, overseeing, and accounting for investments. Determination that establishment of trust funds, separate accounting, adequate agreements, and annual budgets.

STATEMENT OF INTERNAL CONTROLS

A. INTRODUCTION

Internal accounting and related operational controls established by the State of California, the CSU Board of Trustees, and the Office of the Chancellor are evaluated by the University Auditor, in compliance with professional standards for the conduct of internal audits, to determine if an adequate system of internal control exists and is effective for the purposes intended. Any deficiencies observed are brought to the attention of appropriate management for corrective action.

B. INTERNAL CONTROL DEFINITION

Internal control, in the broad sense, includes controls which may be characterized as either accounting or operational as follows:

1. Internal Accounting Controls

Internal accounting controls comprise the plan of organization and all methods and procedures that are concerned mainly with, and relate directly to, the safeguarding of assets and the reliability of financial records. They generally include such controls as the systems of authorization and approval, separation of duties concerned with record keeping and accounting reports from those concerned with operations or asset custody, physical controls over assets, and personnel of a quality commensurate with responsibilities.

2. Operational Controls

Operational controls comprise the plan of organization and all methods and procedures that are concerned mainly with operational efficiency and adherence to managerial policies and usually relate only indirectly to the financial records.

C. INTERNAL CONTROL OBJECTIVES

The objective of internal accounting and related operational control is to provide reasonable, but not absolute, assurance as to the safeguarding of assets against loss from unauthorized use or disposition, and the reliability of financial records for preparing financial statements and maintaining accountability for assets. The concept of reasonable assurance recognizes that the cost of a system of internal accounting and operational control should not exceed the benefits derived and also recognizes that the evaluation of these factors necessarily requires estimates and judgment by management.

D. INTERNAL CONTROL SYSTEMS LIMITATIONS

There are inherent limitations that should be recognized in considering the potential effectiveness of any system of internal accounting and related operational control. In the performance of most control procedures, errors can result from misunderstanding of instruction, mistakes of judgment, carelessness, or other personal factors. Control procedures whose effectiveness depends upon segregation of duties can be circumvented by collusion. Similarly, control procedures can be circumvented intentionally by management with respect to the executing and recording of transactions. Moreover, projection of any evaluation of internal accounting and operational control to future periods is subject to the risk that the procedures may become inadequate because of changes in conditions and that the degree of compliance with the procedures may deteriorate. It is with these understandings that internal audit reports are presented to management for review and use.



Office of the President

March 9, 2001

RECEIVED
University Auditor

MAR 13 2001

The California State
University

Mr. Larry Mandel, University Auditor
Office of the University Auditor
The California State University
401 Golden Shore, 4th Floor
Long Beach, CA 90802

Subject: Campus Response to Recommendations of Audit Report 99-48
Auxiliary Organizations at California State University, Northridge

Dear Mr. Mandel:

My staff and I have reviewed the findings of the above captioned report. Attached is the campus response addressing specific recommendations contained in the audit report. The campus is committed to addressing the issues identified in the audit report.

Please let me know if I can provide you with any additional information.

Sincerely,

A handwritten signature in cursive script that reads "Jolene Koester".

Jolene Koester
President

JK:mh

Attachment

cc without attachment:

Louanne Kennedy, Provost and Vice President for Academic Affairs
Mohammad Qayoumi, Vice President for Administration and Finance
and Chief Financial Officer
Fred Strache, Interim Vice President for Student Affairs
Thomas McCarron, Executive Director, The University Corporation
Debra Hammond, University Student Union
David Crandall, Associated Students, Inc.
Murray Wood, California State University, Northridge Foundation
Howard Lutwak, Senior Internal Auditor

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The California State University · Bakerfield · Channel Islands · Chico · Dominguez Hills · Fresno · Fullerton · Hayward · Humboldt · Long Beach · Los Angeles · Maritime Academy · Monterey Bay · Northridge · Pomona · Sacramento · San Bernardino · San Diego · San Francisco · San Jose · San Luis Obispo · San Marcos · Sonoma · Stanislaus

California State University, Northridge
Response to Auxiliary Audit Report 99-48

Audit Recommendation 1

We recommend that the campus increase its oversight of auxiliary management, with particular emphasis in the area of custodial funds held by auxiliaries.

Campus Response 1: We concur. Discussions of these Auxiliary Audit findings and recommendations have already served to clarify and define the interrelationships between the campus and its auxiliaries. A plan to consolidate business functions of the auxiliaries has already been approved. As part of the consolidation effort, policies on appropriate actions regarding deposits and disbursements will be reviewed and updated. The first stage of that plan is the consolidation of accounting functions for three of the auxiliaries prior to June 30, 2001. Staff training will be provided later in 2001 following the consolidation of accounting functions.

Audit Recommendation 2

We recommend that the campus fully implement a policy to manage and a procedure to identify the non-profit organizations that operate in support of academic and non-academic programs.

Campus Response 2: We concur. In April 2000 the University revised and updated its policy governing creation and operation of centers and institutes on campus. This new policy is being used to educate and inform responsible parties. In addition, the campus is undertaking a systematic and comprehensive survey of non-profit organizations that support the educational mission of the University. The results of this survey will be completed by September 1, 2001, and will guide the University in either strengthening or severing the relationship with each organization.

Audit Recommendation 3

We recommend that the campus continue to develop, document, and implement a policy addressing budget and project management processes for its major fundraising efforts.

Campus Response 3: We concur. Major fundraising efforts are planned, scheduled and budgeted well in advance. The following two actions will significantly improve our ability to track expenditures against project budgets. First, implementation of PeopleSoft during Summer 2001 will make it possible to "tag" fundraising revenues and expenditures by project. Second, a budget/financial analyst for the Advancement division will be hired by May 31, 2001. This person will assist Advancement management with this type of analysis.

California State University, Northridge
Response to Auxiliary Audit Report 99-48

Audit Recommendation 4

We recommend that the campus provide guidance for its auxiliaries with regard to implementation of conflict of interest policies and procedures, including statements and disclosures from board members and management.

Campus Response 4: We agree and have implemented the recommendation.

The University's director of human resources in consultation with the management of the affected auxiliary organizations has completed a revised conflict of interest policy. The review of this policy will be completed by July 1, 2001. The revised policy addresses the Title 5 requirements placed on the auxiliaries, and includes statements and disclosures from the governing board members and auxiliary management.

Audit Recommendation 5

We recommend that the campus fully implement written policies and procedures to ensure that only funds consistent with the purposes of the CSU and its policies be accepted by auxiliary organizations.

Campus Response 5: We concur. Each of the auxiliaries has (a) reviewed its policy on acceptance of funds; (b) reviewed and updated (if necessary) its account application form and deposit instruction documents; (c) reviewed its policy with auxiliary personnel involved with deposits; and (d) reviewed accounts for compliance with its policy and transferred to the appropriate entity funds considered not in compliance with the policy.

Audit Recommendation 6

We recommend that the campus fully implement policies and procedures regarding governance of the content of the campus internet website as it relates to commercial and charitable solicitations.

Campus Response 6: We agree and have implemented this recommendation.

The university policy for use of computing resources provides guidelines for use of computers, networks (including the web), and computing facilities made available by the University for students, faculty, and staff. Use of computers, networks, and computing facilities for activities other than academic purposes or University business is not permitted. Commercial use of these resources is forbidden.

Audit Recommendation 7

We recommend that all memoranda of understanding between the campus and its auxiliaries be signed only by those campus personnel who are legally authorized to do so.

**California State University, Northridge
Response to Auxiliary Audit Report 99-48**

Campus Response 7: We concur. The Campus has implemented a procedure that creates a central repository of MOUs in the Controller's Office. All MOUs are reviewed to assure that the parties to the agreements are legally authorized to execute such agreements on behalf of their entities.

Audit Recommendation 8

We recommend that the campus fully implement procedures to coordinate among those offices involved in making and authorizing educational support distributions to ensure that, prior to disbursing funds, a determination is made that payees are admitted students.

Campus Response 8: We agree and have implemented the recommendation.

The financial aid office has developed and the university has approved and implemented a coordination of resources policy that addresses Title 5 requirements, as well as the coordination and distribution of educational support funds to students. The policy also stipulates that payees are admitted students.

Audit Recommendation 9

We recommend that the campus fully implement procedures to coordinate the efforts of auxiliaries to produce the greatest benefit to the campus.

Campus Response 9: We concur. A study of the relationship between the Campus and its auxiliaries was conducted. That study recommended either consolidation or coordination of specific business functions. Consolidation of accounting functions for some of the auxiliaries is underway and expected to be completed by June 30, 2001.

Audit Recommendation 10

We recommend that controls over funds expended for meetings and hospitality be improved by:

- a. implementing a campus-wide meeting and hospitality policy applicable to all auxiliaries;
- b. complete a written policy addressing the necessity for purchasing university club memberships (how it contributed to the educational missions of the campus) and the tax consequences of such;
- c. implement an effective method of periodic review; and
- d. fully documenting the purpose of payments.

Campus Response 10: We concur. The campus has revised and updated its policy on hospitality expenditures after extensive campus-wide consultation.

California State University, Northridge
Response to Auxiliary Audit Report 99-48

Audit Recommendation 11

We recommend that the Corporation document justification and approval of below-cost rate reimbursement on contracts and grants and appropriately reimburse the state general fund.

Campus Response 11: We concur. The campus is developing a policy and approval document related to below-cost rate reimbursements on contracts and grants. The policy and approval process is expected to be completed by June 30, 2001. In addition, the Campus will review and update its indirect cost recovery rate methodology by December 31, 2001.

Audit Recommendation 12

We recommend that campus lease agreements with the Foundation be amended to clearly articulate consideration exchanged when a nominal exchange provision was included in such agreements.

Campus Response 12: We concur. Lease agreements between the Campus and the Foundation have been reviewed. Revised agreements which include justification for below-market lease payments are expected to be approved by June 30, 2001.

Audit Recommendation 13

We recommend that the campus clearly establish, document, and communicate when the ASI has authority to hold and manage non-student trust funds and communicate this information to the campus departments and auxiliaries.

Campus Response 13: We concur and have implemented this recommendation. ASI's account application form and deposit instructions have been revised to more clearly identify the types of funds that ASI can hold.

Audit Recommendation 14

We recommend that the campus in coordination with the Union, on work state group II property and regularly;

- a. record fixed asset purchases on the campus general ledger;
- b. complete reconciliations between property listing/location records and the campus general ledger; and
- c. tag and periodically inspect all state property.

Campus Response 14: We concur. The Campus has initiated consultation with the Union to identify property purchased by the Union which has, or should have, been transferred to Campus records, as well as property owned by Campus which is in the custody of the Union. In addition, the Union's procedures for notifying Campus of property transfers is being reviewed. This consultation and review will be completed prior to June 30, 2001.

California State University, Northridge
Response to Auxiliary Audit Report 99-48

Audit Recommendation 15

We recommend that the Foundation strengthen expenditure controls and ensure that funds are held in accordance with CSU and related standards.

Campus Response 15: We concur and have implemented this recommendation. Supervisors and staff who deal with expenditures have reviewed and updated procedures that control expenditures and safeguard funds.

Audit Recommendation 16

We recommend that the Foundation augment its process of accounting for funds held in trust by improving controls over establishment and maintenance of accounts. At a minimum, such processes should address documentation retention, methodology to determine if account is restricted or unrestricted, and use of interest earned.

Campus Response 16: We concur and have implemented this recommendation. Supervisors and staff have reviewed and updated procedures for establishing and classifying accounts. In addition, existing accounts have been reviewed to determine compliance with these procedures, and accounts considered out of compliance have been transferred to the appropriate entity on campus.

Audit Recommendation 17

We recommend that the Foundation enhance fixed asset policies and procedures. Such policies and procedures should include directions as to the reporting and accounting of campus fixed asset purchases made through Foundation accounts.

Campus Response 17: We concur. The Foundation policy and procedures regarding fixed asset purchases, both for Foundation use and for Campus use, are being revised. The revision is expected to be completed and approved by April 30, 2001.

Audit Recommendation 18

We recommend that the Foundation work with the campus and strengthen policies and procedures to improve controls for annual (giving) fund personnel and payroll processes.

Campus Response 18: We concur and have implemented this recommendation. Annual Fund employees, both salaried and hourly, are employed by University Advancement. Salaried employees are paid by the Campus, as staff of University Advancement. Hourly employees are part-time student employees, and are paid through the Foundation. Foundation staff who process payroll have reviewed the written procedures, and worked with University Advancement staff to improve controls related to Annual Fund hourly employee payroll.

**California State University, Northridge
Response to Auxiliary Audit Report 99-48**

Audit Recommendation 19

We recommend that the Foundation purchase separate liability insurance.

Campus Response 19: We concur. The Foundation has applied for separate liability insurance. An approved policy is expected to be in effect by May 1, 2001.

Audit Recommendation 20

We recommend that the Foundation separate cash receipting, disbursing, and reconciling duties or institute mitigating controls approved by the campus.

Campus Response 20: We concur. Segregation of duties has been reaffirmed and refined. Pending consolidation of auxiliary accounting functions later this year, arrangements have been made for Accounting and Financial Services staff to back up Foundation staff if necessary to cover an extended absence.

Audit Recommendation 21

We recommend that the campus coordinate with the Foundation to ensure regular and timely independent reconciliations of deposits to the gift acknowledgement system, and document comparisons of gifts accepted and departmental records and other fund raising records.

Campus Response 21: We concur. This recommendation has been implemented. Gift deposits are reconciled monthly with Benefactor records. Reports of deposits to and disbursements from each account are submitted monthly to account holders. Gifts are reported monthly from Benefactor to individual development directors, and to Advancement management.

Audit Recommendation 22

We recommend that the Corporation expand written cash handling policies and procedures and incorporate procedures related to:

- a. change fund and petty cash procedures;
- b. cash transfer of accountability;
- c. cash processing facility access; and
- d. security over transporting cash.

Campus Response 22: We concur with and have implemented the recommendation.

Policies and procedures have been updated to include additional detail, including risk mitigating procedures for change fund and petty cash processes; cash transfer of

**California State University, Northridge
Response to Auxiliary Audit Report 99-48**

accountability; cash processing facility access; and security over transporting cash between on-campus locations.

Audit Recommendation 23

We recommend that the campus and the Corporation address the need to establish controls related to:

- a. performance of inventory counts and reconciliations to the general ledger;
- b. establishment of procedures to report fixed asset purchases made through corporation trust accounts; and
- c. transfer of accountability for fixed assets purchased under grants and contracts.

Campus Response 23: We concur with and have implemented the recommendation.

The University Corporation has implemented revised policies and procedures for performance of inventory counts and reconciliations to the general ledger; reporting fixed asset purchases made through Corporation trust accounts; and transferring accountability for fixed assets purchased under grants and contracts.

Audit Recommendation 24

We recommend that the Corporation coordinate with the campus and agree upon account establishment criteria and trustee responsibilities.

Campus Response 24: We concur with and have implemented the recommendation.

The University Corporation's established procedures have been documented and coordinated with the CSUN Controller's Office. The procedures include clearly established duties and responsibilities for confirmation of each client's expectations, including the opening, administering, and closing of trust accounts with the objective of establishing a documented trust arrangement.

Audit Recommendation 25

We recommend that the Corporation's lease agreements with the campus be amended to include clearly articulated and sufficient consideration when a nominal exchange provision is included in such agreements.

Campus Response 25: We concur with and have implemented the recommendation.

A quid pro quo is articulated in the Corporation's operating agreement with the campus. A supplemental agreement has been approved that specifies the arrangement.

**California State University, Northridge
Response to Auxiliary Audit Report 99-48**

Audit Recommendation 26

We recommend that the Corporation continue to work with their ERISA attorney and TIAA-CREF personnel to ensure that the revised plan appropriately mitigates risk and remains ERISA and Title 5 compliant.

Campus Response 26: We concur with and have implemented the recommendation.

The Executive Director of the Corporation, as plan administrator, has continued to work with the ERISA attorney and TIAA-CREF personnel to ensure the revised plan remains equitable and ERISA compliant. The Executive Director's role will be in conjunction with services provided by TIAA-CREF personnel.

Audit Recommendation 27

We recommend that the campus and the Corporation address the legitimate need and statutory authority for the University Improvement Corporation and NRJS's operation.

Campus Response 27: We concur with and have implemented the recommendation.

The Corporation has implemented a plan to divest NRJS of businesses inconsistent with the Corporation's campus role. The plan is scheduled for completion by June 30, 2001. Significant milestones that have already been completed include the sale of Tri-County Vending and the cessation of management of the Art Center College of Design. The plan includes transferring management of the University Club from NRJS to the Corporation.

The Corporation has taken action related to justification for the legitimate need for the University Improvement Corporation and NRJS. Specifically, the Corporation has retained the firm of KPMG to provide consultation on tax issues relating to dissolving NRJS should remain, steps will be taken to make it a sanctioned auxiliary of the California State University.

Audit Recommendation 28

We recommend that the Corporation:

- a. consider the risk/benefit of its investment in properties located in the State of Tennessee and establish, through a final accounting, that Corporation funds were/are adequately safeguarded; and
- b. obtain appropriate approvals to continue to retain such investments or establish a prudent plan to divest the same.

Campus Response 28: We concur with and have implemented the recommendation.

The Corporation has implemented a plan to divest of the HUD properties. The first step in that plan was the engagement of a new property management company that will focus on the

California State University, Northridge
Response to Auxiliary Audit Report 99-48

sale of the properties. The Corporation's goal is to sell the properties within a 5 year time period. The University Corporation has begun, and will continue, providing a quarterly status report to the Board of Directors on the progress of the sale of the HUD properties.

Audit Recommendation 29

We recommend that the Corporation work with the campus to document Corporation procurement policies and procedures.

Campus Response 29: We concur with and have implemented the recommendation.

The Corporation has worked with the campus in updating its policies. This item is completed.

Audit Recommendation 30

We recommend that the Corporation:

- a. establish a reasonable provision for surplus funds/reserves and include it in its reserve policy; and
- b. indicate the amount of surplus funds/reserves in each budget presentation to the campus president.

Campus Response 30: We concur and have implemented the recommendation.

On January 26, 2001, the Executive Committee of The University Corporation Board established and approved a reserve policy for The University Corporation. The University Corporation Board of Directors approved the policy at its February 28, 2001, meeting. The new policy provides for an annual review of the financial status of The University Corporation and an adjustment, if necessary, to the Undesignated/Unrestricted fund balances at the end of each fiscal year.

Audit Recommendation 31

We recommend that the Corporation continue to update its bond accounting and covenant compliance policies and procedures for rental properties.

Campus Response 31: We concur with and have implemented the recommendation.

A procedure is in place for verifying that potential lessees in the College Court Condominiums are faculty or staff of California State University, Northridge. Prior to leasing a condominium, the management company asks to see the University issued identification given to all faculty and staff. Additionally, the procedure has been strengthened to include semi-annual re-certification by the lessees of their continued status as faculty or staff of the university.

California State University, Northridge
Response to Auxiliary Audit Report 99-48

Audit Recommendation 32

We recommend that the Corporation prepare reports detailing investment holdings and make quarterly presentations of this information to its board.

Campus Response 32: We concur with and have implemented the recommendation.

The University Corporation commenced in December 2000 with providing a report detailing investment holdings to the Board on a quarterly basis. This report includes The University Corporation's entire investment holdings portfolio and will include detail on all real estate holdings.

Audit Recommendation 33

We recommend that North Campus revise its operating agreement with the campus and update its bylaws.

Campus Response 33: We concur and have implemented the recommendation.

The functions of the North Campus University Park Development Corporation as described within the bylaws were too general in scope for this auxiliary's intended mission. This item was discussed by the Board at its most recent meeting. The Board took formal action on February 4, 2001 and amended its bylaws to provide a more specific and focused definition under its general corporate powers section.

The operating agreement has also been brought up-to date, and consideration more clearly articulated. The Chancellor's Office was consulted in this revision process. It has been signed by the Executive Director as well as the President and the Vice President for Finance and Administration at CSUN and was forwarded to the Chancellor's Office.

Audit Recommendation 34

We recommend that the North Campus obtain approval from the campus president prior to engaging in real estate transactions.

Campus Response 34: We concur with and have implemented the recommendation.

The campus President is an ex-officio member of the Board. As the MiniMed agreement, all future agreements will receive appropriate campus/Chancellor's Office approval. This was a Board discussion item at its February 5, 2001, and the record now reflects that the President will ensure the final sign-off of real estate agreements.

California State University, Northridge
Response to Auxiliary Audit Report 99-48

Audit Recommendation 35

We recommend that the campus and North Campus develop and invoke a formal plan to ensure that the North Campus becomes and remains self-sufficient.

Campus Response 35: We concur and have implemented the recommendation.

All appropriate MOU's are in place. Additionally, we have prepared a three-year operating plan that demonstrates the North Campus will continue to be a self-sufficient operation.

Audit Recommendation 36

We recommend that the North Campus implement personnel and payroll policies and procedures for intermittent employees.

Campus Response 36: We concur and have implemented the recommendation.

The North Campus is not an employer. Accordingly, the North Campus Auxiliary Corporation contracts with The University Corporation for any labor needs. Any such persons are the employees of The University Corporation. The University Corporation has comprehensive personnel and payroll policies and procedures which apply to their employees.

Audit Recommendation 37

We recommend that the North Campus work with the campus to fully document procurement policies and procedures.

Campus Response 37: We concur and have implemented the recommendation. We worked with the campus and have documented our procurement policies and procedures.

Audit Recommendation 38

We recommend that North Campus prepare annual budgets and work with the campus to establish a policy as to the manner and method for campus presidential approval.

Campus Response 38: We concur and have implemented the recommendation.

At its June 2000 meeting of the North Campus University Park Development Corporation a FY 2000/01 Annual Budget was presented and approved by the Board. As discussed at the June 2000 Board meeting this budget, and all future budgets, will be presented to Board and the campus President for approval.

California State University, Northridge
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Audit Recommendation 39

We recommend that the North Campus:

- a. establish a reasonable provision for reserves and include it in its reserve policy; and
- b. indicate the amount of reserves in each budget presentation to the campus president.

Campus Response 39: We concur and have implemented the recommendation.

North Campus worked with the University administration to establish a specific reserve policy to ensure a sufficient level of reserves is maintained. The Board of Directors approved a new reserve policy on February 5, 2001. The new policy provides for an annual review of the financial status of the North Campus and an adjustment, if necessary, to the Undesignated/Unrestricted fund balances at the end of each fiscal year.

Audit Recommendation 40

We recommend that the North Campus purchase an individual liability insurance policy and name the CSU Trustees as an additional insured.

Campus Response 40: We concur with and have implemented the recommendation.

The North Campus University Park Development Corporation has obtained its own liability insurance. The policy includes the CSU Trustees as an additional insured.

Audit Recommendation 41

We recommend that North Campus either separate cash disbursing duties or institute mitigating controls approved by the campus chief financial officer.

Campus Response 41: We concur and have implemented the recommendation.

Audit Recommendation 42

We recommend that the ASI update its operating agreement with the campus to reflect current standards and to address all ASI commercial activities.

Campus Response 42: We concur. An updated operating agreement has been drafted and will be forwarded by March 31, 2001, to the Chancellor's Office for approval.

Audit Recommendation 43

We recommend that the campus chief financial officer act as custodian of student body organization fees.

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Campus Response 43: We concur and have implemented the recommendation.

The campus chief financial officer acts as the custodian of student body organization fees. Funds collected by the university for the Associated Students Fee will be deposited into the State Treasurer's banking system and accounted for in a university state trust account. The campus chief financial officer is the custodian of this fund.

Audit Recommendation 44

We recommend that the ASI fully implement appropriate written fiscal procedures and management systems for the ASI Ticket Office.

Campus Response 44: We concur and have implemented the recommendation.

The ASI Ticket Office has written fiscal procedures and management systems for its fiscal operations. These procedures include the areas of cash collection and accounting as well as tickets held for resale or on consignment, including inventory control and recording in ASI's general ledger.

Audit Recommendation 45

We recommend that the ASI adequately document fixed asset policies and procedures.

Campus Response 45: We concur and have implemented the recommendation.

ASI has developed and implemented written policies and procedures for the accountability and control of ASI fixed assets. These procedures include the definition, acquisition, identification, and annual reconciliation of fixed assets to the general ledger.

Audit Recommendation 46

We recommend that the ASI augment its process of accounting for funds held in trust by instituting appropriate controls regarding establishment and maintenance of accounts.

Campus Response 46: We concur and have implemented the recommendation.

ASI has augmented its process of accounting for funds by establishing controls that clarify the appropriate level of approval for the establishment of their accounts, the terms and conditions of their accounts, including interest arrangements and account charges.

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Audit Recommendation 47

We recommend that the ASI improve its data access systems by requiring:

- a. a sufficient minimum number of password characters; and
- b. accounts to be locked after a specified number of unsuccessful password attempts.

Campus Response 47: We concur and have implemented the recommendation.

ASI has completed a comprehensive evaluation of its data security controls and has implemented numerous data security improvements. Some of these improvements include; a) setting default password lengths to a minimum of eight characters, b) account locking after bad attempts, and c) all old unused accounts have been removed or locked.

Audit Recommendation 48

We recommend that the Union obtain documentation from applicable users to evidence liability coverage for itself and the campus during licensing of Union facilities.

Campus Response 48: We concur and have implemented the recommendation.

A procedure has been implemented to ensure applicable users provide evidence of sufficient liability coverage during the licensing of Union facilities. On those occasions when prospective users are unable to provide the required Evidence of Coverage, a risk analysis will be conducted through the campus Risk Manager Officer to determine if the amount of insurance requested is appropriate.

Audit Recommendation 49

We recommend that the Union revise its room rental deposit procedures to assure deposit collection from applicable campus groups prior to events.

Campus Response 49: We concur and have implemented the recommendation.

The USU has implemented procedures to ensure that facility rental deposits, for both on- and off- campus groups, are collected prior to the event. These procedures were effective on January 29, 2001.

Audit Recommendation 50

We recommend that the Union reduce long outstanding accounts receivable and improve its maintenance of account balances.

Campus Response 50: We concur and have made significant improvements related to the recommendation.

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Improved accounts receivable procedures have been implemented and resulted in a reduction of accounts receivable by 61 percent this past year. Further improvements in this area are anticipated as the plan for consolidation with university accounting services is completed this fiscal year.

Audit Recommendation 51

We recommend that the Union improve controls involving the collection and deposit of cash receipts.

Campus Response 51: We concur. The University Student Union has hired staff and changed procedures so that collection of all deposits and cash receipts are handled through the University Student Union cashier's office. In addition, day-to-day management of the Performing Arts Center, including collections and deposits have been transferred to the University's College of Arts, Media, and Communication under the auspices of the Center for Visual and Performing Arts.

Audit Recommendation 52

We recommend that the Union segregate general ledger accounting duties from cash handling, receipting, and disbursing duties, or institute mitigating controls approved by the campus.

Campus Response 52: We concur and have implemented the recommendation.

The Union has improved the segregation of general ledger accounting duties from cash handling, receipting and disbursing duties, through the reassignment of responsibilities. This segregation will be enhanced through the consolidation later this year of accounting functions of the Foundation, Associated Students, and the Union. The accounting staff of the consolidated group will have specialized responsibilities, and will be cross-trained for backup, consistent with good internal control concepts.

Audit Recommendation 53

We recommend that the Union improve its data access systems by requiring;

- a. a sufficient minimum number of password characters; and
- b. accounts to be locked after a specified number of unsuccessful attempts.

Campus Response 53: We concur and have implemented the recommendation.

The Union has improved its data access security by establishing a minimum password length of six characters, and blocking access to accounts after three unsuccessful attempts.

Audit Recommendation 54

We recommend that the Union fully implement and document a written system continuity plan.

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Campus Response 54: We concur and have made significant progress in the implementation of a system continuity plan.

Daily backup tapes are now stored in an off-site location to safeguard the Union's data. A memorandum of understanding has been signed with California State University, Long Beach that provides for an orderly migration of computing services after a disaster. The Union is soliciting bids for a fire suppression system to protect its information systems hardware. The Union anticipates that all required hardware will be in place by September 1, 2001.


THE CALIFORNIA STATE UNIVERSITY
 OFFICE OF THE CHANCELLOR

BAKERSFIELD

CHANNEL ISLANDS

March 20, 2001

CHICO

MEMORANDUM

DOMINGUEZ HILLS

FRESNO

TO: Larry Mandel
University Auditor

FULLERTON

FROM: Charles B. Reed
Chancellor



HAYWARD

HUMBOLDT

SUBJECT: Draft Final Report Number 99-48 on *Auxiliary Organizations*,
California State University, Northridge

LONG BEACH

LOS ANGELES

MARITIME ACADEMY

In response to your memorandum of March 20, 2001, I accept the
response as submitted with the draft final report on Auxiliary
Organizations, California State University, Northridge.

MONTEREY BAY

NORTHRIDGE

POMONA

CBR/ac

SACRAMENTO

Enclosure

SAN BERNARDINO

cc: Dr. Jolene Koester, President

SAN DIEGO

SAN FRANCISCO

SAN JOSE

SAN LUIS OBISPO

SAN MARCOS

SONOMA

STANISLAUS