

**AUXILIARY ORGANIZATIONS**  
**CALIFORNIA STATE UNIVERSITY,**  
**SAN MARCOS**

**Report Number 04-46**  
**August 19, 2004**

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

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## **ABBREVIATIONS**

AS	Associated Students of California State University, San Marcos
CFO	Chief Financial Officer
Corporation	San Marcos University Corporation
CSU	California State University
CSUSM	California State University, San Marcos
ELC	Early Learning Center
EO	Executive Order
Foundation	California State University, San Marcos Foundation
IRC	Internal Revenue Code
IRS	Internal Revenue Service
MOU	Memorandum of Understanding
RFIN	Resolution of the Committee on Finance
UBI	Unrelated Business Income

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## EXECUTIVE SUMMARY

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

We visited the California State University, San Marcos (CSUSM) campus and its auxiliary organizations from February 9, 2004, through March 12, 2004, and made a study and evaluation of the system of internal compliance/internal control in effect for the period July 2001 to March 2004. This report represents our triennial review.

CSUSM 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, San Marcos Foundation* revealed certain conditions that, in our opinion, could result in errors and irregularities if not corrected. Specifically, the auxiliary did not maintain adequate control over the following areas: fiscal compliance; segregation of duties; and fees, revenues, and receivables. These conditions, along with other weaknesses, are described in the executive summary and in the body of the report. In our opinion, except for the effect of the weaknesses described above, accounting and administrative control in effect as of March 2004, taken as a whole, was sufficient to meet the objectives stated above.

Our study and evaluation at the *San Marcos University Corporation* revealed certain conditions that, in our opinion, could result in errors and irregularities if not corrected. Specifically, the auxiliary did not maintain adequate control over the following area: auxiliary programs. 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 March 2004, taken as a whole, was sufficient to meet the objectives stated above.

Our study and evaluation at the *Associated Students of California State University, San Marcos* revealed certain conditions that, in our opinion, could result in errors and irregularities if not corrected. Specifically, the auxiliary did not maintain adequate control over the following areas: corporate governance, operational compliance, segregation of duties, cash receipts and handling, personnel and payroll, and trust and other liabilities. 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 March 2004, 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.

## **CAMPUS**

### **FISCAL COMPLIANCE [10]**

The campus had not developed a formal cost allocation plan for the reimbursement of facilities, goods, and services provided to the auxiliary organizations.

### **OPERATIONAL COMPLIANCE [11]**

The campus had not provided sufficient guidance for its auxiliaries regarding the implementation of conflict-of-interest policies and procedures.

### **CAMPUS OVERSIGHT AND CONTROL [12]**

The campus had not developed procedures and memoranda of understanding regarding the coordinated oversight of the Associated Students of California State University, San Marcos finances, activities, and programs.

## **CALIFORNIA STATE UNIVERSITY, SAN MARCOS FOUNDATION**

### **OPERATING AND ADMINISTRATIVE AGREEMENTS [13]**

A current operating agreement between the California State University, San Marcos Foundation (Foundation) and the campus had not been executed. In addition, business arrangements between the Foundation and vending contractors and one foodservice vendor were not properly supported by current, written agreements.

## **CORPORATE GOVERNANCE [14]**

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

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

The Foundation did not appropriately segregate certain accounting functions over personnel and payroll and investments, as the payroll technician had the ability to modify employee information in the payroll system, process payroll, and distribute paychecks. Further, certain individuals had independent authority to perform bank and investment account transfers.

## **PETTY CASH AND CHANGE FUNDS [16]**

The Foundation did not conduct independent, unannounced counts of foodservice change funds on a regular basis, and records of change fund counts at foodservice units were not maintained.

## **FEES, REVENUES, AND RECEIVABLES [17]**

The Foundation did not perform daily, independent reconciliations of foodservice unit sales receipts and deposits. Also, the Foundation had not developed written policies to address accounts receivable procedures.

## **PURCHASING AND ACCOUNTS PAYABLE [18]**

Foundation cash disbursements were not supported by sufficient and appropriate documentation and/or appropriate authorization. Instances were noted where current specimen signatures were not on file authorizing the disbursements, attendee listings were not included as support for disbursements, and one-up authorization for a disbursement had not been obtained.

## **PROPERTY AND EQUIPMENT [19]**

The Foundation had not developed detailed procedures regarding the process for the acquisition and disposal or sale of capitalized assets. In addition, the fixed asset listing had not been regularly reconciled to the general ledger.

## **SAN MARCOS UNIVERSITY CORPORATION**

## **CORPORATE GOVERNANCE [21]**

The San Marcos University Corporation (Corporation) Articles of Incorporation did not include a dissolution clause in accordance with Title 5. Additionally, the Corporation board minutes were not signed and approved by an appropriate official.

## **AUXILIARY PROGRAM [22]**

The Corporation had not developed written policies and procedures to address the monitoring and verification of student housing revenues and expenditures reported by the student housing property management corporation.

## **ASSOCIATED STUDENTS OF CALIFORNIA STATE UNIVERSITY, SAN MARCOS**

### **OPERATING AND ADMINISTRATIVE AGREEMENTS [24]**

The Associated Students of California State University, San Marcos (AS) operating agreement with the campus did not specify all functions administered by the auxiliary organization, including a children's center, acceptance of gifts, and campus recreation and sports programs. Additionally, the operating agreement had not been properly executed. This is a repeat finding from our prior review of the AS. Certain provisions of the memorandum of understanding for fiscal custodianship between the AS and the campus required revision, specifically concerning the AS Early Learning Center (ELC) and responsibilities for the reconciliation of club accounts.

### **CORPORATE GOVERNANCE [25]**

AS was in violation of public meeting requirements in their conduct of closed sessions. AS convened closed sessions to discuss topics that were not disclosed in agendas or minutes. Additionally, the meeting minutes were not signed and approved by an appropriate official, and the AS bylaws required revision as to active committees and their responsibilities.

### **OPERATIONAL COMPLIANCE [28]**

The current AS non-discrimination policy did not address discrimination based on veterans' status, pregnancy, and marital status. The AS policies and procedures manual regarding cash receipts, purchasing, accounts payable, petty cash, and signature authority required revision. This is a repeat finding from our previous review of the AS. Finally, certain leases for the ELC did not indemnify the campus or CSU Trustees.

### **SEGREGATION OF DUTIES [30]**

The AS did not appropriately segregate certain accounting functions over cash handling and personnel and payroll. The same individual operated the cash register, reconciled the cash drawer, and made deposits. Furthermore, the same individual submitted changes to the payroll company for additions and deletions from payroll, controlled address changes and vacation accruals, and received and distributed payroll checks.

### **CASH RECEIPTS AND HANDLING [31]**

Certain controls over AS cash receipts processing were deficient. For example, cash receipts were not always deposited in a timely manner, which occasionally resulted in large amounts of cash in the safe. In addition, a current record of individuals with knowledge of safe combinations was not maintained.

### **FEES, REVENUES, AND RECEIVABLES [32]**

Certain controls over AS accounts receivable were deficient. AS policies and procedures did not sufficiently address the collection of accounts receivables or the write-off of uncollectible receivables, and as a result, certain ELC receivables had been outstanding since 2002. Finally, unrelated business income at the ELC had not been accounted for or tracked.

### **PURCHASING AND ACCOUNTS PAYABLE [34]**

Written signature authorizations identifying designated individuals to approve AS disbursements were not maintained. Furthermore, certain AS cash disbursements were not supported by sufficient and appropriate documentation, such as airline tickets, hotel receipts, and event fliers.

### **PERSONNEL AND PAYROLL [35]**

AS personnel files did not contain documentation supporting change of address and pay rate change information. Additionally, board approval could not be provided to support merit and cost-of-living pay increases. The *AS Employee Handbook* required revision, as it did not reflect current practice and contained contradictory information regarding the responsibilities of the board members and the executive director.

### **PROPERTY AND EQUIPMENT [37]**

The AS property and equipment policies and procedures did not address periodic physical inventories, additions and deletions from inventory, sales and dispositions, or reconciliations between listing and inventory. As a result, assets were not tagged on a consistent basis, and an appropriate reconciliation of fixed assets had not recently been performed.

### **TRUSTS AND OTHER LIABILITIES [38]**

Certain controls over AS club accounting administration were deficient. The campus did not reconcile club accounts, accounting records did not accurately reflect active club accounts, and negative student organization account balances were not periodically reviewed and cleared in a timely manner. Additionally, the AS had not developed policies and procedures to escheat unclaimed monies to the state.

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## INTRODUCTION

### **BACKGROUND**

Education Code §89900 states, in part, that the operation of auxiliary organizations shall be conducted in conformity with regulations established by the Trustees.

Education Code §89904 states, in part, that the Trustees of the California State University (CSU) and the governing boards of the various auxiliary organizations shall:

- ▶ Institute a standard systemwide accounting and reporting system for businesslike management of the operation of such auxiliary organizations.
- ▶ Implement financial standards that will assure the fiscal viability of such various auxiliary organizations. Such standards shall include proper provision for professional management, adequate working capital, adequate reserve funds for current operations and capital replacements, and adequate provisions for new business requirements.
- ▶ Institute procedures to assure that transactions of the auxiliary organizations are within the educational mission of the state colleges.
- ▶ Develop policies for the appropriation of funds derived from indirect cost payments.

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

This executive order requires that the Office of the University Auditor will perform an internal compliance/internal control review of auxiliary organizations. The review will be used to determine compliance with law, including statutes in the Education Code and rules and regulations of Title 5, and compliance with policy of the Board of Trustees and of the campus, including appropriate separation of duties, safeguarding of assets, and reliability and integrity of information. According to Board of Trustee instruction, each auxiliary organization shall be examined on a triennial basis pursuant to procedures established by the chancellor.

## **PURPOSE**

The principal audit objectives were to determine compliance with the Education Code, Title 5, and directives of the Board of Trustees and the Office of the Chancellor and to assess the adequacy of controls and systems. Specifically, we sought assurances that:

- ▶ Legal and regulatory requirements are complied with.
- ▶ Accounting data is provided in an accurate, timely, complete, or otherwise reliable manner.
- ▶ Assets are adequately safeguarded from loss, damage, or misappropriation.
- ▶ Duties are appropriately segregated consistent with appropriate control objectives.
- ▶ Transactions, accounting entries, or systems output is reviewed and approved.
- ▶ Management does not intentionally override internal controls to the detriment of control objectives.
- ▶ Accounting and fiscal tasks, such as reconciliations, are prepared properly and completed timely.
- ▶ Deficiencies in internal controls previously identified were corrected satisfactorily and timely.
- ▶ Management seeks to prevent or detect erroneous recordkeeping, 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, 2001/02 and 2002/03 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 2003 to March 2004. 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, San Marcos Foundation

- ▶ Operating and Administrative Agreements
- ▶ Facilities Agreements
- ▶ Corporate Governance
- ▶ Fiscal Compliance
- ▶ Operational Compliance
- ▶ Program Compliance
- ▶ Campus Oversight and Control
- ▶ Cash Receipts and Handling
- ▶ Petty Cash and Change Funds
- ▶ Investments
- ▶ Fees, Revenues, and Receivables
- ▶ Purchasing and Accounts Payable
- ▶ Personnel and Payroll
- ▶ Property and Equipment
- ▶ Auxiliary Programs - Sponsored Programs
- ▶ Information Technology

San Marcos University Corporation

- ▶ Operating and Administrative Agreements
- ▶ Facilities Agreements
- ▶ Corporate Governance
- ▶ Fiscal Compliance
- ▶ Operational Compliance
- ▶ Program Compliance
- ▶ Campus Oversight and Control
- ▶ Purchasing and Accounts Payable
- ▶ Information Technology

Associated Students of California State University, San Marcos

- ▶ Operating and Administrative Agreements
- ▶ Facilities Agreements
- ▶ Corporate Governance
- ▶ Fiscal Compliance
- ▶ Operational Compliance
- ▶ Program Compliance

Associated Students of California State University, San Marcos (cont.)

- ▶ Campus Oversight and Control
- ▶ Cash Receipts and Handling
- ▶ Fees, Revenues, and Receivables
- ▶ Purchasing and Accounts Payable
- ▶ Personnel and Payroll
- ▶ Property and Equipment
- ▶ Trusts and Other Liabilities
- ▶ Information Technology

We have not performed any auditing procedures beyond March 12, 2004. Accordingly, our comments are based on our knowledge as of that date. Since the purpose of our comments is to suggest areas for improvement, comments on favorable matters are not addressed.

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# OBSERVATIONS, RECOMMENDATIONS, AND CAMPUS RESPONSES

## CAMPUS

### FISCAL COMPLIANCE

The campus had not developed a formal cost allocation plan for the reimbursement of facilities, goods, and services provided to the auxiliary organizations.

We found that the California State University, San Marcos Foundation and San Marcos University Corporation did not reimburse the campus for indirect costs incurred. In addition, we found that although indirect costs associated with the fiscal management of the Associated Students of California State University, San Marcos (AS) were reimbursed, costs incurred for the use of certain campus facilities were not addressed.

California Government Code §11259 states that all money received by any state agency, other than the Regents of the University of California, for charges for work, services, materials, or equipment shall be deposited in the State Treasury and, except advances or transfers under Sections 11257 and 11258, 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.

California Government Code §16301 states that except as otherwise provided by law, all money belonging to the state received from any source whatever by any state agency shall be accounted for to the Controller at the close of each month, or more frequently if required by the Controller or the Department of Finance, in such form as he prescribes, and on the order of the Controller be paid into the Treasury and credited to the General Fund, provided that amounts received as partial or full reimbursement for services furnished shall be credited to the applicable appropriation.

Executive Order (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.

The associate vice president of finance and administration stated that the campus was in the process of forming a committee to identify indirect costs for all auxiliaries. She further stated her belief that the indirect costs for the AS were addressed in a separate agreement.

Failure to develop and follow a cost allocation plan could result in the General Fund not being properly reimbursed for facilities, goods, and services provided to auxiliary organizations.

#### **Recommendation 1**

We recommend that the campus develop a formal cost allocation plan to ensure that the General Fund is appropriately reimbursed for facilities, goods, and services provided to auxiliary organizations.

### **Campus Response**

We concur. The president has appointed a cost recovery committee to develop a proposed plan to present to the executive council by February 1, 2005. That committee began its work in the 2003/04 fiscal year and will complete it by the deadline established by the president.

## **OPERATIONAL COMPLIANCE**

The campus had not provided sufficient guidance for its auxiliaries regarding the implementation of conflict-of-interest policies and procedures.

Current policies and procedures did not fully address or consider the following areas:

- ▶ Conflict-of-interest procedures.
- ▶ Records of proceedings relating to a possible or actual conflict.
- ▶ Compensation.
- ▶ Annual statements.
- ▶ Periodic reviews.

Education Code §89906 states that no member of the governing board of an auxiliary organization shall be financially interested in any contract or other transaction entered into by the board of which he is a member, and any contract or transaction entered into in violation of this section is void.

Title 5 §42401, §42402, §42500 and Education Code §89900 establish a responsibility to operate in accordance with sound business practices in the interest of the campus. Sound business practice mandates establishing conflict-of-interest policies and procedures to implement Education Code §89906 and other similar provisions to prevent imprudent or improper decisions by auxiliary board and management members.

The vice president of finance and administrative services and chief financial officer stated that he was unaware that auxiliary conflict-of-interest policies and procedures were insufficient.

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

### **Recommendation 2**

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

### **Campus Response**

We concur. Human resources and equal opportunity will work with the auxiliaries to ensure that their conflict-of-interest policies and procedures and documentation are in line with California State University practice.

## **CAMPUS OVERSIGHT AND CONTROL**

The campus had not developed procedures and memoranda of understanding regarding the coordinated oversight of AS finances, activities, and programs.

Title 5 §42402 and Education Code §89900 indicate that the president of each campus is responsible for the educational effectiveness, academic excellence, and general welfare of the campus over which he presides.

Title 5 §42602(a) indicates that student body organizations include a representative of the campus president to advise on policy and to provide a liaison between the student governing board and the president of the campus.

The vice president of finance and administrative services and chief financial officer stated that although he had become more involved in the oversight of the AS, the lack of formal strategy was due to oversight.

Insufficient campus oversight of student body organization operations reduces opportunities to enhance the student experience and increases the risk of misunderstandings and miscommunication regarding rights and responsibilities to oversee its finances, activities, and programs.

### **Recommendation 3**

We recommend that the campus develop procedures and memoranda of understanding to coordinate the oversight of AS finances, activities, and programs.

### **Campus Response**

We concur. The university and AS have completed the operating agreement between the Trustees and AS as well as an agreement on student body programs.

## **CALIFORNIA STATE UNIVERSITY, SAN MARCOS FOUNDATION**

### **OPERATING AND ADMINISTRATIVE AGREEMENTS**

#### **AUXILIARY AUTHORIZATION**

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

Title 5 §42501 states that a written agreement on behalf of the State of California by the Chancellor of The California State University (CSU) and the auxiliary organization is required for the performance by such auxiliary organization of any of the functions listed in §42500. Title 5 §42502 states that the operating agreement should specify the function or functions which the organization is to manage, operate, or administer.

The Foundation executive director stated that the delay in executing the current agreement was due to negotiations with the CSU and campus regarding the wording and structure of the contract clauses. She further indicated that the Foundation had been operating under the old agreement on a month-to-month basis as provided for within that agreement.

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

#### **Recommendation 4**

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

#### **Campus Response**

We concur. The Foundation executed an operating agreement with the CSU dated February 12, 2004, for the period ending June 30, 2009.

### **WRITTEN AGREEMENTS**

Business arrangements between the Foundation and vending contractors and one foodservice vendor were not properly supported by current, written 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 business arrangements be supported by current, written agreements.

The Foundation director of commercial services and risk management stated that the business arrangements were recently in transition and updated agreements were in process.

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

**Recommendation 5**

We recommend that the Foundation ensure that business arrangements with vending contractors and foodservice vendors are properly supported by current, written agreements.

**Campus Response**

We concur. The Foundation has two vending contractors and has obtained a written agreement from one of them. The written agreement with the other vending contractor will be completed by November 19, 2004.

**CORPORATE GOVERNANCE**

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

California Corporations Code §5215 states that the original or a copy of the bylaws or of the minutes of any incorporators', members', directors', committee or other meeting or of any resolution adopted by the board or a committee thereof, or members, certified to be a true copy by a person purporting to be the secretary or an assistant secretary of the corporation, is prima facie evidence of the adoption of such bylaws or resolution or of the due holding of such meeting and of the matters stated therein.

The Foundation executive director stated that she was unaware of the requirement for signed board minutes.

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

**Recommendation 6**

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

**Campus Response**

We concur. The Foundation now includes a certification of board approval of the minutes, which contains a signature line, date, and title of the officer.

## SEGREGATION OF DUTIES

The Foundation did not appropriately segregate certain accounting functions over personnel and payroll and investments.

### Personnel and Payroll

We found that one payroll employee:

- ▶ Added and changed records in the payroll system.
- ▶ Entered time and processed payroll in the payroll system.
- ▶ Distributed payroll checks via mail to Foundation employees.

The Foundation director of finance and business services stated that personnel and payroll mitigating controls were in place, but acknowledged that they could be strengthened.

### Investments

We found that:

- ▶ The Foundation executive director and the director of finance and business services had independent investment and bank account transfer authority.
- ▶ The executive director received bank statements.
- ▶ The director of finance and business was responsible for investment analysis.

The Foundation director of finance and business services stated that processes were in place that authorized bank and investment account transfers, but that such authorizations were typically after-the-fact.

EO 698, *Board of Trustees Policy for The California State University Auxiliary Organizations*, dated March 3, 1999, states that the review of auxiliary organizations will be used to determine appropriate separation of duties, safeguarding of assets, and reliability and integrity of information.

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

### **Recommendation 7**

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

### **Campus Response**

We concur. Written procedures will be developed by November 19, 2004, to document the segregation of duties involving the payroll and personnel functions. Mitigating procedures have already been initiated to assure segregation of duties with investment transfers and bank activity.

## **PETTY CASH AND CHANGE FUNDS**

Certain controls over Foundation foodservice change funds were insufficient.

We found that:

- ▶ Independent, unannounced counts of foodservice change funds were not regularly performed.
- ▶ Records of change fund counts at foodservice units were not maintained.

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

The Foundation director of business and finance stated his belief that performing counts of change funds only once or twice a month was sufficient. He further stated that the lack of documentation was due to oversight.

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

### **Recommendation 8**

We recommend that the Foundation:

- a. Ensure that independent, unannounced counts of foodservice change funds are regularly performed.
- b. Maintain records of change fund counts at foodservice units.

### **Campus Response**

We concur. Unannounced counts of food service change funds are performed at least once every two weeks. Change fund counts at food service units are recorded in signed logs and reviewed by appropriate supervisory personnel. Written procedures for the counting and recording of change funds will be developed by November 19, 2004.

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

### **REVENUE RECONCILIATION**

The Foundation did not perform daily, independent reconciliations of foodservice unit sales receipts and deposits.

We noted that the foodservice accounting technician collected daily cash receipts, verified the receipts to foodservice units' daily sales reports, and prepared the corresponding deposits. An independent reconciliation of sales and deposit amounts was not performed until the following week.

Title 5 §42401 and §42402 indicate that the campus president shall require that auxiliary organizations operate in conformity with policy of the Board of Trustees and the campus. One of the objectives of the auxiliary organizations is to provide fiscal procedures and management systems that allow effective coordination of the auxiliary activities with the campus in accordance with sound business practices. Sound business practice requires timely reconciliation between revenue and daily sales reports.

The Foundation director of business and finance stated his belief that since this was the first year foodservices were controlled by the Foundation, weekly reconciliations were adequate.

Failure to regularly reconcile revenues and supporting documentation increases the risk that errors or misappropriation of funds would not be detected.

#### **Recommendation 9**

We recommend that the Foundation regularly perform an independent reconciliation of foodservice unit sales receipts and deposits.

#### **Campus Response**

We concur. A reconciliation process involving a three-way match between daily cash register reports, daily bank activity, and daily general ledger transaction activity performed by appropriate independent personnel has been developed and will be finalized as written procedures by November 19, 2004.

### **ACCOUNTS RECEIVABLE**

The Foundation had not developed written policies and procedures to address accounts receivable aging, timely action on uncollected receivables, write-off of uncollectible accounts, and assessment of allowance for doubtful accounts.

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 policies and procedures be documented for accounts receivable.

The Foundation director of business and finance stated his belief that accounts receivable processes were in place, but had not been documented due to higher priorities.

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

### **Recommendation 10**

We recommend that the Foundation develop policies and procedures that address accounts receivable aging, timely action on uncollected receivables, the write-off of uncollectible accounts, and assessment of allowance for doubtful accounts.

### **Campus Response**

We concur. Written procedures for accounts receivable aging, collection, assessment of doubtful accounts, and write-off will be completed by November 19, 2004.

## **PURCHASING AND ACCOUNTS PAYABLE**

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

Our review of 80 cash disbursements disclosed the following:

### Processing Exceptions

- ▶ In nine instances, a current specimen signature was not on file authorizing the disbursement.
- ▶ In five instances, attendee listings were not included as support for disbursements.
- ▶ In one instance, one-up authorization for a disbursement had not been obtained.

We found that the Foundation, in certain occasions, accepted e-mail authorization for disbursements.

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

The Foundation director of finance and business services stated that the lack of appropriate supporting documentation and authorization for disbursements was due to oversight.

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

**Recommendation 11**

We recommend that the Foundation reiterate to staff existing cash disbursement policies and procedures regarding sufficient and appropriate supporting documentation and appropriate authorization.

**Campus Response**

We concur. The Foundation will revise written procedures related to authorization and documentation by November 19, 2004.

**PROPERTY AND EQUIPMENT**

Certain controls over Foundation property and equipment were inadequate.

We found that:

- ▶ Policies and procedures did not address the acquisition and disposal or sale of capitalized assets.
- ▶ The fixed asset listing had not been regularly reconciled to the 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 strong controls over property and equipment.

The Foundation director of business and finance stated that the fixed asset policies and procedures did not address the acquisition and disposal or sale of capitalized assets due to oversight. He further stated that reconciliation of the fixed asset listing to the general ledger had not been completed due to resources required for the foodservice start-up operations.

Inadequate controls over property and equipment increase the risk that property may be lost or stolen.

**Recommendation 12**

We recommend that the Foundation:

- a. Develop and implement policies and procedures for the management and administration of property and equipment, addressing the acquisition and disposal or sale of capitalized assets.
- b. Reconcile the fixed asset listing to the general ledger on a regular basis.

**Campus Response**

We concur. Written procedures related to the management and administration of property and equipment, including the acquisition and disposal of capitalized assets, will be finalized by November 19, 2004. Written procedures for reconciling the fixed asset listing to the general ledger will be finalized by November 19, 2004.

## **SAN MARCOS UNIVERSITY CORPORATION**

### **CORPORATE GOVERNANCE**

#### **DISSOLUTION CLAUSE**

The San Marcos University Corporation (Corporation) Articles of Incorporation did not specify that the net assets of the dissolved auxiliary must be distributed to a successor approved by the campus president and the CSU Trustees.

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

The Corporation executive director stated that the dissolution clause was not in compliance with Title 5 due to oversight.

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

#### **Recommendation 13**

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

#### **Campus Response**

We concur. The Corporation board has approved a revised dissolution clause in accordance with Title 5 and will submit the change in its Articles of Incorporation to the Secretary of State by November 19, 2004.

### **BOARD MINUTES**

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

California Corporations Code §5215 states that the original or a copy of the bylaws or of the minutes of any incorporators', members', directors', committee or other meeting or of any resolution adopted by the board or a committee thereof, or members, certified to be a true copy by a person purporting to be the secretary or an assistant secretary of the corporation, is prima facie evidence of the adoption of such bylaws or resolution or of the due holding of such meeting and of the matters stated therein.

The Corporation executive director stated that she was unaware of the requirement for signed board minutes.

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

**Recommendation 14**

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

**Campus Response**

We concur. The Corporation now includes a certification of board approval of the minutes, which contains a signature line, date, and title of the officer.

**AUXILIARY PROGRAMS**

The Corporation had not developed written policies and procedures to address the monitoring and verification of student housing revenues and expenditures reported by the student housing property management corporation.

We found that the property management corporation provided monthly financial data to the Corporation, which included a comparison of actual revenues and expenditures to board-approved budgeted amounts; however, the data was not verified by the Corporation. Under the terms of the management agreement, the Corporation has authority to inspect, audit, and copy records at reasonable intervals.

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 documented policies and procedures.

The Corporation executive director stated that the housing project had opened in August 2003 and that the processes to review the monthly budget versus actual revenue and expenditure activity were in the process of being established.

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

**Recommendation 15**

We recommend that the Corporation develop written policies and procedures to address the monitoring and verification of student housing revenues and expenditures reported by the student housing property management corporation.

**Campus Response**

We concur. Written procedures to reconcile and verify revenue and expenditures as reported by the student housing property management corporation will be finalized by November 19, 2004.

**ASSOCIATED STUDENTS OF  
CALIFORNIA STATE UNIVERSITY, SAN MARCOS**

**OPERATING AND ADMINISTRATIVE AGREEMENTS**

**AUXILIARY AUTHORIZATION**

The Associated Students of California State University, San Marcos (AS) operating agreement with the campus did not specify all functions administered by the auxiliary organization, including a children's center, acceptance of gifts, and campus recreation and sports programs. Additionally, the operating agreement had not been properly executed. This is a repeat finding from our prior review of the AS.

Title 5 §42501 states that a written agreement on behalf of the State of California by the Chancellor of The California State University and the auxiliary organization is required for the performance by such auxiliary organization of any of the functions listed in §42500. Title 5 §42502 states that the operating agreement should specify the function or functions which the organization is to manage, operate, or administer.

The AS executive director stated that the AS revised its operating agreement in 2001 to include all authorized functions. However, the executed agreement was never submitted to the chancellor's office for approval due to oversight.

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

**Recommendation 16**

We recommend that the AS revise and execute its operating agreement with the chancellor's office to specify all functions administered by the auxiliary.

**Campus Response**

We concur. AS has executed an operating agreement dated September 30, 2004 through 2009 with the campus.

**AGREEMENTS**

Certain provisions of the memorandum of understanding (MOU) for fiscal custodianship between the AS and the campus required revision.

The MOU for fiscal custodianship required clarification as to rights and responsibilities as follows:

- ▶ The campus provided accounting services for the AS Early Learning Center (ELC) despite the specific exclusion of these types of services from the body of the MOU. The campus performed

accounts receivable and payable functions for the ELC, in addition to financial statement preparation and payroll record maintenance.

- ▶ Responsibility for the various aspects of club accounting was unclear. For example, the campus maintained club accounts in trusts and disbursed funds from those accounts; however, responsibility to reconcile accounts was unclear and therefore were not reconciled.

Title 5 §42401 and §42402 indicate that the campus president shall require that auxiliary organizations operate in conformity with policy of the Board of Trustees and the campus. One of the objectives of the auxiliary organizations is to provide fiscal procedures and management systems that allow effective coordination of the auxiliary activities with the campus in accordance with sound business practices. Sound business practice mandates that written agreements be executed which fully define the expectations, rights, and responsibilities of the parties involved.

The AS executive director stated that the MOU failed to address ELC accounting due to oversight. She further stated her belief that the campus was responsible for club accounting, including reconciliations.

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

#### **Recommendation 17**

We recommend that the AS revise the MOU for fiscal custodianship to appropriately address:

- a. Campus accounting for the ELC.
- b. Responsibilities for club accounting.

#### **Campus Response**

We concur. AS has executed an operating agreement and a student body program agreement with the university (September 30, 2004).

## **CORPORATE GOVERNANCE**

### **BYLAWS**

The AS bylaws were not current.

We found that the bylaws identified eight committees with distinct responsibilities for the governance of AS operations, whereas only one committee was active.

Education Code §89925 requires, in part, that CSU auxiliaries establish certain policies with written bylaws.

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 corporate bylaws be accurately maintained.

The AS executive director stated that due to oversight, the bylaws were not revised when committees became inactive.

Failure to maintain accurate bylaws could result in a discrepancy between procedural standards and actual practices.

**Recommendation 18**

We recommend that the AS revise its bylaws to accurately reflect the appropriate committees required for adequate governance.

**Campus Response**

We concur. AS has revised its bylaws to accurately reflect active committees on August 19, 2004.

**BOARD MINUTES**

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

California Corporations Code §5215 states that the original or a copy of the bylaws or of the minutes of any incorporators', members', directors', committee or other meeting or of any resolution adopted by the board or a committee thereof, or members, certified to be a true copy by a person purporting to be the secretary or an assistant secretary of the corporation, is prima facie evidence of the adoption of such bylaws or resolution or of the due holding of such meeting and of the matters stated therein.

The AS executive director stated that she was unaware of the requirement for signed board minutes.

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

**Recommendation 19**

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

### **Campus Response**

We concur. AS has created a corporate secretary training manual that addressed the need for the minutes to be signed and dated upon minute approval. A signature line has been added to our minutes template.

### **PUBLIC MEETINGS**

The manner in which the AS conducted closed-session board meetings was in violation of public meeting requirements.

We found that all actions taken in closed sessions, including the vote or abstention of every member present, were not documented in minutes. The AS held closed sessions during their regular public meetings without properly identifying the subject of the session in the meeting agenda or minutes. Additionally, minutes were not maintained for these sessions, resulting in lack of documentation for issues discussed. Topics discussed at these meetings could support decisions regarding staff pay increases, employee dismissals, employment contract negotiation, and campus oversight of AS operations.

Education Code §89307 indicates that prior to holding a closed session pursuant to the Gloria Romero Open Meetings Act of 2000, the purpose of the closed session must fall within specific parameters and the purpose must be stated on the agenda and disclosed in the open meeting. Furthermore, any action taken in closed session and the vote or abstention of every member present must be presented in an open session and documented in minutes.

California Government Code §54957.2 indicates that an officer or employee can attend closed sessions and maintain minutes of topics discussed and decisions made during closed sessions that are not subject to the California Public Records Act.

The AS executive director stated that the board of directors only held closed sessions for personnel and contract matters authorized by the public meeting acts, and failure to properly document the sessions was due to oversight.

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

### **Recommendation 20**

We recommend that the AS:

- a. State the purpose of closed sessions in board agendas and minutes in compliance with public meeting requirements.
- b. Maintain minutes of the closed sessions.

- c. Ensure that all actions taken in closed session, including the vote or abstention of every member present, are discussed in an open session and documented in minutes.

**Campus Response**

We concur. AS will state the purpose of closed session in board agendas and minutes and ensure that all actions taken in closed session are accurately reflected in open session and meeting minutes. We will also maintain minutes of closed sessions.

**OPERATIONAL COMPLIANCE**

**RISK MANAGEMENT**

Certain leases for the AS ELC did not indemnify the campus or CSU Trustees.

EO 849, *California State University Insurance Requirements*, dated February 5, 2003, states that hold harmless provisions should state that an auxiliary organization agrees to indemnify, defend, and save harmless the State of California, the Trustees of the California State University, the campus, and the officers, employees, volunteers, and agents of each of them from any and all loss, damage, or liability that may be suffered or incurred by state, caused by, arising out of, or in any way connected with the operations of the auxiliary.

The AS executive director stated that the lack of proper indemnification in certain agreements was due to oversight.

The lack of appropriate indemnification clauses increases the auxiliary's exposure to potential liability.

**Recommendation 21**

We recommend that the AS ensure that leases for the ELC include appropriate indemnification clauses.

**Campus Response**

We concur. AS will update the indemnification clause in the ELC lease with the City of San Marcos by November 19, 2004.

**NON-DISCRIMINATION POLICY**

The current AS non-discrimination policy did not address discrimination based on veterans' status, pregnancy, and marital status.

EO 774, *Systemwide Guidelines for Nondiscrimination and Affirmative Action Programs in Employment*, dated May 17, 2001, prohibits discrimination on the basis of race, color, religion,

national origin, sex, sexual orientation, marital status, pregnancy, age, disability, and covered veterans' status.

The AS executive director stated that the omission of veterans' status, pregnancy, and marital status in the non-discrimination policy was due to oversight.

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

### **Recommendation 22**

We recommend that the AS revise its non-discrimination policy to include discrimination based on veterans' status, pregnancy, and marital status.

### **Campus Response**

We concur. AS will revise its non-discrimination policy to include veteran's status, pregnancy, and marital status by November 19, 2004.

## **OPERATING POLICIES AND PROCEDURES**

The AS policies and procedures manual regarding cash receipts, purchasing, accounts payable, petty cash, and signature authority required revision. This is a repeat finding from our previous review of the AS.

We found that policies and procedures:

- ▶ Did not reflect current practice for cash receipts, purchasing, accounts payable, petty cash, and signature authority and were not applicable to existing operations and needs of the AS.
- ▶ Did not address the accumulation and use of credit card rewards for AS purchases.
- ▶ Were not reviewed and updated on a periodic basis by management.

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 an auxiliary organization maintain fully documented and current policies and procedures.

The AS executive director stated that the policies and procedures manual had not been updated due to staff constraints.

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

### **Recommendation 23**

We recommend that the AS:

- a. Revise the current policies and procedures manual to reflect the current practice for cash receipts, purchasing, accounts payable, petty cash, and signature authority and to ensure applicability to the operations and needs of the AS.
- b. Develop a policy that addresses the accumulation and use of credit card rewards for AS purchases.
- c. Ensure that operating policies and procedures are appropriately reviewed and updated by management on a periodic basis.

### **Campus Response**

We concur. AS will revise procedures to reflect current practice for cash receipts, purchasing, accounts payable, petty cash, and signature authority. AS will create a policy to address the accumulation and use of credit card rewards for AS purchases by November 19, 2004.

## **SEGREGATION OF DUTIES**

The AS did not appropriately segregate certain accounting functions over cash handling and personnel and payroll.

### Cash Handling

We found that one employee:

- ▶ Operated the cash register.
- ▶ Reconciled the cash drawer.
- ▶ Made deposits.

The AS executive director stated that the AS was unable to segregate cash handling duties due to staffing constraints.

### Personnel and Payroll

We found that one employee:

- ▶ Submitted changes to the payroll company for additions and deletions from payroll.
- ▶ Controlled address changes and vacation accruals.
- ▶ Received and distributed payroll checks.

The AS executive director stated that the AS was unable to segregate personnel and payroll functions due to staffing constraints.

EO 698, *Board of Trustees Policy for The California State University Auxiliary Organizations*, dated March 3, 1999, states that the review of auxiliary organizations will be used to determine appropriate separation of duties, safeguarding of assets, and reliability and integrity of information.

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

#### **Recommendation 24**

We recommend that the AS properly segregate certain accounting functions for cash handling and personnel and payroll functions or institute mitigating procedures approved by the campus CFO.

#### **Campus Response**

We concur. AS will work to redistribute staff accounting responsibilities to ensure a segregation of duties for cash handling and personnel and payroll functions by November 19, 2004.

## **CASH RECEIPTS AND HANDLING**

Certain controls over AS cash receipts processing were deficient.

We found that:

- ▶ Cash receipts were not always deposited in a timely manner, which occasionally resulted in large amounts of cash in its safe.
- ▶ The AS did not maintain a current record of individuals with knowledge of the safe combinations.

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

The AS executive director stated that due to staffing constraints, deposits were not always made in a timely manner. She further stated that failure to maintain a record of individuals with safe access was due to oversight.

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

**Recommendation 25**

We recommend that the AS:

- a. Ensure that deposits are made in a timely manner and avoid holding large amounts of cash in its safe.
- b. Maintain records of individuals who have access to the safe and promptly change safe combinations upon employee separation.

**Campus Response**

We concur. AS will create a procedure to address timely deposits. AS will create a safe log that details safe access and safe combination changes upon employee separation by November 19, 2004.

**FEES, REVENUES, AND RECEIVABLES**

**ACCOUNTS RECEIVABLE**

Certain controls over AS accounts receivable were deficient.

We found that:

- ▶ AS policies and procedures did not sufficiently address the collection of accounts receivables or the write-off of uncollectible receivables.
- ▶ Certain ELC receivables had been outstanding since 2002.

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 maintaining proper internal controls over accounts receivable.

The AS executive director stated that the lack of receivable policies and procedures was due to oversight.

Insufficient controls over accounts receivable increase the risk of loss, errors, and irregularities.

**Recommendation 26**

We recommend that the AS:

- a. Develop policies and procedures to address the collection and write-off uncollectible receivables.

- b. Research the disposition of long-outstanding ELC receivables and, if necessary, write-off uncollectible accounts.

### **Campus Response**

We concur. AS will develop a policy and procedure for the collection and write-off of uncollectible receivables by November 19, 2004. AS will also research outstanding ELC receivables and write off any uncollectible accounts.

## **UNRELATED BUSINESS INCOME**

The AS had not accounted for or tracked unrelated business income (UBI) at the ELC, nor did the AS file an Internal Revenue Service (IRS) Form 990T.

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

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 establishment of a system to track and account for UBI, and to file appropriate IRS forms.

The AS executive director stated her belief that UBI analysis was performed by the external auditors.

Failure to properly analyze, document, and report UBI increases the auxiliary's exposure to potential penalties and actions by the IRS.

### **Recommendation 27**

We recommend that the AS account for and track UBI at the ELC, and file federal income tax returns as appropriate.

### **Campus Response**

We concur. AS will work with our annual auditors to perform a UBI analysis and file appropriate federal income tax returns by November 19, 2004.

## **PURCHASING AND ACCOUNTS PAYABLE**

### **SUPPORTING DOCUMENTATION**

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

Our review of 44 cash disbursements disclosed the following:

#### Process Controls:

- ▶ In five instances, supporting documentation, such as airline tickets, hotel receipts, and event fliers, were not required for travel reimbursements.

#### Processing Exceptions:

- ▶ In two out of three credit card disbursements reviewed, we found that purchases were not travel related as required by AS policy.
- ▶ In one instance, a purchase exceeded the dollar limit defined by AS policy.

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

The AS executive director stated that the absence of supporting documentation for reimbursements was due to oversight.

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

### **Recommendation 28**

We recommend that the AS:

- a. Require that travel reimbursements be supported by appropriate documentation, such as airline tickets, hotel receipts, and event fliers.
- b. Reiterate to staff existing cash disbursement policies and procedures regarding sufficient and appropriate supporting documentation.

### **Campus Response**

We concur. AS will create a policy to address appropriate documentation required for travel reimbursements. Additionally, AS will conduct a professional development training session to review cash disbursement policies and procedures and appropriate supporting documentation by November 19, 2004.

### **DELEGATION OF AUTHORITY**

The AS did not maintain written signature authorizations identifying designated individuals to approve AS disbursements.

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

The AS executive director stated that the absence of actual specimen signatures for the delegation of authority was an oversight.

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

### **Recommendation 29**

We recommend that the AS maintain written signature authorizations identifying designated individuals to approve disbursements.

### **Campus Response**

We concur. AS will create a signature authorization form that will outline and designate individuals their authority to sign disbursements by November 19, 2004.

## **PERSONNEL AND PAYROLL**

### **PERSONNEL FILES**

AS personnel files did not contain documentation supporting change of address, payroll deductions, or vacation accrual and pay rate change information.

We found that:

- ▶ The AS could not locate documentation or board approval to support merit and cost-of-living increases to employees.

- ▶ Changes in payroll information, such as deductions and address, were not maintained in personnel files.

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 employment arrangements be fully documented and that appropriate personnel documents be maintained for all employees.

The AS executive director stated that as a result of a finding by the external auditors, a letter from the executive director was placed in personnel files to support pay increases and the payroll information was maintained with payroll records.

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

### **Recommendation 30**

We recommend that the AS:

- a. Obtain board approval for any pay increases, both merit and cost of living.
- b. Document all personnel changes and approvals in personnel files.

### **Campus Response**

We concur. AS will update the employee manual to reflect that all pay increases must be supported by board approval. AS will also create a personnel action form designed to track any personnel changes by November 19, 2004.

### **EMPLOYEE HANDBOOK**

The AS *Employee Handbook* did not reflect current practice and contained contradictory information.

We found that:

- ▶ The AS entered into an agreement with the former executive director to pay one-year severance upon dismissal, while the *Employee Handbook* stated that the AS did not provide for severance pay and all employees were at will.
- ▶ The responsibilities of board members and the executive director, as described in existing AS policies and procedures, were unclear and, at times, contradictory to current practice.

Title 5 §42401 and §42402 indicate that the campus president shall require that auxiliary organizations operate in conformity with the 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, written policies and procedures be maintained.

The AS executive director stated that the failure to update policies was due to staffing constraints.

Failure to maintain current policies and procedures places the auxiliary at risk of non-compliance with state and federal laws, which may result in negative regulatory actions.

### **Recommendation 31**

We recommend that the AS:

- a. Revise its *Employee Handbook* to include current practice, specifically regarding severance pay.
- b. Update its policies and procedures clarifying the roles of board members and the executive director.

### **Campus Response**

We concur. AS will update the *Employee Handbook* to reflect current severance pay practices as well as to clarify the roles of the board members and executive director by November 19, 2004.

## **PROPERTY AND EQUIPMENT**

Certain controls over AS property and equipment were insufficient.

We found that:

- ▶ Detailed written policies and procedures regarding periodic inventories, additions and deletions from inventory, sales and dispositions, and reconciliation between listing and inventory were not developed.
- ▶ Fixed assets were not consistently tagged and recorded on the property listing upon acquisition.
- ▶ Periodic, written reconciliations of fixed asset records were not performed.

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 property and equipment.

The AS executive director stated that failure to control property and equipment and document policies and procedures was due to staffing constraints.

Inadequate controls over property and equipment increase the risk that property may be lost or stolen.

**Recommendation 32**

We recommend that the AS:

- a. Develop detailed written policies and procedures regarding periodic inventories, additions and deletions from inventory, sales and dispositions, and reconciliation between listing and inventory.
- b. Ensure that fixed assets are consistently tagged and recorded on the property listings upon acquisition.
- c. Perform periodic, written reconciliations of fixed asset records.

**Campus Response**

We concur. AS will create policy and procedures to address periodic inventories, additions, and deletions from inventory, sales and dispositions, and reconciliations between listing and inventory by November 19, 2004. AS will also create a procedure to ensure that fixed assets are tagged and recorded upon acquisition by November 19, 2004.

**TRUSTS AND OTHER LIABILITIES**

**CUSTODIAL FUNDS**

Certain controls over AS club account administration were deficient.

We found that:

- ▶ Written trust agreements between the AS and student clubs did not always include documentation of the purpose of the account, source of funds, disposition of unexpended funds, or reporting requirements, nor did they describe the use of investment earnings as well as other restrictions.
- ▶ AS accounting records did not accurately reflect whether or not club accounts were active. In a review of 77 club accounts for the current fiscal year, we noted that only 30 had current agency charter agreements.
- ▶ Negative student organization account balances were not periodically reviewed and cleared in a timely manner. We noted two student organizations with overdrawn account balances; one account had been inactive for two years, and the other for one year. Both negative balances were the result of incorrect posting that affected other accounts.
- ▶ Club accounts were not reconciled. In one instance, a club account balance erroneously reflected an additional \$4,000 in available funds due to the double posting discovered by club members.

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

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 AS executive director stated that the lack of procedures to address the removal of inactive accounts was due to oversight and that the AS was in the process of determining club accounting responsibilities and procedures with the campus. The AS accountant stated that accounting errors were due to oversight.

Insufficient controls over funds held in trust by auxiliaries expose the campus and the CSU system to regulatory and legal consequences and increase the risk of inappropriate expenditures and misunderstandings regarding account operations.

### **Recommendation 33**

We recommend that AS, in conjunction with the campus CFO:

- a. Ensure that written trust agreements are executed for all student clubs.
- b. Update accounting records to properly reflect the status of club accounts.
- c. Develop a procedure to verify cash availability prior to disbursing funds.
- d. Ensure that club accounts are reconciled on a monthly basis.

### **Campus Response**

We concur. AS will work with the CFO to create a procedure that ensures all student organizations have executed trust agreements, create a procedure to update accounting records on the status of club accounts, create a procedure to verify cash availability prior to disbursing funds, and create a procedure to ensure monthly reconciliations of club accounts by November 19, 2004.

### **UNCLAIMED MONIES**

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

We found that the AS was under the mistaken assumption that funds held in trust accounts could be transferred to the AS general reserve.

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

The AS executive director stated that the lack of escheatment policies and procedures was due to oversight.

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

**Recommendation 34**

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

**Campus Response**

We concur. AS, in conjunction with the CFO, will develop a policy and procedure to address unclaimed property by November 19, 2004.

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## **APPENDIX A: PERSONNEL CONTACTED**

<b><u>Name</u></b>	<b><u>Title</u></b>
<b>CAMPUS</b>	
Karen S. Haynes	President
Terry L. Allison	Interim Vice President and Chief Financial Officer, Finance and Administrative Services
Barbara Dovenbarger	Director, Internal Audit
Stephen Garcia	Vice President, Finance and Administration/ Chief Financial Officer (At time of review)
Suzanne Green	Associate Vice President, Finance and Administration
Francine Martinez	Vice President, Student Affairs
Agnes Tobe	AS Accountant

### **CALIFORNIA STATE UNIVERSITY, SAN MARCOS FOUNDATION**

Jan Cushman	Grant Programs Assistant
Deborah Davis	Assistant Director, Finance and Business Services
Pam Edmonson	Director, Commercial Services and Risk Management
Caroline Fenton	Administrative Assistant
Marti A. Gray	Executive Director
Lyuda Hillman	Accounting Technician, Accounts Payable
Grant Hubbard	Director, Grants and Contracts
Sarah Johnson	Administrative Assistant
Roger Stein	Director, Human Resources
Kim Sullivan	Accounting Technician, Foodservice
Greg Svatora	Director, Finance and Business Services
Suzanne Valery	Grants Development Specialist
Barbara Vilbrandt	Accounting Technician, Payroll

### **SAN MARCOS UNIVERSITY CORPORATION**

Marti Gray	Executive Director
Greg Svatora	Director, Finance and Business Services

### **ASSOCIATED STUDENTS OF CALIFORNIA STATE UNIVERSITY, SAN MARCOS**

Laurence Bolotin	Coordinator, Student Programs and Services
Marilyn McWilliams	Office Assistant
Laura Newbery	Office Assistant
Lura Poggi	Executive Director

## **STATEMENT OF INTERNAL CONTROLS**

### **A. INTRODUCTION**

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

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

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

#### 1. Internal Accounting Controls

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

#### 2. Operational Controls

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

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

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

**D. INTERNAL CONTROL SYSTEMS LIMITATIONS**

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



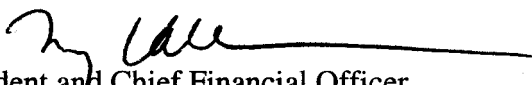
Office of the Interim Vice President and CFO, Finance and Administrative Services  
California State University San Marcos San Marcos, California 92096-0001 USA  
Tel: 760 750-4950; Fax: 760 750-4949  
www.csusm.edu



**MEMORANDUM**

DATE: October 21, 2004

TO: Larry Mandel  
University Auditor  
The California State University

FROM: Terry L. Allison   
Interim Vice President and Chief Financial Officer  
Finance and Administrative Services  
California State University San Marcos

SUBJECT: Campus Responses to Recommendations of Audit Report No. 04-46,  
*Auxiliary Organizations* at California State University, San Marcos

Attached for your consideration and acceptance are campus responses to the recommendations of the Office of the University Auditor's review of *Auxiliary Organizations*.

Please contact me at (760) 750-4950 or [tallison@csusm.edu](mailto:tallison@csusm.edu) if you have any questions.

Attachment

TLA:kjh

cc: President Karen S. Haynes

**AUXILIARY ORGANIZATIONS**  
**CALIFORNIA STATE UNIVERSITY,**  
**SAN MARCOS**

**Report Number 04-46**  
**August 19, 2004**

**CALIFORNIA STATUS UNIVERSITY SAN MARCOS**

***Response to Recommendations 1 through 34***

**FISCAL COMPLIANCE**

**Recommendation 1**

We recommend that the campus develop a formal cost allocation plan to ensure that the General Fund is appropriately reimbursed for facilities, goods, and services provided to auxiliary organizations.

**Campus Response**

We concur. The President has appointed a Cost Recovery Committee to develop a proposed plan to present to the Executive Council by February 1, 2005. That Committee began its work in the 2003/04 fiscal year and will complete it by the deadline established by the President.

**OPERATIONAL COMPLIANCE**

**Recommendation 2**

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

**Campus Response**

We concur. Human Resources & Equal Opportunity will work with the auxiliaries to ensure that their conflict-of-interest policies and procedures and documentation are in line with CSU practice.

**CAMPUS OVERSIGHT AND CONTROL**

**Recommendation 3**

We recommend that the campus develop procedures and memoranda of understanding to coordinate the oversight of AS finances, activities, and programs (September 30, 2004).

**Campus Response**

We concur. The university and ASI have completed the operating agreement between the trustees and ASI as well as an agreement on student body programs.

**CALIFORNIA STATE UNIVERSITY, SAN MARCOS FOUNDATION**

**OPERATING AND ADMINISTRATIVE AGREEMENTS**

**AUXILIARY AUTHORIZATION**

**Recommendation 4**

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

**Campus Response**

We concur. The Foundation executed an operating agreement with the CSU dated 2/12/04, for the period ending 6/30/09.

**WRITTEN AGREEMENTS**

**Recommendation 5**

We recommend that the Foundation ensure that business arrangements with vending contractors and food service vendors are properly supported by current, written agreements.

**Campus Response**

We concur. The Foundation has two vending contractors and has obtained a written agreement from one of them. The written agreement with the other vending contractor will be completed by November 19, 2004.

**CORPORATE GOVERNANCE**

**Recommendation 6**

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

**Campus Response**

We concur. The Foundation now includes a certification of board approval of the minutes which contains a signature line, date, and title of the officer.

## SEGREGATION OF DUTIES

### Recommendation 7

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

### Campus Response

We concur. Written procedures will be developed by Nov 19, 2004 to document the segregation of duties involving the payroll and personnel functions. Mitigating procedures have already been initiated to assure segregation of duties with investment transfers and bank activity.

## PETTY CASH AND CHANGE FUNDS

### Recommendation 8

We recommend that the Foundation:

- a. Ensure that independent, unannounced counts of food service change funds are regularly performed.
- b. Maintain records of change fund counts at food service units.

### Campus Response

We concur. Unannounced counts of food service change funds are performed at least once every two weeks. Change fund counts at food service units are recorded in signed logs and reviewed by appropriate supervisory personnel. Written procedures for the counting and recording of change funds will be developed by Nov 19, 2004.

## FEES, REVENUES, AND RECEIVABLES

### REVENUE RECONCILIATION

#### Recommendation 9

We recommend that the Foundation regularly perform an independent reconciliation of food service unit sales receipts and deposits.

### Campus Response

We concur. A reconciliation process involving a 3-way match between daily cash register reports, daily bank activity, and daily general ledger transaction activity performed by appropriate independent personnel has been developed and will be finalized as written procedures by Nov 19, 2004.

## **ACCOUNTS RECEIVABLE**

### **Recommendation 10**

We recommend that the Foundation develop policies and procedures that address accounts receivable aging, timely action on uncollected receivables, the write-off of uncollectible accounts, and assessment of allowance for doubtful accounts.

### **Campus Response**

We concur. Written procedures for accounts receivable aging, collection, assessment of doubtful accounts, and write-off will be completed by Nov 19, 2004.

## **PURCHASING AND ACCOUNTS PAYABLE**

### **Recommendation 11**

We recommend that the Foundation reiterate to staff existing cash disbursement policies and procedures regarding sufficient and appropriate supporting documentation and appropriate authorization.

### **Campus Response**

We concur. The Foundation will revise written procedures related to authorization and documentation by Nov 19, 2004.

## **PROPERTY AND EQUIPMENT**

### **Recommendation 12**

We recommend that the Foundation:

- a. Develop and implement policies and procedures for the management and administration of property and equipment, addressing the acquisition and disposal or sale of capitalized assets.
- b. Reconcile the fixed asset listing to the general ledger on a regular basis.

### **Campus Response**

We concur. Written procedures related to the management and administration of property and equipment, including the acquisition and disposal of capitalized assets, will be finalized by Nov. 19, 2004. Written procedures for reconciling the fixed asset listing to the general ledger will be finalized by Nov 19, 2004.

**SAN MARCOS UNIVERSITY CORPORATION**

**CORPORATE GOVERNANCE**

**DISSOLUTION CLAUSE**

**Recommendation 13**

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

**Campus Response**

We concur. The Corporation board has approved a revised dissolution clause in accordance with Title 5 and will submit the change in its Articles of Incorporation to the Secretary of State by Nov. 19, 2004.

**BOARD MINUTES**

**Recommendation 14**

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

**Campus Response**

We concur. The University Corporation now includes a certification of board approval of the minutes which contains a signature line, date, and title of the officer.

**AUXILIARY PROGRAMS**

**Recommendation 15**

We recommend that the Corporation develop written policies and procedures to address the monitoring and verification of student housing revenues and expenditures reported by the student housing property management corporation.

**Campus Response**

We concur. Written procedures to reconcile and verify revenue and expenditures as reported by the student housing property management corporation will be finalized by Nov 19, 2004.

**ASSOCIATED STUDENTS OF**  
**CALIFORNIA STATE UNIVERSITY, SAN MARCOS**

**OPERATING AND ADMINISTRATIVE AGREEMENTS**

**AUXILIARY AUTHORIZATION**

**Recommendation 16**

We recommend that the AS revise and execute its operating agreement with the chancellor's office to specify all functions administered by the auxiliary.

**Campus Response**

We concur. ASI has executed an operating agreement dated September 30, 2004 through 2009 with the campus.

**AGREEMENTS**

**Recommendation 17**

We recommend that the AS revise the MOU for fiscal custodianship to appropriately address:

- a. Campus accounting for the ELC.
- b. Responsibilities for club accounting.

**Campus Response**

We concur. ASI has executed an operating agreement and a student body program agreement with the university (September 30, 2004).

**CORPORATE GOVERNANCE**

**BYLAWS**

**Recommendation 18**

We recommend that the AS revise its bylaws to accurately reflect the appropriate committees required for adequate governance.

**Campus Response**

We concur. ASI has revised its bylaws to accurately reflect active committees on August 19, 2004.

## **BOARD MINUTES**

### **Recommendation 19**

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

### **Campus Response**

We concur. ASI has created a corporate secretary training manual that addressed the need for the minutes to be signed and dated upon minute approval. A signature line has been added to our minutes template.

## **PUBLIC MEETINGS**

### **Recommendation 20**

We recommend that the AS:

- a. State the purpose of closed sessions in board agendas and minutes in compliance with public meeting requirements.
- b. Maintain minutes of the closed sessions.
- c. Ensure that all actions taken in closed session, including the vote or abstention of every member present, are discussed in an open session and documented in minutes.

### **Campus Response**

We concur. ASI will state the purpose of closed session in board agendas and minutes and ensure that all actions taken in closed session are accurately reflected in open session and meeting minutes. We will also maintain minutes of closed sessions.

## **OPERATIONAL COMPLIANCE**

### **RISK MANAGEMENT**

### **Recommendation 21**

We recommend that the AS ensure that leases for the ELC include appropriate indemnification clauses.

### **Campus Response**

We concur. ASI will update the indemnification clause in the ELC lease with the City of San Marcos by November 19, 2004.

## **NON-DISCRIMINATION POLICY**

### **Recommendation 22**

We recommend that the AS revise its non-discrimination policy to include discrimination based on veterans' status, pregnancy, and marital status.

### **Campus Response**

We concur. ASI will revise our non-discrimination policy to include veteran's status, pregnancy, and marital status by November 19, 2004.

## **OPERATING POLICIES AND PROCEDURES**

### **Recommendation 23**

We recommend that the AS:

- a. Revise the current policies and procedures manual to reflect the current practice for cash receipts, purchasing, accounts payable, petty cash, and signature authority and to ensure applicability to the operations and needs of the AS.
- b. Develop a policy that addresses the accumulation and use of credit card rewards for AS purchases.
- c. Ensure that operating policies and procedures are appropriately reviewed and updated by management on a periodic basis.

### **Campus Response**

We concur. ASI will revise procedures to reflect current practice for cash receipts, or purchasing, accounts payable, petty cash, and signature authority. ASI will create a policy to address the accumulation and use of credit card rewards for ASI purchases by November 19, 2004.

## **SEGREGATION OF DUTIES**

### **Recommendation 24**

We recommend that the AS properly segregate certain accounting functions for cash handling and personnel and payroll functions or institute mitigating procedures approved by the campus CFO.

### **Campus Response**

We concur. ASI will work to redistribute staff accounting responsibilities to ensure a segregation of duties for cash handling and personnel and payroll functions by November 19, 2004.

## **CASH RECEIPTS AND HANDLING**

### **Recommendation 25**

We recommend that the AS:

- a. Ensure that deposits are made in a timely manner and avoid holding large amounts of cash in its safe.
- b. Maintain records of individuals who have access to the safe and promptly change safe combinations upon employee separation.

### **Campus Response**

We concur. ASI will create a procedure to address timely deposits. ASI will create a safe log that details safe access and safe combination changes upon employee separation by November 19, 2004.

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

### **ACCOUNTS RECEIVABLE**

#### **Recommendation 26**

We recommend that the AS:

- a. Develop policies and procedures to address the collection and write-off uncollectible receivables
- b. Research the disposition of long-outstanding ELC receivables and, if necessary, write-off uncollectible accounts.

#### **Campus Response**

We concur. ASI will develop a policy and procedure for the collection and write-off of uncollectible receivables by November 19, 2004. ASI will also research outstanding ELC receivables and write-off any uncollectible accounts.

## **UNRELATED BUSINESS INCOME**

### **Recommendation 27**

We recommend that the AS account for and track UBI at the ELC, and file federal income tax returns as appropriate.

**Campus Response**

We concur. ASI will work with our annual auditors to perform a UBI analysis and file appropriate federal income tax returns by November 19, 2004.

**PURCHASING AND ACCOUNTS PAYABLE****SUPPORTING DOCUMENTATION****Recommendation 28**

We recommend that the AS:

- a. Require that travel reimbursements be supported by appropriate documentation, such as airline tickets, hotel receipts, and event fliers.
- b. Reiterate to staff existing cash disbursement policies and procedures regarding sufficient and appropriate supporting documentation.

**Campus Response**

We concur. ASI will create a policy to address appropriate documentation required for travel reimbursements. Additionally, ASI will conduct a professional development training session to review cash disbursement policies and procedures and appropriate supporting documentation by November 19, 2004.

**DELEGATION OF AUTHORITY****Recommendation 29**

We recommend that the AS maintain written signature authorizations identifying designated individuals to approve disbursements.

**Campus Response**

We concur. ASI will create a signature authorization form that will outline and designate individuals their authority to sign disbursements by November 19, 2004.

**PERSONNEL AND PAYROLL****PERSONNEL FILES****Recommendation 30**

We recommend that the AS:

- a. Obtain board approval for any pay increases, both merit and cost of living.

- b. Document all personnel changes and approvals in personnel files.

#### **Campus Response**

We concur. ASI will update the employee manual to reflect that all pay increases must be supported by board approval. ASI will also create a personnel action form designed to track any personnel changes by November 19, 2004.

## **EMPLOYEE HANDBOOK**

### **Recommendation 31**

We recommend that the AS:

- a. Revise its *Employee Handbook* to include current practice, specifically regarding severance pay.
- b. Update its policies and procedures clarifying the roles of board members and the executive director.

#### **Campus Response**

We concur. ASI will update the Employee Handbook to reflect current severance pay practices as well as to clarify the roles of the board members and executive director by November 19, 2004.

## **PROPERTY AND EQUIPMENT**

### **Recommendation 32**

We recommend that the AS:

- a. Develop detailed written policies and procedures regarding periodic inventories, additions and deletions from inventory, sales and dispositions, and reconciliation between listing and inventory.
- b. Ensure that fixed assets are consistently tagged and recorded on the property listings upon acquisition.
- c. Perform periodic, written reconciliations of fixed asset records.

#### **Campus Response**

We concur. ASI will create policy and procedures to address periodic inventories, additions and deletions from inventory, sales and dispositions, and reconciliations between listing and inventory by November 19, 2004. ASI will also create a procedure to ensure that fixed assets are tagged and recorded upon acquisition by November 19, 2004.

## TRUSTS AND OTHER LIABILITIES

### CUSTODIAL FUNDS

#### Recommendation 33

We recommend that AS, in conjunction with the campus CFO:

- a. Ensure that written trust agreements are executed for all student clubs.
- b. Update accounting records to properly reflect the status of club accounts.
- c. Develop a procedure to verify cash availability prior to disbursing funds.
- d. Ensure that club accounts are reconciled on a monthly basis.

#### Campus Response

We concur. ASI will work with the CFO to create a procedure that ensures all student organization have executed trust agreements, create a procedure to update accounting records on the status of club accounts, create a procedure to verify cash availability prior to disbursing funds, and create procedure to ensure monthly reconciliations of club accounts by November 19, 2004.

### UNCLAIMED MONIES

#### Recommendation 34

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

#### Campus Response

We concur. ASI, in conjunction with the CFO will develop a policy and procedure to address unclaimed property by November 19, 2004.

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

BAKERSFIELD

November 17, 2004

CHANNEL ISLANDS

CHICO

**MEMORANDUM**

DOMINGUEZ HILLS

FRESNO

FULLERTON

TO: Mr. Larry Mandel  
University Auditor

HAYWARD

FROM: Charles B. Reed  
Chancellor

HUMBOLDT

LONG BEACH

SUBJECT: Draft Final Report Number 04-46 on *Auxiliary Organizations*,  
California State University, San Marcos

LOS ANGELES

MARITIME ACADEMY

MONTEREY BAY

In response to your memorandum of November 17, 2004, I accept the response as submitted with the draft final report on *Auxiliary Organizations*, California State University, San Marcos.

NORTHRIDGE

POMONA

SACRAMENTO

CBR/amd

SAN BERNARDINC

Enclosure

SAN DIEGO

cc: Dr. Karen S. Haynes, President  
Dr. Terry L. Allison, Interim Vice President and Chief Financial Officer,  
Finance and Administrative Services

SAN FRANCISCO

SAN JOSE

S OBISPC

SAN MARCOS

SONOMA

STANISLAUS