AUXILIARY ORGANIZATIONS

CALIFORNIA STATE UNIVERSITY,
CHICO

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THE CALIFORNIA STATE UNIVERSITY
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ABBREVIATIONS

AS Associated Students of California State University, Chico
BA Business Affairs – Office of the Chancellor
CSU California State University
EO Executive Order
ERISA Employee Retirement Income Security Act
IRS Internal Revenue Service
POS Point of Sale
Research Foundation CSU Chico Research Foundation
University Foundation CSU Chico University Foundation
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 are 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, fiscal year 1999-2000 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 May 2001. 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.

**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 on a triennial basis pursuant to procedures established by the chancellor.

This report represents our triennial review.

OPINION

We visited the California State University, Chico campus from March 19, 2001, through May 11, 2001, 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.)
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 [15]

CAMPUS SUPPORT ORGANIZATIONS [15]

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. Developing written policies and procedures can enhance internal controls over ancillary organizations operating on the campus in support of academic and nonacademic programs, which reduces the campus’ and the California State University (CSU) system’s exposure to regulatory and legal consequences.

CONFLICT OF INTEREST [16]

The CSU Chico University Foundation (University Foundation) and CSU Chico Research Foundation (Research Foundation) did not document conflict-of-interest policies and procedures. Specifically addressing implementation of conflict-of-interest policies and procedures for auxiliary boards and management decreases liability for acts contrary to the code.

EXCLUSIVE SOFT DRINK AGREEMENT [16]

Arrangements concerning the campus’ exclusive soft drink agreement lacked required formal approval and specifics regarding campus and Associated Students of California State University, Chico (AS) rights and obligations. Appropriate approval decreases the potential for misunderstandings regarding rights and obligations associated with this type of agreement.

FEES, REVENUES, AND RECEIVABLES [17]

COST ALLOCATION PLAN [17]

The campus had not developed a cost allocation plan in accordance with Executive Order (EO) No. 753. Developing and following a cost methodology plan provide assurance that the General Fund is properly reimbursed for facilities, goods, or services provided to auxiliary organizations.

FIXED ASSETS [18]

Internal controls over University Foundation and Research Foundation fixed assets were not adequate. Adequate controls over fixed assets decrease the risk that property may be lost or stolen.
ASSOCIATED STUDENTS

LEGAL AND REGULATORY COMPLIANCE [20]

OPERATING AGREEMENTS [20]

The AS and the campus were not in compliance with certain performance-oriented, nonfinancial provisions within their operating agreement. Compliance with the requirements of written agreements decreases the risk of misunderstanding and miscommunication regarding rights and responsibilities.

MEETINGS AND ELECTIONS [21]

The AS resolutions did not reflect the actual frequency of board meetings and include provisions for the election of officers. Maintaining current and accurate election policies and procedures might prevent a discrepancy between procedural standards and actual practices.

SELF-SUPPORTING COMMERCIAL SERVICES [22]

AS food services had not been operating on a self-supporting basis for the last two fiscal years. Self-supporting entities prevent a strain on financial resources and the extraction of funds which could have been used elsewhere.

VOLUNTEER EMPLOYEES [22]

Volunteer student employees for AS’s Adventure Outings were not appropriately covered by workers’ compensation insurance. In addition, an advisory form had not been developed to advise student volunteers that workers’ compensation does not cover them during Adventure Outings activities. Adequate consideration of workers’ compensation risk reduces AS’s risk of litigation in the event of an injury to a student volunteer.

NONDISCRIMINATION POLICY [23]

The AS had not formally documented its nondiscrimination policies and procedures. Written nondiscrimination policies and procedures reduce AS’s risk of noncompliance with state and federal laws, which may result in adverse regulatory actions.

CASH RECEIPTS AND HANDLING [24]

CASH HANDLING [24]

Certain AS cash handling policies and procedures needed improvement. Adequate safeguarding of cash decreases the risk of misappropriation of funds.
INTRODUCTION

POINT OF SALE CASH RECONCILIATIONS [26]

Procedures for reconciling AS point of sale (POS) transactions needed to be improved. When POS activity is reconciled timely and consistently, the risk that irregularities can occur and not be detected for extended periods is reduced.

CASH REGISTERS [27]

Accountability was not localized when two or more persons had access to the same AS cash register. Adequate transfer of accountability decreases the risk that errors and irregularities will not be detected timely.

RETAIL CHECK ACCEPTANCE [28]

The AS bookstore did not have a written check acceptance policy, especially when a supervisor must approve a customer’s check. Documented policies for check acceptance decrease the risk of checks being accepted from customers with insufficient funds.

BOOKSTORE REFUNDS [28]

The AS bookstore’s policies and procedures for processing refunds needed to be improved. A sufficiently controlled refund process decreases the risk that errors or irregularities will occur undetected.

BOOKSTORE SAFE [29]

Security controls over the AS bookstore’s safe needed improvement. Appropriate security controls over the safe decrease the risk of theft, robbery, or misappropriation of funds.

CASH ROOM SAFE [30]

The AS did not maintain a sufficient written record of the names of individuals who had access to the cash room safe and the date the combination was last changed. Appropriate security controls over the safe decrease the risk of theft, robbery, or misappropriation of funds.

PETTY CASH AND CHANGE FUNDS [31]

Certain AS petty cash and change funds were not always adequately secured in two locations, and petty cash policies and procedures were incomplete. Internal controls are improved when petty cash and change funds are adequately secured and policies and procedures are fully documented.
FEES, REVENUES, AND RECEIVABLES [32]

SEGREGATION OF DUTIES [32]

The director of the children’s center both prepared and received the billing for the alternative payment fee program. Adequate separation of duties decreases the risk that errors and irregularities will not be detected in a timely manner.

UNCLEARED COLLECTIONS [32]

The AS did not use a suspense account for cash receipts which cannot be readily matched to a receivable or otherwise coded to a specific project/object. Additionally, there were no written policies and procedures to handle unidentified cash receipts. Proper use of suspense account decreases the risk of misplacing the check or misappropriation of funds.

ACCOUNTS RECEIVABLE [33]

AS accounts receivable policies and procedures needed improvement and further documentation. Sufficiently controlled accounts receivable decrease the risk that accounts will not be appropriately collected and written off and that errors or irregularities will not be detected in a timely manner.

EMPLOYEE LOANS [34]

The administration of AS employee loan programs needed improvement. Documented employee benefit policies and procedures could prevent benefits from being inappropriately and inconsistently offered to employees.

REVENUE RECONCILIATIONS [35]

The AS had not completed independent revenue reconciliation for certain commercial and noncommercial operations. When revenues are reconciled, errors or misappropriation of funds could be detected timely.

PURCHASING AND ACCOUNTS PAYABLE [36]

PROCUREMENT PROCESS [36]

Certain AS procurement policies and procedures were not written/followed. Internal controls are improved when policies and procedures concerning procurement are fully documented and communicated to auxiliary personnel.
DISBURSEMENTS [37]

Copies, proposals, and faxes were accepted as original documentation with no certification that the invoice had been researched to prevent a duplicate payment. In addition, copies of documents received on nonplain paper fax were not appropriately preserved, rendering them illegible. Sufficient supporting documentation decreases the risk that a misappropriation of funds will occur and not be detected timely.

SEGREGATION OF DUTIES [38]

The duties of the AS food service accountant were not adequately segregated. Adequate separation of duties decreases the risk that errors and irregularities will occur and not be detected timely.

PROCUREMENT CARDS [38]

AS procurement card policies and procedures regarding use, oversight, and accounting needed improvement. Controls over credit purchases are improved when policies and procedures are fully documented and do not require one-up authorization.

VENDOR MASTER FILE [39]

AS vendor master file maintenance policies and procedures were not documented, and the vendor master file contained unnecessary and duplicate vendors. Properly maintaining and updating the vendor master file and preventing extraneous entries decrease the risk of fraudulently misdirected payments.

TRAVEL [40]

Controls over AS employee and student travel were inadequate. The risk of errors or misappropriation decreases when travel is sufficiently controlled.

BOOKSTORE BUYBACK PROGRAM [41]

Support for the bookstore’s buyback program activity summary reports was incomplete. In addition, the buyback policy and procedures were incomplete. Supported accounting summaries decrease the risk of misstated financial records.

PURCHASE AUTHORITY LIMITS [42]

Buyers for the bookstore were not subject to purchase authority limits. When purchasing operates with predefined spending limits, the risk that misappropriation of funds or excessive inventory purchases will occur decreases.
ACCOUNTING TRANSFERS [42]

AS accounting policies and procedures did not clearly define how and when supervisory reviews of journal entries should be performed. Documented supervisory review procedures for journal entries decrease the risk that reviews will not be performed consistently.

PERSONNEL AND PAYROLL [43]

EMPLOYEE CLEARANCE [43]

AS employee clearance and separation policies and procedures were incomplete. Complete clearance procedures decrease the risk that amounts owed or assets held will go uncollected prior to delivery of a terminated employee’s final paycheck.

FIXED ASSETS [44]

AS internal controls over fixed assets were not adequate. Adequate controls over fixed assets decrease the risk that property may be lost or stolen.

CUSTODIAL AND OTHER LIABILITIES [45]

CUSTODIAL FUNDS [45]

Custodial funds held by AS on behalf of student organizations and campus departmental programs needed improvement. Sufficient control over custodial funds decreases the risk that funds will be expended for inappropriate purposes.

SELF-INSURED HEALTH TRUST [46]

The administration of the self-administered health insurance plan offered to employees of the AS and the Research Foundation was in need of improvement. Sufficient analysis decreases the risk that legally mandated fiduciary requirements are not being met.

PROGRAMS [48]

GRANTS AND CONTRACTS [48]

The AS did not receive written approval to administer two extramural grants. Obtaining written approval decreases the risk of loss of revenue to the Research Foundation.
INFORMATION TECHNOLOGY [48]

ACCESS TO AUXILIARY SYSTEMS [48]

The AS business systems’ software vendor had unlimited access to all programs and data. Limiting vendor access to computer programs and data decreases the risk that unauthorized activities could occur.

USER ACCOUNT DELETION [50]

Security administration over user account deletion required improvement. Changing the access rights of terminated or transferred employees in a timely manner decreases the risk of unauthorized activity.

BOOKSTORE INFORMATION SECURITY [50]

Information security controls for the bookstore’s general book inventory system needed improvement. Implementing appropriate general computer controls could prevent a loss or corruption of data and inaccurate accounting records.

BOOKSTORE E-COMMERCE [52]

The bookstore’s e-commerce process required improvement. Correct pricing would preclude regulatory action, while documented procedures could prevent inaccurate processing of e-commerce transactions.

UNIVERSITY FOUNDATION

LEGAL AND REGULATORY COMPLIANCE [53]

LEASE AGREEMENT [53]

Consideration was not sufficiently articulated in the agreement between the campus and the University Foundation. Sufficiently documenting consideration reduces the campus’ and the legally separate auxiliary organization’s exposure to a claim that “gift of public funds” occurred.

BOARD MEETING [54]

The University Foundation’s bylaws inappropriately required annual meetings of the board instead of mandated quarterly meetings. Maintaining accurate bylaws could prevent a discrepancy between procedural standards and actual practices.
UNTIMELY DEPOSITS [54]

Cash/gift checks received through various areas on campus were not delivered timely to the University Foundation for deposit. Transferring cash/gift receipts to the cashiering office in a timely manner decreases the risk that a misappropriation of funds will not be detected.

PETTY CASH FUNDS [55]

University Foundation petty cash funds were not adequately controlled. Performing timely counts of change funds decreases the risk that missing funds will not be detected.

ACCOUNTS RECEIVABLE [56]

The University Foundation’s accounts receivable process for grants and contracts needed improvement. Sufficiently controlled accounts receivable decrease the risk that accounts will not be appropriately collected and written off and that errors or irregularities will not be detected in a timely manner.

PURCHASING AND ACCOUNTS PAYABLE [57]

Certain cash disbursements needed improvement as to the sufficient authorization and documentation. Adequate supporting documentation and authorization decrease the risk that a misappropriation of funds will occur and not be detected timely.

RESEARCH FOUNDATION

LEGAL AND REGULATORY COMPLIANCE [60]

LEASING OF FACILITIES [60]

Consideration was not sufficiently articulated in the lease agreements between the campus and the Research Foundation. In addition, certain lease agreements were not appropriately renewed. Sufficiently documenting consideration reduces the campus’ and the legally separate auxiliary organization’s exposure to a claim that “gift of public funds” occurred.

PETTY CASH FUNDS [61]

Research Foundation petty cash funds were not adequately controlled. Performing timely counts of change funds decreases the risk that missing funds will not be detected.
FEES, REVENUES, AND RECEIVABLES [62]

SEGREGATION OF DUTIES [62]

The Research Foundation’s communications network services department’s accounts receivable duties were not adequately segregated. Adequate separation of duties decreases the risk that errors and irregularities will occur and not be detected in a timely manner.

ACCOUNTS RECEIVABLE [62]

The Research Foundation’s accounts receivable process for grants and contracts needed improvement. Sufficiently controlled accounts receivable decrease the risk that accounts will not be appropriately collected and written off and that errors or irregularities will not be detected in a timely manner.

ADVANCES [64]

Certain Research Foundation outstanding advances were not cleared timely, and follow-up efforts should be strengthened. The risk of errors or misappropriation decreases when cash advances are properly controlled.

PURCHASING AND ACCOUNTS PAYABLE [65]

Certain cash disbursements needed improvement as to the sufficiency, authorization, and documentation. Adequate supporting documentation and authorization decrease the risk that misappropriation of funds will not be detected.

PROGRAMS [66]

CHILD DEVELOPMENT PROGRAM [66]

Certain aspects of the financial operations of the Research Foundation’s child development program were insufficient. Timely deposits of fees and appropriate matching of funds decrease the risk that program funds will not be sufficiently controlled.

FARM PROGRAM SEGREGATION OF DUTIES [67]

The Research Foundation’s farm program accounting duties were not sufficiently segregated. Adequate separation of duties decreases the risk that errors and irregularities will occur and not be detected in a timely manner.
CONTRACTS AND GRANTS PROPOSALS [68]

The Research Foundation did not have written policies and procedures for the approval of proposal amendments. Adequate reviews of changes to the proposal could prevent grants and contracts from being inappropriately accepted.
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.

In one instance, we noted that a corporation had been created by the campus over 30 years ago. The campus had neither submitted required annual filing documentation over most of those years nor acted to perfect a dissolution of this corporation which uses the campus’ name.

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

The associate vice president of university advancement indicated that the campus had not established a procedure to identify organizations using the university’s name; however, doing so was planned.

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

We concur with the recommendation. The university will develop policies and procedures to identify and oversee ancillary organizations of the campus.

Timeline: August 2002
CONFLICT OF INTEREST

The CSU Chico University Foundation (University Foundation) and CSU Chico Research Foundation (Research Foundation) did not document conflict-of-interest policies and procedures.

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 that any contract or transaction entered into in violation of this section is void.

Title 5 §42401, §42402, and §42500 and Education Code §89900 establish a responsibility to operate in accordance with sound business practices in the interest of the campus. Good business practice would include establishing conflict-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 associate vice president of university advancement indicated that the University Foundation’s board formally adopted the policies and procedures of the Research Foundation as its own, as many of its administrative and business matters are handled by the Research Foundation.

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

The Research Foundation formalized its conflict-of-interest policies and procedures in February 2001, and the University Foundation adopted the Research Foundation policies and procedures in the same month.

EXCLUSIVE SOFT DRINK AGREEMENT

Arrangements concerning the campus’ exclusive soft drink agreement lacked required formal approval and specifics regarding campus and Associated Students of California State University, Chico (AS) rights and obligations.

The exclusive soft drink agreement (pouring rights) between AS, the campus, the local bottler, and the national brand was not submitted to the chancellor’s office for formal approval. Further, arrangements between the campus and AS regarding this agreement needed clarification. The specific arrangements, including the disposition of revenues between the campus and AS regarding rights and obligations, were neither addressed specifically within the agreement nor in any ancillary agreement.

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

The executive director of AS stated that he obtained approval from the AS board of directors, but not the chancellor’s office.
The absence of required formal approval increases the potential for misunderstandings with regard to rights and obligations associated with this type of agreement.

**Recommendation 2**

We recommend that the campus ensure that rights and obligations with respect to the campus’ offering of pouring rights be delineated in writing between the campus and AS and that appropriate Office of the Chancellor approvals are obtained for future contracts.

**Campus Response**

We concur with the recommendation. The university will formalize its existing agreement with the AS with respect to pouring rights; and at the end of the existing agreement, we will obtain prior approval before entering into similar agreements.

Timeline: August 2002

**FEES, REVENUES, AND RECEIVABLES**

**COST ALLOCATION PLAN**

The campus had not developed a cost allocation plan in accordance with Executive Order (EO) No. 753.

Specifically, the campus needed to reexamine its direct and indirect cost reimbursement requirements for externally funded programs.

CSU coded memo, Business Affairs – Office of the Chancellor (BA) 83-30, requires auxiliaries to pay for services provided by the campus. EO No. 753, *Allocation of Costs to Auxiliary Enterprises*, established the responsibility for auxiliaries to pay allowable direct costs plus an allocable portion of indirect costs associated with facilities, goods, and services provided by the campus and funded by the General Fund.

The vice president of business and finance indicated that the campus was working on a cost allocation plan.

Failure to develop and follow a cost methodology plan could result in the General Fund not being properly reimbursed for facilities, goods, or services provided to auxiliary organizations.

**Recommendation 3**

We recommend that the campus develop a cost allocation plan in accordance with EO No. 753.
Campus Response

We concur with the recommendations. The campus will develop a cost allocation plan in accordance with EO No. 753.

Timeline: June 2002

FIXED ASSETS

Internal controls over University Foundation and Research Foundation fixed assets were not adequate.

We noted that there are no written policies and procedures for the accounting and handling of fixed assets. In addition, we noted in the state module:

- Equipment received at a destination other than campus receiving had not been tagged since October 2000.
- Fixed assets had not been entered into fixed asset schedules since October 2000.
- Asset accounting services provided by a state employee were not reimbursed.
- The general ledger and subledgers were not reconciled.
- The subledgers indicated that fixed asset physical inventories were incomplete.
- Fixed assets for the University Foundation and Research Foundation were not segregated in subledgers.
- Computers purchased were not located.

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 includes strong controls over fixed assets.

The assistant administrative director of the University Foundation indicated that significant effort has been taken to ensure the propriety of fixed assets; however, in certain instances, oversight was insufficient.

Inadequate controls over fixed assets increase the risk that property may be lost or stolen.
Recommendation 4

We recommend that the University Foundation and Research Foundation ensure that:

a. Fixed assets received are appropriately tagged upon receipt.
b. Fixed assets are entered into fixed asset schedules.
c. Services provided by a state employee are reimbursed by the Research Foundation.
d. General ledger and fixed asset subledgers are reconciled.
e. Physical inventories are completed.
f. University Foundation and Research Foundation fixed assets are segregated in subledgers.

Campus Response

The university concurs with the recommendations. Procedures and controls will be established to ensure that upon receipt, fixed assets acquired by the University Foundation will be tagged and entered into property records by entity in a timely manner and that regular physical inventories of University Foundation property are completed. In addition, procedures will be established to ensure a monthly reconciliation of the fixed asset subledgers to the general ledger.

As required by EO No. 753, the university will ensure that services provided by state employees are reimbursed by the appropriate auxiliary organization.

Timeline: November 2002
ASSOCIATED STUDENTS

LEGAL AND REGULATORY COMPLIANCE

OPERATING AGREEMENTS

The AS and the campus were not in compliance with certain performance-oriented, nonfinancial provisions within their operating agreement.

We noted the following:

- There was no annual survey conducted by campus catering of catering providers wherein findings are to be shared with university housing and food service.

- Representatives (food service committee) of the campus and auxiliary did not meet on a regular basis to listen to the needs, complaints, and requests of students subscribing to meal plans and to review service and make recommendations for improved services.

- Quarterly reports on the total volume in weight for each type of recyclable materials collected for the recycling center, as required by the agreement, were not submitted to the university, and compliance with general industrial safety orders (e.g., truck warning device) was not monitored.

- An annual inventory of all state property associated with food production and in the residence hall food service facility was not performed. It is required that this report be furnished to the director of university housing and food service and the university property clerk.

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

The executive director of AS agreed that campus catering should perform a price survey of off-campus caterers and provide that information to the university housing and food services office. The director of financial services agreed that quarterly reports should be provided as required by the contract. However, industrial safety equipment (truck warning devices) were attached to all trucks as required.

Noncompliance with the requirements of written agreements increases the risk of misunderstanding and miscommunication regarding rights and responsibilities.

Recommendation 5

We recommend that the AS and the campus evaluate the necessity of the various performance-oriented, nonfinancial provisions within the AS operating agreement and determine whether or not such provisions are necessary and appropriate.
Campus Response

We concur with the recommendation, and the university will meet with the AS to evaluate the specified findings regarding operating and lease agreements and determine if such provisions are necessary.

Timeline: July 2002

MEETINGS AND ELECTIONS

The AS resolutions did not reflect the actual frequency of board meetings and include provisions for the election of officers.

Education Code §89921 states that each governing board and subboard shall annually establish, by resolution, bylaws, or whatever other rule is required for the conduct of business by that body, the time and location for holding regular meetings.

Education Code §89925 states that each auxiliary organization shall establish, by constitution, statute, bylaws, or resolution, provisions for elections of officers and board members. These provisions shall be designed to allow all those eligible to vote complete access to all information on issues and candidates. These provisions shall include, but not be limited to, provisions for sample ballots, numbers of days and hours for voting, polling locations, and notice of elections.

The executive director agreed that the AS should establish the time and location for board meetings and post this information in a public place.

Undocumented meeting and election policies and procedures could result in a discrepancy between procedural standards and actual practices.

Recommendation 6

We recommend that AS pass resolutions to accurately reflect the required frequency of board meetings and include provisions for the election of officers.

Campus Response

We concur with the recommendation. A resolution outlining provisions for the election of officers was presented and approved at the Government Affairs Committee on February 26, 2002. This resolution will be prepared and introduced in subsequent years at the first committee meeting of each spring semester.
A resolution outlining the frequency of all board and standing committee meetings will be brought before the appropriate committees for their approval prior to the 22nd day of March this year. This resolution will be prepared and introduced in subsequent years at the first committee meeting of each fall semester.

Timeline: March 2002

**SELF-SUPPORTING COMMERCIAL SERVICES**

AS food services had not been operating on a self-supporting basis for the last two fiscal years.

Education Code §89905 states that the operations of commercial services on a campus of the CSU, such as a food service or bookstore, or any commercial services that may be provided in a state university union shall, when operated by an auxiliary organization, be self-supporting.

The director of financial services indicated that total food service reflected a net income for the year ended June 30, 1999; however, a loss was reflected for the year ended June 30, 2000, due to movement of the operations during the construction of new facilities.

Entities which are not self-supporting create a strain on financial resources and extract funds which could have been used elsewhere.

**Recommendation 7**

We recommend that the AS and the campus continue to monitor food service operations with respect to its self-sufficiency.

**Campus Response**

We concur with the recommendation. The AS is monitoring food operations with the intent that it be self-sufficient. The AS will present a business plan (to attain self-sufficiency) to the university.

Timeline: July 2002

**VOLUNTEER EMPLOYEES**

Volunteer student employees for AS’s Adventure Outings were not appropriately covered by workers’ compensation insurance. In addition, an advisory form had not been developed to advise student volunteers that workers’ compensation does not cover them during Adventure Outings activities.

We noted that workers’ compensation insurance was not obtained in consideration of the risk that injuries could be sustained by Adventure Outings volunteer student employees. Because of the higher risk nature of Adventure Outings activities, workers’ compensation insurance coverage should be extended and offered as is the typical practice at the CSU.
Title 5 §42401 and §42402 indicate that the campus president shall require that auxiliary organizations operate in conformity with the policy of the Board of Trustees and the campus. One of the objectives of the auxiliary organizations is to provide fiscal procedures and management systems that allow effective coordination of the auxiliary activities with the campus in accordance with sound business practices. Sound business practice requires the establishment of procedures to handle injuries sustained to volunteer employees.

The director of financial services agreed that volunteers should be covered by workers’ compensation insurance or sign a release relieving the AS of liability for their participation in AS programs.

An inadequate consideration of workers’ compensation risk exposes AS to increased risk of litigation in the event of an injury to a student volunteer.

**Recommendation 8**

We recommend that the AS ensure Adventure Outings volunteer student employees are appropriately covered and/or notified of their status under workers’ compensation insurance.

**Campus Response**

We concur with the recommendation. The AS will assess the options regarding workers’ compensation coverage for our Adventure Outings volunteer student employees and will implement the appropriate procedures.

Timeline: June 2002

**NONDISCRIMINATION POLICY**

The AS had not formally documented its nondiscrimination policies and procedures.

Title 5 §42405 and Education Code §89990(c) require development and approval of nondiscrimination policies.

The director of human resources stated that affirmative action procedures were in place and followed; however, the procedures were not written.

The lack of written nondiscrimination policies and procedures places the AS at risk of noncompliance with state and federal laws, which may result in adverse regulatory actions.

**Recommendation 9**

We recommend that the AS document its nondiscrimination policies and procedures.
Campus Response

We concur with the recommendation. The AS will update our Fair Employment Policy Statement to ensure that it includes nondiscrimination issues. The AS will outline the appropriate procedures for policy implementation.

Timeline: June 2002

CASH RECEIPTS AND HANDLING

CASH HANDLING

Certain AS cash handling policies and procedures needed improvement.

Cash Room

With regard to cash room operations:

- The exchange of cash bags between the bookstore and the business office was insufficiently documented, using unlabeled index cards.
- The exchange of the bookstore customer service change fund was not documented or otherwise verified.

The assistant director of financial services stated that the index cards were labeled only at the start of each section and not all of the cards.

Cash Window

With regard to cash window operations:

- The cashier supervisor and the cashier had the ability to receive cash and update the accounts receivable system within the computer system.
- AS daily check deposits were kept in a bag at the cash window and given to a bank representative without documenting transfer accountability. Additionally, there was no signature/photo listing of said authorized bank representative.
- Cash window operations were conducted on a table in the bookstore retail floor area, an unsecured location.

The assistant director of financial services indicated that the above issues were the result of the temporary location of the cash window/reception area during the construction and remodel of the Union building. She agreed that the cashier supervisor and cashier should not have the ability to update the accounts receivable subsystem and also receive cash.
Satellite Cashiering

Checks received by the recycling center and Adventure Outings were not restrictively endorsed immediately upon receipt. Instead, such checks were endorsed after being transferred to the AS.

The director of financial services noted that all areas receiving checks had been supplied with an endorsement stamp. She also agreed that all areas of the AS should be restrictively endorsing checks upon receipt.

Armed Robbery Procedures

The AS did not have written armed robbery procedures in place for its current operating space.

The director of financial services indicated there were armed robbery procedures in place in the former office location; however, it had not been revised for the current space. The new location does have various alarms in place.

Bookstore and Food Service

With regard to AS bookstore and food service cash operations:

- Without escort, one employee transported cash bags from the bookstore safe to the AS cash office. In addition, the employee did not always directly progress to and from the safe while moving cash.

- Cash bags for food service were similarly transported without escort.

- Vending machine coins were collected by one employee without escort. We additionally noted that vending machines did not generate any type of receipts.

Title 5 §42401 and §42402 indicate that the campus president shall require that auxiliary organizations operate in conformity with the policy of the Board of Trustees and the campus. One of the objectives of the auxiliary organizations is to provide fiscal procedures and management systems that allow effective coordination of the auxiliary activities with the campus in accordance with sound business practices. Sound business practice requires sufficiently controlled cash handing and movement procedures for the exchange of funds.

The director of financial services stated that end of day procedures did not require two employees to transport cash because of staffing limitations.

Inadequate safeguarding of cash increases the risk of misappropriation of funds.


Recommendation 10

We recommend that AS improve cash handling controls by:

a. Securing the cash window location.

b. Ensuring appropriately documented transfer of accountability when cash is exchanged between two individuals whether employed by the campus or the bank, and obtain signature/photo listing of authorized bank representative.

c. Revising the documentation for the exchange of cash bags between the bookstore and the AS and establishing procedures for the exchange of the bookstore customer service change fund.

d. Documenting and rehearsing their current armed robbery procedures for the cash room.

e. Ensuring appropriate escort when cash is transferred between locations.

Campus Response

We concur with the recommendation. The AS will implement processes to improve cash handling controls in the areas addressed. The AS bookstore has purchased a locking cart to transport cash from one location to another. End of day procedures have been modified so two employees now transport cash from the bookstore retail floor to the safe room at the end of the day.

Timeline: June 2002

POINT OF SALE CASH RECONCILIATIONS

Procedures for reconciling AS point of sale (POS) transactions needed to be improved.

We noted reconciliation processes did not consider the following:

- Food service and bookstore voided previous activity was not reconciled to POS totals.
- Bookstore refund vouchers for merchandise returns were not reconciled to POS totals.

Title 5 §42401 and §42402 indicate that the campus president shall require that auxiliary organizations operate in conformity with the policy of the Board of Trustees and the campus. One of the objectives of the auxiliary organizations is to provide fiscal procedures and management systems that allow effective coordination of the auxiliary activities with the campus in accordance with sound business practices. Sound business practice requires voided previous activity and refund vouchers be reconciled to POS totals on a daily basis.

The director of financial services indicated that AS was not balancing the void previous activity and the merchandise returns to the POS totals because of time constraints.
When POS activity is not reconciled timely and consistently, irregularities can occur and not be detected for extended periods.

**Recommendation 11**

We recommend that AS:

a. Food service and bookstore voided previous activity be reconciled to POS totals.

b. Bookstore refund vouchers for merchandise returns be reconciled to POS totals.

**Campus Response**

We concur with the recommendation. The AS is balancing the void previous activity and the merchandise returns to the POS totals.

**Timeline:** Completed

**CASH REGISTERS**

Accountability was not localized when two or more persons had access to the same AS cash register.

Multiple cashiers share the same cash register drawer during the business day at the bookstore and food service. Registers were not closed out at the end of each shift, but rather at the end of each day.

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

The bookstore’s retail operations floor supervisor advised that cash register drawers were shared by more than one cashier due to the relatively short duration of each shift. These shifts were designed to accommodate students’ variable schedules.

Inadequate transfer of accountability increases the risk that errors and irregularities will not be detected timely.

**Recommendation 12**

We recommend that the AS localize accountability when two or more persons have access to the same cash register.
**Campus Response**

Implementation of this recommendation would not be cost-effective. We will provide the University Auditor a written report of our cost-benefit analysis, which is the basis for our choice not to implement this recommendation.

Timeline: Completed

**RETAIL CHECK ACCEPTANCE**

The AS bookstore did not have a written check acceptance policy, especially when a supervisor must approve a customer’s check.

Title 5 §42401 and §42402 indicate that the campus president shall require that auxiliary organizations operate in conformity with the policy of the Board of Trustees and the campus. One of the objectives of the auxiliary organizations is to provide fiscal procedures and management systems that allow effective coordination of the auxiliary activities with the campus in accordance with sound business practices. Sound business practice requires check acceptance policies be posted for customer service purposes and policies be established for the acceptance of checks.

The bookstore’s retail operations floor supervisor stated that the bookstore had undocumented, informal policies in place for check acceptance.

Undocumented policies for check acceptance increase the risk of checks being accepted from customers with insufficient funds.

**Recommendation 13**

We recommend that the AS bookstore document its check acceptance policy, including when a supervisor must approve a customer’s check.

**Campus Response**

We concur with the recommendation. The AS bookstore has fully documented its check acceptance policy, including when a supervisor must approve a customer’s check. The policy has been added to the Cashier Manual.

Timeline: Completed

**BOOKSTORE REFUNDS**

The AS bookstore’s policies and procedures for processing refunds needed to be improved.

We noted that:

- The bookstore policy for customer returns and refunds was not posted.
The refund policy did not specify when a supervisor’s approval is required to process a refund. Refund vouchers were not prenumbered and did not require customers to provide their address.

Title 5 §42401 and §42402 indicate that the campus president shall require that auxiliary organizations operate in conformity with the policy of the Board of Trustees and the campus. One of the objectives of the auxiliary organizations is to provide fiscal procedures and management systems that allow effective coordination of the auxiliary activities with the campus in accordance with sound business practices. Sound business practice requires refund vouchers be suitably controlled and stored in a secure location. Refund policies and procedures should be documented and posted for customer service purposes.

The bookstore’s retail operations floor supervisor stated that the bookstore refund policy had not been reposted when operations resumed in the new bookstore location. She further indicated that obtaining the customer’s address was time-consuming.

An insufficiently controlled refund process increases the risk that errors or irregularities will occur undetected.

**Recommendation 14**

We recommend that AS implement the following:

a. Post the bookstore policy for customer returns and refunds.

b. Specify in written policies and procedures when a supervisor’s approval is required to process a refund.

c. Suitably control refund vouchers and require customers to provide their address.

**Campus Response**

We concur with the recommendation. The AS bookstore refund policy for customer returns and refunds has been posted. Written policies and procedures as to when a supervisor’s approval is required to process a refund have been written and included in the Customer Service Manual. Refund vouchers have been numbered and have been redesigned to include customer’s address.

Timeline: Completed

**BOOKSTORE SAFE**

Security controls over the AS bookstore’s safe needed improvement.

We noted the following with regard to security over the bookstore safe:

- The room where the bookstore’s safe was located was not consistently locked when unoccupied.
The keys to access the safe room were not limited to those requiring access to the safe, i.e., the receiving manager and textbook supervisor had keys.

A valid alarm code for the safe was not assigned to a specific person.

Title 5 §42401 and §42402 indicate that the campus president shall require that auxiliary organizations operate in conformity with the policy of the Board of Trustees and the campus. One of the objectives of the auxiliary organizations is to provide fiscal procedures and management systems that allow effective coordination of the auxiliary activities with the campus in accordance with sound business practices. Sound business practice requires strictly controlled access to safes and all alarm codes to be assigned to individuals.

The bookstore’s support services supervisor indicated that the safe room was usually locked when unoccupied and the generic alarm code should have been deleted after the safe alarm was successfully installed.

Inappropriate security controls over the safe increase the risk of theft, robbery, or misappropriation of funds.

**Recommendation 15**

We recommend that the AS:

a. Consistently lock the room where the bookstore’s safe is located.

b. Limit safe room keys to those requiring access.

c. Insure all alarm codes are assigned to specific individuals.

**Campus Response**

We concur with the recommendation. The locking mechanism on the door where the bookstore safe is located has been switched out to be a lock that locks automatically every time the door is closed. Keys to the safe room have been limited to just those requiring access. Alarm codes have always been assigned to specific individuals. The generic code has been eliminated.

Timeline: Completed

**CASH ROOM SAFE**

The AS did not maintain a sufficient written record of the names of individuals who had access to the cash room safe and the date the combination was last changed.

Title 5 §42401 and §42402 provide that the campus president shall require that all auxiliary organizations operate in conformity with the policy of the Board of Trustees and the campus. Sound business practice mandates that a record be kept showing the date the combination was last changed and the names of individuals knowing the present combination.
The assistant director of financial services stated that the AS only tracked who had key access to the cash room.

Inappropriate security controls over the safe increase the risk of theft, robbery, or misappropriation of funds.

**Recommendation 16**

We recommend that AS establish procedures to ensure that a record is maintained of individuals having safe combinations and the date the combinations were last changed.

**Campus Response**

We concur with the recommendation. The AS has already written and implemented a procedure to ensure that a record is maintained of both the individuals having access to the cash room safe combination and the date the combinations were last changed.

Timeline: Completed

**PETTY CASH AND CHANGE FUNDS**

Certain AS petty cash and change funds were not always adequately secured in two locations, and petty cash policies and procedures were incomplete.

We noted that the AS did not have written policies and procedures for the administration of petty cash and change 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 practice mandates that policies and procedures be written and petty cash and change funds be periodically and independently counted.

The assistant director of financial services indicated that it was an oversight that current petty cash policies and procedures were not documented and, in limited instances, cash not adequately secured.

Internal controls are compromised when petty cash and change funds are not adequately secured and policies and procedures are not fully documented.

**Recommendation 17**

We recommend that the AS fully document petty cash and change fund policies and procedures and ensure that funds are always sufficiently secured.
Campus Response

We concur with the recommendation. The AS will develop more complete procedures for the administration and securing of petty cash and change funds.

Timeline: June 2002

FEES, REVENUES, AND RECEIVABLES

SEGREGATION OF DUTIES

The director of the children’s center both prepared and received the billing for the alternative payment fee program.

EO 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 director of financial services indicated that it was an administrative oversight that duties were not properly segregated over this program.

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

Recommendation 18

We recommend that the AS properly segregate the accounting functions at the children’s center or institute mitigating procedures approved by the campus chief financial officer.

Campus Response

We concur with the recommendation. The AS will establish better segregation of duties or institute mitigating control procedures over this program, as appropriate.

Timeline: June 2002

UNCLEARED COLLECTIONS

The AS did not use a suspense account for cash receipts which cannot be readily matched to a receivable or otherwise coded to a specific project/object. Additionally, there were no written policies and procedures to handle unidentified cash receipts.

Title 5 §42401 and §42402 indicate that the campus president shall require that auxiliary organizations operate in conformity with the policy of the Board of Trustees and the campus. One of the objectives of the auxiliary organizations is to provide fiscal procedures and management systems...
that allow effective coordination of the auxiliary activities with the campus in accordance with sound business practices. Sound business practice requires suspense accounts and written procedures for the processing of unidentifiable cash receipts.

The assistant director of financial services stated that checks were normally deposited promptly after their receipt and that she believed that the current process of handling unidentified checks was adequate.

Lack of use of a suspense account increases the risk of misplacing the check or misappropriation of funds.

**Recommendation 19**

We recommend that AS establish:

a. A suspense account for unidentifiable cash receipts.

b. Written policies and procedures regarding the use and administration of this account to ensure that all checks received are deposited timely.

**Campus Response**

We concur with the recommendation. The AS has already written and implemented a procedure regarding the development and administration of a suspense account for unidentified cash receipts.

Timeline: Completed

**ACCOUNTS RECEIVABLE**

AS accounts receivable policies and procedures needed improvement and further documentation.

We noted that:

- Collection policies and procedures were not documented, including specifics as to criteria for collecting amounts owed, the frequency in which the debtor would be contacted either through letters or phone calls, or the time frame for submitting outstanding accounts to a collection agency.

- Credit memo review and approval policies and procedures were not documented.

- Account write-off policies and procedures did not address who could authorize such.

Title 5 §42401 and §42402 indicate that the campus president shall require that auxiliary organizations operate in conformity with the policy of the Board of Trustees and the campus. One of the objectives of the auxiliary organizations is to provide fiscal procedures and management systems that allow effective coordination of the auxiliary activities with the campus in accordance with sound
business practices. Sound business practice mandates that policies and procedures be maintained over the collection of account receivables, write-offs, and credit memos and that proper segregation of duties be established.

The assistant director of financial services indicated that accounts receivable collection policies and procedures were in place, but not in writing.

Insufficiently controlled accounts receivable increase the risk that debt will not be appropriately collected and/or written off and that errors or irregularities will not be detected in a timely manner.

**Recommendation 20**

We recommend that the AS:

a. Document collection policies and procedures, including specifics as to criteria for collecting amounts owed, the frequency in which the debtor would be contacted either through letters or phone calls, or the time frame for submitting outstanding accounts to a collection agency.

b. Document credit memo review and approval policies and procedures.

c. Document policies and procedures for authorizing the write-off of accounts receivable.

**Campus Response**

We concur with the recommendation. The AS will document accounts receivable procedures to address these issues.

Timeline: June 2002

**EMPLOYEE LOANS**

The administration of AS employee loan programs needed improvement.

Personal loans and loans to purchase computer systems were offered as benefits to AS employees. Certain aspects of this program were undocumented and insufficiently accounted for.

We noted that:

- Policies and procedures for the program were lacking.
- The AS employee handbook did not specifically describe this program.
- Loan repayments were taken as payroll deductions. However, these receipts of cash were not posted appropriately and timely to accounts receivable 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 practice mandates that an auxiliary organization maintain current policies and procedures for handling receipts associated with employee benefits programs.

The director of financial services stated that procedures were in place for the administration of employee loans; however, the procedures were not in writing.

Undocumented benefit policies and procedures could result in benefits not being appropriately and consistently offered to employees.

**Recommendation 21**

We recommend that the AS:

a. Document employee loan program policies and procedures.
b. Include specifics as to the loan program in the AS employee handbook.
c. Post loan payments appropriately and timely to accounts receivable records.

**Campus Response**

We concur with the recommendation. The AS will develop the appropriate policies and procedures regarding the employee loan program, will include such information in the employee handbook, and will set an appropriate procedure for loan payment processing.

**Timeline:** June 2002

**REVENUE RECONCILIATIONS**

The AS had not completed independent revenue reconciliation for certain commercial and noncommercial operations.

We noted the following:

- At Adventure Outings, individuals sign up in person at the office and pay registration fees. There is no independent reconciliation of actual trip participants against collections received from trip participants.
- At food service, there is no reconciliation between nonresident meal plan cards activated and revenue collected.

Title 5 §42401 and §42402 indicate that the campus president shall require that auxiliary organizations operate in conformity with the policy of the Board of Trustees and the campus. One of the objectives of the auxiliary organizations is to provide fiscal procedures and management systems...
that allow effective coordination of the auxiliary activities with the campus in accordance with sound business practices. Sound business practice requires a reconciliation between revenue collections and independent documents.

The director of financial services stated that revenue reconciliation was performed on a test basis.

When revenues are not reconciled, errors or misappropriation of funds may remain undetected.

**Recommendation 22**

We recommend that the AS reconcile revenues collected from operations to records of activity.

**Campus Response**

We concur with the recommendation. The AS will develop a procedure for the reconciliation of material revenue sources to the supporting documentation.

Timeline: June 2002

**PURCHASING AND ACCOUNTS PAYABLE**

**PROCUREMENT PROCESS**

Certain AS procurement policies and procedures were not written/followed.

We noted that competitive bids were not consistently followed and contract addendums for special performers were not always obtained.

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

The director of financial services indicated her belief that purchasing procedures addressed all necessary issues; however, they were not written.

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

**Recommendation 23**

We recommend that the AS strengthen its procedures to correct procurement situations noted above.
Campus Response

We concur with the recommendation. The AS will strengthen its procedures to address these issues.

Timeline: June 2002

DISBURSEMENTS

Copies, proposals, and faxes were accepted as original documentation with no certification that the invoice had been researched to prevent a duplicate payment. In addition, copies of documents received on nonplain paper fax were not appropriately preserved, rendering them illegible.

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 practice mandates that disbursements be strictly controlled.

The assistant director of financial services stated that there was a procedure for stamping the nonoriginal invoice and verifying it had not been paid; however the existing procedure was overlooked in certain instances.

Insufficient supporting documentation increases the risk that a misappropriation of funds will occur and not be detected timely.

Recommendation 24

We recommend that the AS ensure that expenditures are supported by original documentation and/or verification that the copy is being accepted as original.

Campus Response

We concur with the recommendation. The AS has already documented the procedure for accepting nonoriginal invoices as support for disbursements.

Timeline: Completed
SEGREGATION OF DUTIES

The duties of the AS food service accountant were not adequately segregated.

The accountant performs such duties as accounts receivable, invoicing, accounts payable, and handling of cash receipts.

EO 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 director of financial services indicated that an employee in this area of the food service had been on extended sick leave; therefore, some of the duties of that employee had been assumed by the food service accountant.

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

Recommendation 25

We recommend that the AS properly segregate the food service accounting functions or institute mitigating procedures approved by the campus chief financial officer.

Campus Response

We concur with the recommendation. The AS will establish better segregation in the food service accounting functions or institute mitigating procedures as appropriate.

Timeline: June 2002

PROCUREMENT CARDS

AS procurement card policies and procedures regarding use, oversight, and accounting needed improvement.

The AS had not developed written policies and procedures for credit cards, addressing the following:

- Specific dollar limits per transaction.
- Allowable and/or prohibited types of expenditures.

Title 5 §42401 and §42402 indicate that the campus president shall require that auxiliary organizations operate in conformity with the policy of the Board of Trustees and the campus. One of the objectives of the auxiliary organizations is to provide fiscal procedures and management systems that allow effective coordination of the auxiliary activities with the campus in accordance with sound business practices. Sound business practice mandates supporting significant procurement processes with current policies and procedures.
The assistant director of financial services indicated there were procedures for expenditures and reimbursement for the American Express card; however, the procedures were not written.

Controls over credit purchases are compromised when policies and procedures are not fully documented.

**Recommendation 26**

We recommend that the AS:

a. Specify dollar limits per transaction.

b. Describe allowable and/or prohibited types of expenditures.

**Campus Response**

We concur with the recommendation. The AS will document in its procedures the specific dollar limits allowed per transaction and the prohibited types of expenditures.

**Timeline:** June 2002

**VENDOR MASTER FILE**

AS vendor master file maintenance policies and procedures were not documented, and the vendor master file contained unnecessary and duplicate vendors.

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

The assistant director of financial services indicated that there were procedures in place for vendor file maintenance; however, these procedures were not written.

Improperly maintaining and updating the vendor master file and allowing extraneous entries to exist increase the risk of fraudulently misdirected payments.

**Recommendation 27**

We recommend that the AS document vendor master file maintenance policies and procedures and remove unnecessary and duplicate vendors.
Campus Response

We concur with the recommendation. The AS has already documented the procedures for vendor master file maintenance. In addition, the vendor master file will be reviewed and unnecessary vendors will be inactivated.

Timeline: June 2002

TRAVEL

Controls over AS employee and student travel were inadequate.

Our review of nine outstanding advances disclosed the following:

- Three check requests for travel advances were not signed by the requestor’s supervisor, as required by the AS signature policy.
- Three travel authorization forms were not completed prior to travel.
- Travel and expense forms were not uniform. Multiple forms were in use making it difficult for users to complete them.
- There were no documented policies for the rental of automobiles while on AS travel.
- Five travel expense claims or receipts were not submitted or submitted in a timely manner. Consequently, advances were not cleared in a timely manner.
- Four original receipts were not submitted to clear advances.

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

The AS travel expense policy requires, prior to an AS-related trip, an authorization to travel and travel advance request form must be submitted to the project supervisor for approval and a travel expense report, along with all required receipts, be submitted to the AS within 30 days after the trip.

In addition, the AS policy indicates, in part, that the actual cost for lodging will be reimbursed only if the amount is indicative of a reasonable selection of accommodations where several rates are available and must be approved (preferably in advance) by the departmental or program supervisor and/or the executive director, financial services director, or student union director.

The director of financial services indicated that travel policies were in place; however, they were not followed in these instances.
The risk of errors or misappropriation increases when travel is not sufficiently controlled.

**Recommendation 28**

We recommend that the AS enforce and strengthen its existing policies for travel advances to ensure expenses are properly authorized and documented ensuring the following:

a. Check requests for travel advances are consistently signed by the requestor’s supervisor.
b. Travel authorization forms are consistently completed prior to travel.
c. Travel and expense forms are uniform.
d. Policies for the rental of automobiles while on AS travel are sufficiently documented.
e. Travel expense claims or receipts are always submitted in a timely manner.
f. Original receipts are always submitted to clear advances.

**Campus Response**

We concur with the recommendation. The AS will strengthen its procedures over travel to address these issues.

Timeline: June 2002

**BOOKSTORE BUYBACK PROGRAM**

Support for the bookstore’s buyback program activity summary reports was incomplete. In addition, the buyback policy and procedures were incomplete.

Amounts in summary reports did not consistently agree with supporting documents, and schedules lacked detailed supervisory review. The current buyback procedures only address the check register functions.

Title 5 §42401 and §42402 indicate that the campus president shall require that auxiliary organizations operate in conformity with the policy of the Board of Trustees and the campus. One of the objectives of the auxiliary organizations is to provide fiscal procedures and management systems that allow effective coordination of the auxiliary activities with the campus in accordance with sound business practices. Sound business practice requires activity summary reports to be clearly supported and that policies and procedures for operations be documented.

The bookstore director indicated that buyback procedures were in the process of being updated.

Unsupported accounting summaries increase the risk of misstated financial records. Inadequate policies and procedures increase the risk of misunderstanding and misuse of funds.

**Recommendation 29**

We recommend that the bookstore buyback program activity summary reports be clearly supported and that written policies and procedures be revised and expanded for the program.
**Campus Response**

We concur with the recommendation. Bookstore buyback activity summary reports now include detailed backup documentation. Buyback policies and procedures have been written and included in the Text Office Manual.

Timeline: Completed

**PURCHASE AUTHORITY LIMITS**

Buyers for the bookstore were not subject to purchase authority limits.

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

The bookstore director stated that it has been common practice for buyers not to be subject to spending limits.

When purchasing operates without predefined spending limits, the risk that misappropriation of funds or excessive inventory purchases will occur increases.

**Recommendation 30**

We recommend that the AS establish dollar-specific purchase authority limitations for bookstore buyers.

**Campus Response**

We concur with the recommendation. The AS bookstore has established dollar-specific purchase limits for bookstore buyers. Written documentation has been included in the Buyers’ Manual.

Timeline: Completed

**ACCOUNTING TRANSFERS**

AS accounting policies and procedures did not clearly define how and when supervisory reviews of journal entries should be performed.

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

The assistant director of financial services stated that she reviewed all journal entries personally; however, the review procedures were not written.

Undocumented supervisory review procedures for journal entries increase the risk that reviews will not be performed consistently.

**Recommendation 31**

We recommend that the AS document supervisory review procedures for journal entries.

**Campus Response**

We concur with the recommendation. The AS has already documented supervisory review procedures for journal entries.

Timeline: Completed

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**PERSONNEL AND PAYROLL**

**EMPLOYEE CLEARANCE**

AS employee clearance and separation policies and procedures were incomplete.

We noted that the employee clearance form does not identify the clearance of travel and salary advances, loans, equipment, and computer user access.

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

The director of human resources indicated that notification to information technology of an employee’s departure was performed, although it was not listed on the current clearance form.

Incomplete clearance procedures increase the risk that amounts owed or assets held will go uncollected prior to delivery of a terminated employee’s final paycheck.

**Recommendation 32**

We recommend that AS employee clearance and separation policies and procedures address the clearance of travel and salary advances, loans, equipment, and computer access.
Campus Response

We concur with the recommendation. The AS has modified its clearance and separation policy and procedure to include travel and salary advances, loans, equipment, and computer access.

Timeline: Completed

FIXED ASSETS

AS internal controls over fixed assets were not adequate.

Our review noted that:

- An independent inventory of fixed assets had not been undertaken.
- Tagging or otherwise controlling assets was not done.
- Policies and procedures addressing accountability and responsibility for equipment; control over additions and deletions of inventory; off-site use of equipment; and property sales and dispositions need 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, which includes strong controls over fixed assets.

The assistant director of financial services stated there were procedures for the accounting of fixed assets; however, they were not written. Further, she indicated that each year a list of fixed assets was sent to the respective area managers for verification of the existence of the assets.

Inadequate controls over fixed assets increase the risk that property may be lost or stolen.

Recommendation 33

We recommend that the AS take appropriate measures to ensure that fixed assets are managed and administered in accordance with fixed asset policies and procedures which address, at a minimum, the following:

a. A physical inventory of fixed assets.

b. Tagging or otherwise controlling assets.

c. Establish accountability and responsibility for equipment; control over additions and deletions of inventory; off-site use of equipment; and property sales and dispositions.
Campus Response

We concur with the recommendation.

a. The AS will develop procedures regarding the physical inventory of fixed assets.

b. The AS has purchased a bar code fixed asset inventory system and is in the process of tagging moveable equipment.

c. The AS will designate a position in each department as responsible for that area’s fixed assets. The person holding that position will be responsible for reporting the sale and/or disposition of equipment within that department.

Timeline: June 2002

CUSTODIAL AND OTHER LIABILITIES

CUSTODIAL FUNDS

Custodial funds held by the AS on behalf of student organizations and campus departmental programs needed improvement.

These funds were treated as checking accounts where funds were released upon the signature of the account holder rather than as custodial funds where the AS would be accountable for how the funds were expended as well as ensuring that funds were requested by an appropriate signer. Account establishment documents used by the AS did not include specifics as to limitations on the purposes and uses for which funds could be utilized. Further, campus departments should not have state trust funds on deposit with the AS, in trust or otherwise.

Title 5 §42401, §42402, and §42500 and Education Code §89900 establish a responsibility to operate in accordance with sound business practices in the interest of the campus. We believe that the duties described by these sections would require that a sufficiently documented custodial arrangement would be essential to meeting this objective. Finally, CSU policy prohibits state custodial funds from being held by auxiliary organizations.

The director of financial services stated that the AS was merely acting as a bank for the agency/club accounts. Accordingly, the AS had no authority over how each respective club/agency spends its funds.

Incomplete control over custodial funds increases the risk that funds will be expended for inappropriate purposes.
Recommendation 34

We recommend that the AS in coordination with the campus:

a. Update agency agreements to include, at the minimum, limitations on the purposes, uses for which funds could be utilized, and appropriate signature reviews.

b. Evaluate the source of all funds held on behalf of campus departmental programs to determine if they are being appropriately administered by AS.

c. Transfer state custodial funds to appropriate state accounts.

Campus Response

We concur with the recommendation. In conjunction with the university, the AS will review and strengthen its procedures over custodial funds to address these issues. The AS will continue to administrate agency accounts, and the university will exercise oversight of how each club/agency spends its funds.

The AS has begun to evaluate the sources of all funds held on behalf of campus departments and will transfer state custodial funds to appropriate state accounts by June 1, 2002.

Timeline: June 2002

SELF-INSURED HEALTH TRUST

The administration of the self-administered health insurance plan offered to employees of the AS and the Research Foundation was in need of improvement.

We found that:

- The plan was not independently managed.

- The estimate of incurred and unreported claims analysis was not performed monthly, but annually.

Because of this, these corporations and their officers have been exposed to excessive fiduciary liability resulting from legal requirements and responsibilities associated with the Employee Retirement Income Security Act (ERISA) and other regulations.

The health benefits are offered as a self-insured health plan trust to which the AS and the Research Foundation pay premiums. In the event claims and expenses exceed trust premium income, the premiums charged to the AS and the Research Foundation are increased to maintain the fiscal viability of the trust. As the plan was structured, the AS/Foundation Health Trust trustees could be
held personally liable as they are defined as plan administrators. Appointing a professional plan administrator to act in this role would significantly mitigate this liability. We found that such protections were not in place.

ERISA’s United States Code citation is 29 USC 1001 et seq. See also Title 26 of the U.S. Code for tax provisions and 26 Code of Federal Regulations for applicable Department of Treasury regulations, 29 CFR Chapter XXV (Parts 2509-2590) for the regulations of the Pension and Welfare Benefits Administration of the Department of Labor, and 29 CFR Chapter XL (Parts 4000-4907) for Pension Benefit Guaranty Corporation regulations.

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

The director of financial services indicated that the incurred and unreported claims analysis was performed each year as a part of the annual audit and the trust recorded the estimated liability at that time. She also indicated that the trust bought individual and group stop loss insurance to protect the trust from unusually large claims and that fiduciary liability insurance was in place covering the actions of the trustees.

Insufficient analysis increases the risk that legally mandated fiduciary requirements are not being met.

**Recommendation 35**

We recommend that the AS, in concert with the Research Foundation:

a. Work with appropriate advisors and seek to ensure risks are appropriately reduced or abated.

b. Ensure an estimate of incurred and unreported claims analysis is performed, at the minimum, quarterly.

**Campus Response**

a. We concur with the recommendation and will work with appropriate advisors and seek to ensure risks are appropriately reduced or abated. The AS will seek advise from an ERISA attorney and report the finding to the board of directors.

b. We concur with the recommendation and will begin recording incurred and unreported claims quarterly.

Timeline: August 2002
PROGRAMS

GRANTS AND CONTRACTS

The AS did not receive written approval to administer two extramural grants.

Executive Memorandum 83-01 indicates that all extramural funding will be administered through either the University Foundation or the business affairs office unless other arrangements for fiscal administration have been approved by the director of business affairs and the director of research.

The director of financial services indicated that the administration of these grants was reviewed with the Research Foundation and orally approved.

Failure to obtain written approval for the AS to self-administer certain grants increases the risk of loss of revenue to the Research Foundation.

Recommendation 36

We recommend that the AS maintain written approval to administer extramural grants.

Campus Response

We concur with the recommendation. The AS has already developed and implemented a form to document approval to administer extramural grants.

Timeline: Completed

INFORMATION TECHNOLOGY

ACCESS TO AUXILIARY SYSTEMS

The AS business systems’ software vendor had unlimited access to all programs and data.

Because vendors have the capability to make changes directly to production copies of programs and data, management cannot be assured that all changes made are authorized and, consequently, that internal controls are not compromised. In addition, CSU Chico does not have any authority over the hiring practices of the vendor organizations to whom they are granting the unlimited access rights.

Ideally, adequate segregation of duties should prevent all persons responsible for program maintenance from moving such changes into the production environment. At a minimum, the passwords for vendor accounts should be changed on a periodic basis (e.g., quarterly); a report of activities performed via the vendor account should be generated on a daily basis and compared to expected vendor activities; and the vendors should not have application IDs that would allow them to create financial transactions.
Title 5 §42401 and §42402 indicate that the campus president shall require that auxiliary organizations operate in conformity with the policy of the Board of Trustees and the campus. One of the objectives of the auxiliary organizations is to provide fiscal procedures and management systems that allow effective coordination of the auxiliary activities with the campus in accordance with sound business practices. Sound business practice requires an established system of authorization and record-keeping procedures adequate to provide effective accounting control over assets, liabilities, revenues, and expenditures.

The campus financial analyst stated that given the limited number of information systems personnel and the need for vendors to perform contractual maintenance, total regulation of vendor activities was not possible.

Allowing vendors unlimited access to all computer programs and data increases the risk that unauthorized activities could occur.

**Recommendation 37**

We recommend that the AS establish policies and procedures to address, at a minimum, the following:

a. Passwords for vendor accounts be changed on a periodic basis (e.g., quarterly).

b. A report of activities performed via the vendor account be generated on a daily basis and compared to expected vendor activities.

c. The vendors not have application IDs that would allow them to create financial transactions.

**Campus Response**

a. We concur with the recommendation. The AS has begun changing the vendor passwords on a quarterly basis.

b. We concur with the recommendation. The AS will block vendor access except when the AS has problems that require vendor access. At that time, expected and actual vendor activity will be compared to insure only authorized activity has taken place.

c. We concur with the recommendation. The AS will establish alternative procedures to insure that vendor software maintenance activity does not result in unauthorized creation of financial transactions.

Timeline: June 2002
USER ACCOUNT DELETION

Security administration over user account deletion required improvement.

The process for removing system IDs is a periodic review based on most recent logon date, which may not identify IDs of terminated or transferred employees in a timely manner. This condition exists for all auxiliary systems.

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

The campus financial analyst stated that employee termination and transfer notices were not always sent to them in a timely manner.

Not changing the access rights of terminated or transferred employees in a timely manner increases the risk of unauthorized activity.

Recommendation 38

We recommend that the AS establish a process that provides assurance that user account deletions are executed timely.

Campus Response

We concur with the recommendation. The AS will establish procedures to insure timely deletion of user accounts that are no longer in use.

Timeline: June 2002

BOOKSTORE INFORMATION SECURITY

Information security controls for the bookstore’s general book inventory system needed improvement.

We noted the following:

- One workstation is the sole computer running the general books inventory and purchasing application. The general books supervisor administers the system which remains logged on all day without any security measures. This is a DOS-based application lacking unique user IDs.

- Backups for the general books application were insecurely stored next to the workstation.

- There was an inappropriate fire suppression system in the server room.
Title 5 §42401 and §42402 indicate that the campus president shall require that auxiliary organizations operate in conformity with the policy of the Board of Trustees and the campus. One of the objectives of the auxiliary organizations is to provide fiscal procedures and management systems that allow effective coordination of the auxiliary activities with the campus in accordance with sound business practices. Sound business practice requires that workstations and applications have unique user IDs and passwords.

The bookstore general books department supervisor advised that her workstation was not in an area readily accessible by the public, so there did not appear to be a need to secure her computer. Additionally, she had believed that her computer was backed up along with all other bookstore systems.

Failure to implement appropriate general computer controls could result in loss or corruption of data and inaccurate accounting records.

**Recommendation 39**

We recommend that AS improve bookstore information system controls as follows:

a. Evaluate access to the bookstore’s general books inventory system.
b. Store backups for the general books application securely.
c. Implement a supplemental fire suppression system for the server room.

**Campus Response**

We concur with the recommendations.

a. Access to the bookstore’s general book inventory system has been evaluated, and it has been determined that access levels allowed are appropriate for those requiring access. Students have access to the inventory portion of the IBID system to be able to receive books into the system at the counter which is their job. Only the supervisor has access to the entire system and her password is rarely used and never left logged on.

b. General book backups are now stored in the bookstore safe.

c. Fire extinguishers have been installed in the server room, safe room, and the general book office.

Timeline: Completed
BOOKSTORE E-COMMERCE

The bookstore’s e-commerce process required improvement.

We noted the total amount due displayed to the customer does not always represent the amount the customer is actually charged (i.e., sales tax when the customer resides out of state).

Title 5 §42401 and §42402 indicate that the campus president shall require that auxiliary organizations operate in conformity with the policy of the Board of Trustees and the campus. One of the objectives of the auxiliary organizations is to provide fiscal procedures and management systems that allow effective coordination of the auxiliary activities with the campus in accordance with sound business practices. Sound business practice requires that e-commerce transactions be clearly displayed and related policies and procedures be documented.

The bookstore e-commerce coordinator indicated that programming staff had been directed to make corrections to purchase applications as described above.

Incorrect pricing could result in regulatory action.

Recommendation 40

We recommend that the AS bookstore modify its e-commerce application to ensure customers are advised of the amount they ultimately will be charged.

Campus Response

We concur with the recommendation. The e-commerce staff will modify the program to eliminate the tax calculation on out-of-state orders.

Timeline: June 2002
LEGAL AND REGULATORY COMPLIANCE

LEASE AGREEMENT

Consideration was not sufficiently articulated in the agreement between the campus and the University Foundation.

The lease agreements should describe all the benefits the campus will receive in return (consideration) for leasing facilities to the University Foundation. The agreement needs to be amended so it clearly demonstrates that the consideration received by the campus meets or exceeds the value of the campus facilities leased.

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

The Research Foundation director stated that the agreements were prepared in conformance with chancellor’s office model agreements and were reviewed by both legal and contracts staff at the chancellor’s office.

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 41**

We recommend that the University Foundation agreement be amended to clearly articulate that the consideration received by the campus meets or exceeds the value of facilities leased.

**Campus Response**

We concur with the recommendation.

The University Foundation will add a consideration clause to its Operating Agreement stating that, in return for services provided by the state to the Foundation, the Foundation:

- Will provide a variety of gift administration services to the university.
- Will direct its net income to further the academic purposes of the university in a manner determined by the president and approved by the board of governors.

This consideration will be documented by the analysis provided in the campus’ annual EO No. 753 report.
In addition, the University Foundation will develop a lease agreement for Sapp Hall, documenting that the value of the Foundation’s gift of this building to the state, along with the building maintenance provided by a Foundation endowment, exceeds the state’s expenses in support of the Foundation’s gift administration activities.

Timeline: June 2002

**BOARD MEETING**

The University Foundation’s bylaws inappropriately required annual meetings of the board instead of mandated quarterly meetings.

Education Code §89903 states that each governing board shall, during each fiscal year, hold at least one business meeting each quarter.

The director of the University Foundation stated that the quarterly meetings were held and that University Foundation will modify its bylaws so that the provision matches the Education Code and University Foundation’s current practice.

Not maintaining accurate bylaws could result in a discrepancy between procedural standards and actual practices.

**Recommendation 42**

We recommend that the University Foundation amend its bylaws to match the requirements of the Education Code.

**Campus Response**

We concur and the University Foundation board amended its bylaws to reflect its actual practice and the requirements of the Education Code.

Timeline: Completed

**UNTIMELY DEPOSITS**

Cash/gift checks received through various areas on campus were not delivered timely to the University Foundation for deposit.

Title 5 §42401 and §42402 indicate that the campus president shall require that auxiliary organizations operate in conformity with the policy of the Board of Trustees and the campus. One of the objectives of the auxiliary organizations is to provide fiscal procedures and management systems that allow effective coordination of the auxiliary activities with the campus in accordance with sound business practices. Sound business practice mandates that all cash receipts be forwarded to the University Foundation’s cashiering office for deposit in a timely manner.
The assistant administrative director of the University Foundation indicated that efforts to have deposits forwarded timely were not always successful.

Not transferring cash/gift receipts to the cashiering office in a timely manner increases the risk that a misappropriation of funds will occur and not be detected.

**Recommendation 43**

We recommend that the University Foundation coordinate with the campus to ensure that all funds are deposited timely.

**Campus Response**

We concur with the recommendation. The University Foundation will develop additional procedures and work with the campus administration and departments in an effort to ensure that all funds are delivered to the Foundation for deposit in a timely manner.

Timeline: June 2002

**PETTY CASH FUNDS**

University Foundation petty cash funds were not adequately controlled.

We found that University Foundation’s petty cash fund procedures did not address the periodic and independent cash counts of its change funds on an unannounced basis or how a change in custodian is handled.

Title 5 §42401 and §42402 indicate that the campus president shall require that auxiliary organizations operate in conformity with the policy of the Board of Trustees and the campus. One of the objectives of the auxiliary organizations is to provide fiscal procedures and management systems that allow effective coordination of the auxiliary activities with the campus in accordance with sound business practices. Sound business practice mandates that periodic and independent, unannounced counts be performed to ensure that assets are sufficiently safeguarded.

The assistant administrative director of the Research Foundation indicated that petty cash counts were not performed since they felt that the small size of the account and the time involved outweighed the benefit of performing such counts.

Not performing timely counts of change funds increases the risk that missing funds will not be detected.

**Recommendation 44**

We recommend that the University Foundation establish petty cash fund policies and procedures which include performing periodic and independent, unannounced cash counts.
Campus Response

We concur with the recommendation. The University Foundation will update the petty cash procedures and document periodic and independent, unannounced cash counts. An Advance and Petty Cash Fund policy was written and will be implemented.

Timeline: March 2002

ACCOUNTS RECEIVABLE

The University Foundation’s accounts receivable process for grants and contracts needed improvement.

We noted that:

- Billings were untimely because project directors did not consistently and timely inform administrative staff of the completion of projects.
- Collection policies and procedures were not documented, including specifics as to criteria for collecting amounts owed and the frequency in which the debtor would be contacted either through letters or phone calls.
- Write-off policies and procedures did not address how and who could authorize them.

Title 5 §42401 and §42402 indicate that the campus president shall require that auxiliary organizations operate in conformity with the policy of the Board of Trustees and the campus. One of the objectives of the auxiliary organizations is to provide fiscal procedures and management systems that allow effective coordination of the auxiliary activities with the campus in accordance with sound business practices. Sound business practice mandates that policies and procedures be maintained over the collection and write-off of accounts receivable.

The grants and contracts manager indicated that the University Foundation could not control the federal and state governments’ payment schedules.

Insufficiently controlled accounts receivable increase the risk that accounts will not be appropriately collected and written off and that errors or irregularities will not be detected in a timely manner.

Recommendation 45

We recommend that the University Foundation:

a. Ensure that project directors consistently and timely inform administrative staff as to the completion of projects.
b. Document collection policies and procedures, including specifics as to criteria for collecting amounts owed and the frequency in which the debtor would be contacted either through letters or phone calls.

c. Document policies and procedures for authorizing the write-off of accounts receivable.

**Campus Response**

a. Management analysts in the office of sponsored programs work with project directors on a regular basis regarding their projects. A practice previously used by two of the analysts has now been initiated as a practice for all analysts – 90 days prior to the ending date of a project, the project directors are notified via e-mail of the pending conclusion of their project and reminded of project closure procedures; 30 days prior to the ending date, project directors are again notified via e-mail of project closure procedures. If a project director has not taken the appropriate steps to close their project within 60 days of the end date, they are reminded again.

b. An Accounts Receivable Policy will be written by June 30, 2002, which will incorporate a collection procedure.

c. Current practice for the writing off of discretionary account receivables is to attempt to collect three times. Then, if still not collectible, a credit memo is issued and the project director is notified via e-mail that the invoice has been canceled and they can continue to attempt to collect themselves if so desired. Current practice for writing off of grants and contracts is for the analyst to notify the office of sponsored programs (OSP) financial manager who verbally discusses with the director of OSP the need to write off the receivable and a decision is made whether to write off or continue with collection.

**Timeline: June 2002**

**PURCHASING AND ACCOUNTS PAYABLE**

Certain cash disbursements needed improvement as to the sufficient authorization and documentation.

We reviewed a sample of 37 expenditures and noted that:

- One-up authorization was not performed for a project director’s reimbursement.
- Faxed invoices were accepted as original without evidence that the invoices were researched for duplicate payment for two payments.
- Payments to transfer funds to the Research Foundation were initiated and approved by the AS accounting staff without a confirming review and approval by the University Foundation.
- An indemnification clause was not included within one performer contract.
Reconciliations of advances and payments to scholarships and awards were not consistently performed.

Three disbursements were released even though they were not approved by authorized signers.

One construction payment was not supported by a formal contract.

One Internal Revenue Service (IRS) Form 1099 was not appropriately issued when an award was given.

A number of travel expenses for group travel were not sufficiently supported.

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 practice mandates that disbursements be strictly controlled.

The assistant administrative director of the Research Foundation indicated that significant effort had been taken to ensure the propriety of expenditures; however, in certain instances, oversight was insufficient.

Inadequate supporting documentation and authorization increase the risk that a misappropriation of funds will occur and not be detected timely.

**Recommendation 46**

We recommend that the University Foundation ensure that:

a. One-up authorization is performed when project directors’ expenses are reimbursed.

b. Faxed invoices are not accepted as original without evidence that the invoices were researched for duplicate payment.

c. Subsequent review or approval by the University Foundation is obtained for payments to transfer funds to the Research Foundation.

d. An indemnification clause is included within performer contracts.

e. Reconciliations of advances and payments to scholarships and awards are consistently performed.

f. Disbursements are only released when an authorized signature is presented.
g. Construction payments are supported by a formal contract.

h. IRS Forms 1099 are appropriately issued.

i. Travel expenses for group travel are sufficiently supported.

**Campus Response**

a. This responsibility and authorization is delegated by deans for their faculty to the office of sponsored programs (OSP), which reviews all expenditures and approves payment for same. OSP staff are assigned to projects, review budget information online when approving paying for expenditures, and generally are more aware of appropriateness of expenditures than deans.

To document the deans' delegation to the office of sponsored programs, OSP will once per year (at the beginning of each fiscal year) have deans indicate in writing (e-mail or hard copy) their specific delegation to the director of OSP who, in turn, delegates the responsibility and authority to appropriate OSP staff. OSP will put this approach in place beginning with the new fiscal year (July 2002).

b. We will improve efforts in the disbursement review process.

c. The Foundation administration office will work with the AS business office to establish a procedure on reviewing transfers between the University Foundation and Research Foundation.

d. We will improve efforts in the disbursement review process.

e. The University Foundation and the financial aid office will develop a yearly reconciliation of scholarships issued.

f. We will improve efforts in the disbursement review process.

g. We will improve efforts in the disbursement review process.

h. We will improve efforts in the disbursement review process.

i. We will improve efforts in the disbursement review process.

Timeline: June 2002
LEGAL AND REGULATORY COMPLIANCE

LEASING OF FACILITIES

Consideration was not sufficiently articulated in the lease agreements between the campus and the Research Foundation. In addition, certain lease agreements were not appropriately renewed.

Various leases, including those associated with campus baseball and soccer facilities involved stated consideration of one dollar per year. We found that the Research Foundation’s current space lease and a food service space lease had been expired since June 30, 1999.

The lease agreements should describe all the benefits the campus will receive in return (consideration) for leasing facilities to the Research Foundation. The lease agreements do not appear to identify all the benefits the campus will receive in return. The agreements need to be amended so they clearly demonstrate that the consideration received by the campus meets or exceeds the value of the campus facilities leased.

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

The Research Foundation director stated that the agreements were prepared in conformance with chancellor’s office model agreements and were reviewed by both legal and contracts staff at the chancellor’s office.

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 47

We recommend that the Research Foundation lease agreements be amended to clearly articulate that the consideration received by the campus meets or exceeds the value of facilities leased and that measures be taken to ensure that leases are renewed timely.

Campus Response

We concur with the recommendation. The university requested the referenced ground leases with the Foundation so that the Foundation could construct improvements and conduct programs of benefit to the university. The Foundation will revise the leases to make explicit the consideration that is implicit in them. The campus’ annual EO No. 753 analysis will provide the specific analysis demonstrating that the consideration received by the campus exceeds the value of the facilities leased.
The Foundation will set up a lease-renewal schedule with the responsible parties to ensure that renewals are completed in a timely fashion.

Timeline: June 2002

PETTY CASH FUNDS

Research Foundation petty cash funds were not adequately controlled.

We found that the Research Foundation’s petty cash fund procedures did not address the periodic and independent cash counts of its change funds on an unannounced basis or how a change in custodian is handled. There had not been independent cash counts 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 practice mandates that periodic and independent, unannounced counts be performed to ensure that assets are sufficiently safeguarded.

The assistant administrative director of the Research Foundation indicated that petty cash counts were not performed since they felt that the small size of the account and the time involved outweighed the benefit of performing such counts.

Not performing timely counts of change funds increases the risk that missing funds will not be detected.

Recommendation 48

We recommend that the Research Foundation establish petty cash fund policies and procedures which include performing periodic and independent, unannounced cash counts.

Campus Response

Our current Cash Request Policy has been replaced with our Advance/Petty Cash Fund Policy. The new policy provides for once a year unannounced cash counts of project petty cash funds exceeding $200 per project.

Timeline: Completed
FEES, REVENUES, AND RECEIVABLES

SEGREGATION OF DUTIES

The Research Foundation’s communications network services department’s accounts receivable duties were not adequately segregated.

We noted that the same staff person had responsibility for cash receipts, posting payments, and issuing credit memos for Research Foundation receivables.

EO 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 billing supervisor of communications network services indicated staff responsibilities would be modified to mitigate this problem.

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

Recommendation 49

We recommend that the Research Foundation segregate its accounts receivable functions or institute mitigating procedures approved by the campus chief financial officer.

Campus Response

We concur with the recommendation. The communications network services department will modify staff responsibilities to ensure a segregation of duties with accounts receivable functions.

Timeline: March 2002

ACCOUNTS RECEIVABLE

The Research Foundation’s accounts receivable process for grants and contracts needed improvement.

We noted that:

› Project directors did not consistently and timely inform administrative staff as to the completion of projects in order to support timely billings.

› Collection policies and procedures were not documented, including specifics as to criteria for collecting amounts owed and the frequency in which the debtor would be contacted either through letters or phone calls.

› Write-off policies and procedures did not address how and who could authorize them.
Title 5 §42401 and §42402 indicate that the campus president shall require that auxiliary organizations operate in conformity with the policy of the Board of Trustees and the campus. One of the objectives of the auxiliary organizations is to provide fiscal procedures and management systems that allow effective coordination of the auxiliary activities with the campus in accordance with sound business practices. Sound business practice mandates that policies and procedures be maintained over the collection of accounts receivable and write-offs.

The grants and contracts manager indicated that the Research Foundation could not control the federal and state governments’ payment schedules. However, the Research Foundation will document existing procedures for grants and contracts receivables.

Insufficiently controlled accounts receivable increase the risk that accounts will not be appropriately collected and written off and that errors or irregularities will not be detected in a timely manner.

**Recommendation 50**

We recommend that the Research Foundation:

a. Ensure that project directors consistently and timely inform administrative staff as to the completion of projects in order to support timely billings.

b. Document collection policies and procedures, including specifics as to criteria for collecting amounts owed and the frequency in which the debtor would be contacted either through letters or phone calls.

c. Document policies and procedures for authorizing the write-off of accounts receivable.

**Campus Response**

a. Management analysts in the office of sponsored programs work with project directors on a regular basis regarding their projects. A practice previously used by two of the analysts has now been initiated as a practice for all analysts – 90 days prior to the ending date of a project, the project directors are notified via e-mail of the pending conclusion of their project and reminded of project closure procedures; 30 days prior to the ending date, project directors are again notified via e-mail of project closure procedures. If a project director has not taken the appropriate steps to close their project within 60 days of the end date, they are reminded again.

b. An Accounts Receivable Policy will be written by June 30, 2002, which will incorporate a collection procedure.

c. Current practice for the writing off of discretionary account receivables is to attempt to collect three times. Then, if still uncollectible, a credit memo is issued and the project director is notified via e-mail that the invoice has been canceled and they can continue to attempt to collect themselves if so desired. Current practice for writing off of grants and contracts is for the analyst
to notify the OSP financial manager who verbally discusses with the director of OSP the need to write off the receivable and a decision is made whether to write off or continue with collection.

Timeline: June 2002

ADVANCES

Certain Research Foundation outstanding advances were not cleared timely, and follow-up efforts should be strengthened.

Nine out of twenty-two outstanding advances reviewed were not cleared timely, and the follow-up was not documented. Further, a procedure had not been established prohibiting the release of additional advance funds when long-outstanding advances remained uncleared.

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 includes strict control over advances to employees.

The grants and contracts manager indicated his belief that a large number of advances were issued and that cleared and outstanding advances were reviewed every two or three months.

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

Recommendation 51

We recommend that the Research Foundation clear advances timely and that follow-up efforts be adequately documented.

Campus Response

Currently, outstanding advances are reviewed every two to three months with e-mails sent requesting the clearing. Copies of these e-mails are not kept. In the future, we will keep copies of the e-mail requests in the file.

We have developed a new form to be issued to the traveler when travel advances are requested that indicates the type of advance given, what documentation will be necessary to clear the advance, and when the advance should be cleared by.

An Advance Policy has been written whereby if there are outstanding advances over 30 days to an individual no new advance will be issued until the outstanding advance has been cleared. Exceptions to this policy will need to be approved by the OSP financial manager or the Foundation administration assistant director.

Timeline: Completed
PURCHASING AND ACCOUNTS PAYABLE

Certain cash disbursements needed improvement as to the sufficiency, authorization, and documentation.

We reviewed a sample of 55 expenditures and noted that:

- One-up authorization was not required when project directors’ expenses were reimbursed.
- One disbursement was released even though it was not approved by an authorized signer.
- Three bids were not obtained in accordance with Research Foundation policy.
- Two sole source justifications did not accompany check requests.

Education Code §89900(b) states that the president of that state university shall be responsible for ascertaining that all expenditures are in accordance with the 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 practice mandates that disbursements be strictly controlled.

The assistant administrative director of the Research Foundation indicated her belief that sufficient procedures were in place to ensure the proper use of funds.

Inadequate supporting documentation and authorization increase the risk that misappropriation of funds will not be detected.

Recommendation 52

We recommend that the Research Foundation ensure that expenditures are supported by original documentation to evidence the proper use of funds and that:

a. One-up authorization be required when project directors’ expenses are reimbursed.
b. Disbursements be released only when approved by authorized signers.
c. Bids be obtained in accordance with Research Foundation policy.
d. Sole source justification accompany check requests.

Campus Response

a. We concur with the recommendation. This responsibility and authorization is delegated by deans for their faculty to the office of sponsored programs (OSP), which reviews all expenditures and approves payment for same. OSP staff are assigned to projects, review budget information online when approving paying for expenditures and generally are more aware of appropriateness of expenditures than deans.
To document the deans' delegation to the office of sponsored programs, OSP will once per year (at the beginning of each fiscal year) have deans indicate in writing (e-mail or hard copy) their specific delegation to the director of OSP who, in turn, delegates the responsibility and authority to appropriate OSP staff. OSP will put this approach in place beginning with the new fiscal year (July 2002).

b. The Research Foundation will improve efforts to verify that disbursements are approved by authorized signors.

c. The Research Foundation will improve efforts to make sure bids and sole source justifications accompany disbursements and are in accordance with policies.

d. The Research Foundation will improve efforts to make sure bids and sole source justifications accompany disbursements and are in accordance with policies.

Timeline: March 2002

PROGRAMS

CHILD DEVELOPMENT PROGRAM

Certain aspects of the financial operations of the Research Foundation’s child development program were insufficient.

We noted that:

- Parent user fees generated from the operation of the child development center, a campus program, were inappropriately deposited to the Research Foundation as a discretionary account, instead of a campus trust fund.
- Checks received at the child development program site were not always timely deposited.
- A detailed analysis of the allocation of fees and related expenses was not done between the state and Research Foundation childcare programs.

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 would include appropriate and timely deposits of fees and appropriate matching of program fees to expenses.

The coordinator of the child development program indicated that it was an oversight that certain financial operations were operated in a manner not in agreement with campus policy. In addition, this program will be moved to the campus.
Untimely deposits of fees and inappropriate matching of funds increase the risk that program funds will not be sufficiently controlled.

**Recommendation 53**

We recommend that the Research Foundation coordinate with the campus and ensure that:

a. Parent user fees generated from the operation of the child development center be appropriately deposited into a campus trust fund.

b. Checks received at the child development program site be timely deposited.

**Campus Response**

We concur with the recommendations. The university will transfer custody of the account to the campus trust fund and implement more timely depositing procedures.

Timeline: June 2002

**FARM PROGRAM SEGREGATION OF DUTIES**

The Research Foundation’s farm program accounting duties were not sufficiently segregated.

We noted that an individual accountant was responsible for:

- Cash receipts.
- Bank deposits.
- Cash disbursements.

EO 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 director of operations of the agriculture teaching and research center indicated that the farm only required one person to handle the existing workload. The transactions performed by the staff were reviewed by the AS, and the AS reconciled the farm bank accounts.

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

**Recommendation 54**

We recommend that the Research Foundation properly segregate the accounting functions at the farm program or institute mitigating procedures approved by the campus chief financial officer.
Campus Response

We concur with the recommendation. The farm implemented procedures to have one employee perform cash disbursement functions and another employee perform cash receipt functions.

Timeline: Completed

CONTRACTS AND GRANTS PROPOSALS

The Research Foundation did not have written policies and procedures for the approval of proposal amendments.

Project proposals and budgets were routed to various personnel for approval (e.g., project director, department chair, dean of college, provost, vice president of business and finance, and director of office for sponsored programs) in advance of submission to the granting agency or organization. We noted that changes to the proposal did not go through the same personnel for approval prior to acceptance of the project. In addition, there were no written procedures on the grants and contracts acceptance process.

Title 5 §42401 and §42402 indicate that the campus president shall require that auxiliary organizations operate in conformity with the policy of the Board of Trustees and the campus. One of the objectives of the auxiliary organizations is to provide fiscal procedures and management systems that allow effective coordination of the auxiliary activities with the campus in accordance with sound business practices. Sound business practice requires that changes to the proposal undergo the same approval process prior to a project’s acceptance.

The contracts and grants manager indicated that final changes were approved by the project director and others if changes were significant. Upon receiving funding, the dean and chair serving as project director were informed by letter of the award.

Inadequate review of changes to the proposal could result in grants and contracts being inappropriately accepted.

Recommendation 55

We recommend that the Research Foundation establish written policies and procedures for the approval of proposal amendments to grants and contracts.

Campus Response

We concur with the recommendation. The Research Foundation will document procedures for the approval of proposal amendments to grants and contracts.

Timeline: June 2002
# APPENDIX A:
## PERSONNEL CONTACTED

<table>
<thead>
<tr>
<th>Name</th>
<th>Title</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>CAMPUS</strong></td>
<td></td>
</tr>
<tr>
<td>Manuel A. Esteban</td>
<td>President</td>
</tr>
<tr>
<td>Dennis Graham</td>
<td>Vice President of Business and Finance</td>
</tr>
<tr>
<td>William Jones</td>
<td>Financial Analyst</td>
</tr>
<tr>
<td>John McCarthy</td>
<td>Data Manager</td>
</tr>
<tr>
<td>Gilbert Tyrrell</td>
<td>Fixed Asset Coordinator</td>
</tr>
<tr>
<td><strong>ASSOCIATED STUDENTS</strong></td>
<td></td>
</tr>
<tr>
<td>Collette Anderson</td>
<td>Business Office Accountant</td>
</tr>
<tr>
<td>Karen Bang</td>
<td>Administrative Office Coordinator</td>
</tr>
<tr>
<td>David Buckley</td>
<td>Executive Director</td>
</tr>
<tr>
<td>Jody Cannon</td>
<td>Business Office Payroll Assistant</td>
</tr>
<tr>
<td>Carolyn Cose</td>
<td>Business Office General Accounting Supervisor</td>
</tr>
<tr>
<td>Peggy Devol</td>
<td>Bookstore Accounting Supervisor</td>
</tr>
<tr>
<td>Steve Dubey</td>
<td>Bookstore Director</td>
</tr>
<tr>
<td>Debbie Ernenwine</td>
<td>Business Office Cash Room Supervisor</td>
</tr>
<tr>
<td>Nancy Foster</td>
<td>Bookstore General Merchandise Division Manager</td>
</tr>
<tr>
<td>Joyce Friedman</td>
<td>Director of Financial Services</td>
</tr>
<tr>
<td>Mark Friesen</td>
<td>Shipping/Receiving Supervisor</td>
</tr>
<tr>
<td>Linda Gingery</td>
<td>Business Office Data Entry Supervisor</td>
</tr>
<tr>
<td>Marilyn Hoag</td>
<td>Bookstore Support Services Supervisor</td>
</tr>
<tr>
<td>Jeff Jaxon</td>
<td>Bookstore E-Commerce Coordinator</td>
</tr>
<tr>
<td>Susan Jennings</td>
<td>Assistant Director of Financial Services</td>
</tr>
<tr>
<td>Trish Johnson</td>
<td>Bookstore Retail Operations Floor Supervisor</td>
</tr>
<tr>
<td>Sylvia Keller</td>
<td>Business Office Cashier/Receptionist</td>
</tr>
<tr>
<td>Barbara Kopicki</td>
<td>Recycling Center Coordinator</td>
</tr>
<tr>
<td>Yves Latouche</td>
<td>Food Service Coordinator</td>
</tr>
<tr>
<td>John Logan</td>
<td>Shipping/Receiving Operations Manager</td>
</tr>
<tr>
<td>John McCarthy</td>
<td>Data Processing Manager</td>
</tr>
<tr>
<td>Yvette McMillan</td>
<td>Business Office Accountant</td>
</tr>
<tr>
<td>Bob Paolone</td>
<td>Book Division Manager</td>
</tr>
<tr>
<td>Kristie Pease</td>
<td>Business Office Cashier/Receptionist Supervisor</td>
</tr>
<tr>
<td>Linda Riggins</td>
<td>Text Department Supervisor</td>
</tr>
<tr>
<td>Denise Rosales</td>
<td>Director of Human Resources</td>
</tr>
<tr>
<td>Rick Scott</td>
<td>Adventure Outings Coordinator</td>
</tr>
<tr>
<td>Karen Sexton</td>
<td>General Book Department Supervisor</td>
</tr>
<tr>
<td>John Slaughter</td>
<td>Activity Fee Director</td>
</tr>
<tr>
<td>Susan Toussaint</td>
<td>Children’s Center Director</td>
</tr>
<tr>
<td>Terri Van Dusen</td>
<td>Business Office Payroll Technician</td>
</tr>
<tr>
<td>Sally Wagner</td>
<td>Business Office Accounting Assistant</td>
</tr>
<tr>
<td>Linda Yale</td>
<td>Food Service Accounting Assistant</td>
</tr>
<tr>
<td>Name</td>
<td>Position</td>
</tr>
<tr>
<td>---------------------</td>
<td>--------------------------------------------------------</td>
</tr>
<tr>
<td>Brian Anderson</td>
<td>Billing Supervisor of Communications Network Services</td>
</tr>
<tr>
<td>Michael Boote</td>
<td>Manager of Advancement Systems</td>
</tr>
<tr>
<td>Jan Burnham</td>
<td>Director, Student Financial Services</td>
</tr>
<tr>
<td>Stacie Corona</td>
<td>Assistant Administrative Director</td>
</tr>
<tr>
<td>Cheri Furniss</td>
<td>Coordinator of Gift Processing</td>
</tr>
<tr>
<td>Gail Hildebrand</td>
<td>Grants and Contracts Manager</td>
</tr>
<tr>
<td>Richard Jackson</td>
<td>Director of Research Foundation</td>
</tr>
<tr>
<td>Linda Koch</td>
<td>Director of Annual Giving and Advancement Services</td>
</tr>
<tr>
<td>Sandra Machida</td>
<td>Coordinator, Child Development Program</td>
</tr>
<tr>
<td>Ed Masterson</td>
<td>Associate Vice President of University Advancement</td>
</tr>
<tr>
<td>Paul Moore</td>
<td>Vice President, University Advancement and Student Affairs</td>
</tr>
<tr>
<td>Virginia Sturr</td>
<td>Grants and Contracts Manager</td>
</tr>
<tr>
<td>Ray Watkins</td>
<td>Director of Operations, Agriculture Teaching and Research Center</td>
</tr>
</tbody>
</table>
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.
Conflict-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.
March 25, 2002

Mr. Larry Mandel  
University Auditor  
Office of the Chancellor  
The California State University  
401 Golden Shore  
Long Beach, CA 90810-4210

Dear Mr. Mandel:

We have reviewed the findings and recommendations of Audit Report No. 01-46, Auxiliary Organizations, and we are submitting the enclosed responses to the recommendations.

If you have any questions, please give me a call.

Sincerely,

[Signature]

Dennis C. Graham  
Vice President for Business and Finance

Enclosure

cc: Manuel A. Esteban  
    Scott G. McNall  
    Paul L. Moore  
    Bill Jones  
    Richard Jackson  
    David Buckley

The California State University
CALEFORNIA STATE UNIVERSITY,  
CHICO  

AUXILIARY ORGANIZATIONS  
AUDIT REPORT NO. 01-46  

CAMPUS  

LEGAL AND REGULATORY COMPLIANCE  

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  

We concur with the recommendation. The University will develop policies and procedures to identify and oversee ancillary organizations of the campus.  

Timeline: August 2002  

EXCLUSIVE SOFT DRINK AGREEMENT  

Recommendation 2  

We recommend that the campus ensure that rights and obligations with respect to the campus’ offering of pouring rights be delineated in writing between the campus and AS and that appropriate Office of the Chancellor approvals are obtained for future contracts.  

Campus Response  

We concur with the recommendation. The University will formalize its existing agreement with the AS with respect to pouring rights and at the end of the existing agreement we will obtain prior approval before entering into similar agreements.  

Timeline: August 2002
FEES, REVENUES, AND RECEIVABLES

COST ALLOCATION PLAN

Recommendation 3

We recommend that the campus develop a cost allocation plan in accordance with EO No. 753.

Campus Response

We concur with the recommendations. The campus will develop a cost allocation plan in accordance with EO No. 753.

Timeline: June 2002

FIXED ASSETS

Recommendation 4

We recommend that the University Foundation and Research Foundation ensure that:

a. Fixed assets received are appropriately tagged upon receipt.
b. Fixed assets are entered into fixed asset schedules.
c. Services provided by a state employee are reimbursed by the Research Foundation.
d. General ledger and fixed asset subledgers are reconciled.
e. Physical inventories are completed.
f. University Foundation and Research Foundation fixed assets are segregated in subledgers.

Campus Response

The University concurs with the recommendations. Procedures and controls will be established to ensure that upon receipt, fixed assets acquired by the University Foundation will be tagged and entered into property records by entity in a timely manner, and that regular physical inventories of University Foundation property are completed. In addition, procedures will be established to ensure a monthly reconciliation of the fixed asset subledgers to the general ledger.

As required by EO753, the University will ensure that services provided by state employees are reimbursed by the appropriate auxiliary organization.

Timeline: November 2002
ASSOCIATED STUDENTS

LEGAL AND REGULATORY COMPLIANCE

OPERATING AGREEMENTS

Recommendation 5

We recommend that the AS and the campus evaluate the necessity of the various performance-oriented, nonfinancial provisions within the AS operating agreement and determine whether or not such provisions are necessary and appropriate.

Campus Response

We concur with the recommendation and the University will meet with the AS to evaluate the specified findings regarding operating and lease agreements and determine if such provisions are necessary.

Timeline: July 2002

MEETINGS AND ELECTIONS

Recommendation 6

We recommend that AS pass resolutions to accurately reflect the required frequency of board meetings and include provisions for the election of officers.

Campus Response

We concur with the recommendation. A resolution outlining provisions for the election of officers was presented and approved at the Government Affairs Committee on February 26, 2002. This resolution will be prepared and introduced in subsequent years at the first committee meeting of each spring semester.

A resolution outlining the frequency of all board and standing committee meetings will be brought before the appropriate committees for their approval prior to the 22nd day of March this year. This resolution will be prepared and introduced in subsequent years at the first committee meeting of each fall semester.

Timeline: March 2002
SELF-SUPPORTING COMMERCIAL SERVICES

Recommendation 7

We recommend that the AS and the campus continue to monitor food service operations with respect to its self-sufficiency.

Campus Response

We concur with the recommendation. The AS is monitoring food operations with intent that it be self-sufficient. The AS will present a business plan (to attain self-sufficiency) to the University.

Timeline: July 2002

VOLUNTEER EMPLOYEES

Recommendation 8

We recommend that the AS ensure Adventure Outings volunteer student employees are appropriately covered and/or notified of their status under workers' compensation insurance.

Campus Response

We concur with the recommendation. The AS will assess the options regarding workers' compensation coverage for our Adventure Outing volunteer student employees and will implement the appropriate procedures.

Timeline: June 2002

NONDISCRIMINATION POLICY

Recommendation 9

We recommend that the AS document its nondiscrimination policies and procedures.

Campus Response

We concur with the recommendation. The AS will update our Fair Employment Policy Statement to ensure that it includes nondiscrimination issues. The AS will outline the appropriate procedures for policy implementation.

Timeline: June 2002
CASH RECEIPTS AND HANDLING

CASH HANDLING

Recommendation 10

We recommend that AS improve cash handling controls by:

a. Securing the cash window location.

b. Ensuring appropriately documented transfer of accountability when cash is exchanged between two individuals whether employed by the campus or the bank, and obtain signature/photo listing of authorized bank representative.

c. Revising the documentation for the exchange of cash bags between the bookstore and the AS and establishing procedures for the exchange of the bookstore customer service change fund.

d. Documenting and rehearsing their current armed robbery procedures for the cash room.

e. Ensuring appropriate escort when cash is transferred between locations.

Campus Response

We concur with the recommendation. The AS will implement processes to improve cash handling controls in the areas addressed. The AS Bookstore has purchased a locking cart to transport cash from one location to another. End of day procedures have been modified so two employees now transport cash from the bookstore retail floor to the safe room at the end of the day.

Timeline: June 2002

POINT OF SALE CASH RECONCILIATIONS

Recommendation 11

We recommend that AS:

a. Food service and bookstore voided previous activity be reconciled to POS totals.

b. Bookstore refund vouchers for merchandise returns be reconciled to POS totals.
Campus Response

We concur with the recommendation. The AS is balancing the void previous activity and the merchandise returns to the POS totals.

Timeline: Completed

CASH REGISTERS

Recommendation 12

We recommend that the AS localize accountability when two or more persons have access to the same cash register.

Campus Response

Implementation of this recommendation would not be cost effective. We will provide the University Auditor a written report of our cost benefit analysis which is the basis for our choice not to implement this recommendation.

Timeline: Completed

RETAIL CHECK ACCEPTANCE

Recommendation 13

We recommend that the AS bookstore document its check acceptance policy, including when a supervisor must approve a customer's check.

Campus Response

We concur with the recommendation. The AS Bookstore has fully documented its check acceptance policy, including when a supervisor must approve a customer's check. The policy has been added to the Cashier Manual.

Timeline: Completed

BOOKSTORE REFUNDS

Recommendation 14

We recommend that AS implement the following:

a. Post the bookstore policy for customer returns and refunds.
b. Specify in written policies and procedures when a supervisor’s approval is required to process a refund.

c. Suitably control refund vouchers and require customers to provide their address.

**Campus Response**

We concur with the recommendation. The AS Bookstore refund policy for customer returns and refunds has been posted. Written policies and procedures as to when a supervisor’s approval is required to process a refund have been written and included in the Customer Service Manual. Refund vouchers have been numbered and have been redesigned to include customer’s address.

Timeline: Completed

**BOOKSTORE SAFE**

**Recommendation 15**

We recommend that the AS:

a. Consistently lock the room where the bookstore’s safe is located.
b. Limit safe room keys to those requiring access.
c. Insure all alarm codes are assigned to specific individuals.

**Campus Response**

We concur with the recommendation. The locking mechanism on the door where the bookstore safe is located has been switched out to be a lock that locks automatically every time the door is closed. Keys to the safe room have been limited to just those requiring access. Alarm codes have always been assigned to specific individuals. The generic code has been eliminated.

Timeline: Completed

**CASH ROOM SAFE**

**Recommendation 16**

We recommend that AS establish procedures to ensure that a record is maintained of individuals having safe combinations and the date the combinations were last changed.
Campus Response

We concur with the recommendation. The AS has already written and implemented a procedure to ensure that a record is maintained of both the individuals having access to the Cashroom safe combination and the date the combinations were last changed.

Timeline: Completed

PETTY CASH AND CHANGE FUNDS

Recommendation 17

We recommend that the AS fully document petty cash and change fund policies and procedures and ensure that funds are always sufficiently secured.

Campus Response

We concur with the recommendation. The AS will develop more complete procedures for the administration and securing of petty cash and change funds.

Timeline: June 2002

FEES, REVENUES, AND RECEIVABLES

SEGREGATION OF DUTIES

Recommendation 18

We recommend that the AS properly segregate the accounting functions at the children’s center or institute mitigating procedures approved by the campus chief financial officer.

Campus Response

We concur with the recommendation. The AS will establish better segregation of duties or institute mitigating control procedures over this program, as appropriate.

Timeline: June 2002
UNCLEARED COLLECTIONS

Recommendation 19

We recommend that AS establish:

a. A suspense account for unidentifiable cash receipts.

b. Written policies and procedures regarding the use and administration of this account to ensure that all checks received are deposited timely.

Campus Response

We concur with the recommendation. The AS has already written and implemented a procedure regarding the development and administration of a suspense account for unidentified cash receipts.

Timeline: Completed

ACCOUNTS RECEIVABLE

Recommendation 20

We recommend that the AS:

a. Document collection policies and procedures, including specifics as to criteria for collecting amounts owed, the frequency in which the debtor would be contacted either through letters or phone calls, or the time frame for submitting outstanding accounts to a collection agency.

b. Document credit memo review and approval policies and procedures.

c. Document policies and procedures for authorizing the write-off of accounts receivable.

Campus Response

We concur with the recommendation. The AS will document accounts receivable procedures to address these issues.

Timeline: June 2002
EMPLOYEE LOANS

Recommendation 21

We recommend that the AS:

a. Document employee loan program policies and procedures.
b. Include specifics as to the loan program in the AS employee handbook.
c. Post loan payments appropriately and timely to accounts receivable records.

Campus Response

We concur with the recommendation. The AS will develop the appropriate policies and procedures regarding the employee loan program, will include such information in the employee handbook, and will set an appropriate procedure for loan payment processing.

Timeline: June 2002

REVENUE RECONCILIATIONS

Recommendation 22

We recommend that the AS reconcile revenues collected from operations to records of activity.

Campus Response

We concur with the recommendation. The AS will develop a procedure for the reconciliation of material revenue sources to the supporting documentation.

Timeline: June 2002

PURCHASING AND ACCOUNTS PAYABLE

PROCUREMENT PROCESS

Recommendation 23

We recommend that the AS strengthen its procedures to correct procurement situations noted above.
Campus Response

We concur with the recommendation. The AS will strengthen its procedures to address these issues.

Timeline: June 2002

DISBURSEMENTS

Recommendation 24

We recommend that the AS ensure that expenditures are supported by original documentation and/or verification that the copy is being accepted as original.

Campus Response

We concur with the recommendation. The AS has already documented the procedure for accepting non-original invoices as support for disbursements.

Timeline: Completed

SEGREGATION OF DUTIES

Recommendation 25

We recommend that the AS properly segregate the food service accounting functions or institute mitigating procedures approved by the campus chief financial officer.

Campus Response

We concur with the recommendation. The AS will establish better segregation in the food service accounting functions or institute mitigating procedures as appropriate.

Timeline: June 2002

PROCUREMENT CARDS

Recommendation 26

We recommend that the AS:

a. Specify dollar limits per transaction.
b. Describe allowable and/or prohibited types of expenditures.
Campus Response

We concur with the recommendation. The AS will document in its procedures the specific dollar limits allowed per transaction and the prohibited types of expenditures.

Timeline: June 2002

VENDOR MASTER FILE

Recommendation 27

We recommend that the AS document vendor master file maintenance policies and procedures and remove unnecessary and duplicate vendors.

Campus Response

We concur with the recommendation. The AS has already documented the procedures for vendor master file maintenance. In addition, the vendor master file will be reviewed and unnecessary vendors will be inactivated.

Timeline: June 2002

TRAVEL

Recommendation 28

We recommend that the AS enforce and strengthen its existing policies for travel advances to ensure expenses are properly authorized and documented ensuring the following:

a. Check requests for travel advances are consistently signed by the requestor's supervisor.
b. Travel authorization forms are consistently completed prior to travel.
c. Travel and expense forms are uniform.
d. Policies for the rental of automobiles while on AS travel are sufficiently documented.
e. Travel expense claims or receipts are always submitted in a timely manner.
f. Original receipts are always submitted to clear advances.
Campus Response

We concur with the recommendation. The AS will strengthen its procedures over travel to address these issues.

Timeline: June 2002

BOOKSTORE BUYBACK PROGRAM

Recommendation 29

We recommend that the bookstore buyback program activity summary reports be clearly supported and that written policies and procedures be revised and expanded for the program.

Campus Response

We concur with the recommendation. Bookstore buyback activity summary reports now include detailed backup documentation. Buyback policies and procedures have been written and included in the Text Office Manual.

Timeline: Completed

PURCHASE AUTHORITY LIMITS

Recommendation 30

We recommend that the AS establish dollar-specific purchase authority limitations for bookstore buyers.

Campus Response

We concur with the recommendation. The AS Bookstore has established dollar-specific purchase limits for bookstore buyers. Written documentation has been included in the Buyers’ Manual.

Timeline: Completed

ACCOUNTING TRANSFERS

Recommendation 31

We recommend that the AS document supervisory review procedures for journal entries.
Campus Response

We concur with the recommendation. The AS has already documented supervisory review procedures for journal entries.

Timeline: Completed

PERSONNEL AND PAYROLL

EMPLOYEE CLEARANCE

Recommendation 32

We recommend that AS employee clearance and separation policies and procedures address the clearance of travel and salary advances, loans, equipment, and computer access.

Campus Response

We concur with the recommendation. The AS has modified its clearance and separation policy and procedure to include travel and salary advances, loans, equipment and computer access.

Timeline: Completed

FIXED ASSETS

Recommendation 33

We recommend that the AS take appropriate measures to ensure that fixed assets are managed and administered in accordance with fixed asset policies and procedures which address, at a minimum, the following:

a. A physical inventory of fixed assets.

b. Tagging or otherwise controlling assets.

c. Establish accountability and responsibility for equipment; control over additions and deletions of inventory; off-site use of equipment; and property sales and dispositions.
Campus Response

We concur with the recommendation.

a. The AS will develop procedures regarding the physical inventory of fixed assets.
b. The AS has purchased a bar code fixed asset inventory system and is in the process of tagging moveable equipment.
c. The AS will designate a position in each department as responsible for that area’s fixed assets. The person holding that position will be responsible for reporting the sale and/or disposition of equipment within that department.

Timeline: June 2002

CUSTODIAL AND OTHER LIABILITIES

CUSTODIAL FUNDS

Recommendation 34

We recommend that the AS in coordination with the campus:

a. Update agency agreements to include, at the minimum, limitations on the purposes, uses for which funds could be utilized, and appropriate signature reviews.

b. Evaluate the source of all funds held on behalf of campus departmental programs to determine if they are being appropriately administered by AS.

c. Transfer state custodial funds to appropriate state accounts.

Campus Response

We concur with the recommendation. In conjunction with the University, the AS will review and strengthen its procedures over custodial funds to address these issues. The AS will continue to administrate agency accounts and the University will exercise oversight of how each club/agency spends its funds.

The AS has begun to evaluate the sources of all funds held on behalf of campus departments and will transfer state custodial funds to appropriate state accounts by June 1, 2002.

Timeline: June 2002
SELF-INSURED HEALTH TRUST

Recommendation 35

We recommend that the AS, in concert with the Research Foundation:

a. Work with appropriate advisors and seek to ensure risks are appropriately reduced or abated.

b. Ensure an estimate of incurred and unreported claims analysis is performed, at the minimum, quarterly.

Campus Response

a. We concur with the recommendation and will work with appropriate advisors and seek to ensure risks are appropriately reduced or abated. The AS will seek advise from an ERISA attorney and report the finding to the Board of Directors.

b. We concur with recommendation and will begin recording incurred and unreported claims quarterly.

Timeline: August 2002

PROGRAMS

GRANTS AND CONTRACTS

Recommendation 36

We recommend that the AS maintain written approval to administer extramural grants.

Campus Response

We concur with the recommendation. The AS has already developed and implemented a form to document approval to administer extramural grants.

Timeline: Completed
INFORMATION TECHNOLOGY

ACCESS TO AUXILIARY SYSTEMS

Recommendation 37

We recommend that the AS establish policies and procedures to address, at a minimum, the following:

a. Passwords for vendor accounts be changed on a periodic basis (e.g., quarterly).

b. A report of activities performed via the vendor account be generated on a daily basis and compared to expected vendor activities.

c. The vendors not have application IDs that would allow them to create financial transactions.

Campus Response

a. We concur with the recommendation. The AS has begun changing the vendor passwords on a quarterly basis.

b. We concur with the recommendation. The AS will block vendor access except when the AS has problems that require vendor access. At that time, expected and actual vendor activity will be compared to insure only authorized activity has taken place.

c. We concur with the recommendation. The AS will establish alternative procedures to insure that vendor software maintenance activity does not result in unauthorized creation of financial transactions.

Timeline: June 2002

USER ACCOUNT DELETION

Recommendation 38

We recommend that the AS establish a process that provides assurance that user account deletions are executed timely.
Campus Response

We concur with the recommendation. The AS will establish procedures to insure timely deletion of user accounts that are no longer in use.

Timeline: June 2002

BOOKSTORE INFORMATION SECURITY

Recommendation 39

We recommend that AS improve bookstore information system controls as follows:

a. Evaluate access to the bookstore’s general books inventory system.
b. Store backups for the general books application securely.
c. Implement a supplemental fire suppression system for the server room.

Campus Response

We concur with the recommendations.

a. Access to the bookstore’s general book inventory system has been evaluated and it has been determined that access levels allowed is appropriate for those requiring access. Students have access to the inventory portion of the IBID system to be able to receive books into the system at the counter which is their job. Only the supervisor has access to the entire system and her password is rarely used and never left logged on.
b. General book backups are now stored in the bookstore safe.
c. Fire extinguishers have been installed in the server room, safe room and the general book office.

Timeline: Completed

BOOKSTORE E-COMMERCE

Recommendation 40

We recommend that the AS bookstore modify its e-commerce application to ensure customers are advised of the amount they ultimately will be charged.
Campus Response

We concur with the recommendation. The e-commerce staff will modify the program to eliminate the tax calculation on out-of-state orders.

Timeline: June 2002

UNIVERSITY FOUNDATION

LEGAL AND REGULATORY COMPLIANCE

LEASE AGREEMENT

Recommendation 41

We recommend that the University Foundation agreement be amended to clearly articulate that the consideration received by the campus meets or exceeds the value of facilities leased.

Campus Response

We concur with the recommendation.

The University Foundation will add a consideration clause to its Operating Agreement stating that, in return for services provided by the state to the Foundation, the Foundation:

- will provide a variety of gift administration services to the University, and
- will direct its net income to further the academic purposes of the University in a manner determined by the President and approved by the Board of Governors.

This consideration will be documented by the analysis provided in the campus’ annual E.O. 753 report.

In addition, the University Foundation will develop a lease agreement for Sapp Hall, documenting that the value of the Foundation’s gift of this building to the state, along with the building maintenance provided by a Foundation endowment, exceeds the State’s expenses in support of the Foundation’s gift administration activities.

Timeline: June 2002
BOARD MEETING

Recommendation 42

We recommend that the University Foundation amend its bylaws to match the requirements of the Education Code.

Campus Response

We concur and the University Foundation Board amended its bylaws to reflect its actual practice and the requirements of the Education Code.

Timeline: Completed

UNTIMELY DEPOSITS

Recommendation 43

We recommend that the University Foundation coordinate with the campus to ensure that all funds are deposited timely.

Campus Response

We concur with the recommendation. The University Foundation will develop additional procedures and work with the campus administration and departments in an effort to ensure that all funds are delivered to the Foundation for deposit in a timely manner.

Timeline: June 2002

PETTY CASH FUNDS

Recommendation 44

We recommend that the University Foundation establish petty cash fund policies and procedures which include performing periodic and independent, unannounced cash counts.
Campus Response

We concur with the recommendation. The University Foundation will update the petty cash procedures and document periodic and independent, unannounced cash counts. An “Advance and Petty Cash Fund policy” was written and will be implemented.

Timeline: March 2002

ACCOUNTS RECEIVABLE

Recommendation 45

We recommend that the University Foundation:

a. Ensure that project directors consistently and timely inform administrative staff as to the completion of projects.

b. Document collection policies and procedures, including specifics as to criteria for collecting amounts owed and the frequency in which the debtor would be contacted either through letters or phone calls.

c. Document policies and procedures for authorizing the write-off of accounts receivable.

Campus Response

a. Management Analysts in the Office of Sponsored Programs work with project directors on a regular basis regarding their projects. A practice previously used by 2 of the Analysts has now been initiated as a practice for all Analysts – 90 days prior to the ending date of a project, the project directors are notified via email of the pending conclusion of their project and reminded of project closure procedures; 30 days prior to the ending date, project directors are again notified via email of project closure procedures. If a project director has not taken the appropriate steps to close their project within 60 days of the end date, they are reminded again.

b. An Accounts Receivable Policy will be written by June 30, 2002, which will incorporate a collection procedure.

c. Current practice for the writing off of discretionary account receivables is to attempt to collect three times. Then, if still not collectable, a credit memo is issued and project director is notified via email that the invoice has been canceled and they can continue to attempt to collect themselves if so desired. Current practice for writing off of grants and contracts is for Analyst to notify
Office of Sponsored Programs (OSP) Financial Manager who verbally discusses with the Director of OSP the need to write off the receivable and a decision is made whether to write off or continue with collection.

Timeline: June 2002

PURCHASING AND ACCOUNTS PAYABLE

Recommendation 46

We recommend that the University Foundation ensure that:

a. One-up authorization is performed when project directors’ expenses are reimbursed.

b. Faxed invoices are not accepted as original without evidence that the invoices were researched for duplicate payment.

c. Subsequent review or approval by the University Foundation is obtained for payments to transfer funds to the Research Foundation.

d. An indemnification clause is included within performer contracts.

e. Reconciliations of advances and payments to scholarships and awards are consistently performed.

f. Disbursements are only released when an authorized signature is presented.

g. Construction payments are supported by a formal contract.

h. IRS Forms 1099 are appropriately issued.

i. Travel expenses for group travel are sufficiently supported.

Campus Response

a. This responsibility and authorization is delegated by deans for their faculty to the Office of Sponsored Programs (OSP), which reviews all expenditures and approves payment for same. OSP staff are assigned to projects, review budget information online when approving paying for expenditures and generally are more aware of appropriateness of expenditures than deans.

To document the deans' delegation to the Office of Sponsored Programs, OSP will once per year (at the beginning of each fiscal year) have deans indicate in writing (email or hard copy) their specific delegation to the director of OSP who,
in turn, delegates the responsibility and authority to appropriate OSP staff. OSO will put this approach in place beginning with the new fiscal year (July 2002).

b., d., f., g., h., i., We will improve efforts in the disbursement review process.

c. The Foundation Administration Office will work with the AS Business Office to establish a procedure on reviewing transfers between the University Foundation and Research Foundation.

e. The University Foundation and the Financial Aid office will develop a yearly reconciliation of scholarships issued.

Timeline: June 2002

**RESEARCH FOUNDATION**

**LEGAL AND REGULATORY COMPLIANCE**

**LEASING OF FACILITIES**

**Recommendation 47**

We recommend that the Research Foundation lease agreements be amended to clearly articulate that the consideration received by the campus meets or exceeds the value of facilities leased and that measures be taken to ensure that leases are renewed timely.

**Campus Response**

We concur with the recommendation. The University requested the referenced ground leases with the Foundation so that the Foundation could construct improvements and conduct programs of benefit to the University. The Foundation will revise the leases to make explicit the consideration that is implicit in them. The campus’ annual E.O. 753 analysis will provide the specific analysis demonstrating that the consideration received by the campus exceeds the value of the facilities leased.

The Foundation will set up a lease-renewal schedule with the responsible parties to ensure that renewals are completed in a timely fashion.

Timeline: June 2002
PETTY CASH FUNDS

Recommendation 48

We recommend that the Research Foundation establish petty cash fund policies and procedures which include performing periodic and independent, unannounced cash counts.

Campus Response

Our current Cash Request Policy has been replaced with our Advance/Petty Cash Fund Policy. The new policy provides for once a year unannounced cash counts of project petty cash funds exceeding $200 per project.

Timeline: Completed

FEES, REVENUES, AND RECEIVABLES

SEGREGATION OF DUTIES

Recommendation 49

We recommend that the Research Foundation segregate its accounts receivable functions or institute mitigating procedures approved by the campus chief financial officer.

Campus Response

We concur with the recommendation. The Communication Network Services department will modify staff responsibilities to ensure a segregation of duties with accounts receivable functions.

Timeline: March 2002

ACCOUNTS RECEIVABLE

Recommendation 50

We recommend that the Research Foundation:

a. Ensure that project directors consistently and timely inform administrative staff as to the completion of projects in order to support timely billings.
b. Document collection policies and procedures, including specifics as to criteria for collecting amounts owed and the frequency in which the debtor would be contacted either through letters or phone calls.

c. Document policies and procedures for authorizing the write-off of accounts receivable.

Campus Response

a. Management Analysts in the Office of Sponsored Programs work with project directors on a regular basis regarding their projects. A practice previously used by 2 of the Analysts has now been initiated as a practice for all Analysts – 90 days prior to the ending date of a project, the project directors are notified via email of the pending conclusion of their project and reminded of project closure procedures; 30 days prior to the ending date, project directors are again notified via email of project closure procedures. If a project director has not taken the appropriate steps to close their project within 60 days of the end date, they are reminded again.

b. An Accounts Receivable Policy will be written by June 30, 2002 which will incorporate a collection procedure.

c. Current practice for the writing off of discretionary account receivables is to attempt to collect three times. Then if still uncollectible, a credit memo is issued and project director is notified via email that the invoice has been canceled and they can continue to attempt to collect themselves if so desired. Current practice for writing off of grants and contracts is for Analyst to notify OSP Financial Manager who verbally discusses with Director of OSP the need to write off the receivable and a decision is made whether to write off or continue with collection.

Timeline: June 2002

ADVANCES

Recommendation 51

We recommend that the Research Foundation clear advances timely and that follow-up efforts be adequately documented.

Campus Response

Currently, outstanding advances are reviewed every 2-3 months with emails sent requesting the clearing. Copies of these emails are not kept. In the future we will keep copies of the email requests in the file.
We have developed a new form to be issued to the traveler when travel advances are requested that indicates the type of advance given, what documentation will be necessary to clear the advance, and when the advance should be cleared by.

An Advance Policy has been written whereby if there are outstanding advances over 30 days to an individual no new advance will be issued until the outstanding advance has been cleared. Exceptions to this policy will need to be approved by the OSP Financial Manager or the Foundation Administration Assistant Director.

Timeline: Completed

PURCHASING AND ACCOUNTS PAYABLE

Recommendation 52

We recommend that the Research Foundation ensure that expenditures are supported by original documentation to evidence the proper use of funds and that:

a. One-up authorization be required when project directors’ expenses are reimbursed.
b. Disbursements be released only when approved by authorized signers.c. Bids be obtained in accordance with Research Foundation policy.d. Sole source justification accompany check requests.

Campus Response

a. We concur with the recommendation. This responsibility and authorization is delegated by deans for their faculty to the Office of Sponsored Programs (OSP), which reviews all expenditures and approves payment for same. OSP staff are assigned to projects, review budget information online when approving paying for expenditures and generally are more aware of appropriateness of expenditures than deans.

To document the deans' delegation to the Office of Sponsored Programs, OSP will once per year (at the beginning of each fiscal year) have deans indicate in writing (email or hard copy) their specific delegation to the director of OSP who, in turn, delegates the responsibility and authority to appropriate OSP staff. OSO will put this approach in place beginning with the new fiscal year (July 2002).

b. The Research Foundation will improve efforts to verify that disbursements are approved by authorized signors.
c-d The Research Foundation will improve efforts to make sure bids and sole source justifications accompany disbursements and are in accordance with policies.

Timeline: March 2002

PROGRAMS

CHILD DEVELOPMENT PROGRAM

Recommendation 53

We recommend that the Research Foundation coordinate with the campus and ensure that:

a. Parent user fees generated from the operation of the child development center be appropriately deposited into a campus trust fund.

b. Checks received at the child development program site be timely deposited.

Campus Response

We concur with the recommendations. The University will transfer custody of the account to the campus trust fund and implement more timely depositing procedures.

Timeline: June 2002

FARM PROGRAM SEGREGATION OF DUTIES

Recommendation 54

We recommend that the Research Foundation properly segregate the accounting functions at the farm program or institute mitigating procedures approved by the campus chief financial officer.

Campus Response

We concur with the recommendation. The farm implemented procedures to have one employee perform cash disbursement functions and another employee perform cash receipt functions.

Timeline: Completed
CONTRACTS AND GRANTS PROPOSALS

Recommendation 55

We recommend that the Research Foundation establish written policies and procedures for the approval of proposal amendments to grants and contracts.

Campus Response

We concur with the recommendation. The Research Foundation will document procedures for the approval of proposal amendments to grants and contracts.

Timeline: June 2002
May 8, 2002

MEMORANDUM

TO: Mr. Larry Mandel  
   University Auditor

FROM: Charles B. Reed  
      Chancellor

SUBJECT: Draft Final Report Number 01-46 on Auxiliary Organizations,  
         California State University, Chico

In response to your memorandum of May 8, 2002, I accept the response as submitted with the draft final report on Auxiliary Organizations, California State University, Chico.

CBR/amd

Enclosure

cc: Dr. Manuel A. Esteban, President  
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