

AUXILIARY ORGANIZATIONS

SAN DIEGO STATE UNIVERSITY

Report Number 01-49

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ABBREVIATIONS

AS	Associated Students of San Diego State University
ATM	Automated Teller Machine
CSU	California State University
EO	Executive Order
ERISA	Employee Retirement Income Security Act
FIMSE	Foundation for the Improvement of Mathematics and Science Education
Foundation	San Diego State University Foundation
MIS	Management Information Systems
Shops	Aztec Shops, Ltd.
SPA	Student Parent Association
VEBA	Voluntary Employees' Beneficiary Association

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 years 1999-2000 and 2000-2001 were the primary periods reviewed. In certain instances, we were concerned with representations of the most current data—in such cases, the test period was extended to October 2001. Our primary focus was on internal compliance and controls.

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

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

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

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

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

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

BACKGROUND

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

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

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

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

Section 2. Authority and Responsibility of the Campus President. Title 5, Section 42402 establishes the authority of campus presidents to require auxiliary organizations to operate in conformity with policy of the Board of Trustees and the campus. The president is required to review auxiliary programs and budgets and to require discontinuance of activities not in conformity with policies of the Board of Trustees and campus.

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

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

This report represents our triennial review.

OPINION

We visited the San Diego State University campus from August 20, 2001, through October 19, 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 [13]

CAMPUS SUPPORT ORGANIZATIONS [13]

The campus had neither developed written procedures to identify ancillary organizations operating on campus in support of academic and nonacademic programs nor developed written policies delineating campus oversight authority and organization accountability to campus authority. Internal controls are maximized when written policies and procedures are fully developed and communicated to campus and auxiliary personnel.

PUBLIC RELATIONS AND HOSPITALITY POLICY [14]

The campus had not established a current public relations policy in accordance with Title 5 §42502 nor a hospitality policy applicable to its auxiliary organizations in accordance with Executive Order (EO) No. 761. Establishing required California State University (CSU) policies and procedures reduces the risk of expenditures being inconsistent with the mission and fiduciary responsibility of the university.

CONFLICT OF INTEREST [15]

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. Adequately addressing implementation of conflict-of-interest policies and procedures for auxiliary boards and management decreases liability for acts contrary to the code.

ACCEPTANCE AND ADMINISTRATION OF FUNDS [16]

Agreements between the San Diego State University Foundation (Foundation) and the Foundation for the Improvement of Mathematics and Science Education (FIMSE) lacked sufficient specificity of terms and conditions. Sufficient detail in written agreements reduces the risk of misunderstandings and disputes regarding the terms of the arrangement.

PROGRAMS [16]

A written agreement had not been executed between the campus and the Foundation which defined the administrative and financial responsibilities of each party towards the operation and management of KPBS broadcasting. A written agreement defining each party's responsibilities and expectations decreases the potential for misunderstandings or miscommunication.

SAN DIEGO STATE UNIVERSITY FOUNDATION

LEGAL AND REGULATORY COMPLIANCE [18]

Written declarations of risk assumed by personnel accepting personal responsibility for Voluntary Employees' Beneficiary Association (VEBA) health plan administration had not been obtained by the Foundation. Sufficient disclosure of potential personal risk to employees reduces the risk of miscommunication and misunderstanding as to liability.

INVESTMENTS [19]

Investment reconciliations and interest allocation calculations were not signed and dated by the preparer and reviewer. Complete accounting processes strengthen internal controls over investments.

PURCHASING AND ACCOUNTS PAYABLE [19]

CONSTRUCTION CONTRACT MANAGEMENT AGREEMENT [19]

Appropriate insurance coverage was erroneously not maintained by the construction project management company responsible for oversight of the Foundation's College Community Redevelopment Project. Timely follow-up of contract insurance provisions ensures that contractors maintain appropriate coverage.

SEGREGATION OF DUTIES [20]

Certain accounts payable duties within the Foundation were inadequately segregated. Adequate separation of duties reduces the risk that errors and irregularities will not be detected in a timely manner.

AUTHORIZATION OF DISBURSEMENTS [21]

The Foundation had not established a process requiring that certain expenditures submitted by campus employees be subject to one-up authorization. Controls are improved when policies and procedures require one-up authorization.

CREDIT CARDS [22]

In certain instances, payments were made directly to credit card companies for purchases made on employee personal accounts. Submitting credit card payments directly to the cardholder rather than to the credit card company reduces the risk of error or misappropriation.

TAX REPORTING [22]

Certain Foundation tax reporting procedures were not consistently followed. Proper tax reporting reduces the risk that the Foundation will be subject to federal and state tax penalties.

TRAVEL ADVANCES AND REIMBURSEMENTS [23]

Travel advances and reimbursements claimed against certain project accounts included expenses of several individuals in addition to those of the requester; however, documentation supporting the reimbursement lacked signatures of each member of the travel party. Prohibiting expenses for multiple individuals on a single travel advance or reimbursement reduces the risk of an error or misappropriation going undetected.

TRUSTS AND OTHER LIABILITIES [24]

Trust agreements were not sufficiently documented and maintained on a current basis. Sufficient control over trust accounts reduces the risk of inappropriate expenditures and misunderstandings about account operations.

PROGRAMS [25]

Certain controls over KPBS's maintenance of its membership database needed improvement. Adequate internal controls over the membership database reduce the risk of errors, irregularities, and misappropriation.

THE CAMPANILE FOUNDATION

LEGAL AND REGULATORY COMPLIANCE [26]

The Campanile Foundation had not established a formal reserve policy. Sufficient reserve planning minimizes the auxiliary's risk to fund future deficits.

CASH RECEIPTS AND HANDLING [26]

The reconciliation of gift receipts/revenue to gift acknowledgements by The Campanile Foundation was incomplete. Reconciling gift acknowledgements to gift receipts reduces the risk of errors or misappropriation of gifts.

AZTEC SHOPS, LTD.

LEGAL AND REGULATORY COMPLIANCE [28]

BUDGET AND REVENUE [28]

Aztec Shops, Ltd. (Shops) could not provide documentation evidencing the campus president's approval of the Shops' budget for fiscal years 2000-2001 and 2001-2002. Supporting documentation evidencing appropriate approval of auxiliary budgets reduces the risk that misunderstandings and confusion over the allocation of budgets could occur.

RISK MANAGEMENT [28]

The Shops did not sufficiently insure its directors and officers for liability until July 2001. Additionally, the renewal of the workers' compensation policy did not include one of the Shops' locations. Maintaining sufficient insurance coverage reduces the campus' and the auxiliary organization's exposure to loss from damage claims not covered by the insurance provider.

CASH RECEIPTS AND HANDLING [29]

SEGREGATION OF DUTIES [29]

Duties and responsibilities over cash receipts and accounts receivable were not adequately segregated at the Shops. Adequate separation of duties reduces the risk that errors and irregularities will not be detected in a timely manner.

UNCLEARED COLLECTIONS [30]

Certain of the Shops' policies and procedures for handling unidentified cash receipts were insufficient. The risk of errors or misappropriation is reduced when unidentified cash receipts are properly controlled.

ACCOUNT RECONCILIATIONS [31]

The Shops' reconciliation of bank accounts, accounts payable, and investments were not signed and dated by the preparer and the reviewer. Adequate review and approval of accounts receivable reconciliations reduce the risk of errors, irregularities, and misappropriation of funds.

PETTY CASH [32]

Internal controls over petty cash reimbursements were inadequate. The risk of errors or misappropriation decreases when cash paid-outs are properly controlled and guidelines are documented.

AUTOMATED TELLER MACHINES [33]

Controls over the Shops' automated teller machines (ATM) were inadequate. The risk of errors or misappropriation decreases when ATM funds are sufficiently controlled.

SAFE COMBINATIONS [34]

The Shops did not maintain a current record of safe locations and a list of individuals with access to safe combinations. Maintaining a current record of safe locations and a log of individuals who have access to safes reduces the risk of errors, irregularities, and misappropriation.

PURCHASING AND ACCOUNTS PAYABLE [35]

PROCUREMENT POLICIES AND PROCEDURES [35]

Certain procurement policies and procedures were either not in place or were not fully documented. Internal controls are improved when policies and procedures concerning procurement are fully documented and communicated to auxiliary and campus personnel.

PROCUREMENT CARDS [36]

The Shops' controls over procurement card usage were inadequate. Controls are improved when policies and procedures concerning procurement card use are fully communicated to auxiliary personnel and enforced accordingly.

COMPUTER HARDWARE AND SOFTWARE PURCHASES [38]

Certain computer hardware and software purchases by the Shops' management information systems (MIS) department were not tracked, and the purpose for such purchases was not clearly identified to management. Maintaining adequate controls over fixed assets reduces the risk of error or misappropriation.

VENDOR ACCOUNT BALANCES [39]

The Shops' vendor account maintenance procedures required strengthening. Performing or completing certain general accounting functions on a routine basis reduces the risk that errors or misappropriations will not be detected.

CHECK-WRITING POLICIES AND PROCEDURES [40]

The Shops' check-writing policies and procedures required further documentation and strengthening. Internal controls are improved when policies and procedures are properly documented and communicated to employees.

PERSONNEL AND PAYROLL [41]

SEGREGATION OF DUTIES [41]

Payroll functions were not adequately segregated. Adequate separation of duties reduces the risk that errors and irregularities will not be detected in a timely manner.

PAYROLL PROCESSING [41]

The Shops' internal controls over payroll processing required improvement. Adequate controls over personnel and payroll procedures reduce the risk of errors, irregularities, and misappropriation of funds. In addition, compliance with state legislation reduces the risk of assessed fines.

FLEXIBLE SPENDING PROGRAM [42]

Certain of the Shops' administrative controls over its flexible spending program were inadequate. Proper support for flexible spending accounts reduces the risk of noncompliance with related legal requirements.

FIXED ASSETS [43]

The reconciliation of the fixed asset ledger to the general ledger was not printed and reviewed by management on a periodic basis, nor was it signed and dated by the preparer and the reviewer. Maintaining adequate controls over fixed assets reduces the risk of lost or stolen property.

ASSOCIATED STUDENTS OF SAN DIEGO STATE UNIVERSITY

LEGAL AND REGULATORY COMPLIANCE [45]

WRITTEN AGREEMENTS [45]

Certain written agreements entered into by Associated Students of San Diego State University (AS) were not always complete. Documenting agreements reduces the risk of potential misunderstandings and legal liability.

STUDENT ORGANIZATIONS [46]

A student organization participated in activities related to the AS children's center without appropriate campus authorization. Obtaining proper authorization from the campus reduces the risk of activities not meeting the educational mission of the university.

CASH RECEIPTS [46]

DEPOSITS [46]

Checks used as deposits for teams participating in intramural programs were either not deposited or not processed properly. In addition, current procedures directed toward having teams pick up checks after completion of an event were not documented. Properly processing deposit checks decreases the risk of errors, irregularities, and misappropriation.

SAFE COMBINATIONS [47]

The AS did not change safe combinations when staff turnover occurred, nor did it maintain a log of individuals who had access to its safes. Frequent safe combination changes and maintenance of a current log of individuals who have access to safes reduce the risk of errors, irregularities, and misappropriation.

PERSONNEL AND PAYROLL [48]

CLEARANCE DOCUMENTATION [48]

The AS did not consistently obtain clearance forms from separated/terminated employees. Properly documenting and completing employee clearance forms and removing separated employees from the payroll system reduce the risk of loss, errors, and misappropriation.

TIMESHEETS [49]

AS records of supervisory approvals on employee timesheets were not maintained. Maintaining records of supervisory approvals reduces the risk of loss, errors, and misappropriation.

SUPPLEMENTAL PAYROLL [49]

The AS policies and procedures related to supplemental payroll advances on earned wages were incomplete. Proper controls over payroll advances reduce the risk of loss, errors, and misappropriation.

INFORMATION TECHNOLOGY [50]

USER PROFILE [50]

Inappropriate access to the accounting system was noted for an independent contractor providing accounting services and for two employees having access to both the accounts receivable and accounts payable systems. In addition, authorization to access the accounting system was not obtained for the independent contractor. Adequate controls over access to the accounting system reduce the risk of errors, irregularities, and misappropriation.

DISASTER RECOVERY PLAN [51]

The AS disaster recovery plan did not contain sufficient detail to ensure that data processing services could be recovered in a timely manner. A detailed, written disaster recovery plan helps to ensure that the AS will be able to restore data processing operations within a reasonable time frame.

OBSERVATIONS, RECOMMENDATIONS, AND CAMPUS RESPONSES

CAMPUS

LEGAL AND REGULATORY COMPLIANCE

CAMPUS SUPPORT ORGANIZATIONS

The campus had neither developed written procedures to identify ancillary organizations operating on campus in support of academic and nonacademic programs nor developed written policies delineating campus oversight authority and organization accountability to campus authority.

Various nonprofit organizations 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.

Examples of such organizations include the alumni association, the athletic foundation, the mathematics and science foundation, and the center for families of disabled children.

Due to the perceived value to the California State University (CSU) mission, campus and auxiliary personnel have provided services 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 vice president for business and financial affairs indicated that while the campus exercised strong oversight over campus ancillary organizations, written policies had been prioritized behind other campus issues and activities.

Internal controls are compromised when written policies and procedures are not fully developed and communicated to campus and auxiliary personnel.

Recommendation 1

We recommend that the campus develop procedures for the identification of ancillary organizations that operate on campus and documentation of the activities of each and that a written policy be developed delineating campus oversight authority and organization accountability to campus authority.

Campus Response

We concur. The University will develop procedures to identify campus ancillary organizations and to delineate campus oversight authority and accountability. Procedures will be implemented by December 31, 2002.

PUBLIC RELATIONS AND HOSPITALITY POLICY

The campus had not established a current public relations policy in accordance with Title 5 §42502 nor a hospitality policy applicable to its auxiliary organizations in accordance with Executive Order (EO) No. 761.

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

EO No. 761 requires each campus to develop written policies and procedures regarding the payment of hospitality expenses.

The director of business information management indicated that the campus was in the process of developing appropriate public relations and hospitality policies and procedures.

Not establishing required CSU hospitality policies and procedures could result in expenditures that are inconsistent with the mission and fiduciary responsibility of the university.

Recommendation 2

We recommend that the campus develop a public relations policy applicable to all campus auxiliary organizations and maintain this policy on file with the Office of the Chancellor and, in conjunction with the development of that policy, establish written hospitality policies and procedures in accordance with CSU policy.

Campus Response

We concur. The university has developed a public relations and hospitality policy applicable to all campus auxiliary organizations.

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 partially addressed conflict-of-interest requirements placed upon auxiliaries by the Education Code and Title 5. However, such policies and procedures should also consider 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 the 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. Sound business practice mandates the establishment of 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 business and financial affairs acknowledged that current policies do not consider each of the specific areas listed.

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

Recommendation 3

We recommend that the campus provide guidance for its auxiliaries to strengthen and further document conflict-of-interest policies and procedures.

Campus Response

We concur. The University will work with its auxiliaries on conflict-of-interest policies and procedures. Procedures will be completed by February 28, 2003.

ACCEPTANCE AND ADMINISTRATION OF FUNDS

Agreements between the San Diego State University Foundation (Foundation) and the Foundation for the Improvement of Mathematics and Science Education (FIMSE) lacked sufficient specificity of terms and conditions.

The Foundation accepted, held, and administered funds on behalf of FIMSE, an organization which was, at the time of our fieldwork, seeking status as a separate legal entity from the campus. Funds included a multimillion-dollar grant provided to improve math and science education within San Diego county. Agreements with respect to the multimillion-dollar grant and other grants associated with FIMSE did not clearly describe the Foundation's and the campus' legal, beneficial, or other interest in the funds.

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. Sound business practice mandates sufficient specificity of terms and conditions.

The vice president of business and financial affairs stated her belief that the Foundation's acceptance and administration of such funds was an acceptable practice, as the programmatic aspects of FIMSE paralleled similar campus programs.

The lack of sufficient detail in written agreements increases the risk of misunderstandings and disputes regarding the terms of the agreement.

Recommendation 4

We recommend that agreement terms and conditions between the campus and the Foundation be revised to clearly describe the Foundation's and the campus' legal, beneficial, or otherwise interest in the funds associated with FIMSE.

Campus Response

We concur. The campus and the Foundation will document in writing the relationship related to FIMSE including the legal and beneficial interest between the campus, the Foundation, and FIMSE by December 31, 2002.

PROGRAMS

A written agreement had not been executed between the campus and the Foundation which defined the administrative and financial responsibilities of each party towards the operation and management of KPBS broadcasting.

We found that the campus held the licenses for both KPBS-TV and KPBS-FM. Administrative responsibility over the stations had been generally delegated to the Foundation in 1997. The KPBS

management team are campus employees whose duties include supervising the majority of KPBS personnel who are employees of the Foundation. The Foundation provides administrative services in support of KPBS operation, and it reflects their operations in its financial statements.

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

The vice president of business and financial affairs acknowledged that existing agreements do not sufficiently and clearly define responsibilities.

Without a written agreement to define each party's responsibilities and expectations, the potential for misunderstandings or miscommunication is increased.

Recommendation 5

We recommend that a written agreement be executed between the campus and the Foundation which defines the administrative and financial responsibilities of each party towards the operation and management of KPBS broadcasting.

Campus Response

We concur. The University is preparing a written agreement between the campus and the Foundation, which defines each party's responsibilities towards the KPBS broadcasting. The agreement will be implemented by February 28, 2003.

SAN DIEGO STATE UNIVERSITY FOUNDATION

LEGAL AND REGULATORY COMPLIANCE

Written declarations of risk assumed by personnel accepting personal responsibility for Voluntary Employees' Beneficiary Association (VEBA) health plan administration had not been obtained by the Foundation.

The Foundation established the VEBA plan, which is subject to the provisions of the Employee Retirement Income Security Act (ERISA) of 1974, for the purpose of providing post-retirement health benefits to eligible Foundation employees. As trustees for the plan, the Foundation's associate general manager of financial management and the director of human resources could be held personally liable.

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

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

The Foundation associate general manager of financial management indicated that her responsibilities regarding these funds were a part of her regular duties and responsibilities. Additionally, she indicated that the VEBA structure was established based upon consultation with a law firm who specializes in employment and health plan issues.

Failure to notify personnel of risks involved in administering a VEBA health plan and obtain a written acknowledgement of risks increases the danger of miscommunication and misunderstanding as to liability.

Recommendation 6

We recommend that the Foundation work with appropriate advisors to ensure risks associated with the VEBA health plan are appropriately disclosed to its personnel accepting liability for the administration of the plan and that such personnel confirm, in writing, knowledge of said risks.

Campus Response

We concur. The Foundation has requested its legal counsel to prepare a document which would disclose the risks to the trustees and would call for the trustees to acknowledge the risks in writing. The Foundation intends to have this document signed by October 31, 2002.

INVESTMENTS

Investment reconciliations and interest allocation calculations were not signed and dated by the preparer and reviewer.

Title 5 §42401 and §42402 indicate that the campus president shall require that auxiliary organizations operate in conformity with policy of the Board of Trustees and the campus. One of the objectives of the auxiliary organizations is to provide fiscal procedures and management systems that allow effective coordination of the auxiliary activities with the campus in accordance with sound business practices. Sound business practice mandates that investment reconciliations and interest allocation calculations be signed and dated by the preparer and reviewer.

The Foundation director of investments and gifts concurred and indicated that corrective measures would be taken.

Incomplete accounting processes weaken internal controls over investments.

Recommendation 7

We recommend that the Foundation implement procedures to ensure that investment reconciliations and interest allocation calculations are signed and dated by the preparer and reviewer.

Campus Response

We concur and procedures have been modified.

PURCHASING AND ACCOUNTS PAYABLE

CONSTRUCTION CONTRACT MANAGEMENT AGREEMENT

Appropriate insurance coverage was erroneously not maintained by the construction project management company responsible for oversight of the Foundation's College Community Redevelopment Project.

The construction project management company has overall responsibility for all aspects of development of the College Community Redevelopment Project. The project costs are planned in the multimillions of dollars and compensation under the agreement could exceed several hundred thousand dollars annually.

Section 2.4 (d) of the 1999 agreement between the Foundation and the company states that the company shall secure and maintain, at company's sole cost and expense, a policy of commercial general liability insurance which combines single limits coverage of not less than \$1,000,000, including direct contractual and contingent liability and workers' compensation and employer's liability insurance in accordance with the provisions of California law. The liability insurance shall name the Foundation as an additional insured.

The Foundation associate general manager for operations and property development indicated that it was an oversight that such coverage was not followed up, as contract provisions did not specifically require such. Additionally, he stated that the required insurance is now in place.

Untimely follow-up of contract insurance provisions increases the risk that contractors will not maintain appropriate coverage.

Recommendation 8

We recommend that the Foundation ensure that appropriate insurance coverage is maintained by contractors.

Campus Response

We concur and will ensure that future contracts require contractors to provide evidence of insurance within a specified time. The Foundation will establish a procedure to ensure appropriate follow-up by February 28, 2003.

SEGREGATION OF DUTIES

Certain accounts payable duties within the Foundation were inadequately segregated.

Our review indicated that certain accounts payable personnel had vendor maintenance, accounts payable, and check-writing capabilities.

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 associate general manager of financial management indicated that the accounts payable technicians did not create vendors; however, the security assignments would be changed to reflect the assignment of duties.

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

Recommendation 9

We recommend that the Foundation segregate accounts payable duties or institute and document mitigating controls.

Campus Response

We concur and have implemented the recommendation. Accounting software security assignments have been modified to reflect actual assignment of duties.

AUTHORIZATION OF DISBURSEMENTS

The Foundation had not established a process requiring that certain expenditures submitted by campus employees be subject to one-up authorization.

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

The Foundation associate general manager of financial management indicated that the Foundation structure is set up as an overall review/administrative function and, therefore, an additional one-level-up review was not considered necessary.

Controls are compromised when policies and procedures do not require one-up authorization.

Recommendation 10

We recommend that the Foundation establish a process requiring that certain expenditures submitted by campus employees be subject to one-up authorization.

Campus Response

We concur that certain items should be subject to one-up authorization. The campus and Foundation are working together to develop procedures to implement these new authorizations. This new process will be implemented by February 28, 2003.

CREDIT CARDS

In certain instances, payments were made directly to credit card companies for purchases made on employee personal accounts.

Title 5 §42401 and §42402 indicate that the campus president shall require that auxiliary organizations operate in conformity with policy of the Board of Trustees and the campus. One of the objectives of the auxiliary organizations is to provide fiscal procedures and management systems that allow effective coordination of the auxiliary activities with the campus in accordance with sound business practices. Sound business practice mandates that reimbursements for personal credit card usage be made directly to the individual personally liable for the charges.

The Foundation associate general manager of financial management indicated that Foundation policy has been to allow payment directly to the credit card company if requested by the cardholder.

Submitting credit card payments directly to the credit card company rather than to the cardholder increases the risk of error or misappropriation.

Recommendation 11

We recommend that the Foundation implement procedures to ensure that reimbursement for credit card charges be remitted directly to the cardholder rather than credit card vendors where appropriate.

Campus Response

We concur. An e-mail notice has been sent to all principal investigators of Foundation funds notifying them of the change in procedures. The Foundation is also updating the reimbursements section of its project administration guide, and it will be available on the website by October 31, 2002.

TAX REPORTING

Certain Foundation tax reporting procedures were not consistently followed.

A review of 17 payments made to independent contractors disclosed six instances of inappropriate tax reporting and/or withholding.

Internal Revenue Code §6041 and §1441 and State Revenue and Taxation Code §6041 place specific tax reporting and withholding requirements upon corporations.

The Foundation associate general manager of financial management indicated that most of the situations were isolated instances.

Improper tax reporting may subject the Foundation to federal and state tax penalties.

Recommendation 12

We recommend that the Foundation continue its efforts towards proper tax reporting.

Campus Response

We concur. The Foundation has hired a tax analyst to further its efforts towards proper tax reporting.

TRAVEL ADVANCES AND REIMBURSEMENTS

Travel advances and reimbursements claimed against certain project accounts included expenses of several individuals in addition to those of the requester; however, documentation supporting the reimbursement lacked signatures of each member of the travel party.

Such signatures would have been required had the expense claims been issued individually.

Title 5 §42401 and §42402 indicate that the campus president shall require that auxiliary organizations operate in conformity with policy of the Board of Trustees and the campus. One of the objectives of the auxiliary organizations is to provide fiscal procedures and management systems that allow effective coordination of the auxiliary activities with the campus in accordance with sound business practices. Sound business practice mandates that travel advances and reimbursements only be made to cover the expenses or anticipated expenses of the requester.

The Foundation director of sponsored research administration indicated that the principal investigators or project directors are responsible for the programmatic validity of all travel costs.

Covering several individuals under a single travel advance or reimbursement increases the risk that an error or misappropriation may occur and not be detected timely.

Recommendation 13

We recommend that the Foundation take appropriate measures to ensure that travel advances and reimbursements are issued only to the individual requester, except in exceptional instances where the composition of the travel party requires a campus custodian to administer travel funds and which are supported by appropriate documentation.

Campus Response

We concur. An e-mail notice has been sent to all principal investigators of Foundation funds notifying them of the change in procedures. The Foundation is also updating the travel section of its project administration guide, and it will be available on the website by October 31, 2002.

TRUSTS AND OTHER LIABILITIES

Trust agreements were not sufficiently documented and maintained on a current basis.

Our review of trust agreements indicated that older projects required updating and, in some cases, could not be located. In addition, information required to set up such accounts appeared to vary from project to project.

Title 5 §42401 and §42402 indicate that the campus president shall require that auxiliary organizations operate in conformity with policy of the Board of Trustees and the campus. One of the objectives of the auxiliary organizations is to provide fiscal procedures and management systems that allow effective coordination of the auxiliary activities with the campus in accordance with sound business practices. Sound business practice mandates that trust accounts be maintained on a current basis and be supported by documentation, including account type, source of funds, account purpose, time constraints, authorized or prohibited expenditures, authorized signatures, reporting requirements, instructions for closing accounts, disposition of unexpended funds, and restrictions on the use of funds for administrative or overhead costs.

The Foundation associate general manager of financial management indicated that the Foundation has been requiring more in-depth information on all new trust funds for the past two years and is currently working on revising and updating the information on existing funds.

Insufficient control over trust accounts increases the risk of inappropriate expenditures and misunderstandings about account operations.

Recommendation 14

We recommend that the Foundation take appropriate measures to ensure that trust agreements are sufficiently documented and maintained on a current basis.

Campus Response

We concur. The Foundation requires a Campus Programs Request form be completed for all new requests for trust funds. The form will be reviewed and updated to ensure detailed information is provided. We anticipate the revisions to the form to be completed and implemented by December 31, 2002.

PROGRAMS

Certain controls over KPBS's maintenance of its membership database needed improvement.

We found that:

- ▶ The membership database contained erroneous and duplicative information.
- ▶ The process of reconciling the membership database to cash deposits was incomplete and had not been performed in a timely manner.

Title 5 §42401 and §42402 indicate that the campus president shall require that auxiliary organizations operate in conformity with policy of the Board of Trustees and the campus. One of the objectives of the auxiliary organizations is to provide fiscal procedures and management systems that allow effective coordination of the auxiliary activities with the campus in accordance with sound business practices. Sound business practice mandates that sufficient internal controls be in place over fiscal operations and that the membership database be adequately maintained.

The Foundation associate general manager of financial management indicated that KPBS had hired a consultant to review the membership database and fiscal operations area. She further indicated that the consultant advised management of these issues and the implementation of required improvements was in process at the time of the audit. Additionally, she indicated that the Foundation staff had been working extensively with KPBS to document policies and strengthen controls.

Inadequate controls over the membership database increase the risk of errors, irregularities, and misappropriation.

Recommendation 15

We recommend that the Foundation continue to take appropriate measures to improve the accuracy of KPBS's membership database and develop procedures to ensure proper maintenance going forward.

Campus Response

We concur. The Foundation continues to work with KPBS to improve its controls over the membership database area as well as to develop procedures for maintenance of the system. New reconciliation and data entry procedures have been implemented.

THE CAMPANILE FOUNDATION

LEGAL AND REGULATORY COMPLIANCE

The Campanile Foundation had not established a formal reserve policy.

Such a policy should address or consider the following areas:

- ▶ Minimum reserve requirements.
- ▶ The inclusion of reserves in the budget submitted to the campus president.
- ▶ Board review of reserve levels.
- ▶ Reserves for working capital and capital replacement.
- ▶ The methodology used for the calculation of reserves.

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

The chief information and financial officer of university advancement at The Campanile Foundation indicated that a reserve policy was not deemed necessary during The Campanile Foundation's first year of operations. He further indicated that a policy is currently being developed and should be completed by calendar year end.

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

Recommendation 16

We recommend that The Campanile Foundation establish a formal reserve policy approved by the board of directors.

Campus Response

We concur. On August 21, 2002, The Campanile Foundation board of directors adopted a reserve policy that is consistent with CSU guidelines.

CASH RECEIPTS AND HANDLING

The reconciliation of gift receipts/revenue to gift acknowledgements by The Campanile Foundation was incomplete.

Our review indicated that gift acknowledgements were matched to gift receipts on a batch-by-batch basis; however, an independent reconciliation (totals to totals) of gift acknowledgements (i.e., tax receipts) to gift receipts deposited to The Campanile Foundation was not performed.

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

The chief financial and information officer of university advancement at The Campanile Foundation indicated that, effective June 1, 2002, a monthly report is prepared that reconciles the monthly cash gift receipts deposited in The Campanile Foundation to the San Diego State University Monthly Advancement Gift Report. He further indicated that the information contained in the reconciliation is obtained by the treasurer/chief financial officer of The Campanile Foundation from a variety of sources. In addition, he indicated that the reconciliation is signed off by the director of information services and the treasurer/chief financial officer and a copy is provided to the chief executive officer of The Campanile Foundation for review.

Not reconciling current period batches to totals carried forward increases the risk of errors in reported totals not being detected timely.

Recommendation 17

We recommend that The Campanile Foundation coordinate with the campus to ensure that gift acknowledgements are reconciled in total to all sources of gift receipts/revenue.

Campus Response

We concur. Effective May 31, 2002, The Campanile Foundation has instituted a monthly process that reconciles Campanile Foundation Gift Revenues to gift acknowledgements.

AZTEC SHOPS, LTD.

LEGAL AND REGULATORY COMPLIANCE

BUDGET AND REVENUE

Aztec Shops, Ltd. (Shops) could not provide documentation evidencing the campus president's approval of the Shops' budget for fiscal years 2000-2001 and 2001-2002.

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

The Shops controller indicated that the budget was submitted and approved by the campus president; however, the approval memos could not be located.

The lack of supporting documentation evidencing appropriate approval of auxiliary budgets increases the risk that misunderstandings and confusion over the allocation of budgets could occur.

Recommendation 18

We recommend that the Shops take appropriate measures to ensure that budget approval documentation is properly retained.

Campus Response

We concur and have taken appropriate measures to ensure that documentation is properly retained.

RISK MANAGEMENT

The Shops did not sufficiently insure its directors and officers for liability until July 2001. Additionally, the renewal of the workers' compensation policy did not include one of the Shops' locations.

Title 5 §42401 requires auxiliaries to provide fiscal procedures and management systems that allow effective coordination of the auxiliary activities with the campus in accordance with sound business practices. Education Code §89905.5(c) requires an auxiliary to take measures to protect the campus from all possible liability associated with its service operations.

The Shops chief executive officer indicated that the board of directors elected not to insure executive management against liability in previous years. The Shops internal auditor indicated that not listing one of the Shops' locations on the renewal of the workers' compensation insurance policy was an oversight.

Not maintaining sufficient or appropriate insurance coverage exposes the campus and the auxiliary organization to loss from damage claims not covered by the insurance provider.

During the fieldwork, the Shops obtained appropriate liability insurance for its board and corrected the omission on its workers' compensation policy.

CASH RECEIPTS AND HANDLING

SEGREGATION OF DUTIES

Duties and responsibilities over cash receipts and accounts receivable were not adequately segregated at the Shops.

We found that:

- ▶ The sales audit clerk recorded nonsufficient funds checks, received subsequent clearing payments, and recorded all related transactions.
- ▶ The accounts receivable accountant received checks, matched the checks against open receivables, and recorded the cash receipts/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 Shops controller indicated that for accounts receivable, there are other controls in place that mitigate any segregation of duties issues.

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

Recommendation 19

We recommend that the Shops segregate cash handling and accounts receivable duties or institute mitigating controls.

Campus Response

We concur. Shops has taken appropriate measures and has segregated cash handling and accounts receivable duties.

UNCLEARED COLLECTIONS

Certain of the Shops' policies and procedures for handling unidentified cash receipts were insufficient.

We found that:

- ▶ The accounts receivable accountant removed entries for unidentified cash receipts of small amounts from the daily check log. Once identified, such checks were then entered on a subsequent check log and deposited.
- ▶ For larger cash receipts, the Shops utilized a clearing account until said receipts could be properly coded. As of the audit date, the clearing account showed a balance of \$3,900 with items dating back to 1999.

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

The Shops controller indicated that there was a policy in place for identifying cash receipts and that she was not aware of the check log situation. In addition, she indicated that long-outstanding immaterial balances in the clearing account could not be identified.

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

Recommendation 20

We recommend that the Shops:

- a. Establish written policies and procedures for the handling of unidentified cash receipts.
- b. Ensure that policies prohibit the alteration of check logs and require that all unidentified cash receipts be deposited to a suspense account on a timely basis.
- c. Review, on a regular basis, uncleared collection accounts to ensure all receipts are cleared in a timely manner.

Campus Response

We concur.

- a. Written policies and procedures for the handling of unidentified cash receipts will be completed by November 30, 2002.
- b. Policies which prohibit the alteration of check logs and require that all unidentified cash receipts be deposited to a suspense account on a timely basis will be established by November 30, 2002.
- c. Uncleared collection accounts will be reviewed on a regular basis to ensure all receipts are cleared in a timely manner. Procedures will be completed by November 30, 2002.

ACCOUNT RECONCILIATIONS

The Shops' reconciliation of bank accounts, accounts payable, and investments were not signed and dated by the preparer and the reviewer.

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

The Shops controller indicated that management reviews all reconciliations, but there was no requirement to acknowledge such review via signatures.

Inadequate review and approval of accounts receivable reconciliations increase the risk of errors, irregularities, and misappropriation of funds.

Recommendation 21

We recommend that the Shops sign and date reconciliations to evidence that appropriate reviews have occurred.

Campus Response

We concur. Shops will establish reconciliation procedures by November 30, 2002.

PETTY CASH

Internal controls over petty cash reimbursements were inadequate.

We noted that:

- ▶ A signature list of employees authorized to approve cash paid-out (reimbursement) requests did not exist. There was a list in existence; however, it was outdated.
- ▶ Cash paid-out forms were not consistently approved, or the requestor approved his/her own request.
- ▶ Policies and procedures for cash paid-outs required updating to reflect current designated signers and guidelines as to appropriate uses.

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

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

The Shops controller stated that there was a list of parties permitted to approve paid-out requests; however, it was not current. She further indicated that sales audit employees had not been adequately trained to only accept cash paid-outs with appropriate approvals. Regarding the policies and procedures, she said she was aware that they were not current though they were in the process of being updated.

The risk of errors or misappropriation increases when cash paid-outs are not properly controlled and guidelines are not documented.

Recommendation 22

We recommend that the Shops:

- a. Update the list of employees permitted to approve cash paid-out requests and keep the list current.
- b. Implement appropriate training and review of cash paid-out documents to ensure proper approvals are consistently obtained.
- c. Update cash paid-out policies and procedures to include appropriate signature authorities and explicitly identify what types of requests are permitted and prohibited.

Campus Response

We concur.

- a. The list of employees permitted to approve cash paid-out requests will be updated by November 30, 2002, and will be kept current.
- b. Appropriate training and review of cash paid-out documents to ensure that proper approvals are consistently obtained will be completed by November 30, 2002.
- c. Cash paid-out policies and procedures to include appropriate signature authorities and to identify what types of requests are permitted and prohibited will be completed by November 30, 2002.

AUTOMATED TELLER MACHINES

Controls over the Shops' automated teller machines (ATM) were inadequate.

The Shops offers the services of seven ATMs located throughout their operation. The Shops is fully responsible for the operation of each ATM, including replenishing and controlling cash to be dispensed.

We found that:

- ▶ The task of refilling each ATM with large sums of cash is handled simultaneously by two Shops' employees who are not accompanied by security escort.
- ▶ Reconciliation of funds dispensed by each ATM to accounting system balances is performed only annually. Furthermore, the reconciliation is not performed independently but by the same person who refills the machines.
- ▶ While the Shops operates a network of video surveillance, there is no local coverage at ATM locations.

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

The Shops controller indicated her belief that appropriate controls were in place to address security-related issues for the ATMs. She further indicated that she was not aware that ATM funds were reconciled only on an annual basis.

The risk of errors or misappropriation increases when ATM funds are insufficiently controlled.

Recommendation 23

We recommend that the Shops:

- a. Increase the level of security present when transporting ATM funds.
- b. Ensure that an independent reconciliation of ATM balances to accounting records be performed on a periodic basis as determined by management.
- c. Evaluate the risk benefit of increasing video surveillance to provide local coverage for all ATM locations.

Campus Response

We concur.

- a. Security has been increased when transporting ATM funds.
- b. An independent reconciliation of ATM balances to accounting records is performed on a periodic basis as determined by management.
- c. Shops has evaluated the risk benefit of increasing video surveillance for all ATM locations.

SAFE COMBINATIONS

The Shops did not maintain a current record of safe locations and a list of individuals with access to safe combinations.

Title 5 §42401 and §42402 indicate that the campus president shall require that auxiliary organizations operate in conformity with policy of the Board of Trustees and the campus. One of the objectives of the auxiliary organizations is to provide fiscal procedures and management systems that allow effective coordination of the auxiliary activities with the campus in accordance with sound business practices. Sound business practice mandates that frequent changes to combination safes be performed and a current log of individuals who have access to safes be maintained.

The Shops controller indicated that the list of safes and employees with knowledge of safe combinations was updated periodically but had not been updated for the summer session.

Failure to maintain a current list of safe locations and a log of individuals who have access to safes increases the risk of errors, irregularities, and misappropriation.

Recommendation 24

We recommend that the Shops take appropriate measures to ensure that the record of safe locations and the employees who have combination access is kept current.

Campus Response

We concur and appropriate measures have been taken to ensure that safe locations and employees who have combination access are kept current.

PURCHASING AND ACCOUNTS PAYABLE

PROCUREMENT POLICIES AND PROCEDURES

Certain procurement policies and procedures were either not in place or were not fully documented.

We found that:

- ▶ New vendor setup did not require supervisory review/approval.
- ▶ The preparer and approver did not consistently sign purchase orders.
- ▶ Purchase orders were not requested when required and were often issued after the vendor's invoice was received.

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 the 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 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 appropriate controls over purchasing.

The Shops controller stated that the preparer and approver should have signed purchase orders. She also stated that there are ongoing efforts to educate employees on purchase order completion requirements. The associate director of merchandising indicated that it would not be possible to approve all purchase orders due to the large volume generated by bookstore buyers.

Internal controls are compromised when procurement policies and procedures are not in place and/or are not fully documented and communicated to auxiliary and campus personnel.

Recommendation 25

We recommend that the Shops further develop and/or document procurement policies and procedures, which address:

- a. Setting up new vendors only with appropriate supervisory review/approval.
- b. Purchase orders being consistently signed by the preparer and approver.
- c. Purchase orders being requested prior to purchases as required by the Shops' policy.

Campus Response

We concur and have developed and documented procurement policies and procedures that:

- a. Set up new vendors only with appropriate supervisory review/approval.
- b. Ensure purchase orders are consistently signed by the preparer and approver.
- c. Purchase orders are requested prior to purchases as required by Shops' policy.

PROCUREMENT CARDS

The Shops' controls over procurement card usage were inadequate.

We noted that:

- ▶ Purchases on the procurement Visa card routinely exceeded the \$500 limit per the Shops' policy.
- ▶ Copied and faxed invoices were accepted as supporting documentation for procurement card purchases.
- ▶ A monitoring process is in place for post-audits of procurement card monthly billing statements, but currently not being followed.
- ▶ Employees did not sign cardholder acknowledgements for the credit cards used for travel expenses.
- ▶ Policies and procedures for the distribution and use of the travel credit card did not exist.

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

The Shops controller advised that the procurement card limit was not enforced, and all cardholders were not diligent in turning in original receipts/invoices. Additionally, she indicated that current human resources did not allow for post-audits of procurement card activity by the accounting department; however, all purchases were approved by a manager.

Internal controls are compromised when policies and procedures concerning procurement card use are not fully developed/fully communicated to auxiliary personnel and enforced accordingly.

Recommendation 26

We recommend that the Shops take appropriate measures to ensure that procurement cards are properly administered. Such measures should include:

- a. Accounting controls to ensure procurement card purchases do not exceed established limits.
- b. Reemphasis of the Shops' policy that only original invoices/receipts be submitted as supporting documentation for procurement card purchases.
- c. Post-audit of procurement card activity to ensure supporting documentation is received for all line items.
- d. Reemphasis of cardholder acknowledgement procedures for the credit cards used for travel expenses.
- e. Formal, written policies and procedures for the distribution and use of corporate travel credit cards.

Campus Response

We concur and appropriate measures have been taken to ensure that procurement cards are properly administered.

- a. Accounting controls have been established to ensure procurement card purchases do not exceed established limits.
- b. Shops' policy has reemphasized that only original invoices/receipts are submitted as supporting documentation for procurement card purchases.
- c. Post-audits have been implemented of procurement card activity to ensure supporting documentation is received for all line items.
- d. Revised procedures have reemphasized cardholder acknowledgements for the credit cards used for travel expenses.
- e. Written policies and procedures have been established for the distribution and use of corporate travel credit cards.

COMPUTER HARDWARE AND SOFTWARE PURCHASES

Certain computer hardware and software purchases by the Shops' management information systems (MIS) department were not tracked, and the purpose for such purchases was not clearly identified to management.

Specifically, we found that an MIS employee was permitted to ship said purchases directly to his personal residence and no policy existed to prohibit such activity. The items purchased were expensed and not capitalized under the Shops' current policy.

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

The Shops controller indicated that computer hardware and software were purchased to allow the MIS director to work at his personal residence. She further indicated that an explanation of each purchase was provided to management; however, it was not always understood due to the nature of the equipment purchased.

Failure to maintain adequate controls over fixed assets increases the risk of errors or misappropriation.

Recommendation 27

We recommend that the Shops take appropriate measures to fully account for and control all purchases made through the MIS department and establish a policy to prohibit shipments made directly to personal addresses of employees.

Campus Response

We concur and appropriate measures have been taken to fully account for and control all purchases made through the MIS department. Shops has also established a policy to prohibit shipments made directly to personal addresses of employees.

VENDOR ACCOUNT BALANCES

The Shops' vendor account maintenance procedures required strengthening.

We found that:

- ▶ Outstanding checks issued over one year ago were not transferred to a liability account and held for escheatment.
- ▶ A report to show vendors with debit accounts payable balances did not exist. Management was not aware of one vendor with a \$45,000 debit balance dating back over 90 days.

Title 5 §42401 and §42402 indicate that the campus president shall require that auxiliary organizations operate in conformity with policy of the Board of Trustees and the campus. One of the objectives of the auxiliary organizations is to provide fiscal procedures and management systems that allow effective coordination of the auxiliary activities with the campus in accordance with sound business practices. Sound business practice mandates that general accounting procedures be complete and performed on a routine basis.

The Shops controller indicated that the outstanding amounts were immaterial and that the previous accounting system generated a report that identified vendors with debit accounts payable balances. She also indicated that management reviews all reconciliations, but there was no requirement to acknowledge such review via signatures.

Failure to perform or complete certain general accounting functions on a routine basis increases the risk that errors or misappropriations will not be detected.

Recommendation 28

We recommend that the Shops:

- a. Transfer long-outstanding checks to a liability account for tracking and escheatment purposes.
- b. Implement review procedures to ensure that only acceptable items are included on the debit accounts payable report and that such items are cleared in a timely manner.

Campus Response

We concur and will:

- a. Transfer long-outstanding checks to a liability account for tracking and escheatment purposes. This will be completed by November 30, 2002.
- b. Implement review procedures by November 30, 2002, to ensure that only acceptable items are included on the debit accounts payable report and that such items are cleared in a timely manner.

CHECK-WRITING POLICIES AND PROCEDURES

The Shops' check-writing policies and procedures required further documentation and strengthening.

We found that check-writing policies and procedures did not address the following:

- ▶ Retention of voided checks.
- ▶ Logging of expense checks not delivered by mail; a log of individuals who picked up expense checks in person was not maintained.
- ▶ Knowledge of the check-signing machine code; a list of those with knowledge of the check-signing machine code or when it was last changed did not exist.

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

The Shops controller indicated that certain accounting policies and procedures have not been updated since the introduction of the new accounting system.

Internal controls are compromised when policies and procedures are not properly documented and communicated to employees.

Recommendation 29

We recommend that the Shops strengthen and further document check-writing policies and procedures.

Campus Response

We concur and will strengthen and further document check-writing policies and procedures by November 30, 2002.

PERSONNEL AND PAYROLL

SEGREGATION OF DUTIES

Payroll functions were not adequately segregated.

We noted that the payroll accountant had the ability to enter data from manual timecards.

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 Shops controller indicated that the current assignment of duties required the payroll accountant to enter timecard data for manual timecards signed by a supervisor.

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

Recommendation 30

We recommend that the Shops segregate payroll responsibilities or develop mitigating procedures.

Campus Response

We concur and will segregate payroll responsibilities or develop mitigating procedures by November 30, 2002.

PAYROLL PROCESSING

The Shops' internal controls over payroll processing required improvement.

We found that:

- ▶ Procedures did not require supervisors to document their review of their respective employees' time reports prior to payroll processing.
- ▶ Paychecks for part-time and full-time hourly employees did not list the employee's respective hourly rate of pay.

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

California Labor Code §226(a)(9) requires every employer, at the time of each payment of wages, to furnish each of his or her employees an itemized statement in writing showing all applicable hourly rates in effect during the pay period and the corresponding number of hours worked at each hourly rate by the employee.

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 Shops controller indicated that the current timekeeping system had not been configured to require reviews and approvals as identified by the audit. She further indicated that payroll check remittances were being revised at the time of the audit to include the employee's rate of pay.

Inadequate controls over personnel and payroll procedures increase the risk of errors, irregularities, and misappropriation of funds. In addition, failure to comply with state legislation could result in assessment of fines.

Recommendation 31

We recommend that the Shops implement:

- a. Procedures requiring supervisors to document their review of their respective employees' time reports prior to payroll processing.
- b. Procedures requiring paychecks for part-time and full-time hourly employees list the employee's respective hourly rate of pay.

Campus Response

We concur.

- a. Procedures have been established which now require supervisors to document their review of employees' time reports prior to payroll processing.
- b. Procedures have been established which require the hourly rate of pay to be listed on paychecks for part-time and full-time hourly employees.

FLEXIBLE SPENDING PROGRAM

Certain of the Shops' administrative controls over its flexible spending program were inadequate.

We noted certain reimbursements were issued with inadequate or no supporting documentation. Additionally, guidelines for the administration of the program did not address elective medical procedures.

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

objectives of the auxiliary organizations is to provide fiscal procedures and management systems that allow effective coordination of the auxiliary activities with the campus in accordance with sound business practices. Sound business practice mandates proper controls over the administration of flexible spending accounts.

The Shops controller indicated that there should have been and was supporting documentation for all flexible spending account reimbursements at the time of disbursement. However, she indicated that at the time of the audit, the supporting documentation was misplaced after being separated from the reimbursement in question for privacy reasons.

Insufficient support for flexible spending accounts increases the risk of noncompliance with related legal requirements.

Recommendation 32

We recommend that the Shops:

- a. Implement appropriate procedures to ensure that all flexible spending account reimbursements are supported by adequate documentation.
- b. Clarify existing policies regarding certain cosmetic and elective medical procedures.

Campus Response

We concur.

- a. Procedures have been implemented to ensure that all flexible spending account reimbursements are supported by adequate documentation.
- b. Policies have been clarified regarding certain cosmetic and elective medical procedures.

FIXED ASSETS

The reconciliation of the fixed asset ledger to the general ledger was not printed and reviewed by management on a periodic basis, nor was it signed and dated by the preparer and the reviewer.

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

The Shops controller indicated that the reconciliations are reviewed by management but are not signed.

Failure to maintain adequate controls over fixed assets increases the risk of lost or stolen property.

Recommendation 33

We recommend that the Shops ensure that the reconciliation of the fixed asset ledger to the general ledger be printed and reviewed by management on a periodic basis and that it be signed and dated by the preparer and the reviewer.

Campus Response

We concur. Procedures have been established for the periodic reconciliation and review of the fixed asset ledger to the general ledger by management. The reconciliation will be signed and dated by the preparer and the reviewer.

ASSOCIATED STUDENTS OF SAN DIEGO STATE UNIVERSITY

LEGAL AND REGULATORY COMPLIANCE

WRITTEN AGREEMENTS

Certain written agreements entered into by Associated Students of San Diego State University (AS) were not always complete.

We found that:

- ▶ Consideration between the AS and the Shops was not documented in an agreement to provide food services to the children's center.
- ▶ A memorandum of understanding or an agreement with the exercise and nutrition science department was not documented for students receiving credit and participating in classes offered through the Mission Bay Aquatic Center and Aztec Recreation Center.

Title 5 §42401 and §42402 indicate that the campus president shall require that auxiliary organizations operate in conformity with policy of the Board of Trustees and the campus. One of the objectives of the auxiliary organizations is to provide fiscal procedures and management systems that allow effective coordination of the auxiliary activities with the campus in accordance with sound business practices. Sound business practice mandates that agreements should be complete and should include consideration, terms, and indemnification clauses.

The AS associate director indicated that consideration or fees are subject to change; thus, consideration was a separate part of the agreement. In addition, she indicated that an indemnification clause was not included in the one agreement due to the limited number of vendors providing ticketing services. The associate director further indicated that in the children's center, children development students work as volunteers and sociology students are merely observers. Therefore, a memorandum of understanding between AS and the two academic departments was not established.

Failure to completely document agreements increases the risk of potential misunderstandings and legal liability.

Recommendation 34

We recommend that the AS:

- a. Amend the agreements noted above.
- b. Take appropriate measures to ensure that all written agreements are complete.

Campus Response

We concur.

- a. The agreement between AS and Aztec Shops has been amended to include food services provided to the children's center. The agreement with San Diego State University department of exercise and nutritional sciences has also been amended.
- b. Measures have been taken to ensure that all written agreements are complete.

STUDENT ORGANIZATIONS

A student organization participated in activities related to the AS children's center without appropriate campus authorization.

The Student Parent Association (SPA) is an informal group of children's center parents that provide support to one another.

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

The AS children's center manager indicated that the SPA was an informal support group and, therefore, not authorized through the university.

Failure to obtain proper authorization from the university increases the risk of activities not meeting the educational mission of the university.

During the fieldwork, the SPA was authorized and approved by the office of student development and life on October 1, 2001.

CASH RECEIPTS

DEPOSITS

Checks used as deposits for teams participating in intramural programs were either not deposited or not processed properly. In addition, current procedures directed toward having teams pick up checks after the completion of an event were not documented.

Approximately 50 twenty-five dollar checks dated between 1996 and 1997 were noted in the petty cash vault.

Title 5 §42401 and §42402 indicate that the campus president shall require that auxiliary organizations operate in conformity with policy of the Board of Trustees and the campus. One of the objectives of the auxiliary organizations is to provide fiscal procedures and management systems that allow effective coordination of the auxiliary activities with the campus in accordance with sound business practices. Sound business practice mandates an effective system of internal controls, which includes checks to be deposited or appropriately processed.

The AS associate director indicated that checks were not processed properly due to the lack of training provided to staff. In addition, she indicated that procedures to shred checks after the event would be implemented. During fieldwork, the AS implemented the procedure of shredding checks and notified the auditors of that fact.

Failure to properly process deposit checks increases the risk of errors, irregularities, and misappropriation.

During the fieldwork, it was noted that the AS had taken appropriate measures to ensure the proper processing of intramural deposits.

SAFE COMBINATIONS

The AS did not change safe combinations when staff turnover occurred, nor did it maintain a log of individuals who had access to its safes.

Written policy and procedures to frequently change safe combinations and to maintain a log of individuals who have access to safes were not noted.

Our review indicated that the last change of safe combinations was made in August 1999.

Title 5 §42401 and §42402 indicate that the campus president shall require that auxiliary organizations operate in conformity with policy of the Board of Trustees and the campus. One of the objectives of the auxiliary organizations is to provide fiscal procedures and management systems that allow effective coordination of the auxiliary activities with the campus in accordance with sound business practices. Sound business practice mandates that safe combination changes be made when staff turnover occurs and a log of individuals who have access to safes be maintained.

The AS associate director indicated her belief that the current practice was adequate.

Failure to frequently change safe combinations and to maintain a log of individuals who have access to safes increases the risk of errors, irregularities, and misappropriation.

Recommendation 35

We recommend that the AS change safe combinations when staff turnover occurs and maintain a log of individuals who have access to safes.

Campus Response

We concur. All safe combinations were changed in December 2001 and will be changed in the future when staff turnover occurs and periodically under all circumstances. A log is now maintained.

PERSONNEL AND PAYROLL

CLEARANCE DOCUMENTATION

The AS did not consistently obtain clearance forms from separated/terminated employees.

We found that two of four personnel files for terminated employees reviewed did not have clearance forms.

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

The AS associate director indicated that clearance forms were not completed because the said employees were both on a leave of absence when they separated. She also indicated that certain employees that work in the Cox Arena as part of the setup crew are maintained in the payroll system due to significant fluctuations in the need for employees.

Failure to document and complete employee clearance forms and remove separated employees from the payroll system increases the risk of loss, errors, and misappropriation.

Recommendation 36

We recommend that the AS strengthen policy and procedures to ensure that clearance forms are documented and completed for all separated/terminated employees.

Campus Response

We concur. The separated employees without signed clearance forms were two individuals who resigned while on leave. In the future, AS will complete a clearance form on behalf of the employee under those circumstances. There has been no circumstance in the last year that requires this procedure. All remaining terminating full-time employees have a signed check-out form on file.

TIMESHEETS

AS records of supervisory approvals on employee timesheets were not maintained.

The AS timekeeping system automatically tracks employee hours and is used by supervisors to approve such hours. Employee hours are posted in the employee's respective areas to be reviewed (but not signed) by the employee.

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

The AS associate director indicated that supervisory approvals were not maintained due to mitigating controls, which include review of timesheets by the employee, supervisor, payroll technician, and management.

Failure to maintain records of supervisory approvals increases the risk of loss, errors, and misappropriation.

Recommendation 37

We recommend that the AS maintain records to evidence supervisory review and approval of employee hours.

Campus Response

We concur. AS has started to save an electronic file of supervisor sign-offs on timekeeping records.

SUPPLEMENTAL PAYROLL

The AS policies and procedures related to supplemental payroll advances on earned wages were incomplete.

We noted that policies and procedures for payroll advances (on earned wages) lacked specific detail, including maximum and minimum amounts, time provided for repayment, appropriate authorization needed for an advance, and reason or special consideration for receiving an advance.

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

The AS associate director indicated that the policy manual reflects that only one advance will be allowed per year per employee. She further indicated that the request form for advances notes the requirement of the supervisor's approval and a copy of the timekeeping report (Kronos) reflecting the number of hours worked to date which limits the amount of the advance. She also indicated that the procedure (not written) is to always deduct the advance from the next paycheck.

Insufficient controls over payroll advances increase the risk of loss, errors, and misappropriation.

Recommendation 38

We recommend that the AS revise and strengthen its policies and procedures related to supplemental payroll advances on earned wages, including specific detail as to maximum and minimum amounts, time provided for repayment, appropriate authorization needed for an advance, and reason or special consideration for receiving an advance.

Campus Response

We concur. AS is in the process of updating the Employee Handbook to include documentation. Estimated completion is November 1, 2002.

INFORMATION TECHNOLOGY

USER PROFILE

Inappropriate access to the accounting system was noted for an independent contractor providing accounting services and for two employees having access to both the accounts receivable and accounts payable systems. In addition, authorization to access the accounting system was not obtained for the independent contractor.

Title 5 §42401 and §42402 indicate that the campus president shall require that auxiliary organizations operate in conformity with policy of the Board of Trustees and the campus. One of the objectives of the auxiliary organizations is to provide fiscal procedures and management systems that allow effective coordination of the auxiliary activities with the campus in accordance with sound business practices. Sound business practice mandates that sufficient internal controls be maintained to ensure that appropriate and authorized individuals have access to the accounting system.

The AS associate director indicated that access was necessary for all three individuals at some point in time. She further indicated that two of the three individuals have since been removed from the accounting system. In addition, she indicated that although one individual still has access to the system, his work is being closely supervised and reviewed by the accounting supervisor and/or the controller.

Inadequate controls over accessing the accounting system increase the risk of errors, irregularities, and misappropriation.

Recommendation 39

We recommend that the AS strengthen procedures to ensure that only appropriate and authorized individuals have access to the accounting system.

Campus Response

We concur. All current users have a network authorization form and signed computer user agreement on file.

DISASTER RECOVERY PLAN

The AS disaster recovery plan did not contain sufficient detail to ensure that data processing services could be recovered in a timely manner.

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

EO No. 696 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 AS system administrator indicated that high-level plans were in place to acquire the necessary hardware and that data recovery procedures were documented; however, comprehensive, detailed disaster recovery policies and procedures had not been completed.

Without a detailed information technology disaster recovery plan, the AS may not be able to restore computer operations within a reasonable time frame, which could severely impact the ability of the AS to conduct normal business operations.

Recommendation 40

We recommend that the AS enhance its information technology disaster recovery plan to ensure that data processing services can be resumed in a timely manner.

Campus Response

We concur. AS is in the process of reviewing the information technology disaster recovery plan. Estimated completion will be February 1, 2003.

APPENDIX A: PERSONNEL CONTACTED

Name

Title

CAMPUS

Stephen L. Weber	President
Allan R. Bailey	Chief Financial and Information Officer, University Advancement
Keith Benton	Director of Information Services, University Advancement
Valerie Carter	Business Information Management
Ellene Gibbs	Director of Business Information Management
Sally Roush	Vice President for Business and Financial Affairs

SAN DIEGO STATE UNIVERSITY FOUNDATION

Charlotte Albergetis	Director of Marketing, KPBS
Steve Bloom	Associate General Manager for Operations and Property Development
Juanita Brents	Director of Human Resources
Horst Bruenjes	Associate General Manager for Administration and Finance, KPBS
Kristin Butler	Accounting Technician I
Melinda Coil	Director of Financial Management
James Dow	Risk Manager
Frances Fairchild	Travel Coordinator
Michele Goetz	Director of Sponsored Research Administration
Lynne Grenfell	Director of Business Services
Timothy Hushen	Associate General Director
Tom Karlo	Associate General Manager, KPBS
Leslie Levinson	Associate General Manager for Financial Management
Dianne Lovell	Associate Director of Human Resources
Shirley McGary	Payroll Manager and Alien Tax Coordinator
Jeanette Miller	Tax Coordinator
Bobbi Pointer	Administrative Analyst/Specialist
Margaret Rojas	Payroll Technician II
Olivia Ruiz	Lead Accounting Technician II
Sharon Serra	Buyer III
Rachel Stockstein	Financial Systems Manager
Frank Sweeney, III	Director of Investments and Gifts
Peggy Wong	Personnel/Payroll Technician

THE CAMPANILE FOUNDATION

Allan R. Bailey	Chief Financial and Information Officer, University Advancement
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AZTECS SHOPS, INC.

Erin Ayers	Bookstore Sales Floor Manager
Rick Barber	Associate Director, Dining Services
Debbie Burchianti	Associate Director, Dining Services
Robyn Clark	Associate Director, Bookstore
Jack Dement	Chief Executive Officer

Sue Ann Finn	Human Resources Manager
Margaret Garofalo	Director, Facilities Services
Jahan Jamshidi	MIS Director
Bill Johnson	Associate Director, Merchandising
Stephanie Kramer	Catering Manager
Sylvia Mangubat	Campus Stores Director
Gary Mansfield	Associate Director, Distribution
Donna Martens	Accountant, Fixed Assets
Jan Mask	Associate Director, Textbooks
Mara McCane	Accountant, Accounts Receivable
Lois McCoy	Cashiering/Sales Audit Supervisor
Leah Messenger	Payroll Accountant
Debi Norton	Accountant, General Ledger
Jeanie Pesicka	Course Materials Manager
H. E. Reichert	Internal Auditor
Dennis Roth	Elderhostel
Lorrie Sanchez	Concessions Manager
Cathy Schieffer	Controller
Martha Speck	Divisional Manager, Purchasing
Donald Taylor	Loss Prevention Manager
Donna Tusack	Chief Accounting Officer
Barbara Van Meter	Accounting Manager
Virginia Weckback	Accountant, Accounts Payable

ASSOCIATED STUDENTS, INC.

Austin Bailey	Vice President of Finance
Glen Brandenburg	Director, Mission Bay Aquatic Center
Colby Cease	System Administrator
Dan Cornthwaite	Executive Director
Marian Dunnick	Manager, Children's Center
Victoria Elder	Business Services Manager, Aztec Center
Vicki Greene	Member Services Coordinator, Campus Recreation
Lana Heck	Office Supervisor
Susan Heiser	Associate Director
Eric Huth	Director, Campus Recreation
Sandra Keshka	Controller
John Kolek	Director, Cox Arena
Brian Lindlar	Meeting Services Manager
Elizabeth Pira	Cashier
Rosa Ramos	Payroll Technician
Andy Stone	Director, Aztec Center
Jim Tipton	Accounting Supervisor
Ron Williams	Student Body President

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.



A Century Of Learning 1897-1997

THE PRESIDENT

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September 30, 2002

Mr. Larry Mandel
University Auditor
The California State University
401 Golden Shore
Long Beach, CA 90802



Dear Mr. Mandel:

The following is San Diego State University's response to Audit Report Number 01-49, *Auxiliary Organizations*. For ease of reference, the report's recommendations have been included with our responses.

CAMPUS OVERSIGHT

Recommendation 1

We recommend that the campus develop procedures for the identification of ancillary organizations that operate on campus and documentation of the activities of each and that a written policy be developed delineating campus oversight authority and organization accountability to campus authority.

Campus Response

We concur. The University will develop procedures to identify campus ancillary organizations and to delineate campus oversight authority and accountability. Procedures will be implemented by December 31, 2002.

Recommendation 2

We recommend that the campus develop a public relations policy applicable to all campus auxiliary organizations and maintain this policy on file with the Office of the Chancellor and, in conjunction with the development of that policy, establish written hospitality policies and procedures in accordance with CSU policy.

Campus Response

We concur. The University has developed a public relations and hospitality policy applicable to all campus auxiliary organizations.

Recommendation 3

We recommend that the campus provide guidance for its auxiliaries to strengthen and further document conflict-of-interest policies and procedures.

Campus Response

We concur. The University will work with its auxiliaries on conflict-of-interest policies and procedures. Procedures will be completed by February 28, 2003.

Recommendation 4

We recommend that agreement terms and conditions between the campus and the Foundation be revised to clearly describe the Foundation's and the campus' legal, beneficial, or otherwise interest in the funds associated with FIMSE.

Campus Response

We concur. The campus and the Foundation will document in writing the relationship related to FIMSE including the legal and beneficial interest between the campus, the Foundation, and FIMSE by December 31, 2002.

Recommendation 5

We recommend that a written agreement be executed between the campus and the Foundation, which defines the administrative and financial responsibilities of each party towards the operation and management of KPBS broadcasting.

Campus Response

We concur. The University is preparing a written agreement between the campus and the Foundation, which defines each party's responsibilities towards the KPBS broadcasting. The agreement will be implemented by February 28, 2003.

SAN DIEGO STATE UNIVERSITY FOUNDATION

Recommendation 6

We recommend that the Foundation work with appropriate advisors to ensure risks associated with the VEBA health plan are appropriately disclosed to its personnel accepting liability for the administration of the plan and that such personnel confirm, in writing, knowledge of said risks.

Campus Response

We concur. The Foundation has requested its legal counsel to prepare a document, which would disclose the risks to the trustees and would call for the trustees to acknowledge the risks in writing. The Foundation intends to have this document signed by October 31, 2002.

Recommendation 7

We recommend that the Foundation implement procedures to ensure that investment reconciliations and interest allocation calculations are signed and dated by the preparer and reviewer.

Campus Response

We concur and procedures have been modified.

Recommendation 8

We recommend that the Foundation ensure that appropriate insurance coverage is maintained by contractors.

Campus Response

We concur and will ensure that future contracts require contractors to provide evidence of insurance within a specified time. The Foundation will establish a procedure to ensure appropriate follow-up by February 28, 2003.

Recommendation 9

We recommend that the Foundation segregate accounts payable duties or institute and document mitigating controls.

Campus Response

We concur and have implemented the recommendation. Accounting software security assignments have been modified to reflect actual assignment of duties.

Recommendation 10

We recommend that the Foundation establish a process requiring that certain expenditures submitted by campus employees be subject to one-up authorization.

Campus Response

We concur that certain items should be subject to one-up authorization. The campus and Foundation are working together to develop procedures to implement these new authorizations. This new process will be implemented by February 28, 2003.

Recommendation 11

We recommend that the Foundation implement procedures to ensure that reimbursement for credit card charges be remitted directly to the cardholder rather than credit card vendors where appropriate.

Campus Response

We concur. An e-mail notice has been sent to all Principal Investigators' of Foundation funds notifying them of the change in procedures. The Foundation is also updating the reimbursements section of its project administration guide and it will be available on the website by October 31, 2002.

Recommendation 12

We recommend that the Foundation continue its efforts towards proper tax reporting.

Campus Response

We concur. The Foundation has hired a Tax Analyst to further its efforts towards proper tax reporting.

Recommendation 13

We recommend that the Foundation take appropriate measures to ensure that travel advances and reimbursements are issued only to the individual requester, except in exceptional instances where the composition of the travel party requires a campus custodian to administer travel funds and which are supported by appropriate documentation.

Campus Response

We concur. An e-mail notice has been sent to all Principal Investigators' of Foundation funds notifying them of the change in procedures. The Foundation is also updating the travel section of its project administration guide and it will be available on the website by October 31, 2002.

Recommendation 14

We recommend that the Foundation take appropriate measures to ensure that trust agreements are sufficiently documented and maintained on a current basis.

Campus Response

We concur. The Foundation requires a Campus Programs Request form be completed for all new requests for trust funds. The form will be reviewed and updated to ensure detailed information is provided. We anticipate the revisions to the form to be completed and implemented by December 31, 2002.

Recommendation 15

We recommend that the Foundation continue to take appropriate measures to improve the accuracy of KPBS's membership database and develop procedures to ensure proper maintenance going forward.

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Campus Response

We concur. The Foundation continues to work with KPBS to improve its controls over the membership database area as well as to develop procedures for maintenance of the system. New reconciliation and data entry procedures have been implemented.

THE CAMPANILE FOUNDATION

Recommendation 16

We recommend that The Campanile Foundation establish a formal reserve policy approved by the board of directors.

Campus Response

We concur. On August 21, 2002, The Campanile Foundation Board of Directors adopted a reserve policy that is consistent with CSU guidelines.

Recommendation 17

We recommend that The Campanile Foundation coordinate with the campus to ensure that gift acknowledgements are reconciled in total to all sources of gift receipts/revenue.

Campus Response

We concur. Effective May 31, 2002, The Campanile Foundation has instituted a monthly process that reconciles Campanile Foundation Gift Revenues to gift acknowledgements.

AZTEC SHOPS, LTD.

Recommendation 18

We recommend that the Shops take appropriate measures to ensure that budget approval documentation is properly retained.

Campus Response

We concur and have taken appropriate measures to ensure that documentation is properly retained.

Recommendation 19

We recommend that the Shops segregate cash handling and accounts receivable duties or institute mitigating controls.

Campus Response

We concur. Shops has taken appropriate measures and has segregated cash handling and accounts receivable duties.

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Recommendation 20

We recommend that the Shops:

- a. Establish written policies and procedures for the handling of unidentified cash receipts.
- b. Ensure that policies prohibit the alteration of check logs and require that all unidentified cash receipts be deposited to a suspense account on a timely basis.
- c. Review, on a regular basis, uncleared collection accounts to ensure all receipts are cleared in a timely manner.

Campus Response

We concur.

- a. Written policies and procedures for the handling of unidentified cash receipts will be completed by November 30, 2002.
- b. Policies that prohibit the alteration of check logs and require that all unidentified cash receipts be deposited to a suspense account on a timely basis will be established by November 30, 2002.
- c. Uncleared collection accounts will be reviewed on a regular basis to ensure all receipts are cleared in a timely manner. Procedures will be completed by November 30, 2002.

Recommendation 21

We recommend that the Shops sign and date reconciliations to evidence that appropriate reviews have occurred.

Campus Response

We concur. Shops will establish reconciliation procedures by November 30, 2002.

Recommendation 22

We recommend that the Shops:

- a. Update the list of employees permitted to approve cash paid-out requests and keep the list current.
- b. Implement appropriate training and review of cash paid-out documents to ensure proper approvals are consistently obtained.
- c. Update cash paid-out policies and procedures to include appropriate signature authorities and explicitly identify what types of requests are permitted and prohibited.

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Campus Response

We concur.

- a. The list of employees permitted to approve cash paid-out requests will be updated by November 30, 2002 and will be kept current.
- b. Appropriate training and review of cash paid-out documents to ensure that proper approvals are consistently obtained will be completed by November 30, 2002.
- c. Cash paid-out policies and procedures to include appropriate signature authorities and to identify what types of requests are permitted and prohibited will be completed by November 30, 2002.

Recommendation 23

We recommend that the Shops:

Increase the level of security present when transporting ATM funds.

- b. Ensure that an independent reconciliation of ATM balances to accounting records be performed on a periodic basis as determined by management.
- c. Evaluate the risk benefit of increasing video surveillance to provide local coverage for all ATM locations.

Campus Response

We concur.

Security has been increased when transporting ATM funds.

- b. An independent reconciliation of ATM balances to accounting records is performed on a periodic basis as determined by management.
- c. Shops has evaluated the risk benefit of increasing video surveillance for all ATM locations.

Recommendation 24

We recommend that the Shops take appropriate measures to ensure that the record of safe locations and the employees who have combination access is kept current.

Campus Response

We concur and appropriate measures have been taken to ensure that safe locations and employees who have combination access are kept current.

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Recommendation 25

We recommend that the Shops further develop and/or document procurement policies and procedures, which address:

- a. Setting up new vendors only with appropriate supervisory review/approval
- b. Purchase orders being consistently signed by the preparer and approver.
- c. Purchase orders being requested prior to purchases as required by the Shops' policy.

Campus Response

We concur and have developed and documented procurement policies and procedures that:

- a. Set up new vendors only with appropriate supervisory review/approval
- b. Ensure purchase orders are consistently signed by the preparer and approver.
- c. Purchase orders are requested prior to purchases as required by Shops' policy.

Recommendation 26

We recommend that the Shops take appropriate measures to ensure that procurement cards are properly administered. Such measures should include:

- a. Accounting controls to ensure procurement card purchases do not exceed established limits.
- b. Reemphasis of the Shops' policy that only original invoices/receipts be submitted as supporting documentation for procurement card purchases.
- c. Post-audit of procurement card activity to ensure supporting documentation is received for all line items.
- d. Reemphasis of cardholder acknowledgement procedures for the credit cards used for travel expenses.
- e. Formal, written policies and procedures for the distribution and use of corporate travel credit cards.

Campus Response

We concur and appropriate measures have been taken to ensure that procurement cards are properly administered.

- a. Accounting controls have been established to ensure procurement card purchases do not exceed established limits.

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- b. Shops' policy has reemphasized that only original invoices/receipts are submitted as supporting documentation for procurement card purchases.
- c. Post-audits have been implemented of procurement card activity to ensure supporting documentation is received for all line items.
- d. Revised procedures have reemphasized cardholder acknowledgements for the credit cards used for travel expenses.
- e. Written policies and procedures have been established for the distribution and use of corporate travel credit cards.

Recommendation 27

We recommend that the Shops take appropriate measures to fully account for and control all purchases made through the MIS department and establish a policy to prohibit shipments made directly to personal addresses of employees.

Campus Response

We concur and appropriate measures have been taken to fully account for and control all purchases made through the MIS department. Shops has also established a policy to prohibit shipments made directly to personal addresses of employees.

Recommendation 28

We recommend that the Shops:

- a. Transfer long-outstanding checks to a liability account for tracking and escheatment purposes.
- b. Implement review procedures to ensure that only acceptable items are included on the debit accounts payable report and that such items are cleared in a timely manner.

Campus Response

We concur and will:

- a. Transfer long-outstanding checks to a liability account for tracking and escheatment purposes. This will be completed by November 30, 2002.
- b. Implement review procedures by November 30, 2002 to ensure that only acceptable items are included on the debit accounts payable report and that such items are cleared in a timely manner.

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Recommendation 29

We recommend that the Shops strengthen and further document check-writing policies and procedures.

Campus Response

We concur and will strengthen and further document check-writing policies and procedures by November 30, 2002.

Recommendation 30

We recommend that the Shops segregate payroll responsibilities or develop mitigating procedures.

Campus Response

We concur and will segregate payroll responsibilities or develop mitigating procedures by November 30, 2002.

Recommendation 31

We recommend that the Shops implement:

- a. Procedures requiring supervisors to document their review of their respective employees' time reports prior to payroll processing.
- b. Procedures requiring paychecks for part-time and full-time hourly employees list the employee's respective hourly rate of pay.

Campus Response

We concur.

Procedures have been established which now require supervisors to document their review of employees' time reports prior to payroll processing.

- b. Procedures have been established which require the hourly rate of pay to be listed on paychecks for part-time and full-time hourly employees.

Recommendation 32

We recommend that the Shops:

- a. Implement appropriate procedures to ensure that all flexible spending account reimbursements are supported by adequate documentation.
- b. Clarify existing policies regarding certain cosmetic and elective medical procedures.

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Campus Response

We concur.

- a. Procedures have been implemented to ensure that all flexible spending account reimbursements are supported by adequate documentation.
- b. Policies have been clarified regarding certain cosmetic and elective medical procedures.

Recommendation 33

We recommend that the Shops ensure that the reconciliation of the fixed asset ledger to the general ledger be printed and reviewed by management on a periodic basis and that it be signed and dated by the preparer and the reviewer.

Campus Response

We concur. Procedures have been established for the periodic reconciliation and review of the fixed asset ledger to the general ledger by management. The reconciliation will be signed and dated by the preparer and the reviewer.

ASSOCIATED STUDENTS OF SAN DIEGO STATE UNIVERSITY

Recommendation 34

We recommend that the AS:

- a. Amend the agreements noted above.
- b. Take appropriate measures to ensure that all written agreements are complete.

Campus Response

We concur.

- a. The agreement between AS and Aztec Shops has been amended to include food services provided to the children's center. The agreement with SDSU Department of Exercise and Nutritional Sciences has also been amended.
- b. Measures have been taken to ensure that all written agreements are complete.

Recommendation 35

We recommend that the AS change safe combinations when staff turnover occurs and maintain a log of individuals who have access to safes.

Campus Response

We concur. All safe combinations were changed in December 2001 and will be changed in the future when staff turnover occurs and periodically under all circumstances. A log is now maintained.

Recommendation 36

We recommend that the AS strengthen policy and procedures to ensure that clearance forms are documented and completed for all separated/terminated employees.

Campus Response

We concur. The separated employees without signed clearance forms were two individuals who resigned while on leave. In the future, AS will complete a clearance form on behalf of the employee under those circumstances. There has been no circumstance in the last year that requires this procedure. All remaining terminating full-time employees have a signed check-out form on file.

Recommendation 37

We recommend that the AS maintain records to evidence supervisory review and approval of employee hours.

Campus Response

We concur. AS has started to save an electronic file of supervisor sign-offs on timekeeping records.

Recommendation 38

We recommend that the AS revise and strengthen its policies and procedures related to supplemental payroll advances on earned wages, including specific detail as to maximum and minimum amounts, time provided for repayment, appropriate authorization needed for an advance, and reason or special consideration for receiving an advance.

Campus Response

We concur. AS is in the process of updating the Employee Handbook to include documentation. Estimated completion is November 1, 2002.

Recommendation 39

We recommend that the AS strengthen procedures to ensure that only appropriate and authorized individuals have access to the accounting system.

Campus Response

We concur. All current users have a network authorization form and signed computer user agreement on file.

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Recommendation 40

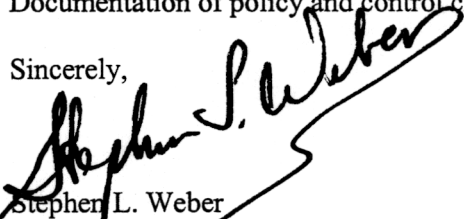
We recommend that the AS enhance its information technology disaster recovery plan to ensure that data processing services can be resumed in a timely manner.

Campus Response

We concur. AS is in the process of reviewing the information technology disaster recovery plan. Estimated completion will be February 1, 2003.

Documentation of policy and control changes will follow under separate cover.

Sincerely,



Stephen L. Weber
President

SLW/jsh

- c: Sally F. Roush, Vice President, Business and Financial Affairs
- Ellene J. Gibbs, Director, Business Information Management
- Frea E. Sladek, Chief Executive Officer, SDSU Foundation
- Leslie Levinson, Chief Financial Officer, SDSU Foundation
- Dan R. Cornthwaite, Executive Director, Associated Students of SDSU
- Susan M. Heiser, Associate Director, Associated Students of SDSU
- Allan R. Bailey, Chief Financial Officer, The Campanile Foundation
- Lawrence Marmon, Chief Executive Officer, Aztec Shops, Ltd.
- Cathy A. Schieffer, Controller, Aztec Shops, Ltd.

THE CALIFORNIA STATE UNIVERSITY
OFFICE OF THE CHANCELLOR

BAKERSFIELD

October 29, 2002

CHANNEL ISLANDS

CHICO

MEMORANDUM

DOMINGUEZ HILLS

FRESNO

TO: Mr. Larry Mandel
University Auditor

FULLERTON

HAYWARD

FROM: Charles B. Reed
Chancellor

HUMBOLDT

LONG BEACH

SUBJECT: Draft Final Report Number 01-49 on *Auxiliary Organizations*,
San Diego State University

LOS ANGELES

MARITIME ACADEMY

In response to your memorandum of October 29, 2002, I accept the response as submitted with the draft final report on *Auxiliary Organizations*, San Diego State University.

MONTEREY BAY

NORTHRIDGE

POMONA

CBR/amd

SACRAMENTO

Enclosure

SAN BERNARDINO

cc: Dr. Stephen L. Weber, President
Ms. Ellene J. Gibbs, Director, Business Information Management

SAN DIEGO

SAN FRANCISCO

SAN JOSE

SAN LUIS OBISPO

SAN MARCOS

SONOMA

STANISLAUS