

AUXILIARY ORGANIZATIONS

SONOMA STATE UNIVERSITY

Report Number 00-50

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ABBREVIATIONS

ASI	Associated Students, Inc.
CSU	California State University
FYE	Fiscal Year Ending
MOU	Memorandum of Understanding
SMIC	Sonoma Mortgage Investment Company
Student Union	Sonoma State University Student Union, Inc.
SSUAF	Sonoma State University Academic Foundation, Inc.
SSE	Sonoma State Enterprises, Inc.
THP	Transitional Housing Program

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 Office of the Chancellor 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.
- ▶ 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.
- ▶ 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 California State University (CSU) auxiliaries. For those audit tests that required annualized data, calendar years ending 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 June 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's 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 CSU and the governing boards of the various auxiliary organizations shall:

- ▶ Institute a standard systemwide accounting and reporting system for businesslike management of the operation of such auxiliary organizations.
- ▶ Implement financial standards which 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.
- ▶ 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 triennial basis pursuant to procedures established by the Chancellor.

This report represents our triennial review.

OPINION

We visited the Sonoma State University campus from April 2000 through June 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.
- ▶ 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 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.)

The campus response is included in its entirety in Appendix D. Excerpts from the campus response, containing action plans and times certain, are included in the body of the report.

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

LEGAL AND REGULATORY COMPLIANCE [12]

CAMPUS SUPPORT ORGANIZATIONS [12]

The campus had not developed written policies and procedures to identify, coordinate, and oversee ancillary organizations that operate in support of academic and nonacademic programs. Written policies and procedures ensure sufficient oversight over ancillary organizations and reduce the campus's and the CSU System's exposure to regulatory and legal consequences.

PUBLIC RELATIONS POLICY [13]

The campus had not established a current public relations policy applicable to its auxiliary organizations. A current public relations policy applicable to auxiliary organizations decreases the risk that funds will be accumulated and used improperly.

UNCLAIMED MONIES [13]

The campus auxiliaries had not established policies and procedures to escheat unclaimed monies to the state. In addition, we found that uncleared checks were not properly disposed of on a consistent basis (i.e., voided and a liability created). Reporting or performing the duties specified in the unclaimed property law reduces the likelihood of fines for noncompliance.

ARCHIVED RECORDS [14]

Facilities used to store archived auxiliary records lacked a sufficient fire suppression system. Sufficient controls over archives reduce the campus's exposure to potential theft, loss, or damage of campus and auxiliary records.

CASH RECEIPTS [15]

TIMELY DEPOSITS [15]

Campus departments were not remitting fundraising receipts for deposit in a timely manner. Remitting cash receipts in a timely manner decreases the risk that a misappropriation of funds will occur and not be detected timely.

GIFT ACKNOWLEDGEMENT AND RECONCILIATION PROCESS [15]

The campus's gift acknowledgement and reconciliation process needed strengthening. Strengthening the gift acknowledgement and reconciliation process decreases the risk that errors or irregularities will not be detected in a timely manner.

PURCHASING AND ACCOUNTS PAYABLE [16]

SEGREGATION OF DUTIES – ACCOUNTS PAYABLE [16]

Accounts payable duties were inadequately segregated for auxiliary accounting. Adequate separation of duties decreases the risk that errors and irregularities will not be detected in a timely manner.

PROCUREMENT PROCESS [17]

The campus's auxiliary procurement policies and procedures had not been fully documented. Fully documented and communicated procurement policies and procedures decrease the risk that internal controls are compromised.

DISBURSEMENTS [18]

Certain disbursements processed by campus auxiliary accounting needed additional documented support. Sufficient supporting documentation and authorization decrease the risk that misappropriation of funds will not be prevented or detected timely.

TRUSTS AND OTHER LIABILITIES [20]

Oversight by the campus of funds held in trust by auxiliaries was in need of strengthening. Adequate oversight reduces the campus's and the California State University (CSU) System's exposure to regulatory and legal consequences.

PROGRAMS [21]

INTERNET POLICY [21]

The campus had not developed a formal Internet policy addressing governance of the content of web-page offerings presented by auxiliary and other organizations. A formal Internet policy affords the campus with a decreased risk that inappropriate or fraudulent web-based transactions will occur.

ALLOCATION OF COSTS TO AUXILIARY ORGANIZATIONS [22]

The campus's cost allocation plan needed additional documented support. Fully defining cost methodology would allow the General Fund to be properly reimbursed for facilities, goods, or services provided to auxiliary organizations.

INFORMATION TECHNOLOGY [23]

PHYSICAL SECURITY [23]

Access to the auxiliary organization computers maintained by the campus was not sufficiently secured. Adequate security could prevent unauthorized persons from gaining access to the computer room and stealing or damaging equipment.

SYSTEM ACCESS [24]

User profile controls for campus auxiliary accounting systems were inadequate. Proper security access to system screens decreases the risk of unauthorized and inappropriate acts.

SONOMA STATE UNIVERSITY ACADEMIC FOUNDATION

LEGAL AND REGULATORY COMPLIANCE [25]

RESERVES [25]

The Sonoma State University Academic Foundation, Inc. (SSUAF) had not established a specific surplus funds/reserve policy, considering both short-term and long-term campus needs. Sufficient planning and policy over surplus funds and reserves decrease the risk that an auxiliary will operate in a manner inconsistent with the educational mission of the campus.

BUDGET APPROVAL [25]

The SSUAF budget was not submitted timely to the campus president for approval. Appropriate approval of auxiliary budgets decreases the risk that the auxiliary will operate in a manner inconsistent with the educational mission of the campus.

INVESTMENTS [26]

Accounting for investments was in need of improvement. Sufficient accounting for investments decreases the risk that funds will be handled inappropriately and contrary to the expectations of the campus and donors.

LOAN PROGRAM [27]

SSUAF's loan program policies and procedures were in need of additional documentation. Complete, documented policies and procedures decrease the risk that errors or misunderstandings in the administration of the loan program could occur.

FEES, REVENUES, AND RECEIVABLES [28]

Laundry vending service revenue from the housing program was inappropriately retained in SSUAF accounts. Depositing state monies into the campus's local state agency trust account decreases the risk that state funds may be expended improperly.

TRUSTS AND OTHER LIABILITIES [29]

The SSUAF's trust account administration was in need of improvement. Adequately documented trust agreements reduce the risk of both inappropriate expenditures and misunderstandings about account operations.

PROGRAMS [30]

Segregation of duties over federal grants was not always maintained by the SSUAF. Adequate separation of duties decreases the risk that errors and irregularities will not be detected in a timely manner.

SONOMA STATE UNIVERSITY STUDENT UNION, INC.

LEGAL AND REGULATORY COMPLIANCE [32]

The Sonoma State University Student Union, Inc.'s (Student Union) crime insurance policy coverage was insufficient, as it did not contain coverage for forgery, robbery, in-transit, money order, or computer fraud. Maintaining appropriate insurance coverage reduces the auxiliary organization's exposure to potential liability.

CASH RECEIPTS AND DISBURSEMENTS [32]

SEGREGATION OF DUTIES – GENERAL ACCOUNTING [32]

General accounting duties were inadequately segregated at the Student Union. Adequate separation of duties decreases the risk that errors and irregularities will not be detected in a timely manner.

REFUND TICKETS [33]

The Student Union's entertainment ticket refund policies and procedures needed to be documented. Documented policies and procedures decrease the risk of errors or misunderstandings in the handling of refunds.

PETTY CASH AND CHANGE FUNDS [34]

The Student Union did not have procedures to document its periodic and independent cash counts of petty cash funds on an unannounced basis. Performing timely counts of petty cash funds decreases the risk that missing funds will not be detected.

FEEES, REVENUES, AND RECEIVABLES [34]

A Student Union loan to the Associated Students, Inc. (ASI) for the Toddler Center was not supported by a written loan agreement. Documented loan agreements decrease the risk that funds could be inappropriately expended, and misunderstandings about loan provisions could result.

TRUSTS AND OTHER LIABILITIES [35]

Campus life trust funds were inappropriately held in a Student Union trust account. In addition to being inappropriately deposited with the Student Union, the accounts were not correctly administered. When state monies are properly placed into a state trust account, CSU fund management policies are complied with.

INFORMATION TECHNOLOGY [36]

The Student Union's data access security needed improvement. Adequate configurations of system security software could prevent unauthorized users from gaining access to campus systems and confidential data.

SONOMA STATE ENTERPRISES, INC.

LEGAL AND REGULATORY COMPLIANCE [38]

Consideration was not sufficiently articulated in land lease/facilities use arrangements between the campus and Sonoma State Enterprises, Inc. (SSE). Sufficiently documenting consideration reduces exposure to the campus and the legally separate auxiliary organization to the risk that a "gift of public funds" claim could be asserted.

PETTY CASH AND CHANGE FUNDS [38]

CASH REPLENISHMENT [38]

SSE's petty cash replenishment process needed improvement. The risk of errors or misappropriation decreases when petty cash funds are properly controlled.

POLICIES AND PROCEDURES [39]

Petty cash and change fund policies and procedures were incomplete. Internal controls are strengthened when policies and procedures are complete and fully documented.

INVESTMENTS [40]

SSE's investment accounting written policies and procedures did not sufficiently address control of the transfer of investment funds. Sufficient controls over investments decrease the risk that errors and irregularities will be identified and corrected timely and that funds will be managed appropriately.

INVENTORIES [41]

SSE's arrangements with the vendor operating the bookstore's textbook buyback program were inadequate. Sufficient oversight of the book buyback process decreases the risk that errors and irregularities will not be detected timely.

INFORMATION TECHNOLOGY [42]

SSE's data access security needed to be improved. Adequate configurations of system security software could prevent unauthorized users from gaining access to campus systems and confidential data.

ASSOCIATED STUDENTS, INC.

LEGAL AND REGULATORY COMPLIANCE [43]

STUDENT BODY FEES [43]

ASI fees were not maintained in an approved state trust account. The campus's required oversight of student fees is ensured when such fees are deposited in the custody of the chief financial officer.

OFFICER AND EMPLOYEE INSURANCE COVERAGE [43]

The ASI's officer and employee insurance policy did not contain coverage for forgery, money orders, or computer fraud. Maintaining appropriate insurance coverage reduces the auxiliary organization's exposure to potential liability.

CHILDREN'S SCHOOL [44]

A written agreement had not been developed between the ASI and the campus for the use of state facilities and services. With a written agreement to define each party's responsibilities, the potential for misunderstanding is decreased.

EDUCATIONAL SUPPORT [45]

The ASI did not report to the campus financial aid office all stipends paid to students through its temporary housing program. Properly coordinating with those involved in making and authorizing distributions decreases the risk that erroneous payments will be made.

RESERVES [46]

The ASI had not documented its reserve policy. Sufficient reserves reduce the campus's risk to future fund deficits.

CASH RECEIPTS AND DISBURSEMENTS [46]

SEGREGATION OF DUTIES – ACCOUNTING [46]

Accounting duties were not adequately segregated at the ASI; one person performed the majority of accounting functions. Adequate separation of duties decreases the risk that errors and irregularities will not be detected in a timely manner.

CREDIT CARD POLICY [47]

The ASI had not developed written policies and procedures for credit card use. Internal controls can be strengthened if policies and procedures are properly documented and communicated to employees.

FIXED ASSETS [48]

The ASI did not have written fixed asset policies and procedures. When formal, written fixed asset policies and procedures are maintained, there is a decreased potential for lost or stolen property.

TRUSTS AND OTHER LIABILITIES [49]

Funds held in trust for student organizations (campus clubs) were not sufficiently controlled. Sufficient control over funds held in trust in accordance with CSU and related standards decreases the risk that funds will be expended for inappropriate purposes.

PROGRAMS [50]

Controls over the ASI's transitional housing program (THP) were not sufficient. Sufficient oversight reduces the campus's and the CSU System's exposure to regulatory and legal consequences and claims of inequity of offers of benefits.

OBSERVATIONS, RECOMMENDATIONS, AND CAMPUS RESPONSES

CAMPUS

LEGAL AND REGULATORY COMPLIANCE

CAMPUS SUPPORT ORGANIZATIONS

The campus had not developed written policies and procedures to identify, coordinate, and oversee ancillary organizations that operate in support of academic and nonacademic programs.

Several of these types of organizations maintain accounts at a campus auxiliary.

Education Code, §89900 through §89912, indicate the need for campus control over entities offering service and/or exposing the campus to liability. Title 5 §42402 establishes the authority of campus presidents to require auxiliary organizations to operate in conformity with policy of the Board of Trustees.

The associate vice president of administration and finance indicated that the university was not aware of any significant problems resulting from such activity and had not developed a formal written strategy in this regard. He further indicated that due to the size of the campus, he or the provost would have general knowledge if any such activities were being conducted either on or off campus.

Not developing written policies and procedures can result in a lack of sufficient oversight over ancillary organizations operating on the campus in support of academic and nonacademic programs which exposes the campus and the California State University (CSU) system to regulatory and legal consequences.

Recommendation 1

We recommend that the campus document its policies and procedures to identify, coordinate, and oversee the various ancillary organizations that operate on the campus in support of academic and nonacademic programs.

Campus Response

Policies and procedures have been written to identify, coordinate, and oversee the various ancillary organizations that operate on the campus in support of academic and nonacademic programs as evidenced by:

1. Centers and Institutes Policy – initially issued on March 4, 1991 with last revision date of September 15, 2000.
2. Self-Support Instruction Policy – initially issued on May 20, 1991 with last revision date of October 2, 2000.

3. Educational Business Activities Policy – initially issued October 10, 1988 with last revision date of March 1, 1999.

Corrective action on this recommendation is considered completed.

PUBLIC RELATIONS POLICY

The campus had not established a current public relations policy applicable to its auxiliary organizations.

Title 5 §42502 requires the campus president to file, with the chancellor, a policy on the accumulation and use of public relations funds for all auxiliary organizations. The statement will include the policy and procedure on solicitation of funds, source of funds, amounts, purpose for which the funds will be used, allowable expenditures, and procedures of control.

The vice president of administration and finance indicated that a policy was under development.

Failure to establish a current public relations policy applicable to auxiliary organizations increases the risk that funds will be accumulated and used improperly.

Recommendation 2

We recommend that the campus establish a current public relations policy and coordinate with the auxiliaries to update their public relations policies.

Campus Response

The campus issued a Hospitality Policy in on August 15, 2000, last revised June 22, 2001, to address public relations and Executive Order 761. SSU Auxiliaries are subject to the provisions of this policy. Each Auxiliary has been required to review their respective policy and revise as necessary to ensure compliance with the campus policy.

Corrective action on this recommendation is considered completed.

UNCLAIMED MONIES

The campus auxiliaries had not established policies and procedures to escheat unclaimed monies to the state. In addition, we found that uncleared checks were not properly disposed of on a consistent basis (i.e., voided and a liability created).

Code of Civil Procedures, Chapter 7, *Unclaimed Property Law*, Article 2, §1510 and §1511, indicate that property held by a business association escheats to the state, subject to various requirements and limitations.

The assistant controller of auxiliary accounting indicated that the number of old checks was minimal; therefore, escheatment procedures had not been established.

Failure to report or perform the duties specified in the unclaimed property law could result in fines.

Recommendation 3

We recommend that the campus work with each auxiliary organization to develop operating procedures which implement the requirements of the Code of Civil Procedures with respect to unclaimed property.

Campus Response

The campus has directed each Auxiliary to establish practices that ensure compliance with the cited requirement.

Corrective action on this recommendation is considered completed.

ARCHIVED RECORDS

Facilities used to store archived auxiliary records lacked a sufficient fire suppression system.

Title 5 §42401, §42402, §42500, and Education Code §89900 establish a responsibility to operate in accordance with sound business practices in the interest of the campus. Sound business practices would mandate sufficient fire suppression systems to protect archived records.

The associate vice president of administration and finance acknowledged that the facilities used for campus archives lacked fire suppression, but he believed the cost of adding a system did not warrant installation.

Lack of sufficient fire suppression exposes archived records to potential loss or damage.

Recommendation 4

We recommend that the campus perform a cost/benefit analysis of installing a fire suppression system to protect archived auxiliary records.

Campus Response

The University will perform a cost/benefit analysis of installing a fire suppression system to protect archived auxiliary records.

Target Completion Date: January 31, 2002

CASH RECEIPTS

TIMELY DEPOSITS

Campus departments were not remitting fundraising receipts for deposit in a timely manner.

Various departments throughout the campus solicit and receive donations, mainly in the form of checks. Campus policy requires that all campus departments remit funds within two days. Our review of deposits indicated that this was not occurring consistently.

We tested deposits from five judgmentally selected days. We found 44 checks that were not deposited timely. Lags ranged from one week to over 100 days (in two instances). Seven of these checks were for more than \$500, while one was for several thousand dollars.

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 practices mandate that all cash receipts be forwarded for deposit in a timely manner.

The university controller indicated that the campus policy needed to be more aggressively enforced in the future.

Not remitting cash receipts in a timely manner increases the risk that a misappropriation of funds will occur and not be detected timely.

Recommendation 5

We recommend that the campus reiterate its procedures to ensure that all funds are remitted for deposit by departments in a timely manner.

Campus Response

Periodic publishing of the campus-depositing requirement will be conducted on more frequent basis.

Corrective action on this recommendation is considered completed.

GIFT ACKNOWLEDGMENT AND RECONCILIATION PROCESS

The campus's gift acknowledgement and reconciliation process needed strengthening.

The development office did not administer and control acknowledgements for all gifts received by campus departments. Reconciliations of acknowledgements to deposits were made using the

representations of campus departments rather than source documents (such as acknowledgment letters). We also found that, at times, gift acknowledgment duties were not sufficiently segregated.

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 practices mandate an effective system of internal control, which includes complete reconciliations and appropriate segregation of duties.

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 of development indicated that all gifts received and deposited by the development office were reconciled. However, he acknowledged that the acknowledgement and reconciliation process was not complete, as his office did not control all acknowledgments, and it did not capture in detail all gift deposits received by other areas on campus. The vice president of development further indicated that it was difficult to segregate duties because of limited staffing.

Weaknesses in gift reconciliation processes increase the risk that errors or irregularities will not be detected in a timely manner.

Recommendation 6

We recommend that the development office strengthen its gift acknowledgement and reconciliation process.

Campus Response

A review of the campus processes for receiving, acknowledging and reconciliation of gifts received by all campus departments and units is to be completed by January 31, 2002.

Target Completion Date: January 31, 2002

PURCHASING AND ACCOUNTS PAYABLE

SEGREGATION OF DUTIES – ACCOUNTS PAYABLE

Accounts payable duties were inadequately segregated for auxiliary accounting.

We noted that:

- ▶ The configuration of the accounts payable computer system did not prevent accounts payable technicians from inputting and distributing their own work within the accounting general ledger.

- ▶ Access to the vendor master file was not adequately controlled. All accounting staff had the ability to create and update vendor files, resulting in an inadequate segregation of duties. We also noted that there were several duplicate vendors in the file listing as of June 16, 2000.

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 of administration and finance indicated that a policy was under development.

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

Recommendation 7

We recommend that the campus and the Sonoma State University Academic Foundation, Inc. (SSUAF) segregate accounts payable and general ledger duties or develop mitigating procedures.

Campus Response

Effective July 2000, access privileges were reassessed and restricted as recommended by the CSU Auditor.

Corrective action on this recommendation is considered completed.

PROCUREMENT PROCESS

The campus's auxiliary procurement policies and procedures had not been fully documented.

Written purchasing and receiving policies and procedures had not been developed to address the following:

- ▶ Vendor selection processes.
- ▶ Use of campus procurement card.
- ▶ Verification of legal and contract provisions.
- ▶ Definition of prohibited purchases/purchasing practices.

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 practices mandate fully documented procurement policies and procedures.

The vice president of administration and finance indicated that a policy was under development.

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

Recommendation 8

We recommend that the campus further document procurement policies and procedures to include, at a minimum, vendor selection processes; use of campus procurement card; verification of legal and contract provisions; and definition of prohibited purchases/purchasing practices.

Campus Response

Procurement and payable processes for all SSU entities are being revised principally to facilitate the implementation of PeopleSoft Finance system. The recommended points will be incorporated.

Further SSU Auxiliary compliance with all applicable regulations and policies of SSU are a condition of the operating agreement. During the period under review, each Auxiliary was subject to SSU procurement policies and practices.

Target Completion Date: January 31, 2002

DISBURSEMENTS

Certain disbursements processed by campus auxiliary accounting needed additional documented support.

Campus auxiliary accounting processed disbursements for both SSUAF and Sonoma State Enterprises, Inc. (SSE). In our review of 80 disbursements, we found several instances where additional documentation was needed to better support disbursements.

We found that:

- ▶ Lists of attendees were not required by auxiliary accounting for fundraising events, conferences, and similar events.
- ▶ Faxes were accepted as original documentation with no certification that the invoice had been researched to prevent a duplicate payment by auxiliary accounting.
- ▶ In one instance, travel costs were reimbursed to the campus employee rather than to the spouse (a volunteer employee) whose travel was being paid.
- ▶ In one instance, receivables between campus auxiliaries were paid off through a discretionary fund without adequate supporting documentation or proper authorization.
- ▶ In one instance, an award was given to a faculty member without any supporting documentation other than the expenditure voucher provided by a manager.

Education Code §89900(b) states that the president of that state university shall be responsible for ascertaining that all expenditures are in accordance with policies of the Trustees, the propriety of all expenditures, and the integrity of the financial reporting made by auxiliary organizations.

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 practices mandate that disbursements be fully supported.

The vice president of administration and finance indicated that auxiliary accounting processed expenditures based primarily on an approved signature, funds availability, and an invoice. He further indicated his belief that the number of exceptions noted was reasonable considering the large sample size that was considered.

Insufficient supporting documentation and authorization increase the risk that misappropriation of funds will not be prevented or detected timely.

Recommendation 9

We recommend that the campus ensure that disbursements processed by campus auxiliary accounting always have needed documented support.

Campus Response

The University believes that substantially all Auxiliary disbursements reviewed by the University Auditor were sufficiently documented.

1. Lists of Attendees were not required for fundraising events, conferences, and similar events. We are not aware of a generally accepted business process or CSU policy that requires such. Given the multitude of grant activities in which seminars and conferences are a part of the activity and the number of attendees make this requirement impractical.
2. Faxes were accepted as original documentation. We are not aware of a generally accepted business process or CSU policy that requires such. The acceptance of facsimile invoices in lieu of original invoice is also an acceptable practice of the Division of Disbursement, Office of State Controller.
3. Travel cost reimbursed to campus employee rather than to the spouse. This was a single instance in which a campus employee was reimbursed for the travel cost of his spouse based upon the employee's travel reimbursement claim with SSU.

For the remaining two one-time instances cited, both rationale and documentation were presented at the time of audit that supported each of the transactions.

We concur that all Auxiliary disbursements must be supported by appropriate and legitimate business papers and will continue to enforce existing practices and to refine them as circumstances warrant.

Corrective action on this recommendation is considered completed.

TRUSTS AND OTHER LIABILITIES

Oversight by the campus of funds held in trust by auxiliaries was in need of strengthening.

Campus funds were held in trust at three of the four auxiliary organizations. These accounts were held for student organizations, campus academics and administrators, and other officially recognized entities.

We found that:

- ▶ Campus centers and institutes maintained custodial accounts at auxiliaries where revenues were deposited and expenditures were made with only limited campus administrative oversight and knowledge. In one instance, state employees inappropriately entered into contracts, using funds maintained in SSUAF campus program accounts. We also found that the Interactive Mathematics Program entered into a lease agreement for office space located in Sausalito. State employees doing business as the Interactive Mathematics Program signed the lease agreement.
- ▶ Service fee revenues associated with campus program funds (centers and institutes) were not recorded in campus accounting records, and certain assets and liabilities were similarly not recorded in state records. We found that one center partially funded the construction of a building on campus, but the auxiliary's records and accounts reflected it as an auxiliary asset.
- ▶ State funds, in certain instances, were held in trust by auxiliaries in violation of CSU policy.

Title 5 §42401, §42402, §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 funds management.

Education Code §89036, Public Contract Code §10295, §10430(c), §12100.5, and §12120, and Executive Order No. 667 indicate that campus presidents have received delegated authority from the chancellor to purchase, sell, lease, or license personal property in accordance with Trustee policy and law. Responsibility for the preparation of campus internal policies and procedures consistent with the provision of CSU Contracting and Procurement Manual remains with the campus presidents. Generally, only campus executive management and purchasing are legally able to sign such agreements.

The CSU *Investment Manual for California State University Trust Funds*, AD 97-08, indicates that all CSU trust fund money, pending disbursement for its intended purpose, will be managed in custodial accounts in the name of the CSU System.

The vice president of business and finance indicated that the campus's extensive efforts to consolidate and move funds and assets to appropriate state accounts have been ongoing.

A lack of sufficient oversight exposes the campus and the CSU System to regulatory and legal consequences.

Recommendation 10

We recommend that the campus increase its oversight of auxiliary management, especially in the area of funds held in trust.

Campus Response

The University believes that Auxiliaries are an integral part of the entire SSU structure and not independent. The three instances cited were exceptions to well-established policies and practices.

We agree that constant follow-up and reviews are necessary to ensure maximum understanding of the SSU philosophy and structure and that it is necessary to periodically enforce the established CSU and campus policies and practices.

Corrective action on this recommendation is considered completed.

PROGRAMS

INTERNET POLICY

The campus had not developed a formal Internet policy addressing governance of the content of web-page offerings presented by auxiliary and other organizations.

Various auxiliary, campus, and student support organizations had posted web pages on the Sonoma State website.

Title 5 §42401, §42402, §42500, and Education Code §89900 establish the authority of campus presidents to require auxiliary organizations to operate in conformity with the policy of the Board of Trustees and the campus.

The associate vice president of administration and finance acknowledged that a web policy was needed and indicated that the campus is currently evaluating the overall demand and usage of technology services, as well as the most appropriate recharge methodology to deploy.

The lack of a formal Internet policy presents the campus with an increased risk that inappropriate or fraudulent web-based transactions will occur.

Recommendation 11

We recommend that the campus develop a formal Internet policy addressing governance of the content of web-page offerings presented by auxiliary and other organizations.

Campus Response

Web Standards and Usage Policy was issued August 15, 2000 incorporating the recommendation and subjecting SSU Auxiliaries to the formal SSU policy.

Corrective action on this recommendation is considered completed.

ALLOCATION OF COSTS TO AUXILIARY ORGANIZATIONS

The campus's cost allocation plan needed additional documented support.

The campus provides facilities, goods, and services to its four auxiliary organizations. These arrangements are documented in various ways, including operating agreements, memoranda of understandings, and budget documentation. In certain instances, reimbursement arrangements needed to be further documented. Specifically, the applied cost methodology needed to include more detailed information as to the underlying basis used to accumulate and allocate costs. In some instances, specific campus outlays were not included in allocated costs.

With regard to indirect costs:

- ▶ The memorandum of understanding (MOU) supporting the various personnel services provided by the campus to the Associated Students, Inc. (ASI) did not specify the level or method of reimbursement for the services provided. This MOU was not executed until March 20, 2000.
- ▶ Shared indirect cost reimbursements made by the SSUAF were not always properly distributed and budgeted. We found that certain indirect cost reimbursements (due to the campus) were not returned to the campus. Instead, they were deposited directly into academic departmental discretionary and designated accounts maintained at the SSUAF. These distributions were based on cost-sharing agreements in place between the academic department and the SSUAF.
- ▶ Consideration was not sufficiently articulated in facilities lease agreements between the campus and the SSUAF. Specific consideration offered to the campus for the occupancy or use of space was not included in the operating agreement. In addition, the agreement did not specify space which was to be occupied or used by the SSUAF. A lease agreement should address various rights, responsibilities, liabilities, etc., with regard to occupancy or space usage.

CSU coded memo BA 83-30 requires auxiliaries to pay for services provided by the campus. Further, recently executed Executive Order No. 753, *Allocation of Costs to Auxiliary Enterprises*, established the responsibility for auxiliaries to pay allowable direct costs plus an allowable portion of indirect costs associated with facilities, goods, and services provided by the campus and funded by the General Fund.

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

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

The associate vice president of administration and finance indicated that the university cost methodology was created to be simple, but equitable.

Not fully defining cost methodology could result in the General Fund not being properly reimbursed for facilities, goods, or services provided to auxiliary organizations.

Recommendation 12

We recommend that the campus complete its implementation of a cost allocation plan to be used in reimbursing the General Fund for costs incurred.

Campus Response

The campus cost allocation plan is being prepared in compliance with EO 753 and with incorporation of the above recommendations.

Target Completion Date: January 31, 2002

INFORMATION TECHNOLOGY

PHYSICAL SECURITY

Access to the auxiliary organization computers maintained by the campus was not sufficiently secured.

Title 5, §42401 and §42402, indicate that 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 practices mandate, in part, that there be a plan that limits access to state agency assets to authorized personnel who require these assets in the performance of their assigned duties.

The director of reports and systems was aware of the need for additional security, but had not made it a priority.

Without adequate security, unauthorized persons could gain access to the computer room and steal or damage equipment.

Recommendation 13

We recommend that the campus improve access security for those rooms which hold auxiliary organization computers.

Campus Response

Access to the computer room was restricted during July 2000 by installing a key pad locking device to the exterior door and distributing the combination to limited personnel.

Corrective action on this recommendation is considered completed.

SYSTEM ACCESS

User profile controls for campus auxiliary accounting systems were inadequate.

We found that all accounting personnel designated as account technicians and higher had full access to the accounts receivable, accounts payable, and general ledger modules.

Title 5, §42401 and §42402, indicate that 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 practices mandate that the elements of a satisfactory system of internal accounting and administrative control include a system of authorization and record-keeping procedures adequate to provide effective accounting control over assets, liabilities, revenues, and expenditures. It requires, in part, that access to state agency assets be limited to authorized personnel who require these assets in the performance of their assigned duties.

The director of reports and systems indicated access had been subsequently limited so that only appropriate staff can access the various functions on the system.

Failure to secure access to system screens increases the risk of unauthorized and inappropriate acts.

Recommendation 14

We recommend that the campus review its current user profiles for campus auxiliary account systems to ensure the appropriate level of user access.

Campus Response

Security profiles were reviewed and changed during July 2000 to limit update privileges as recommended.

Corrective action on this recommendation is considered completed.

SONOMA STATE UNIVERSITY ACADEMIC FOUNDATION

LEGAL AND REGULATORY COMPLIANCE

RESERVES

The Sonoma State University Academic Foundation, Inc. (SSUAF) had not established a specific surplus funds/reserve policy, considering both short-term and long-term campus needs.

Education Code §89904(b), §89904.5, and §89905 specify the need for reserve planning. Title 5 §42401, §42402, §42500, and Education Code §89900 establish a responsibility to operate in accordance with sound business practices in the interest of the campus. Sound business practices would mandate detailed documentation of a reserve policy.

The SSUAF vice president and chief operating officer indicated that yearly budgets indicate the amounts set aside for reserve; a written and formal reserve policy was not deemed necessary.

A lack of sufficient documentation of 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 15

We recommend that the SSUAF document, in writing, its reserve policy.

Campus Response

Formal documentation of a reserve policy is being drafted to address the goals of SSUAF's development operation. Policy document is scheduled for presentation to SSUAF Board of Directors on December 4, 2001

Target Completion Date: December 4, 2001

BUDGET APPROVAL

The SSUAF budget was not submitted timely to the campus president for approval.

We found that:

- ▶ The 1998/1999 budget was reviewed by the finance committee in September 1998 and approved by the board in December 1998, when the president was not in attendance.
- ▶ The 1999/2000 budget was reviewed by the finance committee in March 2000 and not submitted to the board for approval.

While the president was clearly aware of the activities of the SSUAF, CSU regulatory requirements were not adhered to.

Title 5 §42402 states that the president shall require that each auxiliary organization submit its programs and budgets for review at a time and in a manner specified by the president.

The SSUAF vice president and chief operating officer indicated that the 1999/2000 budget was not submitted timely to the board for approval due to the transitioning of grant and contract activity from the foundation to the campus.

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 16

We recommend that the campus and the SSUAF develop procedures to ensure that budget information is submitted to the campus president for approval in a timely manner.

Campus Response

SSUAF has implemented the recommendation effective with the FY 2001/2002-budget cycle.

Corrective action on this recommendation is considered completed.

INVESTMENTS

Accounting for investments was in need of improvement.

Based on the SSUAF's accounting records, it holds several million dollars for the benefit of the campus, including endowment, scholarship, restricted and unrestricted gifts, and other unrestricted campus funds.

We identified the following during our review:

- ▶ Unrealized gains and losses were not individually recorded in endowment general ledger accounts.
- ▶ Investment pool unitization calculations were not subject to a regular and detailed management review.

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 practices mandate recording changes in endowments to general ledgers and that calculations be subjected to regular and detailed review.

The SSUAF vice president and chief operating officer indicated that recording changes to individual general ledger accounts were not practical due to the large number of accounts and limited number of accounting personnel available to SSUAF. He further indicated that reviews of calculations were made, but not documented, as completed throughout the year.

Insufficient accounting for investments increases the risk that funds will be handled inappropriately and contrary to the expectations of the campus and donors.

Recommendation 17

We recommend that the SSUAF ensure that:

- a. Authoritative guidance as to the proper accounting for and recording of unrealized gains and losses for endowments is obtained.
- b. Investment pool unitization calculations are subject to a regular and detailed management review.

Campus Response

- a. SSUAF has made a formal inquiry for advice from its auditor of record. The August 30, 2001 inquiry was for guidance as to what best practices were generally employed by institutions of higher education for recognizing unrealized gains and losses to the individual endowment accounts.
- b. This recommendation was implemented on August 29, 2000. Preliminary reviews are conducted with the SSUAF Finance Committee and a formal review is conducted at the following Board of Directors meeting. In addition, the formalization of the review requirement has been included into SSUAF's Investment Policy, SSUAF Policy 00-01.

Corrective action on this recommendation is considered completed.

LOAN PROGRAM

SSUAF's loan program policies and procedures were in need of additional documentation.

The SSUAF (as lender) issues notes receivables secured by deeds of trust, which were included as part of its investment portfolio. These notes were executed through and underwritten by Sonoma Mortgage Investment Company (SMIC), a California licensed real estate broker, who also acted as the servicing agent for the loans. Nearly all of the loans had been assigned to charitable remainder trusts, in order to fund periodic payments due to current beneficiaries under the terms of various trust agreements. Notes receivable totaled approximately \$5 million, well over 10 percent of total investments.

We noted that policies and procedures had not been sufficiently documented with respect to:

- ▶ Concentrations of debt – approximately \$2.5 million or over one-half of the total notes receivable were extended to one borrower.
- ▶ Due diligence performed by the SSUAF – documented evidence of verification tasks performed was, at times, limited.
- ▶ The notes receivable area – formalized, written procedures had not been developed.

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. Sound business practices mandate fully documented loan program policies and procedures.

The vice president and chief operating officer of SSUAF indicated that full consideration and verification were done on each loan. He noted, however, that documented policies and procedures could be expanded.

Insufficiently documented policies and procedures increase the risk that errors or misunderstandings in the administration of the loan program could occur.

Recommendation 18

We recommend that the SSUAF document its loan program policies and procedures, addressing, at a minimum, concentrations of debt, due diligence, and notes receivable.

Campus Response

The SSUAF Finance Committee has developed SSUAF policy 01-03, Notes Secured by Deeds of Trust. The policy is scheduled for approval action at the December 4, 2001 Board of Director's meeting.

Target Completion Date: December 4, 2001

FEES, REVENUES, AND RECEIVABLES

Laundry vending service revenue from the housing program was inappropriately retained in SSUAF accounts.

Funds receipted by the campus in accordance with Education Code §89721 were not consistently and appropriately deposited in the campus's local state agency trust account in accordance with CSU policy.

The CSU *Investment Manual for California State University Trust Funds*, AD 97-08, indicates that all CSU trust fund money, pending disbursement for its intended purpose, will be managed in custodial accounts in the name of the CSU System.

The SSUAF chief financial officer indicated that when funds were found to be erroneously deposited, immediate action was taken.

Depositing state monies into an auxiliary trust account increases the risk that state funds may be expended improperly.

Recommendation 19

We recommend that SSE remit all state revenue for deposit in appropriate state accounts.

Campus Response

The practice of sharing a portion of laundry commissions with SSU's Housing and Residential Life offices for discretionary use in the residential program was discontinued on July 1, 2000. All laundry commission revenue is retained by Sonoma State Enterprises (SSE), as the contractor of record with the laundry vending company. Reimbursement for lease of laundry room space and utilities is recouped through the contractual agreement between SSU and SSE.

Corrective action on this recommendation is considered completed.

TRUSTS AND OTHER LIABILITIES

The SSUAF's trust account administration was in need of improvement.

We found that:

- ▶ Account establishment documentation did not contain instructions for time constraints, reporting requirements, or disposition of excess funds at the conclusion of the project.
- ▶ Account holders were not informed in writing that interest earned on their account is used to offset administrative overhead.
- ▶ The seven percent administrative fee charged on campus program monthly revenues was not established in writing.

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 SSUAF vice president and chief operating officer indicated it has been a longstanding practice of the SSUAF to apply the seven percent administrative fee, and a policy statement would be reissued

confirming this practice. He also indicated that disposition of funds and time constraints are not sought, believing that such accounts are considered to have a perpetual life.

Inadequately documented trust agreements are at risk of both inappropriate expenditures and misunderstandings about account operations.

Recommendation 20

We recommend that the SSUAF ensure that:

- a. Account establishment criteria are further clarified.
- b. Use of interest and overhead charges are reduced to writing and transmitted to account holders.

Campus Response

- a. Trust document used to open SSUAF trusts has been the same format used to open a University trust since July 2000.
- b. A notice addressing interest and overhead charges will be incorporated into the trust creation document as recommended.

Target Completion Date: November 30, 2001

PROGRAMS

Segregation of duties over federal grants was not always maintained by the SSUAF.

The SSUAF contracts and grants accountant also served as the project director on at least one federal grant.

Executive Order No. 698 states that the review of auxiliary organizations will be used to determine appropriate separation of duties.

The university controller indicated that this arrangement was only done so that payment could be facilitated while the principal investigator and team were out of the country carrying out the purpose of the grant.

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

Recommendation 21

We recommend that the SSUAF separate accounting and project director responsibilities on all contracts and grants.

Campus Response

The event that caused this finding and recommendation was a single event. The process followed was fully documented and approved by SSUAF management as well as the funding agency based on the circumstances. In the case, a SSU faculty member was awarded a Fulbright Fellowship in India. To enable administering the grant, it was determined that the grant accountant was the most appropriate individual to accomplish this.

In the future, we will ensure proper segregation as recommended.

Corrective action on this recommendation is considered completed.

SONOMA STATE UNIVERSITY STUDENT UNION, INC.

LEGAL AND REGULATORY COMPLIANCE

The Sonoma State University Student Union, Inc.'s (Student Union) crime insurance policy coverage was insufficient, as it did not contain coverage for forgery, robbery, in-transit, money order, or computer fraud.

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. Education Code, §89905.5(c), indicates that an auxiliary needs to take measures to protect the campus from all possible liability associated with its service operations. Sound business practice mandate sufficient insurance coverage.

The director of the Student Union indicated that he believed coverage was sufficient, based upon information he had received from CSURMA.

Not maintaining appropriate insurance coverage exposes the auxiliary organization to potential liability.

Recommendation 22

We recommend that the Student Union review its insurance policies to determine the adequacy of coverage for crimes.

Campus Response

Effective July 1, 2000, additional service coverage has been added as recommended by the Trustees auditor.

Corrective action on this recommendation is considered completed.

CASH RECEIPTS AND DISBURSEMENTS

SEGREGATION OF DUTIES – GENERAL ACCOUNTING

General accounting duties were inadequately segregated at the Student Union.

We found that one person:

- ▶ Performed bank reconciliations.
- ▶ Had access to the entire accounting system.
- ▶ Oversaw accounting functions.
- ▶ Acted as the purchasing agent.

Executive No. Order 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 director of the Student Union indicated that the staff size prohibited internal control compliance. The accounting services were to be contracted out to the campus starting July 2000.

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

Recommendation 23

We recommend that the Student Union ensure that accounting duties are adequately segregated or develop mitigating procedures.

Campus Response

Effective July 1, 2000, the Student Union accounting responsibilities were assumed by the University thereby creating adequate separation of duties.

Corrective action on this recommendation is considered completed.

REFUND TICKETS

The Student Union's entertainment ticket refund policies and procedures needed to be documented.

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 practices mandate documented policies and procedures.

The director of the Student Union indicated that formalized procedures had been established, subsequent to the audit, which include reconciliation of refund monies and refund tickets.

When policies and procedures are undocumented, the risk of errors or misunderstandings in the handling of refunds is increased.

Recommendation 24

We recommend that the Student Union ensure that the recently established procedures are implemented.

Campus Response

Effective July 1, 2000, the Student Union has in place a written refund policy. The Student Union will ensure that in future events the established procedures are followed.

Corrective action on this recommendation is considered completed.

PETTY CASH AND CHANGE FUNDS

The Student Union did not have procedures to document its periodic and independent cash counts of petty cash funds on an unannounced basis.

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 practices mandate that documented periodic and independent, unannounced counts be performed to ensure that assets are sufficiently safeguarded.

The director of the Student Union indicated that he reviews and authorizes the petty cash reconciliation and makes periodic, independent counts when there are repetitive variances. These independent counts are not documented.

Internal controls are compromised when policies and procedures are incomplete and not fully documented.

Recommendation 25

We recommend that the Student Union incorporate in its petty cash procedures the requirement to document periodic, independent, unannounced cash counts.

Campus Response

The Student Union follows established University procedures regarding independent petty cash counts, and the counts are scheduled and reported according to the established guidelines in SAM §8111.2.

Corrective action on this recommendation is considered completed.

FEES, REVENUES, AND RECEIVABLES

A Student Union loan to the ASI for the Toddler Center was not supported by a written loan agreement.

We found that the Student Union loaned \$59,656 to the ASI for construction of a toddler center located within the ASI Children's School. No written agreement was executed between the parties to define the terms and conditions of the loan.

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 practices mandate that agreements be reduced to writing.

The director of the Student Union indicated that no loan agreement was drawn for the funds because the time frame was short.

Allowing undocumented loan agreements to be made increases the risk that funds could be inappropriately expended, and misunderstandings about loan provisions could result.

Recommendation 26

We recommend that the Student Union reduce future loan agreements with the ASI for the Toddler Center to writing, including confirming approvals.

Campus Response

The activity referred to above was a "one-time" event. Approvals for that project were received from both the ASI and University Administrators. All such future agreements will be in the form of written agreements or MOUs.

Corrective action on this recommendation is considered completed.

TRUSTS AND OTHER LIABILITIES

Campus life trust funds were inappropriately held in a Student Union trust account. In addition to being inappropriately deposited with the Student Union, the accounts were not correctly administrated.

We noted that:

- ▶ Trust funds held by the Student Union on behalf of the office of campus life were not supported by a trust agreement and/or MOU prior to December 20, 1999.
- ▶ Prior to fiscal year ending (FYE) June 1999, no administrative overhead was charged by the Student Union for the accounting services performed on behalf of the office of campus life.
- ▶ There was no support for the methodology of five percent of campus life revenue charged in the FYE June 2000.

Government Code §16305.3 states that all state monies shall be deposited in trust in the custody of the Treasurer. Education Code §89721 provides exceptions to depositing state monies to the custody of the Treasurer by permitting funds to be deposited to local trust accounts. By policy, the CSU requires all state trust funds be deposited within a campus trust fund. The CSU *Investment Manual for California State University Trust Funds*, AD 97-08, indicates that all CSU trust fund money, pending disbursement for its intended purpose, will be managed in custodial accounts in the name of the CSU System.

The director of the Student Union indicated that in the FYE June 1999, it was management's decision to handle the account of office of campus life, at no charge, in support of the student mission. In the FYE June 2000, the five percent of campus life revenue charge was developed to meet the demand of accounting services. He also indicated that the Student Union would no longer provide accounting services to the office of campus life starting in July 2000.

When state monies are placed into an auxiliary trust account, there is a violation of CSU fund management policies.

Recommendation 27

We recommend that the Student Union return life trust funds to the state for deposit in trust funds maintained by the campus.

Campus Response

Effective July 1, 2000, Financial Services assumed responsibility for Student Union accounting, and all trust funds for the Office of Campus Life were transferred to the appropriate departments of the University.

Corrective action on this recommendation is considered completed.

INFORMATION TECHNOLOGY

The Student Union's data access security needed improvement.

For example, passwords do not require a minimum length of characters; passwords are not changed periodically and a history maintained to prevent reuse; users are not logged off after a period of inactivity; users are not locked out after a minimum number of failed attempts; and a data security policy had not been established.

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 practices mandate that current practices of password management

require a minimum number of password characters and revoke user identification after a predetermined number of failed password attempts.

The director of reporting and systems indicated that it is not financially feasible to install these additional securities.

Inadequate configurations of system security software could allow unauthorized users to gain access to campus systems and confidential data.

Recommendation 28

We recommend that the Student Union increase the password character requirement, periodically change passwords, maintain a history of passwords to prevent reuse, log off users after a period of inactivity, and lock out users after a minimum number of failed attempts. Additionally, the campus should develop a data access security policy and review it periodically.

Campus Response

Effective July 1, 2000, Financial Services assumed responsibility for Student Union accounting; the University system security profiles were reviewed and changed during July 2000 to implement recommended features.

Corrective action on this recommendation is considered completed.

SONOMA STATE ENTERPRISES, INC.

LEGAL AND REGULATORY COMPLIANCE

Consideration was not sufficiently articulated in land lease/facilities use arrangements between the campus and Sonoma State Enterprises, Inc. (SSE).

We noted one arrangement where a trailer/office facility was placed on campus by SSE without benefit of a written agreement.

Education Code §89046 and Title 5, §42601 and §42502, mandate that auxiliaries appropriately pay for the use of campus space.

The senior director for entrepreneurial services indicated his belief that according to the 1998/1999 master operating agreement from the chancellor's office, there was no requirement to include the specific arrangements regarding the leasing of campus space.

Failure to sufficiently document consideration exposes the campus and the legally separate auxiliary organization to the risk that a "gift of public funds" claim could be asserted.

Recommendation 29

We recommend that SSE articulate specific consideration in all land lease/facilities use agreements with the campus.

Campus Response

SSE will include specific considerations in future land lease/facilities use agreements with the University. Since the field audit, the trailer/office facility referred to has been donated to the University on September 22, 2000.

Corrective action on this recommendation is considered completed.

PETTY CASH AND CHANGE FUNDS

CASH REPLENISHMENT

SSE's petty cash replenishment process needed improvement.

We noted that checks written to replenish petty cash funds were not made to the custodians of the petty cash funds, but to the bank. Checks executed in this manner present a high risk for fraud.

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 practices mandate that check for cash not be accepted and that transfer accountability for cash be established in writing.

The senior director for entrepreneurial services indicated that this has been the standard process for SSE and the campus.

The risk of errors or misappropriation increases when petty cash funds are not properly controlled.

Recommendation 30

We recommend that SSE establish policies and procedures requiring petty cash reimbursement checks be made payable to the custodians of the petty cash funds.

Campus Response

Procedures have been established to insure that petty cash reimbursement checks are made payable to petty cash custodians.

Corrective action on this recommendation is considered completed.

POLICIES AND PROCEDURES

Petty cash and change fund policies and procedures were incomplete.

We noted that SSE did not have written policies and procedures for the administration of petty cash and change funds. In addition, policies and procedures did not include periodic, unannounced, independent cash counts. One of the change funds had a regular balance of \$30,000; and in the book buyback period, this fund increase exceeds \$100,000.

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 practices mandate that policies and procedures be written and that petty cash and change funds be periodically and independently counted.

The senior director for entrepreneurial services indicated that an independent auditor counted the contents of the safes at an unscheduled time during the annual audit. The university controller indicated that SSE is currently developing formal change and petty cash policies and procedures.

Internal controls are compromised when policies and procedures are incomplete and not fully documented.

Recommendation 31

We recommend that SSE document petty cash and change fund policies and procedures, including provisions for performing periodic (at least quarterly) and independent, unannounced cash counts.

Campus Response

Procedures have been established to insure that periodic, independent, and unannounced cash counts are made.

Corrective action on this recommendation is considered completed.

INVESTMENTS

SSE's investment accounting written policies and procedures did not sufficiently address control of the transfer of investment funds.

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 practices mandate detailed instructions regarding the transfer of invested funds.

The assistant controller of auxiliary accounting stated that the current investment policy would be revised to include a procedure that will regulate the process of transferring funds in the investment area.

Insufficient controls over investments increase the risk that errors and irregularities will not be identified and corrected timely and that funds will be managed inappropriately.

Recommendation 32

We recommend that SSE include the transfer of funds in its written investment accounting policies and procedures.

Campus Response

SSE has articulated a procedure to clarify the process of transferring funds from a banking institution to an investment company.

Corrective action on this recommendation is considered completed.

INVENTORIES

SSE's arrangements with the vendor operating the bookstore's textbook buyback program were inadequate.

The bookstore uses outside vendors to operate its textbook buyback program. These outside vendors supply the buyback funds and an employee to perform the textbook buyback function.

With regard to these arrangements, we noted that:

- ▶ The bookstore utilized the services of two different companies to operate its textbook buyback program without benefit of a written agreement/contract to define the terms of the arrangement, including rights and responsibilities regarding liability associated with the vendor's employees operating on the campus.
- ▶ Written policies and procedures had not been established for the buyback program, including those for commissions, cash handling and transfers, reconciling revenues, etc.

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.

The senior director for entrepreneurial services indicated that the bookstore had been utilizing the services of the book companies for over 30 years without incident.

Insufficient oversight of the book buyback process increases the risk that errors and irregularities will not be detected timely.

Recommendation 33

We recommend that SSE:

- a. Establish written agreements with book buyback wholesalers.
- b. Establish written policies and procedures for the buyback program.

Campus Response

- a. This recommendation has been accepted and implemented with an agreement with a book buyback wholesaler.
- b. Written policies and procedures have been written to implement this recommendation.

Corrective action on this recommendation is considered completed.

INFORMATION TECHNOLOGY

SSE's data access security needed to be improved.

For example, passwords do not require a minimum length of characters and a history maintained to prevent reuse; users are not logged off after a period of inactivity; users are not locked out after a minimum number of failed attempts; and a data security policy had not been established.

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 practices mandate that current practices of password management require a minimum number of password characters and revoke user identification after a predetermined number of failed password attempts.

The director of reporting and systems was not aware of recommended access guidelines from the chancellor's office.

Inadequate configurations of system security software could allow unauthorized users to gain access to campus systems and confidential data.

Recommendation 34

We recommend that SSE:

- a. Increase the password character requirement.
- b. Maintain a history of passwords to prevent reuse.
- c. Log off users after a period of inactivity.
- d. Lock out users after a minimum number of failed attempts.
- e. Develop a data access security policy and review it periodically.

Campus Response

The University system security profiles were reviewed and changed during July 2000 to implement recommended security features.

Corrective action on this recommendation is considered completed.

ASSOCIATED STUDENTS, INC.

LEGAL AND REGULATORY COMPLIANCE

STUDENT BODY FEES

ASI fees were not maintained in an approved state trust account.

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. Regulations prescribe that the campus act as custodian of all student fees.

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 she believed funds were being properly maintained at the ASI.

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

Recommendation 35

We recommend that the campus chief financial officer maintain ASI student body organization fees in an approved state trust account.

Campus Response

Sonoma State University student body organization fees are collected and receipted into the CSU Trust Fund, Associated Student Body Trust (0948-463).

The campus' practice of administering expenditure demands of ASI student body fees will be examined with the objective of complying with the recommendation.

Target Completion Date: December 31, 2001

OFFICER AND EMPLOYEE INSURANCE COVERAGE

The ASI's officer and employee insurance policy did not contain coverage for forgery, money orders, or computer fraud.

Title 5 §42403(d) indicates that appropriate indemnity coverage be obtained by an auxiliary organization for officers and employees handling funds of the auxiliary organization.

The then-current executive director of the ASI stated that in the past, it was determined that the risk in these areas was low, and coverage was not purchased. She indicated that crime coverage had been expanded for the 2000/2001 fiscal year.

Not maintaining appropriate insurance coverage exposes the auxiliary organization to potential liability.

Recommendation 36

We recommend that the ASI:

- a. Review its officer and employee policy to determine the adequacy of coverage.
- b. Develop formal procedures for the review and approval of insurance coverage by the board of directors.

Campus Response

- a. Effective July 1, 2000, additional service coverage has been added as recommended by the Trustees auditor.

Corrective action on this recommendation is considered completed.

- b. The ASI will develop formal procedures for the annual review and approval of the ASI insurance and indemnity position of the corporation on an annual basis. Adoption of such procedures will be proposed to the Board of Directors on or before December 3, 2001.

Target Completion Date: December 3, 2001

CHILDREN'S SCHOOL

A written agreement had not been developed between the ASI and the campus for the use of state facilities and services.

The campus provides support to the Children's School through the budget allocation process and by subsidizing student workers through its work-study program. In addition, the director of the Children's School is employed by the campus and reports directly to the vice president of student affairs. Specific details of these arrangements were not established by a written agreement.

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 practices mandate that agreements be in writing.

The vice president of student affairs indicated that the Children's School is viewed as a joint operation of both the campus and the ASI.

Without a written agreement to define each party's responsibilities, the potential for misunderstanding is increased.

Recommendation 37

We recommend that a written agreement be executed between the campus and the ASI with respect to the Children's School, which defines the administrative and financial commitment of each party towards the operation and management of the school.

Campus Response

The ASI will, in conjunction with the management of the Children's School and the Vice-President for Student Affairs, develop a written agreement for the operation and management of the Children's School, with particular emphasis on financial and administrative commitment. The discussion towards this agreement has already commenced and adoption of such an agreement will be proposed to the Board of Directors on or before December 3, 2001.

Target Completion Date: December 3, 2001

EDUCATIONAL SUPPORT

The ASI did not report to the campus financial aid office all stipends paid to students through its temporary housing program.

Title 5 §42500(d) states that a record of financial assistance, such as student loans, scholarships, stipends, and grants-in-aid shall be forwarded on a timely basis to the campus financial aid office and shall be documented on student financial aid recipient records in that office.

The then-current executive director of the ASI indicated that the transitional housing program was never viewed as a form of financial assistance reportable to the financial aid office.

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

Recommendation 38

We recommend that the ASI report to the campus financial aid office all stipends paid to students through its temporary housing program.

Campus Response

The ASI will report the financial support given to students in the way of the Transitional Housing Program. This reporting will commence at the end of each semester of the current financial year

Corrective action on this recommendation is considered completed.

RESERVES

The ASI had not documented its reserve policy.

Education Code §89904(b), §89904.5, and §89905 specify the need for reserve planning. Title 5 §42401, §42402, §42500, and Education Code §89900 establish a responsibility to operate in accordance with sound business practices in the interest of the campus. Sound business practices would mandate detailed documentation of a reserve policy.

The then-current executive director of the ASI acknowledged the oversight and indicated that corrective action would be taken.

A lack of sufficient documentation of 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 39

We recommend that the ASI document its reserve policy.

Campus Response

The ASI will review the existing reserve policy and update it as necessary.

Target Completion Date: December 3, 2001

CASH RECEIPTS AND DISBURSEMENTS

SEGREGATION OF DUTIES - ACCOUNTING

Accounting duties were not adequately segregated at the ASI; one person performed the majority of accounting functions.

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 then-current executive director of the ASI indicated that due to limited staff size, it was not always possible to segregate all accounting responsibilities.

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

Recommendation 40

We recommend that ASI coordinate with the campus and segregate accounting duties or develop mitigating procedures.

Campus Response

Effective July 1, 2000, the ASI accounting responsibilities were assumed by the University thereby creating adequate separation of duties.

Corrective action on this recommendation is considered completed.

CREDIT CARD POLICY

The ASI had not developed written policies and procedures for credit card use.

Written policies and procedures regarding the following were needed:

- ▶ Specific dollar limits per transaction.
- ▶ Allowable versus prohibited types of expenditures.
- ▶ Independent review and authorization of all credit card purchases.
- ▶ Submittal of original or certified documentation as support for disbursement in a timely manner.

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. This would include supporting significant procurement processes with current policies and procedures.

The then-current executive director of the ASI indicated that the current practice regarding credit card usage had not been formalized in writing.

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

Recommendation 41

We recommend that the ASI develop and disseminate credit card policies and procedures which include:

- a. Specific dollar limits per transaction.
- b. Allowable versus prohibited types of expenditures.
- c. Independent review and authorization of all credit card purchases.
- d. Submittal of original or certified documentation as support for disbursement in a timely manner.

Campus Response

The ASI will develop and disseminate a policy for the use of corporate credit cards. The development of this policy will pay specific attention to the issues of:

- a. Creating a dollar limit on transactions
- b. Prohibited types of expenditures
- c. Review and authorization of all purchases by an independent reviewer
- d. Follow a timeline for submittal of certified support documentation for each purchase

Target Completion Date: December 31, 2001

FIXED ASSETS

The ASI did not have written fixed asset policies and procedures.

In addition, current procedures did not address:

- ▶ Accountability and responsibility for equipment.
- ▶ Control over additions and deletions of inventory.
- ▶ Procedures for tagging equipment.
- ▶ Off-site use of equipment.
- ▶ Property sales and dispositions.
- ▶ Property inventory reconciliations to financial records.

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 practices mandate that written fixed asset policies and procedures be maintained.

The then-current executive director of the ASI indicated that its fixed assets policies and procedures were known, but not documented.

When formal written fixed asset policies and procedures are not maintained, there is an increased potential for lost or stolen property.

Recommendation 42

We recommend that the ASI document its fixed asset policies and procedures which should address, at a minimum:

- a. Accountability and responsibility for equipment.
- b. Control over additions and deletions of inventory.

- c. Procedures for tagging equipment.
- d. Off-site use of equipment.
- e. Property sales and dispositions.
- f. Property inventory reconciliations to financial records.

Campus Response

The Board of Directors approved a written Fixed Assets policy on May 14, 2001.

Corrective action on this recommendation is considered completed.

TRUSTS AND OTHER LIABILITIES

Funds held in trust for student organizations (campus clubs) were not sufficiently controlled.

We found that:

- ▶ Trust agreements, which should contain the purpose of the account, the source of funds, reporting requirements, or other restrictions were not executed between the ASI and campus clubs. Trust accounts were established based solely on the approval of the office of campus life and the completion of a signature card.
- ▶ Supporting documentation was not required for disbursements made by nonsubsidized campus clubs.

Title 5 §42401, §42402, §42500, and Education Code §89900 establish a responsibility to operate in accordance with sound business practices in the interest of the campus. We believe that the duties described by these sections would require that the ASI question the validity of expenditures and obtain adequate supporting documents to justify payment. Further, Probate Code §16000 indicates that, on acceptance of a trust, the trustee has a duty to administer the trust according to the trust instrument. A sufficiently documented trust arrangement, which includes an executed trust agreement as well as other supporting documentation, would be essential to meeting this objective.

The then-current executive director of the ASI indicated that it was the policy of the ASI to closely monitor the expenditure of student fee grants by Sonoma State clubs and organizations. A distinction had always been made between student fee grant money and individual club money. The ASI provided “banking services” to clubs and organizations, not university sponsored oversight, and did not have the authority to determine how individual clubs and organizations utilize their private funds.

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

Recommendation 43

We recommend that the ASI coordinate with the campus and analyze programmatic requirements and business risk aspects of the current method of operations with regard to these accounts, including appropriate consideration of generally accepted accounting standards and an evaluation by the campus risk manager.

Campus Response

The ASI will work with the campus risk manager, the Office of Campus Life and Financial Services to analyze and review requirements and risks of the current operation.

Target Completion Date: December 31, 2001

PROGRAMS

Controls over the ASI's transitional housing program (THP) were not sufficient.

We found that:

- ▶ Procedures for the THP did not sufficiently address the criteria used to approve a student for such services, including the interview process.
- ▶ The ASI/campus did not enter into a formal written agreement with the motel utilized for the THP.
- ▶ A formal reconciliation of students authorized to use the THP to actual hotel invoices was not prepared.

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 practices mandate that sufficient controls be maintained over all ASI programs.

The then-current executive director of the ASI indicated that THP policies and procedures were designed by students with two important goals in mind: 1) to leave it to the discretion of the executive director to determine housing; and 2) to make it simple for students to use the service. Since the inception of the program over nine years ago, there had never been a student complaint about the program. Current ASI policies and procedures work well by allowing the staff to make prudent judgments about the special needs of each individual.

Insufficient oversight exposes the campus and the CSU System to regulatory and legal consequences and claims of inequity of offers of benefits.

Recommendation 44

We recommend that:

- a. THP policies and procedures be amended to better define the criteria used to determine student eligibility.
- b. A written agreement, approved by the campus risk manager, be executed between the campus and the entity used to provide housing for the THP.
- c. The reconciliation of authorized students to hotel invoices be formally prepared.

Campus Response

- a. The ASI has reviewed, amended and updated the criteria for the determination of eligibility. In a recent meeting, the Board approved of the criteria.

Corrective action on this recommendation is considered completed.

- b. The ASI will have the campus risk manager review the current Memorandum of Understanding between the ASI and the vendor providing the housing.

Corrective action on this recommendation is considered completed.

- c. The ASI has reviewed the proper procedure for reconciliation with the appropriate staff members and the reconciliation will be formally prepared each time an invoice is received.

Corrective action on this recommendation is considered completed.

APPENDIX A: PERSONNEL CONTACTED

<u>Name</u>	<u>Title</u>
<i>CAMPUS</i>	
Ruben Armiñana	President
Sandra Bond	Director of Conference and Events
John Champie	Maintenance Mechanic, Facilities Services
Daniel Chu	Director of Reporting and Systems
Leticia Coate	University Controller
Leilani Fuiten	Accountant, Accounts Receivable
Laurence Furukawa-Schlereth	Vice President for Administration and Finance
Colleen Hendon-Greeott	Account Technician, Receipts
Bill Ingels	Associate Controller/Treasurer
Kurt Koehle	Director of Internal Operations
Jean, Krukman	Department Secretary/Development
Walter Leonard	Director of Reprographics
Rand Link	Vice President, Student Affairs
Mary Mansi	Assistant Controller, University Accounting
Ruth McDonnell	Director of Contracts and Procurement
Jim Meyer	Vice President of Development
Jerry Norris	Accountant, Fixed Assets
Linda Norris	Assistant Controller, Auxiliaries
E.C. Philips	Accountant, General Accounting
Adrian Praetzellis	Director, ASC
Mary Praetzellis	Operations Manager
Paul Santini	Associate Controller, Receipts, Accounts Receivable and Financial Aid
Greg Sheehan	Accountant, Sponsored Programs
Mary Trimble	Accountant, Receipts
George Urdzik	Director of Financial Aid
Jean Weisheitinger	Accountant, Accounts Receivable
Steve Wilson	Associate Vice President for Administration and Finance
Shannon Woods	Scholarship Coordinator

ACADEMIC FOUNDATION

Ruben Armiñana	Academic Foundation, Chairman
Leticia Coate	Academic Foundation, Chief Financial Officer
Jim Meyer	Academic Foundation, President
Steve Wilson	Academic Foundation, Vice President and Chief Operating Officer

SSE

Ruben Armiñana	SSE, Chairman
Ken Brown	SSE, Director of Bookstore
Chris Cammaramo	SSE, Bookstore Coordinator
Alan Murray	SSE, Vice President and Senior Director

STUDENT UNION

Stephanie Coughtry	Accounting and Business Coordinator
John Wright	Executive Director

ASI

Janet Hanks	Office Manager, Children's School
Larisa Mar	Prior Executive Director
Lia Thompson	Director of Children's School
Susan Tumulty	Accountant
Linda Williams	Temporary Accountant

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 whether 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 the propriety of all expenditures and the integrity of financial reporting and whether all 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 employee 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 nondiscrimination 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.
- ▶ Establishment of trust funds, separate accounting, adequate agreements, and annual budgets.

As discussed, the areas actually included within the scope of our review were identified through a preliminary survey and risk assessment of each auxiliary's operation. They were included within the scope of our review because they were deemed to address the risks associated with each auxiliary's operation on the campus. Risk was defined as the probability that an event or action may adversely affect the auxiliary and/or the campus.

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.



SONOMA STATE UNIVERSITY

1801 East Cotati Avenue
Rohnert Park, California 94928-3609

Chief Financial Officer and
Vice President for Administration and Finance
Tel: 707 664-2035
Fax: 707 664-2080

October 23, 2001

Mr. Larry Mandel
University Auditor
The California State University
401 Golden Shore, 4th Floor
Long Beach, California 90802-4210

RECEIVED
University Auditor

OCT 24 2001

**The California State
University**

Dear Larry:

On behalf of President Armiñana, I am pleased to forward SSU's management response to Audit Report Number 00-50, Auxiliary Organizations at Sonoma State University.

Please contact Kurt Koehle at 707.664.3087 or via email at kurt.koehle@sonoma.edu for clarifications or additional information.

Sincerely,

Laurence Furukawa-Schlereth
Vice President for Administration and Finance
and Chief Financial Officer

cc: President Armiñana
Letitia Coate, Controller
Kurt Koehle, Internal Operations
Steve Wilson, Associate Vice President, Administration and Finance

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SONOMA STATE UNIVERSITY

Management Response to Audit Report Number 00-50
Auxiliary Organizations at Sonoma State University
October 5, 2001

CAMPUS

CAMPUS SUPPORT ORGANIZATIONS

Recommendation 1

We recommend that the campus document its policies and procedures to identify, coordinate, and oversee the various ancillary organizations that operate on the campus in support of academic and nonacademic programs.

Campus Response:

Policies and procedures have been written to identify, coordinate, and oversee the various ancillary organizations that operate on the campus in support of academic and nonacademic programs as evidenced by;

1. [Centers and Institutes Policy](#) – initially issued on March 4, 1991 with last revision date of September 15, 2000.
2. [Self-Support Instruction Policy](#) – initially issued on May 20, 1991 with last revision date of October 2, 2000.
3. [Educational Business Activities Policy](#) – initially issued October 10, 1988 with last revision date of March 1, 1999.

Corrective action on this recommendation is considered completed.

PUBLIC RELATIONS POLICY

Recommendation 2

We recommend that the campus establish a current public relations policy and coordinate with the auxiliaries to update their public relations policies.

Campus Response:

The campus issued a [Hospitality Policy](#) in on August 15, 2000, last revised June 22, 2001 to address public relations and Executive Order 761. SSU Auxiliaries are subject to the provisions of this policy. Each Auxiliary has been required to review their respective policy and revise as necessary to ensure compliance with the campus policy.

Corrective action on this recommendation is considered completed.

UNCLAIMED MONIES

Recommendation 3

We recommend that the campus work with each auxiliary organization to develop operating procedures which implement the requirements of the Code of Civil Procedures with respect to unclaimed property.

SONOMA STATE UNIVERSITY

Management Response to Audit Report Number 00-50
Auxiliary Organizations at Sonoma State University
October 5, 2001

Campus Response:

The campus has directed each Auxiliary to establish practices that ensure compliance with the cited requirement.

Corrective action on this recommendation is considered completed.

ARCHIVED RECORDS**Recommendation 4**

We recommend that the campus perform a cost/benefit analysis of installing a fire suppression system to protect archived auxiliary records.

Campus Response:

The University will perform a cost/benefit analysis of installing a fire suppression system to protect archived auxiliary records.

Target Completion Date: January 31, 2002

TIMELY DEPOSITS**Recommendation 5**

We recommend that the campus reiterate its procedures to ensure that all funds are remitted for deposit by departments in a timely manner.

Campus Response:

Periodic publishing of the campus-depositing requirement will be conducted on more frequent basis.

Corrective action on this recommendation is considered completed.

GIFT ACKNOWLEDGMENT AND RECONCILIATION PROCESS**Recommendation 6**

We recommend that the development office strengthen its gift acknowledgement and reconciliation process.

Campus Response:

A review of the campus processes for receiving, acknowledging and reconciliation of gifts received by all campus departments and units is to be completed by January 31, 2002.

Target Completion Date: January 31, 2002

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SEGREGATION OF DUTIES – ACCOUNTS PAYABLE

Recommendation 7

We recommend that the campus and the Sonoma State University Academic Foundation, Inc. (SSUAF) segregate accounts payable and general ledger duties or develop mitigating procedures.

Campus Response:

Effective July 2000, access privileges were reassessed and restricted as recommended by the CSU Auditor.

Corrective action on this recommendation is considered completed.

PROCUREMENT PROCESS

Recommendation 8

We recommend that the campus further document procurement policies and procedures to include, at a minimum, vendor selection processes; use of campus procurement card; verification of legal and contract provisions; and definition of prohibited purchases/purchasing practices.

Campus Response:

Procurement and payable processes for all SSU entities are being revised principally to facilitate the implementation of PeopleSoft Finance system. The recommended points will be incorporated.

Further SSU Auxiliary compliance with all applicable regulations and policies of SSU are a condition of the operating agreement. During the period under review, each Auxiliary was subject to SSU procurement policies and practices.

Target Completion Date: January 31, 2002

DISBURSEMENTS

Recommendation 9

We recommend that the campus ensure that disbursements processed by campus auxiliary accounting always have needed documented support.

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Campus Response:

The University believes that substantially all Auxiliary disbursements reviewed by the University Auditor were sufficiently documented.

1. Lists of Attendees were not required for fundraising events, conferences, and similar events.
 We are not aware of a generally accepted business process or CSU policy that requires such. Given the multitude of grant activities in which seminars and conferences are a part of the activity and the number of attendees make this requirement impractical.
2. Faxes were accepted as original documentation. We are not aware of a generally accepted business process or CSU policy that requires such. The acceptance of facsimile invoices in lieu of original invoice is also an acceptable practice of the Division of Disbursement, Office of State Controller.
3. Travel cost reimbursed to campus employee rather than to the spouse. This was a single instance in which a campus employee was reimbursed for the travel cost of his spouse based upon the employee's travel reimbursement claim with SSU.

For the remaining two one-time instances cited, both rationale and documentation were presented at the time of audit that supported each of the transactions.

We concur that all Auxiliary disbursements must be supported by appropriate and legitimate business papers and will continue to enforce existing practices and to refine them as circumstances warrant.

Corrective action on this recommendation is considered completed.

TRUSTS AND OTHER LIABILITIES

Recommendation 10

We recommend that the campus increase its oversight of auxiliary management, especially in the area of funds held in trust.

Campus Response:

The University believes that Auxiliaries are an integral of the entire SSU structure and not independent. The three instances cited were exceptions to well-established policies and practices.

We agree that constant follow-up and reviews are necessary to ensure maximum understanding of the SSU philosophy and structure and that it is necessary to periodically enforce the established CSU and campus policies and practices.

Corrective action on this recommendation is considered completed

SONOMA STATE UNIVERSITY

Management Response to Audit Report Number 00-50
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INTERNET POLICY

Recommendation 11

We recommend that the campus develop a formal Internet policy addressing governance of the content of web-page offerings presented by auxiliary and other organizations.

Campus Response:

[Web Standards and Usage Policy](#) was issued August 15, 2000 incorporating the recommendation and subjecting SSU Auxiliaries to the formal SSU policy.

Corrective action on this recommendation is considered completed

ALLOCATION OF COSTS TO AUXILIARY ORGANIZATIONS

Recommendation 12

We recommend that the campus complete its implementation of a cost allocation plan to be used in reimbursing the General Fund for costs incurred.

Campus Response:

The campus cost allocation plan is being prepared in compliance with EO 753 and with incorporation of the above recommendations.

Target Completion Date: January 31, 2002

PHYSICAL SECURITY

Recommendation 13

We recommend that the campus improve access security for those rooms which hold auxiliary organization computers.

Campus Response:

Access to the computer room was restricted during July 2000 by installing a key pad locking devices to the exterior door and distributing the combination to limited personnel.

Corrective action on this recommendation is considered completed

SYSTEM ACCESS

Recommendation 14

We recommend that the campus review its current user profiles for campus auxiliary account systems to ensure the appropriate level of user access.

SONOMA STATE UNIVERSITY

Management Response to Audit Report Number 00-50
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Campus Response:

Security profiles were reviewed and changed during July 2000 to limit update privileges as recommended.

Corrective action on this recommendation is considered completed

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Management Response to Audit Report Number 00-50
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**SONOMA STATE UNIVERSITY
ACADEMIC FOUNDATION****RESERVES****Recommendation 15**

We recommend that the SSUAF document, in writing, its reserve policy.

Campus Response:

Formal documentation of a reserve policy is being drafted to address the goals of SSUAF's development operation. Policy document is scheduled for presentation to SSUAF Board of Directors on December 4, 2001

Target Completion Date: December 4, 2001.

BUDGET APPROVAL**Recommendation 16**

We recommend that the campus and the SSUAF develop procedures to ensure that the budget information is submitted to the campus president for approval in a timely manner.

Campus Response:

SSUAF has implemented the recommendation effective with the FY 2001/2002-budget cycle.

Corrective action on this recommendation is considered completed

INVESTMENTS**Recommendation 17**

We recommend that the SSUAF ensure that:

- a. Obtain authoritative guidance as to the proper accounting for and recording of unrealized gains and losses for endowments.
- b. Investment pool unitization calculations are subject to a regular and detailed management review.

SONOMA STATE UNIVERSITY

Management Response to Audit Report Number 00-50
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Campus Response:

- a. SSUAF has made a formal inquiry for advice from its auditor of record. The August 30, 2001 inquiry was for guidance as to what best practices were generally employed by institutions of higher education for recognizing unrealized gains and losses to the individual endowment accounts.
- b. This recommendation was implemented on August 29, 2000. Preliminary reviews are conducted with the SSUAF Finance Committee and a formal review is conducted at the following Board of Directors meeting. In addition, the formalization of the review requirement has been included into SSUAF's Investment Policy, SSUAF Policy 00-01.

Corrective action on this recommendation is considered completed

LOAN PROGRAM

Recommendation 18

We recommend that the SSUAF document its loan program policies and procedures, addressing, at a minimum, concentrations of debt, due diligence and notes receivable.

Campus Response:

The SSUAF Finance Committee has developed SSUAF policy 01-03, Notes Secured by Deeds of Trust. The policy is scheduled for approval action at the December 4, 2001 Board of Director's meeting.

Target Completion Date: December 4, 2001

HOUSING LAUNDRY REVENUE

Recommendation 19

We recommend that SSE remit all state revenue for deposit in appropriate state accounts.

Campus Response:

The practice of sharing a portion of laundry commissions with SSU's Housing and Residential Life offices for discretionary use in the residential program was discontinued on July 1, 2000. All laundry commission revenue is retained by Sonoma State Enterprises (SSE), as the contractor of record with the laundry vending company. Reimbursement for lease of laundry room space and utilities is recoup through the contractual agreement between SSU and SSE.

Corrective action on this recommendation is considered completed

SONOMA STATE UNIVERSITY

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TRUSTS AND OTHER LIABILITES

Recommendation 20

We recommend that the SSUAF ensure that:

- a. Account establishment criteria are further clarified.
- b. Use of interest and overhead charges are reduced to writing and transmitted to account holders.

Campus Response:

- a. Trust document used to open SSUAF trusts has been the same format used to open a University trust since July 2000.
- b. A notice addressing interest and overhead charges will be incorporated into the trust creation document as recommended.

Target Completion Date: November 30, 2001

PROGRAMS

Recommendation 21

We recommend that the SSUAF separate accounting and project director responsibilities on all contracts and grants.

Campus Response:

The event that caused this finding and recommendation was a single event. The process followed was fully documented and approved by SSUAF management as well as the funding agency based on the circumstances. In the case a SSU faculty member was awarded a Fulbright Fellowship in India. To enable administering the grant, it was determined that the grant accountant was the most appropriate individual to accomplish.

In the future, we will ensure proper segregation as recommended.

Corrective action on this recommendation is considered completed

SONOMA STATE UNIVERSITY

Management Response to Audit Report Number 00-50
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SONOMA STATE UNION CORPORATION**INSURANCE****Recommendation 22**

We recommend that the Student Union review its insurance policies to determine the adequacy of coverage for crimes.

Campus Response:

Effective July 1, 2000, additional service coverage has been added as recommended by the Trustees auditor.

Corrective action on this recommendation is considered completed

SEGREGATION OF DUTIES – GENERAL ACCOUNTING**Recommendation 23**

We recommend that the Student Union ensure that accounting duties are adequately segregated or develop mitigated procedures.

Campus Response:

Effective July 1, 2000, the Student Union accounting responsibilities were assumed by the University thereby creating adequate separation of duties.

Corrective action on this recommendation is considered completed

REFUND TICKETS**Recommendation 24**

We recommend that the Student Union ensure that the recently established procedures are implemented.

Campus Response:

Effective July 1, 2000, the Student Union has in place a written refund policy. The Student Union will ensure that in future events the established procedures are followed.

Corrective action on this recommendation is considered completed

SONOMA STATE UNIVERSITY

Management Response to Audit Report Number 00-50
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October 5, 2001

PETTY CASH AND CHANGE FUNDS

Recommendation 25

We recommend that the Student Union incorporate in its petty cash procedures the requirement to document periodic and independent, unannounced cash counts.

Campus Response:

The Student Union follows established University procedures regarding independent petty cash counts and the counts are scheduled and reported according to the established guidelines in SAM 8111.2.

Corrective action on this recommendation is considered completed

FEES, REVENUE, AND RECEIVABLES

Recommendation 26

We recommend that the Student Union reduce future loan agreements with the ASI for the Toddler Center to writing, including confirming approvals.

Campus Response:

The activity referred to above was a “one-time” event. Approvals for that project were received from both the ASI and University Administrators. All such future agreements will be in the form of written agreements or MOUs.

Corrective action on this recommendation is considered completed

TRUSTS AND OTHER LIABILITIES

Recommendation 27

We recommend that the Student Union return life trust funds to the state for deposit in trust funds maintained by the campus.

Campus Response:

Effective July 1, 2000, Financial Services assumed responsibility for Student Union accounting and all trust funds for the Office of Campus Life were transferred to the appropriate departments of the University.

Corrective action on this recommendation is considered completed

SONOMA STATE UNIVERSITY

Management Response to Audit Report Number 00-50
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DATA ACCESS

Recommendation 28

We recommend that the Student Union increase the password character requirement, periodically change passwords, maintain a history of passwords to prevent reuse, log of users after a period of inactivity, and lock out users after a minimum number of failed attempts. Additionally, the campus should develop a data access security policy and review it periodically.

Campus Response:

Effective July 1, 2000, Financial Services assumed responsibility for Student Union accounting; the University system security profiles were reviewed and changed during July 2000 to implement recommended features.

Corrective action on this recommendation is considered completed

SONOMA STATE UNIVERSITY

Management Response to Audit Report Number 00-50
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October 5, 2001

SONOMA STATE ENTERPRISES, INC.**LEASING OF FACILITIES****Recommendation 29**

We recommend that SSE articulate specific consideration in all land lease/facilities use agreements with the campus.

Campus Response:

SSE will include specific considerations in future land lease/facilities use agreements with the University. Since the field audit the trailer/office facility referred has been donated to the University on September 22, 2000.

Corrective action on this recommendation is considered completed

CASH REPLENISHMENT**Recommendation 30**

We recommend that SSE establish policies and procedures requiring petty cash reimbursement check be made payable to the custodians of the petty cash funds.

Campus Response:

Procedures have been established to insure that petty cash reimbursement checks are made payable to petty cash custodians.

Corrective action on this recommendation is considered completed

POLICES AND PROCEDURES**Recommendation 31**

We recommend that SSE document petty cash and change fund policies and procedures, including provisions for performing periodic (at least quarterly) and independent, unannounced cash counts.

Campus Response:

Procedures have been established to insure that periodic, independent, and unannounced cash counts are made.

Corrective action on this recommendation is considered completed

SONOMA STATE UNIVERSITY

Management Response to Audit Report Number 00-50
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October 5, 2001

INVESTMENTS

Recommendation 32

We recommend that SSE include the transfer of funds in its written investment accounting policies and procedures.

Campus Response:

SSE has articulated a procedure to clarify the process of transferring funds from a banking institution to an investment company.

Corrective action on this recommendation is considered completed

TEXTBOOK BUYBACK

Recommendation 33

We recommend that SSE:

- a. Establish written agreements with book buyback wholesalers
- b. Establish written policies and procedures for the buyback program.

Campus Response:

- a. This recommendation has been accepted and implemented with an agreement with a book buyback wholesaler.
- b. Written policies and procedures have been written to implement this recommendation.

Corrective action on this recommendation is considered completed

DATA ACCESS

Recommendation 34

We recommend that SSE:

- a. Increase the password character requirement
- b. Maintain a history of passwords to prevent reuse.
- c. Log off users after a period of inactivity.
- d. Lock out users after a minimum number of failed attempts.
- e. Develop a data access security policy and review it periodically.

Campus Response:

The University system security profiles were reviewed and changed during July 2000 to implement recommended security features.

Corrective action on this recommendation is considered completed

SONOMA STATE UNIVERSITY

Management Response to Audit Report Number 00-50
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October 5, 2001

ASSOCIATED STUDENTS, INC.**STUDENT BODY FEES****Recommendation 35**

We recommend that the campus chief financial officer maintain ASI student body organization fees in an approved state trust account.

Campus Response:

Sonoma State University student body organization fees are collected and receipted into the CSU Trust Fund, Associated Student Body Trust (0948-463).

The campus' practice of administering expenditure demands of ASI student body fees will be examined with the objective of complying with the recommendation.

Target Completion Date: December 31, 2001

OFFICER AND EMPLOYEE INSURANCE COVERAGE**Recommendation 36**

We recommend that the ASI:

- a. Review its officer and employee policy to determine the adequacy of coverage.
- b. Develop formal procedures for the review and approval of insurance coverage by the board of directors.

Campus Response:

- a. Effective July 1, 2000, additional service coverage has been added as recommended by the Trustees auditor.

Corrective action on this recommendation is considered completed

- b. The ASI will develop formal procedures for the annual review and approval of the ASI insurance and indemnity position of the corporation on an annual basis. Adoption of such procedures will be proposed to the Board of Directors on or before Dec. 3, 2001

Target Completion Date: December 3, 2001

CHILDREN'S SCHOOL**Recommendation 37**

We recommend that a written agreement be executed between the campus and the ASI with respect to the Children's School, which defines the administrative and financial commitment of each party towards the operation and management of the school.

SONOMA STATE UNIVERSITY

Management Response to Audit Report Number 00-50
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Campus Response:

The ASI will, in conjunction with the management of the Children's School and the Vice-President for Student Affairs, develop a written agreement for the operation and management of the Children's School, with particular emphasis on financial and administrative commitment. The discussion towards this agreement has already commenced and adoption of such an agreement will be proposed to the Board of Directors on or before December 3, 2001

Target Completion Date: December 3, 2001

EDUCATIONAL SUPPORT

Recommendation 38

We recommend that the ASI report to the campus financial aid office all stipends paid to students through its temporary-housing program.

Campus Response:

The ASI will report the financial support given to students in the way of the Transitional Housing Program. This reporting will commence at the end of each semester of the current financial year

Corrective action on this recommendation is considered completed

RESERVES

Recommendation 39

We recommend that the ASI document its reserve policy.

Campus Response:

The ASI will review the existing reserve policy and update it as necessary.

Target Completion Date: December 3, 2001

SEGREGATION OF DUTIES – ACCOUNTING

Recommendation 40

We recommend that ASI coordinate with the campus and segregate accounting duties or develop mitigating procedures.

Campus Response:

Effective July 1, 2000, the ASI accounting responsibilities were assumed by the University thereby creating adequate separation of duties.

Corrective action on this recommendation is considered completed

SONOMA STATE UNIVERSITY

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October 5, 2001

CREDIT CARD POLICY

Recommendation 41

We recommend that the ASI develop and disseminate credit card policies and procedures which include:

- a. Specific dollar limits per transaction.
- b. Allowable versus prohibited types of expenditures.
- c. Independent review and authorization of all credit card purchases.
- d. Submittal of original or certified documentation as support for disbursement in a timely manner.

Campus Response:

The ASI will develop and disseminate a policy for the use of corporate credit cards. The development of this policy will pay specific attention to the issues of:

- a. Creating a dollar limit on transactions
- b. Prohibited types of expenditures
- c. Review and authorization of all purchases by an independent reviewer
- d. Follow a timeline for submittal of certified support documentation for each purchase

Target Completion Date: December 31, 2001

FIXED ASSETS

Recommendation 42

We recommend that the ASI document its fixed asset policies and procedures which should address, at a minimum:

- a. Accountability and responsibility for equipment.
- b. Control over additions and deletions of inventory.
- c. Procedures for tagging equipment.
- d. Off-site use of equipment.
- e. Property sales and dispositions.
- f. Property inventory reconciliations to financial records.

Campus Response:

The Board of Directors approved a written Fixed Assets policy on May 14, 2001.

Corrective action on this recommendation is considered completed

TRUSTS AND OTHER LIABILITIES

Recommendation 43

We recommend that the ASI coordinate with the campus and analyze programmatic requirements and business risk aspects of the current method of operations with regard to these accounts, including appropriate consideration of generally accepted accounting standards and an evaluation by the campus risk manager.

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Campus Response:

The ASI will work with campus risk manager, the Office of Campus Life and Financial Services to analyze and review requirements and risks of the current operation.

Target Completion Date: December 31, 2001

PROGRAMS

Recommendation 44

We recommend that:

- a. THP policies and procedures be amended to better define the criteria used to determine student eligibility.
- b. A written agreement, approved by the campus risk manager, be executed between the campus and the entity used to provide housing for the THP.
- c. The reconciliation of authorized students to hotel invoices be formally prepared.

Campus Response:

- a. The ASI has reviewed, amended and updated the criteria for the determination of eligibility. In a recent meeting, the Board approved of the criteria.

Corrective action on this recommendation is considered completed

- b. The ASI will have the campus risk manager review the current Memorandum of Understanding between the ASI and the vendor providing the housing.

Corrective action on this recommendation is considered completed

- c. The ASI has reviewed the proper procedure for reconciliation with the appropriate staff members and the reconciliation will be formally prepared each time an invoice is received.

Corrective action on this recommendation is considered completed

THE CALIFORNIA STATE UNIVERSITY
OFFICE OF THE CHANCELLOR

BAKERSFIELD

CHANNEL ISLANDS

October 26, 2001

CHICO

MEMORANDUM

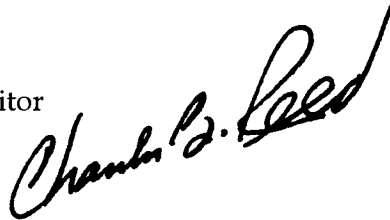
DOMINGUEZ HILLS

FRESNO

TO: Larry Mandel
University Auditor

FULLERTON

FROM: Charles B. Reed
Chancellor



HAYWARD

HUMBOLDT

SUBJECT: Draft Final Report Number 00-50 on Auxiliary Organizations,
Sonoma State University

LONG BEACH

LOS ANGELES

MARITIME ACADEMY

In response to your memorandum of October 26, 2001, I accept the response
as submitted with the draft final report on Auxiliary Organizations, Sonoma
State University.

MONTEREY BAY

NORTHRIDGE

POMONA

LM:ac

SACRAMENTO

Enclosure

SAN BERNARDINO

cc: Dr. Ruben Armiñana, President

SAN DIEGO

SAN FRANCISCO

SAN JOSE

SAN LUIS OBISPO

SAN MARCOS

SONOMA

STANISLAUS