

AUXILIARY ORGANIZATIONS
CALIFORNIA STATE UNIVERSITY,
SAN MARCOS

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BOARD OF TRUSTEES
THE CALIFORNIA STATE UNIVERSITY

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ABBREVIATIONS

ASI	Associated Students, Inc.
BA	Business Affairs – Office of the Chancellor
CSU	California State University
ELC	Early Learning Center
EO	Executive Order
Foundation	California State University, San Marcos Foundation, Inc.
IRC	Internal Revenue Code
IT	Information Technology
UBI	Unrelated Business Income

INTRODUCTION

PURPOSE

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

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

In addition, we reviewed internal controls to assure that:

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

SCOPE AND METHODOLOGY

Our management review emphasized, but was not limited to, compliance with state and federal laws and regulations, Board of Trustee policies, and Office of the Chancellor policies, letters, and directives as they relate to California State University (CSU) auxiliaries. For those audit tests that required annualized data, fiscal year 1998-1999 was the primary period reviewed. In certain instances, we were concerned with representations of the most current data—in such cases, the test period was extended to December 1999. Our primary focus was on internal compliance and controls.

Specifically, for the period reviewed, we examined compliance of the campus and each auxiliary with the Education Code and Title 5 as they relate to the operation of CSU auxiliary organizations. Individual codes and regulations included within the scope of our review were identified through an assessment of risk. Similarly, internal controls were included within our scope based upon risk. Therefore, the scope of our review varied from auxiliary to auxiliary.

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

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

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

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

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

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, San Marcos campus from April 23, 2001, through May 25, 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 [12]

CAMPUS SUPPORT ORGANIZATIONS [12]

The campus had not developed a procedure to identify, and a strategy to coordinate and oversee, ancillary organizations that operate in support of academic and nonacademic programs. Increased campus and presidential oversight of this area reduces exposure to regulatory and legal consequences.

LEASING OF FACILITIES [13]

Consideration was not sufficiently articulated in facility lease agreements between the campus and ancillary organizations. Sufficiently documenting consideration in such agreements reduces the risk that a “gift of public funds” claim will be asserted.

COST ALLOCATION PLAN [13]

A formal cost allocation plan for the reimbursement of facilities, goods, and services provided by the campus to the auxiliary organizations had not been developed. Defining cost methodology would allow the General Fund to be properly reimbursed for facilities, goods, or services provided to auxiliary organizations.

CONFLICT OF INTEREST [14]

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

TRUST FUNDS [15]

The campus did not exercise sufficient control over funds held in trust by its auxiliaries. Increased campus and presidential oversight decreases exposure to regulatory and legal actions.

UNCLAIMED MONIES [16]

The campus auxiliaries had not established policies and procedures to escheat unclaimed monies to the state. Reporting or performing the duties specified in the unclaimed property law reduces the likelihood of fines for noncompliance.

PROGRAMS [17]

Formalized written policies and procedures were not set up for establishing grants and contracts. Formalized written policies and procedures reduce the risk of errors, irregularities, or legal liability.

FOUNDATION

LEGAL AND REGULATORY COMPLIANCE [19]

PUBLIC RELATIONS POLICY [19]

The California State University, San Marcos Foundation, Inc. (Foundation) had not submitted a public relations policy to the chancellor's office in accordance with Title 5 §42502(i). Submission of a public relations policy to the chancellor's office decreases the risk that funds will be accumulated and used improperly.

EDUCATIONAL SUPPORT [19]

The Foundation did not reconcile its scholarship awards with the campus financial aid office records. Reconciling Foundation awarded scholarships to financial aid office records reduces the risk of errors or irregularities going undetected.

CASH RECEIPTS AND DISBURSEMENTS [20]

GIFT ACKNOWLEDGEMENTS [20]

Gift acknowledgement letters issued to donors were not reconciled in total to control account totals. Internal controls are strengthened when gift receipts are reconciled or numerically controlled.

SEGREGATION OF DUTIES [21]

The same individual who received invoices entered information into the accounting system, generated checks, and mailed the payments. Segregation of duties strengthens internal control by reducing the risk of errors, irregularities, and misappropriation of funds.

PETTY CASH SERVICES [21]

Petty cash services provided by the campus main cashiering office to the Foundation were not supported by a written agreement. Developing a written agreement with the campus reduces the risk of receiving inadequate level of services, which may result in operational inefficiencies.

INVESTMENTS [22]

ENDOWMENT ADMINISTRATION [22]

The Foundation's investment policies and procedures were not sufficiently documented. Sufficient endowment policies and procedures decrease the risk that funds will be handled inappropriately and contrary to the expectations of the campus and donors.

ASSET ALLOCATION METHODOLOGY [23]

The Foundation's asset allocation methodology does not address the rebalancing of endowment portfolio to meet board-established guidelines. When processes are sufficiently documented, internal controls over investments and cash flows are strengthened.

FEES, REVENUES, AND RECEIVABLES [24]

MONITORING CONTRACTOR SALES – FOOD SERVICES AND BOOKSTORE [24]

Contractor's gross sales derived from the operation of food services and the bookstore were not sufficiently monitored for accuracy. Adequate monitoring of sales reduces the risk of errors, irregularities, or inaccurate sales amounts.

E-COMMERCE [25]

References to e-commerce were not established in the contract between the Foundation and Aztec Shops. Including e-commerce and its related activities in the contract reduces liability when disputes arise between two parties.

ADVANCES AND LOANS [26]

Written agreements for an advance and a loan to campus organizations were not established. Establishing written agreements reduces the risk of noncollection and misunderstandings.

PURCHASING AND ACCOUNTS PAYABLE [27]

The Foundation had not developed formal procedures for the review of open purchase orders. Closing appropriate purchase orders reduces the risk of errors, irregularities, and misappropriation of funds.

PERSONNEL AND PAYROLL [28]

STATE EMPLOYEES [28]

Written agreements between the campus and Foundation for the assignment of state employees were not established. Written agreements reduce the risk of noncompliance with legal and other regulatory requirements.

EMPLOYMENT APPLICATIONS [29]

Applications for employment were not kept at a central Foundation location. Adequate documentation of personnel files reduces the risk of legal liability related to employment.

FIXED ASSETS [29]

Fixed asset administration was in need of improvement. Approved policy and procedures provide oversight for accountability of fixed assets to reduce the risk of errors and irregularities.

TRUSTS AND OTHER LIABILITIES [31]

Trust agreement administration was in need of improvement. Maintaining complete information on trust agreements reduces the risk of inappropriate expenditures and misunderstandings about account operations.

INFORMATION TECHNOLOGY [32]

OFF-SITE DATA STORAGE [32]

Backup tapes are taken off-site and personally retained by Foundation management. Maintaining backup tapes outside the personal retention of Foundation management reduces the risk of theft, accidental disclosure of donor information, or damage, making the tapes inaccessible.

DISASTER RECOVERY/BUSINESS CONTINUITY PLAN [32]

The Foundation had not developed an information technology (IT) disaster recovery plan with a sufficient level of detailed procedures to ensure recovery in the event that two persons with IT responsibility are not available at the time of a disaster. An adequate disaster recovery plan may restore data processing operations within a reasonable time frame and reduce the risk of financial and legal liabilities.

ASSOCIATED STUDENTS, INC.

LEGAL AND REGULATORY COMPLIANCE [34]

WRITTEN AGREEMENTS [34]

The Associated Students, Inc. (ASI) operating agreement with the California State University (CSU) and the campus did not address all functions, such as development-related activities and commercial operations. In addition, accounting services provided by the campus to ASI were not supported by a written agreement. Maintaining current written agreements reduces the risk of misunderstandings and miscommunications regarding rights and responsibilities.

SALARY AND BENEFITS [35]

ASI had not conducted an analysis and comparison of employee salaries, wages, and benefits between ASI employees and state employees in similar positions. Assessing the comparability of pay and benefits received by full-time Foundation employees provides evidence of compliance with CSU policy.

SELF-SUFFICIENCY [36]

The ASI Early Learning Center (ELC) had not been evaluated for self-sufficiency. Evaluating the self-sufficiency of community childcare reduces the risk of student body funds being misapplied.

RESERVES [36]

Reserves maintained by ASI were not analyzed for adequacy. Sufficient reserves protect the campus from future funding deficits.

STUDENT BODY FEES [37]

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

OPERATING POLICIES AND PROCEDURES [38]

Formal operating policies and procedures for ASI were not in place during the entire audit review period. Maintaining formal policies and procedures reduces the risk of noncompliance with state and federal laws.

MINUTES [39]

Minutes were not always maintained for various subcommittees of the ASI board of directors. Maintaining board minutes and resolutions decreases the risk of misunderstandings and delays in implementing board actions.

CASH RECEIPTS AND DISBURSEMENTS [39]

TUITION FEE RECONCILIATION [39]

Fees received in the ASI ELC were not reconciled to student enrollment. Reconciling tuition fee receipts to enrollment reduces the risk of errors or misappropriation.

BANK RECONCILIATION [40]

Reconciling items were not always cleared from the monthly bank reconciliation in a timely manner. Completing bank reconciliations in a timely manner decreases the risk of errors and irregularities not being detected.

DISBURSEMENTS [41]

Several disbursements lacked sufficient written approval and supporting documentation. Controls over disbursements, in accordance with CSU and related standards, decrease the risk of funds being expended for inappropriate purposes.

SEGREGATION OF DUTIES [42]

Duties and responsibilities over various accounting functions, including cash handling, invoicing, and accounts receivable, were not consistently segregated. Adequate separation of duties decreases the risk that errors and irregularities will not be detected in a timely manner.

PETTY CASH AND CHANGE FUNDS [43]

Internal controls over petty cash and change funds were insufficient. The risk of errors or misappropriation decreases when petty cash and change funds are properly controlled.

ACCOUNTS RECEIVABLE [44]

Controls over accounts receivable for reimbursement-related activities were in need of improvement. Proper controls over accounts receivable decrease the risk that accounts will not be collected in a timely manner.

PURCHASING [45]

PROCUREMENT POLICIES AND PROCEDURES [45]

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

CONSIGNMENT TICKETS [46]

Consignment tickets were not tracked numerically for sales and inventory purposes or recorded to the general ledger on a regular basis. The risk of errors or misappropriation decreases when consigned merchandise is properly controlled.

CONTRACTS AND AGREEMENTS [47]

Risk management concerns related to agreements entered into with outside parties were not fully considered. Full consideration of risk management concerns reduces the risk for possible liability.

PERSONNEL AND PAYROLL PROCEDURES [47]

Responsibility for the maintenance and calculation of vacation and leave time for ASI staff was not adequately segregated. Adequate separation of duties decreases the risk that errors and irregularities will not be detected in a timely manner.

TRUST ACCOUNTS [48]

Funds held in trust for campus organizations were not sufficiently controlled. Sufficient control over funds held in trust in accordance with CSU and related standards decreases the risk of inappropriate expenditures.

FIXED ASSETS [49]

ASI policies and procedures concerning fixed assets were in need of improvement. Properly documented property inventory control procedures decrease the risk of property being lost or stolen.

OBSERVATIONS, RECOMMENDATIONS, AND CAMPUS RESPONSES

CAMPUS

LEGAL AND REGULATORY COMPLIANCE

CAMPUS SUPPORT ORGANIZATIONS

The campus had not developed a procedure to identify, and a strategy to coordinate and oversee, ancillary organizations that operate in support of academic and nonacademic programs.

The number of campus-related organizations being formed has increased due to the recent growth of the university. These organizations, such as faculty and minority interest groups, interact with campus departments and auxiliary organizations. They present opportunities and liabilities to the campus and its auxiliary organizations. Opportunities include greater community involvement in the form of financial and nonfinancial support. Liabilities accrue as a result of actions by the operators of these organizations and, therefore, become the legal responsibility of the campus or its auxiliaries.

Due to the perceived value to the California State University (CSU) mission, services have been provided by campus and auxiliary personnel to these unofficially recognized organizations. However, the use of campus and auxiliary time and materials and the actions and activities supervised and performed by these officials expose the CSU to legal and regulatory actions.

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 campus director of accounting services stated that the campus has been actively involved in the creation of support organizations, but has not adopted a campus policy specific to the establishment of such organizations.

A lack of oversight over ancillary organizations operating on the campus in support of academic and nonacademic programs exposes the campus and the CSU system to regulatory and legal consequences, thus negatively impacting the educational missions of both.

Recommendation 1

We recommend that the campus develop a procedure to identify, and a strategy to coordinate and oversee, the various ancillary organizations that operate on the campus in support of academic and nonacademic programs.

Campus Response

We concur. By June 30, 2002, the campus will draft language clarifying the role of the campus in terms of oversight and coordination of ancillary organizations operating in the interest of the campus as well as articulating the responsibility of the ancillary organizations to responsibly represent the university.

LEASING OF FACILITIES

Consideration was not sufficiently articulated in facility lease agreements between the campus and ancillary organizations.

Several lease agreements between the campus and the California State University, San Marcos Foundation, Inc. (Foundation) were entered into where facilities and other state real estate holdings were leased at a nominal value and specific consideration for such was not clearly established in agreements. The agreement should describe all benefits the campus will receive in return (consideration) for leasing the facility to these organizations. These agreements do not appear to identify all benefits the campus will receive in return.

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

The campus director of accounting services indicated that the Foundation was established to serve the educational mission of the university by managing integral services such as bookstore and food service management, grant and research coordination, as well as the management of gifts, endowments, and similar funds to fulfill university objectives.

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 2

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

Campus Response

We concur. By June 30, 2002, for affected contracts where a nominal exchange provision is included in a facility lease agreement with the Foundation, the campus will amend the agreements to better articulate all consideration received by the campus.

COST ALLOCATION PLAN

A formal cost allocation plan for the reimbursement of facilities, goods, and services provided by the campus to the auxiliary organizations had not been developed.

CSU coded memo Business Affairs – Office of the Chancellor (BA) 83-30 requires auxiliaries to pay for services provided by the campus. Further, Executive Order (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 campus director of accounting services indicated that lack of resources contributed to noncompliance with EO No. 753. He further indicated that a committee has been formed to address the campus 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. By June 30, 2002, the campus will conclude a cost allocation plan for auxiliary organizations in accordance to EO 753.

CONFLICT OF INTEREST

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

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

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

Education Code §89906 states that no member of the governing board of an auxiliary organization shall be financially interested in any contract or other transaction entered into by the board of which he is a member and any contract or transaction entered into in violation of this section is void.

Title 5 §42401, §42402, §42500 and Education Code §89900 establish a responsibility to operate in accordance with sound business practices in the interest of the campus. Good business practices 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 vice president of administration and finance indicated that the department of human resources and equal opportunity has coordinated the university's annual collection and recording of the Statement of Economic Interest (Form 700) for designated positions. He also indicated that the executive directors of the auxiliaries have implemented separate conflict-of-interest policies for their respective organizations.

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

Recommendation 4

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

Campus Response

We concur. By June 30, 2002, the campus will:

- a. Distribute a communication to all auxiliary organizations regarding the importance of conflict-of-interest policies.
- b. Request that auxiliary organizations review existing policies and procedures.
- c. Require that auxiliary conflict-of-interest policies be amended as necessary to address the audit recommendations.

TRUST FUNDS

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

Typically, these accounts were held on behalf of student organizations, campus academics and administrators, and other officially recognized entities. Accounts at ASI relate mainly to student clubs and organizations, while those at the Foundation relate to campus programs, certain discretionary funds, and grants and contracts. We found that funds received by campus auxiliaries in accordance with Education Code §89721 were not always consistently and appropriately deposited in the campus' local state agency trust account in accordance with CSU policy.

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

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

The campus director of accounting services indicated that the campus has representation on the Foundation board for guidance of Foundation activities, but day-to-day operations are guided by the Foundation's policies and procedures. He also stated that the Foundation does not hold any campus specific funds.

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

Recommendation 5

We recommend that the campus establish formal policies and procedures with regard to oversight of auxiliary management, especially in the area of funds held in trust.

Campus Response

We concur. By June 30, 2002, for auxiliary funds receipted in accordance with Education Code §89721 and held in custodianship, the campus will formalize the process by which such funds are released from the CSU Trust Fund.

UNCLAIMED MONIES

The campus auxiliaries had not established policies and procedures to escheat unclaimed monies to the state.

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

The Foundation business manager indicated that he believed that escheatment of unclaimed monies to the state was not required. Thus, policies and procedures to escheat unclaimed monies were not established. The campus director of accounting services indicated that ASI stale-dated checks had not been included in the regular campus escheatment process. He further indicated that since the campus does not provide accounting services to the Foundation, this issue is a Foundation action item.

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

Recommendation 6

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

Campus Response

We concur. By June 30, 2002, the campus will require that auxiliaries have operating procedures with respect to the escheatment of unclaimed monies to the state.

PROGRAMS

Formalized written policies and procedures were not set up for establishing grants and contracts.

Through its operating agreement with the campus and the CSU, the Foundation is designated as the organization responsible for administering grants and contracts for the campus. However, our review indicated that during the recent fiscal year, certain externally funded projects were not remitted to the Foundation, but were instead being administered by the campus. The campus has not established formal, written policies and procedures regarding the review, acceptance, and administration of grants and contracts.

EO No. 168 contains general policies relating to the administration of grants, contracts, and special education projects. The policy includes requirements for the review and approval of proposals for grants and contracts, acceptance of awards, review of fiscal aspects, travel and travel expense approval, and hiring of personnel.

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 policy and procedures be set up when establishing grants and contracts.

The director of accounting services indicated that the memorandum of understanding with the Foundation specifies that the Foundation will administer the grants and contracts on behalf of the campus. Grants and contracts that were accepted on campus are in the process of being transferred to the Foundation. While it is expected that all grants and contracts will be coordinated through the Foundation, campus policy has not been written to articulate this expectation.

Absence of formalized, written policies and procedures increases the risk of errors, irregularities, misappropriation of funds, or legal liability.

Recommendation 7

We recommend that the campus, in coordination with the Foundation, establish formalized, written policies and procedures to ensure grants and contracts are appropriately administered.

Campus Response

We concur. By June 30, 2002, the campus will formalize its unwritten policies and procedures regarding the review, acceptance, and administration of grants and contracts.

FOUNDATION

LEGAL AND REGULATORY COMPLIANCE

PUBLIC RELATIONS POLICY

The California State University, San Marcos Foundation, Inc. (Foundation) had not submitted a public relations policy to the chancellor's office in accordance with Title 5 §42502(i).

Title 5 §42502(i) requires the campus to file with the chancellor a statement of such policy on accumulation and use of public relations funds for all auxiliary organizations. In addition, written agreements between the campus and chancellor are to include proposed expenditures for public relations or other purposes, which would serve to augment state appropriations for operation of the campus.

The business manager indicated that a public relations policy was not filed with the chancellor due to oversight.

Not submitting a public relations policy may result in expenditures that are not consistent with the mission and fiduciary responsibility of the university.

During the fieldwork, management submitted its public relations policy to the chancellor's office. An acknowledgement letter from the chancellor's office was dated May 11, 2001.

EDUCATIONAL SUPPORT

The Foundation did not reconcile its scholarship awards with the campus financial aid office 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 policies and procedures be maintained over scholarship awards.

Title 5 §42500(d) states that student loans, scholarships, stipends, and grants-in-aid shall only be given to currently admitted students. A record of such financial assistance shall be forwarded on a timely basis to the campus financial aid office and shall be documented on student financial aid recipient records kept in that office. All such financial assistance provided from student body organization funds shall be approved by the campus financial aid office before such funds are expended and shall not exceed amounts to be provided under regulations of federal and state financial aid programs.

The Foundation's business manager indicated that the need for reconciliation was not identified since the campus financial aid office is responsible for the distribution of scholarship awards.

Not reconciling Foundation-awarded scholarships to financial aid office records increases the risk that errors or irregularities will not be detected.

Recommendation 8

We recommend that the Foundation implement procedures to ensure that scholarships awarded be reconciled to financial aid office records.

Campus Response

We concur. The campus is assisting the Foundation to identify policies and procedures that need to be established and implemented to reconcile Foundation-awarded scholarships to the financial aid office. Foundation policies and procedures, as well as the implementation thereof, are expected to be completed by June 2002.

CASH RECEIPTS AND DISBURSEMENTS

GIFT ACKNOWLEDGEMENTS

Gift acknowledgement letters issued to donors were not reconciled in total to control account totals.

External affairs receives gifts and are responsible for issuing gift acknowledgement letters to donors. Our review indicated that gift acknowledgement letters were not numerically controlled or reconciled in total to control account 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 mandates that gift acknowledgments be sufficiently controlled to meet Internal Revenue Service purposes, which would typically include that they be numerically controlled. Sound business practice also mandates that gift acknowledgement letters be reconciled in total to control account totals on a regular basis.

The director of development operations annual giving indicated that the need to establish a tracking mechanism was not established since acknowledgement letters were monitored on a daily basis.

Internal controls are weakened when gift receipts are not numerically controlled or reconciled.

Recommendation 9

We recommend that gift receipts issued by the campus be numerically controlled and reconciled.

Campus Response

We concur. External affairs has created a procedure that reconciles receipted gifts to issued acknowledgement letters by matching each acknowledgement letter to the gifts listed on the daily gift received report. Separate individuals are responsible for recording the gifts, issuing the acknowledgement letters, and reconciling the gifts received listing with the listing of issued acknowledgement letters. Completed.

SEGREGATION OF DUTIES

The same individual who received invoices entered information into the accounting system, generated checks, and mailed the payments.

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 Foundation business manager indicated that the small number of staff made it difficult to allocate specific duties within the accounts payable process to other staff members having expertise/knowledge in this area.

Inadequate segregation of duties increases the risk of errors, irregularities, and misappropriation of funds.

Recommendation 10

We recommend that the Foundation segregate the functions of the cash disbursement process or develop mitigating controls to ensure payments are appropriately processed.

Campus Response

We concur. The Foundation has implemented procedures that segregate the functions of the cash disbursement process. The printed check register is now being reviewed by the accounts payable supervisor before checks are mailed. A person other than the one printing checks is now responsible for mailing the checks. Completed.

PETTY CASH SERVICES

Petty cash services provided by the campus main cashiering office to the Foundation were not supported by a written agreement.

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

business practices. Sound business practice mandates that agreements be maintained over services provided to the Foundation.

The Foundation business manager indicated that agreements were not established due to implicit agreements maintained between the campus and the Foundation.

Not establishing agreements for campus services increases the risk of receiving inadequate level of services, which may result in operational inefficiencies.

Recommendation 11

We recommend that the Foundation establish a written agreement to define campus and Foundation responsibilities as it relates to petty cash transactions.

Campus Response

We concur. The campus is assisting the Foundation in developing a written agreement that defines the responsibilities of the campus and Foundation in providing petty cash transaction services. The written agreement is expected to be completed by February 2002.

INVESTMENTS

ENDOWMENT ADMINISTRATION

The Foundation's investment policies and procedures were not sufficiently documented.

Our review indicated that the Foundation's endowment policy, dated January 27, 1994, did not reflect the current practices used by the Foundation to manage and administer the endowment portfolio. The endowment policy guidelines for spending rate, total return, management procedures, rolling five-year average, application of spending formula, per-unit basis, and asset allocation guidelines do not reflect current Foundation practice.

A general overview of investment objectives and spending policy was contained in the Foundation's investment policy dated October 29, 1998; however, it did not provide sufficient guidelines for the management and administration of endowment funds. The policy does not address methodology as to how the asset allocation rates are determined, define what income (i.e., total return vs. ordinary income) will be allocated back to the individual endowments on a quarterly basis, how new funds will be entered into the endowment portfolio, etc. The policy does address the management of endowment and nonendowment funds using various investment pools; however, this strategy has yet to be implemented by the Foundation.

Neither policy addressed the Foundation's methods for accounting for individual endowment funds within the general ledger and project-based accounting 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 mandates that endowment funds be managed and administered in accordance with a sound investment policy.

The Foundation business manager indicated that the original policy was adopted when the endowment fund totaled only \$400,000 and that parts of the policy were really designed for entities with much larger portfolios to track. He also indicated that the Foundation has been working with the Common Fund consultants during the past year to rewrite the policy to reflect current practices.

Insufficient endowment policies and procedures increase the risk that funds will be handled inappropriately and contrary to the expectations of the campus and donors.

Recommendation 12

We recommend that the Foundation update its investment policies and procedures to reflect current practice and to provide further guidance for the administration and management of endowment funds. Such policies and procedures should be subject to the review and approval of the Foundation's board of directors.

Campus Response

We concur. The Foundation is in the process of updating its investment and endowment policies to reflect current practice. The updated policies will provide additional guidelines on asset allocation methodology, investment management, and income allocation and reporting. The investment committee is in the process of meeting with various investment consultants and advisors to help develop the policies and procedures. It is expected that investment and endowment policies and procedures will be completed, approved by the board of directors, and implemented by May 2002.

ASSET ALLOCATION METHODOLOGY

The Foundation's asset allocation methodology does not address the rebalancing of endowment portfolio to meet board-established guidelines.

The Foundation invests endowment funds based on an asset allocation model wherein funds are invested, on a percentage basis, in one of three categories: equity funds, bond funds, or intermediate/cash funds.

Based on Foundation records, the average balance for the equity income account was not sufficient to meet the Foundation's targeted asset allocation rate for equity investment as of December 31, 2000. In the absence of specific procedures, the Foundation reassigned additional funds from the intermediate/cash fund to make up for the shortage in available equity 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 sufficient documentation be maintained to support management's analysis of investments and cash flows.

The Foundation business manager indicated that written procedures had not been established to address the situation noted. He also indicated that the investment committee and the board were aware of the out-of-balance situation and took appropriate steps based on recommendations from their consultants.

Internal controls over investments and cash flows are diminished when processes are not sufficiently documented.

Recommendation 13

We recommend that the Foundation further document its asset allocation methodology to address the rebalancing of the endowment portfolio.

Campus Response

We concur. As part of the process of updating its investment and endowment policies, the Foundation will include additional guidelines on the processes and procedures used to rebalance the endowment portfolio as part of the asset allocation methodology. These guidelines will be included in the updated investment and endowment policies and procedures expected to be completed by May 2002.

FEES, REVENUES, AND RECEIVABLES

MONITORING CONTRACTOR SALES – FOOD SERVICES AND BOOKSTORE

Contractor's gross sales derived from the operation of food services and the bookstore were not sufficiently monitored for accuracy.

Sampling techniques, audits, and contractor's audited financial statements were not utilized to monitor the accuracy of the contractor's monthly gross sales.

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 sales be monitored for accuracy and completeness.

The contract between the Foundation and Aztec Shops states that the Foundation shall have the right to require an annual independent audit of the contractor's sales and commission payments under this agreement at the contractor's expense.

The Foundation business manager indicated that sales were not closely monitored due to a shortage of staff. Thus, the Foundation relied on the contractor's sales reports without additional verification. The Foundation has recently hired consultants who have recommended appropriate methodologies.

Inadequate monitoring of sales increases the risk of loss due to inaccurate sales figures.

Recommendation 14

We recommend that the Foundation establish procedures to ensure sales amounts are accurate and complete.

Campus Response

We concur. The Foundation recently contracted with a consultant to perform a study of its food service and bookstore operations. The consultant was asked to recommend procedures to review the accounting records of the third-party food service and bookstore provider to ensure that sales amounts are accurate and complete. The procedures have now been drafted and it is expected that they will be finalized and implemented by March 2002.

E-COMMERCE

References to e-commerce were not established in the contract between the Foundation and Aztec Shops.

The Foundation has entered into a service and software license agreement with a third party to provide a secure e-commerce textbook website. Aztec Shops, who operates the bookstore, will handle all transactions made through the e-commerce textbook website involving store goods, including collection, return, exchange, and customer service activities.

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 activities performed by the contractor be explicitly established in the agreement.

The Foundation business manager indicated that references to e-commerce were not established in the contract due to its recent development.

Not including e-commerce and its related activities in the contract increases liability when disputes arise between two parties.

Recommendation 15

We recommend that the Foundation incorporate e-commerce and its related activities in the terms of the contract with Aztec Shops.

Campus Response

We concur. A letter of understanding between the Foundation and the food service contractor regarding e-commerce activities was signed in May 2001. Completed.

ADVANCES AND LOANS

Written agreements for an advance and a loan to campus organizations were not established.

Agreements with the Foundation for an advance (\$650,000) to Arts and Sciences and a loan to National Latino Research Center (\$100,000) were not established. In addition, the advance was treated as a note receivable even though a note was not created.

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 scholarship awards.

The Foundation business manager indicated that the Foundation board of directors approved the advance and loan. In addition, terms and conditions were established in board-approved resolutions. However, agreements between the Foundation and campus organizations were not established because resolutions were used in lieu of an agreement.

Not establishing agreements for advances and loans increases the risk of noncollection and misunderstandings.

Recommendation 16

We recommend that the Foundation:

- a. Establish agreements to assign accountability and to ensure collection of the advance and loan.
- b. Implement appropriate formalized procedures to ensure that all advances and loans are properly documented and recorded in the future.

Campus Response

We concur. The Foundation is in the process of establishing formal written agreements to the advance made to Arts and Sciences and the loan made to the National Latino Research Center which will assign accountability to the various terms of the advance and loan.

The Foundation will develop and implement procedures to ensure that all future advances and loans are properly documented.

The above items are expected to be completed and implemented by June 2002.

PURCHASING AND ACCOUNTS PAYABLE

The Foundation had not developed formal procedures for the review of open purchase orders.

Our review disclosed that open purchase orders amounted to approximately \$150,000 between July 1997 and May 2001.

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 formal procedures be established to ensure that all outstanding purchase orders be reviewed and cleared in a timely manner.

The Foundation business manager indicated that the Foundation relies on various project administrators to notify the Foundation when purchase orders will no longer be used and need to be closed out.

Outstanding purchase orders open for an extended period of time increase the risk of errors, irregularities, or misappropriation of funds.

Recommendation 17

We recommend that the Foundation develop formal procedures to ensure that open purchase orders are reviewed and cleared in a timely manner.

Campus Response

We concur. The Foundation has developed formal procedures where open purchase orders are reviewed by the accounting supervisor on a quarterly basis and that a report is submitted to the business manager showing the status of open items. This process will ensure that open items are cleared in a timely manner. Completed.

PERSONNEL AND PAYROLL

STATE EMPLOYEES

Written agreements between the campus and Foundation for the assignment of state employees were not established.

The campus was reimbursed for full-time, administrative Foundation positions; however, written agreements defining the campus and Foundation's responsibilities for oversight of state employees working in the Foundation were not established.

Section 4.11 of the CSU *Policy Manual for Contracting and Procurement* indicates that contracts should include terms and conditions necessary to convey a clear understanding of each party's expected role, its obligations, and the parameters in which the activities must be carried out under the contract.

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 agreements be maintained over personnel and payroll.

The Foundation business manager indicated that oral agreements were established and the need to develop written agreements was not considered.

Compliance with legal and other regulatory requirements may be compromised in the absence of written agreements.

Recommendation 18

We recommend that the campus establish a written agreement with the Foundation, which defines how the campus and the Foundation will exercise responsibilities for the oversight of state employees.

Campus Response

We concur. The campus has state employees performing oversight responsibilities within the Foundation. The Foundation reimburses the state for the full amount of labor and benefit costs.

The campus is assisting the Foundation in developing a written agreement which will define how the campus and Foundation will exercise responsibility and oversight of state employees. It is expected that the agreement will be finalized and implemented by June 2002.

EMPLOYMENT APPLICATIONS

Applications for employment were not kept at a central Foundation location.

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 documentation of personnel files be maintained.

The Foundation human resources manager indicated that applications for employment were not maintained with the Foundation due to the lack of assistance of various campus departments.

Inadequate documentation of personnel files increases the risk of legal liability related to employment.

Recommendation 19

We recommend that the Foundation maintain applications for employment for all Foundation employees in a central location.

Campus Response

We concur. All Foundation employment applications are now maintained at the Foundation administrative office. Completed.

FIXED ASSETS

Fixed asset administration was in need of improvement.

We noted that:

- ▶ Reconciliations were not dated and signed by the preparer and reviewer.
- ▶ Inventory counts were not performed on an annual basis.
- ▶ Policy and procedures do not address periodic review/appraisals made relative to insurance consideration and a tracking mechanism for the acquisition and disposition of donated fixed assets.
- ▶ Policy and procedures were not approved by the Foundation board of directors.

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 policy and procedures be approved by appropriate authorities.

The Foundation business manager indicated that procedures to document and control fixed assets were developed by management and implemented by staff. Procedures were not intended to receive approval from the board of directors.

Absence of approved fixed asset policy and procedures increase the risk of errors, irregularities, misappropriation of funds, or legal liability.

Recommendation 20

We recommend that the Foundation:

- a. Obtain approval of its fixed asset policy and procedures from its board of directors.
- b. Ensure that reconciliations are dated and signed by the preparer and reviewer.
- c. Ensure that inventory counts are performed on an annual basis.
- d. Ensure that its policy and procedures address periodic review/appraisals made relative to insurance consideration and a tracking mechanism be installed to account for acquisition and disposition of donated fixed assets.

Campus Response

We concur. The Foundation is in the process of developing formalized policies and procedures for the accounting of fixed assets which will be reviewed and approved by the board of directors. The policies and procedures will include the following items:

- Process on reconciliation and submission of periodic fixed asset reports.
- A statement that inventory counts will be performed on an annual basis.
- Recording and control process of donated fixed assets.
- Procedures on appraisal of fixed assets for bookkeeping and insurance purposes.

It is expected the fixed asset policy and procedures will be completed, approved by the board, and implemented by May 2002.

TRUSTS AND OTHER LIABILITIES

Trust agreement administration was in need of improvement.

We found that:

- ▶ Trust/project agreement documentation did not include a description of allowable expenditures, account purpose, and disposition of unexpended funds.
- ▶ Trust/project agreements did not sufficiently address how the accounts would earn interest (net of administrative charges) or describe monthly reporting requirements.

Probate Code §16000 indicates that upon acceptance of a trust, the trustee has a duty to administer the trust according to the trust instrument. A sufficiently documented trust arrangement is needed to meet the intent of these regulations.

The Foundation business manager indicated that limited staff and resources contributed to incomplete documentation of trust agreements.

Inadequately documented trust agreements increase the risk of both inappropriate expenditures and misunderstandings about account operations.

Recommendation 21

We recommend that the Foundation ensure that:

- a. Trust agreement documentation include a description of allowable expenditures, account purpose, and disposition of unexpended funds.
- b. Use of interest and overhead charges are reduced to writing and transmitted to account holders when trust accounts are established.

Campus Response

We concur. The Foundation is in the process of updating its Project Request document (trust agreement) so that the document contains:

- An adequate description of allowable expenditures, account purpose, and how unexpended funds will be disposed.
- Written information on how interest and overhead charges are applied to each trust account.

It is expected that the revised document will be finalized and implemented by March 2002.

INFORMATION TECHNOLOGY

OFF-SITE DATA STORAGE

Backup tapes are taken off-site and personally retained by Foundation management.

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 adequate controls be maintained over backup tapes.

The Foundation business manager stated that personal retention of backup tapes was the most cost-effective solution to off-site storage.

Personal retention of off-site media could inadvertently expose the Foundation donor information to theft or accidental disclosure, or possibly render them inaccessible.

Recommendation 22

We recommend that the Foundation improve the security and availability of off-site storage of backup tapes.

Campus Response

We concur. The campus and the Foundation's financial software vendor is assisting the Foundation in improving the systems security and process of off-site data storage by developing written procedures. It is expected that the procedures will be finalized and implemented by March 2002.

DISASTER RECOVERY/BUSINESS CONTINUITY PLAN

The Foundation had not developed an information technology (IT) disaster recovery plan with a sufficient level of detailed procedures to ensure recovery in the event that two persons with IT responsibility are not available at the time of a disaster.

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 the development of a complete disaster recovery plan.

EO No. 524 states, in part, that each campus president is delegated the responsibility for the implementation of a multihazard emergency program on campus and shall ensure that management activities including, but not limited to, maintenance and regular updating of the institutional multi-hazard emergency plan and determination, acquisition, and maintenance of facilities, equipment, and related supplies required for emergency preparedness are accomplished.

The Foundation business manager stated that the acquisition of new equipment and recovery of their system were relatively straightforward. However, it is not documented in writing.

Without a detailed, written disaster recovery plan and corresponding business continuation procedures, the Foundation may not be able to restore data processing operations within a reasonable time frame.

Recommendation 23

We recommend that the Foundation document their IT disaster recovery plan by adding detailed procedures and develop alternate manual procedures to sustain operations during an extended outage of data processing services.

Campus Response

We concur. The Foundation is in the process of developing an IT disaster recovery plan that will contain detailed procedures for alternate processing of computer-related systems during extended outages of data processing services. It is expected that the procedures will be completed and implemented by June 2002.

ASSOCIATED STUDENTS, INC.

LEGAL AND REGULATORY COMPLIANCE

WRITTEN AGREEMENTS

The Associated Students, Inc. (ASI) operating agreement with the California State University (CSU) and the campus did not address all functions, such as development-related activities and commercial operations. In addition, accounting services provided by the campus to ASI were not supported by a written agreement.

The campus began providing accounting services to ASI in July 2001; however, the arrangement had not been formalized in writing. Moreover, the services provided under this arrangement appear to overlap with other related services currently provided by the campus to ASI under a memorandum dated January 24, 1996.

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

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 agreements be in writing.

CSU coded memo BA 83-30 requires auxiliaries to pay for services provided by the campus. Further, recently executed 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. Cost allocations should be determined in accordance with a written cost allocation plan approved annually by the campus chief financial officer.

The campus director of accounting services indicated that the existing operating agreement was written with general functions to allow the greatest flexibility. He also indicated that the existing operating agreement was updated early in fiscal year 2000/2001 to reflect changes in the level of accounting services and is awaiting final approval. The executive director of ASI indicated that the January 1996 memorandum was not revisited to compare language and overlapping of services.

Not maintaining current written agreements increases the risk of misunderstandings and miscommunications regarding rights and responsibilities.

Recommendation 24

We recommend that:

- a. ASI update its operating agreement with the campus to reflect all functions undertaken.
- b. A written agreement be executed between the campus and ASI, which clearly defines the accounting services to be provided, the terms of reimbursement for such services, and the expectations and responsibilities of each party under the agreement.

Campus Response

We concur. ASI in conjunction with the campus chief financial officer of Cal State San Marcos will complete a new agreement reflecting the various functions by January 31, 2002.

SALARY AND BENEFITS

ASI had not conducted an analysis and comparison of employee salaries, wages, and benefits between ASI employees and state employees in similar positions.

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

The executive director of ASI indicated that salaries are adjusted and reviewed as part of the budget approval process; however, a formal comparison of compensation and benefits had not been performed.

Without a comparative analysis, ASI may be expending inappropriate amounts on salaries and benefits for employees who perform substantially similar services as employees for the campus or other organizations.

Recommendation 25

We recommend that ASI perform an analysis of salaries and benefits paid to its full-time employees and compare it with campus and/or commercial operation employees performing substantially similar duties.

Campus Response

We concur. ASI will conduct an independent analysis of salaries and benefits by February 15, 2002.

SELF-SUFFICIENCY

The ASI Early Learning Center (ELC) had not been evaluated for self-sufficiency.

Approximately 30 percent of the overall enrollment of the ELC is derived from community members. However, ASI had not analyzed whether tuition fees charged to community members were sufficient to support operational and administrative expenditures related to this service. In addition, a formal review had not been performed to determine whether revenue from such service resulted in unrelated business income (UBI) to ASI.

Education Code §89905 requires that the operations of commercial services on a CSU campus, when operated by an auxiliary organization, be self-supporting.

Title 5 §42401 states that student body organization funds can only be used for childcare centers for children of students and employees of the campus.

Internal Revenue Code (IRC) §512 through §514 describe UBI. The IRC defines an unrelated trade or business of an exempt organization as any trade or business, the conduct of which is not substantially related to the exercise or performance of its tax-exempt purpose. The organization's tax-exempt status may be jeopardized if too large a proportion of an organization's revenue comes from UBI.

The executive director indicated that childcare fees charged to community members had not been formally evaluated from a self-support standpoint.

Failure to evaluate the self-sufficiency of community childcare increases the risk that student body funds may be misapplied.

Recommendation 26

We recommend that ASI and the campus implement a formal plan to evaluate the self-sufficiency of community childcare provided through the ELC. The plan should also address UBI issues.

Campus Response

We concur. ASI and the campus will implement a formal plan to evaluate the self-sufficiency of community childcare provided through the Early Learning Center. The plan will address UBI issues. Deadline: January 31, 2002.

RESERVES

Reserves maintained by ASI were not analyzed for adequacy.

Funds set aside for reserve purposes were maintained in a campus trust account. However, ASI had not analyzed such reserves for adequacy or compliance to its own internal reserve policy requirements. Furthermore, ASI's reserve policy, which was established during the audit review

period, lacked a methodology for assessing the adequacy of reserves for specific, operational needs such as working capital, current operations/contingencies, capital repairs, and replacement or future operations.

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

The campus director of accounting services indicated that ASI and the ELC have funds in reserve. The executive director for ASI indicated that an analysis has not been provided that assesses the adequacy of the reserves.

Insufficient reserve planning and analysis place the auxiliary at risk to fund future deficits.

Recommendation 27

We recommend that ASI develop and implement, on an annual basis, a formal methodology for analyzing the adequacy of reserves.

Campus Response

We concur. ASI executive director and CFO will develop rationale for analyzing the adequacy of reserves and formulate a policy containing methodology for assessing adequacy or reserves by February 1, 2002.

STUDENT BODY FEES

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

The campus collects ASI student body fees, which are initially deposited into a campus trust account. After reconciliation, the fees are transmitted to ASI, which invest and disburse the fees and other revenue from their organizational banking and investment accounts. The campus chief fiscal officer exercises some oversight of these accounts because he is an authorized signer and his staff oversees disbursements.

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

The campus director of accounting services indicated that custodianship was in place in that ASI student fee collections are deposited directly into campus-controlled trust accounts; funds are deposited to the ASI bank account upon a reconciliation of fees versus a demand for expenditure; the bank account is controlled by the campus; and check requests are reviewed by campus staff and checks are signed only by campus staff.

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

Recommendation 28

We recommend that student body fees be retained in campus trust accounts to enable the campus chief fiscal officer to strengthen his custodianship over such fees.

Campus Response

We concur. ASI and the University will develop a policy and procedure on how these funds will be handled. June 30, 2002.

OPERATING POLICIES AND PROCEDURES

Formal operating policies and procedures for ASI were not in place during the entire audit review period.

The ASI board adopted its policy manual on May 22, 1999, and revised and approved the same manual on April 20, 2001. Areas covered by the policy manual include, among other things, cash handling, purchasing, auxiliary organization fiscal oversight, general corporate reserves, corporate credit cards, investments, and risk management. Prior to May 22, 1999, operating policies and procedures were not formalized in writing for these key areas.

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, formal, written policy and procedures.

The executive director of ASI concurred and reaffirmed that formal operating policies and procedures were not implemented until May 1999.

Not maintaining formal policies and procedures places the auxiliary at risk of noncompliance with state and federal laws, which may result in negative regulatory actions.

Recommendation 29

We recommend that ASI develop a process to ensure that operating policies and procedures are appropriately maintained, reviewed, and updated on a periodic basis.

Campus Response

We concur. ASI developed and the Board of Directors approved the operating policies and procedures on May 1999 and approved several policies during the audit process.

ASI executive director and the chief financial officer will meet monthly to ensure that ASI appropriately maintains, reviews, and updates ASI policies and procedures.

MINUTES

Minutes were not always maintained for various subcommittees of the ASI board of directors.

California Corporation Code §9510(a) and (b) state that each corporation shall keep minutes of the proceedings of its members, board, and committees of the board and that minutes shall be kept in written form.

The executive director of ASI concurred and indicated that a simplified procedure for subcommittees to record minutes was under discussion.

Failure to maintain board minutes and resolutions may result in misunderstandings and delays in implementing board actions.

Recommendation 30

We recommend that ASI implement procedures to ensure that subcommittees of the board of directors maintain minutes for each meeting or proceeding.

Campus Response

We concur. ASI committees will maintain minutes and agendas for each meeting and ASI will be the record custodian.

Records (minutes and agendas) of each committee will be reviewed once per month to ensure compliance by the ASI Executive Director or designee effective November 30, 2001.

CASH RECEIPTS AND DISBURSEMENTS

TUITION FEE RECONCILIATION

Fees received in the ASI ELC were not reconciled to student enrollment.

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 an effective system of internal control, which includes regular reconciliations of control account totals to subsidiary accounting record totals.

The executive director of ASI indicated that the fee reconciliation had not been adequately reviewed due to staffing limitations.

Failure to reconcile fee receipts to enrollment may result in errors or misappropriation.

Recommendation 31

We recommend that the campus coordinate with ASI to ensure regular and timely independent reconciliation of fee receipts to student enrollment.

Campus Response

We concur. The campus/ASI will establish a reconciliation schedule and monitor according to schedule by January 31, 2002.

BANK RECONCILIATION

Reconciling items were not always cleared from the monthly bank reconciliation in a timely manner.

Our review indicated that reconciling items were not cleared from the bank reconciliation in a timely manner, and most of the items were the result of the transition of accounting services back to the campus.

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 timely and complete accounting reconciliations.

The campus director of accounting services indicated that the transition of the accounting function back to the campus contributed to reconciling items not being cleared in a timely manner.

Failure to complete bank reconciliations in a timely manner increases the risk that errors and irregularities will not be detected.

Recommendation 32

We recommend that bank reconciliations be completed on a timely basis.

Campus Response

We concur. The campus accounting office will establish a reconciliation schedule, review monthly, and insure timely clearing of outstanding items by January 31, 2002.

DISBURSEMENTS

Several disbursements lacked sufficient written approval and supporting documentation.

Our review of 75 cash disbursements disclosed instances where expenditures lacked sufficient authorization and/or supporting documentation to ensure proper use of funds.

For example, instances were noted where:

- ▶ Approval signatures were not dated.
- ▶ Expenditures were authorized subsequent to the issuance of the check.
- ▶ A contract or W-9 was not issued to an independent contractor.
- ▶ Funds expended did not appear to meet the educational mission of the university (i.e., flowers, parking tickets, gift certificates, etc.).
- ▶ Support for credit card reimbursements did not include any documentation (i.e., invoices, receipts, list of attendees, etc.) other than the credit card statement.
- ▶ Reimbursement for cell phone charges did not include detail as to the actual charges because only the last page of the bill was submitted.
- ▶ Documentation to support travel authorization and reimbursement was not adequate. For example, travel expenses for several individuals were contained on a single credit card reimbursement request making it difficult for campus accounting to process and clear related travel advances.
- ▶ Approval signatures were missing from the request for funds form.
- ▶ The form used to authorize conference attendance was not used.
- ▶ Payments were made off of faxed invoices.
- ▶ Purchase documentation was not complete, as supporting documentation did not include a requisition, purchase order, or evidence of bids or quotations.
- ▶ No requisition for funds form was completed.
- ▶ Manually generated checks were issued with the same check number.
- ▶ Backup documentation could not be located.

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 fully supported and properly authorized.

ASI's policy manual contains specific policies on purchasing, travel, and credit card usage which require proper authorization and supporting documentation for each transaction. As the fiscal oversight and provider of accounting services to ASI, the campus also maintains similar policies and procedures in these areas.

The executive director of ASI indicated that ASI has been in the process of strengthening and reviewing compliance.

Insufficient control over disbursements, not in accordance with CSU and related standards, increases the risk that funds will be expended for inappropriate purposes.

Recommendation 33

We recommend that ASI coordinate with the campus to further document procedures to ensure that appropriate authorization and support for expenditures are obtained.

Campus Response

We concur. Disbursements training will be provided to staff involved in requesting or approval of expenditures by June 30, 2002.

SEGREGATION OF DUTIES

Duties and responsibilities over various accounting functions, including cash handling, invoicing, and accounts receivable, were not consistently segregated.

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 executive director of ASI concurred and indicated that limited staff size contributed to segregation of duties issues.

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

Recommendation 34

We recommend that ASI segregate cash handling, invoicing, and accounts receivable duties or institute mitigating controls approved by the campus.

Campus Response

We concur. The executive director of ASI is developing a system to further segregate cash handling, invoicing, and accounts receivable with advice from the director of student financial services.

Will be completed by January 31, 2002.

PETTY CASH AND CHANGE FUNDS

Internal controls over petty cash and change funds were insufficient.

We found that:

- ▶ Petty cash and change funds maintained by the ASI business office had not been reconciled since approximately June 2000.
- ▶ Petty cash and change funds were not subject to periodic, independent counts.
- ▶ Petty cash and change funds were not separately maintained.
- ▶ Petty cash was not controlled through the use of prenumbered vouchers.
- ▶ ASI used its change fund to cash checks up to \$15. Current ASI records indicate that the change fund had an unreconciled balance of negative \$5.
- ▶ Policies and procedures had not been established for the change fund.

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 adequate controls over petty cash and change funds.

The executive director of ASI concurred and indicated that the business office's petty cash had not been reconciled since June 2000, but that the ELC petty cash has been reconciled.

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

Recommendation 35

We recommend that ASI ensure that:

- a. Petty cash and change funds be reconciled on a routine basis.
- b. Petty cash and change funds be subject to periodic, independent counts.
- c. Petty cash disbursements be controlled through the use of prenumbered vouchers.
- d. Change fund policies and procedures be formalized in writing.
- e. Petty cash and change funds be separately maintained.

Campus Response

We concur. Petty cash and cash fund will be reconciled monthly, and head campus cashier will conduct periodic audits by January 31, 2002.

Change fund policies and procedures will be formalized in writing by December 31, 2001.

ASI has separated the petty cash fund from the change fund, and petty cash renumbered vouchers have been ordered.

ACCOUNTS RECEIVABLE

Controls over accounts receivable for reimbursement-related activities were in need of improvement.

We found that:

- ▶ Accounts receivable were not recorded or reconciled to the general ledger.
- ▶ An aging report was not maintained to track outstanding accounts receivable.
- ▶ Formal policies and procedures had not been established for the administration, collection, and write-off of accounts receivable.

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 maintaining proper internal controls over accounts receivable.

The executive director of ASI indicated that the accounts receivable area had not been adequately reviewed.

Insufficient controls over accounts receivable increase the risk that accounts will not be collected in a timely manner.

Recommendation 36

We recommend that ASI improve controls over accounts receivable.

Campus Response

We concur. This will be reflective in the current operating agreement where these responsibilities as well as accountability will be defined as of June 30, 2002.

PURCHASING

PROCUREMENT POLICIES AND PROCEDURES

Procurement policies and procedures were not fully documented.

Our review indicated deficiencies in the areas of:

- ▶ Verification of legal and contract provisions.
- ▶ Definition of prohibited purchases/purchasing practices.
- ▶ Procedures and guidelines for receiving purchased goods.

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 integrity of financial reporting.

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 adequate documentation of procurement policies and procedures.

The executive director of ASI indicated that ASI has been in the process of strengthening and reviewing compliance.

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

Recommendation 37

We recommend that ASI fully develop written procurement policies and procedures, including purchasing and receiving functions and responsibilities.

Campus Response

We concur. ASI adopted a purchasing policy on April 20, 2001, and will revise to ensure it meets:

- Verification of legal and contract provisions.
- Definition of prohibited purchases/purchasing practices.
- Procedures and guidelines for receiving purchased goods.

Revisions should be completed by December 31, 2001.

CONSIGNMENT TICKETS

Consignment tickets were not tracked numerically for sales and inventory purposes or recorded to the general ledger on a regular 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 merchandise held on consignment be tracked numerically and recorded as a liability to the general ledger.

The executive director of ASI indicated that the consigned tickets should have been tracked numerically for sales and inventory purposes. The campus director of accounting services indicated that general ledger accounts were established to record consignment ticket activity.

The risk of errors or misappropriation increases when consigned merchandise is not properly controlled.

Recommendation 38

We recommend that consignment tickets be tracked numerically for inventory and sales purposes and recorded on a regular basis to the general ledger.

Campus Response

We concur. A procedure has been established to track consignment tickets and sales. Completed.

CONTRACTS AND AGREEMENTS

Risk management concerns related to agreements entered into with outside parties were not fully considered.

We noted that:

- ▶ Agreements entered into with outside vendors to sell goods on campus during “vendor days” did not include a hold harmless clause indemnifying ASI and the campus from potential liability.
- ▶ Insurance requirements contained in contracts entered into between ASI and outside parties were not periodically reviewed for compliance.

The executive director of ASI concurred and indicated that corrective action would be taken.

The potential for liability is increased when risk management concerns are not fully considered.

Recommendation 39

We recommend that ASI implement appropriate procedures which fully address the risk associated with contracts and agreements entered into with outside vendors.

Campus Response

We concur. ASI has taken a corrective action and has implemented a disclaimer into agreements with outside entities. ASI executive director or designee on all agreements will review insurance requirements quarterly.

PERSONNEL AND PAYROLL PROCEDURES

Responsibility for the maintenance and calculation of vacation and leave time for ASI staff was not adequately segregated.

We found that the assistant executive director was responsible for maintaining vacation and leave information for the entire ASI staff, including herself, without adequate oversight or other mitigating controls.

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 executive director of ASI indicated that limited staff size has contributed to segregation of duties issues. She also indicated that leave credits have not been routinely reported to the campus; however, this feature is available via the third-party administrator.

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

Recommendation 40

We recommend that ASI segregate duties over the maintenance of vacation and leave credits or institute mitigating controls.

Campus Response

We concur. ASI has contacted Advantage Payroll and is currently in the process of establishing the maintenance and calculation of vacation and leave time as part of the service agreement. December 31, 2001.

TRUST ACCOUNTS

Funds held in trust for campus organizations were not sufficiently controlled.

We found that:

- ▶ Trust agreements, which contain the purpose of the account, source of funds, and reporting requirements and describe the use of investment earnings as well as other restrictions, were not executed between ASI and campus clubs.
- ▶ Negative trust/agency account balances were not periodically reviewed and cleared in a timely manner.

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

The executive director of ASI indicated that she was not aware that trust agreements were required for student clubs/organizations. She also indicated that ASI was aware that three clubs/organizations had negative balances; however, reimbursement action had not been taken prior to the new fiscal year. Periodic reviews were conducted as of July 2000.

Insufficient control over funds held in trust in accordance with CSU and related standards increases the risk of inappropriate expenditures.

Recommendation 41

We recommend that ASI take the steps necessary to control funds held in trust for campus organizations.

Campus Response

We concur. ASI has taken immediate steps to control club/organizations accounts through fund agreements to protect their interests effective September 24, 2001, and monitoring of account balances were effective July 1, 2001.

FIXED ASSETS

ASI policies and procedures concerning fixed assets were in need of improvement.

We found that:

- ▶ Fixed asset policies and procedures did not address accountability and responsibility for equipment; inventory procedures; controls over additions and deletions of inventory; procedures for tagging equipment; off-site use of property; property sales and dispositions; and property reconciliation to financial records.
- ▶ ASI could not provide documentation to evidence that fixed assets were tagged and inventoried (i.e., annually) on a routine basis.
- ▶ ASI could not provide documentation to evidence when the last reconciliation of fixed assets to accounting records occurred.

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 strong controls over fixed assets.

The campus director of accounting services stated that since assuming general ledger maintenance in July 2000, the campus has not requested a fixed assets listing from ASI. The executive director of ASI indicated that ASI has not performed an annual fixed asset inventory.

When property inventory control procedures are inadequately documented, there is an increased risk that property will be lost or stolen.

Recommendation 42

We recommend that ASI ensure that:

- a. Fixed asset policies and procedures be revised and submitted for the approval of the board of directors.
- b. Reconciliation and tagging of fixed assets be brought current.
- c. Annual physical inventory of fixed assets be conducted.

Campus Response

We concur. ASI executive director will work with the director of accounting services to formulate a record-keeping mechanism to be reviewed and approved by the campus CFO by January 31, 2002.

APPENDIX A: PERSONNEL CONTACTED

<u>Name</u>	<u>Title</u>
CAMPUS	
Alexander Gonzalez	President
Barbara Bashien	Vice President, External Affairs
Gezai Behrane	Associate Director, Student and Residential Life
Barbara Dovenbarger	University Controller
Stephen G. Garcia	Vice President, Finance and Administrative Services
Gerrie Hatten	Assistant Director of Financial Aid
Randy Helfond	General Accounting Coordinator
Rosemary Henk	Accounting Technician III, Financial Aid Business Office
Brenda Kritser	Director, Development Operations
Richard Loucks	Director of Accounting Services
Michele Ojeda	Scholarship Coordinator, Financial Aid and Scholarships
Paul Philips	Director, Financial Aid and Scholarships

CALIFORNIA STATE UNIVERSITY, SAN MARCOS FOUNDATION, INC.

Deborah Davis	Financial Accounting Supervisor
Pam Edmondson	Commercial Operations Manager
Marti Gray	Executive Director
Sarah Johnson	Office Assistant
Patricia Klotz	Human Resources Manager
Lyuda Litvinets	Human Resources Assistant
Kim Sullivan	Payroll/Accounts Payable Specialist
Greg Svatora	Business Manager
Suzanne Valerie	Grants Development Specialist
Marcia Woolf	Sponsored Programs Specialist

ASSOCIATED STUDENTS, INC.

Tumona Austin	Administrative Assistant
Susana Gonzalez	Assistant Executive Director
Dean Manship	ASI President
Marilyn McWilliams	Assistant Program Director
Brad Schmidt	ASI Club Services Technician
Joyce J. Williams	Program Director
Darlene Willis	Executive Director

SCOPE

INTERNAL COMPLIANCE SCOPE

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

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

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

- ▶ The auxiliary was established by constitution, statute, bylaws, or resolution and whether there were provisions for election of officers and board members.
- ▶ Sufficient operating procedures had been established by the auxiliary to allow the campus president (or designee) to ascertain the propriety of all expenditures and the integrity of financial reporting and whether all expenditures were made in accordance with policies of the CSU Trustees.
- ▶ The auxiliary had all expenditures and fund appropriations approved by its board and whether it had fund appropriations for use outside of normal business operations of the auxiliary approved by an officer designated by the CSU Trustees.
- ▶ The auxiliary provided full-time employee salaries, working conditions, and benefits comparable to those provided by the CSU.
- ▶ The auxiliary operated commercial services on a self-supporting basis.
- ▶ The auxiliary submitted its programs and budgets for review in a timely manner as specified by the president (or designee).
- ▶ The auxiliary maintained a reasonable provision for reserves and used surplus funds from commercial operations for purposes consistent with regulations of the CSU Trustees.
- ▶ The auxiliary used indirect cost reimbursements in accordance with statutory requirements.
- ▶ The auxiliary gave loans, scholarships, stipends, and grants-in-aid to currently admitted students only.
- ▶ The auxiliary accepted grants, contracts, bequests, trusts, or gifts, to be used only for purposes consistent with the policies of the CSU Trustees.
- ▶ The auxiliary forwarded records of student financial assistance to the campus financial aid office on a timely basis.
- ▶ Expenditures for public relations or other purposes which would serve to augment state appropriations for operation of the campus were approved by the governing body of the auxiliary organization and that this policy was filed with the chancellor (or designee).
- ▶ The auxiliary had taken measures to protect the campus from all possible liability associated with the operation of commercial services.
- ▶ The auxiliary obtained indemnity bonds for officers and employees handling funds as statutorily mandated.

- ▶ Conflicts-of-interest statutes and regulations had been complied with, including, but not limited to, the prohibition of financial conflicts of interest or personal pecuniary gains in transactions with governing board members.
- ▶ The auxiliary adopted a nondiscrimination and affirmative action in employment policy approved by the chancellor (or designee).
- ▶ The student body organization auxiliary deposited in trust with the chief financial officer of the campus all student body organization fees or other funds and money under the programmatic control of the student body organizations, except for those collected from, and used in or for, major commercial services and agency funds.
- ▶ The student body organization auxiliary sufficiently enabled the chief fiscal officer of the campus to comply with legislative mandates by recommending the most appropriate institution or medium for investment of unexpended funds.
- ▶ The student body organization auxiliary submitted appropriate claim schedules to the chief fiscal officer of the campus after review and approval by an officer of the student body organization.

INTERNAL CONTROL SCOPE

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

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

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

- ▶ Procedures for receipting and storing cash, segregation of duties involving cash receipting, and recording of cash receipts.
- ▶ Establishment of receivables and adequate segregation of duties regarding billing for and payment of receivables.
- ▶ Approval of purchases, receiving procedures, and reconciliation of expenditures to general ledger balances.

- ▶ Use of petty cash funds, periodic cash counts, and reconciliation of bank accounts.
- ▶ Authorization of personnel/payroll transactions.
- ▶ Posting of the property ledger, regular reconciliation of the property to the general ledger, and physical inventories.
- ▶ Access restrictions to automated accounting systems and proper documentation of the systems.
- ▶ Procedures for initiating, overseeing, and accounting for investments.
- ▶ Establishment of trust funds, separate accounting, adequate agreements, and annual budgets.

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

STATEMENT OF INTERNAL CONTROLS

A. INTRODUCTION

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

B. INTERNAL CONTROL DEFINITION

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

1. Internal Accounting Controls

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

2. Operational Controls

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

C. INTERNAL CONTROL OBJECTIVES

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

D. INTERNAL CONTROL SYSTEMS LIMITATIONS

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



Office of the Vice President, Finance and Administrative Services

Stephen G. Garcia
Vice President

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MEMORANDUM

DATE: November 20, 2001

TO: Larry Mandel
University Auditor

FROM: Stephen G. Garcia
Vice President and Chief Financial Officer
Finance and Administrative Services

SUBJECT: Campus Response to Recommendations of Audit Report
Number 01-47, Auxiliary Audit at California State University San Marcos

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The California State
University

In accordance with the Policies and Procedures for the Office of the University Auditor, enclosed is the campus response to recommendations one through forty-two of the auxiliary audit report dated October 23, 2001. A diskette with the electronic version of the response document is also enclosed. This response is respectfully submitted to the Chancellor for review and acceptance.

Please contact me should additional information be required.

Enclosures

cc: Alexander Gonzalez, President
Suzanne Green, Associate Vice President, Finance and Administrative Services
Barbara Dovenbarger, University Controller
Marti Gray, Executive Director, Foundation (Foundation response)
Greg Svatora, Business Manager, Foundation (Foundation response)
B. Keith Speers, Executive Director, Associated Students, Inc. (ASI response)
Richard Loucks, Director, Accounting Services
Randy Helfond, Acting Assistant Director, Accounting Services

The California State University

**OFFICE OF THE UNIVERSITY AUDITOR
AUXILIARY REVIEW DISCUSSION TOPICS
Campus Response.doc**

Organization and Main Issue	Question or Issue Identified During the Review by OUA	Auxiliary's Responses:
1	Campus <u>Campus Support Organizations</u> The campus had not developed a procedure to identify, and a strategy to coordinate and oversee, ancillary organizations that operate in support of academic and nonacademic programs.	We concur. By June 30, 2002, the campus will draft language clarifying the role of the campus in terms of oversight and coordination of ancillary organizations operating in the interest of the campus as well as articulating the responsibility of the ancillary organizations to responsibly represent the university.
2	Campus <u>Leasing of Facilities</u> Consideration was not sufficiently articulated in facility lease agreements between the campus and ancillary organizations.	We concur. By June 30, 2002, for affected contracts where a nominal exchange provision is included in a facility lease agreement with the Foundation, the campus will amend the agreements to better articulate all consideration received by the campus.
3	Campus <u>Cost Allocation Plan</u> A formal cost allocation plan for the reimbursement of facilities, goods, and services provided by the campus to the auxiliary organizations had not been developed.	We concur. By June 30, 2002, the campus will conclude a cost allocation plan for auxiliary organization in accordance to EO 753.
4	Campus <u>Conflict of Interest</u> The campus had not provided guidance for its auxiliaries regarding the implementation of conflict-of-interest policies and procedures, including statements and disclosures from board members and management.	We concur. By June 30, 2002, the campus will: <ul style="list-style-type: none"> A) distribute a communication to all auxiliary organizations regarding the importance of conflict-of-interest policies; B) request that auxiliary organizations review existing policies and procedures; and C) require that auxiliary conflict-of-interest policies be amended as necessary to address the audit recommendations.
5	Campus <u>Trust Funds</u> The campus did not exercise sufficient control over funds held in trust by its auxiliaries.	We concur. By June 30, 2002, for auxiliary funds received in accordance with Education Code §89721 and held in custodianship, the campus will formalize the process by which such funds are released from the CSU Trust Fund.
6	Campus <u>Unclaimed Monies</u> The campus auxiliaries had not established policies and procedures to escheat unclaimed monies to the state.	We concur. By June 30, 2002, the campus will require that auxiliaries have operating procedures with respect to the escheatment of unclaimed monies to the state.
7	Campus <u>Programs</u>	We concur. By June 30, 2002, the

Organization and Main Issue	Question or Issue Identified During the Review by OUA Audit 01-47	Auxiliary's Responses:
	Formalized written polices and procedures were not set up for establishing grants and contracts.	campus will formalize its unwritten policies and procedures regarding the review, acceptance, and administration of grants and contracts.
8	EDUCATIONAL SUPPORT We recommend that the Foundation implement procedures to ensure that scholarships awarded be reconciled to financial aid office records.	We concur. The campus is assisting the Foundation to identify policies and procedures that need to be established and implemented to reconcile Foundation-awarded scholarships to the financial aid office. Foundation policies and procedures, as well as the implementation thereof, are expected to be completed by June, 2002.
9	GIFT ACKNOWLEDGEMENTS We recommend that gift receipts issued by the campus be numerically controlled and reconciled.	We concur. External affairs has created a procedure that reconciles receipted gifts to issued acknowledgement letters by matching each acknowledgement letter to the gifts listed on the daily gift received report. Separate individuals are responsible for recording the gifts, issuing the acknowledgement letters, and reconciling the gifts received listing with the listing of issued acknowledgement letters. Completed.
10	SEGREGATION OF DUTIES We recommend that the Foundation segregate the functions of the cash disbursement process or develop mitigating controls to ensure payments are appropriately processed.	We concur. The Foundation has implemented procedures that segregate the functions of the cash disbursement process. The printed check register is now being reviewed by the accounts payable supervisor before checks are mailed. A person other than the one printing checks, is now responsible for mailing the checks. Completed.
11	PETTY CASH SERVICES We recommend that the Foundation establish a written agreement to define campus and Foundation responsibilities as it relates to petty cash transactions.	We concur. The campus is assisting the Foundation in developing a written agreement that defines the responsibilities of the campus and Foundation in providing petty cash transaction services. The written agreement is expected to be completed by February, 2002.
12	ENDOWMENT ADMINISTRATION We recommend that the Foundation update its investment policies and procedures to reflect current practice and to provide further guidance for the administration and management of endowment funds. Such policies and procedures should be subject to the review and approval of the Foundation's board of directors.	We concur. The Foundation is in the process of updating its investment and endowment policies to reflect current practice. The updated policies will provide additional guidelines on asset allocation methodology, investment management, and income allocation and reporting. The investment committee is in the process of meeting with various

Organization and Main Issue	Question or Issue Identified During the Review by OUA Audit 01-47	Auxiliary's Responses:
		investment consultants and advisors to help develop the policies and procedures. It is expected that investment and endowment policies and procedures will be completed, approved by the board of directors, and implemented by May, 2002.
13	Foundation	<p><u>ASSET ALLOCATION METHODOLOGY</u> We recommend that the Foundation further document its asset allocation methodology to address the rebalancing of the endowment portfolio.</p>
14	Foundation	<p><u>MONITORING CONTRACTOR SALES – FOOD SERVICE AND BOOKSTORE</u> We recommend that the Foundation establish procedures to ensure sales amounts are accurate and complete.</p>
15	Foundation	<p><u>E-COMMERCE</u> We recommend that the Foundation incorporate e-commerce and its related activities in the terms of the contract with Aztec Shops.</p>
16	Foundation	<p><u>ADVANCES AND LOANS</u> We recommend that the Foundation:</p> <ul style="list-style-type: none"> a. Establish agreements to assign accountability and to ensure collection of the advance and loan. b. Implement appropriate formalized procedures to ensure that all advances and loans are properly documented and recorded in the future. <p>The Foundation will develop and implement procedures to ensure that all future advances and loans are properly documented.</p> <p>The above items are expected to be</p>

Organization and Main Issue	Question or Issue Identified During the Review by OUA Audit 01-47	Auxiliary's Responses:
		completed and implemented by June, 2002.
17	Foundation	<p><u>PURCHASING AND ACCOUNTS PAYABLE</u> We recommend that the Foundation develop formal procedures to ensure that open purchase orders are reviewed and cleared in a timely manner.</p>
18	Foundation	<p><u>PERSONNEL AND PAYROLL</u> We recommend that the campus establish a written agreement with the Foundation, which defines how the campus and the Foundation will exercise responsibilities for the oversight of state employees.</p> <p>The campus is assisting the Foundation in developing a written agreement which will define how the campus and Foundation will exercise responsibility and oversight of state employees. It is expected that the agreement will be finalized and implemented by June, 2002.</p>
19	Foundation	<p><u>EMPLOYMENT APPLICATIONS</u> We recommend that the Foundation maintain applications for employment for all Foundation employees in a central location.</p> <p>We concur. All Foundation employment applications are now maintained at the Foundation administrative office. Completed.</p>
20	Foundation	<p><u>FIXED ASSETS</u> We recommend that the Foundation:</p> <ol style="list-style-type: none"> Obtain approval of its fixed asset policy and procedures from its board of directors. Ensure that reconciliations are dated and signed by the preparer and reviewer. Ensure that inventory counts are performed on an annual basis. <p>Ensure that its policy and procedures address periodic review/appraisals made relative to insurance consideration and a tracking mechanism be installed to account for acquisition and disposition of donated fixed assets.</p> <p>We concur. The Foundation is in the process of developing formalized policies and procedures for the accounting of fixed assets which will be reviewed and approved by the board of directors. The policies and procedures will include the following items:</p> <ul style="list-style-type: none"> Process on reconciliation and submission of periodic fixed asset reports. A statement that inventory counts will be performed on an annual basis. Recording and control process of donated fixed assets. Procedures on appraisal of fixed assets for bookkeeping and insurance purposes.

Organization and Main Issue	Question or Issue Identified During the Review by OUA Audit 01-47	Auxiliary's Responses:
		It is expected the fixed asset policy and procedures will be completed, approved by the board, and implemented by May, 2002.
21	Foundation <u>TRUST AND OTHER LIABILITIES</u> We recommend that the Foundation ensure that: <ol style="list-style-type: none"> a. Trust agreement documentation include a description of allowable expenditures, account purpose, and disposition of unexpended funds. b. Use of interest and overhead charges are reduced to writing and transmitted to account holders when trust accounts are established. 	We concur. The Foundation is in the process of updating its Project Request document (trust agreement) so that the document contains: <ul style="list-style-type: none"> • An adequate description of allowable expenditures, account purpose, and how unexpended funds will be disposed. • Written information on how interest and overhead charges are applied to each trust account. It is expected that the revised document will be finalized and implemented by March, 2002.
22	Foundation <u>OFF-SITE DATA STORAGE</u> We recommend that the Foundation improve the security and availability of off-site storage of backup tapes.	We concur. The campus and the Foundation's financial software vendor is assisting the Foundation in improving the systems security and process of off-site data storage by developing written procedures. It is expected that the procedures will be finalized and implemented by March, 2002.
23	Foundation <u>DISASTER RECOVERY</u> We recommend that the Foundation document their IT disaster recovery plan by adding detailed procedures and develop alternate manual procedures to sustain operations during an extended outage of data processing services.	We concur. The Foundation is in the process of developing an IT disaster recovery plan that will contain detailed procedures for alternate processing of computer-related systems during extended outages of data processing services. It is expected that the procedures will be completed and implemented by June, 2002.
24	ASI <u>Auxiliary Authorization</u> The Associated Students, Inc. (ASI) operating agreement with the CSU and the campus did not address all functions, such as development-related activities and commercial operations.	We concur. ASI in conjunction with the campus Chief Financial Officer of Cal State San Marcos will complete a new agreement reflecting the various functions by January 31, 2002.
25	ASI <u>Salary & Benefits</u> ASI had not conducted an analysis and comparison of	We concur. ASI will conduct an independent analysis of salaries &

Organization and Main Issue	Question or Issue Identified During the Review by OUA Audit 01-47	Auxiliary's Responses:
	employee salaries, wages and benefits between ASI employees and state employees in similar positions.	benefits by February 15, 2002.
26	<p>ASI</p> <p><u>Self Sufficiency</u></p> <p>The ASI Early Learning Center (ELC) had not been evaluated for self-efficiency.</p>	<p>We concur. ASI and the campus will implement a formal plan to evaluate the self sufficiency of community childcare provided through the Early Learning Center. The plan will address UBI issues. Deadline: January 31, 2002.</p>
27	<p>ASI</p> <p><u>Reserves</u></p> <p>Reserves maintained by ASI were not analyzed for adequacy.</p> <ul style="list-style-type: none"> • Existing reserve policy lacks methodology for assessing adequacy of reserves for specific operational needs. 	<p>We concur. ASI Executive Director and CFO will develop rationale for analyzing the adequacy of reserves and formulate a policy containing methodology for assessing adequacy or reserves by February 1, 2002.</p>
28	<p>ASI</p> <p><u>Student Body Fees</u></p> <p>The chief financial officer of the campus was not acting as the custodian of the student body organization fees.</p> <ul style="list-style-type: none"> ❖ Fees deposited into campus trust, after reconciliation, the fees are transmitted to the ASI, which invest and disburse fees & other revenue from their organizational banking and investment accounts. ❖ The campus chief fiscal officer exercises some oversight of the accounts because he is an authorized signer, and his staff oversees the disbursements. 	<p>We concur. ASI and the University will develop a policy and procedure on how these funds will be handled. June 30, 2002</p>
29	<p>ASI</p> <p><u>Operating Policies & Procedures</u></p> <p>Formal operating policies & procedures for the ASI were not in place during the entire audit review period.</p>	<p>We concur. ASI developed and the Board of Directors approved the operating policies & procedures on May 1999 and approved several policies during the audit process.</p> <p>ASI executive director and the chief financial officer will meet monthly to ensure that ASI appropriately maintains, reviews and updates ASI policies & procedures.</p>
30	<p>ASI</p> <p><u>Minutes</u></p> <p>Minutes were not always maintained for various subcommittees of the ASI board of directors.</p>	<p>We concur. ASI committees will maintain minutes and agendas for each meeting and ASI will be the record custodian.</p>

Organization and Main Issue	Question or Issue Identified During the Review by OUA Audit 01-47	Auxiliary's Responses:
		Records (minutes & agendas) of each committee will be reviewed once per month to ensure compliance by the ASI Executive Director or designee effective November 30, 2001.
31	ASI <u>Tuition Fee Reconciliation</u> Fees received in the ASI ELC were not reconciled to student enrollment.	We concur. The campus / ASI will establish a reconciliation schedule and monitor according to schedule by January 31, 2002.
32	ASI <u>Bank Reconciliation</u> Reconciling items were not always cleared from the monthly bank reconciliation in a timely manner.	We concur. The campus accounting office will establish a reconciliation schedule, review monthly, and insure timely clearing of outstanding items by January 31, 2002.
33	ASI <u>Disbursements</u> Several disbursements lacked sufficient written approval and supporting documentation. Insufficient control over disbursements, in accordance with CSU and related standards, increases the risk that funds will be expended for inappropriate purposes.	We concur. Disbursements training will be provided to staff involved in requesting or approval of expenditures by June 30, 2002.
34	ASI <u>Segregation of Duties</u> Duties and responsibilities over various accounting functions, including cash handling, invoicing and accounts receivable, were not consistently segregated. Inadequate separation of duties increases the risk that errors and irregularities will not be detected in a timely manner.	We concur. The executive director of ASI is developing a system to further segregate cash handling, invoicing and accounts receivable with advice from the director of student financial services. Will be completed by January 31, 2002
35	ASI <u>Petty Cash & Change Funds</u> Internal controls over petty cash and change funds were insufficient. The risk of error or misappropriation increases when petty cash and safe/change funds are not properly controlled.	We concur. Petty cash & cash fund will be reconciled monthly and head campus cashier will conduct periodic audits by January 31, 2002. Change fund policies and procedures will be formalized in writing by December 31, 2001. ASI has separated the petty cash fund from the change fund and petty cash renumbered vouchers have been ordered.

Organization and Main Issue	Question or Issue Identified During the Review by OUA	Auxiliary's Responses:
Audit 01-47		
36	ASI	<p><u>Accounts Receivable</u></p> <p>Controls over accounts receivable were in need of improvement.</p> <ul style="list-style-type: none"> • Accounts receivable were not recorded or reconciled to the general ledger • An aging report was not maintained to track outstanding accounts receivable. • Formal policies and procedures had not been established for the administration, collection and write-off accounts receivable.
We concur. This will be reflective in the current operating agreement where these responsibilities as well as accountability will be defined as of June 30, 2002.		
37	ASI	<p><u>Procurement & Purchasing</u></p> <p>Procurement policies and procedures were not fully documented.</p> <ul style="list-style-type: none"> • Verification of legal and contract provisions. • Definition of prohibited purchases/purchasing practices. • Procedures and guidelines for receiving purchased goods.
<p>We concur. ASI adopted a purchasing policy on April 20, 2001 and will revise to ensure it meets:</p> <ul style="list-style-type: none"> • Verification of legal and contract provisions. • Definition of prohibited purchases/purchasing practices. • Procedures and guidelines for receiving purchased goods <p>Revisions should be completed by December 31, 2001.</p>		
38	ASI	<p><u>Consignment Tickets</u></p> <p>Consignment tickets were not tracked numerically for sales and inventory purposes or recorded to the general ledger.</p> <p>The risk of errors or misappropriation increases when consigned merchandise is not properly controlled.</p>
We concur. A procedure has been established to track consignment tickets and sales. Completed.		
39	ASI	<p><u>Contracts & Agreements</u></p> <p>Risk management concerns related to agreements entered into with outside parties were not fully considered..</p>
We concur. ASI has taken a corrective action and has implemented a disclaimer into agreements with outside entities. ASI Executive Director or designee on all agreements will review insurance requirements quarterly.		
40	ASI	<p><u>Personnel and Payroll Procedures</u></p> <p>Responsibility for the maintenance and calculation of vacation and leave time for ASI staff was not adequately segregated.</p> <p>Inadequate separation of duties increases the risk of errors</p>
We concur. ASI has contacted Advantage Payroll and is currently in the process of establishing the maintenance & calculation of vacation and leave time as part of the service agreement. December 31, 2001		

Organization and Main Issue	Question or Issue Identified During the Review by OUA Audit 01-47	Auxiliary's Responses:
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		and irregularities will not be detected in a timely manner.	
41	ASI	<p><u>Trust Accounts</u></p> <p>Funds held in trust for campus organizations were not sufficiently controlled.</p> <p>Insufficient control over funds held in trust in accordance with CSU and related standards increases the risk of inappropriate expenditures.</p>	We concur. ASI has taken immediate steps to control club/organizations accounts through fund agreements to protect their interests effective September 24, 2001 and monitoring of account balances were effective July 1, 2001.
42	ASI	<p><u>Fixed Assets</u></p> <p>ASI policies and procedures concerning fixed assets were in need of improvement.</p> <p>When property inventory control procedures are inadequately documented, there is an increased risk that property will be lost or stolen.</p>	We concur. ASI executive director will work with the director of accounting services to formulate a record keeping mechanism to be reviewed and approved by the campus CFO by January 31, 2002.

THE CALIFORNIA STATE UNIVERSITY
OFFICE OF THE CHANCELLOR

BAKERSFIELD

January 11, 2002

CHANNEL ISLANDS

CHICO

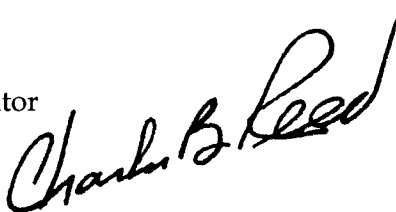
MEMORANDUM

DOMINGUEZ HILLS

FRESNO

TO: Larry Mandel
University Auditor

FULLERTON

FROM: Charles B. Reed
Chancellor


HAYWARD

HUMBOLDT

SUBJECT: Draft Final Report Number 01-47 on Auxiliary Organizations,
California State University, San Marcos

LONG BEACH

LOS ANGELES

MARITIME ACADEMY

In response to your memorandum of January 11, 2002, I accept the response as submitted with the draft final report on Auxiliary Organizations, California State University, San Marcos.

MONTEREY BAY

NORTHRIDGE

POMONA

SACRAMENTO

Enclosure

SAN BERNARDINO

cc: Alexander Gonzalez, President
Stephen G. Garcia, Vice President, Finance and Administrative Services

SAN DIEGO

SAN FRANCISCO

SAN JOSE

SAN LUIS OBISPO

SAN MARCOS

SONOMA

STANISLAUS