

**AUXILIARY ORGANIZATIONS**  
**CALIFORNIA STATE UNIVERSITY,**  
**OFFICE OF THE CHANCELLOR**

**Report Number 02-47**  
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**BOARD OF TRUSTEES**  
**THE CALIFORNIA STATE UNIVERSITY**

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## **ABBREVIATIONS**

|            |  |
|------------|--|
| CO         | Chancellor's Office                    |
| CSU        | California State University            |
| EO         | Executive Order                        |
| Foundation | California State University Foundation |
| Institute  | California State University Institute  |

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## INTRODUCTION

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### PURPOSE

The principal audit objectives were to determine compliance with the Education Code, Title 5, and directives of the Board of Trustees and the 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.

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### SCOPE AND METHODOLOGY

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

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

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

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

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

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

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

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## **BACKGROUND**

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

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

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

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

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

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

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

This report represents our triennial review.

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## OPINION

We visited the California State University, Office of the Chancellor from March 18, 2002, through June 27, 2002, 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.

### **CHANCELLOR'S OFFICE**

#### **PURCHASING AND ACCOUNTS PAYABLE [9]**

##### **POLICIES AND PROCEDURES [9]**

Written accounting policies and procedures for the California State University Foundation (Foundation) and the California State University Institute (Institute) had not been updated to reflect the implementation of new bookkeeping software. Internal controls are strengthened when policies and procedures are complete and fully documented.

##### **SEGREGATION OF DUTIES [9]**

Accounting duties for the Foundation and the Institute were inadequately segregated. Adequate separation of duties reduces the risk that errors and irregularities will not be detected in a timely manner.

##### **BANK RECONCILIATION [10]**

Bank reconciliations and check logs were not reviewed by chancellor's office (CO) accounting management on a timely basis. The timely review of bank reconciliations and check logs by management reduces the risk that errors and irregularities will not be detected in a timely manner.

#### **INFORMATION TECHNOLOGY [11]**

Controls over access to the Foundation's and the Institute's bookkeeping application were insufficient. Restricting full update access to all employees provides adequate segregation of incompatible duties and could prevent the posting of unauthorized transactions. In addition, the timely deletion of application access reduces the risk of unauthorized access to the auxiliary organization's computer system.

**CALIFORNIA STATE UNIVERSITY FOUNDATION**

**LEGAL AND REGULATORY COMPLIANCE [12]**

**MEMORANDUM OF UNDERSTANDING [12]**

A memorandum of understanding between the Foundation and the CO for accounting and administrative services had not been executed. A written agreement reduces the risk of misunderstanding between two parties and may prevent disagreements and operational inefficiencies.

**BOARD MEETINGS [12]**

The Foundation's board of directors did not meet on a quarterly basis. When the board of directors meets on a regular basis in accordance with California State University (CSU) policy, the board's fiduciary responsibilities over the operations of the auxiliary organization are met.

**CASH RECEIPTS AND HANDLING [13]**

Certain Foundation gift acknowledgement procedures required revision. Adequate internal controls reduce the risk that errors or misappropriation of gifts will not be detected timely.

**FEES, REVENUES, AND RECEIVABLES [14]**

Quarterly executive retirement contributions made under employment contracts were not appropriately recorded in the Foundation's general ledger. Appropriately recording accounting transactions in the general ledger reduces the risk that accounting errors and irregularities will not be detected timely.

**PURCHASING AND ACCOUNTS PAYABLE [14]**

Certain Foundation disbursements were not supported by appropriate documentation. Sufficient controls over expenditures reduce the risk of errors, irregularities, and misappropriation of funds.

**INVESTMENTS [16]**

Accounting for Foundation investment distributions required improvement. Maintaining sufficient accounting for investments reduces the risk that funds will be handled inappropriately and contrary to the expectations of donors or account holders.

**CALIFORNIA STATE UNIVERSITY INSTITUTE**

**LEGAL AND REGULATORY COMPLIANCE [17]**

**OPERATING AGREEMENT [17]**

The operating agreement between the Institute and the CSU was not current. An approved and signed written agreement reduces the risk of misunderstandings and miscommunication regarding rights and responsibilities.

**MEMORANDUM OF UNDERSTANDING [17]**

A memorandum of understanding between the Institute and the CO for accounting and administrative services had not been executed. A written agreement reduces the risk of misunderstanding between two parties and may prevent disagreements and operational inefficiencies.

**BOARD MEETINGS [18]**

The Institute's board of directors did not meet on a quarterly basis. When the board of directors meets on a regular basis in accordance with CSU policy, the board's fiduciary responsibilities over the operations of the auxiliary organization may be met.

**RESERVES [18]**

The Institute had not established a surplus funds/reserve policy. Sufficient planning and policy over surplus funds and reserves reduce the risk that an auxiliary will operate in a manner inconsistent with CSU policy.

**FEES, REVENUES, AND RECEIVABLES [19]**

The Institute did not prepare a formal annual budget subject to the approval of the chancellor. Appropriate approval of auxiliary budgets reduces the risk that the auxiliary will operate in a manner inconsistent with the educational mission of the CSU.

**PURCHASING AND ACCOUNTS PAYABLE [20]**

**DISBURSEMENTS [20]**

Certain Institute disbursements were not supported by appropriate documentation. Sufficient controls over expenditures reduce the risk of errors, irregularities, and misappropriation of funds.

**CREDIT CARDS [21]**

Certain controls over the Institute's use of credit cards were insufficient. Sufficient controls over credit card usage reduce the risk of errors, irregularities, and misappropriation of funds.

**FIXED ASSETS [22]**

Controls over the Institute's fixed assets were not adequate. Adequate controls over fixed assets reduce the risk that property may be lost or stolen.

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## **OBSERVATIONS, RECOMMENDATIONS, AND CAMPUS RESPONSES**

### **CHANCELLOR'S OFFICE**

#### **PURCHASING AND ACCOUNTS PAYABLE**

##### **POLICIES AND PROCEDURES**

Written accounting policies and procedures for the California State University Foundation (Foundation) and the California State University Institute (Institute) had not been updated to reflect the implementation of new bookkeeping software.

Title 5 §42401 and §42402 indicate that the campus president (chancellor) shall require that auxiliary organizations operate in conformity with policy of the Board of Trustees and the chancellor's office (CO). 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 CO in accordance with sound business practices. Sound business practice mandates that accounting policies and procedures be updated in writing.

The CO director of accounting indicated that policies and procedures existed prior to the implementation of its new personal computer-based bookkeeping software.

Internal controls are compromised when written accounting policies and procedures are not updated and made available to personnel.

##### **Recommendation 1**

We recommend that the CO update written accounting policies and procedures to reflect the implementation of new bookkeeping software used by the Foundation and Institute.

##### **Management Response**

We concur. Critical accounting policies and procedures will be updated and implemented by April 11, 2003.

##### **SEGREGATION OF DUTIES**

Accounting duties for the Foundation and the Institute were inadequately segregated.

The Foundation's and the Institute's duties and responsibilities over various accounting functions, including cash receipting, accounts receivable, accounts payable, check writing, general ledger, bank reconciliation, and subledger reconciliations, were performed by a single individual.

Executive Order (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 CO director of accounting indicated that the current staff of one has not permitted adequate segregation of duties.

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

### **Recommendation 2**

We recommend that the Foundation and the Institute segregate accounting duties or institute mitigating controls approved by the executive vice chancellor.

### **Management Response**

We concur. We will conduct a review of existing controls to identify the most effective corrective action. Corrective actions will be implemented by April 11, 2003.

## **BANK RECONCILIATION**

Bank reconciliations and check logs were not reviewed by chancellor's office (CO) accounting management on a timely basis.

Title 5 §42401 and §42402 indicate that the campus president (chancellor) shall require that auxiliary organizations operate in conformity with policy of the Board of Trustees and the CO. 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 CO in accordance with sound business practices. Sound business practice mandates timely review by management of bank reconciliations and check logs.

The CO director of accounting indicated that due to workload, the bank reconciliations and the check log were not reviewed timely.

The lack of a timely review of bank reconciliations and check logs by management increases the risk that errors and irregularities will not be detected in a timely manner.

### **Recommendation 3**

We recommend that bank reconciliations and check logs be reviewed by management on a timely basis.

### **Management Response**

We concur. Additional emphasis will be placed on reviewing reconciliations and check logs within 30 days of the close of each accounting month. This change has been discussed with staff and will be effective immediately.

## **INFORMATION TECHNOLOGY**

Controls over access to the Foundation's and the Institute's bookkeeping application were insufficient.

We noted that:

- ▶ A separated employee had administrator access to the bookkeeping program.
- ▶ Security administration of application access to the bookkeeping program did not adequately provide for proper segregation of duties. Three personnel had full access to accounting modules.

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 CO director of accounting indicated that the administrator access of the separated employee was deleted in May 2002.

Allowing full update access to all employees does not provide adequate segregation of incompatible duties and could result in the posting of unauthorized transactions. In addition, the untimely deletion of application access increases the risk of unauthorized access to the auxiliary organization's computer system.

### **Recommendation 4**

We recommend that the Foundation and the Institute:

- a. Restrict unnecessary application access to the financial system.
- b. Evaluate and impose mitigating controls.

### **Management Response**

We concur. We will evaluate the necessity of application access and additional mitigating controls in conjunction with Recommendation 2. The evaluation will be completed by April 11, 2003.

## **CALIFORNIA STATE UNIVERSITY FOUNDATION**

### **LEGAL AND REGULATORY COMPLIANCE**

#### **MEMORANDUM OF UNDERSTANDING**

A memorandum of understanding between the Foundation and the CO for accounting and administrative services had not been executed.

Title 5 §42401 and §42402 indicate that the campus president (chancellor) shall require that auxiliary organizations operate in conformity with policy of the Board of Trustees and the CO. 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 CO in accordance with sound business practices. Sound business practice mandates current business contracts to be maintained.

The director of Foundation Programs indicated that a memorandum of understanding had been drafted and was under review prior to our review.

Failure to execute a written agreement increases the risk of misunderstanding between two parties and may result in disagreements and operational inefficiencies.

**During our fieldwork, management submitted an executed memorandum of understanding between the Foundation and the CO for accounting and administrative services.**

#### **BOARD MEETINGS**

The Foundation's board of directors did not meet on a quarterly basis.

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

The director of Foundation Programs indicated that the Foundation board did not meet on a quarterly basis although it did meet four times during a year.

When the board of directors does not meet on a regular basis in accordance with CSU policy, the board's fiduciary responsibility over the operations of the auxiliary organization may not be met.

#### **Recommendation 5**

We recommend that the Foundation take appropriate measures to ensure that at least one board meeting is held each quarter in accordance with the Education Code.

### **Management Response**

We concur. Additional emphasis will be placed on scheduling the board meetings in accordance with the Education Code.

## **CASH RECEIPTS AND HANDLING**

Certain Foundation gift acknowledgement procedures required revision.

We noted that:

- ▶ Gift acknowledgements were not independently reconciled to gift deposits.
- ▶ Gift log reviews by management were not documented.
- ▶ Thank you letters were generated for all gifts, but gift receipts were not consistently generated.

Title 5 §42401 and §42402 indicate that the campus president (chancellor) shall require that auxiliary organizations operate in conformity with policy of the Board of Trustees and the CO. 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 CO in accordance with sound business practices. Sound business practice involves an effective system of internal controls, which includes consistent receipting processes, independent reconciliations, and documented reviews by management.

The director of Foundation Programs indicated that all acknowledgements were reviewed; however, all of the above-noted controls were not anticipated.

Insufficient gift acknowledgement procedures may result in errors or misappropriation of gifts not being detected.

### **Recommendation 6**

We recommend that the Foundation establish procedures that:

- a. Ensure gift acknowledgements are independently reconciled to gift deposits.
- b. Require gift log reviews by management be documented.
- c. Assure thank you letters and receipts are consistently generated.

### **Management Response**

We concur. Procedures have been developed and implemented that ensure proper oversight of gifts is maintained.

## **FEES, REVENUES, AND RECEIVABLES**

Quarterly executive retirement contributions made under employment contracts were not appropriately recorded in the Foundation's general ledger.

Quarterly payments made to the trustee life insurance company were recorded as an expense on Foundation books. Retirement fund trust balances and related activities were not reflected in the general ledger, including receivables and related unsecured liability.

Title 5 §42401 and §42402 indicate that the campus president (chancellor) shall require that auxiliary organizations operate in conformity with policy of the Board of Trustees and the CO. 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 CO in accordance with sound business practices. Sound business practice mandates recording of all assets and liabilities.

The CO director of accounting indicated that the nature of the transactions was not fully understood at the implementation of the retirement plan, and thus were incorrectly recorded.

Failure to appropriately record accounting transactions in the general ledger increases the risk that accounting errors and irregularities will not be detected timely.

### **Recommendation 7**

We recommend that the Foundation appropriately record, in its general ledger, quarterly contributions made under employment contracts.

### **Management Response**

We concur. Adjustments were made to the Foundation's June 30, 2002, financial statements and in the general ledger to properly reflect this activity.

## **PURCHASING AND ACCOUNTS PAYABLE**

Certain Foundation disbursements were not supported by appropriate documentation.

Our review of 45 cash disbursements disclosed the following:

### Process Controls

- ▶ One-up review was preferred, but not required.
- ▶ The Foundation has not formally adopted its use of the CO travel policy.

### Processing Exceptions

- ▶ Signature cards were not located for five expenditures.
- ▶ Signers on four check requests were not listed on signature cards.
- ▶ In seven instances, faxes or copies were accepted as original documentation with no certification that the invoice had been researched to prevent a duplicate payment.
- ▶ No agreement or supporting document was retained to support the Foundation's lease of storage space.

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

Title 5 §42401 and §42402 indicate that the campus president (chancellor) shall require that auxiliary organizations operate in conformity with policy of the Board of Trustees and the CO. 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 CO in accordance with sound business practices. Sound business practice mandates that disbursements be fully supported.

The CO director of accounting indicated that staff turnover resulted in the failure to perform standard policies and procedures.

Insufficient controls over expenditures increase the risk of errors, irregularities, and misappropriation of funds.

### **Recommendation 8**

We recommend that the Foundation establish, and implement, policies and procedures to ensure cash disbursements are supported by appropriate documentation.

### **Management Response**

We concur. Policies and procedures will be developed to ensure cash disbursements are supported by appropriate documentation. The policies and procedures will be developed and implemented by April 11, 2003.

## INVESTMENTS

Accounting for Foundation investment distributions required improvement.

Based upon Foundation accounting records, it holds several million dollars for the benefit of the California State University (CSU), including endowments, scholarships, restricted and unrestricted gifts, and other unrestricted funds.

We identified the following during our review:

- ▶ Accounting procedures for the distribution of unrealized gains and losses were not consistently applied.
- ▶ Distributions for one fund were not made in accordance with the current agreement.

Title 5 §42401 and §42402 indicate that the campus president (chancellor) shall require that auxiliary organizations operate in conformity with policy of the Board of Trustees and the CO. 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 CO in accordance with sound business practices. Sound business practice mandates accurate accounting of distributions.

The CO director of accounting indicated that staff turnover resulted in the failure to distribute gains and losses in accordance with standard practices.

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

### **Recommendation 9**

We recommend that the Foundation ensure that:

- a. Unrealized gains and losses are properly distributed.
- b. Distribution is in accordance with agreement terms.

### **Management Response**

We concur. Procedures will be developed to improve distribution of investment activities. The procedures will be developed and implemented by April 11, 2003.

## **CALIFORNIA STATE UNIVERSITY INSTITUTE**

### **LEGAL AND REGULATORY COMPLIANCE**

#### **OPERATING AGREEMENT**

The operating agreement between the Institute and the CSU was not current.

Title 5 §42501 states that a written agreement on behalf of the state of California by the chancellor of the CSU and the auxiliary organization is required for the performance by such auxiliary organization of any of the functions listed in §42500. Title 5 §42502 states that the operating agreement should specify the function or functions which the organization is to manage, operate, or administer.

The CO director of accounting indicated that the need to update the operating agreement had been overlooked when the Institute was restructured.

Operating in the absence of an approved and signed written agreement increases the risk of misunderstandings and miscommunication regarding rights and responsibilities.

#### **Recommendation 10**

We recommend that the Institute update its operating agreement with the CO in accordance with CSU policy.

#### **Management Response**

We concur. An updated operating agreement will be prepared and submitted to the Institute Board for approval at their third quarter meeting, tentatively scheduled for March 27, 2003.

### **MEMORANDUM OF UNDERSTANDING**

A memorandum of understanding between the Institute and the CO for accounting and administrative services had not been executed.

Title 5 §42401 and §42402 indicate that the campus president (chancellor) shall require that auxiliary organizations operate in conformity with policy of the Board of Trustees and the CO. 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 CO in accordance with sound business practices. Sound business practice mandates current business contracts to be maintained.

The CO director of accounting indicated that the memorandum of understanding had not been completed due to staff turnover subsequent to the reorganization of the Institute.

Failure to execute a written agreement increases the risk of misunderstanding between two parties and may result in disagreements and operational inefficiencies.

### **Recommendation 11**

We recommend that the Institute strengthen procedures to ensure that current, written, and formal agreements are maintained.

### **Management Response**

We concur. Procedures will be strengthened to ensure that current, written and formal agreements are maintained. Additionally, a memorandum of understanding will be prepared and submitted to the Institute Board for approval at their third quarter meeting, tentatively scheduled for March 27, 2003.

## **BOARD MEETINGS**

The Institute's board of directors did not meet on a quarterly basis.

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

The CO director of accounting indicated that the lapse was caused by staff oversight.

When the board of directors does not meet on a regular basis in accordance with CSU policy, the board's fiduciary responsibility over the operations of the auxiliary organization may not be met.

### **Recommendation 12**

We recommend that the Institute take appropriate measures to ensure that at least one board meeting is held each quarter in accordance with CSU policy.

### **Management Response**

We concur. Additional emphasis will be placed on scheduling board meetings on a timely basis.

## **RESERVES**

The Institute had not established a surplus funds/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 chancellor or his designee.
- ▶ Board review of reserve levels.
- ▶ Reserves for working capital.
- ▶ The methodology used for the calculation of reserves.

Education Code §89904(b) indicates that reserve planning is necessary.

The CO director of accounting indicated that the reorganization of the Institute had not been fully completed and the reserve policy was one of the remaining pending issues.

A lack of sufficient planning and policy over surplus funds and reserves increases the risk that an auxiliary will operate in a manner inconsistent with CSU policy.

**Recommendation 13**

We recommend that the Institute establish a formal policy for the allocation of surplus funds/reserves.

**Management Response**

We concur. A reserve policy will be prepared and submitted to the Institute Board for approval at their third quarter meeting, tentatively scheduled for March 27, 2003.

**FEES, REVENUES, AND RECEIVABLES**

The Institute did not prepare a formal annual budget subject to the approval of the chancellor.

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 CO director of accounting indicated that the reorganization of the Institute had not been fully completed and the annual budget was one of the remaining pending issues.

The lack of appropriate approval of auxiliary budgets increases the risk that the auxiliary will operate in a manner inconsistent with the educational mission of the CSU.

**Recommendation 14**

We recommend that the Institute prepare annual budgets for the chancellor's approval.

**Management Response**

We concur. On November 18, 2002, the Institute Board, with the chancellor as chair, approved the Institute's annual budget.

## **PURCHASING AND ACCOUNTS PAYABLE**

### **DISBURSEMENTS**

Certain Institute disbursements were not supported by appropriate documentation.

Our review of 72 cash disbursements disclosed the following:

#### Process Controls

- ▶ Procedures to change vendor master files did not include a requirement for review and approval of changes.
- ▶ Procedures did not require supporting documentation to include evidence of bids or quotations, list of attendees at meetings, dates of meetings, and other significant ancillary evidence supporting a payment.

#### Processing Exceptions

- ▶ Signers on 19 check requests were not listed on signature cards.
- ▶ Backup documentation could not be located for two disbursements.
- ▶ Agreements or contracts were not current for four expenditures.

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

Title 5 §42401 and §42402 indicate that the campus president (chancellor) shall require that auxiliary organizations operate in conformity with policy of the Board of Trustees and the CO. 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 CO in accordance with sound business practices. Sound business practice mandates that disbursements be fully supported.

The CO director of accounting indicated that certain disbursements were not supported by appropriate documentation due to staff turnover and the reorganization of the Institute.

Insufficient controls over expenditures increase the risk of errors, irregularities, and misappropriation of funds.

### **Recommendation 15**

We recommend that the Institute establish, and implement, policies and procedures to ensure cash disbursements are supported by appropriate documentation.

### **Management Response**

We concur. Policies and procedures will be developed to ensure cash disbursements are supported by appropriate documentation. These policies and procedures will be implemented by April 11, 2003.

### **CREDIT CARDS**

Certain controls over the Institute's use of credit cards were insufficient.

Based on our review of a limited number of credit card payments, we noted that:

#### Process Controls

- ▶ Support for credit card reimbursements other than the credit card statements was not required.
- ▶ One-up review was preferred, but not required for the credit card payments.
- ▶ Credit card policies and procedures were not documented.

#### Processing Exceptions

- ▶ Documentation to support travel authorization and reimbursement was inadequate in certain instances. For example, we found that travel expenses for several individuals were contained on a single credit card reimbursement request and travel expense claims were not submitted by personnel traveled.

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

Title 5 §42401 and §42402 indicate that the campus president (chancellor) shall require that auxiliary organizations operate in conformity with policy of the Board of Trustees and the CO. 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 CO in accordance with sound business practices. Sound business practice mandates that the distribution and use of corporate credit cards be properly controlled.

The CO director of accounting indicated that credit card payments were not supported by appropriate documentation due to staff turnover and the reorganization of the Institute.

Insufficient controls over credit card usage increase the risk of errors, irregularities, and misappropriation of funds.

### **Recommendation 16**

We recommend that the Institute take appropriate measures to ensure that:

- a. Support for credit card reimbursements other than the credit card statements is required.
- b. One-up review be required for the credit card payments.
- c. Credit card policies and procedures are documented.
- d. Documentation to support travel authorization and reimbursement is maintained.

### **Management Response**

We concur. The Institute discontinued use of credit card during the period under audit. No further action is deemed necessary.

## **FIXED ASSETS**

Controls over the Institute's fixed assets were not adequate.

We noted that a significant number of assets were not located during the inventory performed at fiscal year ended June 30, 2001. The inventory was performed and the located assets were transferred to the campuses. Currently, the Institute does not have fixed assets on its books.

Title 5 §42401 and §42402 indicate that the campus president (chancellor) shall require that auxiliary organizations operate in conformity with policy of the Board of Trustees and the CO. 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 CO in accordance with sound business practices. Sound business practice includes strong controls over fixed assets.

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 CO director of accounting indicated that prior management had not placed sufficient emphasis on recording disposals and performing periodic inventories of assets, resulting in discrepancies between assets on hand and assets on the books.

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

**During our fieldwork, management provided records of the transfer of all of the Institute's fixed assets.**

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## **APPENDIX A: PERSONNEL CONTACTED**

### **Name**

### **Title**

#### **CHANCELLOR'S OFFICE**

|                    |  |
|--------------------|--|
| Richard West       | Executive Vice Chancellor and Chief Financial Officer                  |
| Addison Ching      | Director of Information Dissemination and Access                       |
| Shahenaz Churiwala | Manager, Cash and Investment   |
| Cheryl Kwiatkowski | Senior Director of Chancellor's Office Information Technology Services |
| Rick Leffingwell   | Director of Financing and Treasury                                     |
| Bill Musselman     | Director of Accounting   |
| Sylvia Olivas      | Accountant   |

#### **CALIFORNIA STATE UNIVERSITY FOUNDATION**

|                    |   |
|--------------------|---|
| Louis Caldera      | Vice Chancellor, University Advancement and President, California State University Foundation |
| Freda Hinsche Otto | Vice President, California State University Foundation  |
| Lori Redfearn      | Director, Foundation Programs   |
| Debra Young        | Staff Assistant   |

#### **CALIFORNIA STATE UNIVERSITY INSTITUTE**

|                  |   |
|------------------|---|
| Richard West     | CSU Executive Vice Chancellor and Chief Financial Officer     |
| Rick Leffingwell | Executive Director and CSU Director of Financing and Treasury |
| Bill Musselman   | CSU Director of Accounting                                    |
| Sylvia Olivas    | Accountant  |

## **SCOPE**

### **INTERNAL COMPLIANCE SCOPE**

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

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

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

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

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

## **INTERNAL CONTROL SCOPE**

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

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

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

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

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

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

## **STATEMENT OF INTERNAL CONTROLS**

### **A. INTRODUCTION**

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

### **B. INTERNAL CONTROL DEFINITION**

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

#### **1. Internal Accounting Controls**

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

#### **2. Operational Controls**

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

### **C. INTERNAL CONTROL OBJECTIVES**

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

**D. INTERNAL CONTROL SYSTEMS LIMITATIONS**

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



# THE CALIFORNIA STATE UNIVERSITY

BAKERSFIELD • CHANNEL ISLANDS • CHICO • DOMINGUEZ HILLS • FRESNO • FULLERTON • HAYWARD • HUMBOLDT  
 LONG BEACH • LOS ANGELES • MARITIME ACADEMY • MONTEREY BAY • NORTHBRIDGE • POMONA • SACRAMENTO  
 SAN BERNARDINO • SAN DIEGO • SAN FRANCISCO • SAN JOSE • SAN LUIS OBISPO • SAN MARCOS • SONOMA • STANISLAUS

**RICHARD P. WEST**  
 EXECUTIVE VICE CHANCELLOR  
 CHIEF FINANCIAL OFFICER

## MEMORANDUM

**To:** Larry Mandel  
 University Auditor

**Date:** January 10, 2003

**From:**   
 Richard P. West  
 Executive Vice Chancellor and  
 Chief Financial Officer

**Subject:** FISMA Audit 02-47 Responses

Attached is the Chancellor's Office response to the FISMA Auxiliary Organizations audit recommendations. Our response is based on a review of the controls identified by your staff as needing improvements. We believe our corrective action plan will be sufficient to restore or upgrade critical controls.

We would like to thank your staff for the professionalism displayed during the course of the audit.

RPW:wm

Attachment

cc: Dennis Hordyk

CALIFORNIA STATE UNIVERSITY, OFFICE OF THE CHANCELLOR  
AUXILIARY ORGANIZATIONS AUDIT REPORT NO. 02-47

CHANCELLOR'S OFFICE

**PURCHASING AND ACCOUNTS PAYABLE**

**POLICIES AND PROCEDURES**

**Recommendation 1**

We recommend that the CO update written accounting policies and procedures to reflect the implementation of new bookkeeping software used by the Foundation and Institute.

**Management Response**

We concur. Critical accounting policies and procedures will be updated and implemented by April 11, 2003.

**SEGREGATION OF DUTIES**

**Recommendation 2**

We recommend that the Foundation and the Institute segregate accounting duties or institute mitigating controls approved by the executive vice chancellor.

**Management Response**

We concur. We will conduct a review of existing controls to identify the most effective corrective action. Corrective actions will be implemented by April 11, 2003.

**BANK RECONCILIATION**

**Recommendation 3**

We recommend that bank reconciliations and check logs be reviewed by management on a timely basis.

**Management Response**

We concur. Additional emphasis will be placed on reviewing reconciliations and check logs within 30 days of the close of each accounting month. This change has been discussed with staff and will be effective immediately.

## INFORMATION TECHNOLOGY

### **Recommendation 4**

We recommend that the Foundation and the Institute:

- a. Restrict unnecessary application access to the financial system.
- b. Evaluate and impose mitigating controls.

### **Management Response**

We concur. We will evaluate the necessity of application access and additional mitigating controls in conjunction with Recommendation 2. The evaluation will be completed by April 11, 2003.

## **CALIFORNIA STATE UNIVERSITY FOUNDATION**

## LEGAL AND REGULATORY COMPLIANCE

### **BOARD MEETINGS**

#### **Recommendation 5**

We recommend that the Foundation take appropriate measures to ensure that at least one board meeting is held each quarter in accordance with the Education Code.

#### **Management Response**

We concur. Additional emphasis will be placed on scheduling the board meetings in accordance with the Education Code.

## CASH RECEIPTS AND HANDLING

#### **Recommendation 6**

We recommend that the Foundation establish procedures that:

- a. Ensure gift acknowledgements are independently reconciled to gift deposits.
- b. Require gift log reviews by management be documented.
- c. Assure thank you letters and receipts are consistently generated.

#### **Management Response**

We concur. Procedures have been developed and implemented that ensure proper oversight of gifts is maintained.

## **FEEES, REVENUES, AND RECEIVABLES**

### **Recommendation 7**

We recommend that the Foundation appropriately record, in its general ledger, quarterly contributions made under employment contracts.

### **Management Response**

We concur. Adjustments were made to the Foundation's June 30, 2002 financial statements and in the general ledger to properly reflect this activity.

## **PURCHASING AND ACCOUNTS PAYABLE**

### **Recommendation 8**

We recommend that the Foundation establish, and implement, policies and procedures to ensure cash disbursements are supported by appropriate documentation.

### **Management Response**

We concur. Policies and procedures will be developed to ensure cash disbursements are supported by appropriate documentation. The policies and procedures will be developed and implemented by April 11, 2003.

## **INVESTMENTS**

### **Recommendation 9**

We recommend that the Foundation ensure that:

- a. Unrealized gains and losses are properly distributed.
- b. Distribution is in accordance with agreement terms.

### **Management Response**

We concur. Procedures will be developed to improve distribution of investment activities. The procedures will be developed and implemented by April 11, 2003.

**CALIFORNIA STATE UNIVERSITY INSTITUTE**

**LEGAL AND REGULATORY COMPLIANCE**

**OPERATING AGREEMENT**

**Recommendation 10**

We recommend that the Institute update its operating agreement with the CO in accordance with CSU policy.

**Management Response**

We concur. An updated operating agreement will be prepared and submitted to the Institute Board for approval at their third quarter meeting, tentatively scheduled for March 27, 2003.

**MEMORANDUM OF UNDERSTANDING**

**Recommendation 11**

We recommend that the Institute strengthen procedures to ensure that current, written, and formal agreements are maintained.

**Management Response**

We concur. Procedures will be strengthened to ensure that current, written and formal agreements are maintained. Additionally, a memorandum of understanding will be prepared and submitted to the Institute Board for approval at their third quarter meeting, tentatively scheduled for March 27, 2003.

**BOARD MEETINGS**

**Recommendation 12**

We recommend that the Institute take appropriate measures to ensure that at least one board meeting is held each quarter in accordance with CSU policy.

**Management Response**

We concur. Additional emphasis will be placed on scheduling board meetings on a timely basis.

## **RESERVES**

### **Recommendation 13**

We recommend that the Institute establish a formal policy for the allocation of surplus funds/reserves.

### **Management Response**

We concur. A reserve policy will be prepared and submitted to the Institute Board for approval at their third quarter meeting, tentatively scheduled for March 27, 2003.

## **FEEES, REVENUES, AND RECEIVABLES**

### **Recommendation 14**

We recommend that the Institute prepare annual budgets for the chancellor's approval.

### **Management Response**

We concur. On November 18, 2002, the Institute Board with the Chancellor as Chair, approved the Institute's annual budget.

## **PURCHASING AND ACCOUNTS PAYABLE**

### **DISBURSEMENTS**

### **Recommendation 15**

We recommend that the Institute establish, and implement, policies and procedures to ensure cash disbursements are supported by appropriate documentation.

### **Management Response**

We concur. Policies and procedures will be developed to ensure cash disbursements are supported by appropriate documentation. These policies and procedures will be implemented by April 11, 2003.

## **CREDIT CARDS**

### **Recommendation 16**

We recommend that the Institute take appropriate measures to ensure that:

- a. Support for credit card reimbursements other than the credit card statements is required.
- b. One-up review be required for the credit card payments.
- c. Credit card policies and procedures are documented.
- d. Documentation to support travel authorization and reimbursement is maintained.

### **Management Response**

We concur. The Institute discontinued use of credit card during the period under audit. No further action is deemed necessary.

THE CALIFORNIA STATE UNIVERSITY  
OFFICE OF THE CHANCELLOR

BAKERSFIELD

February 27, 2003

CHANNEL ISLANDS

CHICO

**MEMORANDUM**

DOMINGUEZ HILLS


FRESNO

TO: Mr. Larry Mandel  
University Auditor

FULLERTON

HAYWARD

FROM: Charles B. Reed  
Chancellor



HUMBOLDT

SUBJECT: Draft Final Report Number 02-47 on *Auxiliary Organizations*,  
California State University, Office of the Chancellor

LONG BEACH

LOS ANGELES

MARITIME ACADEMY

In response to your memorandum of February 27, 2003, I accept the response as submitted with the draft final report on *Auxiliary Organizations*, California State University, Office of the Chancellor.

MONTEREY BAY

NORTHRIDGE

POMONA

CBR/amd

SACRAMENTO

Enclosure

SAN BERNARDIN

cc: Mr. Dennis Hordyk, Assistant Vice Chancellor, Financial Services  
Mr. Richard P. West, Executive Vice Chancellor and Chief Financial Officer

SAN DIEGO

SAN FRANCISCO

SAN JOSE

SAN LUIS OBISPO

SAN MARCOS

SONOMA

STANISLAUS