

**AUXILIARY ORGANIZATIONS**  
**CALIFORNIA MARITIME ACADEMY**

**Report Number 02-54**  
**August 29, 2003**

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## **ABBREVIATIONS**

AS	Associated Students of the California Maritime Academy
CSU	California State University
EO	Executive Order
Foundation	California Maritime Academy Foundation, Inc.
IRS	Internal Revenue Service

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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 ended July 2001 and 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 March 2003. 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 Maritime Academy from April 7, 2003, through May 8, 2003, 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 [9]**

##### **RESERVES [9]**

Neither campus auxiliary had established a written surplus funds/reserve policy. Sufficient reserve planning and analysis reduce the auxiliary's risk to fund future needs.

##### **PUBLIC RELATIONS POLICY [9]**

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

##### **CONFLICT OF INTEREST [10]**

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.

##### **BUDGET [11]**

The campus president's written approval of certain campus auxiliary operating budgets was not retained. Supporting documentation evidencing appropriate approval of auxiliary budgets reduces the risk of misunderstandings over the allocation of funds.

**CALIFORNIA MARITIME ACADEMY FOUNDATION, INC.**

**LEGAL AND REGULATORY COMPLIANCE [13]**

**AUXILIARY AUTHORIZATION [13]**

An operating agreement between the California Maritime Academy Foundation, Inc. (Foundation) and the campus had not been executed during the period from July 1, 2001, to April 3, 2003. Operating with an up-to-date, written agreement reduces the risk of misunderstandings and miscommunication regarding rights and responsibilities.

**WRITTEN AGREEMENTS [13]**

Proper written agreements had not been executed for certain Foundation business arrangements. Maintaining written agreements reduces the risk of misunderstandings and miscommunication regarding rights and responsibilities.

**PUBLIC MEETINGS [14]**

Notices of the Foundation board and committee meetings were not posted in a public area. Compliance with regulations for public meetings reduces the risk of misunderstandings and may reduce legal liability.

**BOARD MINUTES [15]**

The Foundation board minutes were not consistently signed and approved by an appropriate official and did not always include the referenced attachments. Maintaining signed board minutes and attachments reduces the risk of misunderstandings and may reduce legal liability.

**SEGREGATION OF DUTIES [15]**

The Foundation did not appropriately segregate certain accounting functions. Adequate segregation of duties reduces the risk that errors and irregularities will not be detected in a timely manner.

**INVESTMENTS [16]**

The Foundation had not adopted a formal investment policy until March 2003. Adopting a formal investment policy reduces the risk that opportunities to maximize investment yield will be lost.

## **PURCHASING AND ACCOUNTS PAYABLE [17]**

### **SUPPORTING DOCUMENTATION [17]**

Certain Foundation cash disbursements were not supported by sufficient and appropriate documentation and evidence of appropriate authorization. Sufficient supporting documentation and appropriate authorization reduce the risk of errors, irregularities, and misappropriation of funds.

### **LINE OF CREDIT [18]**

The Foundation had not developed written policies and procedures controlling the use of its line of credit obtained to support its donated vessel program. Fully developed and communicated written policies and procedures controlling the use of its line of credit strengthen internal controls and reduce the risk that misunderstandings will occur.

## **TRUSTS AND OTHER LIABILITIES [18]**

Certain controls over Foundation management and reporting of restricted accounts were deficient. Sufficient controls over restricted funds reduce the risk that the funds will be handled inappropriately and contrary to the expectations of the campus and donors.

## **AUXILIARY PROGRAMS [20]**

Certain aspects of the Foundation's management and control over its marine vessel donation program required improvement. Sufficient management and control over programs reduce the risk that errors or irregularities will not be detected in a timely manner.

## **ASSOCIATED STUDENTS OF THE CALIFORNIA MARITIME ACADEMY**

## **LEGAL AND REGULATORY COMPLIANCE [22]**

### **BOARD MINUTES [22]**

Certain Associated Students of the California Maritime Academy (AS) board minutes did not list all attendees. Complete board minutes reduce the risk of misunderstandings and may reduce legal liability.

### **BYLAWS [22]**

The AS bylaws required revision. Compliance with corporate bylaws reduces the risk of misunderstandings and may reduce legal liability.

### **RISK MANAGEMENT [23]**

AS board members were not sufficiently insured for the handling of cash. Maintaining appropriate insurance coverage reduces the auxiliary's exposure to potential liability.

### **ADMINISTRATIVE SERVICE AGREEMENTS [24]**

An administrative service agreement between AS and the campus was not documented. Maintaining a written agreement reduces the risk of misunderstandings and miscommunication regarding rights and responsibilities.

### **STUDENT BODY FEES [24]**

The chief fiscal officer of the campus was not acting as the custodian of AS student body organization fees. Sufficient control and accounting over student body funds reduce the risk that custodial responsibilities are not met and reduce the risk of errors or misappropriation of funds.

### **CASH RECEIPTS AND HANDLING [25]**

AS procedures to account for, and safeguard, event cash receipts and club deposits were insufficient. Adequate controls over cash receipts processing reduce the risk of a loss or misappropriation of funds.

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

#### **SUPPORTING DOCUMENTATION [26]**

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

#### **STIPENDS [27]**

The principles of establishing stipend payments were not appropriately documented. Supporting documentation evidencing appropriate use of student fees reduces the risk of both inappropriate expenditures and misunderstandings about the use of funds.

### **TRUSTS AND OTHER LIABILITIES [27]**

The administration and documentation of the AS club account trust agreement were inadequate. Proper administration and documentation of trust agreements reduce the risk of both inappropriate expenditures and misunderstandings about account operations.

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

## **CAMPUS**

### **LEGAL AND REGULATORY COMPLIANCE**

#### **RESERVES**

Neither campus auxiliary had established a written surplus funds/reserve policy.

Such a policy should address or consider the following areas:

- ▶ Minimum and maximum 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 controller stated that there was an informal standard operating practice of having six months' operating costs as an amount to be held in the auxiliaries' reserves, but no written, formal policy had been established.

Insufficient reserve planning and analysis increase the auxiliary's risk to fund future needs.

#### **Recommendation 1**

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

#### **Campus Response**

We concur with this recommendation. The campus will direct its auxiliaries to review and establish formal policies for the allocation of surplus funds/reserves by June 30, 2004.

### **PUBLIC RELATIONS POLICY**

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

The campus public relations policy should address the following:

- ▶ Membership and participation in the activities of community groups, including, but not limited to, service clubs and community-wide organizations of leading citizens in education, business,

government, industry, and agriculture, with which campus administration should collaborate in order that the campus may properly serve the needs of the community.

- ▶ Types of official activities that will commonly be engaged in by the campus which would generally be recognized as essential for promoting and maintaining student, faculty, and staff morale and for developing and maintaining effective relations with the community. Such activities may include, but are not limited to, campus receptions, public ceremonies, and lay advisory committee meetings held in support of certain campus instructional programs.
- ▶ Providing essential accommodations and sustenance for official guests of the campus.

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 vice president of advancement stated his belief that the Foundation's expenditures for public relations mirrored the California State University's (CSU) standard practices. He further stated that he was currently working to establish the Foundation's own written policies and procedures, including a public relations policy.

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

## **Recommendation 2**

We recommend that the campus establish a complete public relations policy applicable to auxiliary organizations and maintain this policy on file with the Office of the Chancellor.

## **Campus Response**

We concur with this recommendation. A public relations policy and related procedures will be established by April 1, 2004.

## **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.

Although the campus employees providing services to the auxiliaries were included in the campus policy, the auxiliary board members had not been covered under a conflict-of-interest policy that addressed or considered 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 mandates establishing conflict-of-interest policies and procedures to implement Education Code §89906 and other similar provisions to prevent imprudent or improper decisions by auxiliary board and management members.

The vice president of advancement stated that he was aware of the lack of a conflict-of-interest policy and was working with the board in establishing written policies and procedures.

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 strengthening and further documenting conflict-of-interest policies and procedures.

### **Campus Response**

We concur with the recommendation. The California Maritime Academy Foundation, Inc., has already requested its board to sign conflict-of-interest statements. Appropriate written policies and procedures will be adopted by April 1, 2004.

### **BUDGET**

The campus president's written approval of certain campus auxiliary operating budgets was not retained.

Specifically:

- ▶ The Foundation operating budget for fiscal year 2002-2003.
- ▶ The AS operating budget for fiscal year 2000-2001.

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 budget approvals be documented and retained.

The controller stated that the lapse in retaining the campus president's written budget approvals was caused by staff oversight.

The lack of supporting documentation evidencing appropriate approval of auxiliary budgets increases the risk of misunderstandings over the allocation of funds.

**Recommendation 4**

We recommend that the campus retain the campus president's written approval of campus auxiliary operating budgets.

**Campus Response**

We concur with this recommendation. We will retain the president's written approval of campus auxiliary operation budgets starting immediately.

## **CALIFORNIA MARITIME ACADEMY FOUNDATION, INC.**

### **LEGAL AND REGULATORY COMPLIANCE**

#### **AUXILIARY AUTHORIZATION**

An operating agreement between the California Maritime Academy Foundation, Inc. (Foundation) and the campus had not been executed during the period from July 1, 2001, to April 3, 2003.

Title 5 §42501 states that a written agreement on behalf of the State of California by the Chancellor of The California State University and the auxiliary organization is required for the performance by such auxiliary organization of any of the functions listed in §42500, except student body organization activities.

The campus vice president of advancement stated that management transition contributed to the delay in the timely renewal of the operating agreement.

Operating in the absence of an up-to-date, written agreement increases the risk of misunderstandings and miscommunication regarding rights and responsibilities.

**During the course of our fieldwork, the Foundation executed an operating agreement with the campus.**

#### **WRITTEN AGREEMENTS**

Proper written agreements had not been executed for certain Foundation business arrangements.

We found that:

- ▶ There was no agreement with the marine director for her car and office allowance.
- ▶ There was no agreement with the marine captain for his retainer.
- ▶ The agreement with the campus for office space needed to be amended to reflect a relocation from the Felton House to the campus administration building.
- ▶ There was no written agreement for the remuneration of the campus by the Foundation for campus employees devoting some or all of their time to the Foundation.

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 complete and current, written agreements.

The campus vice president of advancement stated that verbal agreements and standard operating practice had been reached for these items, but management transition created delay in formalizing those agreements into written contracts.

The absence of written agreements increases the risk of misunderstandings and miscommunication regarding rights and responsibilities.

**Recommendation 5**

We recommend that the Foundation execute proper written agreements for its business arrangements.

**Campus Response**

We concur with this recommendation. Proper written agreements for auxiliary business agreements shall be completed by June 30, 2004.

**PUBLIC MEETINGS**

Notices of the Foundation board and committee meetings were not posted in a public area.

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 advancement stated that management believed that broad e-mail notices satisfied the public posting requirement.

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

**Recommendation 6**

We recommend that the Foundation post its board and committee meeting notices in a public area in accordance with the Education Code.

**Campus Response**

We concur with this recommendation. This recommendation is to be implemented immediately through the use of the campus website.

## **BOARD MINUTES**

The Foundation board minutes were not consistently signed and approved by an appropriate official and did not always include the referenced attachments.

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 vice president of advancement stated that the board minutes were incomplete due to staff transition.

Failure to maintain signed board minutes and attachments increases the risk of misunderstandings and may increase legal liability.

### **Recommendation 7**

We recommend that the Foundation take appropriate measures to ensure that its board minutes are consistently signed and approved by an appropriate official and that referenced attachments are always included.

### **Campus Response**

We concur with this recommendation. The treasurer, or other appropriate official, will sign and ensure that all attachments are included with the minutes. This will be implemented by January 2004.

## **SEGREGATION OF DUTIES**

The Foundation did not appropriately segregate certain accounting functions.

We found that the campus controller performed essentially all of the following accounting duties:

- ▶ Foundation financial reporting.
- ▶ Cash receipts duties.
- ▶ All general ledger and subledger accounting.
- ▶ All check production procedures.
- ▶ All general ledger reconciliations.

In addition, the campus controller:

- ▶ Had investment transfer authority.
- ▶ Was able to draw upon the Foundation's line of credit.

Executive Order (EO) No. 698, *Board of Trustees Policy for The California State University Auxiliary Organizations*, 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 campus vice president of administration and finance stated that he was aware of the lack of segregation of duties in the Foundation and was in the process of integrating Foundation accounting duties into the campus accounting department at the time of our audit.

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

### **Recommendation 8**

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

### **Campus Response**

We concur with this recommendation. We have begun the integration of Foundation accounting duties into the campus accounting department. Appropriate segregation of accounting functions or other mitigating procedures will be implemented and in place by January 1, 2004.

## **INVESTMENTS**

The Foundation had not adopted a formal investment policy until March 2003.

All Foundation investments were conservatively held in money market funds.

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 management implement investment policies consistent with Trustee policy.

The campus vice president of finance and administration stated that the Foundation's investment committee was currently evaluating investment management candidates who would be responsible for investing funds in accordance with its recently adopted policy.

Failure to adopt a formal investment policy increases the risk that opportunities to maximize investment yield will be lost.

**During the course of the fieldwork, the Foundation had begun implementation of its investment policy.**

## **PURCHASING AND ACCOUNTS PAYABLE**

### **SUPPORTING DOCUMENTATION**

Certain Foundation cash disbursements were not supported by sufficient and appropriate documentation and evidence of appropriate authorization.

Our review of 64 cash disbursements disclosed the following:

#### Process Controls

- ▶ In 26 instances, a facsimile or photocopied invoice was accepted for payment without certification that records were checked to prevent duplicate payment. In one instance, a duplicate payment resulted.
- ▶ In 25 instances, the written acceptance of goods or services was not included in the documentation. The majority of these expenditures related to the repair of donated vessels.
- ▶ Documentation indicating that competitive bidding was obtained was not included for 30 purchases where such seemed appropriate.

#### Processing Exceptions

- ▶ The business purpose for 16 purchases was not clearly 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 that cash disbursements be fully supported by appropriate documentation and properly authorized.

The campus controller stated that more complete documentation of disbursements had not occurred due to time constraints and limited staffing.

Insufficient supporting documentation and lack of appropriate authorization increase the risk of errors, irregularities, and misappropriation of funds.

### **Recommendation 9**

We recommend that the Foundation develop policies and procedures to ensure that cash disbursements are supported by sufficient and appropriate documentation and evidence of appropriate authorization.

### **Campus Response**

We concur with this recommendation. Policies and procedures will be developed to ensure that cash disbursements are supported by sufficient and appropriate authorization and documentation. This recommendation will be implemented by April 1, 2004.

### **LINE OF CREDIT**

The Foundation had not developed written policies and procedures controlling the use of its line of credit obtained to support its donated vessel program.

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 approvals for the use of a line of credit be obtained and documented.

The campus controller stated that verbal approvals were obtained, but that written documentation was not completed.

Failure to fully develop and communicate written policies and procedures controlling the use of its line of credit weakens internal controls and increases the risk that misunderstandings will occur.

### **Recommendation 10**

We recommend that the Foundation develop written policies and procedures controlling the use of its line of credit to support its donated vessel program.

### **Campus Response**

We concur with this recommendation. Written policies and procedures controlling the use of the Foundation line of credit, which will include a dual signature requirement, will be in place by April 1, 2004.

## **TRUSTS AND OTHER LIABILITIES**

Certain controls over Foundation management and reporting of restricted accounts were deficient.

We found that the:

- ▶ Criteria for account setup, such as donor documentation, acceptable purposes, and reconciliations of endowment corpus values, had not been established.

- ▶ A regular process of evaluating inactive accounts had been established, but was not implemented.
- ▶ Standards for reporting the nature of endowment funds as permanently or otherwise restricted in financial reports had not been established.

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

The campus controller stated that the files for recently established gifts and endowments were adequately documented, but that archival files lacked sufficient documentation.

Insufficient controls over restricted funds increase the risk that the funds will be handled inappropriately and contrary to the expectations of the campus and donors.

#### **Recommendation 11**

We recommend that the Foundation improve its controls over the management and reporting of restricted accounts by:

- a. Establishing criteria for account setup, such as donor documentation, acceptable purposes, and reconciliations of endowment corpus values.
- b. Implementing its process of evaluating inactive accounts.
- c. Establishing standards for reporting the nature of endowment funds as permanently or otherwise restricted in financial reports.

#### **Campus Response**

We concur with this recommendation. The Foundation will establish criteria for account setup and establish written policies and procedures for reconciliation of corpus values. The Foundation will also establish and implement a process for evaluating inactive accounts as well as establishing standards for reporting the nature of endowment funds in financial reports. These recommendations will be implemented by July 1, 2004.

## AUXILIARY PROGRAMS

Certain aspects of the Foundation's management and control over its marine vessel donation program required improvement.

We found that:

- ▶ General ledger accounting for the marine vessel program was not maintained on a current basis. Various accounting transactions, such as the acquisition of donated vessels were not booked until year-end.
- ▶ Accounting records associated with the marine vessel program were not maintained in a sufficiently detailed basis. We found that total costs associated with a donated vessel could not be calculated using existing accounting ledgers.
- ▶ Operating procedures and performance measures were not clearly established for the marine vessel program and its managers. For example, documentation of the resolution of condition survey findings and recommendation was absent in certain instances. We also found that the current status of vessels pending lease or sale was not regularly and formally transmitted to Foundation administration.
- ▶ The last two Internal Revenue Service (IRS) Form 990s prepared by the Foundation contained an adjustment to the total of donated fair market value of in-kind gifts, which is not expressly permitted in IRS instructions.

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

The campus controller stated his belief that the reports of the overall performance of the marine fund had satisfied the needs of the Foundation board and its marine development committee.

Insufficient management and control over programs increases the risk that errors or irregularities will not be detected in a timely manner.

### **Recommendation 12**

We recommend that the Foundation ensure that:

- a. General ledger accounting for the marine vessel program is maintained on a current basis.
- b. Accounting records associated with the marine vessel program are maintained in a sufficiently detailed basis.

- c. Written operating procedures and performance measures are clearly established for the marine vessel program and its managers.
- d. Tax advice is maintained to ensure IRS compliance.

**Campus Response**

We concur with this recommendation. The Foundation management will initiate a full review of its policies and procedures for the marine vessel program. This review will include establishing or updating written policies and procedures to ensure that the general ledger is maintained on a current basis, the accounting records are maintained in a sufficiently detailed basis, operating procedures and performance measures are clearly established for the program and its managers, and tax advice is maintained to ensure IRS compliance. The immediate recommendations listed here will be completed by July 1, 2004, and further review of “best practices” will continue into the future.

## **ASSOCIATED STUDENTS OF THE CALIFORNIA MARITIME ACADEMY**

### **LEGAL AND REGULATORY COMPLIANCE**

#### **BOARD MINUTES**

Certain Associated Students of the California Maritime Academy (AS) board minutes did not list all attendees.

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 board minutes.

The campus director of student life stated that the previous secretary used a separate attendance sheet, which sometimes was mistakenly not attached to the official minutes.

Incomplete board minutes increase the risk of misunderstandings and may increase legal liability.

#### **Recommendation 13**

We recommend that AS take appropriate measures to ensure that board minutes list all attendees.

#### **Campus Response**

We concur with this recommendation. The AS secretary has been instructed to and has changed format to list those attending and those absent in the minutes.

#### **BYLAWS**

The AS bylaws required revision.

We found that the AS bylaws contained no provision for holding quarterly meetings or for including the campus president, or his representative, as a member of the AS board.

Education Code §89903 requires that the auxiliary board hold business meetings at least once a quarter. Title 5 §42602(a) indicates that student body organizations include a representative of the campus president to advise on policy and to provide a liaison between the student governing board and the president of the campus.

The campus director of student life stated that these provisions were mistakenly never included in the bylaws when first written.

Non-compliance with corporate bylaws increases the risk of misunderstandings and may increase legal liability.

**Recommendation 14**

We recommend that AS revise its bylaws to include provisions for quarterly meetings and campus president representation.

**Campus Response**

We concur with this recommendation. The AS board of directors will pass an amendment to the bylaws by January 1, 2004, that will include provisions for quarterly meetings and campus president representation.

**RISK MANAGEMENT**

AS board members were not sufficiently insured for the handling of cash.

Since year 2000, cash receipts have been more than \$25,000 per year.

The AS board members collected cash for events where the participating students pay a fee and for club deposits from fund-raising activities.

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

The campus director of student life stated that due to the relatively small amount of monies involved with a small student body, there was no knowledge that crime insurance was necessary.

The lack of appropriate insurance coverage increases the auxiliary's exposure to potential liability.

**Recommendation 15**

We recommend that AS obtain sufficient insurance coverage for protection against losses related to cash handling.

**Campus Response**

We concur with this recommendation. The AS has included crime coverage in the insurance coverage for the 2003-2004 year.

## **ADMINISTRATIVE SERVICE AGREEMENTS**

An administrative service agreement between AS and the campus was not 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 that written agreements be executed which fully define the expectations, rights, and responsibilities of the parties involved.

The campus director of student life indicated that an e-mail agreement had been sent between the campus and the AS, but had not been incorporated into a formal document because of an oversight.

The absence of a written agreement increases the risk of misunderstandings and miscommunication regarding rights and responsibilities.

### **Recommendation 16**

We recommend that AS document its administrative service agreement with the campus.

### **Campus Response**

We concur with this recommendation. The AS will have an administrative service contract in place with the campus by January 1, 2004.

## **STUDENT BODY FEES**

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

The campus collects AS student body fees, which are initially deposited into a campus trust account. After reconciliation, the fees are transmitted to AS, which invest and disburse the fees and other revenue from their organizational banking and investment accounts. The campus chief fiscal officer further does not exercise required control over claims processing.

Title 5 §42403(a) requires the campus chief fiscal officer to manage and serve as custodian of student body fees. Title 5 §42403(a) and Education Code §89302 require student body organizations to submit appropriate claim schedules to the chief fiscal officer of the campus in order for the funds to be expended.

The campus director of student life stated that this change had been implemented beginning with fiscal year 2002-2003, except for prior years' unspent fees that will be transferred back to the campus when their bank certificate of deposit matures.

Insufficient control and accounting over student body funds increase the risk that custodial responsibilities are not met and increase the risk of errors or misappropriation of funds.

**Recommendation 17**

We recommend that the campus chief fiscal officer act as custodian of AS student body organization fees.

**Campus Response**

We concur with this recommendation. The AS will move the certificate of deposit and the savings account to the campus with the chief fiscal officer acting as custodian by March 1, 2004.

**CASH RECEIPTS AND HANDLING**

AS procedures to account for, and safeguard, event cash receipts and club deposits were insufficient.

Procedures did not sufficiently address or consider the following areas:

- ▶ Segregation of duties.
- ▶ Accountability.
- ▶ Physical security.
- ▶ Deposits.
- ▶ Monitoring and reconciliation.

In 2002 and 2001, cash receipts for events and clubs were \$25,510 and \$27,501, respectively.

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 procedures be established to account for, and safeguard, cash receipts.

The campus director of student life stated that AS had always relied on the elected student treasurer to establish his/her own procedures.

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

**Recommendation 18**

We recommend that AS develop procedures to account for, and safeguard, event cash receipts and club deposits.

### **Campus Response**

We concur with this recommendation. We will develop a form and proper procedures to address the issues of segregation of duties, accountability, physical security, deposits and monitoring and reconciliation by March 1, 2004.

## **PURCHASING AND ACCOUNTS PAYABLE**

### **SUPPORTING DOCUMENTATION**

Certain AS cash disbursements were not supported by sufficient and appropriate documentation.

Our review of 60 cash disbursements disclosed the following:

#### Process Controls

- ▶ In 26 instances, a facsimile or photocopied invoice was accepted for payment without certification that records were checked to prevent duplicate payment.
- ▶ In 13 instances, the written acceptance of goods or services was not on file.
- ▶ In 22 instances, for student programs, there was no accompanying announcement to the students, an attendee listing (e.g., copy of a sign-up sheet), or record of the number of students attending the event to demonstrate that the event occurred.
- ▶ In 27 instances, documentation indicating appropriate cost comparisons for purchases greater than a certain dollar value was not on file.

#### Processing Exceptions

- ▶ In four instances, the campus had erroneously charged disbursements to the AS account.
- ▶ In six instances, expenditures were not paid within 30 days of receipt.

The campus director of student life stated that responsibility for documentation standards had been delegated to the elected AS treasurer.

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

### **Recommendation 19**

We recommend that AS develop policies and procedures to ensure cash disbursements are supported by sufficient and appropriate documentation.

### **Campus Response**

We concur with this recommendation. We will develop policies and procedures concerning cash disbursements and documentation by January 1, 2004.

### **STIPENDS**

The principles of establishing stipend payments were not appropriately documented by AS.

Title 5 §42659(k) indicates that student body organization funds obtained from mandatory fees may be expended for student government-scholarship stipends, grants-in-aid, and reimbursements to student officers for service to student government. Before such scholarship stipends, grants-in-aid, and reimbursements are established by a student body association, the principle of establishing such payments shall be approved by a student referendum.

The campus director of student life stated that the file containing the results of the AS referendum had been misplaced in an office relocation.

The lack of supporting documentation evidencing appropriate use of student fees increases the risk of both inappropriate expenditures and misunderstandings about the use of funds.

### **Recommendation 20**

We recommend that AS appropriately document the principles for establishing stipend payments.

### **Campus Response**

We concur with this recommendation. We will document the history of the stipend amounts and will have a reaffirmation vote by the AS board of directors by January 1, 2004.

## **TRUSTS AND OTHER LIABILITIES**

The administration and documentation of the AS club account trust agreement were inadequate.

We found that the purpose of the trust, time constraints, persons authorized to withdraw or expend funds, specimen signatures, reporting requirements, instructions for closing the account, disposition of any unexpended balance, and restrictions on the use of monies for administrative or overhead costs were not documented.

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 campus director of student life stated that since club-allocated funds accounted for only four percent of the budget and less than \$10,000 annually, establishing the same procedures as larger campuses had not been considered necessary.

The lack of appropriate administration and documentation of trust agreements increases the risk of both inappropriate expenditures and misunderstandings about account operations.

### **Recommendation 21**

We recommend that AS appropriately administer and document the club account trust agreement.

### **Campus Response**

We concur with this recommendation. We will establish practices that include specimen signatures for all clubs, a training meeting for club advisors and officers, policies for club accounts, and a revised club fund request form by January 1, 2004.

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## **APPENDIX A: PERSONNEL CONTACTED**

### **Name**

### **Title**

#### **CAMPUS**

William B. Eisenhardt

President

Anthony Macias

Vice President, Advancement

Mark Nickerson

Vice President, Finance and Administration

Earl Summers

Chief Information Officer

Randy Tarkington

Director, Student Life

Kenneth W. Toet

Controller

## **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.



RECEIVED  
UNIVERSITY AUDITOR

NOV 25 2003

THE CALIFORNIA STATE  
UNIVERSITY

November 25, 2003

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

**Subject: Campus Response to Recommendations of Auxiliary Organizations Audit 02-54  
California State University, Maritime**

Dear Mr. Mandel:

Please find enclosed California State University, Maritime's response to the recommendations resulting from our Auxiliary Organizations Audit 02-54. For each recommendation, we have included a corrective action plan and an anticipated date for implementation.

We appreciate the efforts of you and your staff during the process and the professional manner in which the audit and the related special investigation were performed.

Sincerely,

William B. Eisenhardt  
President

Enclosure

Cc: Vice President Nickerson  
Vice President Macias

**THE CALIFORNIA MARITIME ACADEMY**

200 Maritime Academy Drive, Vallejo, CA 94590-8181 PHONE (707) 654-1000 FAX (707) 654-1001 www.csum.edu

**AUXILIARY ORGANIZATIONS  
CALIFORNIA MARITIME ACADEMY**

**REPORT NO. 02-54**

**CAMPUS**

**LEGAL AND REGULATORY COMPLIANCE**

**RESERVES**

**Recommendation 1**

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

**Campus Response**

We concur with this recommendation. CMA will direct its auxiliaries to review and establish formal policies for the allocation of surplus funds/reserves by June 30, 2004.

**PUBLIC RELATIONS POLICY**

**Recommendation 2**

We recommend that the campus establish a complete public relations policy applicable to auxiliary organizations and maintain this policy on file with the Office of the Chancellor.

**Campus Response**

We concur with this recommendation. A public relations policy and related procedures will be established by April 1, 2004.

**CONFLICT OF INTEREST**

**Recommendation 3**

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

**Campus Response**

We concur with the recommendation. The CMA Foundation has already requested its Board to sign conflict of interest statements. Appropriate written policies and procedures will be adopted by April 1, 2004.

**BUDGET**

**Recommendation 4**

We recommend that the campus retain the campus president's written approval of campus auxiliary operating budgets.

**Campus Response**

We concur with this recommendation. We will retain the President's written approval of campus auxiliary operation budgets starting immediately.

**CALIFORNIA MARITIME ACADEMY FOUNDATION, INC.**

**LEGAL AND REGULATORY COMPLIANCE**

**WRITTEN AGREEMENTS**

**Recommendation 5**

We recommend that the Foundation execute proper written agreements for its business arrangements.

**Campus Response**

We concur with this recommendation. Proper written agreements for auxiliary business agreements shall be completed by June 30, 2004.

**PUBLIC MEETINGS**

**Recommendation 6**

We recommend that the Foundation post its board and committee meeting notices in a public area in accordance with the Education Code.

**Campus Response**

We concur with this recommendation. This recommendation is to be implemented immediately through the use of the campus website.

**BOARD MINUTES**

**Recommendation 7**

We recommend that the Foundation take appropriate measures to ensure that its board minutes are consistently signed and approved by an appropriate official and that referenced attachments are always included.

**Campus Response**

We concur with this recommendation. The treasurer, or other appropriate official, will sign and ensure that all attachments are included with the minutes. This will be implemented by January 2004.

**SEGREGATION OF DUTIES**

**Recommendation 8**

We recommend that the Foundation properly segregate certain accounting functions or institute mitigating procedures approved by the campus.

**Campus Response**

We concur with this recommendation. We have begun the integration of Foundation accounting duties into the campus accounting department. Appropriate segregation of accounting functions or other mitigating procedures will be implemented and in place by January 1, 2004.

**PURCHASING AND ACCOUNTS PAYABLE****SUPPORTING DOCUMENTATION****Recommendation 9**

We recommend that the Foundation develop policies and procedures to ensure that cash disbursements are supported by sufficient and appropriate documentation and evidence of appropriate authorization.

**Campus Response**

We concur with this recommendation. Policies and procedures will be developed to ensure that cash disbursements are supported by sufficient and appropriate authorization and documentation. This recommendation will be implemented by April 1, 2004.

**LINE OF CREDIT****Recommendation 10**

We recommend that the Foundation develop written policies and procedures controlling the use of its line of credit to support its donated vessel program.

**Campus Response**

We concur with this recommendation. Written policies and procedures controlling the use of the Foundation line of credit, which will include a dual signature requirement, will be in place by April 1, 2004.

**TRUSTS AND OTHER LIABILITIES****Recommendation 11**

We recommend that the Foundation improve its controls over the management and reporting of restricted accounts by:

- a. Establishing criteria for account setup, such as donor documentation, acceptable purposes, and reconciliations of endowment corpus values.
- b. Implementing its process of evaluating inactive accounts.

- c. Establishing standards for reporting the nature of endowment funds as permanently or otherwise restricted in financial reports.

### **Campus Response**

We concur with this recommendation. The Foundation will establish criteria for account setup and establish written policies and procedures for reconciliation of corpus values. The Foundation will also establish and implement a process for evaluating inactive accounts as well as establishing standards for reporting the nature of endowment funds in financial reports. These recommendations will be implemented by July 1, 2004.

## **AUXILIARY PROGRAMS**

### **Recommendation 12**

We recommend that the Foundation ensure that:

- a. General ledger accounting for the marine vessel program is maintained on a current basis.
- b. Accounting records associated with the marine vessel program are maintained in a sufficiently detailed basis.
- c. Written operating procedures and performance measures are clearly established for the marine vessel program and its managers.
- d. Tax advice is maintained to ensure IRS compliance.

### **Campus Response**

We concur with this recommendation. The Foundation management will initiate a full review of its policies and procedures for the marine vessel program. This review will include establishing or updating written policies and procedures to ensure that the general ledger is maintained on a current basis, the accounting records are maintained in a sufficiently detailed basis, operating procedures and performance measures are clearly established for the program and its managers and that tax advice is maintained to ensure IRS compliance. The immediate recommendations listed here will be completed by July 1, 2004 and further review of “ best practices” will continue into the future.

**ASSOCIATED STUDENTS OF THE CALIFORNIA MARITIME ACADEMY**

**LEGAL AND REGULATORY COMPLIANCE**

**BOARD MINUTES**

**Recommendation 13**

We recommend that AS take appropriate measures to ensure that board minutes list all attendees.

**Campus Response**

We concur with this recommendation. ASCMA secretary has been instructed to and has changed format to list those attending and those absent in the minutes.

**BYLAWS**

**Recommendation 14**

We recommend that AS revise its bylaws to include provisions for quarterly meetings and campus president representation.

**Campus Response**

We concur with this recommendation. The ASCMA Board of Directors will pass an amendment to the bylaws by January 1, 2004 that will include provisions for quarterly meetings and campus president representation.

**RISK MANAGEMENT**

**Recommendation 15**

We recommend that AS obtain sufficient insurance coverage for protection against losses related to cash handling.

**Campus Response**

We concur with this recommendation. The ASCMA has included crime coverage in the insurance coverage for the 2003-2004 year.

**ADMINISTRATIVE SERVICE AGREEMENTS**

**Recommendation 16**

We recommend that AS document its administrative service agreement with the campus.

**Campus Response**

We concur with this recommendation. The ASCMA will have an administrative service contract in place with the campus by January 1, 2004.

**STUDENT BODY FEES**

**Recommendation 17**

We recommend that the campus chief fiscal officer act as custodian of AS student body organization fees.

**Campus Response**

We concur with this recommendation. The ASCMA will move the CD and The Savings Account to the campus with the Chief Fiscal Officer acting as custodian by March 1, 2004.

**CASH RECEIPTS AND HANDLING**

**Recommendation 18**

We recommend that AS develop procedures to account for, and safeguard, event cash receipts and club deposits.

**Campus Response**

We concur with this recommendation. We will develop a form and proper procedures to address the issues of segregation of duties, accountability, physical security, deposits and monitoring and reconciliation by March 1, 2004.

**PURCHASING AND ACCOUNTS PAYABLE**

**SUPPORTING DOCUMENTATION**

**Recommendation 19**

We recommend that AS develop policies and procedures to ensure cash disbursements are supported by sufficient and appropriate documentation.

**Campus Response**

We concur with this recommendation. We will develop policies and procedures concerning cash disbursements and documentation by January 1, 2004.

## **STIPENDS**

### **Recommendation 20**

We recommend that AS appropriately document the principles for establishing stipend payments.

### **Campus Response**

We concur with this recommendation. We will document the history of the stipend amounts and will have a reaffirmation vote by the AS Board of Directors by January 1, 2004.

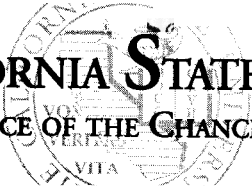
## **TRUSTS AND OTHER LIABILITIES**

### **Recommendation 21**

We recommend that AS appropriately administer and document the club account trust agreement.

### **Campus Response**

We concur with this recommendation. We will establish practices that include signature specimens for all clubs, a training meeting for club advisors and officers, policies for club accounts, and a revised club fund request form by January 1, 2004.

  
**THE CALIFORNIA STATE UNIVERSITY**  
 OFFICE OF THE CHANCELLOR

BAKERSFIELD December 12, 2003

CHANNEL ISLANDS

CHICO

**MEMORANDUM**

DOMINGUEZ HILLS

FRESNO

TO: Mr. Larry Mandel  
University Auditor

FULLERTON

HAYWARD

FROM: Charles B. Reed  
Chancellor



HUMBOLDT

SUBJECT: Draft Final Report Number 02-54 on *Auxiliary Organizations*,  
California Maritime Academy

LONG BEACH

LOS ANGELES

MARITIME ACADEMY

In response to your memorandum of December 12, 2003, I accept the response as submitted with the draft final report on *Auxiliary Organizations*, California Maritime Academy.

MONTEREY BAY

NORTHRIDGE

POMONA

CBR/amd

SACRAMENTO

Enclosure

SAN BERNARDINO

cc: Dr. William B. Eisenhardt, President

SAN DIEGO

SAN FRANCISCO

SAN JOSE

SAN LUIS OBISPO

SAN MARCOS

SONOMA

STANISLAUS