

**AUXILIARY ORGANIZATIONS**  
**CALIFORNIA STATE UNIVERSITY,**  
**SAN BERNARDINO**

**Report Number 00-51**  
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## ABBREVIATIONS

AQMD	Air Quality Management District
Arena	Coussoulis Arena
ASI	Associated Students, Inc.
CEU	Continuing Education Units
COBIT	Control Objectives for Information Technology
CSU	California State University
CSUSB	California State University, San Bernardino
FIPS112	Federal Information Processing Standards Publication 112
Foundation	CSUSB Foundation
Sponsors	Off-campus Event Sponsors
Union	CSUSB Student Union

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## INTRODUCTION

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### PURPOSE

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

- ▶ Formation of the auxiliary.
- ▶ Functions the auxiliary performs on the campus.
- ▶ Creation and operation of the auxiliary's board of directors.
- ▶ Establishment of policies and procedures based upon sound business practices.
- ▶ Observance of mandates to maintain an "arms-length" in business transactions between the auxiliary and the campus.
- ▶ 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.

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### SCOPE AND METHODOLOGY

Our management review emphasized, but was not limited to, compliance with state and federal laws and regulations, Board of Trustee policies, and office of the chancellor policies, letters, and directives as they relate to CSU auxiliaries. For those audit tests that required annualized data, fiscal year 1998-1999 was the primary period reviewed. In certain instances, we were concerned with representations of the most current data—in such cases, the test period was extended to December 1999. 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. Individual codes and regulations included within the scope of our review were identified through an assessment of

risk. Similarly, internal controls were included within our scope based upon risk. Therefore, the scope of our review varied from auxiliary to auxiliary.

A preliminary survey of CSU auxiliaries at each campus was used to identify risks. Risk was defined as the probability that an event or action would adversely affect the auxiliary and/or the campus.

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. 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.

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

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

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.

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## BACKGROUND

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

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

- ▶ Institute a standard 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, Section 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 Section 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 meeting of the Board 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 pursuant to procedures established by the Chancellor.

This report represents our review.

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## OPINION

We visited the California State University, San Bernardino (CSUSB) 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 were 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, Statement of Internal Controls.)

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## **EXECUTIVE SUMMARY**

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

### **CAMPUS OVERSIGHT**

#### **OVERSIGHT OF FUNDS HELD BY AUXILIARIES [10]**

The campus did not exercise sufficient controls over funds held in trust by its auxiliaries. Sufficient oversight reduces the campus and the California State University (CSU) system’s exposure to regulatory and legal consequences.

#### **CAMPUS REIMBURSEMENTS [11]**

The campus was not being reimbursed for costs associated with licensing the use of the Coussoulis Arena (Arena) for individual events held by off-campus event sponsors (Sponsors). Reimbursing costs to the campus General Fund reduces the risk that a “gift of public funds” claim could be asserted.

## **ACCOUNTING SERVICE AGREEMENTS [11]**

The campus had not fully documented the basis for the accounting fees charged to Associated Students, Inc., (ASI) and the CSUSB Student Union (Union) for the accounting services provided. Documenting the basis for accounting service charges assures the campus of an accurate allocation of costs and adequate reimbursement of the General Fund.

## **GIFT REPORTING [12]**

A \$10,000 sponsorship agreement between the CSUSB Foundation (Foundation) and a contracting governmental agency was erroneously reported as a gift by the advancement office. Properly classifying sponsorship contracts ensures that the campus correctly reports the results of development efforts.

## **CONFLICT OF INTEREST [13]**

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

## **RESTRICTIVE ENDORSEMENTS [14]**

The campus was not restrictively endorsing all checks prior to deposit. Timely endorsements may serve to discourage the negotiation of lost or stolen instruments by other than state departments.

## **CSUSB ASSOCIATED STUDENTS, INC.**

### **FIXED ASSETS [16]**

Policies and procedures concerning fixed asset disposal for ASI needed improvement. When property inventory control procedures include adequate separation of duties, there is a decreased risk that property will be disposed of erroneously.

## **CSUSB STUDENT UNION**

### **OPERATING AGREEMENT AND LEASE [17]**

The Union facility lease agreement with the CSU and the campus was not reviewed and approved by the chancellor's office. Operating with required approvals decreases the risk of misunderstandings and miscommunications regarding rights and responsibilities.

## **COMPENSATION [17]**

The Union had not sufficiently documented an analysis/comparison of employee salaries, wages, and benefits between its employees and state employees in similar positions. A sufficiently documented analysis of salaries, wages, and benefits provides assurance that employees who perform substantially similar services receive compensation in parity with campus employees as mandated.

## **FIXED ASSETS [18]**

The Union's fixed asset disposal policies and procedures needed to be strengthened. There is a decreased risk that property will be disposed of erroneously when inventory control procedures include an adequate separation of duties.

## **CSUSB FOUNDATION**

### **LEASING OF LAND [20]**

Consideration was not sufficiently articulated in land lease agreements between the campus and the Foundation. Sufficiently documenting consideration reduces the risk that a "gift of public funds" claim could be asserted.

### **GRANTS AND CONTRACTS [21]**

#### **INDIRECT COSTS [21]**

Additional analysis and documentation was required of the Foundation's administration of indirect costs charged to grants and contracts. Sufficient analysis and documentation of indirect cost administration decreases the risk of disallowed charges by granting agencies.

#### **CONTRACT DISBURSEMENTS [22]**

The Foundation was not maintaining adequate documentation to support fund disbursements for all contracts for services. Adequate documentation of disbursements reduces the risk that disallowances will occur, resulting in the campus having to pay back project funds.

#### **PARENTAL CONSENT [22]**

Required written parental consent for participation of minors in a funded project could not be provided by either the campus or the Foundation. Documentation of parental consent for participation of minors in funded projects reduces the risk that the campus will be exposed to unnecessary financial risk.

### **EXCLUSIVE SOFT DRINK AGREEMENT [23]**

The exclusive soft drink agreement between the Foundation, the campus, the local bottler, and the national brand was not submitted to the chancellor's office for review and approval. Proper review and approval of contractual agreements precludes unnecessary financial loss and unenforceable provisions.

### **ESTABLISHMENT AND MAINTENANCE OF CUSTODIAL FUND ACCOUNTS [24]**

The Foundation's processes to account for funds held in trust did not provide sufficient control over the establishment and maintenance of accounts. Sufficient controls over account establishment and maintenance decrease the risk that donor/account holder instructions are not met.

### **LOAN REPAYMENT [25]**

A campus department, using Foundation accounts, regularly made scholarship awards beyond cash available and had not repaid amounts timely as agreed. Sufficient consideration of both budgeted and available cash when making scholarships reduces the risk that scholarship commitments will not be met.

### **COMMERCIAL OPERATIONS [26]**

Certain peripheral commercial operations of the Foundation did not generate sufficient revenue to cover the value of Union space occupied. The return on campus assets becomes acceptable when commercial service operations generate sufficient revenue to cover, at a minimum, the value of space occupied.

### **CASH HANDLING [27]**

Cash-handling policies and procedures were not sufficiently documented. Documented cash-handling control procedures decreases the risk of improper acts.

### **SEGREGATION OF DUTIES [27]**

The duties of authorizing payroll/personnel transaction documents and the handling of payroll checks were not adequately segregated. Adequate separation of duties decreases the risk of improper acts occurring and going undetected for extended periods.

### **ACCEPTANCE OF FUNDS [28]**

The Foundation's written policies and procedures for the acceptance of funds required revision. Updating written procedures decreases the risk of accepting funds that are not consistent with the policies of the trustees and the campus or the functions of the auxiliary.

## **INFORMATION SYSTEM SECURITY [29]**

### **INFORMATION SECURITY POLICY [29]**

The Foundation had not established an information security policy. Establishing a policy on data security can prevent inappropriate access to database information.

### **DATA ACCESS SECURITY [30]**

Data access security measures were in need of improvement. An adequate system security configuration prevents unauthorized access to bookstore confidential data.

### **DISASTER RECOVERY PLAN [30]**

The Foundation disaster recovery plan needed revision. A plan can, in the event of a disaster, ensure continuity of computing operations for support of critical applications or ensure the campus achieves an orderly migration toward the resumption of computing.

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## OBSERVATIONS, RECOMMENDATIONS, AND CAMPUS RESPONSES

### CAMPUS OVERSIGHT

#### OVERSIGHT OF FUNDS HELD BY AUXILIARIES

The campus did not exercise sufficient controls over funds held in trust by its auxiliaries.

Typically, these accounts were held on behalf of campus academics and administrators, and other officially recognized entities. We found that the CSUSB Foundation (Foundation) held funds in trust relating to campus programs, certain discretionary funds, and grants and contracts.

In certain instances, funds received by the campus in accordance with Education Code §89721 were not consistently and appropriately deposited in the campus' local state agency trust account as defined in the California State University (CSU) policy.

Additionally, using these independent operations-type funds (not annually appropriated state funds) and other funds (including donations, grants, etc.), we found that state employees inappropriately deposited revenue from workshops and programs granting continuing education units (CEU) and credit units.

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. 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, including the purpose (i.e., valid or invalid expenditures) would be essential to meeting this objective.

The vice president of administration and finance indicated that he was unaware that these funds were deposited into the Foundation and, upon discovery, action had been taken to ensure that such funds are appropriately placed.

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

#### **Recommendation 1**

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

### **Campus Response**

The campus concurs with the recommendation. Revenue from workshops and programs processing continuing education units will be deposited to trust funds.

## **CAMPUS REIMBURSEMENTS**

The campus was not being reimbursed for costs associated with licensing the use of the Coussoulis Arena (Arena) for individual events held by off-campus event sponsors (Sponsors).

Sponsors contracted with the Foundation for the use of the Arena. All funds received were deposited into Foundation accounts without consideration for campus General Fund costs incurred with respect to the generation of that revenue. In addition, other indirect costs applicable to the Arena were not applied.

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 cost plus an allowable portion of indirect cost associated with facilities, goods, and services provided by the campus and funded by the General Fund.

The vice president of administration and finance indicated that a specific policy to reimburse such costs was not in place; however, a draft policy was in process.

Failure to reimburse the campus General Fund exposes the campus and the legally separate auxiliary organization to the risk that a “gift of public funds” claim could be asserted.

### **Recommendation 2**

We recommend that the campus obtain reimbursement for costs incurred in licensing the use of the Arena for events held by Sponsors.

### **Campus Response**

The campus concurs with the recommendation. A memo has been forwarded to the Director of the Coussoulis Arena, who directs the reimbursement of allowable direct costs/indirect costs for events sponsored by off-campus organizations. The draft campus policy has been superceded by Executive Order 753.

## **ACCOUNTING SERVICE AGREEMENTS**

The campus had not fully documented the basis for the accounting fees charged to Associated Students, Inc., (ASI) and the CSUSB Student Union (Union) for the accounting services provided.

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 cost plus an allowable portion of indirect cost associated with facilities, goods, and services provided by the campus and funded by the General Fund. Cost allocations should be determined in accordance with a written cost allocation plan approved annually by the campus chief financial officer.

The director of accounting stated that the fees charged were in place prior to her appointment, and she continued the practice.

Without a documented basis for accounting service charges, the campus cannot be assured of an accurate allocation of costs and adequate reimbursement of the General Fund.

### **Recommendation 3**

We recommend that the campus document, consistent with its written cost allocation plan, the basis for the accounting fees charged to ASI and the Union for the accounting services provided.

### **Campus Response**

The campus concurs with the recommendation. The Director of Accounting established a Memorandum of Understanding for the ASI and the Student Union, which included a detailed list of services to be provided. The Director of Accounting has prepared a written cost allocation plan, which will be provided with the Memoranda of Understanding as the basis for negotiating the reimbursement amounts.

## **GIFT REPORTING**

A \$10,000 sponsorship agreement between the CSUSB Foundation (Foundation) and a contracting governmental agency was erroneously reported as a gift by the advancement office.

Specifically, an agreement between the Foundation and the Air Quality Management District (AQMD), totaling \$10,000, was noted in development records as a gift. The gift transmittal document completed by the campus development office erroneously indicated that the \$10,000 paid by the AQMD was a gift.

Systemwide gift accounting procedures state that contracts are defined as “business arrangements” where there is an expectation of economic benefit with assignments of roles and responsibilities between two or more parties, date of initiation, and termination, etc. The procedures further provide that the business arrangement implies a “quid pro quo” arrangement between the university and one or more entities.

The vice president of administration and finance indicated that while gifts could have been over reported, financial statements were not misstated.

By improperly classifying a sponsorship contract as a gift, the campus incorrectly reports the results of development efforts.

#### **Recommendation 4**

We recommend that the campus ensure that sponsorship contracts are correctly reported.

#### **Campus Response**

The campus concurs with the recommendation. A policy has been established that ensures sponsorship contracts have been recorded.

## **CONFLICT OF INTEREST**

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

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

- ▶ Conflict-of-interest procedures.
- ▶ Records of proceedings relating to a possible or actual conflict.
- ▶ Compensation.
- ▶ Annual statements.
- ▶ Periodic reviews.
- ▶ Use of outside experts.
- ▶ Duty to disclose.
- ▶ Determination whether a conflict of interest exists.
- ▶ Actions required in association with a conflict.
- ▶ Actions to be taken when violations of conflict-of-interest policy are discovered.

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

and other similar provisions to prevent imprudent or improper decisions by auxiliary board and management members.

The vice president of administration and finance indicated that each auxiliary has addressed conflicts of interest within its procedures. However, specific and detailed guidance from the campus had not been provided.

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

### **Recommendation 5**

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

### **Campus Response**

The campus concurs with the recommendation. The ASI and the Student Union require board members and management employees to sign conflict of interest forms at the beginning of each fall quarter. The distribution of conflict of interest forms is documented in the ASI board minutes.

## **RESTRICTIVE ENDORSEMENTS**

The campus was not restrictively endorsing all checks prior to deposit.

We found several cancelled checks, totaling \$253,810, payable to the campus, that had been submitted and processed for deposit without a restrictive endorsement or other evidence of the timing of the deposit of such funds.

SAM §8023 states that all checks, money orders, and warrants received for deposit will be restrictively endorsed for deposit as soon as practicable after receipt, but no later than the end of the working day.

The director of accounting stated that the instances noted were an oversight.

Untimely endorsements may serve to encourage the negotiation of lost or stolen instruments by other than state departments.

### **Recommendation 6**

We recommend that the campus restrictively endorse checks and other negotiable instruments as soon as they are received or by the end of the business day.

### **Campus Response**

The campus concurs with the recommendation. The Bursar's Office supervisor has covered this procedure during a staff training session. The desk procedure was written and distributed for placement in the staff's desk procedural manuals.

## **CSUSB ASSOCIATED STUDENTS, INC.**

### **FIXED ASSETS**

Policies and procedures concerning fixed asset disposal for ASI needed improvement.

Current financial policies and procedures state that the ASI executive director will assess property and determine whether it is serviceable, unserviceable, or unsafe.

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

The ASI executive director had singularly assessed property for write-off and disposal without secondary review and/or approval.

Insufficient control over assets through appropriate asset disposal policies and procedures increases the risk that property will be disposed of erroneously.

#### **Recommendation 7**

We recommend that ASI revise fixed asset disposal policies and procedures to provide sufficient control over assets.

#### **Campus Response**

The campus concurs with the recommendation. ASI has drafted a change to its Finance Policy and Procedures to require an ASI executive officer to concur with the ASI Executive Director's assessment of property to be disposed of, and to sign the "Request for Survey" form approving the ASI Executive Director's assessment. These changes are currently before the ASI Rules Committee for review, modification, and approval.

Upon recommendation by the ASI Rules Committee, the revised draft ASI Policy and Procedures Policy will be forwarded to the ASI Board of Directors for final review and approval at their next meeting on May 15, 2001.

## CSUSB STUDENT UNION

### OPERATING AGREEMENT AND LEASE

The Union facility lease agreement with the CSU and the campus was not reviewed and approved by the chancellor's office.

Although the Union facility lease agreement dated June 1997 was signed by the then vice president of ASI and campus president, it lacked required chancellor's office approval.

Title 5 §42501 states that a written agreement on behalf of the State of California by the chancellor's office, The California State University, and the auxiliary organization is required for the performance by such auxiliary organization of any of the functions listed in §42500. Title 5 §42502 states that the operating agreement should specify the function or functions that the organization is to manage, operate, or administer. Further, Executive Order No. 669 states that lease agreements where the commitment of the trustees or the property leased is to be used to support the issuance of bonds, certificates of participation, or notes require review and approval by the office of the chancellor prior to execution.

The Union's executive director indicated her belief that the manner in which the existing agreement was executed was sufficient.

Operating in the absence of required approvals increases the risk of misunderstandings and miscommunications regarding rights and responsibilities.

#### **Recommendation 8**

We recommend that the campus and the Union ensure that the facility lease is properly approved.

#### **Campus Response**

The campus concurs with the recommendation. The Operating Agreement/Lease Agreement has been revised to reflect the appropriate Chancellor's Office signature.

### COMPENSATION

The Union had not sufficiently documented an analysis/comparison of employee salaries, wages, and benefits between its employees and state employees in similar positions.

Education Code §89900 and Title 5 §42405 state that the governing board of each auxiliary organization shall provide salaries, working conditions, and benefits for its full-time employees which are comparable to those provided to campus employees performing substantially similar services. For those full-time employees who perform services that are not substantially similar to the services performed by campus employees, the salaries established shall be at least equal to the salaries prevailing in other educational institutions in the area or commercial operations of like nature.

The Union executive director stated that at the time staff is hired, she confirms that the salaries, wages, and benefits are comparable to campus employees performing substantially similar services. This analysis was not documented.

Without a sufficiently documented analysis of salaries, wages, and benefits, employees who perform substantially similar services may not receive compensation in parity with campus employees.

### **Recommendation 9**

We recommend that the Union document a consolidated analysis and comparison of employee salaries, wages, and benefits between its employees and state employees in similar positions.

### **Campus Response**

The campus concurs with the recommendation. New forms have been developed for annual salary comparability reviews. Comparability reviews will also be conducted and documented whenever a position is posted.

## **FIXED ASSETS**

The Union's fixed asset disposal policies and procedures needed to be strengthened.

Written property inventory control policies and procedures concerning the disposition of obsolete and unwanted property were not established.

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

The Union executive director indicated that when fixed assets were disposed of, Board approval was obtained. She stated, however, that this process had not yet been incorporated within written policies

and procedures.

There is an increased risk that property will be disposed of erroneously when inventory control procedures do not include an adequate separation of duties.

**Recommendation 10**

We recommend that the Union incorporate its fixed asset disposal practices within its written policies and procedures.

**Campus Response**

The campus concurs with the recommendation. The Student Union Board of Directors approved additional language regarding disposition of fixed assets in the Financial Policies Manual on November 2, 2000.

## CSUSB FOUNDATION

### LEASING OF LAND

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

Several agreements between the campus and Foundation were entered into where land was leased at a nominal value and specific consideration for such was not clearly established in those agreements. Agreements should describe the specific location leased and all the benefits the campus will receive in return (consideration) for leasing to the Foundation. In some instances, the agreements indicate that the campus will receive \$1 per year as a nominal exchange. These agreements do not appear to identify all the benefits the campus will receive in return. Agreements need to be amended so they clearly demonstrate that the consideration received by the campus meets or exceeds the value of the campus land leased.

In a specific example, the agreement between the campus and the Foundation entered into for 4,992 square feet of bookstore facility space at a nominal value of \$12 per year did not appear to identify all the benefits the campus will receive in return. The agreement needs to be amended so that it clearly demonstrates that the consideration received meets or exceeds the value of the land leased.

Also, the agreement between the CSU and the Foundation regarding the operation of the childcare center and certain of its retail sites did not sufficiently address all aspects of the Foundation's use of campus land, including the size and location of the land subject to the lease.

The California Constitution, Article 16 §6, prohibits uncompensated exchanges of state property to any individual, municipal, or other corporation. Further, the CSU Contracting and Procurement Manual indicates that sufficient terms and conditions are necessary to convey a clear understanding of each party's expected role, its obligations, and the parameters in which the activities must be carried out.

The interim executive director of the Foundation indicated that, historically, auxiliaries were charged nominal amounts to lease space and conduct commercial operations to aid in maintaining their financial solvency.

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 11**

We recommend that the Foundation lease agreement be amended to include clearly articulated and sufficient consideration when a nominal exchange provision is included.

#### **Campus Response**

The campus concurs with the recommendation. An amended lease agreement will be provided which clearly articulates specific considerations between the Foundation and the campus by December 31, 2001.

## **GRANTS AND CONTRACTS**

### **INDIRECT COSTS**

Additional analysis and documentation were required of the Foundation's administration of indirect costs charged to grants and contracts.

Grants and contracts were charged varying amounts of overhead, which included some component of state administrative direct and indirect cost reimbursement (due the university). Further analysis and documentation were needed to assure that the amount reimbursed to the state was commensurate with the actual state costs billed through indirect rates associated with grants or contracts. Also, additional documentary evidence was needed to establish that indirect costs had not been shifted between grant and contract programs.

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

The Foundation director of grants and contracts indicated that analysis and documentation of contract and grant indirect costs were performed annually. However, analysis did not specifically address disparity among programs and the matching of state costs included in rates and related reimbursement of those costs.

Insufficient analysis and documentation of indirect cost administration increases the risk of disallowed charges by granting agencies.

### **Recommendation 12**

We recommend that the Foundation perform additional analysis and documentation of its administration of indirect costs associated with grants and contracts, including specific analysis establishing that cost shifting between programs did not occur and that state costs charged to granting agencies were appropriately reimbursed.

### **Campus Response**

The campus concurs with the recommendation. Additional analysis for prior year has been completed. Foundation analysis will be provided as part of closing fiscal year procedures. A copy of actual cost analysis is provided to the campus annually and will be forwarded by October 31, 2001.

## **CONTRACT DISBURSEMENTS**

The Foundation was not maintaining adequate documentation to support fund disbursements for all contracts for services.

We found the following:

- ▶ Documentation of ten disbursement transactions for one project was not adequate in each instance.
- ▶ Documentation of eligibility for childcare subsidy payments was not adequate in 6 of 12 instances reviewed.
- ▶ Automatic payments were made to participants in a teacher-training project without periodic certification of participation.

Education Code §89900(c) establishes a responsibility to operate in accordance with sound business practices in the interest of the campus. Sound business practice includes maintaining adequate documentation for disbursements.

The director of grants and contracts indicated that project managers were responsible for assuring the adequacy of disbursement documentation.

Without adequate documentation of disbursements, disallowances may occur, resulting in the campus having to pay back project funds.

### **Recommendation 13**

We recommend that the campus establish policies and procedures to ensure adequate documentation of fund disbursements for all contracts for services.

### **Campus Response**

The campus concurs with the recommendation. Policies and procedures have been developed to ensure adequate documentation of fund disbursements. The Foundation accepts only written confirmation from project directors to release quarterly stipend payments. All child care subsidy eligibility will be documented. Signatures will be required for cash transfers between individuals. Established procedures will be provided by August 31, 2001.

## **PARENTAL CONSENT**

Required written parental consent for participation of minors in a funded project could not be provided by either the campus or the Foundation.

The principle investigator for the project retained such documentation when she moved to a subsequent university.

Education Code §89900(c) establishes a responsibility to operate in accordance with sound business practices in the interest of the campus. Sound business practice includes the maintenance of records required under a contractual agreement.

The director of grants and contracts indicated that project managers were responsible for obtaining and maintaining the required parental consent documents.

Without documentation of parental consent for participation of minors in funded projects, the campus may be exposed to unnecessary financial risk.

#### **Recommendation 14**

We recommend that the campus coordinate with the Foundation to assure that policies and procedures are established for the maintenance of required documentation for participation of minors in funded projects.

#### **Campus Response**

The campus concurs with the recommendation. Policies and procedures are presently being established for the maintenance of required documentation for the participation of minors in funded projects and will be completed by December 31, 2001.

### **EXCLUSIVE SOFT DRINK AGREEMENT**

The exclusive soft drink agreement between the Foundation, the campus, the local bottler, and the national brand was not submitted to the chancellor's office for review and approval.

The exclusive soft drink agreement dated December 12, 1994, valued at \$350,000 over a 12-year term, required approval by the office of the chancellor. Additionally, the agreement contained a provision requiring the terms and conditions to remain private unless agreed to by the soft drink company. This privacy provision of the agreement is unenforceable.

Executive Order No. 409 indicates that all sales, leases, and licenses exceeding \$25,000 of state-owned personal property be reviewed and approved by the chancellor's office.

The interim executive director of the Foundation indicated that the agreement was in place prior to his appointment and that he had no knowledge of the process.

Failure to obtain proper review and approval of contractual agreements may result in unnecessary financial loss and unenforceable provisions.

### **Recommendation 15**

We recommend that the campus coordinate with the Foundation to ensure compliance with Executive Order No. 409.

#### **Campus Response**

The campus concurs with the recommendation. The Foundation will submit agreement for Chancellor's Office approval to comply with Executive Order No. 409.

### **ESTABLISHMENT AND MAINTENANCE OF CUSTODIAL FUND ACCOUNTS**

The Foundation's processes to account for funds held in trust did not provide sufficient control over the establishment and maintenance of accounts.

We found that:

- ▶ An accurate record of authorized signers on all trust accounts was not maintained.
- ▶ Inactive accounts needed to be researched and updated or closed where appropriate.
- ▶ Trust agreements were not in place for all trust accounts held.
- ▶ Trust account holders were not notified in writing of the Foundation's practice of withholding investment earnings on accounts with balances of less than \$5,000.

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. 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, including provisions for allowing compensating balances, is needed to meet the intent of these regulations.

The director of business services for the Foundation stated that some accounts were very old, and they had not researched which accounts needed updating. Further, she indicated that account holders were informed verbally of the Foundation's practice of withholding investment earnings and that endowments and scholarships were exempt from the practice.

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

### **Recommendation 16**

We recommend that the Foundation assure that current and accurate trust agreements are established and maintained to assure that:

- a. An accurate record of authorized signers on all trust accounts is maintained.
- b. Inactive accounts are researched and updated or closed where appropriate.

- c. Trust agreements are in place for all trust accounts held.
- d. Trust account holders are notified in writing of the Foundation's practice of withholding investment earnings on accounts with balances of less than \$5,000.

### **Campus Response**

The campus concurs with the recommendation. The Foundation will assure that trust agreements are in place for all trust accounts. Accurate records of authorized signatures will be maintained on all trust accounts effective immediately. Inactive accounts have been closed where appropriate. Account statements have been revised to notify account holders of interest earnings and withholdings. The process will be completed by August 31, 2001.

## **LOAN REPAYMENT**

A campus department, using Foundation accounts, regularly made scholarship awards beyond cash available and had not repaid amounts timely as agreed.

Specifically, we found that the campus athletics department made scholarship awards without sufficient consideration for available cash. The department agreed to repay amounts and has not done so timely.

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 practice includes timely collection on agreements.

The interim executive director of the Foundation indicated that some effort was made to control overruns, although the practice has continued.

A lack of sufficient consideration of available cash when making scholarships increases the risk that scholarship commitments will not be met.

### **Recommendation 17**

We recommend that:

- a. Campus departments operate within available cash limitations when making scholarship commitments and that when deficits arise they be repaid timely in accordance with agreements.
- b. Past-due accounts be repaid immediately.

### **Campus Response**

The campus concurs with the recommendation. Agreements will be made to repay any deficits due from campus departments. Debts are to be repaid within 1-3 years. A payment plan has been developed and will be implemented to service past due accounts. Changes are to be implemented in Fiscal Year 2001-02. Repayment schedules for campus departments will be provided by July 31, 2001.

## **COMMERCIAL OPERATIONS**

Certain peripheral commercial operations of the Foundation did not generate sufficient revenue to cover the value of Union space occupied.

We noted that after two years, the copier service operations contracted out by the Foundation, at the request of the Union, had not generated any revenue to pay space rental costs. The agreement provided that revenue would be based upon net earnings rather than gross. It was unclear if the vendor had taken sufficient measures to maximize its generation and control of revenues.

Education Code §89905 requires that commercial service operations on a CSU campus operated by auxiliary organizations be self-supporting.

The interim executive director of the Foundation indicated a concern that the copier service vendor had not properly promoted the service at the campus, and he was in the process of reviewing the service agreement to determine whether it could be terminated.

The return on campus assets is unacceptable when commercial service operations fail to generate sufficient revenue to cover, at a minimum, the value of space occupied.

### **Recommendation 18**

We recommend that the Foundation review the operations of its copier service vendor to ensure that it maximized the generation and control of revenues.

### **Campus Response**

The campus concurs with the recommendation. The present copy service vendor contract has been reviewed and strategy discussed with vendor representative to maximize revenue generation within a 90-day period, per the terms of existing contract. The contract will be terminated should the vendor fail to comply with the terms. Compliance will be demonstrated by either (a) increase in revenue generation, or (b) termination of the existing agreement.

## **CASH HANDLING**

Cash-handling policies and procedures were not sufficiently documented.

For example, bookstore management had established the practice of “pulling” cash from its daily cash sales. Written policies and procedures for these cash “pulls” are needed to ensure proper reporting and control of receipts. We also noted that retail food service cash-handling procedures were not documented.

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

The bookstore operations manager stated that cash “pulls” eliminate the cost of having to pay the banks for ordering large sums of cash and allows for smaller amount of on-hand cash in the bookstore. The manager for retail food service operations stated that her staff had been trained in cash-handling control and were aware of their responsibilities. However, the control procedures had not been documented in writing.

Failure to document cash-handling control procedures increases the risk of improper acts.

### **Recommendation 19**

We recommend that the Foundation further document cash-handling policies and procedures as they relate to “pulling” of cash prior to deposit.

### **Campus Response**

The campus concurs with the recommendation. Policies and procedures have been established which further document the “pulling” of cash prior to deposit.

## **SEGREGATION OF DUTIES**

The duties of authorizing payroll/personnel transaction documents and the handling of payroll checks were not adequately segregated.

One person within Foundation retail food services was performing both responsibilities.

Title 5 §42401 and §42402 provide that the campus president shall require that all auxiliary organizations operate in conformity with policy of the Board of Trustees and the campus. One of the objectives of the auxiliary organization is to provide fiscal procedures and management systems that allow effective coordination of the auxiliary activities with the campus in accordance with sound business practices. Sound business practice mandates the proper segregation of duties to ensure that assets are adequately safeguarded.

The retail food services manager was unaware of the control weakness.

Inadequate separation of duties increases the risk of improper acts occurring and going undetected for extended periods.

### **Recommendation 20**

We recommend that the Foundation establish procedures to ensure the proper segregation of duties within the payroll function.

### **Campus Response**

The campus concurs with the recommendation. Procedures have been established and implemented to ensure proper segregation of duties regarding the distribution of payroll in the Food Services retail operation. A copy of the procedures will be provided.

## **ACCEPTANCE OF FUNDS**

The Foundation's written policies and procedures for the acceptance of funds required revision.

The Foundation had been designated to accept gifts for the benefit of the campus. While current policies and procedures address gifts in detail, they are nonspecific with respect to the acceptance of bequests.

Education Code §89903 states that no auxiliary organization shall accept any grant, contract, bequest, trust, or gift unless it is so conditioned that it may be used only for purposes consistent with policies of the Trustees.

The Foundation's interim executive director indicated that the Foundation seeks to continuously revise and improve procedures.

Failure to update written procedures increases the risk of accepting funds that are not consistent with the policies of the Trustees and the campus or the functions of the auxiliary.

### **Recommendation 21**

We recommend that the Foundation revise funds acceptance policies and procedures with respect to bequests.

### **Campus Response**

The campus concurs with the recommendation. The Foundation will revise written policies and procedures, in coordination with campus Advancement staff, regarding the acceptance of funds. Revisions are to be completed by December 31, 2001.

## **INFORMATION SYSTEM SECURITY**

### **INFORMATION SECURITY POLICY**

The Foundation had not established an information security policy.

Title 5 §42401 and §42402 provide that the campus president shall require that all auxiliary organizations operate in conformity with policy of the Board of Trustees and the campus. One of the objectives of the auxiliary organization is to provide fiscal procedures and management systems that allow effective coordination of the auxiliary activities with the campus in accordance with sound business practices. Sound business practice mandates that the auxiliary establish an information security policy.

The Foundation was not aware of the need for a security policy.

Failure to establish a policy on data security can result in inappropriate access to database information.

### **Recommendation 22**

We recommend that the Foundation establish an information security policy.

### **Campus Response**

The campus concurs with the recommendation. The Foundation will establish an information security policy and implement by December 31, 2001.

## **DATA ACCESS SECURITY**

Data access security measures were in need of improvement.

Specifically, security measures were needed to include activation of password changes at specified intervals, a minimum password length requirement, and blocking access after a specified number of attempts.

As stated in the Department of Defense Password Management Guidelines, also known as the Greenbook, current practices for password management include periodic changes, minimum password characters, maintenance of a password history to prevent reuse, and log off users after a predetermined time or after a stated number of failed attempts at access. Additionally, Control Objectives for Information Technology (COBIT) and Federal Information Processing Standards Publication 112 (FIPS112) also recommend guidelines, which include minimum password length and an appropriate and enforced frequency of password changes.

The information technology consultant stated that the security access configuration had not been reviewed to determine if it meets current practices.

Inadequate system security configuration may result in unauthorized access to bookstore confidential data.

### **Recommendation 23**

We recommend that the Foundation update its information system data access security controls.

### **Campus Response**

The campus concurs with the recommendation. The information system data access security controls will be updated to comply with recommended guidelines by December 31, 2001.

## **DISASTER RECOVERY PLAN**

The Foundation disaster recovery plan needed revision.

The plan had not addressed remote site processing in the event of a disaster, periodic walk-through, or testing.

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 organization is to provide fiscal procedures and management systems that allow effective coordination of the auxiliary activities with the campus in accordance with sound business practices. Sound business practice mandates the development of a (complete) disaster recovery plan.

The information technology consultant was awaiting guidance before continuing further work on the disaster recovery plan.

In the event of a disaster, the campus cannot ensure continuity of computing operations for support of critical applications or achieve an orderly migration toward the resumption of computing services without a disaster recovery plan.

**Recommendation 24**

We recommend that the Foundation develop a complete disaster recovery plan.

**Campus Response**

The campus concurs with the recommendation. The existing disaster recovery plan will be revised and updated by December 31, 2001.

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## APPENDIX A: PERSONNEL CONTACTED

### Name

### Title

#### **CAMPUS**

Albert K. Karnig	President
Arthur Butler	Executive Director, Administrative Services
David DeMauro	Vice President for Administration and Finance
Carol Dixon	Director, Coussoulis Arena
Kathy Hansen	Director, Procurement and Support Services
Kimberly Harris	Director, Children's Center
Ted Krug	Director, Financial Aid
Sheryl Pytlak	Director, Accounting
Frank Rincón	Vice President, Student Services
William Takehara	Associate Vice President for Financial Operations
Elizabeth Thayer	Bursar Supervisor/Internal Auditor
Michael Tracy	Executive Director, Office of University Development

#### **ASSOCIATED STUDENTS, INC.**

Patrick Areffi	Executive Director
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#### **FOUNDATION**

Kim Ball	Book Department Manager, Bookstore
Tito Calderon	Associate Director, Catering Food Services
David Jones	Interim Executive Director, Foundation
Kathy Nelson	Operations Manager, Bookstore
Carol Northcutt	Staff Accountant, Grants and Contracts
Beverly Smith	Director, Business Services
Charles "Stan" Stanley	Director, Grants and Contracts
Cheryl Schultz	Associate Director, Retail Food Services
Cathy Wapniarski	Cashier

#### **STUDENT UNION**

Mark Day	Associate Director
Helga Kray	Executive Director

## **SCOPE**

### **INTERNAL COMPLIANCE SCOPE**

As discussed in the body of our report, we examined each auxiliary's and the campus' compliance with the Education Code and Title 5 as they related to the operation of California State University (CSU) auxiliary organizations. Individual codes and regulations included within the scope of our review were identified through an assessment of risk.

We included within the scope of our review the following internal compliance considerations, which were identified during our preliminary assessment of risks related to the CSU and its oversight of auxiliaries.

- ▶ Determined whether the auxiliary performs only those functions determined by the CSU Trustees to be appropriate for auxiliary organizations.
- ▶ Determined whether the auxiliary only performed functions authorized under a written agreement executed with the chancellor.
- ▶ Determined whether the auxiliary board of directors has established provisions in either the articles of incorporation or constitution 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.
- ▶ Determined whether the auxiliary board of directors has adopted a constitution and has filed a copy with the chancellor (or designee), if the auxiliary is not incorporated.
- ▶ Determined whether 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 pays rent on space in tax-supported buildings on campus utilized by federally sponsored projects, unless the projects were excluded from space reimbursement requirements.
- ▶ Determined whether 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).
- ▶ Determined whether the auxiliary board of directors in size and composition met statutory requirements.
- ▶ Determined whether statutory requirements applicable to public meetings were adhered to as applicable to the auxiliary.
- ▶ Determined whether the auxiliary board of directors holds business meetings at least once a quarter.
- ▶ Determined whether the auxiliary was established by constitution, statute, bylaws, or resolution, and there are provisions for election of officers and board members.
- ▶ Determined whether sufficient operating procedures had been established by the auxiliary to allow the campus president (or designee) to ascertain the propriety of all expenditures, the integrity of the financial reporting, and that all expenditures were in accordance with the policies of the CSU Trustees.

- ▶ Determined whether 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.
- ▶ Determined whether the auxiliary provided full-time employees salaries, working conditions, and benefits comparable to those provided by the CSU.
- ▶ Determined whether the auxiliary operates commercial services on a self-supporting basis.
- ▶ Determined whether the auxiliary submitted its programs and budgets for review in a timely manner as specified by the president (or designee).
- ▶ Determined whether the auxiliary maintains reasonable provision for reserves and uses surplus funds from commercial operation for such purposes, which are consistent with regulations of the CSU Trustees.
- ▶ Determined whether the auxiliary used indirect cost reimbursements in accordance with statutory requirements.
- ▶ Determined whether the auxiliary only gave loans, scholarships, stipends and grants-in-aid to currently admitted students.
- ▶ Determined whether the auxiliary only accepted grants, contracts, bequests, trusts, or gifts, to be used for purposes consistent with the policies of the CSU Trustees.
- ▶ Determined whether the auxiliary forwarded records of student financial assistance on a timely basis to the campus financial aid office.
- ▶ Determined whether 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).
- ▶ Determined whether the auxiliary has taken measures to protect the campus from all possible liability associated with the operation of commercial services.
- ▶ Determined whether the auxiliary obtained indemnity bonds for officers and employees handling funds as statutorily mandated.
- ▶ Determined that conflict-of-interest statutes and regulations have been complied, including, but not limited to, the prohibition of financial conflicts of interest or personal pecuniary gains in transactions with governing board members.
- ▶ Determined whether the auxiliary adopted a nondiscrimination and affirmative action in employment policy approved by the chancellor (or designee).
- ▶ Determined whether 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.
- ▶ Determined whether 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.
- ▶ Determined whether 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.

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, controls such as:

- ▶ 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 California State University 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.

State of California

**California State University, San Bernardino**  
5500 University Parkway  
San Bernardino, California 92407-2397

**MEMORANDUM**

DATE : May 14, 2001  
TO : Larry Mandel  
University Auditor  
The California State University

**RECEIVED**  
University Auditor

**MAY 17 2001**

**The California State  
University**

FROM : David DeMauro, Vice President   
for Administration and Finance

SUBJECT: **Campus Response to Audit Report Number 00-51**  
***AUXILIARY ORGANIZATIONS,***  
**California State University, San Bernardino**

Attached for your consideration are campus responses to *Auxiliary Organizations* Audit Report Number 00-51.

Within the next 30 days, support documentation will be submitted separately for the items which the campus considers to be closed.

xc: Patrick Areffi  
David Jones  
Helga Kray  
William Takehara

**CALIFORNIA STATE UNIVERSITY, SAN BERNARDINO****AUXILIARY ORGANIZATIONS AUDIT  
REPORT NUMBER 00-51****CAMPUS RESPONSE  
5-14-01****CAMPUS OVERSIGHT****RECOMMENDATION 1**

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

**CAMPUS RESPONSE:**

The campus concurs with the recommendation. Revenue from workshops and programs processing continuing education units will be deposited to trust funds.

**RECOMMENDATION 2**

We recommend that the campus obtain reimbursement for costs incurred in licensing the use of the Coussoulis Arena for events held by off-campus event sponsors.

**CAMPUS RESPONSE:**

The campus concurs with the recommendation. A memo has been forwarded to the Director of the Coussoulis Arena, who directs the reimbursement of allowable direct costs/indirect costs for events sponsored by off-campus organizations. The draft campus policy has been superceded by Executive Order 753.

**RECOMMENDATION 3**

We recommend that the campus document, consistent with its written cost allocation plan, the basis for the accounting fees charged to the ASI and the Student Union for the accounting services provided.

**CAMPUS RESPONSE:**

The campus concurs with the recommendation. The Director of Accounting established a Memorandum of Understanding for the ASI and the Student Union, which included a detailed list of services to be provided. The Director of Accounting has prepared a written cost allocation plan, which will be provided with the Memoranda of Understanding as the basis for negotiating the reimbursement amounts.

**RECOMMENDATION 4**

We recommend that the campus ensure that sponsorship contracts are correctly reported.

**CAMPUS RESPONSE:**

The campus concurs with the recommendation. A policy has been established that ensures sponsorship contracts have been recorded.

**RECOMMENDATION 5**

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

**CAMPUS RESPONSE:**

The campus concurs with the recommendation. The ASI and the Student Union require board members and management employees to sign conflict of interest forms at the beginning of each fall quarter. The distribution of conflict of interest forms is documented in the ASI board minutes.

**RECOMMENDATION 6**

We recommend that the campus restrictively endorse checks and other negotiable instruments as soon as they are received or by the end of the business day.

**CAMPUS RESPONSE:**

The campus concurs with the recommendation. The Bursar's Office supervisor has covered this procedure during a staff training session. The desk procedure was written and distributed for placement in the staff's desk procedural manuals.

**ASSOCIATED STUDENTS, INC.****RECOMMENDATION 7**

We recommend that the ASI revise fixed asset disposal policies and procedures to provide sufficient control over assets.

**CAMPUS RESPONSE:**

The campus concurs with the recommendation. ASI has drafted a change to its Finance Policy and Procedures to require an ASI executive officer to concur with the ASI Executive Director's assessment of property to be disposed of, and to sign the "Request for Survey" form approving the ASI Executive Director's assessment. These changes are currently before the ASI Rules Committee for review, modification, and approval.

Upon recommendation by the ASI Rules Committee, the revised draft ASI Policy and Procedures Policy will be forwarded to the ASI Board of Directors for final review and approval at their next meeting on May 15, 2001.

**STUDENT UNION****RECOMMENDATION 8**

We recommend that the campus and the Union ensure that the facility lease is properly approved.

**CAMPUS RESPONSE:**

The campus concurs with the recommendation. The Operating Agreement/Lease Agreement has been revised to reflect the appropriate Chancellor's Office signature.

**RECOMMENDATION 9**

We recommend that the Union document a consolidated analysis and comparison of employee salaries, wages and benefits between its employees and state employees in similar positions.

**CAMPUS RESPONSE:**

The campus concurs with the recommendation. New forms have been developed for annual salary comparability reviews. Comparability reviews will also be conducted and documented whenever a position is posted.

**RECOMMENDATION 10**

We recommend that the Union incorporate its fixed asset disposal practices within its written policies and procedures.

**CAMPUS RESPONSE:**

The campus concurs with the recommendation. The Student Union Board of Directors approved additional language regarding disposition of fixed assets in the Financial Policies Manual on November 2, 2000.

## CSUSB FOUNDATION

### RECOMMENDATION 11

We recommend that the Foundation lease agreement be amended to include clearly articulated and sufficient consideration when a nominal exchange provision is included.

#### CAMPUS RESPONSE:

The campus concurs with the recommendation. An amended lease agreement will be provided which clearly articulates specific considerations between the Foundation and the campus by December 31, 2001.

### RECOMMENDATION 12

We recommend that the Foundation perform additional analysis and documentation of its administration of indirect costs associated with grants and contracts, including specific analysis establishing that cost shifting between programs did not occur and that state costs charged to granting agencies were appropriately reimbursed.

#### CAMPUS RESPONSE:

The campus concurs with the recommendation. Additional analysis for prior year has been completed. Foundation analysis will be provided as part of closing fiscal year procedures. A copy of actual cost analysis is provided to the campus annually and will be forwarded by October 31, 2001.

### RECOMMENDATION 13

We recommend that the campus establish policies and procedures to ensure adequate documentation of fund disbursements for all contracts for services.

#### CAMPUS RESPONSE:

The campus concurs with the recommendation. Policies and procedures have been developed to ensure adequate documentation of fund disbursements. The Foundation accepts only written confirmation from project directors to release quarterly stipend payments. All child care subsidy eligibility will be documented. Signatures will be required for cash transfers between individuals. Established procedures will be provided by August 31, 2001.

**RECOMMENDATION 14**

We recommend that the campus coordinate with the Foundation to ensure that policies and procedures are established for the maintenance of required documentation for participation of minors in funded projects.

**CAMPUS RESPONSE:**

The campus concurs with the recommendation. Policies and procedures are presently being established for the maintenance of required documentation for the participation of minors in funded projects and will be completed by December 31, 2001.

**RECOMMENDATION 15**

We recommend that the campus coordinate with the Foundation to ensure compliance with Executive Order No. 409.

**CAMPUS RESPONSE**

The campus concurs with the recommendation. The Foundation will submit agreement for Chancellor's Office approval to comply with Executive Order No. 409.

**RECOMMENDATION 16**

We recommend that the Foundation assure that current and accurate trust agreements are established and maintained to assure that:

- a. An accurate record of authorized signers on all trust accounts is maintained.
- b. Inactive accounts are researched and updated or closed where appropriate.
- c. Trust agreements are in place for all trust accounts held.
- d. Trust account holders are notified in writing of the Foundation's practice of withholding investment earnings on accounts with balances of less than \$5,000.

**CAMPUS RESPONSE:**

The campus concurs with the recommendation. The Foundation will assure that trust agreements are in place for all trust accounts. Accurate records of authorized signatures will be maintained on all trust accounts effective immediately. Inactive accounts have been closed where appropriate. Account statements have been revised to notify account holders of interest earnings and withholdings. The process will be completed by August 31, 2001.

**RECOMMENDATION 17**

We recommend that:

- a. Campus departments operate within available cash limitations when making scholarship commitments and that when deficits arise they be repaid timely in accordance with agreements.
- b. Past due accounts be repaid immediately.

**CAMPUS RESPONSE:**

The campus concurs with the recommendation. Agreements will be made to repay any deficits due from campus departments. Debts are to be repaid within 1-3 years. A payment plan has been developed and will be implemented to service past due accounts. Changes are to be implemented in Fiscal Year 2001-02. Repayment schedules for campus departments will be provided by July 31, 2001.

**RECOMMENDATION 18**

We recommend that the Foundation review the operations of its copier service vendor to ensure that it maximized the generation and control of revenues.

**CAMPUS RESPONSE:**

The campus concurs with the recommendation. The present copy service vendor contract has been reviewed and strategy discussed with vendor representative to maximize revenue generation within a 90-day period, per the terms of existing contract. The contract will be terminated should the vendor fail to comply with the terms. Compliance will be demonstrated by either (a) increase in revenue generation, or (b) termination of the existing agreement.

**RECOMMENDATION 19**

We recommend that the Foundation further document cash handling policies and procedures as they relate to "pulling" of cash prior to deposit. A copy of the procedures will be provided.

**CAMPUS RESPONSE:**

The campus concurs with the recommendation. Policies and procedures have been established which further document the "pulling" of cash prior to deposit.

**RECOMMENDATION 20**

We recommend that the Foundation establish procedures to ensure the proper segregation of duties within the payroll function.

**CAMPUS RESPONSE:**

The campus concurs with the recommendation. Procedures have been established and implemented to ensure proper segregation of duties regarding the distribution of payroll in the Food Services retail operation. A copy of the procedure will be provided. A copy of the procedures will be provided.

**RECOMMENDATION 21**

We recommend that the Foundation revise funds acceptance policies and procedures with respect to bequests.

**CAMPUS RESPONSE:**

The campus concurs with the recommendation. The Foundation will revise written policies and procedures, in coordination with campus Advancement staff, regarding the acceptance of funds. Revisions are to be completed by December 31, 2001.

**RECOMMENDATION 22**

We recommend that the Foundation establish an information security policy.

**CAMPUS RESPONSE:**

The campus concurs with the recommendation. The Foundation will establish an information security policy and implement by December 31, 2001.

**RECOMMENDATION 23**

We recommend that the Foundation update its information system data access security controls.

**CAMPUS RESPONSE:**

The campus concurs with the recommendation. The information system data access security controls will be updated to comply with recommended guidelines by December 31, 2001.

**RECOMMENDATION 24**

We recommend that the Foundation develop a complete disaster recovery plan.

**CAMPUS RESPONSE:**

The campus concurs with the recommendation. The existing disaster recovery plan will be revised and updated by December 31, 2001.

**THE CALIFORNIA STATE UNIVERSITY**  
OFFICE OF THE CHANCELLOR

BAKERSFIELD

CHANNEL ISLANDS

May 30, 2001

CHICO

**MEMORANDUM**

DOMINGUEZ HILLS

FRESNO

TO: Larry Mandel  
University Auditor

FULLERTON

FROM: Charles B. Reed  
Chancellor

HAYWARD

HUMBOLDT

SUBJECT: Draft Final Report Number 00-51 on Auxiliary Organizations,  
California State University, San Bernardino

LONG BEACH

LOS ANGELES

MARITIME ACADEMY

In response to your memorandum of May 30, 2001, I accept the response as submitted with the draft final report on Auxiliary Organizations, California State University, San Bernardino.

MONTEREY BAY

NORTHRIDGE

POMONA

LM:amd

SACRAMENTO

Enclosure

SAN BERNARDINO

cc: Dr. Albert K. Karnig, President  
Mr. David DeMauro, Vice President for Administration and Finance

SAN DIEGO

SAN FRANCISCO

SAN JOSE

SAN LUIS OBISPO

SAN MARCOS

SONOMA

STANISLAUS