

**AUXILIARY ORGANIZATIONS**  
**CALIFORNIA STATE UNIVERSITY,**  
**FULLERTON**

**Report Number 03-46**  
**October 15, 2003**

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

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## **ABBREVIATIONS**

ASI	Associated Students California State University, Fullerton, Inc.
CASE	Council for Advancement and Support of Education
CSU	California State University
CSUF	California State University, Fullerton
EO	Executive Order
FASB	Financial Accounting Standards Board
Foundation	California State University, Fullerton, Foundation
Housing Authority	CSU, Fullerton Housing Authority
ID	Identification Number
IRS	Internal Revenue Service
IT	Information Technology
MIS	Management Information Systems
RFIN	Resolution of the Committee on Finance
RFSA	Resolution of the Committee on Faculty and Staff Affairs
UAF	University Advancement Foundation

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## EXECUTIVE SUMMARY

In July 1981, the Board of Trustee policy concerning auxiliary organizations was adopted in the Resolution of the Committee on Finance (RFIN) 7-81-4. Executive Order 698, *Board of Trustees Policy for the California State University Auxiliary Organizations*, dated March 3, 1999, required that the Office of the University Auditor conduct internal compliance/internal control reviews of auxiliary organizations, and the Board of Trustees instructed that such reviews be conducted on a triennial basis pursuant to procedures established by the chancellor.

We visited the California State University, Fullerton (CSUF) campus and its auxiliary organizations from April 7, 2003, through May 2, 2003, and made a study and evaluation of the system of internal compliance/internal control in effect for the period July 2000 to May 2003. This report represents our triennial review.

CSUF's management is responsible for establishing and maintaining an adequate system of internal compliance/internal control and assuring that each of its auxiliary organizations similarly establishes such a system. This responsibility, in accordance with California Code of Regulations, Title 5, Section 42402 et seq. and Executive Order 698, *Board of Trustees Policy for the California State University Auxiliary Organizations et seq.*, includes requiring the documentation of internal control, communicating requirements to employees, and assuring that its system of internal compliance/internal control is 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 a system of internal compliance/internal control are to provide management with reasonable, but not absolute, assurance that:

- ▶ Auxiliary operations are conducted in accordance with policies and procedures established in the State Administrative Manual, Education Code, Title 5, and Trustee policy.
- ▶ Assets are adequately safeguarded against loss from unauthorized use or disposition.
- ▶ Transactions are executed in accordance with management's authorization and recorded properly to permit the timely preparation of reliable financial statements.

Our study and evaluation at the *California State University, Fullerton, Foundation* revealed certain conditions which, in our opinion, could result in errors and irregularities if not corrected. Specifically, the auxiliary did not maintain adequate control over the following area: information technology. These conditions, along with other weaknesses, are described in the executive summary and in the body of the report. In our opinion, except for the effect of the weaknesses described above, accounting and administrative control in effect as of May 2003, taken as a whole, was sufficient to meet the objectives stated above.

Our study and evaluation at the *University Advancement Foundation* revealed certain conditions which, in our opinion, could result in errors and irregularities if not corrected. Specifically, the auxiliary did not maintain adequate control over the following area: legal and regulatory compliance. These conditions, along with other weaknesses, are described in the executive summary and in the body of the report. In our opinion, except for the effect of the weaknesses described above, accounting and administrative control in effect as of May 2003, taken as a whole, was sufficient to meet the objectives stated above.

Our study and evaluation at the *Associated Students California State University, Fullerton, Inc.*, revealed certain conditions which, in our opinion, could result in errors and irregularities if not corrected. Specifically, the auxiliary did not maintain adequate control over the following area: information technology. These conditions, along with other weaknesses, are described in the executive summary and in the body of the report. In our opinion, except for the effect of the weaknesses described above, accounting and administrative control in effect as of May 2003, taken as a whole, was sufficient to meet the objectives stated above.

Our study and evaluation at the *CSU, Fullerton Housing Authority* revealed certain conditions which, in our opinion, could result in errors and irregularities if not corrected. Specifically, the auxiliary did not maintain adequate control over the following area: legal and regulatory compliance. These conditions, along with other weaknesses, are described in the executive summary and in the body of the report. In our opinion, except for the effect of the weaknesses described above, accounting and administrative control in effect as of May 2003, taken as a whole, was sufficient to meet the objectives stated above.

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 that would prevent all these limitations would not be cost-effective; moreover, an audit may not always detect these limitations.

The following summary provides 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 [11]**

Guidance was required from the campus for its auxiliaries regarding the implementation of conflict-of-interest policies and procedures.

## **CALIFORNIA STATE UNIVERSITY, FULLERTON, FOUNDATION**

### **LEGAL AND REGULATORY COMPLIANCE [13]**

The dissolution clause in the California State University, Fullerton, Foundation (Foundation) Articles of Incorporation did not stipulate approval of a successor organization by the president of the campus and the Board of Trustees as required by Title 5. Additionally, written agreements had not been executed to document the arrangement between the Foundation and campus public safety addressing services provided in exchange for space in the bookstore, and policies and procedures regarding the acceptance of funds were not developed.

### **SEGREGATION OF DUTIES [15]**

Duties and responsibilities over certain accounting functions for personnel and payroll were not appropriately segregated since payroll staff had the ability to access all functions for both areas.

### **CASH RECEIPTS AND HANDLING [16]**

Accountability over Foundation cash receipts was not consistently localized at the bookstore and dining operations, as cashier system identifications were not confidential, access to cash drawers was not limited to a single cashier, and certain dining operations did not prepare required reconciliations. The Foundation did not maintain a current record of safe access or change a safe combination upon an employee separation, and employee teams transported deposits from outlying areas without adequate security escort.

### **PETTY CASH AND CHANGE FUNDS [18]**

The Foundation had not developed organizational petty cash fund policies and procedures. Records of petty cash custodians were not maintained, and independent, unannounced counts of trust and agency petty cash funds were not performed. In addition, instances were noted where food court petty cash transactions were processed through food court change funds or change funds were used for purchases with inadequate supporting documentation.

### **PURCHASING AND ACCOUNTS PAYABLE [19]**

Written signature authorizations for contract and grant account disbursements were not maintained.

### **PERSONNEL AND PAYROLL [20]**

The Foundation did not consistently remove separated employees from the payroll system nor were clearance forms utilized for all employees.

### **FIXED ASSETS [21]**

The Foundation had not developed policies and procedures addressing the acquisition and disposal or sale of capitalized assets, did not consistently tag fixed assets, and had not performed a complete physical inventory in a number of years.

## **INFORMATION TECHNOLOGY [22]**

The security parameters for the Foundation computer system hosting the financial and bookstore applications were not set to provide effective access control. Also, access security controls were not adequately configured for the financial application. Consultants (software vendors) had virtually unlimited access to certain Foundation applications due to the lack of sufficient written procedures to prevent such from occurring. Additionally, the Foundation had not developed a sufficiently detailed, written IT disaster recovery plan and corresponding business continuation procedures.

## **UNIVERSITY ADVANCEMENT FOUNDATION**

### **LEGAL AND REGULATORY COMPLIANCE [29]**

The University Advancement Foundation (UAF) operating budgets for fiscal years 2000-2001 and 2002-2003 were not submitted in an appropriate manner for the campus president's timely approval.

### **FEES, REVENUES, AND RECEIVABLES [29]**

The UAF had not developed written policies and procedures for the administration, collection, and write-off of accounts receivable. In addition, gifted property was inappropriately recorded at a nominal value.

### **PURCHASING AND ACCOUNTS PAYABLE [31]**

UAF cash disbursements were not always supported by sufficient and appropriate documentation. Instances were noted where original vendor invoices and receipts were not consistently marked paid or otherwise defaced after payment. Also, written policies and procedures addressing stale-dated accounts payable checks and credit card usage had not been developed.

### **TRUSTS AND OTHER LIABILITIES [34]**

Some UAF account agreements were incomplete, as endowment files did not always contain documentation to evidence donor intent, and in general, account agreements did not address the disposition of unexpended funds.

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

### **LEGAL AND REGULATORY COMPLIANCE [35]**

The Associated Students California State University, Fullerton, Inc. (ASI) operating agreement with the campus did not sufficiently address all aspects of ASI operations on the campus, and a written agreement for funds held and administered by ASI on behalf of the campus athletics department had not been executed. Also, the ASI had not established a process to ensure that all conflict-of-interest statements were executed annually.

### **SEGREGATION OF DUTIES [37]**

Duties and responsibilities over certain accounting functions for cash disbursements and personnel and payroll were not appropriately segregated since the accounting manager authorized and approved payments, signed checks, and had full access to the general ledger system. In addition, the same individual who processed payroll had system access to update personnel information.

### **PURCHASING AND ACCOUNTS PAYABLE [38]**

ASI cash disbursements were not always supported by sufficient and appropriate documentation. Instances were noted where a facsimile or photocopied invoice was accepted for payment without appropriate certification.

### **INFORMATION TECHNOLOGY [40]**

The security parameters on ASI computer and software role profiles were not set to effectively restrict access to only authorized activities and users. Also, access to the ASI person/entity (vendor) master database was not appropriately restricted. In addition, the Foundation had not developed a sufficiently detailed, written IT disaster recovery plan and corresponding business continuation procedures.

## **CSU, FULLERTON HOUSING AUTHORITY**

### **LEGAL AND REGULATORY COMPLIANCE [43]**

Certain key compliance requirements were not timely implemented at the CSU, Fullerton Housing Authority (Housing Authority). Specifically, the Housing Authority had not executed an operating agreement with the campus, was not audited on an annual basis, and had not established written reserve or non-discrimination policies. The Articles of Incorporation dissolution clause did not specify approval of a successor by the campus president and CSU Trustees, and certain financial and operational arrangements with the Foundation were not properly supported by written agreements that would preserve the auxiliaries' separate corporate identities. In addition, the Housing Authority board did not include student representation.

## **AUXILIARY PROGRAMS [47]**

A written plan, including processes and policies and procedures, addressing the Housing Authority's real estate acquisition and property development and management had not been developed. Also, the general ledger had not been updated for financial transactions on a timely basis.

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## INTRODUCTION

### **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 (CSU) 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 that 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.

The Board of Trustee policy concerning auxiliary organizations was originally adopted in July 1981 in the Resolution of the Committee on Finance (RFIN) 7-81-4. Executive Order 698, *Board of Trustees Policy for the California State University Auxiliary Organizations*, dated March 3, 1999, represents policy of the Trustees addressing CSU auxiliary organization activity and governing the internal management of the system. CSU auxiliary organizations are required to comply with Board of Trustee policy (California Code of Regulations, Title 5, Section 42402 and Education Code, Section 89900).

This executive order requires that 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. According to Board of Trustee instruction, each auxiliary organization shall be examined on a triennial basis pursuant to procedures established by the chancellor.

## **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.
- ▶ 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 control objectives.
- ▶ Accounting and fiscal tasks, such as reconciliations, are prepared properly and completed timely.
- ▶ Deficiencies in internal controls previously identified were corrected satisfactorily and timely.
- ▶ Management seeks to prevent or detect erroneous record keeping, inappropriate accounting, fraudulent financial reporting, financial loss, and exposure.

## **SCOPE AND METHODOLOGY**

Our 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 management review emphasized, but was not limited to, compliance with state and federal laws, Board of Trustee policies, and Office of the Chancellor policies, letters, and directives. For those audit tests that required annualized data, fiscal years 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 July 2002 to March 2003. Our primary focus was on internal compliance/internal control.

Specifically, we reviewed and tested:

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

Additionally, for the period reviewed, we examined other aspects of 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 added to 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.

Based upon this assessment of risks, we specifically included within the scope of our review the following:

California State University, Fullerton, Foundation

- ▶ Cash Receipts and Handling
- ▶ Petty Cash and Change Funds
- ▶ Investments
- ▶ Fees, Revenues, and Receivables
- ▶ Purchasing and Accounts Payable
- ▶ Personnel and Payroll
- ▶ Fixed Assets
- ▶ Trusts and Other Liabilities
- ▶ Auxiliary Programs – Contracts and Grants
- ▶ Information Technology

University Advancement Foundation

- ▶ Cash Receipts and Handling
- ▶ Petty Cash and Change Funds
- ▶ Investments
- ▶ Fees, Revenues, and Receivables
- ▶ Purchasing and Accounts Payable
- ▶ Trusts and Other Liabilities

Associated Students California State University, Fullerton, Inc.

- ▶ Cash Receipts and Handling
- ▶ Petty Cash and Change Funds
- ▶ Investments
- ▶ Fees, Revenues, and Receivables
- ▶ Purchasing and Accounts Payable
- ▶ Personnel And Payroll
- ▶ Fixed Assets
- ▶ Trusts and Other Liabilities
- ▶ Information Technology

CSU, Fullerton Housing Authority

- ▶ Auxiliary Programs – General Ledger Accounting
- ▶ Auxiliary Programs – Real Estate Plan

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INTRODUCTION

We have not performed any auditing procedures beyond the date of our report. Accordingly, our comments are based on our knowledge as of that date. Since the purpose of our comments is to suggest areas for improvement, comments on favorable matters are not addressed.

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

### **CAMPUS**

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

Additional guidance was required from the campus for its auxiliaries regarding the implementation of conflict-of-interest policies and procedures.

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 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 campus chief financial officer stated that although the auxiliaries have conformed with campus and California State University (CSU) guidance with respect to conflict-of-interest policies and procedures, new regulations and concerns in this area warrant additional policy direction from the campus.

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 1**

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

**Campus Response**

We concur. The campus will work with the auxiliaries to assure they have a complete understanding of current state and CSU conflict-of-interest policies and procedures by March 2004.

## **CALIFORNIA STATE UNIVERSITY, FULLERTON, FOUNDATION**

### **LEGAL AND REGULATORY COMPLIANCE**

#### **DISSOLUTION OF AUXILIARY**

The dissolution clause in the California State University, Fullerton, Foundation (Foundation) Articles of Incorporation was not in compliance with Title 5.

The Foundation Articles of Incorporation included an additional statement which indicates that, in the instance where the president of the campus and the Board of Trustees do not designate a successor organization, net assets, other than trust funds, shall be distributed to the campus.

Title 5 §42600(b) states that upon dissolution of the organization, net assets, other than trust funds, shall be distributed to a successor approved by the president of the campus and by the Board of Trustees.

The Foundation executive director stated his belief that the additional statement did not change the intended meaning of the dissolution clause.

Failure to include a dissolution clause in accordance with Title 5 could result in net assets not being properly distributed in the event the corporation is dissolved.

#### **Recommendation 2**

We recommend that the Foundation amend its Articles of Incorporation to include a dissolution clause in accordance with Title 5.

#### **Campus Response**

We concur. The Foundation will amend the dissolution clause in its Articles of Incorporation to be in strict compliance with Title 5 the next time they are amended.

### **WRITTEN AGREEMENTS**

Two written agreements had not been executed between the Foundation and campus public safety regarding commercial loss prevention services provided by public safety and the space it occupies within the bookstore.

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 executive director stated his belief that written agreements were unnecessary.

Failure to execute written agreements increases the auxiliary's and campus' exposure to potential liability.

### **Recommendation 3**

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

### **Campus Response**

We concur. All contracts will be in place by February 2004.

## **ACCEPTANCE OF FUNDS**

The Foundation had not developed written policies and procedures regarding the acceptance of funds.

Written policies and procedures should address or consider the following areas:

- ▶ Authorities and criteria under which the auxiliary is allowed to accept certain funds.
- ▶ Approved sources and purposes of funds accepted.
- ▶ Considerations regarding conflicts of interest.
- ▶ Acceptable methods of acceptance and acknowledgment.
- ▶ Considerations associated with the care and control of real and personal property to be liquidated.
- ▶ Depositing, investing, and transferring of funds.
- ▶ Specific requirements associated with the distribution of funds.
- ▶ Allowability and applicability of administrative costs.
- ▶ Reporting requirements.

Education Code §89903 states that no auxiliary organization shall accept any grant, contract, bequest, trust, or gift unless it is so conditioned that it may be used only for purposes consistent with policies of the Trustees.

The Foundation executive director stated his belief that such a policy was unnecessary for the Foundation since it was covered in the operating agreement.

Failure to fully develop and communicate written policies and procedures increases the risk of accepting funds that are not consistent with the policies of the Trustees.

### **Recommendation 4**

We recommend that the Foundation develop written policies and procedures to ensure that it accepts only those funds whose purposes are consistent with CSU policy.

### **Campus Response**

We concur. The Foundation will develop written acceptance of funds policies and procedures. Efforts should be completed by February 2004.

## **SEGREGATION OF DUTIES**

Duties and responsibilities over certain accounting functions for personnel and payroll were not appropriately segregated at the Foundation.

We found that payroll employees:

- ▶ Entered all new employees.
- ▶ Updated employee records.
- ▶ Entered employee salaries.
- ▶ Entered time and processed payroll in the payroll system.
- ▶ Distributed payroll checks, via mail or pickup, to Foundation employees.

Executive Order (EO) 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 Foundation director of finance and administration stated that resource constraints did not allow for an appropriate segregation of duties between the human resources and payroll functions.

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

### **Recommendation 5**

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

### **Campus Response**

We concur. Personnel and payroll procedures have been changed. Human resources personnel now input information for new hires, employee information changes, and terminations. Payroll personnel only enter time records, review and correct time entered through the automated system, and process payroll.

## CASH RECEIPTS AND HANDLING

Certain controls over Foundation cash receipts processing were deficient.

We found that:

- ▶ Local accountability was not established at certain dining operations. The system identification numbers (ID) of certain cashiers were not confidential, cashiers transacted business using the ID of individuals who were not present, and persons without cashiering system access conducted cashiering transactions.
- ▶ Accountability was not localized at the bookstore or certain dining operations, as two or more persons had access to the same cash drawer.
- ▶ Employee teams were used to transport deposits from outlying areas to the vault room without adequate security escort.
- ▶ The Foundation did not maintain a current record of individuals with knowledge of the safe combinations, nor was the safe combination changed upon employee separation at one location at the Foundation.
- ▶ At certain dining operations, the reconciliation sheets required by Foundation policies were not consistently or completely executed.

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 internal controls over cash receipts processing.

The Foundation executive director stated that cashiering system access issues resulted from the fact that employee training on the new dining point-of-sale system was only partially complete. He further stated that providing cash drawers for every cashier was not cost-beneficial. The Foundation director of finance and administration stated that management believed the presence of two individuals when escorting cash was an adequate deterrent against theft. She further stated that the incomplete reconciliation sheets resulted from inadequate employee training. She attributed the failure to change the safe combination to the employee's recent departure and oversight.

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

### **Recommendation 6**

We recommend that the Foundation:

- a. Establish local accountability at dining operations with respect to access to the cashiering system.
- b. Ensure that accountability is localized or otherwise controlled whenever two or more persons have access to the same cash drawer.
- c. Ensure that individuals transporting deposits from outlying areas are accompanied by security escort or otherwise safeguarded.
- d. Maintain records of individuals who have access to the safe and promptly change safe combinations upon employee separation.
- e. Provide additional training to employees to support proper implementation of its policies concerning required cash reporting documents.

### **Campus Response**

We concur:

- a. The policy for cashiers to sign on to the system using a coded card and password to perform transactions and establish accountability is now being strictly enforced.
- b. The policy for cashiers to operate out of their own cash drawer is now being strictly enforced with the exception of the bookstore where cash shortages and overages are closely monitored to assure the timely detection of any misconduct. In the dining location where only one terminal is available and it is necessary to have two cashiers, we are using dual cash drawers to allow for separate cashier accountability at one terminal.
- c. The transportation of funds is currently done with two staff members. Arrangements will be made by February 2004 for a security escort in those instances where the amount of cash being transported is substantial.
- d. The Foundation maintains records for each safe including the last time the combination was changed and who has access to the safes. The combination had not been changed timely for one location and that situation has been corrected.
- e. An associate director of food and vending services has been hired with specific responsibilities for employee training and stronger supervision of dining locations.

## PETTY CASH AND CHANGE FUNDS

Certain controls over Foundation petty cash and change funds were insufficient.

We found that:

- ▶ Policies and procedures that address the administration and handling of Foundation organizational petty cash funds had not been developed.
- ▶ Independent, unannounced counts of Foundation trust and agency petty cash funds were not performed.
- ▶ A receipt of custody was not on file for any of the advanced petty cash funds.
- ▶ Certain food court petty cash transactions were processed through food court cash register change funds.
- ▶ Two food service safe change funds were utilized for emergency purchases without adequate supporting documentation to support the withdrawals.

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 petty cash and change funds.

The Foundation director of finance and administration stated her belief that mitigating controls were adequate.

Inadequate controls over petty cash and change funds increase the risk of a loss or misappropriation of funds.

### **Recommendation 7**

We recommend that the Foundation:

- a. Develop policies and procedures that address the administration and handling of Foundation organizational petty cash funds.
- b. Perform independent, unannounced counts of Foundation trust and agency petty cash funds.
- c. Ensure that custody transfer receipts are completed for all advanced funds.
- d. Take appropriate measures to ensure that the practice of issuing advances from change funds is discontinued, or develop procedures to govern their use.

### **Campus Response**

We concur. The Foundation has already expanded its petty cash policy and procedures to address the handling of Foundation organizational petty cash funds and to ensure that independent, unannounced counts are performed, custody transfer receipts are completed, and the practice of issuing advances from change funds is discontinued.

## **PURCHASING AND ACCOUNTS PAYABLE**

Written signature authorizations identifying designated individuals to approve certain Foundation contract and grant account disbursements were not maintained.

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 contract and grant disbursements be fully supported and appropriately authorized.

The Foundation director of finance and administration stated that signature authorization cards were maintained for newly established contracts and grants; however, obtaining missing signature authorizations for past contracts and grants had not been accomplished due to other priorities. She further stated that only principal investigators could authorize grant disbursements and their specimen signatures were on hand on numerous documents such as the grant proposal.

Insufficient authorization increases the risk of loss or misappropriation of funds.

### **Recommendation 8**

We recommend that the Foundation maintain written signature authorizations identifying designated individuals to approve certain contract and grant account disbursements.

### **Campus Response**

We concur. Written signature authorization forms have been obtained for Foundation accounts. Sponsored program signature authorization forms should be completed by February 2004. The original signature form will be kept at the accounts payable desk for reference and a copy placed in the project file.

## **PERSONNEL AND PAYROLL**

The Foundation's controls over certain terminated employees were insufficient.

We noted the following:

- ▶ Several employees were coded as active employees, but were no longer employed with the Foundation or Foundation-related sponsored programs.
- ▶ Employee clearance forms (which address the return of loaned assets, credit cards, keys, clearance of outstanding advances, or termination of information systems access) were not utilized for part-time 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 adequate employee separation procedures be maintained.

The Foundation manager of human resources stated that, in certain instances, some employees were not removed from the payroll system because they may be reemployed by a Foundation-sponsored program or commercial entity at some point in the future. Additionally, she stated that the Foundation did not require clearance forms for part-time employees because most do not need to return assets or have system access removed.

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

### **Recommendation 9**

We recommend that the Foundation strengthen procedures to ensure that:

- a. Separated employees are removed from the payroll system, or marked as inactive, on a timely basis.
- b. Clearance forms are documented and completed for all separating employees when they owe debts or have been assigned property or other retrievable assets.

### **Campus Response**

We concur:

- a. Payroll has now removed all employees who have not had a pay history for the last six months. The payroll system will be audited on a six-month basis for active employees without recent pay history.

- b. All full-time employees are being given an exit interview and clearance form. Part-time employees will now be given an exit interview and clearance form at the time they pick up their final check when they owe debts or have been assigned property or other retrievable assets.

## **FIXED ASSETS**

Certain controls over Foundation fixed assets were inadequate.

We found that:

- ▶ Policies and procedures did not address the acquisition and disposal or sale of capitalized assets.
- ▶ A complete physical inventory of fixed assets had not been performed in a number of years.
- ▶ Fixed assets were not tagged on a consistent 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 strong controls over fixed assets.

The Foundation director of finance and administration stated that certain weaknesses in the area of fixed asset administration could be attributed to the recent turnover of the employee responsible for this area. She further stated that the Foundation was aware that they needed to conduct a physical inventory and update their fixed asset procedures.

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

### **Recommendation 10**

We recommend that the Foundation:

- a. Develop and implement policies and procedures for the management and administration of fixed assets, addressing the acquisition and disposal or sale of capitalized assets.
- b. Perform a complete physical inventory at least once every three years of fixed assets, and reconcile the results to the fixed asset property listing and the general ledger.
- c. Establish appropriate guidelines for the tagging of fixed assets.

### **Campus Response**

We concur. The fixed assets policy has already been expanded to include acquisition, disposal, capitalization, and tagging guidelines of assets. The Foundation will perform a complete physical inventory of fixed assets at least once every three years. An inventory is scheduled to be completed in March 2004.

## INFORMATION TECHNOLOGY

### ACCOUNTING SYSTEM ACCESS

Access security controls were not adequately configured for certain Foundation accounting systems.

#### Accounting System

We found that:

- ▶ Active vendor and test IDs were configured with limited security restrictions.
- ▶ Several users had been issued job capability profiles that essentially allowed full functionality to the system depending upon the database access that was issued to them.
- ▶ Several users had the ability to update, edit, and delete records in the person/entity (vendor) master database.
- ▶ The password expiration control was not enabled for several users.
- ▶ The screen timeout control was not enabled for several users.

#### Timekeeping System

We found that:

- ▶ Payroll department staff IDs and five other unassigned generic user IDs were configured with "super user" access.
- ▶ The information technology (IT) manager was issued a user role that allowed unlimited access to the production environment.
- ▶ The password expiration control was not set to expire until July or December 2005 for most users.
- ▶ The default password syntax was such that user passwords could be easily determined. Further, because the password expiration was not set to expire until 2005, most users had never changed their passwords.
- ▶ In one instance, a supervisor signed off using the group sign-off functionality. This method of sign-off does not provide for an audit trail of supervisory approval.

EO 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 Foundation management information systems (MIS) manager stated that certain technical difficulties have limited their ability to effectively utilize certain access controls. He further stated that the administration of security had further been impacted by the implementation of new systems.

Unrestricted access to the accounting systems increases the risk of unauthorized and inappropriate acts.

### **Recommendation 11**

We recommend that the Foundation review access security controls to ensure that they are adequately configured as follows:

- a. Active vendor and test IDs for the accounting system should be configured with appropriate security restrictions.
- b. Users of the accounting system should be issued job capability profiles that appropriately limit access.
- c. User profiles should be adjusted to limit the number of employees who have access to the vendor master database.
- d. Password expiration controls should be enabled for all users.
- e. Screen timeout control should be enabled for all users.
- f. System IDs having "super user" access to the timekeeping system should be appropriately limited and unassigned generic IDs should be removed.
- g. The IT manager's operational access to the timekeeping system should be appropriately limited to only those areas for which he has direct oversight responsibility.
- h. The password expiration controls should be set on the timekeeping system to expire on a regular basis.
- i. The default password syntax settings on the timekeeping system should prohibit the use of passwords which could be easily determined.
- j. Group sign-off functionality should be appropriately controlled for the timekeeping system.

### **Campus Response**

We concur:

- a. The Foundation will review all vendors and test IDs for appropriate security restrictions and make appropriate adjustments by February 2004.

- b. It is currently the practice of the Foundation to issue job capability profiles that are limited to a user's job functions, and this will be further reviewed by the Foundation by February 2004.
- c. The Foundation will study vendor master database access and make appropriate adjustments by February 2004.
- d. Password expiration has been enabled for all users.
- e. Screen timeout control has been enabled for all users.
- f. "Super user" access to the timekeeping system will be appropriately limited, and unassigned generic IDs will be removed by February 2004.
- g. The IT manager needs "super access" capabilities in the system as he is the first line of support on the timekeeping system and coordinates all installation and upgrade tasks. IT manager and his department time records are approved by his supervisor, the Foundation's chief financial officer. Only payroll department personnel create payroll batches, and payroll checks are generated by the IT technician, not the manager, who will no longer have access to checks. Payroll direct deposits will be transmitted by the Foundation's chief financial officer, not the IT manager. All these actions are effective immediately.
- h. Password expiration will be enabled on the timekeeping system by February 2004.
- i. All passwords will be changed to a syntax that will be harder to determine by February 2004.
- j. All sign-off functionality has been changed to individuals for the timekeeping system.

## **DISASTER RECOVERY PLAN**

The Foundation had not developed a sufficiently detailed, written IT disaster recovery plan and corresponding business continuation procedures.

EO 696, *Implementation of The California State University Emergency Preparedness Program*, dated January 29, 1999, states, in part, that each campus president is delegated the responsibility for the implementation of a multihazard emergency program on campus and shall ensure that management activities including, but not limited to, maintenance and regular updating of the institutional multihazard emergency plan and determination, acquisition, and maintenance of facilities, equipment, and related supplies required for emergency preparedness are accomplished.

The Foundation MIS manager stated that the acquisition of new equipment and the recovery of their system was relatively straightforward, but was not documented in writing.

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

### **Recommendation 12**

We recommend that the Foundation develop a detailed, written IT disaster recovery plan and corresponding business continuation procedures.

#### **Campus Response**

We concur. The Foundation has already developed a more comprehensive written disaster recovery plan that should be formally adopted by February 2004.

### **VENDOR ACCESS**

Consultants (software vendors) had unlimited access to the Foundation computer system, and there was no provision to monitor access by the vendor, ensure system integrity, or validate the authenticity of access.

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

The Foundation MIS manager stated that due to a contractual agreement with the vendor for support services, the campus did not consider formal monitoring of their activities to be necessary.

Failure to limit and monitor access to the computer system increases the risk of unauthorized and inappropriate acts.

### **Recommendation 13**

We recommend that the Foundation:

- a. Restrict vendors from directly updating production copies of programs and data, where possible, or consider disconnecting the phone modem or network access and permitting such access only after receipt of formal notification by the vendor indicating the type of maintenance to be performed.
- b. Change vendor account passwords on a periodic basis to ensure that personnel who are no longer employed by the vendor cannot gain unauthorized access to the system.

### **Campus Response**

We concur:

- a. The Foundation's software vendor is contracted to perform all application updates on the Foundation's system. Currently, the vendor directly updates the production account. Creating a test account is a consideration for the future. Restricting network access for the vendors might adversely affect access to the systems by Foundation users. A manner to monitor vendor activities will be identified and implemented by March 2004.
- b. Vendor account passwords will be changed on a frequent basis commencing immediately.

### **OPERATING SYSTEM SECURITY – FINANCIAL APPLICATION**

The security parameters for the Foundation computer system hosting the financial application were not set to provide effective access control.

We found that:

- ▶ A detailed evaluation of operating system security had not been performed.
- ▶ A detailed security policy had not been developed.
- ▶ Appropriate security settings for the system parameters were not implemented.
- ▶ Frequent security monitoring was not done.
- ▶ Appropriate measures to establish consistent ongoing maintenance for system security were not taken.

EO 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 Foundation MIS manager stated that while the system had been installed for several years, a formal security assessment had never been performed.

Without adequate settings of security parameters, there is no assurance that controls are operating as intended by management or that the system and its associated controls cannot be compromised.

### **Recommendation 14**

We recommend that the Foundation:

- a. Perform a detailed evaluation of operating system security.
- b. Establish a detailed security policy.
- c. Implement appropriate security settings for the system parameters outlined above.
- d. Implement frequent security monitoring.
- e. Take appropriate measures to establish consistent ongoing maintenance for system security.

### **Campus Response**

- a. A detailed evaluation of operating system security will be performed by March 2004.
- b. A security policy addressing all systems will be written and adopted by March 2004.
- c. Appropriate security settings for the system parameters outlined have been established.
- d. More formal security monitoring tools and tasks will be researched and implemented as appropriate by March 2004.
- e. Effective immediately, system security will be reviewed and maintained in a more formal and frequent manner.

### **OPERATING SYSTEM SECURITY – BOOKSTORE APPLICATION**

The security parameters for the Foundation computer system hosting the bookstore application were not set to provide effective access control.

We found that:

- ▶ A detailed evaluation of operating system security had not been performed.
- ▶ A detailed security policy had not been developed.
- ▶ Appropriate security settings for the system parameters were not implemented.
- ▶ Frequent security monitoring was not done.
- ▶ Appropriate measures to establish consistent ongoing maintenance for system security were not taken.

EO 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 Foundation MIS manager stated that while the system had been installed for several years, a formal security assessment had never been performed.

Without adequate settings of security parameters, there is no assurance that controls are operating as intended by management or that the system and its associated controls cannot be compromised.

### **Recommendation 15**

We recommend that the Foundation:

- a. Perform a detailed evaluation of operating system security.
- b. Establish a detailed security policy.
- c. Implement appropriate security settings for the system parameters outlined above.
- d. Implement frequent security monitoring.

- e. Take appropriate measures to establish consistent ongoing maintenance for system security.

**Campus Response**

We concur:

- a. A detailed evaluation of operating system security will be performed by March 2004.
- b. A security policy addressing all systems will be written and adopted by March 2004.
- c. Appropriate security settings for the system parameters outlined have been established.
- d. More formal security monitoring tools and tasks will be researched and implemented as appropriate by March 2004.
- e. Effective immediately, system security will be reviewed and maintained in a more formal and frequent manner.

## **UNIVERSITY ADVANCEMENT FOUNDATION**

### **LEGAL AND REGULATORY COMPLIANCE**

The University Advancement Foundation (UAF) operating budgets for fiscal years 2000-2001 and 2002-2003 were not submitted in an appropriate manner for the campus president's timely approval.

The budgets submitted were rejected by the campus president because he deemed them unsound as initially submitted to him.

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

The UAF chief financial officer stated that the president was in attendance at the board meetings when the annual budget was discussed and was aware of the issues at hand. The campus chief financial officer stated that the president had approved an interim budget for fiscal year 2002-2003.

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

#### **Recommendation 16**

We recommend that the UAF coordinate with the campus to take appropriate measures to ensure that operating budgets are submitted to the campus president in an appropriate manner for timely approval.

#### **Campus Response**

We concur. In the future, the UAF budget will be approved by the board of directors at the June board meeting and approved by the president before the beginning of the new fiscal year.

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

#### **ACCOUNTS RECEIVABLE**

The UAF had not developed written policies and procedures for the administration, collection, and write-off of accounts receivable.

Title 5 §42401 and §42402 indicate that the campus president shall require that auxiliary organizations operate in conformity with 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 over accounts receivable be supported by written policies and procedures.

The UAF chief financial officer stated that the majority of the accounts receivable balance related to campus or Foundation activities, and believed that the accounts receivable balance was immaterial.

Failure to develop and communicate written policies and procedures weakens internal controls and increases the risk that misunderstandings will occur.

### **Recommendation 17**

We recommend that the UAF develop written policies and procedures for the administration, collection, and write-off of accounts receivable.

### **Campus Response**

We concur. The UAF does not set up accounts receivable in the normal course of business because it provides no service to outside companies or organizations. The UAF is strictly a philanthropic foundation that does record pledges receivable (unconditional promises to give) in accordance with Financial Accounting Standards Board (FASB) 116. Pledges receivable are significantly different than accounts receivable. The UAF will develop a written policy statement on the administration, collection, and write-off of pledges receivable by February 2004.

## **GIFT VALUATION**

Certain gifted property was not properly recorded by the UAF.

The UAF recorded a gifted real estate lot, untraded stock, and three gifted timeshares at a value of one dollar each.

EO 676, *Delegation of Gift Evaluation and Acceptance to Campuses*, dated February 1, 1998, states that all advancement programs and activities shall adhere to the Code of Ethics and Standards of Practice set forth by the Council for Advancement and Support of Education (CASE).

CASE *Management Reporting Standards* state that gifts-in-kind with fair market values of more than \$5,000 should be counted at the values placed on them by qualified independent appraisers, as required by the Internal Revenue Service (IRS) for valuing non-cash charitable contributions. For gifts of \$5,000 or less, they may be reported at the value declared by the donor or determined by a qualified expert on the faculty or staff of the institution.

IRS Publication 526 states that the amount of charitable contribution for contributed property is the fair market value of the property at the time of the contribution.

The UAF chief financial officer stated that the properties were recorded on the UAF books when he began employment. He further stated that upon identification, he conservatively recorded them at one dollar each.

The lack of accurate accounting records increases the risk of misunderstanding with respect to the financial position of the organization.

### **Recommendation 18**

We recommend that the UAF reexamine its valuing of gifted property discussed above and, based upon that reevaluation, record values as appropriate within its accounting records.

### **Campus Response**

We concur. The real estate lot, the timeshares, and the stock were considered to be practically worthless when they were recorded on the UAF's general ledger. The land and the timeshares were accepted several years ago by the UAF during the previous administration, and the recording of these assets at a value of one dollar does not represent any weakness in internal controls. In fact, the recording of the assets in the general ledger was done to enhance accountability and to ensure that records would be maintained on each of these assets even though they had virtually no market value. There is no market for the real estate lot since it is located on a steep hill. The UAF is currently attempting to sell the timeshares, but there is no market for them. Because of the restrictions on the stock, it cannot be sold nor can a value be determined. Recording assets at a nominal amount with no easily definable market value is an accepted accounting practice. Spending our very limited resources to try and independently document the value does not seem justifiable. Since a gift-in-kind policy was put in place as a result of a prior audit recommendation to assure the value of such assets is carefully considered before being booked, we do not anticipate any process change. We will take these assets to the UAF gift committee to confirm they have been valued in accordance with the information we have available by February 2004.

## **PURCHASING AND ACCOUNTS PAYABLE**

### **SUPPORTING DOCUMENTATION**

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

Our review of 70 cash disbursements disclosed the following:

#### Process Controls

- ▶ Original vendor invoices and receipts were not consistently marked paid or otherwise defaced after payment.
- ▶ Written policies and procedures on stale-dated accounts payable checks were not documented.

#### Processing Exceptions

- ▶ In 18 instances, a facsimile or photocopied invoice was accepted for payment without certification that records were verified to prevent duplicate payment.
- ▶ In five instances, payment was made without a supporting invoice, statement, or receipt.

- ▶ In one instance, there was no explanation for the difference between the payment amount and the invoice amount.
- ▶ In one instance, no vendor/payee data record form was submitted for a stipend disbursement.
- ▶ In one instance, the invoice was paid untimely.
- ▶ In two instances, disbursements were not made in accordance with terms of the account application description.
- ▶ In one instance, a travel expense claim was paid for expenses incurred while attending a UAF meeting. The individual who incurred the costs did not submit or sign the travel expense claim; the expense claim was not submitted timely (i.e., 11 months after incurring the expenses); and a UAF student and non-employee travel waiver form was not completed.
- ▶ In three instances, only one signature authorized a disbursement greater than \$2,500. Two signatures are required.
- ▶ In 16 instances, the approval signatures did not indicate the date approved.
- ▶ In 12 instances, the requests for disbursements were not properly approved due to the lack of an account update form or unapproved account update form.
- ▶ In two instances, payment was based on memos and e-mails from unauthorized staff, not a properly authorized check request.

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 and properly authorized.

The UAF chief financial officer stated that many of the current disbursement procedures were not in place and that the UAF had implemented many changes to the disbursement process. He also stated that the former UAF managing director implemented the practice of selectively reimbursing travel expenses; this procedure was not formally adopted by the UAF.

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

### **Recommendation 19**

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

### **Campus Response**

We concur. The time period for this audit was three years, and during that period, significant improvements were made to the disbursement function. Disbursement procedures are continuously reviewed and enhanced to ensure that disbursements are properly authorized with complete documentation. We will reassess the procedures again by February 2004.

### **CREDIT CARDS**

The UAF had not developed written policies and procedures for credit card usage.

Such a policy should address or consider the following areas:

- ▶ Specific dollar limits per transaction.
- ▶ Allowable versus prohibited types of expenditures.
- ▶ Independent review and authorization of all credit card purchases.
- ▶ Submittal of original or certified documentation as support for disbursement in a timely manner.

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

The UAF chief financial officer stated that each cardholder was required to sign a UAF corporate card policy. He indicated that the card policy states that charges must be in accordance with applicable campus directives and be consistent with restrictions placed on donor/programmatic funds stipulated in the account agreement. He further indicated that the card policy does not address the aforementioned criteria.

Failure to fully develop and communicate written policies and procedures weakens internal controls and increases the risk that misunderstandings will occur.

### **Recommendation 20**

We recommend that the UAF develop and implement appropriate policies and procedures regarding credit card usage.

### **Campus Response**

We concur. A formal credit card policy will be developed by February 2004, addressing specific dollar limits per transaction, allowable versus prohibited types of expenditures, independent review and authorization of all credit card purchases, and submittal of original or certified documentation as support for disbursement in a timely manner.

## **TRUSTS AND OTHER LIABILITIES**

Certain UAF account agreements were incomplete.

We found:

- ▶ Eight of ten endowments disclosed instances where documentation, such as a memorandum of understanding, was not initiated to evidence the intent of the donor.
- ▶ Generally, account agreement documentation did not address the disposition of unexpended funds.

Title 5 §42401, §42402, §42500 and Education Code §89900 establish a responsibility to operate in accordance with sound business practices in the interest of the campus. Education Code §89721 and various chancellor's office mandates establish standards for the administration of such funds. Probate Code §16000 indicates that upon acceptance of a trust, the trustee has a duty to administer the trust according to the trust instrument. A sufficiently documented trust arrangement is needed to meet the intent of these regulations.

The UAF chief financial officer stated that he was aware of these issues and had been working to identify all accounts with missing information. He further stated that no documentation was provided when some of the older endowments were established.

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

### **Recommendation 21**

We recommend that the UAF ensure that account agreements are complete.

### **Campus Response**

We concur. A formal gift agreement or memorandum of understanding is currently required to establish an endowment fund. In order to improve the documentation of existing endowment funds, the UAF's chief financial officer will review the documentation of each endowment fund and prepare memo-to-the-files that summarize the campus' and the Foundation's responsibilities for administering each fund by March 2004.

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

**LEGAL AND REGULATORY COMPLIANCE**

**AUXILIARY AUTHORIZATION**

The Associated Students California State University, Fullerton, Inc. (ASI) operating agreement with the campus required revision as to functions managed, administered, and operated by the auxiliary organization.

The ASI operating agreement with the campus did not sufficiently address all aspects of ASI operations on the campus. Functions not articulated in the operating agreement included ASI administration of campus athletic revenues and provision of loans, scholarships, and related financial assistance.

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

The ASI executive director stated that the omission of certain functions from the operating agreement was due to management's assumption that the functions were addressed under the term "other" functions in 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.

**Recommendation 22**

We recommend that the ASI amend its operating agreement with the campus to include all functions managed, administered, and operated by the auxiliary.

**Campus Response**

We concur. The ASI would be pleased to execute a revised agreement that provides more details on its support of campus athletics and scholarship programs. The revision should be completed by March 2004.

## **WRITTEN AGREEMENTS**

Funds held and administered by the ASI on behalf of the campus athletics department were not supported by a written agreement.

Such an agreement should address the purpose of the account, source of funds, reporting requirements, time constraints, instructions for closing the account, disposition of unexpended balance, administrative fees, interest allocation, and other applicable restrictions.

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 funds held and administered on behalf of others be properly supported by written agreements.

The ASI director of financial operations and technology stated that the ASI executive director was in the process of addressing the need for such an agreement.

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

### **Recommendation 23**

We recommend that the ASI enter into a written agreement for the administration and maintenance of funds held on behalf of campus departments.

### **Campus Response**

We concur. The ASI will execute a written agreement with the campus for services provided to campus athletics, which addresses all necessary considerations. Such an agreement should be in place by March 2004.

## **CONFLICT OF INTEREST**

The ASI had not established a process to ensure that all conflict-of-interest statements were executed annually.

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 ASI executive director stated that the missing statements were due to oversight.

Failure to adequately address and implement conflict-of-interest code policies and procedures increases liability for acts contrary to the code.

**During our fieldwork, the ASI provided documentation evidencing that the missing statements had been completed.**

## SEGREGATION OF DUTIES

The ASI did not appropriately segregate certain accounting functions for cash disbursements and personnel and payroll.

### Cash Disbursements

We found that the accounting manager:

- ▶ Served as a check signer.
- ▶ Had access to blank check stock.
- ▶ Authorized disbursements and approved bank reconciliations.
- ▶ Had full access to the general ledger system.

The ASI director of financial operations and technology stated that sufficient staff was not available to provide such segregation. She further stated her belief that mitigating controls were adequate.

### Personnel and Payroll

We found that the same individual that processed payroll entered employee salaries and hours into the payroll system.

The ASI director of financial operations and technology stated that sufficient staff was not available to provide such segregation. She further stated that there are mitigating controls in place and that ASI is in the process of instituting additional controls.

EO 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.

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

### **Recommendation 24**

We recommend that ASI properly segregate certain accounting functions for cash disbursements and personnel and payroll or institute mitigating procedures approved by the campus chief financial officer.

### **Campus Response**

We concur. The ASI is committed to maintaining a system of sound internal controls and will immediately work with the campus chief financial officer to make whatever adjustments are determined necessary to achieve such, regarding segregation of duties. Any such adjustments will be put in place by February 2004.

## **PURCHASING AND ACCOUNTS PAYABLE**

### **AUTHORIZATION OF DISBURSEMENTS**

Certain ASI bank signature authorizations were not current.

We found that:

- ▶ An inappropriate individual was authorized on a bank account.
- ▶ ASI was unable to locate a bank signature authorization for one account.

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 disbursements be fully supported and properly authorized.

The ASI accounting manager stated that the missing and outdated authorizations were due to oversight.

Insufficient authorization increases the risk of loss or misappropriation of funds.

**During our fieldwork, the ASI provided documentation evidencing that the outdated authorization had been updated and provided a copy of the missing authorization form.**

## **SUPPORTING DOCUMENTATION**

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

Our review of 125 cash disbursements disclosed the following:

### Process Controls

- ▶ Facsimile and photocopied invoices were accepted for payment without certification that records were verified to prevent duplicate payment.

### Processing Exceptions

- ▶ In eight instances, documentation to support an expenditure was not on file.
- ▶ In five instances, there was no appropriate signature authorizing the payment approval.
- ▶ In one instance, a check was made payable to cash, contrary to ASI policy.

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

The ASI accounting manager stated that current policies do not address some of these issues and may need to be updated. He further stated his belief that some of the missing documentation was information requested for an ASI financial audit that had been misfiled after the audit was completed.

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

## **Recommendation 25**

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

## **Campus Response**

We concur. The ASI has already implemented a certification stamp for facsimiles and photocopied invoices, implemented a second review of payment authorization documents, and again advised all personnel of disbursement policies and procedures. These efforts should adequately enhance the degree of compliance with established guidelines.

## INFORMATION TECHNOLOGY

### ACCOUNTING SYSTEM ACCESS

The security parameters on ASI computer and software role profiles were not set to effectively restrict access to only authorized activities and users.

We identified the following security issues:

- ▶ The method used to change employee passwords did not ensure confidentiality or support individual accountability for the use of the account.
- ▶ Four accounts existed on the system that had not been used for more than one year.
- ▶ Five accounts existed on the system that did not have an associated database or job profile and two of those accounts did not appear to have ever been accessed.
- ▶ A shared account that was sometimes used by the IT administrator and the controller, with full system privileges, existed on the system.
- ▶ The ASI was unable to provide information regarding the operating system security settings because staff had not been sufficiently trained on the use of the system.
- ▶ The computer was not kept in a facility that provided effective control over physical security or protection from environmental hazards.

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

The ASI director of financial operations and technology stated that the current facility maintained for the ASI system was known to be inadequate; the AS chose to construct a new facility for its equipment.

Without adequate security safeguards in place for the computing equipment, there is an increased probability of a significant adverse event affecting the computing system.

#### **Recommendation 26**

We recommend that the ASI set computer and software role profiles to effectively restrict access as follows:

- a. The method used to change employee passwords should ensure confidentiality or support individual accountability for the use of the account.

- b. Inactive accounts should be removed from the system.
- c. The shared account that is sometimes used by the IT administrator and the controller, with full system privileges, and that exists on the system should be removed and individual accounts should be established.
- d. Operating system security settings should be appropriately maintained and IT staff should be sufficiently trained on the use of the system.
- e. Plans should be executed to construct a new facility for the ASI computer system that provides effective control.

### **Campus Response**

We concur. The ASI will take measures to further assure the confidentiality of individual passwords, timely removal of ex-employee and other unnecessary system accounts, training of staff, and assignment of unique accounts by March 2004. Noted computer equipment has already been moved to an improved facility.

### **DISASTER RECOVERY PLAN**

The ASI had not developed a sufficiently detailed, written IT disaster recovery plan and corresponding business continuation procedures.

EO 696, *Implementation of The California State University Emergency Preparedness Program*, dated January 29, 1999, states, in part, that each campus president is delegated the responsibility for the implementation of a multihazard emergency program on campus and shall ensure that management activities including, but not limited to, maintenance and regular updating of the institutional multihazard emergency plan and determination, acquisition, and maintenance of facilities, equipment, and related supplies required for emergency preparedness are accomplished.

The ASI director of financial operations and technology stated that the recovery of their system was relatively straightforward and believed documentation in place was adequate.

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

### **Recommendation 27**

We recommend that the ASI develop a detailed, written IT disaster recovery plan and corresponding business continuation procedures.

### **Campus Response**

We concur. The ASI is expanding upon its existing IT disaster recovery and business continuity plan and will have a more comprehensive plan in place by March 2004.

## **VENDOR MASTER FILE**

Access to the ASI person/entity (vendor) master database was not appropriately restricted.

We noted that all users of the ASI financial application had the ability to update, edit, and delete records in the person/entity (vendor) master database.

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 requires proper controls over the vendor master database.

The ASI director of financial operations and technology stated that the current system functionality did not allow for appropriately restricting access to the database.

Failure to secure access to system data increases the risk of unauthorized and inappropriate acts.

### **Recommendation 28**

We recommend that the ASI adjust user profiles to limit the number of employees who have access to the vendor master database or implement appropriate mitigating controls approved by the campus chief financial officer.

### **Campus Response**

We concur. The ASI is committed to maintaining a system of sound internal controls and will immediately work with the campus chief financial officer to make whatever adjustments are determined necessary to achieve such, regarding the vendor master file. Any such adjustments will be put in place by February 2004.

## **CSU, FULLERTON HOUSING AUTHORITY**

### **LEGAL AND REGULATORY COMPLIANCE**

#### **COMPLIANCE**

Certain key compliance requirements were not timely implemented at the CSU, Fullerton Housing Authority (Housing Authority).

##### **Auxiliary Authorization**

The Housing Authority had not executed an operating agreement with the campus.

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

The Housing Authority executive director stated that an operating agreement had not been executed due to the ongoing discussion between the campus, auxiliary, and chancellor's office concerning appropriate indemnification language.

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

##### **Dissolution of Auxiliary**

The Housing Authority Articles of Incorporation did not specify that the net assets of the dissolved auxiliary must be distributed to a successor approved by the campus president and the CSU Trustees.

Title 5 §42600(b) states that upon dissolution of the organization, net assets, other than trust funds, shall be distributed to a successor approved by the president of the campus and by the Board of Trustees.

The Housing Authority executive director stated that management believed its attorney's review of the Articles of Incorporation would ensure its compliance with Title 5.

Failure to include a dissolution clause in accordance with Title 5 could result in net assets not being properly distributed in the event the corporation is dissolved.

### **Board Composition**

The student appointed to the Housing Authority board did not attend any meetings in fiscal year 2001-2002, nor was a student appointed to the board for fiscal year 2002-2003.

Title 5 §42602(b) specifically requires student representation on auxiliary organization boards.

The Housing Authority executive director stated that upon the resignation of the former student member, another student was recommended to fill the vacancy. However, upon further consideration, it was determined that someone who could serve a longer term was needed.

Failure to maintain mandated board composition violates statutory requirements and increases the risk that community views will not be adequately represented.

### **Annual Audit**

The Housing Authority was not in compliance with annual audit requirements.

The Housing Authority's financial statements were not audited on an annual basis by a certified public accountant, nor were its financial statements submitted to the chancellor's office or publicly disseminated.

Education Code §89900 states that an auxiliary organization shall contract for and receive an annual audit and shall submit the audit to the CSU Trustees. It further requires the auxiliary to publish the audited statement of its financial condition.

The Housing Authority executive director stated that the limited financial transactions in the auxiliary's first two years of operations precluded the need for an audit.

Non-compliance with annual audit requirements limits campus and CSU management's understanding of the results of operations and financial position.

### **Reserves**

The Housing Authority had not established a written surplus funds/reserve policy.

Such a policy should address or consider the following areas:

- ▶ Minimum reserve requirements.
- ▶ The inclusion of reserves in the budget submitted to the 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 Housing Authority executive director stated his belief that such a policy was unnecessary in the formative stages and prior to the Housing Authority having any assets of significance.

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

### **Non-Discrimination Policy**

The Housing Authority had not established a written non-discrimination policy.

EO 774, *Systemwide Guidelines for Nondiscrimination and Affirmative Action Programs in Employment*, dated May 17, 2001, prohibits discrimination on the basis of race, color, religion, national origin, sex, sexual orientation, marital status, pregnancy, age, disability, and covered veterans' status.

Resolution of the Committee on Faculty and Staff Affairs (RFSA) 7-80-14 requires auxiliary organizations to adopt similar employment procedures consistent with CSU policy and systemwide operational guidelines established by the chancellor.

The Housing Authority executive director stated his belief that such a policy was unnecessary for an organization that had no employees nor contemplated any employees for the foreseeable future.

The lack of a non-discrimination policy increases the auxiliary's risk of non-compliance with state and federal laws and may result in regulatory actions.

### **Recommendation 29**

We recommend that the Housing Authority:

- a. Execute a written operating agreement with the campus, listing all approved functions, in accordance with CSU policy.
- b. Amend its Articles of Incorporation to include a dissolution clause in accordance with Title 5.
- c. Coordinate with the campus to develop a means for encouraging student participation on the board.
- d. Obtain annual audits by a certified public accountant and distribute the audits in accordance with the Education Code requirements.
- e. Coordinate with the campus to establish a written policy for the allocation of surplus funds/reserves.
- f. Establish a non-discrimination policy approved by its board in accordance with CSU policy.

### **Campus Response**

We concur:

- a. The operating agreement with the campus was fully executed in May 2003.
- b. The Housing Authority will amend the dissolution clause in its Articles of Incorporation to be in strict compliance with Title 5 the next time they are amended.
- c. The ASI student president has been attending the regular meeting since May 2003.
- d. The annual certified public accountant audit has now been completed, and audit reports have been submitted to the campus and chancellor's office.
- e. The Housing Authority will develop a reserve policy by February 2004.
- f. The Housing Authority will develop a non-discrimination policy approved by its board in accordance with CSU policy by February 2004.

### **WRITTEN AGREEMENTS**

Certain Housing Authority financial and operational arrangements with the Foundation were not properly supported by written agreements that would preserve the auxiliaries' separate corporate identities.

We found that the following arrangements were not supported by written agreements:

- ▶ A \$1,250,000 loan from the Foundation to the Housing Authority.
- ▶ The Housing Authority's use of the Foundation's office space.
- ▶ The Housing Authority's use of Foundation personnel.

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 that preserve corporate identities.

The Housing Authority executive director stated that formalizing the financial and operational arrangements between the Foundation and the Housing Authority had not been considered necessary, as the arrangements had been approved by the auxiliaries' boards.

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

### **Recommendation 30**

We recommend that the Housing Authority establish written agreements with the Foundation for the use of financial and operational resources, including loans between the auxiliaries.

#### **Campus Response**

We concur. An agreement between the Housing Authority and the Foundation has been executed for use of financial and operational resources. The loan between the two auxiliaries has been repaid.

## **AUXILIARY PROGRAMS**

### **GENERAL LEDGER ACCOUNTING**

The Housing Authority's general ledger was not updated on a timely basis.

We found that the following had not been included in the auxiliary's general ledger as of April 30, 2003:

- ▶ Fair market value of land received in 2001 for use in an affordable housing project.
- ▶ Costs associated with the construction of the housing project.
- ▶ Drawdowns, repayments, and associated expenses of a \$16,056,000 line of credit.
- ▶ Revenue from housing project home sales.
- ▶ Legal and other operating expenses.

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 accounting records be sufficiently updated to provide an accurate and representative status of the results of operations.

The Housing Authority director of finance and administration stated that personnel constraints and other time commitments prevented management from maintaining a current general ledger. She further stated that all supporting documents were retained to facilitate the general ledger update.

The lack of sufficiently updated accounting records increases the risk of misunderstandings with respect to the results of operations.

### **Recommendation 31**

We recommend that the Housing Authority update its general ledger on a timely basis.

### **Campus Response**

We concur. The general ledger for the Housing Authority has been updated.

### **REAL ESTATE PLAN**

The Housing Authority's real estate acquisition and property development and management plan was not documented.

The written plan should address or consider the following areas, whose requirements may vary from project to project:

- ▶ Procedures for the solicitation and/or receipt of proposals.
- ▶ Requirements for due diligence and feasibility studies.
- ▶ Process for the determination of proposal acceptance.
- ▶ Policy addressing competitive bidding versus sole source justification.
- ▶ Coordination among involved parties regarding project approval, development, and financing.
- ▶ Applicant solicitation and selection procedures.
- ▶ Policy concerning the requirements for home resales.

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

The Housing Authority executive director stated that the documentation of the Housing Authority real estate plan had not been completed due to time and personnel constraints.

The lack of a written real estate acquisition and property development and management plan increases the risk that the auxiliary will enter into transactions inconsistent with the educational mission of the campus and subjects the CSU to potential liability.

### **Recommendation 32**

We recommend that the Housing Authority coordinate with the campus to establish a written real estate acquisition and property development and management plan.

### **Campus Response**

We concur. The Housing Authority will establish a written real estate acquisition and property development and management plan by February 2004.

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## APPENDIX A: PERSONNEL CONTACTED

### Name

### Title

#### **CAMPUS**

Milton A. Gordon	President
Naomi Goodwin	Assistant Vice President, Administration
Willie Hagan	Vice President, Administration
Pamela Hillman	Vice President, University Advancement
Sherri Newcomb	Chief Financial Officer
Robert Palmer	Vice President, Student Affairs
Alexander Tzoumas	Director, Internal Audit

#### **CALIFORNIA STATE UNIVERSITY, FULLERTON, FOUNDATION**

Fred Ambrozak	System Administrator
Monica Castro	General Accounting Clerk
Tina Chen	Senior Accountant
Shou-Yinn (Pearl) Cheng	Director, Finance and Administration
Julie Chung	Assistant Director, Finance and Administration
William Dickerson	Executive Director
Judy Goberdhan	Senior Accounts Receivable Clerk
William Herbert	Director, Business Services
Ruth Herrera	Senior Accounts Payable Clerk
Omar Iftikhar	Management Information Systems Manager
Chuck Kissel	Operations Manager/Customer Service
Lucy Komala	Payroll Supervisor
Anthony Lynch	Division Director, Food and Vending Services
Steve Magana	Text Manager
Hanna Mengesha	Vault Room Manager
Isabel Moore	Data Entry Clerk
Jerry Olson	Bookstore Director
Sid Patel	Catering Director
Nancy Picciano	Grant Support Assistant
Marco Polo	Supervisor, Dining Services
Peter Poon	Senior Manager, General Merchandise
Alicia Rodriguez	Accounting Manager
Patricia Simms	Manager, Human Resources
Tanya Thompson	Acting Director, Sponsored Programs
Thuc Tran	Financial Assistant
Salvador Vasquez	Assistant Manager, Dining Services

**UNIVERSITY ADVANCEMENT FOUNDATION**

Darren Boyett	Gift Administrator
Tara Garcia	Disbursements/Deposit Clerk
Thomas Popplewell	Chief Financial Officer
Wendy Rossano	Data Entry/Cash Receipts Clerk

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

Kurt Borsting	Director, Titan Student Union
Vangie Bravo	Accounting Technician
Laura Brown	Human Resources Director
Maria Donor	Payroll Technician
Alicia Espinoza	Cashier
Vaughn Fahie	Assistant Director, Operations
Marsha Farwick	Director, Financial Operations and Technology
Betsy Gibbs	Children's Center Director
M. Alexander Lopez	President
Harvey McKee	Executive Director
Nancy Paulsen	Accounting Technician
M. Pamela Skawin	Information and Services Manager
Stephen Udell	Accounting Manager
Andrea Willer	Director, Recreational Sports

**CSU, FULLERTON HOUSING AUTHORITY**

Shou-Yinn (Pearl) Cheng	Director, Finance and Administration
Ann Dantsuka	Staff Assistant
William Dickerson	Executive Director

## **STATEMENT OF INTERNAL CONTROLS**

### **A. INTRODUCTION**

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

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

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

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

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

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

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

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

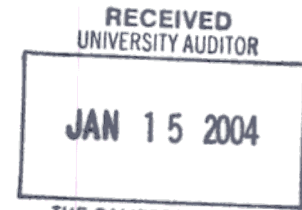
The objective of internal accounting and related operational control is to provide reasonable, but not absolute, assurance as to the safeguarding of assets against loss from unauthorized use or disposition, and the reliability of financial records for preparing financial statements and maintaining accountability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

**D. INTERNAL CONTROL SYSTEMS LIMITATIONS**

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



Office of the President  
(714) 278-3456 / Fax (714) 278-2649



THE CALIFORNIA STATE  
UNIVERSITY

DATE: January 8, 2004

TO: Larry Mandel  
University Auditor

FROM: Milton A. Gordon  
President *MA Gordon*

SUBJECT: Response for Auxiliary Audit

I am pleased to forward California State University, Fullerton's official response to the recommendations in the Auxiliary Organizations California State University, Fullerton Incomplete Draft of Report Number 03-46 dated October 15, 2003.

Once again, we would like to thank the University Auditor and his staff for conducting the audit in a professional manner and identifying meaningful ways to improve our financial controls and level of compliance with state and CSU guidelines.

The Campus Auditor, Alex Tzoumas, will also forward the responses to you electronically for your convenience. Should you have questions, please contact Alex at 714-278-5760 or [atzoumas@fullerton.edu](mailto:atzoumas@fullerton.edu).

Attachment

cc Bill Dickerson, Executive Director of CSUFF  
Willie J. Hagan, Vice President for Administration  
Pamela Hillman, Vice President for University Advancement Foundation  
Sherri L. Newcomb, Chief Financial Officer  
Harvey McKee, Executive Director of Associated Students, Inc.  
Robert L. Palmer, Vice President for Student Affairs  
Thomas Poppelwell, Executive Director of UAF  
Alexander G. Tzoumas, Director Internal Audit

**AUXILIARY ORGANIZATIONS**  
**CALIFORNIA STATE UNIVERSITY,**  
**FULLERTON**

**REPORT NUMBER 03-46**

**CAMPUS**

**LEGAL AND REGULATORY COMPLIANCE**

**Recommendation 1**

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

**Campus Response**

We concur. The campus will work with the auxiliaries to assure they have a complete understanding of current State and CSU conflict-of-interest policies and procedures by March 2004.

**CALIFORNIA STATE UNIVERSITY, FULLERTON, FOUNDATION**

**LEGAL AND REGULATORY COMPLIANCE**

**DISSOLUTION OF AUXILIARY**

**Recommendation 2**

We recommend that the Foundation amend its Articles of Incorporation to include a dissolution clause in accordance with Title 5.

**Campus Response**

We concur. The Foundation will amend the dissolution clause in its Articles of Incorporation to be in strict compliance with Title 5 the next time they are amended.

**WRITTEN AGREEMENTS**

**Recommendation 3**

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

**Campus Response**

We concur. All contracts will be in place by February 2004.

**ACCEPTANCE OF FUNDS**

**Recommendation 4**

We recommend that the Foundation develop written policies and procedures to ensure that it accepts only those funds whose purposes are consistent with CSU policy.

**Campus Response**

We concur. The Foundation will develop written acceptance of funds policies and procedures. Efforts should be completed by February 2004.

**SEGREGATION OF DUTIES**

**Recommendation 5**

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

### **Campus Response**

We concur. Personnel and payroll procedures have been changed. Human resources personnel now input information for new hires, employee information changes, and terminations. Payroll personnel only enter time records, review and correct time entered through the automated system and process payroll.

## **CASH RECEIPTS AND HANDLING**

### **Recommendation 6**

We recommend that the Foundation:

- a. Establish local accountability at dining operations with respect to access to the cashiering system.
- b. Ensure that accountability is localized or otherwise controlled whenever two or more persons have access to the same cash drawer.
- c. Ensure that individuals transporting deposits from outlying areas are accompanied by security escort or otherwise safeguarded.
- d. Maintain records of individuals who have access to the safe and promptly change safe combinations upon employee separation.
- e. Provide additional training to employees to support proper implementation of its policies concerning required cash reporting documents.

### **Campus Response**

We concur:

- a. The policy for cashiers to sign on to the system using a coded card and password to perform transactions and establish accountability is now being strictly enforced.
- b. The policy for cashiers to operate out of their own cash drawer is now being strictly enforced with the exception of the bookstore where cash shortages and overages are closely monitored to assure the timely detection of any misconduct. In the dining location where only one terminal is available and it is necessary to have two cashiers, we are using dual cash drawers to allow for separate cashier accountability at one terminal.
- c. The transportation of funds is currently done with two staff members. Arrangements will be made by February 2004 for a security escort in those instances where the amount of cash being transported is substantial.
- d. The Foundation maintains records for each safe including the last time the combination was changed and who has access to the safes. The combination had not been changed timely for one location and that situation has been corrected.

- e. An associate director of food and vending services has been hired with specific responsibilities for employee training and stronger supervision of dining locations.

## **PETTY CASH AND CHANGE FUNDS**

### **Recommendation 7**

We recommend that the Foundation:

- a. Develop policies and procedures that address the administration and handling of Foundation organizational petty cash funds.
- b. Perform independent, unannounced counts of Foundation trust and agency petty cash funds.
- c. Ensure that custody transfer receipts are completed for all advanced funds.
- d. Take appropriate measures to ensure that the practice of issuing advances from change funds is discontinued, or develop procedures to govern their use.

### **Campus Response**

We concur. The Foundation has already expanded its petty cash policy and procedures to address the handling of Foundation organizational petty cash funds and to ensure that independent, unannounced counts are performed, custody transfer receipts are completed, and the practice of issuing advances from change funds is discontinued.

## **PURCHASING AND ACCOUNTS PAYABLE**

### **Recommendation 8**

We recommend that the Foundation maintain written signature authorizations identifying designated individuals to approve certain contract and grant account disbursements.

### **Campus Response**

We concur. Written signature authorization forms have been obtained for Foundation accounts. Sponsored Program signature authorization forms should be completed by February 2004. The original signature form will be kept at the accounts payable desk for reference and a copy placed in the project file.

## PERSONNEL AND PAYROLL

### Recommendation 9

We recommend that the Foundation strengthen procedures to ensure that:

- a. Separated employees are removed from the payroll system, or marked as inactive, on a timely basis.
- b. Clearance forms are documented and completed for all separating employees when they owe debts or have been assigned property or other retrievable assets.

### Campus Response

We concur:

- a. Payroll has now removed all employees who have not had a pay history for the last six months. The payroll system will be audited on a six-month basis for active employees without recent pay history.
- b. All full-time employees are being given an exit interview and clearance form. Part-time employees will now be given an exit interview and clearance form at the time they pick up their final check when they owe debts or have been assigned property or other retrievable assets.

## FIXED ASSETS

### Recommendation 10

We recommend that the Foundation:

- a. Develop and implement policies and procedures for the management and administration of fixed assets, addressing the acquisition and disposal or sale of capitalized assets.
- b. Perform a complete physical inventory at least once every three years of fixed assets, and reconcile the results to the fixed asset property listing and the general ledger.
- c. Establish appropriate guidelines for the tagging of fixed assets.

### Campus Response

We concur. The Fixed Assets policy has already been expanded to include acquisition, disposal, capitalization and tagging guidelines of assets. The Foundation will perform a complete physical inventory of fixed assets at least once every three years. An inventory is scheduled to be completed in March 2004.

## INFORMATION TECHNOLOGY

### ACCOUNTING SYSTEM ACCESS

#### Recommendation 11

We recommend that the Foundation review access security controls to ensure that they are adequately configured as follows:

- a. Active vendor and test IDs for the accounting system should be configured with appropriate security restrictions.
- b. Users of the accounting system should be issued job capability profiles that appropriately limit access.
- c. User profiles should be adjusted to limit the number of employees who have access to the vendor master database.
- d. Password expiration controls should be enabled for all users.
- e. Screen timeout control should be enabled for all users.
- f. System IDs having "super user" access to the timekeeping system should be appropriately limited and unassigned generic IDs should be removed.
- g. The IT manager's operational access to the timekeeping system should be appropriately limited to only those areas for which he has direct oversight responsibility.
- h. The password expiration controls should be set on the timekeeping system to expire on a regular basis.
- i. The default password syntax settings on the timekeeping system should prohibit the use of passwords which could be easily determined.
- j. Group sign-off functionality should be appropriately controlled for the timekeeping system.

#### Campus Response

We concur:

- a. The Foundation will review all vendors and test IDs for appropriate security restrictions and make appropriate adjustments by February 2004.
- b. It is currently the practice of the Foundation to issue job capability profiles that are limited to a user's job functions and this will be further reviewed by the Foundation by February 2004.
- c. The Foundation will study vendor master database access and make appropriate adjustments by February 2004.

- d. Password expiration has been enabled for all users.
- e. Screen timeout control has been enabled for all users.
- f. "Super user" access to the timekeeping system will be appropriately limited and unassigned generic IDs will be removed by February 2004.
- g. The IT Manager needs "super access" capabilities in the system as he is the first line of support on the timekeeping system and coordinates all installation and upgrade tasks. IT manager and his department time records are approved by his supervisor, the Foundation's chief financial officer. Only payroll department personnel create payroll batches and payroll checks are generated by the IT technician, not the manager, who will no longer have access to checks. Payroll direct deposits will be transmitted by the Foundation's chief financial officer, not the IT manager. All these actions are effective immediately.
- h. Password expiration will be enabled on the timekeeping system by February 2004.
- i. All passwords will be changed to a syntax that will be harder to determine by February 2004.
- j. All sign-off functionality has been changed to individuals for the timekeeping system.

## DISASTER RECOVERY PLAN

### Recommendation 12

We recommend that the Foundation develop a detailed, written IT disaster recovery plan and corresponding business continuation procedures.

### Campus Response

We concur. The Foundation has already developed a more comprehensive written disaster recovery plan that should be formally adopted by February 2004.

## VENDOR ACCESS

### Recommendation 13

We recommend that the Foundation:

- a. Restrict vendors from directly updating production copies of programs and data, where possible, or consider disconnecting the phone modem or network access and permitting such access only after receipt of formal notification by the vendor indicating the type of maintenance to be performed.
- b. Change vendor account passwords on a periodic basis to ensure that personnel who are no longer employed by the vendor cannot gain unauthorized access to the system.

**Campus Response**

We concur:

- a. The Foundation's software vendor is contracted to perform all application updates on the Foundation's system. Currently, the vendor directly updates the production account. Creating a test account is a consideration for the future. Restricting network access for the vendors might adversely affect access to the systems by Foundation users. A manner to monitor vendor activities will be identified and implemented by March 2004.
- b. Vendor account passwords will be changed on a frequent basis commencing immediately.

**OPERATING SYSTEM SECURITY – FINANCIAL APPLICATION****Recommendation 14**

We recommend that the Foundation:

- a. Perform a detailed evaluation of operating system security.
- b. Establish a detailed security policy.
- c. Implement appropriate security settings for the system parameters outlined above.
- d. Implement frequent security monitoring.
- e. Take appropriate measures to establish consistent ongoing maintenance for system security.

**Campus Response**

We concur:

- a. A detailed evaluation of operating system security will be performed by March 2004.
- b. A security policy addressing all systems will be written and adopted by March 2004.
- c. Appropriate security settings for the system parameters outlined have been established.
- d. More formal security monitoring tools and tasks will be researched and implemented as appropriate by March 2004.
- e. Effective immediately, system security will be reviewed and maintained in a more formal and frequent manner.

**OPERATING SYSTEM SECURITY – BOOKSTORE APPLICATION****Recommendation 15**

We recommend that the Foundation:

- a. Perform a detailed evaluation of operating system security.
- b. Establish a detailed security policy.

- c. Implement appropriate security settings for the system parameters outlined above.
- d. Implement frequent security monitoring.
- e. Take appropriate measures to establish consistent ongoing maintenance for system security.

**Campus Response**

We concur:

- a. A detailed evaluation of operating system security will be performed by March 2004.
- b. A security policy addressing all systems will be written and adopted by March 2004.
- c. Appropriate security settings for the system parameters outlined have been established.
- d. More formal security monitoring tools and tasks will be researched and implemented as appropriate by March 2004.
- e. Effective immediately, system security will be reviewed and maintained in a more formal and frequent manner.

## **UNIVERSITY ADVANCEMENT FOUNDATION**

### LEGAL AND REGULATORY COMPLIANCE

#### **Recommendation 16**

We recommend that the UAF coordinate with the campus to take appropriate measures to ensure that operating budgets are submitted to the campus president in an appropriate manner for timely approval.

#### **Campus Response**

We concur. In the future, the UAF budget will be approved by the board of directors at the June board meeting and approved by the President before the beginning of the new fiscal year.

### FEES, REVENUES, AND RECEIVABLES

#### **ACCOUNTS RECEIVABLE**

#### **Recommendation 17**

We recommend that the UAF develop written policies and procedures for the administration, collection, and write-off of accounts receivable.

#### **Campus Response**

We concur. The UAF does not set up accounts receivable in the normal course of business because it provides no service to outside companies or organizations. The UAF is strictly a philanthropic foundation that does record pledges receivable (unconditional promises to give) in accordance with FASB 116. Pledges receivable are significantly different than accounts receivable. The UAF will develop a written policy statement on the administration, collection, and write-off of pledges receivable by February 2004.

#### **GIFT VALUATION**

#### **Recommendation 18**

We recommend that the UAF reexamine its valuing of gifted property discussed above and, based upon that reevaluation, record values as appropriate within its accounting records.

#### **Campus Response**

We concur. The real estate lot, the timeshares and the stock were considered to be practically worthless when they were recorded on the UAF's general ledger. The land and the timeshares were accepted several years ago by the UAF during the previous administration, and the recording of these assets at a value of one dollar does not represent any weakness in internal controls. In fact, the recording of the assets in the general ledger was done to enhance accountability and to ensure that

records would be maintained on each of these assets even though they had virtually no market value. There is no market for the real estate lot since it is located on a steep hill. The UAF is currently attempting to sell the timeshares, but there is no market for them. Because of the restrictions on the stock, it cannot be sold nor can a value be determined. Recording assets at a nominal amount with no easily definable market value is an accepted accounting practice. Spending our very limited resources to try and independently document the value does not seem justifiable. Since a gift-in-kind policy was put in place as a result of a prior audit recommendation to assure the value of such assets is carefully considered before being booked, we do not anticipate any process change. We will take these assets to the UAF gift committee to confirm they have been valued in accordance with the information we have available by February 2004.

## **PURCHASING AND ACCOUNTS PAYABLE**

### **SUPPORTING DOCUMENTATION**

#### **Recommendation 19**

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

#### **Campus Response**

We concur. The time period for this audit was three years, and during that period significant improvements were made to the disbursement function. Disbursement procedures are continuously reviewed and enhanced to ensure that disbursements are properly authorized with complete documentation. We will reassess the procedures again by February 2004.

### **CREDIT CARDS**

#### **Recommendation 20**

We recommend that the UAF develop and implement appropriate policies and procedures regarding credit card usage. Specifically, procedures should address or consider the following:

- a. Specific dollar limits per transaction.
- b. Allowable versus prohibited types of expenditures.
- c. Independent review and authorization of all credit card purchases.
- d. Submittal of original or certified documentation as support for disbursement in a timely manner.

#### **Campus Response**

We concur. A formal credit card policy will be developed by February 2004, addressing specific dollar limits per transaction, allowable versus prohibited types of expenditures, independent review and authorization of all credit card purchases, and submittal of original or certified documentation as support for disbursement in a timely manner.

## TRUSTS AND OTHER LIABILITIES

### **Recommendation 21**

We recommend that the UAF ensure that account agreements are complete.

### **Campus Response**

We concur. A formal gift agreement or memorandum of understanding is currently required to establish an endowment fund. In order to improve the documentation of existing endowment funds, the UAF's chief financial officer will review the documentation of each endowment fund and prepare memo-to-the-files that summarize the campus' and the Foundation's responsibilities for administering each fund by March 2004.

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

**LEGAL AND REGULATORY COMPLIANCE**

**AUXILIARY AUTHORIZATION**

**Recommendation 22**

We recommend that the ASI amend its operating agreement with the campus to include all functions managed, administered, and operated by the auxiliary.

**Campus Response**

We concur. The ASI would be pleased to execute a revised agreement that provides more details on its support of campus athletics and scholarship programs. The revision should be completed by March 2004.

**WRITTEN AGREEMENTS**

**Recommendation 23**

We recommend that the ASI enter into a written agreement for the administration and maintenance of funds held on behalf of campus departments.

**Campus Response**

We concur. The ASI will execute a written agreement with the campus for services provided to campus athletics, which addresses all necessary considerations. Such an agreement should be in place by March 2004.

**SEGREGATION OF DUTIES**

**Recommendation 24**

We recommend that ASI properly segregate certain accounting functions for cash disbursements and personnel and payroll or institute mitigating procedures approved by the campus chief financial officer.

**Campus Response**

We concur. The ASI is committed to maintaining a system of sound internal controls and will immediately work with the campus chief financial officer to make whatever adjustments are determined necessary to achieve such, regarding segregation of duties. Any such adjustments will be put in place by February 2004.

## PURCHASING AND ACCOUNTS PAYABLE

### SUPPORTING DOCUMENTATION

#### Recommendation 25

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

#### Campus Response

We concur. The ASI has already implemented a certification stamp for facsimiles and photocopied invoices, implemented a second review of payment authorization documents, and again advised all personnel of disbursement policies and procedures. These efforts should adequately enhance the degree of compliance with established guidelines.

## INFORMATION TECHNOLOGY

### ACCOUNTING SYSTEM ACCESS

#### Recommendation 26

We recommend that the ASI set computer and software role profiles to effectively restrict access as follows:

- a. The method used to change employee passwords should ensure confidentiality or support individual accountability for the use of the account.
- b. Inactive accounts should be removed from the system.
- c. The shared account that is sometimes used by the IT administrator and the controller, with full system privileges, and that exists on the system should be removed and individual accounts should be established.
- d. Operating system security settings should be appropriately maintained and IT staff should be sufficiently trained on the use of the system.
- e. Plans should be executed to construct a new facility for the ASI computer system that provides effective control.

#### Campus Response

We concur. The ASI will take measures to further assure the confidentiality of individual passwords, timely removal of ex-employee and other unnecessary system accounts, training of staff and assignment of unique accounts by March 2004. Noted computer equipment has already been moved to an improved facility.

## DISASTER RECOVERY PLAN

### **Recommendation 27**

We recommend that the ASI develop a detailed, written IT disaster recovery plan and corresponding business continuation procedures.

### **Campus Response**

We concur. The ASI is expanding upon its existing IT disaster recovery and business continuity plan and will have a more comprehensive plan in place by March 2004.

## VENDOR MASTER FILE

### **Recommendation 28**

We recommend that the ASI adjust user profiles to limit the number of employees who have access to the vendor master database or implement appropriate mitigating controls approved by the campus chief financial officer.

### **Campus Response**

We concur. The ASI is committed to maintaining a system of sound internal controls and will immediately work with the campus chief financial officer to make whatever adjustments are determined necessary to achieve such, regarding the vendor master file. Any such adjustments will be put in place by February 2004.

**CSU, FULLERTON HOUSING AUTHORITY**

**LEGAL AND REGULATORY COMPLIANCE**

**COMPLIANCE**

**Recommendation 29**

We recommend that the Housing Authority:

- a. Execute a written operating agreement with the campus, listing all approved functions, in accordance with CSU policy.
- b. Amend its Articles of Incorporation to include a dissolution clause in accordance with Title 5.
- c. Coordinate with the campus to develop a means for encouraging student participation on the board.
- d. Obtain annual audits by a certified public accountant and distribute the audits in accordance with the Education Code requirements.
- e. Coordinate with the campus to establish a written policy for the allocation of surplus funds/reserves.
- f. Establish a non-discrimination policy approved by its board in accordance with CSU policy.

**Campus Response**

We concur:

- a. The operating agreement with the campus was fully executed in May of 2003.
- b. The Housing Authority will amend the dissolution clause in its Articles of Incorporation to be in strict compliance with Title 5 the next time they are amended.
- c. The ASI Student President has been attending the regular meeting since May of 2003.
- d. The annual certified public accountant audit has now been completed and audit reports have been submitted to the campus and chancellor's office.
- e. The Housing Authority will develop a reserve policy by February 2004.
- f. The Housing Authority will develop a non-discrimination policy approved by its board in accordance with CSU policy by February 2004.

## WRITTEN AGREEMENTS

### **Recommendation 30**

We recommend that the Housing Authority establish written agreements with the Foundation for the use of financial and operational resources, including loans between the auxiliaries.

### **Campus Response**

We concur. An agreement between the Housing Authority and the Foundation has been executed for use of financial and operational resources. The loan between the two auxiliaries has been repaid.

## AUXILIARY PROGRAMS

### GENERAL LEDGER ACCOUNTING

#### **Recommendation 31**

We recommend that the Housing Authority update its general ledger on a timely basis.

#### **Campus Response**

We concur. The general ledger for the Housing Authority has been updated.

### REAL ESTATE PLAN

#### **Recommendation 32**

We recommend that the Housing Authority coordinate with the campus to establish a written real estate acquisition and property development and management plan.

#### **Campus Response**

We concur. The Housing Authority will establish a written real estate acquisition and property development and management plan by February 2004.

THE CALIFORNIA STATE UNIVERSITY  
OFFICE OF THE CHANCELLOR

BAKERSFIELD

February 3, 2004

CHANNEL ISLANDS

CHICO

**MEMORANDUM**

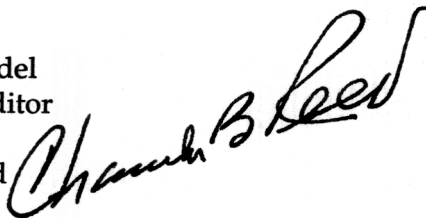
DOMINGUEZ HILLS

FRESNO

TO: Mr. Larry Mandel  
University Auditor

FULLERTON

HAYWARD

FROM: Charles B. Reed  
Chancellor 

HUMBOLDT

LONG BEACH

SUBJECT: Draft Final Report Number 03-46 on *Auxiliary Organizations*,  
California State University, Fullerton

LOS ANGELES

MARITIME ACADEMY

In response to your memorandum of February 3, 2004, I accept the response as  
submitted with the draft final report on *Auxiliary Organizations*, California State  
University, Fullerton.

MONTEREY BAY

NORTHRIDGE

POMONA

CBR/amd

SACRAMENTO

Enclosure

SAN BERNARDINO

cc: Dr. Milton A. Gordon, President  
Mr. Alex Tzoumas, Director of Internal Audit

SAN DIEGO

SAN FRANCISCO

SAN JOSE

SAN LUIS OBISPO

SAN MARCOS

SONOMA

STANISLAUS