

**AUXILIARY ORGANIZATIONS**  
**CALIFORNIA STATE UNIVERSITY,**  
**BAKERSFIELD**

**Report Number 02-51**  
**April 3, 2003**

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**BOARD OF TRUSTEES**  
**THE CALIFORNIA STATE UNIVERSITY**

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## **ABBREVIATIONS**

ASI	Associated Students, California State University, Bakersfield, Inc.
CSU	California State University
CSUB	California State University, Bakersfield
CSUBFR	California State University, Bakersfield, Foundation for Research
EO	Executive Order
Foundation	California State University, Bakersfield Foundation
HSF	Hispanic Scholarship Fund
IRC	Internal Revenue Code
IRS	Internal Revenue Service
Union	California State University, Bakersfield Student Union
UBI	Unrelated Business Income

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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 years 1999-2000, 2000-2001, and 2001-2002 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 2002. 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, Bakersfield campus from September 30, 2002, through November 1, 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.

### **CAMPUS**

#### **LEGAL AND REGULATORY COMPLIANCE [12]**

##### **AUXILIARY AUTHORIZATION [12]**

A written operating agreement had not been established between the California State University, Bakersfield, Foundation for Research (CSUBFR), the California State University (CSU), and the campus. Operating under an approved and executed written agreement reduces the risk of misunderstandings and miscommunication regarding rights and responsibilities.

##### **RESERVES [12]**

The campus had not provided written guidance for its auxiliaries regarding reserve planning. Additionally, none of the auxiliaries had established a written reserve policy. Sufficient reserve planning minimizes the auxiliary's risk to fund future deficits.

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

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 and implementing conflict-of-interest code policies and procedures for auxiliary boards and management reduce liability for acts contrary to the code.

##### **PUBLIC RELATIONS POLICY [14]**

The campus had not established a current public relations policy applicable to its auxiliary organizations. Establishing a public relations policy reduces the risk that funds will be accumulated and used improperly.

##### **WRITTEN AGREEMENTS [15]**

Written agreements had not been established between the campus and its auxiliaries concerning certain activities. Fully defining the rights, responsibilities, and expectations of each party reduces the risk of misunderstandings.

## **TRUSTS AND OTHER LIABILITIES [16]**

The campus did not exercise sufficient control over funds held in trust and agency accounts by the California State University, Bakersfield, Foundation (Foundation). Sufficient control over trust and agency accounts reduces the risk of both inappropriate expenditures and misunderstandings about account operations.

### **CALIFORNIA STATE UNIVERSITY, BAKERSFIELD FOUNDATION**

## **LEGAL AND REGULATORY COMPLIANCE [18]**

### **PUBLIC MEETINGS [18]**

The Foundation did not provide public notice of board and subcommittee meetings. Compliance with regulations for public meetings reduces the risk of misunderstandings and may reduce legal liability.

### **WRITTEN AGREEMENTS [18]**

Written agreements had not been established between the Foundation and third-party entities concerning certain activities. Fully defining the rights, responsibilities, and expectations of each party reduces the risk of misunderstandings.

## **CASH RECEIPTS AND HANDLING [19]**

Certain controls over Foundation cash receipts processing were inadequate. Adequate controls over cash receipts processing reduce the risk of a loss or misappropriation of funds.

## **PETTY CASH AND CHANGE FUNDS [20]**

Controls over petty cash and change funds administered by the Foundation were deficient. Adequate controls over petty cash and change funds reduce the risk of errors or misappropriation of funds.

## **INVESTMENTS [22]**

### **ACCOUNTING [22]**

The Foundation recorded an irrevocable gift of \$250,000 to a private foundation as an investment, rather than as a donation expense, during fiscal year 2001-2002. Appropriate accounting reduces the risk of misunderstanding and may reduce the risk of loss or misappropriation of funds.

## **INVESTMENT PROCESSING [22]**

Certain controls over Foundation investments were inadequate. Sufficient accounting for investments reduces the risk that funds will be handled inappropriately and contrary to the expectations of the donors or account holders.

## **FEES, REVENUES, AND RECEIVABLES [23]**

### **UNRELATED BUSINESS INCOME [23]**

The Foundation had not accounted for or tracked unrelated business income (UBI) in a sufficient manner. Properly analyzing, documenting, and reporting UBI reduce the Foundation's exposure to potential penalties and actions by the Internal Revenue Service.

### **RAFFLE [24]**

The Foundation was not registered to participate in the operation of a raffle. Nonparticipation in unauthorized raffles reduces the Foundation's and campus' exposure to potential liability.

### **SALES COMMISSION AUDITS [25]**

The Foundation did not exercise its contractual right to audit third-party contractor gross sales receipts, upon which Foundation commissions were based. Performing routine audits of third-party contractor gross sales receipts validates earned commission revenue.

## **PURCHASING AND ACCOUNTS PAYABLE [26]**

### **POLICIES AND PROCEDURES [26]**

The Foundation's policies and procedures for processing cash disbursements were inadequate. A current and properly approved expenditure policy that standardizes purchase procedures and accounting treatments reduces the risk of errors, irregularities, and misappropriation of funds.

### **SUPPORTING DOCUMENTATION [27]**

Certain Foundation cash disbursements were not supported by appropriate documentation. Sufficient supporting documentation reduces the risk of errors, irregularities, and misappropriation.

### **AUTHORIZATION OF DISBURSEMENTS [28]**

Certain Foundation cash disbursements were not supported by appropriate authorization. Sufficient authorization reduces the risk of errors, irregularities, and misappropriation.

### **CHECK PROCESSING [29]**

Foundation blank check stock was not adequately secured. Adequate controls over the security and usage of blank check stock reduce the risk of misappropriation of funds.

### **UNCLAIMED MONIES [30]**

The Foundation had not established policies and procedures to escheat unclaimed monies to the state. Properly reporting and performing the duties specified in the unclaimed property law reduce the risk of fines.

### **PERSONNEL AND PAYROLL [31]**

Certain controls over Foundation payroll processing were inadequate. Adequate controls over payroll processing reduce the risk of a loss or misappropriation of funds.

### **FIXED ASSETS [32]**

Foundation revenue and expenses were overstated by approximately \$2.5 million for fiscal year 2001-2002, due to inappropriate accounting procedures for fixed assets. Appropriate accounting reduces the risk of misunderstanding and loss or misappropriation of funds.

### **TRUSTS AND OTHER LIABILITIES [32]**

Certain funds held in trust by the Foundation on behalf of donors, student clubs, and certain campus and campus-support organizations were inappropriately administered. Sufficient control over funds held in trust reduces the risk that funds will be expended for inappropriate purposes.

### **SEGREGATION OF DUTIES [34]**

Duties and responsibilities were not adequately segregated at the Foundation. Adequate segregation of duties reduces the risk of errors, irregularities, and misappropriation of funds.

## **CALIFORNIA STATE UNIVERSITY, BAKERSFIELD STUDENT UNION**

### **LEGAL AND REGULATORY COMPLIANCE [36]**

#### **LEASING OF FACILITIES [36]**

Certain California State University, Bakersfield Student Union (Union) lease and sublease arrangements were not properly supported by written agreements. Properly developed, written lease agreements, which define rights and responsibilities, reduce the potential for misunderstandings.

### **BOARD OF DIRECTORS [37]**

Union board member positions were not filled or reappointed as required by its bylaws. Compliance with corporate bylaws reduces the risk of misunderstandings and legal liability.

### **ELECTION OF OFFICERS [37]**

Union board officer positions were not filled as required by its bylaws. Compliance with corporate bylaws reduces the risk of misunderstandings and legal liability.

### **BOARD MEETINGS [38]**

The Union was not consistently in compliance with its bylaw requirements for annual spring meetings, quorums, and voted approvals. Compliance with corporate bylaws reduces the risk of misunderstandings and may reduce legal liability.

### **BOARD MINUTES [39]**

Union board of directors' meeting minutes were not signed and approved by an appropriate official. Maintaining signed board of directors' meeting minutes reduces the risk of misunderstandings and the potential for legal liability.

### **BUDGETS [39]**

Union procedures related to the acceptance and approval of annual budgets were inadequate. Sufficient detail, review, and approval of auxiliary budgets reduce the risk that the auxiliary will operate in a manner inconsistent with the educational mission of the campus.

### **RISK MANAGEMENT [40]**

Union risk management planning was inadequate. Adequate risk management planning reduces the risk of misunderstandings and the auxiliary organization's exposure to potential liability or insolvency.

### **WRITTEN AGREEMENTS [41]**

Written agreements had not been established between the Union and other entities concerning certain activities. Fully defining the rights, responsibilities, and expectations of each party reduces the risk of misunderstandings.

## **CASH RECEIPTS AND HANDLING [42]**

Controls over Union cash receipt processing were inadequate. Adequate controls over cash receipts processing reduce the risk of a loss or misappropriation of funds.

## **FEES, REVENUES, AND RECEIVABLES [43]**

### **COMMISSION REVENUE [43]**

Controls over the administration and disclosure of commission revenue were inadequate at the Union. Proper monitoring of expected revenues and adequate disclosure of related party transactions in the financial statements reduce the risk of misunderstandings and errors or misappropriation of funds.

### **FACILITIES REVENUE [44]**

Controls over Union facilities rentals were not adequate. Proper controls over facilities rentals charges may reduce the risk of legal liability and errors or misappropriations of funds.

## **ASSOCIATED STUDENTS, CALIFORNIA STATE UNIVERSITY, BAKERSFIELD, INC.**

## **LEGAL AND REGULATORY COMPLIANCE [46]**

### **RISK MANAGEMENT [46]**

Arrangements with third parties to promote student use of their services did not sufficiently indemnify Associated Students, California State University, Bakersfield, Inc. (ASI), the campus, or the CSU Trustees. Fully defining the rights, responsibilities, and expectations of each party reduces the risk of misunderstandings and legal liability.

### **INDEMNITY BONDS [47]**

ASI did not obtain indemnity bonds or similar protection for employees and board members handling funds. Obtaining indemnity bonds or similar protection reduces the risk of unreimbursable losses in the case of theft or misappropriation.

### **WRITTEN AGREEMENTS [47]**

Written agreements had not been established between the Foundation and ASI concerning employee payroll and benefit services provided for the ASI office manager position. Fully defining the rights, responsibilities, and expectations of each party reduces the risk of misunderstandings.

## **FEES, REVENUES, AND RECEIVABLES [48]**

ASI did not obtain and review the student body association fee allocation for accuracy. Obtaining and reviewing the reconciliation of student body association fees reduce the risk of errors, irregularities, and misappropriation.

## **PURCHASING AND ACCOUNTS PAYABLE [49]**

### **POLICIES AND PROCEDURES [49]**

ASI policies and procedures for processing cash disbursements were not adequate. A current and properly approved expenditure policy that standardizes purchase procedures and accounting treatments reduces the risk of errors, irregularities, and misappropriation of funds.

### **SUPPORTING DOCUMENTATION [50]**

Certain ASI cash disbursements were not supported by appropriate documentation. Sufficient supporting documentation reduces the risk of errors, irregularities, and misappropriation.

## **PROGRAMS [51]**

The student clubs authorized to receive ASI referendum monies were not required to sign an agreement with the ASI acknowledging their acceptance of the ASI club budget policy, nor did the ASI otherwise maintain the signatures of club members authorized to approve club transactions. Obtaining club acceptance of ASI budget policies and maintaining authorized club signatures reduce the risk of errors, irregularities, and misappropriations.

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

### **CAMPUS**

#### **LEGAL AND REGULATORY COMPLIANCE**

##### **AUXILIARY AUTHORIZATION**

A written operating agreement had not been established between the California State University, Bakersfield, Foundation for Research (CSUBFR), the California State University (CSU), and the campus.

Title 5 §42501 states, in part, that a written agreement is required for the auxiliary's performance of any functions listed in Title 5 §42500, except student body organization activities.

The campus vice president of business and administrative services indicated that the activity in the CSUBFR had been minimal to date, and the lack of completion of a written operating agreement was due to management oversight.

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

##### **Recommendation 1**

We recommend that the CSUBFR enter into a written operating agreement with the campus, listing all approved functions.

##### **Campus Response**

We concur. The CSUBFR and the campus will enter into a written operating agreement listing all approved functions. The recommendation will be completed by October 2003.

##### **RESERVES**

The campus had not provided written guidance for its auxiliaries regarding reserve planning. Additionally, none of the auxiliaries had established a written 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 campus vice president of business and administrative services indicated that the Office of Finance and Treasury at the chancellor's office had informed the campus that specific reserves were not required. He further stated that the auxiliaries had ample reserves, but the absence of a written policy was deliberate in an effort to maintain flexible reserve planning.

Insufficient reserve planning could place the auxiliaries at risk to fund future deficits.

### **Recommendation 2**

We recommend that the campus coordinate with its auxiliaries to establish formal, written policies for the allocation of surplus funds/reserves.

### **Campus Response**

We concur. The campus will establish separate formal, written policies for the allocation of surplus funds/reserves for each of the auxiliaries. The recommendation will be completed by October 2003.

### **CONFLICT OF INTEREST**

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

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

The campus vice president of business and administrative services indicated that any lack of conflict-of-interest policies or signed statements was due to auxiliary management oversight.

Failure to adequately address and implement conflict-of-interest code 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 regarding the strengthening and further documentation of conflict-of-interest policies and procedures.

### **Campus Response**

We concur. The campus will work with each auxiliary to strengthen and document conflict-of-interest policies and procedures. The recommendation will be completed by October 2003.

## **PUBLIC RELATIONS POLICY**

The campus had not established a current public relations policy applicable to its auxiliary organizations.

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.

The campus vice president of business and administrative services stated that the campus was using the established hospitality policy as a public relations policy. He further stated that management was unaware of the many other elements that needed to be addressed in a complete public relations policy.

Failure to establish a current public relations policy applicable to all auxiliary organizations increases the risk that funds will be accumulated and used improperly.

### **Recommendation 4**

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.

### **Campus Response**

We concur. The campus will develop a public relations policy applicable to all campus auxiliaries and maintain the policy on file with the Office of the Chancellor. The recommendation will be completed by October 2003.

### **WRITTEN AGREEMENTS**

Written agreements had not been established between the campus and its auxiliaries concerning certain activities.

We found that the campus had nonexistent or inadequate written contracts to support the following activities:

- ▶ Lease of the Children's Center facilities to the California State University, Bakersfield Foundation (Foundation).
- ▶ Administrative and fiscal services provided by the Foundation to campus departments and programs (i.e. athletics, centers, and institutes).
- ▶ Financial arrangements with the Foundation concerning the Leadership Development Center construction.
- ▶ Administrative and fiscal services provided by the campus to its auxiliaries, including its procurement and receiving services, and other reimbursable services provided to the auxiliaries.
- ▶ The Foundation's reimbursement to the campus for the salaries and benefits of certain advancement personnel.
- ▶ The campus' reimbursement to the Foundation for certain Foundation employees working in the campus mailroom and in athletics.
- ▶ Shared costs by the campus and Foundation for the Children's Center director's salary and benefits.

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 business arrangements be supported by written agreements.

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

The campus vice president of business and administrative services indicated that the terms and conditions of each of these activities was verbally communicated and understood by the auxiliaries and individual campus departments and that the lack of formal, written agreements was due to management oversight.

Failure to fully define the rights, responsibilities, and expectations of each party increases the risk of misunderstandings.

### **Recommendation 5**

We recommend that the campus establish written agreements with its auxiliaries to support the above activities.

### **Campus Response**

We concur. The campus will review existing written agreements and update them to reflect all appropriate activities. If necessary, additional written agreements will be established to ensure all activities are covered. The recommendation will be completed by October 2003.

## **TRUSTS AND OTHER LIABILITIES**

The campus did not exercise sufficient control over funds held in trust and agency accounts by the California State University, Bakersfield Foundation (Foundation).

Funds were held in trust by the Foundation for campus programs, certain discretionary funds, grants and contracts, and student clubs and organizations.

We found that:

- ▶ Revenues and expenses associated with certain campus and auxiliary programs (i.e., donations, fundraising, space rentals, beverage pouring rights, etc.) were not reflected in either campus or auxiliary organization financial statements.
- ▶ State funds were held in trust and/or custodial accounts in violation of CSU policy. These funds included revenues derived from athletics (i.e., gate receipts, season ticket sales, donations, fundraising, camp revenue, and food concessions), housing vending revenue, summer program housing fees, and reimbursements to the campus of overhead received under contracts and grants.

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

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

The campus vice president of business and administrative services indicated that the lack of auxiliary policies and procedures concerning trust and agency accounting contributed to the above trust issues.

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

**Recommendation 6**

We recommend that the campus increase its oversight of auxiliary management, specifically in the area of funds held in trust and agency accounts.

**Campus Response**

We concur. The campus will review the current classification of these funds and make appropriate adjustments to ensure they are properly classified and reported in the financial statements. The recommendation will be completed by October 2003.

## **CALIFORNIA STATE UNIVERSITY, BAKERSFIELD FOUNDATION**

### **LEGAL AND REGULATORY COMPLIANCE**

#### **PUBLIC MEETINGS**

The Foundation did not provide public notice of board and subcommittee meetings.

Education Code §89920 states that each governing board of an auxiliary organization shall conduct its business in public meetings. Education Code §89924 states that no governing board shall take action on any issue until that issue has been publicly posted for at least one week.

The campus vice president of university advancement (who is also the Foundation executive director) indicated that the lack of public notice was due to management oversight.

Noncompliance with regulations for public meetings increases the risk of misunderstandings and may increase legal liability.

#### **Recommendation 7**

We recommend that the Foundation post its meeting notices and agendas in a public area in accordance with CSU policy.

#### **Campus Response**

We concur. The meeting notices and agendas will be posted to the campus website in accordance with CSU policy. The recommendation will be completed by June 2003.

### **WRITTEN AGREEMENTS**

Written agreements had not been established between the Foundation and third-party entities concerning certain activities.

We found that written agreements had not been executed between the Foundation and various client entities (California State University, Bakersfield Student Union, Alumni Association, etc.) for fiscal management services provided to these entities.

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 business arrangements be supported by written agreements.

The Foundation manager attributed the lack of formalized fiscal management agreements to oversight. He further indicated that the agreement with the food service provider had not been executed in a timely manner due to stalled contract negotiations.

Failure to fully define the rights, responsibilities, and expectations of each party increases the risk of misunderstandings.

### **Recommendation 8**

We recommend that the Foundation take appropriate action to ensure that all contracts and written agreements are executed and renewed in a timely manner.

### **Campus Response**

We concur. The Foundation will review existing written agreements and implement any required new agreements to ensure all activities with third-party entities are covered. A process to trigger new agreements and timely renewals will be defined and implemented. The recommendation will be completed by October 2003.

## **CASH RECEIPTS AND HANDLING**

Certain controls over Foundation cash receipts processing were inadequate.

We found that:

- ▶ Prenumbered receipts were not used for athletic deposits.
- ▶ The accuracy of athletic deposits was not verified at the time of receipt.
- ▶ Foundation checks were not restrictively endorsed immediately upon receipt.
- ▶ Personnel and funds were not adequately safeguarded while in-transit to/from the campus cashier.
- ▶ Fundraising revenue from the Children's Center was not deposited on a timely basis.

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 over cash funds, which include maintaining appropriate controls over cash receipts.

The Foundation manager indicated the above cash receipting issues were due to the lack of a formal cash receipting policy to satellite cashiering locations.

Inadequate controls over cash receipts processing increase the risk of a loss or misappropriation of funds.

### **Recommendation 9**

We recommend that the Foundation:

- a. Use prenumbered receipts for all deposits.
- b. Verify the accuracy of all deposits at the time of receipt.
- c. Restrictively endorse all Foundation checks immediately upon receipt.
- d. Implement procedures to adequately safeguard personnel and funds while in-transit.
- e. Establish procedures to ensure fundraising revenue is deposited in a timely manner.

### **Campus Response**

We concur. The Foundation will write and implement a cash handling procedure that will strengthen existing controls over cash receipts. This policy will be distributed to satellite cashiering stations to ensure all locations are familiar with the procedures for handling cash. The recommendation will be completed by August 2003.

## **PETTY CASH AND CHANGE FUNDS**

Controls over petty cash and change funds administered by the Foundation were deficient.

We found that:

- ▶ The Foundation had not developed procedures to perform periodic, independent, unannounced counts of its petty cash and change funds.
- ▶ There were no records maintained of petty cash and change fund counts.
- ▶ Accountability was not localized, as multiple persons processed petty cash transactions from the same cash drawer.
- ▶ There were no procedures in place to enforce the Foundation policy concerning maximum allowed daily reimbursements.
- ▶ There were no procedures in place to determine the appropriateness or allowableness of expenditures prior to disbursing petty cash reimbursements.
- ▶ Authorizing signatures on petty cash disbursement requests were not adequately verified prior to disbursing the petty cash.
- ▶ Itemized receipts were not required for reimbursement of credit card purchases.
- ▶ Receipts were not issued to individuals returning cash boxes.

- ▶ One individual temporarily used personal funds to finance petty cash transactions when petty cash was unavailable.

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 petty cash funds.

The Foundation manager indicated that limited staffing contributed to the petty cash deficiencies noted.

Inadequate controls over petty cash funds increase the risk of errors or misappropriation of funds.

### **Recommendation 10**

We recommend that the Foundation:

- a. Establish and implement procedures requiring the performance and documentation of independent cash counts of all Foundation change funds.
- b. Maintain records detailing the results of petty cash and change fund counts.
- c. Establish local accountability over petty cash and change funds.
- d. Consistently follow established petty cash fund policies and procedures.
- e. Verify the appropriateness and allowableness of expenditures prior to disbursing petty cash.
- f. Verify signatures on the petty cash disbursement request to the account authorization forms.
- g. Obtain itemized receipts for all expenditures.
- h. Issue receipts to individuals returning cash boxes.
- i. Establish policies addressing the impropriety of using personal funds to subsidize petty cash transactions.

### **Campus Response**

We concur. The campus will develop and implement written petty cash and change fund procedures which will strengthen existing controls over these funds. The procedures will incorporate processes that will address each of the above-recommended changes. The procedures will be distributed to all locations utilizing the petty cash and change fund process. The recommendation will be completed by October 2003.

## **INVESTMENTS**

### **ACCOUNTING**

The Foundation recorded an irrevocable gift of \$250,000 to a private foundation as an investment, rather than as a donation expense, during fiscal year 2001-2002.

The Foundation donated the total of its Hispanic Excellence Scholarship Fund endowment to the Hispanic Scholarship Fund (HSF), a private foundation that had received a matching grant. A portion of the matched earnings will be used for California State University, Bakersfield (CSUB) scholarships. However, upon the transfer of funds, the Foundation incorrectly recorded an investment in HSF, rather than donation expense.

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 donations be accounted for properly.

The Foundation manager indicated that the accounting error was due to management's misinterpretation of the proper accounting treatment.

Inappropriate accounting increases the risk of misunderstanding and may increase the risk of loss or misappropriation of funds.

#### **Recommendation 11**

We recommend that the Foundation properly account for donations.

#### **Campus Response**

We concur. The correction to the accounting error noted in this audit has been corrected. We will develop a procedure which ensures future donations are properly accounted for and recorded in the financial system. The current financial statements will make the appropriate corrections to prior year for the transaction noted in the audit finding. The recommendation will be completed by August 2003.

### **INVESTMENT PROCESSING**

Certain controls over Foundation investments were inadequate.

We found that:

- ▶ The Foundation's written investment policy did not address the requirement for dual signatures to authorize investment transactions over a certain threshold.

- ▶ The legal form of the written agreement pertaining to the donation of \$250,000 of Foundation endowment to an outside private foundation did not adequately address the intent of the parties. Although the intent was the return of funds annually in the form of a scholarship to benefit CSUB students, terms and conditions regarding the return of funds, as well as the disposition of funds in the event of insolvency, were not included in the agreement.

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 over investments.

The Foundation manager indicated that the Foundation's long-standing practice of obtaining dual authorizations for investment transactions had not been formally incorporated into the written investment policy guidelines due to management oversight. He further indicated that the endowment agreement similarly lacked details due to management oversight.

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 12**

We recommend that the Foundation:

- a. Update its investment policy to address the requirement of dual signatures on investment transactions over a certain dollar value.
- b. Attempt to revise its agreement with the private foundation to include all essential contractual provisions, including provisions regarding the return of funds and the disposition of funds in the event of the external organization's insolvency.

### **Campus Response**

We concur. The Foundation will revise their written investment policy guidelines to include dual signature requirements. The Foundation has initiated dialog regarding the disposition of funds if liquidation occurs in the subject contract. The recommendation will be completed by October 2003.

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

### **UNRELATED BUSINESS INCOME**

The Foundation had not accounted for or tracked unrelated business income (UBI) in a sufficient manner.

We found that the Foundation:

- ▶ Had no means in place to track UBI related to child-care fees paid by community members or catering commissions associated with facilities rentals to noncampus personnel.
- ▶ Had no process in place to analyze rental income attributable to personal property versus that attributable to real property, and the tax consequences thereof.
- ▶ Did not file an Internal Revenue Service (IRS) Form 990T.

Internal Revenue Code (IRC) §512 through §514 defines an unrelated trade or business of an exempt organization as any trade or business, the conduct of which is not substantially related to the exercise or performance of its tax-exempt purpose. UBI in excess of \$1,000 must be reported to the IRS on Form 990T, whether or not a tax liability is incurred. In addition, the organization's tax-exempt status may be jeopardized if too large a proportion of its revenue is derived from UBI.

The Foundation manager indicated that the nonfiling of UBI was due to management oversight.

Failure to properly analyze, document, and report UBI exposes the Foundation to potential penalties and actions by the IRS.

### **Recommendation 13**

We recommend that the Foundation analyze its operations for UBI and file federal income tax returns as appropriate.

### **Campus Response**

We concur. The Foundation will develop a procedure that will ensure operations are reviewed for UBI and, if appropriate, federal income tax returns are filed. The recommendation will be completed by October 2003.

### **RAFFLE**

The Foundation was not registered to participate in the operation of a raffle.

We found that the Children's Center routinely engaged in raffles for fundraising purposes.

California Penal Code §320.5 states that an eligible organization may not conduct a raffle authorized under this section, unless it registers annually with the Department of Justice.

The campus vice president of university advancement indicated that management's research had shown that the auxiliary was exempt from registration requirements.

Participation in an unauthorized raffle exposes the auxiliary and the campus to potential liability.

#### **Recommendation 14**

We recommend that the Foundation register as necessary with the Department of Justice or refrain from participation in any future raffles.

#### **Campus Response**

We concur. The Foundation will define a process to ensure activities participating in raffles complete appropriate registrations before commencing with the raffles. The recommendation will be completed by August 2003.

### **SALES COMMISSION AUDITS**

The Foundation did not exercise its contractual right to audit third-party contractor gross sales receipts, upon which Foundation commissions were based.

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 contracts contain essential clauses, including contractual audit clauses, and that such clauses be exercised.

The Foundation manager stated that actual revenues from the contractors closely aligned with anticipated revenues; therefore, the Foundation did not feel it was necessary to exercise the audit clauses.

Failure to perform routine audits of third-party contractor gross sales receipts could result in the underpayment of earned commission revenue.

#### **Recommendation 15**

We recommend that the Foundation conduct periodic audits of its contractors.

#### **Campus Response**

We concur. The Foundation will regularly exercise its contractual right to audit third-party contractors gross sales receipt for assurance that commissions paid are accurate. The recommendation will be completed by October 2003.

## **PURCHASING AND ACCOUNTS PAYABLE**

### **POLICIES AND PROCEDURES**

The Foundation's policies and procedures for processing cash disbursements were inadequate.

Foundation policies and procedures did not address the need for:

- ▶ A signature and date on all check requisitions and/or purchase orders.
- ▶ A prohibition against authorization by an official to approve his or her own purchase or payment.
- ▶ Certification that records were examined to prevent duplicate payment prior to accepting photocopies or facsimile invoices.
- ▶ Listing a stated purpose on the check requisition and/or purchase order.
- ▶ Proof of receipt for goods or services.
- ▶ Trust or agency agreements to be maintained.
- ▶ Dual signatures on check payments over a predetermined limit (this was an existing practice, but was not formally documented).

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 significant processes be supported by current written policies and procedures.

The Foundation manager indicated that the Foundation had recently developed policies and procedures addressing contract and grant related disbursements and that, although not formally documented, the same procedures were applicable to general disbursements.

Failure to maintain a current and properly approved expenditure policy that standardizes purchasing procedures and accounting treatments increases the risk of errors, irregularities, and misappropriation of funds.

### **Recommendation 16**

We recommend that the Foundation review and assess current practices and controls over general disbursement and revise its written policy accordingly.

### **Campus Response**

We concur. The Foundation will update their written policy regarding general disbursements. The revised policy will address an appropriate approval process, dual check-signing limits and proof of receipts for goods and services. The recommendation will be completed by October 2003.

### **SUPPORTING DOCUMENTATION**

Certain Foundation cash disbursements were not supported by appropriate documentation.

Our review of 130 cash disbursements disclosed the following:

- ▶ In 13 instances, documentation to support expenditures was not on file (eight of these were for athletics travel advances).
- ▶ In 29 instances, a facsimile or photocopied invoice was accepted for payment without certification that records were checked to prevent duplicate payment.
- ▶ In 15 instances, the expenditure did not have an invoice or receipt on file.
- ▶ In two instances, receipts were not compiled to support credit card payments.
- ▶ In two instances, proof of receipt of goods or services was not submitted.
- ▶ In ten instances, the expenditure support for hospitality events or group activities did not include the names of participating individuals.
- ▶ In seven instances, the purpose of the expenditure was not stated.

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 all cash disbursements be fully supported.

The Foundation manager indicated that it is the practice of the Foundation to disburse cash only if supported by appropriate documentation and that every attempt is made to adhere to this practice.

Insufficient supporting documentation increases the risk of errors, irregularities, and misappropriation.

### **Recommendation 17**

We recommend that the Foundation:

- a. Take appropriate measures to ensure that all expenditures are supported by appropriate documentation.

- b. Develop a formalized verification process for expenditures not supported by original documentation.
- c. Require that documentation evidencing receipt of goods or services be included for all expenditures.
- d. Require that expenditure support for hospitality events or group activities include a list of the names of participating individuals.
- e. Require a stated purpose and a description of the expenditure on all purchase orders and/or requisitions.

### **Campus Response**

We concur. The Foundation policy for general disbursements will include requirements to provide adequate supporting documentation. The policy will address proof of receipt of goods, list of participants, and a detailed description of the expenditures. The recommendation will be completed by October 2003.

### **AUTHORIZATION OF DISBURSEMENTS**

Certain Foundation cash disbursements were not supported by appropriate authorization.

Our review of 130 cash disbursements disclosed the following:

- ▶ In 13 instances, the payment support did not provide evidence of approval.
- ▶ In 17 instances, the approval signature did not match the signature specimen on file.
- ▶ In 34 instances, a signature specimen was not on file for the fund from which a disbursement was made.

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 all cash disbursements be properly authorized.

The Foundation manager indicated that it is the practice of the Foundation to disburse funds only if supported by appropriate authorization and that every attempt is made to adhere to this practice.

Inappropriate authorization increases the risk of errors, irregularities, and misappropriation.

### **Recommendation 18**

We recommend that the Foundation:

- a. Ensure that evidence of approval is obtained for all processed disbursements.
- b. Ensure that only authorized individuals approve invoices and requisitions.
- c. Ensure that specimen signatures are available on project information forms and completed trust or agency agreements.

### **Campus Response**

We concur. The Foundation policy for general disbursements will include a process for receiving appropriate authorization for expenditures and documentation showing that written authorization was received. The recommendation will be completed by October 2003.

### **CHECK PROCESSING**

Foundation blank check stock was not adequately secured.

We noted the following:

- ▶ Surplus check stock was stored unsecured in the Foundation cash office safe (which is unlocked during business hours).
- ▶ Voided Foundation check stock was not adequately accounted for by the campus cashier's office after Foundation check processing.

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 controls be in place over the security and usage of blank check stock.

The Foundation manager indicated that surplus check stock being stored in the Foundation's office safe was an oversight due to the current relocation of many campus offices. He further indicated that check-writing procedures required voided stock to be accounted for and logged, but that voided checks were not logged as the procedures required.

The lack of adequate controls over the security and usage of blank check stock increases the risk of misappropriation of funds.

### **Recommendation 19**

We recommend that the Foundation establish alternative procedures to ensure that access to blank check stock is limited to only appropriate personnel and that voided check stock is properly accounted for.

### **Campus Response**

We concur. The Foundation currently has a procedure for ensuring check stock is adequately secured. Additional oversight will be in place to ensure the policy is consistently adhered to by all involved. The recommendation will be completed by May 2003.

### **UNCLAIMED MONIES**

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

Unclaimed checks were not reported as escheat property, but were instead reversed and transferred back to the appropriate cash accounts. We noted several outstanding checks greater than one year old; the oldest dated back to 2000.

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

The Foundation manager indicated that the failure to adequately account for and escheat unclaimed monies was due to oversight.

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

### **Recommendation 20**

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

### **Campus Response**

We concur. The Foundation will develop and implement a written policy and corresponding procedures to escheat unclaimed monies to the state. The recommendation will be completed by October 2003.

## **PERSONNEL AND PAYROLL**

Certain controls over Foundation payroll processing were inadequate.

We found that:

- ▶ With the exception of sponsored programs, the Foundation did not maintain signature cards of individuals authorized to approve timesheets.
- ▶ Certain checks were distributed to the employees' supervisors, rather than to the employees. This alternative distribution method was requested by the supervisors and was not approved in writing by the employees.

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 over payroll processing.

The Foundation manager indicated that the above payroll processing issues pertained to only a small percentage of total payroll transactions and were overlooked due to management oversight.

Inadequate controls over payroll processing increase the risk of errors, irregularities, and a loss or misappropriation of funds.

### **Recommendation 21**

We recommend that the Foundation:

- a. Obtain signature cards for all supervisors approving timesheets.
- b. Obtain written authorization from the employee before distributing paychecks to an individual other than the employee.

### **Campus Response**

We concur. The Foundation will develop and implement written procedures to include review of authorized signers and check distribution authorization. The recommendation will be completed by October 2003.

## **FIXED ASSETS**

Foundation revenue and expenses were overstated by approximately \$2.5 million for fiscal year 2001-2002, due to inappropriate accounting procedures for fixed assets.

We noted that certain fixed assets were expensed when purchased. However, the same assets were also capitalized, resulting in duplicate accounting. As a result, both revenues and expenses were overstated.

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 fixed assets be accounted for properly.

The Foundation manager stated that management had made a conscious effort to inform the reader by combining the value of property acquired in the “Revenue and Other Support” and “Total Expenses and Deductions” sections of the Statement of Activities.

Inappropriate accounting increases the risk of misunderstanding with respect to the results of operations.

### **Recommendation 22**

We recommend that the Foundation disclose its fixed asset transactions in a manner that does not overstate revenue and expense.

### **Campus Response**

We concur. The Foundation will revise the year-end procedures for disclosures of fixed assets and will make adjustments in their procedures to ensure disclosure of fixed assets does not result in an overstatement of revenue or expenses. The revised procedure will be used for presentation in the fiscal year 2003/04 financial statements. The recommendation will be completed by July 2003.

## **TRUSTS AND OTHER LIABILITIES**

Certain funds held in trust by the Foundation on behalf of donors, student clubs, and certain campus and campus-support organizations were inappropriately administered.

We found that:

- ▶ Trust agreements were not maintained to support arrangements wherein the Foundation held funds on behalf of various groups. Such agreements/documentation should address the purpose

of the account, authorized expenditures, disposition of unexpended funds, interest earnings, administrative fees, and reporting requirements.

- ▶ A trust account for a campus-support organization was overspent, effectively creating an undocumented loan from the Foundation.
- ▶ Signature cards for trust and agency accounts were not consistently maintained. Signature cards on file were undated.
- ▶ The Foundation had no procedures in place concerning the disposition of aged, inactive agency accounts.
- ▶ The Foundation did not consistently verify that organizations were officially recognized by the campus before establishing related trust or agency accounts.
- ▶ The Foundation did not reconcile certain agency accounts to supporting documentation.

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

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 controls over trust accounts.

The Foundation manager indicated that insufficient personnel and management oversight contributed to the trust and agency deficiencies noted above.

Insufficient control over funds held in trust increases the risk that funds will be expended for inappropriate purposes.

### **Recommendation 23**

We recommend that the Foundation:

- a. Ensure trust agreements are complete and adequately maintained.
- b. Establish written agreements before advancing funds to other organizations.
- c. Maintain dated signature cards for all trust and agency accounts.
- d. Develop and implement procedures concerning the disposition of aged, inactive agency funds.
- e. Coordinate with the campus to develop procedures for verifying the officially recognized status of an organization before establishing trust or agency accounts.

- f. Reconcile applicable trust and agency accounts to supporting documentation on a periodic basis.

### **Campus Response**

We concur. The Foundation will develop written procedures that will be used in providing oversight to funds held in trust. The procedures will address the advancing of funds, disposition of inactive funds, and the maintenance of signature cards and other supporting documentation. The policy will address all issues noted regarding controls over funds held in trust. The recommendation will be completed by October 2003.

## **SEGREGATION OF DUTIES**

Duties and responsibilities were not adequately segregated at the Foundation.

Our review of the Foundation's internal control systems disclosed the following:

### Cash Receipts

The same individual retrieved and opened the mail, received and processed the cash receipts, prepared the deposit, and posted the information to the general ledger.

### Investments

The same individual that performed investment transactions prepared the account reconciliation and had signature authority on all Foundation checking and investment accounts.

### Accounts Receivable

The same individual performed billing functions, maintained client records and the accounts receivable subledger, and followed up on collections at the Children's Center.

### Accounts Payable

The Foundation accounts payable clerk was responsible for maintaining vendor records, inputting and posting disbursement information, had access to blank check stock and the check signature file, processed checks, and distributed checks to the cashier's office and student assistants for final distribution.

### Personnel and Payroll

The same individual entered new employees, deleted employees, entered/updated payroll data (rate changes, etc.), processed time sheets, received payroll checks from the payroll service, received unclaimed checks, and posted the account information to the general ledger.

Executive Order (EO) No. 698, *Board of Trustees Policy for the CSU Auxiliary Organization*, dated March 3, 1999, 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 manager indicated that limited staffing in the Foundation did not allow for an optimum segregation of duties.

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

**Recommendation 24**

We recommend that the Foundation segregate appropriate duties or institute mitigating controls approved by the campus.

**Campus Response**

We concur. The Foundation will review the duties assigned to individual support staff and reallocate duties in a manner that will ensure adequate segregation of duties exist. The recommendation will be completed by October 2003.

## **CALIFORNIA STATE UNIVERSITY, BAKERSFIELD STUDENT UNION**

### **LEGAL AND REGULATORY COMPLIANCE**

#### **LEASING OF FACILITIES**

Certain California State University, Bakersfield Student Union (Union) lease and sublease arrangements were not properly supported by written agreements.

We found that:

- ▶ The lease with the credit union expired in June of 2000.
- ▶ The Union had not executed a sublease agreement with Associated Students, California State University, Bakersfield, Inc. (ASI) for student lounge space at the Antelope Valley satellite campus.

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 facility lease arrangements be properly supported by current written agreements.

The campus assistant vice president of student life stated that the above leasing issues were due to the Union director's position being unfilled for two years.

The absence of properly developed, written lease agreements, which define rights and responsibilities, increases the potential for misunderstandings.

#### **Recommendation 25**

We recommend that the Union reduce to writing all lease agreements for space and implement procedures to ensure such lease agreements remain current.

#### **Campus Response**

We concur. The Student Union personnel, in conjunction with Procurement, have updated all written lease agreements. The expiration dates are calendared into the Purchasing system to ensure timely renewals. The recommendation will be completed by June 2003.

## **BOARD OF DIRECTORS**

Union board member positions were not filled or reappointed as required by its bylaws.

We noted that the student positions on the board of directors had not been filled completely in fiscal years ended June of 2000, 2001 and 2002. Further, the faculty and alumnus positions had not been reappointed every two years, yet the same people filled the positions since the commencement of the board in 1994.

Education Code §89925 requires that the auxiliary operate in accordance with its stated bylaws. The current bylaws require five at-large student board members to serve two-year terms and alumnus and faculty members appointed for two-year terms.

The campus assistant vice president of student life stated that the unfilled board positions were due to the graduation of student board members and the difficulty in identifying students willing to commit to the responsibility. He further stated that management oversight was responsible for the issue regarding the alumnus and faculty positions.

Noncompliance with corporate bylaws increases the risk of misunderstandings and may increase legal liability.

### **Recommendation 26**

We recommend that the Union comply with its bylaws concerning the appointment of student, alumnus, and faculty positions.

### **Campus Response**

We concur. The Student Union currently has all board positions filled in accordance with their bylaws, including alumnus and faculty positions. The recommendation will be completed by May 2003.

## **ELECTION OF OFFICERS**

Union board officer positions were not filled as required by its bylaws.

We found that in fiscal years ended June of 2000, 2001, 2002, and the current year that no more than two of the four named positions of chair, vice chair, secretary, and treasurer were filled.

Education Code §89925 requires that the auxiliary operate in accordance with its stated bylaws. The current bylaws require that the officers will be elected at the annual meeting of the board, or as soon thereafter as may be conveniently scheduled.

The campus assistant vice president of student life stated that the incomplete appointment of officers was due to management oversight.

Noncompliance with corporate bylaws increases the risk of misunderstandings and may increase legal liability.

**Recommendation 27**

We recommend that the Union appoint officers in accordance with its bylaws.

**Campus Response**

We concur. The Student Union board officer positions are currently filled in accordance with the Union's bylaws. The recommendation will be completed by May 2003.

**BOARD MEETINGS**

The Union was not consistently in compliance with its bylaw requirements for annual spring meetings, quorums, and voted approvals.

We found that:

- ▶ Annual spring meetings were not publicly announced or reported in the minutes.
- ▶ A quorum of voting members was found lacking at the September 1999 and July 2002 meetings, although business was conducted.
- ▶ The nine voting members present at the October 2001 board meeting approved the investment in over \$70,000 in grill improvements with three approvals and only seven members accounted for in the vote.

Education Code §89925 requires that the auxiliary operate in accordance with its stated bylaws. The Union bylaws require annual spring meetings and quorums of a majority of the voting members.

The campus assistant vice president of student life stated that the conduct of the board meetings was a function of the lack of a Union director.

Noncompliance with corporate bylaws increases the risk of misunderstandings and may increase legal liability.

**Recommendation 28**

We recommend that Union board meetings be conducted in accordance with its bylaws.

**Campus Response**

We concur. The Student Union board has taken steps to ensure inconsistencies with meeting quorums, public notifications, and accurate minutes reflecting business conducted at the meetings

have been corrected. Currently, board meetings are being conducted in accordance with the Union bylaws. The recommendation will be completed by June 2003.

## **BOARD MINUTES**

Union board of directors' meeting minutes were not signed and approved by an appropriate official.

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 complete and accurate minutes signed by an appropriate official.

The campus assistant vice president of student life indicated that the omission of an appropriate signature was due to the fact that the board secretary position has been vacant.

Not maintaining signed board of directors' meeting minutes increases the risk of misunderstandings and the potential for legal liability.

### **Recommendation 29**

We recommend that the Union take appropriate measures to ensure that its board of directors' meeting minutes are signed and approved by an appropriate official.

### **Campus Response**

We concur. The Student Union board has designated a staff member to be present at board meetings to ensure inconsistencies are eliminated and they are adhering to the appropriate sign-off process. The recommendation will be completed by September 2003.

## **BUDGETS**

Union procedures related to the acceptance and approval of annual budgets were inadequate.

We noted that:

- ▶ The detail of the annual budgets approved by the board of directors was not articulated in the minutes or referenced as attachments. Further, the fiscal year 2001 budget had been discussed but not approved by the board of directors.
- ▶ The budgets were not submitted to the campus president for his approval.

Title 5 §42402 states that the president shall require that each auxiliary organization submit its programs and budgets for review at a time and in a manner specified by the president.

Title 5 §42401 and §42402 indicate that 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 budgets contain sufficient detail and be prepared or revised in a complete and timely manner.

The campus assistant vice president of student life stated that the process of moving the prepared budget through the approved Union process was not performed due to the Union director position being vacant for two years.

The lack of sufficient detail, review, and approval of auxiliary budgets increases the risk that the auxiliary will operate in a manner inconsistent with the educational mission of the campus.

### **Recommendation 30**

We recommend that the Union:

- a. Ensure the discussion and approval of budgets are sufficiently articulated in the minutes.
- b. Coordinate with the campus to take appropriate measures to ensure that budget information is submitted to the campus president for approval in a timely manner.

### **Campus Response**

We concur. The Student Union board will ensure the budgets discussed in board meetings receive approval of the board and the action is articulated in the minutes. The campus president will approve the budget before authorizing action to expend funds is granted. The recommendation will be completed by September 2003.

### **RISK MANAGEMENT**

Union risk management planning was inadequate.

We found that:

- ▶ The Union did not pay the Foundation for the Union's portion of the liability insurance covered under a joint policy with the Foundation.
- ▶ The Union did not maintain its own commercial crime policy.

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) indicates that an auxiliary needs to take measures to protect the campus from all possible liability associated with its service operations. Sound business practice mandates sufficient insurance planning.

EO No. 743, *California State University Insurance Requirements*, dated May 5, 2000, and its successor, EO No. 829, *California State University Insurance Requirements*, dated July 11, 2002, specify the minimum insurance requirements for auxiliary operation agreements.

The California State University Bond Resolution, dated November 20, 1991, requires that property and liability insurance shall be procured and maintained as long as any of the bonds are outstanding.

The campus assistant vice president of fiscal and support services and risk manager and the Foundation manager stated that the failure to allocate the insurance expense to the Union and the other insurance issues had been caused by a management oversight.

Inadequate risk management planning increases the risk of misunderstandings and may expose the auxiliary organization to potential liability or insolvency.

### **Recommendation 31**

We recommend that the Union:

- a. Assume responsibility for the payments of its liability insurance premiums.
- b. Obtain indemnity bonds or similar protection such as crime insurance for employees handling funds.

### **Campus Response**

We concur. The campus has implemented a process for annual insurance expense recovery which will ensure the Student Union pays the Union's portion of the property and liability insurance. We are reviewing satellite cashiering operations and will recommend appropriate coverage for these operations and take necessary measures to implement the recommendations. The recommendation will be completed by September 2003.

### **WRITTEN AGREEMENTS**

Written agreements had not been established between the Union and other entities concerning certain activities.

We found that:

- ▶ Written agreements had not been executed between the Union and the Foundation for accounting, lending, investing, rent collection, expenditure processing, financial reporting, employment, general liability insurance, tax reporting, financial reporting, or other services provided to the Union.
- ▶ The games room vending machine commission agreement between the Union and an external service provider expired in 1997.

- ▶ The Union accepted \$10,000 in cost-sharing funds from the grill operator for facilities improvements without a written agreement as to the terms and conditions of the arrangement.

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 business arrangements be supported by written agreements.

The campus assistant vice president of student life stated that the absence of written agreements was due to management oversight.

Failure to fully define the rights, responsibilities, and expectations of each party increases the risk of misunderstandings.

### **Recommendation 32**

We recommend that the Union take appropriate action to ensure that all contracts and written agreements are executed and renewed in a timely manner.

### **Campus Response**

We concur. The Student Union director will begin in summer 2003. He will review activities of the Union and ensure complete written agreements exist for these activities. The recommendation will be completed by October 2003.

## **CASH RECEIPTS AND HANDLING**

Controls over Union cash receipt processing were inadequate.

We noted that:

- ▶ Only customers who paid for facilities rentals with a check received a receipt.
- ▶ Checks were not restrictively endorsed immediately upon receipt.
- ▶ There was no requirement for the person delivering checks to the Foundation to return with a receipt.

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 includes maintaining appropriate controls over cash receipts.

The campus assistant vice president of student life stated that inadequate cash receipt controls were due to having the Union director position unfilled for two years.

Inadequate controls over cash receipts processing increase the risk of a loss or misappropriation of funds.

### **Recommendation 33**

We recommend that the Union coordinate with the Foundation to:

- a. Issue receipts for all facilities rental payments.
- b. Restrictively endorse all checks immediately upon receipt.
- c. Obtain receipts for all deposits.

### **Campus Response**

We concur. The Foundation has worked with the Union to correct the noted operational oversights. In addition, the Foundation is developing a cash handling policy, including the policy for operating a satellite cashiering operation. Once the policy is completed and implemented, it will be shared with the Union to ensure adequate controls over cash receipts are in place. The recommendation will be completed by October 2003.

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

### **COMMISSION REVENUE**

Controls over the administration and disclosure of commission revenue were inadequate at the Union.

We noted that:

- ▶ More than \$7,000 in fiscal year 2002 commissions from the operator of the Union grill and the cafeteria was not posted until fiscal year 2003. Further, the Union's share of the dining common's revenues was erroneously excluded from the commission calculation.
- ▶ The material-related party arrangements mentioned above were not disclosed in the 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. EO No. 698 states that the review of auxiliary organizations will be used to determine the reliability and integrity of information. Sound business practice includes maintaining proper internal controls over revenue and requires reliable reported financial information.

The campus assistant vice president of student life stated that the lack of management review of commission revenue was due to the director's position remaining unfilled for two years.

Failure to properly monitor the receipt of expected revenues and adequately disclose related party transactions in the financial statements increases the risk of misunderstandings and errors or misappropriation of funds.

### **Recommendation 34**

We recommend that the Union:

- a. Monitor the receipt of their share of food operator commissions from the Foundation.
- b. Review the audited financial statements to ensure disclosure of all significant related party transactions.

### **Campus Response**

We concur. The Student Union director will take an active role in reviewing the financial quarterly reports from the Foundation. He will ensure all revenue and expenses are posted to the appropriate accounts to ensure the accuracy of the financial statements. The recommendation will be completed by October 2003.

## **FACILITIES REVENUE**

Controls over Union facilities rentals were not adequate.

We found that:

- ▶ Exceptions to stated facilities rentals were made without formalized approvals. Such instances include departments and outside users paying the club rate and the ASI using the multipurpose room without a charge.
- ▶ Facilities rentals on the reservation system were not compared with actual receipts to determine whether revenue was received for the facility provided.

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 includes maintaining proper internal controls over revenue.

The campus assistant vice president of student life stated that the establishment of more formalized controls over facilities rentals had not occurred due to a management oversight.

Failure to provide proper controls over facilities rentals charges may increase the risk of legal liability and errors or misappropriations of funds.

**Recommendation 35**

We recommend that the Union:

- a. Document and approve exceptions to stated facilities rentals.
- b. Conduct a comparison of cash receipts between the reservation system and the general ledger on a regular basis.

**Campus Response**

We concur. The Student Union staff is developing a policy for facilities rentals which will include documentation surrounding exceptions and reconciliation of reservation receipts to the general ledger on a timely basis. The recommendation will be completed by October 2003.

**ASSOCIATED STUDENTS,**  
**CALIFORNIA STATE UNIVERSITY, BAKERSFIELD, INC.**

**LEGAL AND REGULATORY COMPLIANCE**

**RISK MANAGEMENT**

Arrangements with third parties to promote student use of their services did not sufficiently indemnify Associated Students, California State University, Bakersfield, Inc. (ASI), the campus, or the CSU Trustees.

We found that:

- ▶ The written agreement with the supplementary student health insurance provider did not contain an indemnity clause.
- ▶ There was no written agreement for the supplementary student dental and vision insurance.
- ▶ There was no written agreement for the book swap service (an ASI website link).
- ▶ There was no written agreement with the law firm that the ASI website claimed had free initial consultation and reduced legal fees to CSUB students.

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 business arrangements be supported by written agreements and that contracts contain essential clauses, including indemnification clauses.

The campus assistant vice president of student life stated that he was not aware that having written agreements with indemnity clauses was required for this type of arrangement, where the ASI was only informing students that these services were available to them.

Failure to fully define the rights, responsibilities, and expectations of each party increases the risk of misunderstandings and may increase legal liability.

**Recommendation 36**

We recommend that ASI ensure that all business arrangements are fully supported by written agreements and that all such contracts include essential contractual provisions, including indemnification clauses.

### **Campus Response**

We concur. ASI will review all agreements and ensure that agreements with third-party vendors contain the appropriate indemnification language prior to the ASI entering into the agreement and/or posting information on their website. The recommendation will be completed by September 2003.

### **INDEMNITY BONDS**

ASI did not obtain indemnity bonds or similar protection for employees and board members handling funds.

Title 5 §42403(d) states that indemnity bonds shall be obtained by an auxiliary organization for officers and employees handling funds of the auxiliary organization.

The ASI office manager indicated she was not aware that ASI's cash activity was significant enough to warrant insurance coverage.

Failure to obtain indemnity bonds or similar protection exposes the auxiliary to unreimbursable losses in the case of theft or misappropriation.

### **Recommendation 37**

We recommend that ASI obtain indemnity bonds or similar protection for employees and board members handling funds.

### **Campus Response**

We concur. The ASI will review the cash handling and complete satellite cashiering activity currently in place and recommend to the campus fiscal division the level of operation they wish to continue. Based on ASI's review, the campus and ASI will determine appropriate protection and liability coverage for the operations. The recommendation will be completed by October 2003.

### **WRITTEN AGREEMENTS**

Written agreements had not been established between the Foundation and ASI concerning employee payroll and benefit services provided for the ASI office manager position.

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 business arrangements be supported by written agreements.

The campus assistant vice president of student life indicated that not committing this Foundation services arrangement to writing was due to a management oversight.

Failure to fully define the rights, responsibilities, and expectations of each party increases the risk of misunderstandings.

**Recommendation 38**

We recommend that ASI establish a written agreement between the Foundation and ASI concerning employee payroll and benefit services provided for the ASI office manager position.

**Campus Response**

We concur. The ASI will establish a written agreement between the Foundation and ASI addressing employee payroll and benefit services. The recommendation will be completed by September 2003.

**FEES, REVENUES, AND RECEIVABLES**

ASI did not obtain and review the student body association fee allocation for accuracy.

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 the accuracy of revenues be verified.

The ASI office manager stated that she was not aware that the fee reconciliation performed by the campus should be reviewed by the ASI officers or personnel.

Failure to obtain and review the reconciliation of student body association fees increases the risk that errors and irregularities will not be detected in a timely manner.

**Recommendation 39**

We recommend that ASI obtain and review the student body association fee allocation for accuracy.

**Campus Response**

We concur. The ASI currently receives reports of the fees collected for their operations but not always timely enough to allow sufficient monitoring of the postings. ASI and the campus will develop a quarterly schedule to ensure the reconciliations are received, reviewed, and monitored on a timely basis. The campus financial liaison will work closely with the ASI board and staff to address any questions or concerns they may have about the reports. The recommendation will be completed by September 2003.

## **PURCHASING AND ACCOUNTS PAYABLE**

### **POLICIES AND PROCEDURES**

ASI policies and procedures for processing cash disbursements were not adequate.

We noted that the current policy document did not address such areas as:

- ▶ Quotes, bids, or sole source justifications.
- ▶ The reliance on campus purchasing and receiving services for capital expenditures and for established vendor relationships for other supplies, such as office and art supplies.
- ▶ The ability to bypass campus purchasing and receiving services for certain purchases such as trophies, shirts, event decorations, and entertainment.
- ▶ The accounting treatment for fixed assets and equipment beyond a certain threshold value. (The financial statements did not identify the capital expenditure of more than \$90,000 for the Runner Park as an investing activity, a gift, or a use of unrestricted designated net assets. The board resolution did not address whether the expenditure was to remain as an asset of the ASI or to be treated as a gift to the campus).
- ▶ Proof of receipt for goods and services.
- ▶ Notation of a business purpose.
- ▶ Board approval of the expenditure policy.

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

Title 5 §42401 and §42402 indicate that the campus president shall require that auxiliary organizations operate in conformity with 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 cash disbursements be fully supported and properly authorized.

The campus assistant vice president of student life stated that he was not aware that having a formalized expenditure policy was required.

Failure to maintain a current and properly approved expenditure policy that standardizes purchasing procedures and accounting treatments increases the risk of errors, irregularities, and misappropriation of funds.

### **Recommendation 40**

We recommend that ASI review and assess current practices and controls over general disbursements and develop a written policy accordingly.

### **Campus Response**

We concur. The ASI will work with campus personnel to review the current practices for cash and general disbursements. A written policy will be developed, and once approved by the ASI board of directors, it will be fully implemented. The recommendation will be completed by September 2003.

### **SUPPORTING DOCUMENTATION**

Certain ASI cash disbursements were not supported by appropriate documentation.

Our review of 60 cash disbursements disclosed the following:

- ▶ Receipts for credit card charges did not provide any business purpose.
- ▶ In two instances, credit card receipts were missing.
- ▶ Proof of receipt of goods or services was not submitted.
- ▶ The signatures of those requesting club-allocated ASI funds were not verified as legitimate.
- ▶ In two instances, travel expense reports were not submitted on a timely basis, because money was not owed to the traveler in excess of the 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 all cash disbursements be fully supported.

The ASI president and the ASI office manager stated that the above documentation issues were due to the inability to obtain the receipts from students after travel and to the absence of formal written policies and procedures outlining ASI required backup.

Insufficient supporting documentation increases the risk of errors, irregularities, and misappropriation.

### **Recommendation 41**

We recommend that ASI:

- a. Require a stated purpose and a description of the expenditure on all purchase orders and/or requisitions.
- b. Take appropriate measures to ensure that all expenditures are supported by appropriate documentation.
- c. Require that documentation evidencing receipt of goods or services be included for all expenditures.
- d. Ensure that only authorized individuals approve invoices and requisitions.
- e. Follow up on outstanding travel advances.

### **Campus Response**

We concur. The ASI will work with campus personnel to develop a policy for cash and general disbursements which includes appropriate language on acquiring and retaining supporting documentation for these disbursements. Once the policy is written and approved by the board, we will ensure it is fully distributed to appropriate parties and fully implemented. The recommendation will be completed by October 2003.

## **PROGRAMS**

The student clubs authorized to receive ASI referendum monies were not required to sign an agreement with the ASI acknowledging their acceptance of the ASI club budget policy, nor did the ASI otherwise maintain the signatures of club members authorized to approve club transactions.

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 includes written agreements acknowledging the acceptance of the terms and conditions of the funds administrator and maintenance of authorized signatures in order to verify expenditure authority.

The ASI president and the ASI office manager stated that the above student club issues were due to management's lack of knowledge of the benefits of written verification of club acceptance of ASI policy and signature cards.

Failure to obtain club acceptance of ASI budget policies or maintain authorized club signatures increases the risk of errors, irregularities, and misappropriations.

**Recommendation 42**

We recommend that the current club budget policy be amended to act as a service contract with the ASI and be signed by those club members authorized to spend their club's ASI-administered funds.

**Campus Response**

We concur. The ASI will review the current club policy and make appropriate revisions to ensure appropriate club signatures and authorizations are received. The recommendation will be completed by October 2003.

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## **APPENDIX A: PERSONNEL CONTACTED**

<b><u>Name</u></b>	<b><u>Title</u></b>
<b>CAMPUS</b>	
Tomás A. Arciniega	President
W. Michael Chertok	Vice President of University Advancement
Cindy Goodman	Athletic Business Officer
Bob Hawkes	Coordinator, Program Development and Contract Education
Alice Huang	Information Technology Consultant
Homer Montalvo	Assistant Vice President, Admissions and Records
Suzanne Muller	General Accounting Manager
Michael A. Neal	Vice President of Business and Administrative Services
William R. Perry	Assistant Vice President of Student Life
Mike Stepanovich	Director of Public Relations
Sharon Taylor	Assistant Vice President of Fiscal and Support Services and Risk Manager
Steve Wilson	Systems Analyst

### **CALIFORNIA STATE UNIVERSITY, BAKERSFIELD FOUNDATION**

Denise Bell	Grants and Contracts Administrator
C. Randal Bye	Foundation Manager
Kim Carbajal	Accounts Payable Clerk
Diane Hendrickson	Director, Children's Center
Fiona Lee	General Ledger Accountant
Kelly Mejia	Human Resource Administrator
Steve Mendiburu	Administrative Analyst
Loraine Navarro	Cashier

### **CALIFORNIA STATE UNIVERSITY, BAKERSFIELD STUDENT UNION**

Robin Aronson	Administrative Support Assistant
Ray Moore	Interim Director, University Student Union
J. Nolan Schaffer	Interim Director, University Student Union

### **ASSOCIATED STUDENTS CALIFORNIA STATE UNIVERSITY, BAKERSFIELD, INC.**

Taren Mulhouse	Office Manager
Ricardo Salinas	ASI 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.

- ▶ 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.

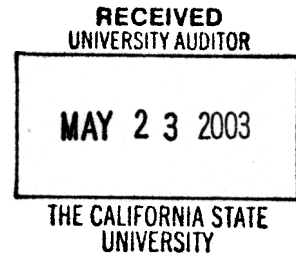


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May 23, 2003



Mr. Larry Mandel, University Auditor  
c/o The California State University  
401 Golden Shore, 4<sup>th</sup> Floor  
Long Beach, CA 90802

Re: Campus Response to Recommendations of Audit Report Number 02-51, Auxiliary Organizations, at California State University, Bakersfield

Dear Mr. Mandel:

In accordance with the Policies and Procedures for the Office of the University Auditor, enclosed is the campus response to recommendations one through forty-two of the Auxiliary Organizations Audit Report Number 02-51. A diskette with the electronic version of the response document is also enclosed. This response is respectfully submitted to the Chancellor for review and acceptance.

Please do not hesitate to contact me should additional information be required.

Cordially,

Tomás A. Arciniega  
President

TAA/dhm

Enclosure

cc: Mr. Michael A. Neal, Vice President for Business & Administrative Services  
Ms. Sharon Taylor, Assistant Vice President for Fiscal Services

**AUXILIARY ORGANIZATIONS**  
**CALIFORNIA STATE UNIVERSITY,**  
**BAKERSFIELD**

**REPORT NUMBER 02-51**

**CAMPUS**

**LEGAL AND REGULATORY COMPLIANCE**

**AUXILIARY AUTHORIZATION**

**Recommendation 1**

We recommend that the CSUBFR enter into a written operating agreement with the campus, listing all approved functions.

**Campus Response**

We concur. The California State University, Bakersfield, Foundation for Research (CSUBFR) and the campus will enter into a written operating agreement listing all approved functions. (Oct '03)

**RESERVES**

**Recommendation 2**

We recommend that the campus coordinate with its auxiliaries to establish formal, written policies for the allocation of surplus funds/reserves.

**Campus Response**

We concur. The campus will establish separate formal written policies for the allocation of surplus funds/reserves for each of the auxiliaries. (Oct '03)

**CONFLICT OF INTEREST**

**Recommendation 3**

We recommend that the campus provide guidance for its auxiliaries regarding the strengthening and further documentation of conflict-of-interest policies and procedures.

**Campus Response**

We concur. The campus will work with each auxiliary to strengthen and document conflict-of-interest policies and procedures. (Oct '03)

**PUBLIC RELATIONS POLICY**

**Recommendation 4**

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.

**Campus Response**

We concur. The campus will develop a public relations policy applicable to all campus auxiliaries and maintain the policy on file with the Office of the Chancellor. (Oct '03)

**WRITTEN AGREEMENTS**

**Recommendation 5**

We recommend that the campus establish written agreements with its auxiliaries to support the above activities.

**Campus Response**

We concur. The campus will review existing written agreements and update them to reflect all appropriate activities. If necessary, additional written agreements will be established to ensure all activities are covered. (Oct '03)

**TRUSTS AND OTHER LIABILITIES**

**Recommendation 6**

We recommend that the campus increase its oversight of auxiliary management, specifically in the area of funds held in trust and agency accounts.

**Campus Response**

We concur. The campus will review the current classification of these funds and make appropriate adjustments to ensure they are properly classified and reported in the financial statements. (Oct '03)

**CALIFORNIA STATE UNIVERSITY, BAKERSFIELD FOUNDATION**

**LEGAL AND REGULATORY COMPLIANCE**

**PUBLIC MEETINGS**

**Recommendation 7**

We recommend that the Foundation post its meeting notices and agendas in a public area in accordance with CSU policy.

**Campus Response**

We concur. The meeting notices and agendas will be posted to the campus website in accordance with CSU policy. (Jun '03)

**WRITTEN AGREEMENTS**

**Recommendation 8**

We recommend that the Foundation take appropriate action to ensure that all contracts and written agreements are executed and renewed in a timely manner.

**Campus Response**

We concur. The Foundation will review existing written agreements and implement any required new agreements to ensure all activities with third party entities are covered. A process to trigger new agreements and timely renewals will be defined and implemented. (Oct '03)

**CASH RECEIPTS AND HANDLING**

**Recommendation 9**

We recommend that the Foundation:

- a. Use pre-numbered receipts for all deposits.
- b. Verify the accuracy of all deposits at the time of receipt.
- c. Restrictively endorse all Foundation checks immediately upon receipt.
- d. Implement procedures to adequately safeguard personnel and funds while in-transit.
- e. Establish procedures to ensure fundraising revenue is deposited in a timely manner.

**Campus Response**

We concur. The Foundation will write and implement a cash handling procedure that will strengthen existing controls over cash receipts. This policy will be distributed to satellite cashiering stations to ensure all locations are familiar with the procedures for handling cash. (Aug '03)

## PETTY CASH AND CHANGE FUNDS

### Recommendation 10

We recommend that the Foundation:

- a. Establish and implement procedures requiring the performance and documentation of independent cash counts of all Foundation change funds.
- b. Maintain records detailing the results of petty cash and change fund counts.
- c. Establish local accountability over petty cash and change funds.
- d. Consistently follow established petty cash fund policies and procedures.
- e. Verify the appropriateness and allowableness of expenditures prior to disbursing petty cash.

Verify signatures on the petty cash disbursement request to the account authorization forms.

- g. Obtain itemized receipts for all expenditures.
- h. Issue receipts to individuals returning cash boxes.

Establish policies addressing the impropriety of using personal funds to subsidize petty cash transactions.

### Campus Response

We concur. The campus will develop and implement written Petty Cash and Change Fund procedures which will strengthen existing controls over these funds. The procedures will incorporate processes that will address each of the above recommended changes. The procedures will be distributed to all locations utilizing the Petty Cash and Change Fund process. (Oct '03)

## INVESTMENTS

### ACCOUNTING

#### Recommendation 11

We recommend that the Foundation properly account for donations.

#### Campus Response

We concur. The correction to the accounting error noted in this audit has been corrected. We will develop a procedure which ensures future donations are properly accounted for and recorded in the financial system. The current financial statements will make the appropriate corrections to prior year for the transaction noted in the audit finding. (Aug '03)

## **INVESTMENT PROCESSING**

### **Recommendation 12**

We recommend that the Foundation:

- a. Update its investment policy to address the requirement of dual signatures on investment transactions over a certain dollar value.
- b. Attempt to revise its agreement with the private foundation to include all essential contractual provisions, including provisions regarding the return of funds and the disposition of funds in the event of the external organization's insolvency.

### **Campus Response**

We concur. The Foundation will revise their written investment policy guidelines to include dual signature requirements. The Foundation has initiated dialog regarding the disposition of funds if liquidation occurs in the subject contract. (Oct '03)

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

### **UNRELATED BUSINESS INCOME**

#### **Recommendation 13**

We recommend that the Foundation analyze its operations for UBI and file federal income tax returns as appropriate.

#### **Campus Response**

We concur. The Foundation will develop a procedure that will ensure operations are reviewed for Unrelated Business Income (UBI) and if appropriate federal income tax returns are filed. (Oct '03)

### **RAFFLE**

#### **Recommendation 14**

We recommend that the Foundation register as necessary with the Department of Justice or refrain from participation in any future raffles.

#### **Campus Response**

We concur. The Foundation will define a process to ensure activities participating in raffles complete appropriate registrations before commencing with the raffles. (Aug '03)

## **SALES COMMISSION AUDITS**

### **Recommendation 15**

We recommend that the Foundation conduct periodic audits of its contractors.

### **Campus Response**

We concur. The Foundation will regularly exercise its contractual right to audit third party contractors gross sales receipt for assurance that commissions paid are accurate. (Oct '03)

## **POLICIES AND PROCEDURES**

### **Recommendation 16**

We recommend that the Foundation review and assess current practices and controls over general disbursement and revise its written policy accordingly.

### **Campus Response**

We concur. The Foundation will update their written policy regarding general disbursements. The revised policy will address an appropriate approval process, dual check signing limits and proof of receipts for goods and services. (Oct '03)

## **SUPPORTING DOCUMENTATION**

### **Recommendation 17**

We recommend that the Foundation:

- a. Take appropriate measures to ensure that all expenditures are supported by appropriate documentation.
- b. Develop a formalized verification process for expenditures not supported by original documentation.
- c. Require that documentation evidencing receipt of goods or services be included for all expenditures.
- d. Require that expenditure support for hospitality events or group activities include a list of the names of participating individuals.
- e. Require a stated purpose and a description of the expenditure on all purchase orders and/or requisitions.

### **Campus Response**

We concur. The Foundation policy for general disbursements will include requirements to provide adequate supporting documentation. The policy will address proof of receipt of goods, list of participants and a detailed description of the expenditures. (Oct '03)

## **AUTHORIZATION OF DISBURSEMENTS**

### **Recommendation 18**

We recommend that the Foundation:

- a. Ensure that evidence of approval is obtained for all processed disbursements.
- b. Ensure that only authorized individuals approve invoices and requisitions.
- c. Ensure that specimen signatures are available on project information forms and completed trust or agency agreements.

### **Campus Response**

We concur. The Foundation policy for general disbursements will include a process for receiving appropriate authorization for expenditures and documentation showing that written authorization was received. (Oct '03)

## **CHECK PROCESSING**

### **Recommendation 19**

We recommend that the Foundation establish alternative procedures to ensure that access to blank check stock is limited to only appropriate personnel and that voided check stock is properly accounted for.

### **Campus Response**

We concur. The Foundation currently has a procedure for ensuring check stock is adequately secured. Additional oversight will be in place to ensure the policy is consistently adhered to by all involved. (May '03)

## **UNCLAIMED MONIES**

### **Recommendation 20**

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

### **Campus Response**

We concur. The Foundation will develop and implement a written policy and corresponding procedures to escheat unclaimed monies to the state. (Oct '03)

## PERSONNEL AND PAYROLL

### Recommendation 21

We recommend that the Foundation:

- a. Obtain signature cards for all supervisors approving timesheets.
- b. Obtain written authorization from the employee before distributing paychecks to an individual other than the employee.

### Campus Response

We concur. The Foundation will develop and implement written procedures to include review of authorized signers and check distribution authorization. (Oct '03)

## FIXED ASSETS

### Recommendation 22

We recommend that the Foundation disclose its fixed asset transactions in a manner that does not overstate revenue and expense.

### Campus Response

We concur. The Foundation will revise the year-end procedures for disclosures of fixed assets and will make adjustments in their procedures to ensure disclosure of fixed assets does not result in an overstatement of revenue or expenses. The revised procedure will be used for presentation in the FY 03/04 financial statements. (Jul '03)

## TRUSTS AND OTHER LIABILITIES

### Recommendation 23

We recommend that the Foundation:

- a. Ensure trust agreements are complete and adequately maintained.
- b. Establish written agreements before advancing funds to other organizations.  
  
Maintain dated signature cards for all trust and agency accounts.
- d. Develop and implement procedures concerning the disposition of aged, inactive agency funds.
- e. Coordinate with the campus to develop procedures for verifying the officially recognized status of an organization before establishing trust or agency accounts.
- f. Reconcile applicable trust and agency accounts to supporting documentation on a periodic basis.

**Campus Response**

We concur. The Foundation will develop written procedures that will be used in providing oversight to funds held in trust. The procedures will address the advancing of funds, disposition of inactive funds, and the maintenance of signature cards and other supporting documentation. The policy will address all issues noted regarding controls over funds held in trust. (Oct '03)

**SEGREGATION OF DUTIES**

**Recommendation 24**

We recommend that the Foundation segregate appropriate duties or institute mitigating controls approved by the campus.

**Campus Response**

We concur. The Foundation will review the duties assigned to individual support staff and reallocate duties in a manner that will ensure adequate segregation of duties exist. (Oct '03)

**CALIFORNIA STATE UNIVERSITY, BAKERSFIELD STUDENT UNION**

**LEGAL AND REGULATORY COMPLIANCE**

**LEASING OF FACILITIES**

**Recommendation 25**

We recommend that the Union reduce to writing all lease agreements for space and implement procedures to ensure such lease agreements remain current.

**Campus Response**

We concur. The Student Union personnel, in conjunction with Procurement, have updated all written lease agreements. The expiration dates are calendared into the Purchasing system to ensure timely renewals. (Jun '03)

**BOARD OF DIRECTORS**

**Recommendation 26**

We recommend that the Union comply with its bylaws concerning the appointment of student, alumnus, and faculty positions.

**Campus Response**

We concur. The Student Union currently has all board positions filled in accordance with their bylaws, including alumnus and faculty positions. (May '03)

**ELECTION OF OFFICERS**

**Recommendation 27**

We recommend that the Union appoint officers in accordance with its bylaws.

**Campus Response**

We concur. The Student Union Board officer positions are currently filled in accordance with the Union's bylaws. (May '03)

**BOARD MEETINGS**

**Recommendation 28**

We recommend that Union board meetings be conducted in accordance with its bylaws.

### **Campus Response**

We concur. The Student Union Board has taken steps to ensure inconsistencies with meeting quorums, public notifications and accurate minutes reflecting business conducted at the meetings have been corrected. Currently board meetings are being conducted in accordance with the union bylaws. (Jun '03)

## **BOARD MINUTES**

### **Recommendation 29**

We recommend that the Union take appropriate measures to ensure that its board of directors' meeting minutes are signed and approved by an appropriate official.

### **Campus Response**

We concur. The Student Union Board has designated a staff member to be present at board meetings to ensure inconsistencies are eliminated and they are adhering to the appropriate sign off process. (Sep '03)

## **BUDGETS**

### **Recommendation 30**

We recommend that the Union:

- a. Ensure the discussion and approval of budgets are sufficiently articulated in the minutes.
- b. Coordinate with the campus to take appropriate measures to ensure that budget information is submitted to the campus president for approval in a timely manner.

### **Campus Response**

We concur. The Student Union Board will ensure the budgets discussed in board meetings receive approval of the board and the action is articulated in the minutes. The campus president will approve the budget before authorizing action to expend funds is granted. (Sep '03)

## **RISK MANAGEMENT**

### **Recommendation 31**

We recommend that the Union:

- a. Assume responsibility for the payments of its liability insurance premiums.
- b. Obtain indemnity bonds or similar protection such as crime insurance for employees handling funds.

**Campus Response**

We concur. The campus has implemented a process for annual insurance expense recovery which will ensure the Student Union pays the Union's portion of the property and liability insurance. We are reviewing satellite cashiering operations and will recommend appropriate coverage for these operations and take necessary measures to implement the recommendations. (Sep '03)

**WRITTEN AGREEMENTS**

**Recommendation 32**

We recommend that the Union take appropriate action to ensure that all contracts and written agreements are executed and renewed in a timely manner.

**Campus Response**

We concur. The Student Union director will begin in Summer 2003. He will review activities of the Union and ensure complete written agreements exist for these activities. (Oct '03)

**CASH RECEIPTS AND HANDLING**

**Recommendation 33**

We recommend that the Union coordinate with the Foundation to:

- a. Issue receipts for all facilities rental payments.
- b. Restrictively endorse all checks immediately upon receipt.
- c. Obtain receipts for all deposits.

**Campus Response**

We concur. The Foundation has worked with the Union to correct the noted operational oversights. In addition, the foundation is developing a cash handling policy, including the policy for operating a satellite cashiering operation. Once the policy is completed and implemented, it will be shared with the Union to ensure adequate controls over cash receipts are in place. (Oct '03)

**FEES, REVENUES, AND RECEIVABLES**

**COMMISSION REVENUE**

**Recommendation 34**

We recommend that the Union:

- a. Monitor the receipt of their share of food operator commissions from the Foundation.

- b. Review the audited financial statements to ensure disclosure of all significant related party transactions.

**Campus Response**

We concur. The Student Union director will take an active role in reviewing the financial quarterly reports from the Foundation. He will ensure all revenue and expenses are posted to the appropriate accounts to ensure the accuracy of the financial statements. (Oct '03)

**FACILITIES REVENUE**

**Recommendation 35**

We recommend that the Union:

- a. Document and approve exceptions to stated facilities rentals.
- b. Conduct a comparison of cash receipts between the reservation system and the general ledger on a regular basis.

**Campus Response**

We concur. The Student Union staff is developing a policy for facilities rentals which will include documentation surrounding exceptions and reconciliation of reservation receipts to the general ledger on a timely basis. (Oct '03)

**ASSOCIATED STUDENTS,**  
**CALIFORNIA STATE UNIVERSITY, BAKERSFIELD, INC.**

**LEGAL AND REGULATORY COMPLIANCE**

**RISK MANAGEMENT**

**Recommendation 36**

We recommend that ASI ensure that all business arrangements are fully supported by written agreements and that all such contracts include essential contractual provisions, including indemnification clauses.

**Campus Response**

We concur. ASI will review all agreements and ensure that agreements with third party vendors contain the appropriate indemnification language prior to the ASI entering into the agreement and/or posting information on their website. (Sep '03)

**INDEMNITY BONDS**

**Recommendation 37**

We recommend that ASI obtain indemnity bonds or similar protection for employees and board members handling funds.

**Campus Response**

We concur. The ASI will review the cash handling and complete satellite cashiering activity currently in place and recommend to the campus fiscal division the level of operation they wish to continue. Based on ASI's review, the campus and ASI will determine appropriate protection and liability coverage for the operations. (Oct '03)

**WRITTEN AGREEMENTS**

**Recommendation 38**

We recommend that ASI establish a written agreement between the Foundation and ASI concerning employee payroll and benefit services provided for the ASI office manager position.

**Campus Response**

We concur. The ASI will establish a written agreement between the Foundation and ASI addressing employee payroll and benefit services. (Sep '03)

## FEES, REVENUES, AND RECEIVABLES

### Recommendation 39

We recommend that ASI obtain and review the student body association fee allocation for accuracy.

### Campus Response

We concur. The ASI currently receives reports of the fees collected for their operations but not always timely enough to allow sufficient monitoring of the postings. ASI and the campus will develop a quarterly schedule to ensure the reconciliations are received, reviewed and monitored on a timely basis. The campus financial liaison will work closely with the ASI Board and staff to address any questions or concerns they may have about the reports. (Sep '03)

## PURCHASING AND ACCOUNTS PAYABLE

### POLICIES AND PROCEDURES

#### Recommendation 40

We recommend that ASI review and assess current practices and controls over general disbursements and develop a written policy accordingly.

### Campus Response

We concur. The ASI will work with campus personnel to review the current practices for cash and general disbursements. A written policy will be developed and once approved by the ASI Board of Directors, it will be fully implemented. (Sep '03)

## SUPPORTING DOCUMENTATION

### Recommendation 41

We recommend that ASI:

- a. Require a stated purpose and a description of the expenditure on all purchase orders and/or requisitions.
- b. Take appropriate measures to ensure that all expenditures are supported by appropriate documentation.
- c. Require that documentation evidencing receipt of goods or services be included for all expenditures.
- d. Ensure that only authorized individuals approve invoices and requisitions.
- e. Follow up on outstanding travel advances.

**Campus Response**

We concur. The ASI will work with campus personnel to develop a policy for cash and general disbursements which includes appropriate language on acquiring and retaining supporting documentation for these disbursements. Once the policy is written and approved by the board, we will ensure it is fully distributed to appropriate parties and fully implemented. (Oct '03)

**PROGRAMS**

**Recommendation 42**

We recommend that the current club budget policy be amended to act as a service contract with the ASI and be signed by those club members authorized to spend their club's ASI-administered funds.

**Campus Response**

We concur. The ASI will review the current club policy and make appropriate revisions to ensure appropriate club signatures and authorizations are received. (Oct '03)

THE CALIFORNIA STATE UNIVERSITY  
OFFICE OF THE CHANCELLOR

BAKERSFIELD

June 3, 2003

CHANNEL ISLANDS

CHICO

**MEMORANDUM**

DOMINGUEZ HILLS

FRESNO

TO: Mr. Larry Mandel  
University Auditor

FULLERTON

FROM: Charles B. Reed  
Chancellor

HAYWARD

HUMBOLDT

SUBJECT: Draft Final Report Number 02-51 on *Auxiliary Organizations*,  
California State University, Bakersfield

LONG BEACH

LOS ANGELES

MARITIME ACADEMY

In response to your memorandum of June 3, 2003, I accept the response as submitted with the draft final report on *Auxiliary Organizations*, California State University, Bakersfield.

MONTEREY BAY

NORTHRIDGE

POMONA

CBR/amd

SACRAMENTO

Enclosure

SAN BERNARDINO

cc: Dr. Tomás A. Arciniega, President  
Mr. Michael A. Neal, Vice President for Business and Administrative Services  
Ms. Sharon Taylor, Assistant Vice President for Fiscal Services

SAN DIEGO

SAN FRANCISCO

SAN JOSE

SAN LUIS OBISPO

SAN MARCOS

SONOMA

STANISLAUS