

AUXILIARY ORGANIZATIONS
CALIFORNIA STATE UNIVERSITY,
SAN BERNARDINO

Report Number 03-48
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ABBREVIATIONS

AS	Associated Students California State University, San Bernardino
CSU	California State University
CSUB	California State University, San Bernardino
EO	Executive Order
Foundation	Foundation for the California State University, San Bernardino
IT	Information Technology
MOU	Memorandum of Understanding
RFIN	Resolution of the Committee on Finance
Union	Student Union of California State University, San Bernardino

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, San Bernardino (CSUSB) campus and its auxiliary organizations from May 26, 2003, through June 20, 2003, and made a study and evaluation of the system of internal compliance/internal control in effect for the three years ended June 2003. This report represents our triennial review.

CSUSB'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 *Foundation for the California State University, San Bernardino* 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 areas: petty cash and change funds; and fees, revenues, and receivables. 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 June 2003, taken as a whole, was sufficient to meet the objectives stated above.

Our study and evaluation at the *Student Union of California State University, San Bernardino* did not reveal any significant internal control problems or weaknesses that would be considered pervasive in their effects on the accounting and administrative controls. However, we did identify other reportable weaknesses that are described in the executive summary and in the body of the report. In our opinion, the accounting and administrative control in effect as of June 2003, taken as a whole, was sufficient to meet the objectives stated above.

Our study and evaluation at *Associated Students California State University, San Bernardino* did not reveal any significant internal control problems or weaknesses that would be considered pervasive in their effects on the accounting and administrative controls. However, we did identify other reportable weaknesses that are described in the executive summary and in the body of the report. In our opinion, the accounting and administrative control in effect as of June 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 [9]

Campus auxiliaries had not developed written policies and procedures regarding the acceptance of funds, nor had they formally adopted the campus policy.

FOUNDATION FOR THE CALIFORNIA STATE UNIVERSITY, SAN BERNARDINO

LEGAL AND REGULATORY COMPLIANCE [10]

A current operating agreement between the Foundation for the California State University, San Bernardino (Foundation) and the campus was not executed, board meetings were not held at least once each quarter, and written agreements were not established to document the arrangements and authority under which the Foundation provided employee benefits to certain Student Union of California State University, San Bernardino (Union) and Associated Students California State University, San Bernardino (AS) employees. The Foundation's analysis of, and accounting for, reserve requirements were insufficiently documented. Hold harmless provisions in three Foundation agreements did not specifically indemnify the California State University (CSU), the campus, and/or the Trustees; and provisions in two agreements did not address liability related to operations.

SEGREGATION OF DUTIES [14]

Employee access to Foundation human resources and payroll systems was not adequately segregated since all human resources and payroll staff had the ability to access all functions for both areas.

CASH RECEIPTS AND HANDLING [14]

Accountability over cash receipts was not consistently localized at the bookstore and dining commons, bookstore cashiers did not count cash drawers upon conclusion of their shifts, and checks received at the Foundation office were not restrictively endorsed immediately upon receipt.

PETTY CASH AND CHANGE FUNDS [15]

Controls over some Foundation petty cash and change funds were inadequate. For example, counts were not performed by two persons, daily counts were inaccurate, documentation to support periodic and independent, unannounced counts could not be provided, and security controls were not commensurate with the amount of cash maintained.

INVESTMENTS [17]

Foundation investment subsidiary records were not reconciled to the general ledger on a regular basis, and were not signed or dated by the preparer or approved by the reviewer.

FEES, REVENUES, AND RECEIVABLES [18]

Foundation bookstore daily sales, refunds, and voided transactions were not properly reconciled; and management approval was not consistently obtained for refund and voided transactions.

PURCHASING AND ACCOUNTS PAYABLE [19]

The Foundation had not developed policies and procedures regarding the escheatment of unclaimed monies to the state.

INFORMATION TECHNOLOGY [19]

Security parameters for the Foundation computer system hosting the financial and bookstore applications were not set to provide effective access control. The Foundation had not developed a sufficiently detailed, written information technology disaster recovery plan and corresponding business continuation procedures, backup tapes were stored at an employee's residence, and a backup system administrator had not been trained for either the bookstore or financial system environments. In addition, neither Foundation computer rooms housing the bookstore and financial servers had smoke detection equipment installed, and both rooms were also used to house office materials and personnel, which increases the risk of fire or unauthorized access.

STUDENT UNION OF CALIFORNIA STATE UNIVERSITY, SAN BERNARDINO

LEGAL AND REGULATORY COMPLIANCE [25]

The Union was performing an unauthorized activity in violation of its operating agreement with the campus as evidenced by contract with a commercial vendor to be the exclusive provider of a vendor's products, and the Union subleased space to external vendors and other auxiliaries without the written consent of the campus president, as required by the operating agreement and lease with the campus. The Union 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, and the Union board did not include a community representative (alumni) for fiscal year 2002-2003 and the majority of fiscal years 2000-2001 and 2001-2002. In addition, conflict-of-interest statements were not on file for four fiscal year 2002-2003 Union board members and the associate director.

SEGREGATION OF DUTIES [28]

Duties and responsibilities over certain accounting functions for Union fixed assets were not adequately segregated since an annual, independent physical inventory of fixed assets was not conducted. Rather, the custodian of the assets was responsible for conducting the inventory.

PURCHASING AND ACCOUNTS PAYABLE [29]

The Union had not established a written delegation of authority for certain campus personnel to sign checks on behalf of the auxiliary. In addition, Union cash disbursements were not always supported by sufficient and appropriate documentation. For example, instances were noted where a facsimile or photocopied invoice was accepted for payment without appropriate certification, and credit card payments were not supported with receipts.

ASSOCIATED STUDENTS CALIFORNIA STATE UNIVERSITY, SAN BERNARDINO

LEGAL AND REGULATORY COMPLIANCE [32]

The operating agreement between the AS and the campus was not executed, and the AS engaged in functions beyond those of a student body organization, including the operation of a campus box office, scholarships and stipends, and trusts. The dissolution clause in the AS Articles of Incorporation was not in compliance with Title 5, and board minutes were not signed and approved by an appropriate official. In addition, the AS had not conducted and documented a comparability analysis of salary and benefits between its executive director position and campus employees serving in a similar position.

SEGREGATION OF DUTIES [34]

Duties and responsibilities over certain AS ticket office accounting functions were not adequately segregated since the ticket office manager collected receipts, reconciled daily and weekly sales, and was responsible for ordering and controlling the inventory ticket stock.

PURCHASING AND ACCOUNTS PAYABLE [35]

The AS had not established a written delegation of authority for certain campus personnel to sign checks on behalf of the auxiliary. In addition, AS cash disbursements were not always supported by sufficient and appropriate documentation. For example, instances were noted where a facsimile or photocopied invoice was accepted for payment without appropriate certification.

PERSONNEL AND PAYROLL [37]

Current AS policy does not require the payment of daily overtime compensation for non-exempt employees that work more than eight hours in one day.

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:

Foundation for the California State University, San Bernardino

- ▶ Legal and Regulatory Compliance
- ▶ Cash Receipts and Handling
- ▶ Petty Cash and Change Funds
- ▶ Investments
- ▶ Fees, Revenues, and Receivables
- ▶ Purchasing and Accounts Payable
- ▶ Personnel and Payroll
- ▶ Trusts and Other Liabilities
- ▶ Contracts and Grants
- ▶ Bookstore Operations

Student Union of California State University, San Bernardino

- ▶ Legal and Regulatory Compliance
- ▶ Purchasing and Accounts Payable

Associated Students California State University, San Bernardino

- ▶ Legal and Regulatory Compliance
- ▶ Purchasing and Accounts Payable
- ▶ Ticket Office

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.

OBSERVATIONS, RECOMMENDATIONS, AND CAMPUS RESPONSES

CAMPUS

LEGAL AND REGULATORY COMPLIANCE

Campus auxiliaries had neither developed written policies and procedures regarding the acceptance of funds, nor had they formally adopted the campus policy.

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 acknowledgement.
- ▶ 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.

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 vice president of administration and finance stated his belief that the campus gift acceptance policy applied to all campus entities, including auxiliaries.

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

Recommendation 1

We recommend that the campus coordinate with the auxiliaries to develop written policies and procedures to ensure that the auxiliary organizations accept only those funds whose purposes are consistent with California State University (CSU) policy or formally adopt the campus policies and procedures.

Campus Response

The campus concurs with the recommendation. The Foundation has adopted the campus gift acceptance policy. The campus will assist the Student Union and Associated Students to implement gift acceptance policies consistent with the campus policy.

Projected completion date: June 30, 2004

**FOUNDATION FOR THE
CALIFORNIA STATE UNIVERSITY, SAN BERNARDINO**

LEGAL AND REGULATORY COMPLIANCE

AUXILIARY AUTHORIZATION

A current operating agreement between the Foundation for the California State University, San Bernardino (Foundation) and the campus had not been executed.

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 Foundation executive director stated that the failure to formally execute an operating agreement with the campus was due to oversight.

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

Recommendation 2

We recommend that the Foundation formally execute its operating agreement with the campus in accordance with CSU policy.

Campus Response

The campus concurs with the recommendation. Operating and lease agreements, and extensions thereof, were executed by authorized agents of both the Foundation and university. Documentation will be presented to demonstrate compliance.

WRITTEN AGREEMENTS

Written agreements were not established to document the arrangements and authority under which the Foundation provided employee benefits to certain Student Union of California State University, San Bernardino (Union) and Associated Students California State University, San Bernardino (AS) 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 business arrangements be supported by written agreements.

The Foundation executive director was unaware that these arrangements had not been formally documented with the other auxiliaries and the plan providers.

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

Recommendation 3

We recommend that the Foundation establish written agreements documenting the arrangements and authority under which the Foundation provides employee benefits to Union and AS employees.

Campus Response

The campus concurs with the recommendation. The Foundation executive director has confirmed that insurers are committed to covering Student Union and Associated Students employees, and has documented this agreement with each provider, the Associated Students, and the Student Union. Documentation will be presented to demonstrate compliance.

BOARD MEETINGS

The Foundation did not conduct board meetings as required during the first quarter of fiscal years ended June 30, 2001, 2002, and 2003.

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

The Foundation executive director stated that the failure to conduct a meeting during the first fiscal quarter of each year could be attributed to the fact that the first educational quarter did not begin until late September. He further stated that the Foundation was unaware that the statutory requirement warranted a meeting each fiscal quarter.

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

Recommendation 4

We recommend that the Foundation take appropriate measures to ensure that the board meets at least once each quarter in accordance with statutory requirements.

Campus Response

The campus concurs with the recommendation. This issue has been remedied. A quarterly board of directors' meeting schedule for the 2003/04 fiscal year was approved and adopted by the board of directors at the June 12, 2003, meeting. Documentation will be presented to demonstrate compliance.

RESERVES

The Foundation's analysis of, and accounting for, reserve requirements were insufficiently documented.

The Foundation could not provide evidence to support an analysis of its reserve balances, nor could it provide general ledger documentation to substantiate that these funds had been appropriately reserved.

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

The Foundation chief financial officer stated that an analysis might have been conducted; however, during the recent change in executive management, the supporting documentation could not be located.

The absence of sufficient reserve analysis and accounting documentation increases the risk of misunderstandings and miscommunication regarding available reserve.

Recommendation 5

We recommend that the Foundation sufficiently document its analysis of, and accounting for, reserve requirements.

Campus Response

The campus concurs with the recommendation. The reserve policy will be examined by management for reasonableness, and any suggested changes will be brought forth to the Foundation board of directors no later than the June 2004 meeting.

Projected completion date: June 30, 2004

RISK MANAGEMENT

The hold harmless provisions in three Foundation agreements were not in compliance with CSU policy.

We noted the following:

- ▶ The indemnification provision in the Foundation's operating and lease agreement with the campus did not specifically indemnify the chancellor or the campus. In addition, the provision did not address liability related to operations.
- ▶ The indemnification provision in the Foundation's child-care center operating and lease agreement with the campus did not specifically indemnify the chancellor or the campus. In addition, the provision did not address liability related to operations.
- ▶ The indemnification provision in the Foundation's bookstore building lease agreement with the campus did not specifically indemnify the Trustees, the CSU, or the campus.

Executive Order (EO) 849, *California State University Insurance Requirements*, dated February 5, 2003, states that hold harmless provisions should be modeled after agreements available at the CSU contract resource library. The model auxiliary operating agreement states that auxiliary organizations shall agree to indemnify, defend, and save harmless the State of California, the Trustees of the California State University, the campus, and the officers, employees, volunteers, and agents of each of them from any and all loss, damage, or liability that may be suffered or incurred by state, caused by, arising out of, or in any way connected with the operations of the auxiliary.

The Foundation executive director stated his belief that the hold harmless provisions in question were included prior to current chancellor's office directives.

The absence of appropriate indemnification clauses in written agreements increases the risk of misunderstandings and miscommunication regarding rights and responsibilities.

Recommendation 6

We recommend that the Foundation ensure that agreements include indemnification clauses in accordance with EO 849.

Campus Response

The campus concurs with the recommendation. The indemnification clause in each of these agreements will be revised to mirror the indemnification language from the model agreement contained on the California State University-Contract Services and Procurement website.

Projected completion date: June 30, 2004

SEGREGATION OF DUTIES

Employee access to Foundation human resources and payroll systems was not adequately segregated.

We found that all human resources and payroll staff had the ability to access all functions for both areas.

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 chief financial officer stated that the human resources and payroll systems were only recently implemented and that the failure to adequately segregate human resources and payroll functionality was due to oversight.

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

Recommendation 7

We recommend that the Foundation properly segregate access to the human resources and payroll systems or institute mitigating controls approved by the campus chief financial officer.

Campus Response

The campus concurs with the recommendation. Human resources and payroll system functionality have now been adequately segregated. Staff members have access only to the applicable areas of responsibility. The local administrator function has been moved to ensure continued segregation. Documentation will be presented to demonstrate compliance.

CASH RECEIPTS AND HANDLING

Certain controls over Foundation cashiering duties and cash receipts processing were deficient.

We noted the following:

- ▶ Accountability was not consistently localized, as two or more persons had access to the same cash drawers and/or bags at the bookstore and dining commons.
- ▶ Bookstore cashiers did not count and document the contents of cash register drawers upon conclusion of their shifts.
- ▶ Checks received at the Foundation office were not restrictively endorsed immediately upon receipt.

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

The Foundation chief financial officer was unaware of these conditions and stated that they may be attributable to the recent turnover in Foundation executive management.

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

Recommendation 8

We recommend that the Foundation:

- a. Ensure accountability is localized whenever two or more persons have access to the same cash drawers and/or bags or establish mitigating controls approved by the campus chief financial officer.
- b. Ensure transfer accountability is established by implementing cash countdown procedures at the bookstore or establish mitigating procedures approved by the campus chief financial officer.
- c. Restrictively endorse all checks immediately upon receipt.

Campus Response

The campus concurs with the recommendation. Processes will be implemented to ensure accountability and adequate cashing processes.

Projected completion date: March 31, 2004

PETTY CASH AND CHANGE FUNDS

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

We found the following:

- ▶ Daily counts of the Foundation general change fund were not performed by two persons. The cashing supervisor was the only person responsible for counting this fund.
- ▶ Recent daily counts of the bookstore change fund were inaccurate. Counts documented on the daily count sheet did not equal the actual change fund amount on hand.

- ▶ Documentation to support the practice of periodic and independent, unannounced counts of the Foundation general and bookstore change funds could not be provided.
- ▶ Security controls were not commensurate with the amount of cash maintained in the bookstore's cash office. As a general practice, the cash room door was left open. Additionally, the cash room served as the computer room and the office of the bookstore information technology (IT) staff person.
- ▶ Bookstore change fund amounts could not be clearly traced to the general ledger change fund account totals. This could be attributable to the fact that the bookstore utilized two "declining balance" change funds for book buyback and refunds.
- ▶ The Coyote Cafe safe change funds were utilized for petty cash purchases because a formal petty cash fund had not been established in that area.

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 change funds be sufficiently safeguarded through, among other things, periodic and independent, unannounced counts, restricted personnel access to funds, accurate accounting, and appropriate security controls.

The Foundation chief financial officer was unaware of these conditions and stated that they may be attributable to the recent turnover in Foundation executive management.

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

Recommendation 9

We recommend that the Foundation:

- a. Ensure that daily counts of the general change fund are performed by two persons.
- b. Reconcile counts documented on the daily count sheet to the actual change fund amount on hand.
- c. Retain documentation to support the practice of periodic and independent, unannounced counts of the general and bookstore change funds.
- d. Improve security over the cash room or establish appropriate mitigating controls as approved by the campus chief financial officer.
- e. Reconcile bookstore change funds to the general ledger change fund account totals.
- f. Prohibit the use of the Coyote Cafe safe change funds for petty cash purchases.

Campus Response

The campus concurs with the recommendation. Processes are now in place to ensure adequate controls over petty cash and change funds. Documentation will be presented to demonstrate compliance.

INVESTMENTS

Foundation investment subsidiary records were not reconciled to the general ledger on a regular basis, and were not signed or dated by the preparer or approved by the reviewer.

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

The Foundation chief financial officer stated that the failure to routinely reconcile investment activity may be due to the recent turnover in Foundation executive management.

Failure to adequately prepare and control investment accounting reconciliations increases the risk that errors or misappropriation of funds would not be detected.

Recommendation 10

We recommend that the Foundation implement procedures to ensure that investment subsidiary records are independently reconciled to the general ledger and that reconciliations are signed and dated by the preparer and reviewer.

Campus Response

The campus concurs with the recommendation. Processes will be implemented to ensure proper investment reconciliation processes are practiced.

Projected completion date: March 31, 2004

FEES, REVENUES, AND RECEIVABLES

Certain controls over the Foundation bookstore sales reconciliation process were insufficient.

We noted the following:

- ▶ The current cash receipting process did not include a regular and timely independent reconciliation of bookstore sales receipts to daily sales reports.
- ▶ Management approval was not consistently obtained for refund and voided transactions.
- ▶ Bookstore refund transaction documentation was not reconciled to the daily consolidated sales report.
- ▶ Bookstore voided transaction documentation was not reconciled to the daily store accounting totals reports.

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 a comprehensive reconciliation between revenue and daily sales reports and would include performing a thorough review of all tender and adjustment documentation.

The Foundation chief financial officer stated that the failure to adequately control the bookstore reconciliation process could be attributed to management oversight.

Failure to adequately prepare and control sales accounting reconciliations increases the risk that errors or misappropriation of funds would not be detected.

Recommendation 11

We recommend that the Foundation:

- a. Take appropriate measures to ensure that a complete reconciliation of bookstore sales receipts, including a reconciliation of supporting documentation, is performed regularly and timely.
- b. Ensure compliance with approval controls for the processing of refunds and voided transactions.
- c. Conduct a daily review and reconciliation of bookstore refund documentation.
- d. Conduct a daily review and reconciliation of bookstore voided documentation.

Campus Response

The campus concurs with the recommendation. Processes will be implemented to ensure that proper sales accounting reconciliation processes are practiced in the bookstore.

Projected completion date: April 30, 2004

PURCHASING AND ACCOUNTS PAYABLE

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

Outstanding payroll over one-year-old were inappropriately transferred to a miscellaneous reserves account.

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

The Foundation chief financial officer stated that it was not the practice of the prior Foundation management team to escheat unclaimed funds to the state.

Failure to meet the requirements of unclaimed property law could increase the auxiliary's exposure to potential penalties and fines.

Recommendation 12

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

Campus Response

The campus concurs with the recommendation. Corrective procedures have been implemented. Documentation will be presented to demonstrate compliance.

INFORMATION TECHNOLOGY

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:

- ▶ Systemwide special authorities, such as security-administration, were granted to individuals that do not require such access to perform their job duties.
- ▶ A common application account and password is used for all users, and passwords are not changed in a manner that would support individual confidentiality and accountability.
- ▶ There are no system-level auditing activities being monitored, such as failed logon attempts.
- ▶ File and directory security does not prevent modification or deletion of production programs and data from individuals that do not require such access to perform their job duties.

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 chief financial officer stated that although 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 13

We recommend that the Foundation:

- a. Adequately control systemwide special authorities, such as security-administration.
- b. Prohibit the use of a common application account and password for all users, and ensure that passwords are changed in a manner that would support individual confidentiality and accountability.
- c. Establish monitoring of system-level auditing activities, such as failed logon attempts.
- d. Ensure that file and directory security prevent modification or deletion of production programs and data from individuals that do not require such access to perform their job duties.

Campus Response

The campus concurs with the recommendation. Processes will be implemented to ensure that all required security parameters for Foundation financial applications are in place.

Projected completion date: March 31, 2004

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:

- ▶ The overall management and monitoring of the IT function required improvement.
- ▶ System security required significant improvement, specifically regarding accountability of system ROOT level access through the use of more restrictive utilities, use of secured shell, logging and monitoring of security violations such as invalid access attempts, and intrusion detection procedures.
- ▶ System services required additional security protection, such as disabling unnecessary services, use of TCP Wrappers, and removing read access to sensitive system files.
- ▶ Password controls required improvement, specifically implementation of the shadow password file.
- ▶ Application passwords were not changed in a manner that would support individual accountability.

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 chief financial officer stated that although the system had been installed for several years, a formal security assessment had not been recently 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. Improve the overall management and monitoring of the IT function.
- b. Improve system security, specifically regarding accountability of system ROOT level access through the use of more restrictive utilities, use of secured shell, logging and monitoring of security violations such as invalid access attempts, and intrusion detection procedures.
- c. Increase security protections over system services, such as disabling unnecessary services, use of TCP Wrappers, and removing read access to sensitive system files.

- d. Improve password controls, specifically implementation of the shadow password file.
- e. Ensure that application passwords are changed in a manner that would support individual accountability.

Campus Response

The campus concurs with the recommendation. Processes will be implemented to ensure that security parameters for bookstore operations are in place.

Projected completion date: March 31, 2004

DISASTER RECOVERY PLAN

The Foundation had not developed a sufficiently detailed, written IT disaster recovery plan and corresponding business continuation procedures. In addition, backup tapes were stored at an employee's residence.

Specifically, we noted that the plan did not include:

- ▶ Provisions for recovering the bookstore system.
- ▶ Finalized arrangements for alternate processing facilities.
- ▶ Appropriate off-site tape storage for the bookstore system.
- ▶ End-user procedures specific to systems recovery.

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 chief financial officer stated that certain aspects of the plan were undergoing final approval, but other aspects had not been considered for inclusion in the Foundation's plan.

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

Recommendation 15

We recommend that the Foundation include the following in its IT disaster recovery plan:

- a. Provisions for recovering the bookstore system.
- b. Finalized arrangements for alternate processing facilities.
- c. Appropriate off-site tape storage for the bookstore system.
- d. End-user procedures specific to systems recovery.

Campus Response

The campus concurs with the recommendation. The Foundation disaster recovery plan and business continuation procedures will be revised to include required provisions.

Projected completion date: April 30, 2004

PHYSICAL AND ENVIRONMENTAL CONTROLS

The Foundation had not installed smoke detection equipment in the computer rooms housing the bookstore and the financial servers; both rooms were used to house office materials and personnel, increasing the risk of fire or unauthorized access.

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 chief financial officer stated that the existing conditions are the result of space limitations, that new facilities are planned, and that improvement of the computer rooms are being considered as a part of the new facility design.

Without appropriate physical safeguards over the facilities housing the computer equipment, there is increased risk of unauthorized access and disruption of data processing services.

Recommendation 16

We recommend that the Foundation install smoke detection equipment in the computer rooms housing the bookstore and the financial servers, or take appropriate measures to control access as approved by the campus chief financial officer.

Campus Response

The campus concurs with the recommendation. Corrective action has been taken. Documentation will be presented to demonstrate compliance.

KEY EMPLOYEE DEPENDENCY

The Foundation had not cross-trained a backup system administrator for either the bookstore or the financial system environments.

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 chief financial officer stated that due to staffing constraints, full-time backups are not possible and that cross-training of existing personnel had not been enacted.

Failure to have a backup system administrator could result in extended delays to computer network management issues during the system administrator's absence.

Recommendation 17

We recommend that the Foundation cross-train a backup system administrator for both the bookstore and the financial system environments.

Campus Response

The campus concurs with the recommendation. Corrective action will be taken to ensure appropriate backup system administrators are cross-trained.

Projected completion date: May 31, 2004

STUDENT UNION OF CALIFORNIA STATE UNIVERSITY, SAN BERNARDINO

LEGAL AND REGULATORY COMPLIANCE

AUXILIARY AUTHORIZATION

The Union was performing unauthorized commercial activity in violation of its operating agreement with the campus.

The Union entered into an unauthorized contract with a commercial vendor to sell as an exclusive provider a vendor's products at the Union.

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 Union executive director stated that she was unaware that this activity was in violation of the operating agreement and will take the necessary steps to implement the desired change.

Performing unauthorized functions in violation of the operating agreement increases the risk of misunderstandings and miscommunication regarding rights and responsibilities.

Recommendation 18

We recommend that the Union only perform authorized activities per its operating agreement with the campus or seek to appropriately amend the agreement.

Campus Response

The campus concurs with the recommendation. The operating agreement will be amended appropriately.

Projected completion date: June 30, 2004

DISSOLUTION OF AUXILIARY

The Union 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 Union executive director stated that she was unaware that the current dissolution clause was inadequate.

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 19

We recommend that the Union redraft its corporate dissolution clause in accordance with Title 5 and appropriately reflect this change when it revises its Articles of Incorporation.

Campus Response

The campus concurs with the recommendation. The Student Union will work with legal counsel to amend its Articles of Incorporation to include the dissolution clause, as well as to change the official name of the Student Union.

Projected completion date: March 31, 2004

LEASING OF FACILITIES

The Union subleased space to external vendors and other auxiliaries without the written consent of the campus president, as required by the operating agreement and lease between the campus and the Union.

The campus procurement officer signed subleases without a formal delegation in place.

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 contractual provisions be enforced.

The Union executive director stated her belief that the campus procurement officer was authorized to sign these agreements on behalf of the president of the university.

The lack of appropriate authorization regarding operating and lease agreements increases the risk of misunderstandings and may increase legal liability.

Recommendation 20

We recommend that the Union ensure that sublease arrangements comply with the current operating and lease agreement and receive appropriate campus approval.

Campus Response

The campus concurs with the recommendation. The Student Union will ensure that all future sublease agreements receive the appropriate campus approval. Documentation will be presented to demonstrate compliance.

BOARD COMPOSITION

The Union board did not include a community representative (alumni) for fiscal year 2002-2003 and the majority of fiscal years 2000-2001 and 2001-2002.

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

The Union executive director stated that the Union board had made multiple attempts to fill the alumni position during the past three years; however, in each instance, the appointed board member either resigned early into his/her appointment or the Union was unable to identify an acceptable candidate.

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

Recommendation 21

We recommend that the Union continue its efforts to ensure appropriate board representation is maintained.

Campus Response

The campus concurs with the recommendation. An alumni representative has been appointed by the Student Union board of directors and regularly attends meetings. The Student Union will continue to work closely to identify future potential alumni representatives. Documentation will be presented to demonstrate compliance.

CONFLICT OF INTEREST

The Union was not in compliance with its conflict-of-interest policy.

The Union conflict-of-interest policy required that board members sign a policy statement to evidence that they had read, understood, and would abide by the policy. Current statements were not on file for four fiscal year 2002-2003 Union board members and the associate director.

During our fieldwork, the Union obtained missing conflict-of-interest statements from its board members and management.

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 compliance with existing conflict-of-interest policies and procedures.

The Union executive director stated that the failure to obtain signed conflict-of-interest disclosure statements for the noted board members was due to the fact that they were added subsequent to the beginning of the year. She further stated that the failure to obtain a signed disclosure statement from the associate director was due to oversight.

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

Recommendation 22

We recommend that the Union take appropriate measures to ensure that all conflict-of-interest statements are obtained.

Campus Response

The campus concurs with the recommendation. All current conflict-of-interest statements are on file. Documentation will be presented to demonstrate compliance.

SEGREGATION OF DUTIES

Duties and responsibilities over certain accounting functions for fixed assets were not adequately segregated at the Union.

An annual, independent physical inventory of fixed assets was not conducted. Rather, the custodian of the assets was responsible for conducting the inventory. The custodian would then forward the inventory information to the campus accounting office for reconciliation and posting to the general ledger.

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 Union executive director stated that she was unaware that the inventory counts utilized for financial reporting purposes were not being independently verified.

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

Recommendation 23

We recommend that the Union segregate fixed asset accounting functions or institute mitigating controls approved by the campus chief financial officer.

Campus Response

The campus concurs with the recommendation. The Student Union will work with the university office of accounting to implement appropriate controls.

Projected completion date: June 30, 2004

PURCHASING AND ACCOUNTS PAYABLE

DELEGATION OF AUTHORITY

The Union had not established a written delegation of authority for certain campus personnel to sign checks on behalf of the auxiliary.

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 signature authority be delegated by official policy and action and be conveyed in written documents, authorizing named individuals to sign specific types of documents on behalf of the organization.

The Union executive director stated that she was unaware that campus personnel were not authorized to sign checks on behalf of the auxiliary.

The lack of a written delegation of authority to sign checks on behalf of the auxiliary increases the risk of misunderstandings and may increase legal liability.

Recommendation 24

We recommend that the Union establish a written delegation of authority for certain campus personnel to sign checks on behalf of the auxiliary.

Campus Response

The campus concurs with the recommendation. At its regular meeting on November 13, 2003, the Student Union board of directors approved the signature authorizations for campus personnel who sign checks on behalf of the Student Union. Documentation will be presented to demonstrate compliance.

SUPPORTING DOCUMENTATION

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

Our review of 44 cash disbursements disclosed the following:

Process Controls

- ▶ In five instances, a facsimile or photocopied invoice was accepted for payment without certification that records were checked to prevent duplicate payment.
- ▶ In three instances, receipts were not compiled to support credit card payments.

Processing Exceptions

- ▶ In one instance, documentation to support an expenditure was not on file.
- ▶ In one instance, a travel authorization form or travel expense claim could not be provided to support a disbursement for lodging.
- ▶ In three instances, the business purpose for cash disbursements was not clearly indicated.
- ▶ In three instances, invoices were not submitted on a timely basis.
- ▶ In three instances, a contract or memorandum of understanding (MOU) was not submitted to support fund-raising disbursements.

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 Union executive director stated that the failure to submit adequate supporting documentation was due to oversight.

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

Recommendation 25

We recommend that the Union ensure that cash disbursements are supported by sufficient and appropriate documentation. Specifically, the Union should:

- a. Require certification that records were checked to prevent duplicate payment when facsimile or photocopied invoices are accepted.
- b. Ensure that receipts are compiled to support credit card payments.
- c. Reiterate to staff existing cash disbursements policies and procedures regarding sufficient and appropriate supporting documentation.

Campus Response

The campus concurs with the recommendation. Processes will be implemented to ensure that Student Union cash disbursements are appropriately processed and documented.

Projected completion date: March 1, 2004

ASSOCIATED STUDENTS
CALIFORNIA STATE UNIVERSITY, SAN BERNARDINO

LEGAL AND REGULATORY COMPLIANCE

AUXILIARY AUTHORIZATION

An operating agreement between the AS and the campus had not been executed.

We found that the AS engaged in functions beyond those of a student body organization. Such activities included the operation of a campus box office, scholarships and stipends, and trusts. During our fieldwork, the AS established an operating agreement.

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

The AS executive director stated that due to the functions previously performed by the AS, an operating agreement had not been previously required. However, he acknowledged that the scope of activities with AS involvement had increased in recent years.

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

Recommendation 26

We recommend that the AS formally execute its operating agreement with the campus in accordance with CSU policy.

Campus Response

The campus concurs with the recommendation. The Associated Students has executed an operating agreement with the campus. Documentation will be presented to demonstrate compliance.

DISSOLUTION OF AUXILIARY

The dissolution clause in the AS Articles of Incorporation was not in compliance with Title 5.

The AS 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 AS executive director stated that he was unaware that the current dissolution clause was inadequate.

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 27

We recommend that the AS redraft its corporate dissolution clause in accordance with Title 5 and appropriately reflect this change when it revises its Articles of Incorporation.

Campus Response

The campus concurs with the recommendation. The Associated Students will comply with the recommendation at its next revision of the Articles of Incorporation, to be accomplished prior to the next auxiliary organizations audit. A written directive from AS executive management will be established, and specifics as to the amendment will be formally communicated and adopted by the Associated Students board.

Projected completion date: June 30, 2004

BOARD MINUTES

The AS board minutes were not signed and approved by an appropriate official.

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

The AS executive director stated his belief that because AS maintained audio copies of all AS meeting minutes, certified copies were unnecessary.

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

Recommendation 28

We recommend that the AS take appropriate measures to ensure that its board minutes are signed and approved by an appropriate official.

Campus Response

The campus concurs with the recommendation. Procedures have been implemented to ensure that Associated Students board minutes are signed by the Associated Students executive vice president/secretary prior to publication. Documentation will be presented to demonstrate compliance.

SALARIES AND BENEFITS

The AS had not conducted a salary comparability analysis for the executive director position.

Title 5 §42405 states that the governing board of each auxiliary organization shall provide salaries, working conditions, and benefits for its full-time employees which are comparable to those provided campus employees performing substantially similar services. For those full-time employees who perform services that are not substantially similar to the services performed by campus employees, the salaries established shall be at least equal to the salaries prevailing in other educational institutions in the area or commercial operations of like nature.

The AS executive director stated that a comparability analysis of his position had not been performed due to his belief that it would be a conflict of interest for him to perform such an analysis.

Failure to fully document the comparative analysis of positions increases the risk that the auxiliary may be expending inappropriate amounts on salaries and benefits for employees who perform substantially similar services as employees for the campus or other organizations.

Recommendation 29

We recommend that the AS perform and document an analysis of auxiliary and comparable campus salaries, wages, and benefits for all full-time positions.

Campus Response

The campus concurs with the recommendation. A salary survey of the Associated Students executive director's position will be conducted, using the Auxiliary Organizations Association salary survey of other campus' comparable positions, as well as on-campus resources.

Projected completion date: June 30, 2004

SEGREGATION OF DUTIES

Duties and responsibilities over certain accounting functions for the AS ticket office were not adequately segregated.

The ticket office manager:

- ▶ Collected receipts.

- ▶ Reconciled daily and weekly sales.
- ▶ Was responsible for ordering and controlling the inventory ticket stock.

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 AS executive director stated that the lack of segregation of duties was due to resource constraints.

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

Recommendation 30

We recommend that the AS properly segregate certain ticket office accounting functions or institute mitigating controls approved by the campus chief financial officer.

Campus Response

The campus concurs with the recommendation. Associated Students will coordinate procedures with the university director of accounting and the general accounting office to ensure proper accountability for no-notice ticket and cash counts to verify ticket inventories and sales receipts.

Projected completion date: April 30, 2004

PURCHASING AND ACCOUNTS PAYABLE

DELEGATION OF AUTHORITY

The AS had not established a written delegation of authority for certain campus personnel to sign checks on behalf of the auxiliary.

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 signature authority be delegated by official policy and action and be conveyed in written documents, authorizing named individuals to sign specific types of documents on behalf of the organization.

The AS executive director stated that he was unaware that campus personnel were not authorized to sign checks on behalf of the auxiliary.

The lack of a written delegation of authority to sign checks on behalf of the auxiliary increases the risk of misunderstandings and may increase legal liability.

Recommendation 31

We recommend that the AS establish a written delegation of authority for certain campus personnel to sign checks on behalf of the auxiliary.

Campus Response

The campus concurs with the recommendation. On July 31, 2003, the Associated Students board of directors approved a change to the Associated Students financial policy and procedures authorizing campus administrators to authorize checks on behalf of the Associated Students. Documentation will be presented to demonstrate compliance.

SUPPORTING DOCUMENTATION

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

Our review of 40 cash disbursements disclosed the following:

Process Controls

- ▶ In seven instances, a facsimile or photocopied invoice was accepted for payment without certification that records were checked to prevent duplicate payment.

Processing Exceptions

- ▶ In three instances, documentation to support an expenditure was not on file.
- ▶ In six instances, certain items (e.g., travel and expense claims, certain receipts) were not submitted to support the claim.
- ▶ In four instances, the business purpose for cash disbursements was not clearly indicated.
- ▶ In three instances, invoices were not submitted on a timely basis.
- ▶ In one instance, evidence of proof of insurance was not on file.

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 AS executive director stated that he reviews all AS disbursements and that, as a general practice, all disbursements must be accompanied by the appropriate supporting documentation. He further stated that any exception to this practice was due to oversight.

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

Recommendation 32

We recommend that the AS ensure that cash disbursements are supported by sufficient and appropriate documentation. Specifically, the AS should:

- a. Require certification that records were checked to prevent duplicate payment when facsimile or photocopied invoices are accepted.
- b. Reiterate to staff existing cash disbursements policies and procedures regarding sufficient and appropriate supporting documentation.

Campus Response

The campus concurs with the recommendation. Procedures have been implemented to prevent duplicate payment on facsimile or copied invoices, and to ensure that appropriate supporting documentation is in place. Documentation will be presented to demonstrate compliance.

PERSONNEL AND PAYROLL

Current AS policy does not require the payment of daily overtime compensation for non-exempt employees that work more than eight hours in one day.

We found one instance in which an employee was not adequately compensated for daily overtime hours worked. Upon review of the AS personnel handbook and through confirmation with management, we determined that it was the policy of the AS to only compensate for approved overtime greater than 40 hours per one week.

California Labor Code §510(a) indicates that any work in excess of eight hours in one workday and any work in excess of 40 hours in any one workweek and the first eight hours worked on the seventh day of work in any one workweek shall be compensated at the rate of no less than one and one-half times the regular rate of pay for an employee. Any work in excess of 12 hours in one day shall be compensated at the rate of no less than twice the regular rate of pay for an employee. In addition, any work in excess of eight hours on any seventh day of a workweek shall be compensated at the rate of no less than twice the regular rate of pay of an employee.

The AS executive director stated his belief that overtime regulations no longer required the payment of daily overtime.

Failure to comply with California Labor Code requirements could result in employee ill will and increase the auxiliary's exposure to potential penalties and fines.

Recommendation 33

We recommend that the AS take appropriate measures to ensure that it is operating in accordance with regulatory requirements governing overtime compensation.

Campus Response

The campus concurs with the recommendation. Corrective action has been taken. Documentation will be presented to demonstrate compliance.

APPENDIX A: PERSONNEL CONTACTED

Name

Title

CAMPUS

Albert K. Karnig	President
David DeMauro	Vice President, Administration and Finance
S. Sid Kushner	Research and Sponsored Programs Director
Carolyn McDermid	Associate Accounting Director
Jerry Monahan	General Accounting Supervisor
Maria Najera Neri	Accountant
Linda Pella-Hartley	Aide to the Vice President, Administration and Finance
Sheryl Pytlack	Accounting Director
William Takahara	Associate Vice President, Business and Financial Services

FOUNDATION FOR THE CALIFORNIA STATE UNIVERSITY, SAN BERNARDINO

Kim Ball	Bookstore Director
Kim Bartlett	Bookstore Operations Manager
Jeff Blake	Chief Financial Officer
Hector Calderon	Associate Director, University Food Services
Lisa Iannolo	Accounting Supervisor
David Jones	Food Services Director
Barb Kirby	Director, Children's Center
Cindy Lopez	Accounting Supervisor
April Meinzer	Accounts Payable Technician
Carol Northcutt	Supervisor, Sponsored Programs
Siska Purnawan	Payroll Supervisor
Elida Ramirez	Accounts Payable Technician
Rick Rasmussen	Computer Networks Technician
Maria Razo	Catering Coordinator
Reuben Russell	Bookstore Technical Supervisor
Cheryl Ruzak	Associate Director, University Food Services
James Sando	Executive Director
Michael Siahann	Cashiering Supervisor
C. Stan Stanley	Director, Grants and Contracts
Lucille Thomas	Human Resources Manager
Lakisha Tillman	Gift Accounting

STUDENT UNION OF CALIFORNIA STATE UNIVERSITY, SAN BERNARDINO

Mark Day	Associate Director
Margaret DeGross	Administrative Analyst
Helga Kray	Executive Director

ASSOCIATED STUDENTS CALIFORNIA STATE UNIVERSITY, SAN BERNARDINO

Patrick Areffi	Executive Director
Erik Fallis	President
Andrea Howard	Box Office Manager
Dacia Sealey	Administrative Support Coordinator

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.

State of California

California State University, San Bernardino
5500 University Parkway
San Bernardino, California 92407-2397

MEMORANDUM

DATE: January 28, 2004

TO: Larry Mandel
University Auditor
The California State University

FROM: David DeMauro, Vice President
for Administration and Finance

SUBJECT: **Campus Update Response to
Auxiliary Organizations Audit – Report No. 03-48
California State University, San Bernardino**



Enclosed is the campus response to CSUSB's *Auxiliary Organizations Audit – Report No. 03-48*.

c: Patrick Areffi
Jeff Blake
Helga Kray
Jim Sando

Attachment

AUXILIARY ORGANIZATIONS
CALIFORNIA STATE UNIVERSITY,
SAN BERNARDINO

Report Number 03-48
December 4, 2003

CAMPUS

LEGAL AND REGULATORY COMPLIANCE

Recommendation 1

We recommend that the campus coordinate with the auxiliaries to develop written policies and procedures to ensure that the auxiliary organizations accept only those funds whose purposes are consistent with California State University (CSU) policy or formally adopt the campus policies and procedures.

Campus Response

The campus concurs with the recommendation. The Foundation has adopted the campus Gift Acceptance Policy. The campus will assist the Student Union and Associated Students to implement gift acceptance policies consistent with the campus policy.

Projected completion date: June 30, 2004

**FOUNDATION FOR THE
CALIFORNIA STATE UNIVERSITY, SAN BERNARDINO**

LEGAL AND REGULATORY COMPLIANCE

AUXILIARY AUTHORIZATION

Recommendation 2

We recommend that the Foundation formally execute its operating agreement with the campus in accordance with CSU policy.

Campus Response

The campus concurs with the recommendation. Operating and lease agreements, and extensions thereof, were executed by authorized agents of both the Foundation and university. Documentation will be presented to demonstrate compliance.

WRITTEN AGREEMENTS

Recommendation 3

We recommend that the Foundation establish written agreements documenting the arrangements and authority under which the Foundation provides employee benefits to Union and AS employees.

Campus Response

The campus concurs with the recommendation. The Foundation executive director has confirmed that insurers are committed to covering Student Union and Associated Students employees, and has documented this agreement with each provider, the Associated Students, and the Student Union. Documentation will be presented to demonstrate compliance.

BOARD MEETINGS

Recommendation 4

We recommend that the Foundation take appropriate measures to ensure that the board meets at least once each quarter in accordance with statutory requirements.

Campus Response

The campus concurs with the recommendation. This issue has been remedied. A quarterly board of directors meeting schedule for the 2003/04 fiscal year was approved and adopted by the board of directors at the June 12, 2003, meeting. Documentation will be presented to demonstrate compliance.

RESERVES

Recommendation 5

We recommend that the Foundation sufficiently document its analysis of, and accounting for, reserve requirements.

Campus Response

The campus concurs with the recommendation. The reserve policy will be examined by management for reasonableness, and any suggested changes will be brought forth to the Foundation board of directors no later than the June 2004 meeting.

Projected completion date: June 30, 2004

RISK MANAGEMENT

Recommendation 6

We recommend that the Foundation ensure that agreements include indemnification clauses in accordance with EO 849.

Campus Response

The campus concurs with the recommendation. The indemnification clause in each of these agreements will be revised to mirror the indemnification language from the Model Agreement contained on the California State University-Contract Services and Procurement website.

Projected completion date: June 30, 2004

SEGREGATION OF DUTIES

Recommendation 7

We recommend that the Foundation properly segregate access to the human resources and payroll systems or institute mitigating controls approved by the campus chief financial officer.

Campus Response

The campus concurs with the recommendation. Human resources and payroll system functionality have now been adequately segregated. Staff members have access only to the applicable areas of responsibility. The local administrator function has been moved to ensure continued segregation. Documentation will be presented to demonstrate compliance.

CASH RECEIPTS AND HANDLING

Recommendation 8

We recommend that the Foundation:

- a. Ensure accountability is localized whenever two or more persons have access to the same cash drawers and/or bags or establish mitigating controls approved by the campus chief financial officer.
- b. Ensure transfer accountability is established by implementing cash countdown procedures at the bookstore or establish mitigating procedures approved by the campus chief financial officer.
- c. Restrictively endorse all checks immediately upon receipt.

Campus Response

The campus concurs with the recommendation. Processes will be implemented to ensure accountability and adequate cashiering processes.

Projected completion date: March 31, 2004

PETTY CASH AND CHANGE FUNDS

Recommendation 9

We recommend that the Foundation:

- a. Ensure that daily counts of the general change fund are performed by two persons.
- b. Reconcile counts documented on the daily count sheet to the actual change fund amount on hand.
- c. Retain documentation to support the practice of periodic and independent, unannounced counts of the general and bookstore change funds.
- d. Improve security over the cash room or establish appropriate mitigating controls as approved by the campus chief financial officer.
- e. Reconcile bookstore change funds to the general ledger change fund account totals.
- f. Prohibit the use of the Coyote Cafe safe change funds for petty cash purchases.

Campus Response

The campus concurs with the recommendation. Processes are now in place to ensure adequate controls over petty cash and change funds. Documentation will be presented to demonstrate compliance.

INVESTMENTS

Recommendation 10

We recommend that the Foundation implement procedures to ensure that investment subsidiary records are independently reconciled to the general ledger and that reconciliations are signed and dated by the preparer and reviewer.

Campus Response

The campus concurs with the recommendation. Processes will be implemented to ensure proper investment reconciliation processes are practiced.

Projected completion date: March 31, 2004

FEES, REVENUES, AND RECEIVABLES

Recommendation 11

We recommend that the Foundation:

- a. Take appropriate measures to ensure that a complete reconciliation of bookstore sales receipts, including a reconciliation of supporting documentation, is performed regularly and timely.
- b. Ensure compliance with approval controls for the processing of refunds and voided transactions.
- c. Conduct a daily review and reconciliation of bookstore refund documentation.
- d. Conduct a daily review and reconciliation of bookstore voided documentation.

Campus Response

The campus concurs with the recommendation. Processes will be implemented to ensure that proper sales accounting reconciliation processes are practiced in the bookstore.

Projected completion date: April 30, 2004

PURCHASING AND ACCOUNTS PAYABLE

Recommendation 12

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

Campus Response

The campus concurs with the recommendation. Corrective procedures have been implemented. Documentation will be presented to demonstrate compliance.

INFORMATION TECHNOLOGY

OPERATING SYSTEM SECURITY – FINANCIAL APPLICATION

Recommendation 13

We recommend that the Foundation:

- a. Adequately control systemwide special authorities, such as security-administration.
- b. Prohibit the use of a common application account and password for all users, and ensure that passwords are changed in a manner that would support individual confidentiality and accountability.
- c. Establish monitoring of system-level auditing activities, such as failed logon attempts.
- d. Ensure that file and directory security prevent modification or deletion of production programs and data from individuals that do not require such access to perform their job duties.

Campus Response

The campus concurs with the recommendation. Processes will be implemented to ensure that all required security parameters for Foundation financial applications are in place.

Projected completion date: March 31, 2004

OPERATING SYSTEM SECURITY – BOOKSTORE APPLICATION

Recommendation 14

We recommend that the Foundation:

- a. Improve the overall management and monitoring of the IT function.
- b. Improve system security, specifically regarding accountability of system ROOT level access through the use of more restrictive utilities, use of secured shell, logging and monitoring of security violations such as invalid access attempts, and intrusion detection procedures.
- c. Increase security protections over system services, such as disabling unnecessary services, use of TCP Wrappers, and removing read access to sensitive system files.
- d. Improve password controls, specifically implementation of the shadow password file.
- e. Ensure that application passwords are changed in a manner that would support individual accountability.

Campus Response

The campus concurs with the recommendation. Processes will be implemented to ensure that security parameters for bookstore operations are in place.

Projected completion date: March 31, 2004

DISASTER RECOVERY PLAN**Recommendation 15**

We recommend that the Foundation include the following in its IT disaster recovery plan:

- a. Provisions for recovering the bookstore system.
- b. Finalized arrangements for alternate processing facilities.
- c. Appropriate off-site tape storage for the bookstore system.
- d. End-user procedures specific to systems recovery.

Campus Response

The campus concurs with the recommendation. The Foundation disaster recovery plan and business continuation procedures will be revised to include required provisions.

Projected completion date: April 30, 2004

PHYSICAL AND ENVIRONMENTAL CONTROLS**Recommendation 16**

We recommend that the Foundation install smoke detection equipment in the computer rooms housing the bookstore and the financial servers, or take appropriate measures to control access as approved by the campus chief financial officer.

Campus Response

The campus concurs with the recommendation. Corrective action has been taken. Documentation will be presented to demonstrate compliance.

KEY EMPLOYEE DEPENDENCY**Recommendation 17**

We recommend that the Foundation cross-train a backup system administrator for both the bookstore and the financial system environments.

Campus Response

The campus concurs with the recommendation. Corrective action will be taken to ensure appropriate backup system administrators are cross-trained.

Projected completion date: May 31, 2004

STUDENT UNION OF CALIFORNIA STATE UNIVERSITY, SAN BERNARDINO

LEGAL AND REGULATORY COMPLIANCE

AUXILIARY AUTHORIZATION

Recommendation 18

We recommend that the Union only perform authorized activities per its operating agreement with the campus or seek to appropriately amend the agreement.

Campus Response

The campus concurs with the recommendation. The operating agreement will be amended appropriately.

Projected completion date: June 30, 2004

DISSOLUTION OF AUXILIARY

Recommendation 19

We recommend that the Union redraft its corporate dissolution clause in accordance with Title 5 and appropriately reflect this change when it revises its Articles of Incorporation.

Campus Response

The campus concurs with the recommendation. The Student Union will work with legal counsel to amend its Articles of Incorporation to include the dissolution clause, as well as to change the official name of the Student Union.

Projected completion date: March 31, 2004

LEASING OF FACILITIES

Recommendation 20

We recommend that the Union ensure that sublease arrangements comply with the current operating and lease agreement and receive appropriate campus approval.

Campus Response

The campus concurs with the recommendation. The Student Union will ensure that all future sublease agreements receive the appropriate campus approval. Documentation will be presented to demonstrate compliance.

BOARD COMPOSITION

Recommendation 21

We recommend that the Union continue its efforts to ensure appropriate board representation is maintained.

Campus Response

The campus concurs with the recommendation. An alumni representative has been appointed by the Student Union board of directors and regularly attends meetings. The Student Union will continue to work closely to identify future potential alumni representatives. Documentation will be presented to demonstrate compliance.

CONFLICT OF INTEREST

Recommendation 22

We recommend that the Union take appropriate measures to ensure that all conflict-of-interest statements are obtained.

Campus Response

The campus concurs with the recommendation. All current conflict-of-interest statements are on file. Documentation will be presented to demonstrate compliance.

SEGREGATION OF DUTIES

Recommendation 23

We recommend that the Union segregate fixed asset accounting functions or institute mitigating controls approved by the campus chief financial officer.

Campus Response

The campus concurs with the recommendation. The Student Union will work with the university office of accounting to implement appropriate controls.

Projected completion date: June 30, 2004

PURCHASING AND ACCOUNTS PAYABLE

DELEGATION OF AUTHORITY

Recommendation 24

We recommend that the Union establish a written delegation of authority for certain campus personnel to sign checks on behalf of the auxiliary.

Campus Response

The campus concurs with the recommendation. At its regular meeting on November 13, 2003, the Student Union board of directors approved the signature authorizations for campus personnel who sign checks on behalf of the Student Union. Documentation will be presented to demonstrate compliance.

SUPPORTING DOCUMENTATION

Recommendation 25

We recommend that the Union ensure that cash disbursements are supported by sufficient and appropriate documentation. Specifically, the Union should:

- a. Require certification that records were checked to prevent duplicate payment when facsimile or photocopied invoices are accepted.
- b. Ensure that receipts are compiled to support credit card payments.
- c. Reiterate to staff existing cash disbursements policies and procedures regarding sufficient and appropriate supporting documentation.

Campus Response

The campus concurs with the recommendation. Processes will be implemented to ensure that Student Union cash disbursements are appropriately processed and documented.

Projected completion date: March 1, 2004

ASSOCIATED STUDENTS
CALIFORNIA STATE UNIVERSITY, SAN BERNARDINO

LEGAL AND REGULATORY COMPLIANCE

AUXILIARY AUTHORIZATION

Recommendation 26

We recommend that the AS formally execute its operating agreement with the campus in accordance with CSU policy.

Campus Response

The campus concurs with the recommendation. The Associated Students has executed an operating agreement with the campus. Documentation will be presented to demonstrate compliance.

DISSOLUTION OF AUXILIARY

Recommendation 27

We recommend that the AS redraft its corporate dissolution clause in accordance with Title 5 and appropriately reflect this change when it revises its Articles of Incorporation.

Campus Response

The campus concurs with the recommendation. The Associated Students will comply with the recommendation at its next revision of the Articles of Incorporation, to be accomplished prior to the next auxiliary organizations audit. A written directive from AS executive management will be established, and specifics as to the amendment will be formally communicated and adopted by the Associated Students board.

Projected completion date: June 30, 2004

BOARD MINUTES

Recommendation 28

We recommend that the AS take appropriate measures to ensure that its board minutes are signed and approved by an appropriate official.

Campus Response

The campus concurs with the recommendation. Procedures have been implemented to ensure that Associated Students board minutes are signed by the Associated Students executive vice president/secretary prior to publication. Documentation will be presented to demonstrate compliance.

SALARIES AND BENEFITS

Recommendation 29

We recommend that the AS perform and document an analysis of auxiliary and comparable campus salaries, wages, and benefits for all full-time positions.

Campus Response

The campus concurs with the recommendation. A salary survey of the Associated Students executive director's position will be conducted, using the Auxiliary Organizations Association salary survey of other campus' comparable positions, as well as on-campus resources.

Projected completion date: June 30, 2004

SEGREGATION OF DUTIES

Recommendation 30

We recommend that the AS properly segregate certain ticket office accounting functions or institute mitigating controls approved by the campus chief financial officer.

Campus Response

The campus concurs with the recommendation. Associated Students will coordinate procedures with the university director of accounting and the general accounting office to ensure proper accountability for no-notice ticket and cash counts to verify ticket inventories and sales receipts.

Projected completion date: April 30, 2004

PURCHASING AND ACCOUNTS PAYABLE

DELEGATION OF AUTHORITY

Recommendation 31

We recommend that the AS establish a written delegation of authority for certain campus personnel to sign checks on behalf of the auxiliary.

Campus Response

The campus concurs with the recommendation. On July 31, 2003, the Associated Students board of directors approved a change to the Associated Students Financial Policy and Procedures authorizing campus administrators to authorize checks on behalf of the Associated Students. Documentation will be presented to demonstrate compliance.

SUPPORTING DOCUMENTATION

Recommendation 32

We recommend that the AS ensure that cash disbursements are supported by sufficient and appropriate documentation. Specifically, the AS should:

- a. Require certification that records were checked to prevent duplicate payment when facsimile or photocopied invoices are accepted.
- b. Reiterate to staff existing cash disbursements policies and procedures regarding sufficient and appropriate supporting documentation.

Campus Response

The campus concurs with the recommendation. Procedures have been implemented to prevent duplicate payment on facsimile or copied invoices, and to ensure that appropriate supporting documentation is in place. Documentation will be presented to demonstrate compliance.

PERSONNEL AND PAYROLL

Recommendation 33

We recommend that the AS take appropriate measures to ensure that it is operating in accordance with regulatory requirements governing overtime compensation.

Campus Response

The campus concurs with the recommendation. Corrective action has been taken. Documentation will be presented to demonstrate compliance.

THE CALIFORNIA STATE UNIVERSITY
OFFICE OF THE CHANCELLOR

BAKERSFIELD

March 4, 2004

CHANNEL ISLANDS

CHICO

MEMORANDUM

DOMINGUEZ HILLS

FRESNO

TO: Mr. Larry Mandel
University Auditor

FULLERTON

FROM: Charles B. Reed
Chancellor

HAYWARD

HUMBOLDT

SUBJECT: Draft Final Report Number 03-48 on *Auxiliary Organizations*,
California State University, San Bernardino

LONG BEACH

LOS ANGELES

MARITIME ACADEMY

In response to your memorandum of March 4, 2004, I accept the response as submitted with the draft final report on *Auxiliary Organizations*, California State University, San Bernardino.

MONTEREY BAY

NORTHRIDGE

POMONA

CBR/amd

SACRAMENTO

Enclosure

SAN BERNARDINO

cc: Dr. Albert K. Karnig, President
Mr. David DeMauro, Vice President for Administration and Finance

SAN DIEGO

SAN FRANCISCO

SAN JOSE

SAN LUIS OBISPO

SAN MARCOS

SONOMA

STANISLAUS