

AUXILIARY ORGANIZATIONS
CALIFORNIA STATE UNIVERSITY,
LONG BEACH

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ABBREVIATIONS

AIPS	American Institute of Philanthropic Studies
AS	Associated Students, California State University, Long Beach
CDC	Child Development Center
CFO	Chief Financial Officer
CPAC	Carpenter Performing Arts Center
CPGS	Certified Plan Giving Specialists
CRV	California Refund Value
CSU	California State University
CSULB	California State University, Long Beach
EO	Executive Order
Foundation	California State University, Long Beach Foundation
ID	Identification
IT	Information Technology
RFIN	Resolution of the Committee on Finance
Shops	Forty-Niner Shops, Inc.

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, Long Beach (CSULB) campus and its auxiliary organizations from October 6, 2003, through October 31, 2003, and made a study and evaluation of the system of internal compliance/internal control in effect for the period July 2000 to October 2003. This report represents our triennial review.

CSULB's management is responsible for establishing and maintaining an adequate system of internal compliance/internal control and assuring that each of its auxiliary organizations similarly establishes such a system. This responsibility, in accordance with California Code of Regulations, Title 5, Section 42402 et seq. and Executive Order 698, *Board of Trustees Policy for the California State University Auxiliary Organizations et seq.*, includes requiring the documentation of internal control, communicating requirements to employees, and assuring that its system of internal compliance/internal control is functioning as prescribed. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures.

The objectives of a system of internal compliance/internal control are to provide management with reasonable, but not absolute, assurance that:

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

Our study and evaluation at the *California State University, Long Beach Foundation* revealed certain conditions which, in our opinion, could result in errors and irregularities if not corrected. Specifically, the auxiliary did not maintain adequate control over the following area: investments. 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 October 2003, taken as a whole, was sufficient to meet the objectives stated above.

Our study and evaluation at the *Forty-Niner Shops, Inc.* 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 October 2003, taken as a whole, was sufficient to meet the objectives stated above.

Our study and evaluation at the *Associated Students, California State University, Long Beach* revealed certain conditions which, in our opinion, could result in errors and irregularities if not corrected. Specifically, the auxiliary did not maintain adequate control over the following area: supporting documentation. 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 October 2003, taken as a whole, was sufficient to meet the objectives stated above.

Our study and evaluation at *California State University, Long Beach* regarding administrative oversight of its auxiliary organizations revealed certain conditions which, in our opinion, could result in errors and irregularities if not corrected. Specifically, the campus did not maintain adequate control over the following area: cost reimbursement. 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 October 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 [10]

Offsetting allocations of certain indirect costs between the campus and the California State University, Long Beach Foundation (Foundation) made in accordance with Executive Order 753 included auxiliary funds set aside to meet future General Fund requirements instead of actual costs incurred on behalf of the General Fund. The arrangement with the campus for the Foundation to operate the Carpenter Performing Arts Center (CPAC) was not supported by a current and fully executed written agreement, and authority for the CPAC executive director to contract with outside performers was not completely defined.

CALIFORNIA STATE UNIVERSITY, LONG BEACH FOUNDATION

LEGAL AND REGULATORY COMPLIANCE [12]

The Foundation did not record board-designated reserves within its general ledger.

INVESTMENTS [12]

The Foundation's investment policy did not sufficiently address the management of market losses.

AUXILIARY PROGRAMS [13]

A clear delineation could not be made between the Foundation's ownership/operation of a certificate program and the separate unaffiliated, non-profit corporation that held rights to the program's curriculum.

INFORMATION TECHNOLOGY [14]

The security parameters for the Foundation computer system hosting the financial application were in need of improvement, as accountability of system ROOT level access and system services security protection were insufficient.

FORTY-NINER SHOPS, INC.

LEGAL AND REGULATORY COMPLIANCE [16]

The licensing agreement between the campus and the Forty-Niner Shops, Inc. (Shops) for the operation of the library copy center was not current, and Shops bylaws did not include a provision for the election of a staff representative board member. The Shops had not established a written surplus funds/reserve policy and did not report certain student scholarships and tuition reimbursement to the campus financial aid office.

SEGREGATION OF DUTIES [18]

Duties and responsibilities over certain accounting functions for personnel and payroll were not appropriately segregated since the payroll employees had the ability to modify employee information in the payroll system, process payroll, and distribute paychecks.

CASH RECEIPTS AND HANDLING [19]

In certain instances, transfer accountability was not established at Shops whenever two or more persons had access to the same cash drawers and/or bags.

PETTY CASH AND CHANGE FUNDS [20]

Security controls were not commensurate with the amount of cash maintained in the Shops cashier's office. Also, the Shops did not maintain a current record of all food service safe locations, individuals with knowledge of the safe combinations, and dates the safe combinations were last changed.

PURCHASING AND ACCOUNTS PAYABLE [21]

Certain disbursement transactions were not in compliance with, or were not addressed in, the campus/Shops hospitality policy. Instances were noted where sufficient supporting detail for food disbursements was not provided and certain food expenditures exceeded the maximum rates allowed by campus policy.

PERSONNEL AND PAYROLL [22]

The Shops had not documented a formal agreement fully defining the executive director's compensation and benefits.

FIXED ASSETS [23]

The Shops had not established detailed policies and procedures to address the transfer, disposal, and sale of capitalized assets; tagging of assets was inconsistent; and an independent and complete inventory of fixed assets had not been performed.

TRUSTS AND OTHER LIABILITIES [24]

The Shops did not exercise sufficient control over certain funds held in trust for the campus. For example, liabilities were inappropriately accounted for as credits to receivable accounts, and credit balances were reduced as payments to third-party vendors.

INFORMATION TECHNOLOGY [25]

Access security controls were not adequately configured for the Shops' timekeeping system.

ASSOCIATED STUDENTS, CALIFORNIA STATE UNIVERSITY, LONG BEACH

LEGAL AND REGULATORY COMPLIANCE [27]

A written agreement had not been executed between the Associated Students, California State University, Long Beach (AS) and the campus documenting the circumstances and justification for the campus' expenditure of \$300,000 on equipment replacement and upgrades for the Child Development Center playgrounds on behalf of the AS, nor was the transaction specifically recorded in AS accounting records. In addition, the AS administration of payments to student officers and directors required reassessment and sufficient documentation.

CASH RECEIPTS AND HANDLING [29]

In certain instances, transfer accountability was not established whenever two or more persons had access to the same cash drawers and/or bags. In addition, specific procedures had not been established to limit the amount of cash contained in registers.

PURCHASING AND ACCOUNTS PAYABLE [30]

AS cash disbursements were not always supported by sufficient and appropriate documentation and/or appropriate authorization. For example, original vendor invoices and receipts were not consistently marked paid or defaced after payment, and supporting documentation, such as shipping receipts, was not obtained.

INVENTORIES [31]

The AS did not establish initial accountability upon receipt of consigned tickets.

TRUSTS AND OTHER LIABILITIES [32]

The AS did not consistently obtain, and keep current, required signatures on custodial account agreements.

AUXILIARY PROGRAMS [33]

Certain controls over the state-licensed AS recycling center's California Refund Value (CRV) redemption program were deficient in areas such as redemption fund cash counts, access to the fund, transfer accountability for redemption fund cash, documentation required for the reimbursement of the fund, and numerical control of CRV redemption logs.

INFORMATION TECHNOLOGY [34]

The AS had not developed a sufficiently detailed, written information technology disaster recovery plan and corresponding business continuation procedures. In addition, AS computer account passwords were not changed on a periodic basis to ensure confidentiality and individual accountability.

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 2000/01 and 2001/02 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 October 2003. Our primary focus was on internal compliance/internal control.

Specifically, we reviewed and tested:

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

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

A preliminary survey of CSU auxiliaries at each campus was used to identify risks. Risk was defined as the probability that an event or action would adversely affect the auxiliary and/or the campus. Our assessment of risk was based upon a systematic process, using professional judgments on probable adverse conditions and/or events that became the basis for development of our final scope. We sought to assign higher review priorities to activities with higher risks. As a result, not all risks identified were included within the scope of our review.

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

California State University, Long Beach Foundation

- ▶ Legal and Regulatory Compliance
- ▶ Segregation of Duties
- ▶ Investments
- ▶ Fees, Revenues, and Receivables
- ▶ Purchasing and Accounts Payable
- ▶ Personnel and Payroll
- ▶ Fixed Assets
- ▶ Trusts and Other Liabilities
- ▶ Auxiliary Programs
- ▶ Information Technology

Forty-Niner Shops, Inc.

- ▶ 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
- ▶ Fixed Assets
- ▶ Trusts and Other Liabilities
- ▶ Information Technology
- ▶ Bookstore Operations
- ▶ Food Service Operations

Associated Students, California State University, Long Beach

- ▶ Legal and Regulatory Compliance
- ▶ Cash Receipts and Handling
- ▶ Petty Cash and Change Funds
- ▶ Fees, Revenues, and Receivables
- ▶ Purchasing and Accounts Payable
- ▶ Fixed Assets
- ▶ Inventories
- ▶ Trusts and Other Liabilities
- ▶ Auxiliary Programs

▶ Information Technology

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

COST REIMBURSEMENT

Offsetting allocations of certain indirect costs between the campus and the California State University, Long Beach Foundation (Foundation) made in accordance with Executive Order (EO) 753 included auxiliary funds set aside to meet future General Fund requirements instead of actual costs incurred on behalf of the General Fund.

EO 753, *Allocation of Costs to Auxiliary Enterprises*, dated July 28, 2000, established the responsibility for auxiliaries to pay allowable direct costs plus an allocable portion of indirect costs associated with facilities, goods, and services provided by the campus and funded by the General Fund.

Government Code §11259 states, in part, that all money received by any state agency for charges for work, services, materials, or equipment shall be deposited in the State Treasury and credited by the State Controller to the fund or appropriation from which the cost of such work, services, materials or equipment was or will be paid.

The vice president of administration and finance stated that the funds were originally set aside by the Foundation as a policy incentive to encourage more grants and contracts activity. He further stated that the funds were subsequently recognized as an offset to General Fund allocated expenses. He stated his belief that the current practices were in conformity with the requirements of EO 753.

When the General Fund is not properly reimbursed for facilities, goods, and services provided to auxiliary organizations, there is a risk that a "gift of public funds" claim could be asserted against the campus.

Recommendation 1

We recommend that the campus ensure that offsetting allocations of costs between the campus and the Foundation made in accordance with EO 753 reflect actual costs incurred on behalf of the General Fund.

Campus Response

We concur. The campus will establish procedures to ensure that offsetting allocations of costs between the campus and the Foundation are made in accordance with EO 753 to reflect actual costs on behalf of the General Fund. Estimated date of completion is September 1, 2004.

WRITTEN AGREEMENTS

An arrangement between the campus and the Foundation to operate the Carpenter Performing Arts Center (CPAC) was not supported by a current and fully executed written agreement. In addition, authority for the CPAC executive director to contract with outside performers was not completely defined.

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 current, written agreements.

The associate vice president of financial management stated that all parties had not yet signed the new agreement. The Foundation associate executive director stated that the CPAC executive director was authorized by delegation of authority from the Foundation to contract with outside performers.

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

Recommendation 2

We recommend that the campus:

- a. Fully execute the current license agreement with the Foundation to operate the CPAC.
- b. Further define the authority of the CPAC executive director to execute contracts with outside performers.

Campus Response

We concur. The current license agreement with the Foundation to operate the CPAC has now been fully executed and the authority of the CPAC executive director to execute contracts with outside performers has been defined. Corrective action on this recommendation is complete.

CALIFORNIA STATE UNIVERSITY, LONG BEACH FOUNDATION

LEGAL AND REGULATORY COMPLIANCE

The Foundation did not record board-designated reserves within its general ledger.

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 a designated fund balance be recognized within an organization's general ledger.

The campus associate vice president of financial management stated that although a reserve policy had been implemented and annual reserve calculations had been approved by the board of directors, reserves were not currently recorded to the general ledger.

Failure to appropriately record designated amounts increases the risk of misunderstandings and miscommunication regarding available reserves.

Recommendation 3

We recommend that the Foundation record board-designated reserves within its general ledger.

Campus Response

We concur. The Foundation will create additional object codes to segregate the unrestricted fund balance account and reclassify it to various reserve accounts according to its current reserve policy. Annually, after the year-end completion, a journal entry will be prepared to reclassify the fund balance to various reserve accounts. The journal entry will be reversed at the end of each fiscal year. Estimated date of completion is July 30, 2004.

INVESTMENTS

The Foundation's investment policy did not sufficiently address the management of market losses.

The Foundation holds funds for the benefit of the campus, including endowments, scholarships, gifts, and other campus funds. The Foundation pools investments for all funds and maintains different pools based upon investment objective.

Based on our review of "Balanced Pool A," we found that:

- ▶ During the last three years, realized losses were not distributed within the general ledger to the individual accounts that comprised the pool.

- ▶ The Foundation had not reassessed its spending policy to consider the effect of realized losses on the pool and its individual accounts.
- ▶ Fund expenditures were only restricted to the book value of the account rather than to the lower of account book or market value.

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

The Foundation associate executive director stated that investments were administered in accordance with the Foundation's investment policy and are closely monitored by the investment committee. She further stated that the Foundation board was considering these issues presently and conclusive action was still pending.

An insufficient investment policy increases the risk that funds will be handled inappropriately and contrary to the expectations of the campus and donors.

Recommendation 4

We recommend that the Foundation amend its investment policy to address:

- a. The distribution of realized losses to the individual accounts that comprise the pool.
- b. The reassessment of its spending policy to consider the effect of realized losses on the pool and its individual accounts.
- c. Expenditure of funds at the lower of account book or market value.

Campus Response

We concur. The Foundation is currently in the process of amending its investment policy to address the auditors' recommendations. Estimated date of completion is July 30, 2004.

AUXILIARY PROGRAMS

A clear delineation could not be made between the Foundation's ownership/operation of a certificate program and the separate unaffiliated, non-profit corporation that held rights to the program's curriculum.

According to agreements provided by the Foundation, the campus continuing education was assigned rights, title, and interest in the Certified Plan Giving Specialists (CPGS) curriculum by a non-profit

corporation known as the American Institute of Philanthropic Studies (AIPS) in 1998 via a licensing agreement. Foundation websites, as well as other materials associated with the CPGS program make reference to an affiliation between AIPS and its CPGS certificate program as a Foundation-owned continuing education program. Under the license agreement, royalties were paid to AIPS based on a percentage of fees collected from students for the use of text materials. In addition, fees were also to be paid to AIPS in connection with the testing and certification of students as CPGS. According to the State Attorney General records, AIPS corporate status is listed as “suspended,” and evidence of AIPS involvement with testing and certification was unclear.

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

The Foundation executive director stated that the Foundation only operated the certificate program, which was separate from the non-profit corporation.

Failure to operate a program in a clear and distinct manner could result in misunderstandings and possibly expose the auxiliary organization to potential liability.

Recommendation 5

We recommend that the Foundation delineate, by agreement and in published sources, the relationship between the Foundation’s ownership/operation of the CPGS certificate program and the unaffiliated, non-profit corporation that holds the rights to the program’s curriculum.

Campus Response

We concur. The Foundation has an agreement developed with the assistance of its corporate counsel, which delineates the relationship between the Foundation and the now suspended corporation, the AIPS. The Foundation will clearly express this delineation in its promotional material. The Foundation continues to hire subject matter experts in connection with instruction, testing, and certification. When appropriate, royalties are paid to the authors of text materials. Estimated date of completion is July 30, 2004.

INFORMATION TECHNOLOGY

The security parameters for the Foundation computer system hosting the financial application were in need of improvement.

We found that:

- ▶ Accountability of system ROOT level access could be improved or strengthened by additional monitoring utilities.
- ▶ System services security protection was insufficient, as unnecessary services were not disabled, and write access to sensitive system files was not removed.

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 associate executive director stated her belief that current security parameters were sufficient.

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 6

We recommend that the Foundation:

- a. Improve accountability of system ROOT level access by utilizing additional monitoring utilities.
- b. Ensure system services security protection is sufficient by disabling unnecessary services and removing write access to sensitive system files.

Campus Response

We concur. The Foundation is currently in the process of implementing the changes to address the auditors' recommendations. Estimated date of completion is July 30, 2004.

FORTY-NINER SHOPS, INC.

LEGAL AND REGULATORY COMPLIANCE

WRITTEN AGREEMENTS

A current licensing agreement between the the Forty-Niner Shops, Inc. (Shops) and the campus for the operation of the library copy center had not been executed.

Both parties have continued to operate under the terms of the original agreement which expired in August 1997.

Title 5 §42401 and §42402 indicate that campus president shall require that auxiliary organizations operate in conformity with policy of the Board of Trustees and the campus. One of the objectives of the auxiliary organizations is to provide fiscal procedures and management systems that allow effective coordination of the auxiliary activities with the campus in accordance with sound business practices. Sound business practice mandates that licensing arrangements be supported by current, written agreements.

The Shops controller stated that the agreement had not been updated due to oversight.

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

Recommendation 7

We recommend that the Shops properly execute a current licensing agreement with the campus for the operation of the library copy center.

Campus Response

We concur and will follow the recommendation to execute a current licensing agreement with the campus for the operation of the library copy center. Estimated date of completion is June 30, 2004.

BYLAWS

The Shops bylaws and revised Articles of Incorporation were in conflict regarding a provision for the election of a staff representative board member.

Education Code §89925 requires auxiliaries to establish provisions for the election of officers and board members.

The Shops general manager and chief executive officer stated his belief that because the Shops had amended and filed its Articles of Incorporation with the state, a revision of the bylaws was not required.

The absence of election provisions within corporate bylaws increases the risk of misunderstandings and miscommunication regarding staff representation.

Recommendation 8

We recommend that the Shops update its bylaws to include a provision for the election of a staff representative board member to be consistent with its Articles of Incorporation.

Campus Response

We concur. The Shops management updated its bylaws to include a provision for the election of a staff representative board member to be consistent with its Articles of Incorporation. Corrective action on this recommendation is complete.

RESERVES

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

Such a policy should address or consider the following areas:

- ▶ Minimum reserve requirements.
- ▶ The inclusion of reserves in the budget submitted to the campus president.
- ▶ Board review of reserve levels.
- ▶ Reserves for working capital and capital replacement.
- ▶ The methodology used for the calculation of reserves.
- ▶ Accounting and designation of such reserves within the general ledger.

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

The Shops controller stated that the board and investment committee actively reviewed the financial position of the organization on a regular basis and as part of the budgeting process. He further stated that since the Shops had a significant amount in surplus fund balance, the fiscal viability of the organization was not viewed as an issue, and therefore, a formal reserve policy had never been established.

Absence of a written reserve policy increases the auxiliary's risk to fund future needs.

Recommendation 9

We recommend that the Shops coordinate with the campus to establish a written policy for the allocation of surplus funds/reserves.

Campus Response

We concur. The Shops will coordinate with the campus to establish a written policy for the allocation of surplus funds/reserves. Estimated date of completion is July 30, 2004.

EDUCATIONAL SUPPORT

The Shops did not report certain student scholarships and tuition reimbursement to the campus financial aid office.

Title 5 §42500(d) states that student loans, scholarships, stipends, and grants-in-aid shall only be given to currently admitted students. A record of such financial assistance shall be forwarded on a timely basis to the campus financial aid office and shall be documented on student financial aid recipient records kept in that office.

The Shops controller stated that the awards were viewed as benefits of employment and that the Shops was unaware that these types of awards required reporting.

Failure to adequately report educational support to the financial aid office may result in an overpayment of financial aid funds.

Recommendation 10

We recommend that Shops establish procedures to ensure that all financial assistance paid to students is reported to the campus financial aid office.

Campus Response

We concur. The Shops management will establish procedures to ensure that all financial assistance paid to students is reported to the campus financial aid office. Estimated date of completion is June 30, 2004.

SEGREGATION OF DUTIES

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

We found that payroll employees:

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

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 Shops general manager and chief executive officer stated that resource constraints did not allow for an appropriate segregation of duties between the personnel and payroll functions. He further stated his belief that adding the resources necessary to segregate these functions would not be cost-beneficial to the organization.

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

Recommendation 11

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

Campus Response

We concur. The Shops management has taken reasonable measures to further institute mitigating procedures regarding segregation of duties in the payroll function. The campus CFO has approved the established procedures. Corrective action on this recommendation is complete.

CASH RECEIPTS AND HANDLING

In certain instances, transfer accountability was not established at the Shops whenever two or more persons had access to the same cash drawers and/or bags, as bookstore cashiers did not count and document the contents of cash register drawers upon conclusion of their shifts.

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 cashiering duties and cash receipts processing.

The Shops bookstore director stated that the Shops had considered these controls, but concluded that the cost associated with the controls could not be justified.

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

Recommendation 12

We recommend that the Shops ensure transfer accountability is established whenever two or more persons have access to the same cash drawers and/or bags or establish mitigating controls approved by the campus CFO.

Campus Response

We concur. The Shops management has documented the established mitigating procedures for cash handling. These procedures were reviewed and approved by the campus CFO. Corrective action on this recommendation is complete.

PETTY CASH AND CHANGE FUNDS

Certain controls over change funds held at the Shops cashier's office and other locations were not adequate.

We found that:

- ▶ Adequate security controls were not maintained in the Shops cashier's office.
- ▶ A current record of all food service safe locations, individuals with knowledge of the safe combinations, and dates the safe combinations were last changed was not maintained.

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

The Shops controller stated that management had previously identified the potential exposures associated with existing cash office security and that additional controls were currently being evaluated. He further stated that the failure to document a record of all food service safe locations, individuals with knowledge of the safe combinations, and dates the safe combinations were last changed was due to oversight.

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

Recommendation 13

We recommend that the Shops:

- a. In coordination with the campus, ensure that proper security controls are established over the cashier's office change funds.
- b. Establish a current record of all food service safe locations, individuals with knowledge of the safe combinations, and dates the safe combinations were last changed.

Campus Response

We concur. The Shops management will ensure that proper security controls are established over the cashier's office change fund. The Shops will also establish a current record of all food service safe locations, individuals with knowledge of the safe combinations, and dates the safe combinations were last changed. Estimated date of completion is September 1, 2004.

PURCHASING AND ACCOUNTS PAYABLE

Certain disbursement transactions were not in compliance with, or were not addressed in, the campus/Shops hospitality policy.

We noted the following:

- ▶ Several hospitality disbursements for food did not include supporting detail (i.e., type of expense, type of event, number and list of participants, date and location of the event, nature or purpose of meeting, and official host or department).
- ▶ Certain expenditures for food exceeded the maximum rates allowed by campus policy.

EO 761, *Hospitality, Payment or Reimbursement of Expenses*, dated October 31, 2000, assigns responsibility to the campus to develop written policies and procedures regarding the payment of hospitality expenses.

Education Code §89900 and Title 5 §42403 require that sufficient operating procedures be established by the auxiliary to allow the campus president (or designee) to ascertain that all expenditures are in accordance with policies of the CSU Trustees, including the propriety of all expenditures and integrity of financial reporting.

The Shops general manager and chief executive officer stated that the Shops had adopted the campus policy regarding hospitality; however, the failure to amend the policy to specifically address hospitality issues unique to the auxiliary was an oversight.

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

Recommendation 14

We recommend that the Shops:

- a. Ensure that hospitality transactions include adequate supporting detail.
- b. Ensure that hospitality expenditures for food are within the allowable rates established by campus policy or amend Shops' policy to specifically address expenditures unique to the auxiliary.

Campus Response

We concur. The Shops has amended the policy to specifically address expenditures unique to the auxiliary and to ensure that hospitality transactions include adequate supporting detail. Corrective action on this recommendation is complete.

PERSONNEL AND PAYROLL

The Shops had not documented a formal agreement fully defining specific compensation and benefits to be provided to its executive director.

Such an agreement may address or consider the following areas:

- ▶ An explanation of benefits to be received.
- ▶ Types of eligible expenses.
- ▶ Supporting documentation required for reimbursement.
- ▶ Eligible participants (i.e., spouse, dependents).
- ▶ Income tax reporting responsibilities and requirements.
- ▶ Effective dates of coverage.
- ▶ Any limitations or restrictions.
- ▶ Maximum reimbursement amounts.

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

The Shops general manager and chief executive officer stated that the offer of employment was documented in the form of a letter from the board of directors.

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

Recommendation 15

We recommend that the Shops document a formal agreement fully defining specific compensation and benefits to be provided to its executive director.

Campus Response

We concur. The Shops will document a formal agreement fully defining specific compensation and benefits to be provided to its executive director and will place it for approval on the agenda for the next meeting of the Shops' personnel committee. Estimated date of completion is September 1, 2004.

FIXED ASSETS

Certain controls over Shops fixed assets were inadequate.

We found that:

- ▶ Policies and procedures did not address the transfer, disposal, or sale of capitalized assets.
- ▶ An independent physical inventory of fixed assets had not been performed.
- ▶ Fixed assets were not consistently tagged.

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

The Shops controller stated that he personally reviewed and approved fixed asset disposals prior to removal from the property listing and general ledger and he would question anything of an unusual nature when reviewing the list. He further stated that a full inventory was performed by department managers and that the outside auditors also reviewed inventory on a sample basis. In addition, he stated that the property tag items missed were due to oversight.

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

Recommendation 16

We recommend that the Shops:

- a. Develop and implement policies and procedures for the management and administration of fixed assets, specifically addressing the transfer, disposal, or sale of capitalized assets.
- b. Ensure that an independent and complete physical inventory of fixed assets is performed at least once every three years.
- c. Establish appropriate guidelines for the tagging of fixed assets.

Campus Response

We concur. The Shops management has documented and implemented the procedures involved with the tagging, transfer, disposal, or sale of capitalized assets. These procedures also require that an independent physical inventory be performed at least once every three years. Corrective action on this recommendation is complete.

TRUSTS AND OTHER LIABILITIES

The Shops did not exercise sufficient control over certain custodial funds held for the campus.

We found that:

- ▶ Liabilities were inappropriately accounted for as credits to receivable accounts. In 12 instances, approximately \$200,000 in credit balances was maintained. In one instance, a custodial cash deposit was posted to accounting records as a credit to one of the receivable accounts.
- ▶ In certain instances, credit balances were reduced as payments to third-party vendors.

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

The Shops general manager and chief executive officer stated that it has been a long-standing practice of the Shops to account for certain custodial funds as credits in their accounts receivable ledgers. He further stated that, in general, the source of these funds is revenue generated by the Shops and that it is primarily administered in this manner so that the customer can use the funds to purchase items for the Shops. In addition, he stated his belief that the general ledger at year end is properly classified in the Shops' financial statements.

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

Recommendation 17

We recommend that Shops:

- a. Consult with the campus to determine whether accounting for liabilities as credits to receivable accounts is an appropriate activity/function for the auxiliary, and if so, establish procedures to appropriately account for these types of liabilities.
- b. Ensure that payments from third-party accounts are discontinued.

Campus Response

We concur. The Shops will consult with the campus and establish procedures to appropriately account for liabilities as credits to accounts receivable subledger. The Shops will ensure that payments from third-party accounts are discontinued. Estimated date of completion is July 30, 2004.

INFORMATION TECHNOLOGY

Access security controls were not adequately configured for the Shops' timekeeping system.

We found that:

- ▶ The password expiration control was not set to expire until 2006 for most users.
- ▶ Password change responsibilities were not assigned to the user; rather, the information technology (IT) department was responsible for changing passwords.
- ▶ Three generic user IDs were issued "super user" access. Two of the three had passwords that could be easily determined.
- ▶ The IT manager and the payroll staff were issued "super user" access user roles that allowed unlimited access to the production environment.
- ▶ The default password syntax was such that user passwords could be easily determined.
- ▶ Security parameters were not set to require a minimum password length or alphanumeric passwords.
- ▶ The Shops did not maintain evidence of supervisors' approval of electronic timecards.

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 Shops controller stated that the timekeeping system was only recently implemented and that the Shops is still in the process of developing and implementing an appropriate security program.

Insufficiently controlled access to the timekeeping system increases the risk of unauthorized and inappropriate acts.

Recommendation 18

We recommend that the Shops review security controls to ensure that:

- a. Password expiration controls are enabled for all users.
- b. Password changes are delegated to system users.
- c. The need for generic user IDs are evaluated, and access removed or appropriately limited.
- d. Unlimited "super user" access to the timekeeping system is appropriately issued.

- e. The default password syntax settings on the timekeeping system prohibits the use of passwords which could be easily determined.
- f. Security parameters require minimum password length or alphanumeric passwords.
- g. The Shops maintain evidence of supervisors' approval of electronic timecards.

Campus Response

We concur. The Shops will follow the recommendations specified on the Shops' timekeeping system. Estimated date of completion is June 30, 2004.

ASSOCIATED STUDENTS,
CALIFORNIA STATE UNIVERSITY, LONG BEACH

LEGAL AND REGULATORY COMPLIANCE

WRITTEN AGREEMENTS

A written agreement had not been executed between the Associated Students, California State University, Long Beach (AS) and the campus documenting the circumstances and justification for the campus' expenditure of \$300,000 on equipment replacement and upgrades for the Child Development Center (CDC) playgrounds on behalf of the AS. Additionally, the transaction was not recorded in AS accounting records.

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 significant arrangements between auxiliary organizations and the campus be supported by written agreements and that such transactions be appropriately recorded in accounting records.

The AS controller stated that a proposed agreement had been submitted to the campus for review and signature but had not been returned prior to the commencement of the audit.

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

Recommendation 19

We recommend that the AS execute a written agreement with the campus documenting and justifying the campus' expenditures for the CDC playground improvements, and appropriately record the transaction in accounting records.

Campus Response

We concur. In November 2003, a written agreement was executed between the AS and the campus that documents and justifies the campus' expenditures for the CDC playground improvements. The transaction has been appropriately recorded in the accounting records. Corrective action on this recommendation is complete.

EDUCATIONAL SUPPORT

The AS administration of payments to student officers and directors was in need of improvement.

We found that the AS could not:

- ▶ Document compliance with current requirements for payment to appointed student body officers and elected directors.
- ▶ Clearly establish its basis for exemption from certain tax requirements.
- ▶ Substantiate its reason for not reporting all such payments to financial aid.

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

Title 5 §42500 (d) requires that the record of financial assistance, such as student loans, scholarships, stipends, and grants-in-aid, be forwarded on a timely basis to the campus financial aid office and shall be documented on student and recipient records kept in that office.

The AS executive director stated that specific evidence to document compliance to current requirements could not be located, but that campus newspaper accounts indicate that a referendum approving payments to three executive officers was approved in 1969. The AS controller stated that he was unaware of potential tax implications of stipend payments and the requirement to forward information to the campus financial aid office.

Failure to properly administer student officer and director payments increases the risk of regulatory non-compliance and fines and penalties.

Recommendation 20

We recommend that the AS:

- a. Document compliance with current requirements for payment to appointed student body officers and elected directors.
- b. Clearly establish its basis for exempting certain tax requirements.
- c. Report all required payments to financial aid.

Campus Response

We concur. To ensure that payments to all officers are in compliance with current regulations, the AS senate placed a proposed bylaw amendment on the ballot of the spring 2004 general election. The amendment was approved to authorize the senate to provide payments to student officers and directors for their service to student government. AS has determined the proper tax treatment of these stipends and reported these stipends to financial aid retroactively to July 1, 2003. Corrective action on this recommendation is complete.

CASH RECEIPTS AND HANDLING

Certain controls over AS cash receipts processing were deficient.

We found that:

- ▶ In certain instances, transfer accountability was not established whenever two or more persons had access to the same cash drawers and/or bags, as student cashiers did not count and document the contents of cash register drawers upon conclusion of their shifts.
- ▶ Specific procedures were not established to limit the amount of cash contained in registers.

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 controls be maintained over cashing duties and cash receipts processing.

The AS controller stated that existing controls over cash drawers were generally sufficient.

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

Recommendation 21

We recommend that the AS:

- a. Establish transfer accountability whenever two or more persons have access to the same cash drawers and/or bags or establish mitigating controls approved by the campus CFO.
- b. Establish specific procedures to limit the amount of cash contained in registers.

Campus Response

We concur. AS has improved accountability by installing a second set of cash drawers so that only one person has access to his or her own set of drawers. Written procedures have been revised to limit the amount of cash contained in the registers. Corrective action on this recommendation is complete.

PURCHASING AND ACCOUNTS PAYABLE

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

Our review of 80 cash disbursements disclosed the following:

Process Controls

- ▶ In 34 instances, original vendor invoices and receipts were not consistently marked paid or otherwise defaced after payment.
- ▶ In 43 instances, supporting documentation (i.e., shipping receipts, lists of attendees, or acceptance of service performed) was not obtained.

Processing Exceptions

- ▶ In 12 instances, a facsimile or photocopied invoice was accepted for payment without certification that records were verified to prevent duplicate payment.
- ▶ In four instances, supporting documentation, such as travel expense reports, was not submitted to clear advance payments to vendors.
- ▶ In seven instances, payment was made without a supporting invoice.
- ▶ In six instances, approval signatures did not match the signature specimen on file.
- ▶ In eight instances, the invoice was paid untimely.
- ▶ In six instances, the business purpose was unclear.
- ▶ In seven instances, either purchase orders were not obtained or evidence of competitive bidding for purchases greater than \$5,000 did not exist.

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 controller stated his belief that these exceptions had occurred due to staff turnover and training difficulties inherent in the implementation of new policies.

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

Recommendation 22

We recommend that the AS:

- a. Establish a procedure to ensure that original vendor invoices and receipts are consistently marked paid or otherwise defaced after payment.
- b. Establish a procedure to ensure that documentation is obtained to evidence that goods were received, events occurred, or service was provided in accordance with contract requirements.
- c. Reiterate to staff existing cash disbursements policies and procedures regarding sufficient and appropriate supporting documentation and appropriate authorization.

Campus Response

We concur. AS has purchased and is now using a defacing machine to ensure that vendor invoices and receipts are consistently defaced after payment. Procedures will be established to ensure that documentation is obtained to evidence that goods were received, events occurred, or service was provided in accordance with contract requirements. Follow-up training on policies and procedures regarding proper documentation, appropriate authorization, and evidencing receipt of goods will be conducted. Estimated date of completion is July 30, 2004.

INVENTORIES

The AS did not establish initial accountability upon receipt of consigned tickets.

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 transfer accountability for consigned inventory.

The AS controller stated that since the student union had never had a problem with the final accounting for tickets with the ticket consigners, transfer accountability of consigned tickets at the vault had not been carefully examined.

Failure to maintain transfer accountability controls over consigned tickets increases the risk of loss or misappropriation of funds.

Recommendation 23

We recommend that the AS establish initial accountability upon receipt of consigned tickets.

Campus Response

We concur. The AS business office has established initial accountability upon receipt of consigned tickets by maintaining proper documentation. Corrective action on this recommendation is complete.

TRUSTS AND OTHER LIABILITIES

The AS did not consistently obtain, and keep current, required signatures on custodial account agreements.

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 current facsimile signatures be maintained for custodial accounts.

The AS controller stated that he was unaware that staff had not followed procedures established to ensure that all trust and custodial agreements were fully executed and signature cards were on file.

Insufficient control over custodial accounts increases the risk of innappropriate expenditures and misunderstandings about account operations.

Recommendation 24

We recommend that the AS consistently obtain and keep current, required signatures on custodial account agreements.

Campus Response

We concur. The agency account application and agreement form has been redesigned to ensure that forms are completed and signed by all applicants. Corrective action on this recommendation is complete.

AUXILIARY PROGRAMS

Certain controls over the state-licensed AS recycling center's California Refund Value (CRV) redemption program were deficient.

We noted that:

- ▶ The witnessed counts of redemption fund cash at the recycling center and the AS business office vault were not fully documented with signatures.
- ▶ Access to the recycling center redemption fund cash maintained in a separate cage in the vault was not limited to the recycling center management and could therefore be commingled with student union cash at the time of the scheduled weekly vault count.
- ▶ Witnessed deposits to, and withdrawals from, recycling center redemption fund vault cash were not documented by the AS business office.
- ▶ Copies of the signed CRV customer redemption logs acknowledging their receipt of redemption fund cash were not submitted to the AS business office along with the request to replenish the fund to an imprest level of \$9,000.
- ▶ The CRV customer redemption logs were not prenumbered and controlled by the AS business office.

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

The AS controller stated his belief that due to the limited number of transactions, additional controls were not warranted.

Failure to maintain adequate control over cash redemption programs increases the risk of loss or misappropriation.

Recommendation 25

We recommend that the AS:

- a. Require signatures of both persons verifying redemption fund cash balances at the recycling center and the AS business office vault.
- b. Limit access to recycling center redemption fund vault cash to recycling center management.

- c. Require that all deposits and withdrawals of recycling center redemption fund vault cash be documented by the AS business office.
- d. Submit copies of signed customer CRV customer redemption logs for the reimbursement of redemption fund cash.
- e. Require business office control over the creation and assignment of prenumbered CRV redemption logs.

Campus Response

We concur. AS recycling has modified operations and procedures to conform to the audit recommendations:

- a. Two employees now count and verify cash balances. Signatures are required on imprest forms, which are submitted at the time of the replenishment request.
- b. AS recycling management holds the only key to access the recycling center's redemption fund vault cash.
- c. Documentation of withdrawals and deposits of redemption fund cash is kept in a running log-book in the vault, signed by both the recycling center manager and the vault/accounting technician of the business office.
- d. Redemption logs are now printed on prenumbered NCR two-page forms. The carbons are turned in with every request for cash fund replenishment for verification purposes.
- e. The AS business office orders and controls the prenumbered CRV redemption logs.

Corrective action on this recommendation is complete.

INFORMATION TECHNOLOGY

DISASTER RECOVERY PLAN

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

Specifically, we noted that the plan did not include:

- ▶ Provisions for recovering the system.
- ▶ Finalized arrangements for alternate processing facilities.
- ▶ 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 AS controller stated that certain aspects of the plan were in place, but the recovery plan had not been documented in writing. The AS director stated that an effort had been attempted to use another California State University campus for alternative processing facilities without success.

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 26

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

- a. Written provisions for recovering the financial system.
- b. Finalized arrangements for alternate processing facilities.
- c. End-user procedures specific to systems recovery.

Campus Response

We concur. AS will revise and document its IT disaster recovery plan to include provisions for recovering financial systems and end-user procedures specific to systems recovery. AS will also finalize arrangements for alternate processing facilities. Estimated date of completion is July 30, 2004.

PASSWORD POLICY

AS computer account passwords were not changed on a periodic basis to ensure confidentiality and 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 AS director stated that enforcing password changes was not done because current software does not support automatic password expiration.

Without periodic change in passwords, there is no individual accountability for financial transactions and individuals cannot be held accountable to computer usage policies.

Recommendation 27

We recommend that the AS ensure that computer account passwords are changed on a periodic basis in a manner that would support confidentiality and individual accountability.

Campus Response

We concur. AS will require all individuals with access to the financial accounting system to change passwords every six months. E-mail notifications will be sent out to all users. Estimated date of completion is July 30, 2004.

APPENDIX A: PERSONNEL CONTACTED

Name

Title

CAMPUS

Robert C. Maxson	President
Paul Bott	Director, Center for Career Studies
William H. Griffith	Vice President, Administration and Finance
Kathleen Hext	Director, Internal Auditing
Joseph Latter	Associate Vice President, Financial Management
Aysu Spruill	Senior Internal Auditor

CALIFORNIA STATE UNIVERSITY, LONG BEACH FOUNDATION

Robert Behm	Executive Director
Kathryn Burgos	Accounting Supervisor
Annette Harris	Accounts Payable Supervisor
Samantha Nghiem	Purchasing Supervisor
Brian Nowlin	Director, Human Resources and Administrative Services
Greg Raitz	Supervisor, Information Systems
Arlene Reyes	Finance Manager
Joan Simmons	Investment Accountant
Rana Simpkin	Payroll Supervisor
Janna Tenenbaum	Associate Executive Director

FORTY-NINER SHOPS, INC.

William Beck	Director, Purchasing
Clint Campbell	Director, Retail Food Operations
Cora Ejercito	Accounting Manager
Cynthia Farrington	Warehouse Manager
Nancy Green	Human Resources Director
Roman Gulon	General Manager/Chief Executive Officer
Fred Neely	Bookstore Director
Lawrence Pawlak	Controller
Russell Tompkins	Director, Information Technology

ASSOCIATED STUDENTS, CALIFORNIA STATE UNIVERSITY, LONG BEACH

Judith Abernathy	Human Resources Administrator
Marfi Barnes	Human Resources Technician
Lisa Molina de la Loza	Student Union Assistant Director, Services
Clarence Fong	Controller
Richard Haller	Executive Director
Marcia Le Beau	Staff Accountant
Julia Loya	Office Manager
Rhonda Marikos	Child Development Center Director
Judith E. Musselman	Vault Technician
Stuart Ohanesian	Expenditures Technician
Elizabeth Post	Accounts Receivable Technician

APPENDIX A

Maria Rivera
Fred Sanchez
Kristen Stava

Child Development Center Assistant Director
Director
Recycling Center 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.



CALIFORNIA STATE UNIVERSITY, LONG BEACH

DIVISION OF ADMINISTRATION AND FINANCE

RECEIVED
UNIVERSITY AUDITOR

MAY 28 2004

THE CALIFORNIA STATE
UNIVERSITY

May 28, 2004

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

Re: Response to Auxiliary Organizations Audit Report 03-50

Dear Larry:

Please find enclosed California State University, Long Beach's response to the above report. The campus and its auxiliaries are committed to addressing and resolving the issues identified in the audit report.

Please let me know if we can provide you with any additional information.

Sincerely,

A handwritten signature in black ink, appearing to read "W. Griffith".

William H. Griffith
Vice President for Administration and Finance

Enclosure

cc: Robert C. Maxson, President
Joseph P. Latter, Associate Vice President, Financial Management
Robert Behm, Executive Director, CSULB Foundation
Roman Gulon, General Manager/CEO, 49er Shops, Inc.
Richard Haller, Chief Administrative Officer, CSULB Associated Students, Inc.
Aysu Spruill, Interim Director, Internal Auditing Services

**AUXILIARY ORGANIZATIONS
CALIFORNIA STATE UNIVERSITY, LONG BEACH
Report Number 03-50
April 1, 2004**

RECOMMENDATION 1 – CAMPUS SECTION

We recommend that the campus ensure that offsetting allocations of costs between the campus and the Foundation made in accordance with EO 753 reflect actual costs incurred on behalf of the General Fund.

CAMPUS RESPONSE

We concur. The campus will establish procedures to ensure that offsetting allocations of costs between the campus and the Foundation are made in accordance with EO 753 to reflect actual costs on behalf of the General Fund. Estimated date of completion is September 1, 2004.

RECOMMENDATION 2 - CAMPUS SECTION

We recommend that the campus:

- a. Fully execute the current license agreement with the Foundation to operate the CPAC.
- b. Further define the authority of the CPAC executive director to execute contracts with outside performers.

CAMPUS RESPONSE

We concur. The current license agreement with the Foundation to operate the CPAC has now been fully executed and the authority of the CPAC executive director to execute contracts with outside performers has been defined. Corrective action on this recommendation is complete.

RECOMMENDATION 3 – FOUNDATION SECTION

We recommend that the Foundation record board-designated reserves within its general ledger.

CAMPUS RESPONSE

We concur. The Foundation will create additional object codes to segregate the unrestricted fund balance account and reclassify it to various reserve accounts according to its current reserve policy. Annually, after the year-end completion, a journal entry will be prepared to reclassify the fund balance to various reserve accounts. The journal entry will be reversed at the end of each fiscal year. Estimated date of completion is July 30, 2004.

RECOMMENDATION 4 – FOUNDATION SECTION

We recommend that the Foundation amend its investment policy to address:

- a. The distribution of realized losses to the individual accounts that comprise the pool.

- b. The reassessment of its spending policy to consider the effect of realized losses on the pool and its individual accounts.
- c. Expenditure of funds at the lower of account book or market value.

CAMPUS RESPONSE

We concur. The Foundation is currently in the process of amending its investment policy to address the auditors' recommendations. Estimated date of completion is July 30, 2004.

RECOMMENDATION 5 – FOUNDATION SECTION

We recommend that the Foundation delineate, by agreement and in published sources, the relationship between the Foundation's ownership/operation of the CPGS certificate program and the unaffiliated, non-profit corporation that holds the rights to the program's curriculum.

CAMPUS RESPONSE

We concur. The Foundation has an agreement developed with the assistance of its corporate counsel, which delineates the relationship between the Foundation and the now suspended corporation, the American Institute of Philanthropic Studies. The Foundation will clearly express this delineation in its promotional material. The Foundation continues to hire subject matter experts in connection with instruction, testing and certification. When appropriate, royalties are paid to the authors of text materials. Estimated date of completion is July 30, 2004.

RECOMMENDATION 6 – FOUNDATION SECTION

We recommend that the Foundation:

- a. Improve accountability of system ROOT level access by utilizing additional monitoring utilities.
- b. Ensure system services security protection is sufficient by disabling unnecessary services and removing write access to sensitive system files.

CAMPUS RESPONSE

We concur. The Foundation is currently in the process of implementing the changes to address the auditors' recommendations. Estimated date of completion is July 30, 2004.

RECOMMENDATION 7 - FORTY-NINER SHOPS SECTION

We recommend that the Shops properly execute a current licensing agreement with the campus for the operation of the library copy center.

CAMPUS RESPONSE

We concur and will follow the recommendation to execute a current licensing agreement with the campus for the operation of the library copy center. Estimated date of completion is June 30, 2004.

RECOMMENDATION 8 - FORTY-NINER SHOPS SECTION

We recommend that the Shops update its bylaws to include a provision for the election of a staff representative board member to be consistent with its Articles of Incorporation.

CAMPUS RESPONSE

We concur. The Shops management updated its bylaws to include a provision for the election of a staff representative board member to be consistent with its Articles of Incorporation. Corrective action on this recommendation is complete.

RECOMMENDATION 9 - FORTY-NINER SHOPS SECTION

We recommend that the Shops coordinate with the campus to establish a written policy for the allocation of surplus funds/reserves.

CAMPUS RESPONSE

We concur. The Shops will coordinate with the campus to establish a written policy for the allocation of surplus funds/reserves. Estimated date of completion is July 30, 2004.

RECOMMENDATION 10 - FORTY-NINER SHOPS SECTION

We recommend that Shops establish procedures to ensure that all financial assistance paid to students is reported to the campus financial aid office.

CAMPUS RESPONSE

We concur. The Shops management will establish procedures to ensure that all financial assistance paid to students is reported to the campus financial aid office. Estimated date of completion is June 30, 2004.

RECOMMENDATION 11 - FORTY-NINER SHOPS SECTION

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

CAMPUS RESPONSE

We concur. The Shops management has taken reasonable measures to further institute mitigating procedures regarding segregation of duties in the payroll function. The campus chief financial officer has approved the established procedures. Corrective action on this recommendation is complete.

RECOMMENDATION 12 - FORTY-NINER SHOPS SECTION

We recommend that the Shops ensure transfer accountability is established whenever two or more persons have access to the same cash drawers and/or bags or establish mitigating controls approved by the campus CFO.

CAMPUS RESPONSE

We concur. The Shops management has documented the established mitigating procedures for cash handling. These procedures were reviewed and approved by the campus chief financial officer. Corrective action on this recommendation is complete.

RECOMMENDATION 13 - FORTY-NINER SHOPS SECTION

We recommend that the Shops:

- a. In coordination with the campus, ensure that proper security controls are established over the cashier's office change funds.
- b. Establish a current record of all food service safe locations, individuals with knowledge of the safe combinations, and dates the safe combinations were last changed.

CAMPUS RESPONSE

We concur. The Shops management will ensure that proper security controls are established over the cashier's office change fund. The Shops will also establish a current record of all food service safe locations, individuals with knowledge of the safe combinations, and dates the safe combinations were last changed. Estimated date of completion is September 1, 2004.

RECOMMENDATION 14 - FORTY-NINER SHOPS SECTION

We recommend that the Shops:

- a. Ensure that hospitality transactions include adequate supporting detail.
- b. Ensure that hospitality expenditures for food are within the allowable rates established by campus policy or amend Shops' policy to specifically address expenditures unique to the auxiliary.

CAMPUS RESPONSE

We concur. The Shops has amended the policy to specifically address expenditures unique to the auxiliary and to ensure that hospitality transactions include adequate supporting detail. Corrective action on this recommendation is complete.

RECOMMENDATION 15 - FORTY-NINER SHOPS SECTION

We recommend that the Shops document a formal agreement fully defining specific compensation and benefits to be provided to its executive director.

CAMPUS RESPONSE

We concur. The Shops will document a formal agreement fully defining specific compensation and benefits to be provided to its executive director and will place it for approval on the agenda for the next meeting of the Shops' Personnel Committee. Estimated date of completion is September 1, 2004.

RECOMMENDATION 16 - FORTY-NINER SHOPS SECTION

We recommend that the Shops:

- a. Develop and implement policies and procedures for the management and administration of fixed assets, specifically addressing the transfer, disposal, or sale of capitalized assets.
- b. Ensure that an independent physical inventory of fixed assets is performed at least once every three years.
- c. Establish appropriate guidelines for the tagging of fixed assets.

CAMPUS RESPONSE

We concur. The Shops management has documented and implemented the procedures involved with the tagging, transfer, disposal, or sale of capitalized assets. These procedures also require that an independent physical inventory be performed at least once every three years. Corrective action on this recommendation is complete.

RECOMMENDATION 17 - FORTY-NINER SHOPS SECTION

We recommend that Shops:

- a. Consult with the campus to determine whether accounting for liabilities as credits to receivable accounts is an appropriate activity/function for the auxiliary, and if so, establish procedures to appropriately account for these types of liabilities.
- b. Ensure that payments from third-party accounts are discontinued.

CAMPUS RESPONSE

We concur. The Shops will consult with the campus and establish procedures to appropriately account for liabilities as credits to accounts receivable sub-ledger. The Shops will ensure that payments from third-party accounts are discontinued. Estimated date of completion is July 30, 2004.

RECOMMENDATION 18 - FORTY-NINER SHOPS SECTION

We recommend that the Shops review security controls to ensure that:

- a. Password expiration controls are enabled for all users.
- b. Password changes are delegated to system users.
- c. The need for generic user IDs are evaluated, and access removed or appropriately limited.
- d. Unlimited "super user" access to the timekeeping system is appropriately issued.
- e. The default password syntax settings on the timekeeping system prohibits the use of passwords which could be easily determined.

- f. Security parameters require minimum password length or alphanumeric passwords.
- g. The Shops maintain evidence of supervisors' approval of electronic timecards.

CAMPUS RESPONSE

We concur. The Shops will follow the recommendations specified on the Shops' timekeeping system. Estimated date of completion is June 30, 2004.

RECOMMENDATION 19 – ASSOCIATED STUDENTS SECTION

We recommend that the AS execute a written agreement with the campus documenting and justifying the campus' expenditures for the CDC playground improvements, and appropriately record the transaction in accounting records.

CAMPUS RESPONSE

We concur. In November 2003, a written agreement was executed between the AS and the Campus that documents and justifies the campus' expenditures for the CDC playground improvements. The transaction has been appropriately recorded in the accounting records. Corrective action on this recommendation is complete.

RECOMMENDATION 20 – ASSOCIATED STUDENTS SECTION

We recommend that the AS:

- a. Document compliance with current requirements for payment to appointed student body officers and elected directors.
- b. Clearly establish its basis for exempting certain tax requirements.
- c. Report all required payments to financial aid.

CAMPUS RESPONSE

We concur. To ensure that payments to all officers are in compliance with current regulations, the Associated Students Senate placed a proposed bylaw amendment on the ballot of the spring 2004 general election. The amendment was approved to authorize the Senate to provide payments to student officers and directors for their service to student government. ASI has determined the proper tax treatment of these stipends and reported these stipends to financial aid retroactively to July 1, 2003. Corrective action on this recommendation is complete.

RECOMMENDATION 21 – ASSOCIATED STUDENTS SECTION

We recommend that the AS:

- a. Establish transfer accountability whenever two or more persons have access to the same cash drawers and/or bags or establish mitigating controls approved by the campus CFO.
- b. Establish specific procedures to limit the amount of cash contained in registers.

CAMPUS RESPONSE

We concur. ASI has improved accountability by installing a second set of cash drawers so that only one person has access to his or her own set of drawers. Written procedures have been revised to limit the amount of cash contained in the registers. Corrective action on this recommendation is complete.

RECOMMENDATION 22 – ASSOCIATED STUDENTS SECTION

We recommend that the AS:

- a. Establish a procedure to ensure that original vendor invoices and receipts are consistently marked paid or otherwise defaced after payment.
- b. Establish a procedure to ensure that documentation is obtained to evidence that goods were received, events occurred, or service was provided in accordance with contract requirements.
- c. Reiterate to staff existing cash disbursements policies and procedures regarding sufficient and appropriate supporting documentation and appropriate authorization.

CAMPUS RESPONSE

We concur. AS has purchased and is now using a defacing machine to ensure that vendor invoices and receipts are consistently defaced after payment. Procedures will be established to ensure that documentation is obtained to evidence that goods were received, events occurred, or service was provided in accordance with contract requirements. Follow-up training on policies and procedures regarding proper documentation, appropriate authorization, and evidencing receipt of goods will be conducted. Estimated date of completion is July 30, 2004.

RECOMMENDATION 23 – ASSOCIATED STUDENTS SECTION

We recommend that the AS establish initial accountability upon receipt of consigned tickets.

CAMPUS RESPONSE

We concur. The AS Business Office has established initial accountability upon receipt of consigned tickets by maintaining proper documentation. Corrective action on this recommendation is complete.

RECOMMENDATION 24 – ASSOCIATED STUDENTS SECTION

We recommend that the AS consistently obtain and keep current, required signatures on custodial account agreements.

CAMPUS RESPONSE

We concur. The agency account application and agreement form has been redesigned to ensure that forms are completed and signed by all applicants. Corrective action on this recommendation is complete.

RECOMMENDATION 25 – ASSOCIATED STUDENTS SECTION

We recommend that the AS:

- a. Require signatures of both persons verifying redemption fund cash balances at the recycling center and the AS business office vault.
- b. Limit access to recycling center redemption fund vault cash to recycling center management.
- c. Require that all deposits and withdrawals of recycling center redemption fund vault cash be documented by the AS business office.
- d. Submit copies of signed customer CRV customer redemption logs for the reimbursement of redemption fund cash.
- e. Require business office control over the creation and assignment of prenumbered CRV redemption logs.

CAMPUS RESPONSE

We concur. ASI Recycling has modified operations and procedures to conform to the audit recommendations:

- a. Two employees now count and verify cash balances. Signatures are required on imprest forms, which are submitted at the time of the replenishment request.
- b. AS Recycling management holds the only key to access the recycling center's redemption fund vault cash.
- c. Documentation of withdrawals and deposits of redemption fund cash is kept in a running log book in the vault, signed by both the recycling center manager and the vault/accounting technician of the business office.
- d. Redemption logs are now printed on pre-numbered NCR 2-page forms. The carbons are turned in with every request for cash fund replenishment for verification purposes.
- e. The AS business office orders and controls the prenumbered CRF redemption logs.

Corrective action on this recommendation is complete.

RECOMMENDATION 26 – ASSOCIATED STUDENTS SECTION

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

- a. Written provisions for recovering the financial system.
- b. Finalized arrangements for alternate processing facilities.
- c. End-user procedures specific to systems recovery.

CAMPUS RESPONSE

We concur. ASI will revise and document its IT disaster recovery plan to include provisions for recovering financial systems and end-user procedures specific to systems recovery. ASI will also finalize arrangements for alternate processing facilities. Estimated date of completion is July 30, 2004.

RECOMMENDATION 27 – ASSOCIATED STUDENTS SECTION

We recommend that the AS ensure that computer account passwords are changed on a periodic basis in a manner that would support confidentiality and individual accountability.

CAMPUS RESPONSE

We concur. ASI will require all individuals with access to the financial accounting system to change passwords every six months. E-mail notifications will be sent out to all users. Estimated date of completion is July 30, 2004.

THE CALIFORNIA STATE UNIVERSITY
OFFICE OF THE CHANCELLOR

IRSFIEL

July 12, 2004

HANNE SLANDS

CHICO

DOMINUEZ

MEMORANDUM

FRESNO

ORTON

TO: Mr. Larry Mandel
University Auditor

AYWARI

FROM: Charles B. Reed
Chancellor


HUMBOLDT

LONG BEACH

SUBJECT: Draft Final Report Number 03-50 on *Auxiliary Organizations*,
California State University, Long Beach

OS ANGEL

MARITIME ACADEMY

MOJAVE BAY

In response to your memorandum of July 12, 2004, I accept the response as submitted with the draft final report on *Auxiliary Organizations*, California State University, Long Beach.

NORTHRIE

POMONA

ACRAMENTO

CBR/amd

SAN BERNARDI

Enclosure

SAN DIEGO

cc: Mr. William H. Griffith, Vice President for Administration and Finance
Dr. Robert C. Maxson, President

SAN FRANCISCO

SAN JOSE

SAN LUIS OBISPO

SAN MARCOS

SONOMA

STANISLAUS