

AUXILIARY ORGANIZATIONS
CALIFORNIA STATE UNIVERSITY,
CHANNEL ISLANDS

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BOARD OF TRUSTEES
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ABBREVIATIONS

AS	Associated Students of California State University, Channel Islands
CSU	California State University
CSUCI	California State University, Channel Islands
EO	Executive Order
Foundation	California State University, Channel Islands Foundation
RFIN	Resolution of the Committee on Finance
UGC	University Glen Corporation

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 (EO) 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.

California State University, Channel Islands (CSUCI) 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 EO 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.

We visited the CSUCI campus and its auxiliary organizations from February 8, 2005, through March 4, 2005, and made a study and evaluation of the system of internal compliance/internal control in effect for the period July 2002 to March 2005. This report represents our triennial review.

Our study and evaluation at *California State University, Channel Islands Foundation* did not reveal any significant internal control problems or weaknesses that would be considered pervasive in their effects on the accounting and administrative controls. However, we did identify other reportable weaknesses that are described in the executive summary and in the body of the report. In our opinion, the accounting and administrative control in effect as of March 2005, taken as a whole, was sufficient to meet the objectives stated above.

Our study and evaluation at *University Glen Corporation* did not reveal any significant internal control problems or weaknesses that would be considered pervasive in their effects on the accounting and administrative controls. However, we did identify other reportable weaknesses that are described in the executive summary and in the body of the report. In our opinion, the accounting and administrative control in effect as of March 2005, taken as a whole, was sufficient to meet the objectives stated above.

Our study and evaluation at *Associated Students of California State University, Channel Islands* did not reveal any significant internal control problems or weaknesses that would be considered pervasive in their effects on the accounting and administrative controls. However, we did identify other reportable weaknesses that are described in the executive summary and in the body of the report. In our opinion, the accounting and administrative control in effect as of March 2005, 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 changes over time. Specific limitations that may hinder the effectiveness of an otherwise adequate system of controls include, but are not limited to, resource constraints, faulty judgments, unintentional errors, circumvention by collusion, and management overrides. Establishing controls that would prevent all these limitations would not be cost-effective; moreover, an audit may not always detect these limitations.

The following summary provides management with an overview of conditions requiring their attention. Areas of review not mentioned in this section were found to be satisfactory. Numbers in brackets [] refer to page numbers in the report.

CAMPUS

FISCAL COMPLIANCE [10]

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

OPERATIONAL COMPLIANCE [10]

The campus had not developed hospitality policies and procedures applicable to the auxiliary organizations. In addition, the campus had not provided sufficient guidance to its auxiliary organizations regarding the development and/or implementation of conflict-of-interest policies and procedures.

PROPERTY AND EQUIPMENT [12]

The campus had not formally developed a procedure documenting the process for the transfer of auxiliary property and equipment to the campus.

CALIFORNIA STATE UNIVERSITY, CHANNEL ISLANDS FOUNDATION

OPERATING AND ADMINISTRATIVE AGREEMENTS [14]

The hold harmless provision in the California State University, Channel Islands Foundation (Foundation) operating agreement had not been updated to indemnify the campus.

CORPORATE GOVERNANCE [14]

The Foundation Articles of Incorporation included an improper dissolution clause; it only allowed a non-profit organization to be selected as successor. In addition, finance committee minutes were not signed and approved by an appropriate official.

FISCAL COMPLIANCE [15]

The Foundation reserve policy had not fully addressed the reserve requirements placed upon auxiliaries.

OPERATIONAL COMPLIANCE [16]

The Foundation budgets for fiscal years 2002/03, 2003/04, and 2004/05 were not approved in a timely manner.

FEES, REVENUES, AND RECEIVABLES [17]

The Foundation did not perform regular and timely revenue reconciliations between the donor database system and the general ledger accounting system.

PURCHASING AND ACCOUNTS PAYABLE [17]

Certain Foundation cash disbursements were not supported by sufficient and appropriate documentation and/or appropriate authorization. For example, instances were noted where facsimile and photocopied invoices were accepted for payment without certification that records were verified to prevent duplicate payment.

UNIVERSITY GLEN CORPORATION

OPERATING AND ADMINISTRATIVE AGREEMENTS [20]

Certain written agreements among the University Glen Corporation (UGC) and other entities were incomplete.

CORPORATE GOVERNANCE [21]

The UGC Articles of Incorporation included an improper clause dissolution clause; it only allowed a non-profit organization to be selected as successor. In addition, the UGC board of directors did not include non-campus and student representatives for fiscal years 2002/03 and 2003/04.

FISCAL COMPLIANCE [22]

The UGC draft reserve policy, which had yet to be approved by its board of directors, did not fully address the reserve requirements placed upon auxiliaries.

OPERATIONAL COMPLIANCE [22]

The UGC budgets for fiscal year 2002/03 and 2003/04 were not approved in a timely manner.

PURCHASING AND ACCOUNTS PAYABLE [23]

Certain UGC cash disbursements were not supported by sufficient and appropriate documentation and/or appropriate authorization. For example, instances were noted where facsimile and photocopied invoices were accepted for payment without certification that records were verified to prevent duplicate payment. In addition, several UGC expenditures for goods and services were outside of the stated scope of a written agreement with a third-party entity. Further, written signature authorization cards identifying designated individuals to approve certain disbursements were not maintained.

ASSOCIATED STUDENTS OF CALIFORNIA STATE UNIVERSITY, CHANNEL ISLANDS

OPERATING AND ADMINISTRATIVE AGREEMENTS [27]

Funds held by the campus on behalf the Associated Students of California State University, Channel Islands (AS) were not supported by a trust agreement.

OPERATIONAL COMPLIANCE [27]

Administration of AS student travel was inadequate. A review disclosed that the AS did not have a written travel policy, and travel authorization forms were not consistently completed prior to travel.

SEGREGATION OF DUTIES [28]

The AS did not appropriately segregate certain accounting functions for cash receipts, as one employee prepared and approved daily bank deposits and had full access to the general ledger accounting system.

PURCHASING AND ACCOUNTS PAYABLE [29]

Certain AS cash disbursements were not supported by sufficient and appropriate documentation. For example, instances were noted where facsimile or photocopied invoices were accepted for payment without certification that records were verified to prevent duplicate payment. In addition, the AS did not maintain signature authorization cards identifying individuals designated to approve certain disbursements. Furthermore, the AS had not developed written policies and procedures for credit card usage.

TRUSTS AND OTHER LIABILITIES [31]

Funds held and administered by AS on behalf of student club organizations were not supported by trust agreements or written policies and procedures.

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 *International 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 2002/03 and 2003/04 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 2004 to March 2005. 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, Channel Islands Foundation

- ▶ Operating and Administrative Agreements
- ▶ Facilities Agreements
- ▶ Corporate Governance
- ▶ Fiscal Compliance
- ▶ Operational Compliance
- ▶ Program Compliance
- ▶ Campus Oversight and Control
- ▶ Segregation of Duties
- ▶ Cash Receipts and Handling
- ▶ Fees, Revenues, and Receivables
- ▶ Purchasing and Accounts Payable
- ▶ Property and Equipment
- ▶ Auxiliary Programs
- ▶ Information Technology

University Glen Corporation

- ▶ Operating and Administrative Agreements
- ▶ Facilities Agreements
- ▶ Corporate Governance
- ▶ Fiscal Compliance
- ▶ Operational Compliance
- ▶ Program Compliance
- ▶ Campus Oversight and Control
- ▶ Segregation of Duties
- ▶ Cash Receipts and Handling
- ▶ Fees, Revenues, and Receivables
- ▶ Purchasing and Accounts Payable
- ▶ Property and Equipment
- ▶ Auxiliary Programs
- ▶ Information Technology

Associated Students of California State University, Channel Islands

- ▶ Operating and Administrative Agreements
- ▶ Facilities Agreements
- ▶ Corporate Governance

Associated Students of California State University, Channel Islands (cont.)

- ▶ Fiscal Compliance
- ▶ Program Compliance
- ▶ Campus Oversight and Control
- ▶ Cash Receipts and Handling
- ▶ Investments
- ▶ Fees, Revenues, and Receivables
- ▶ Purchasing and Accounts Payable
- ▶ Personnel and Payroll
- ▶ Trusts and Other Liabilities
- ▶ Information Technology
- ▶ Student Programs and Services

Campus

- ▶ Campus Oversight and Control

We have not performed any auditing procedures beyond March 2005. Accordingly, our comments are based on our knowledge as of that date. Since the purpose of our comments is to suggest areas for improvement, comments on favorable matters are not addressed.

OBSERVATIONS, RECOMMENDATIONS, AND CAMPUS RESPONSES

CAMPUS

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 auxiliary organizations did not reimburse the campus for indirect costs incurred.

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 vice president of finance and administration stated that a cost allocation plan had been drafted, but was still in the process of being finalized. In addition, she stated her belief that indirect costs appeared to be immaterial. She further stated that the auxiliaries were charged directly for services provided by the campus.

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. We will document the types of costs that are involved and, if significant, bill the auxiliaries for their share. This project should be completed by January 1, 2006.

OPERATIONAL COMPLIANCE

HOSPITALITY

The campus had not developed written hospitality policies and procedures applicable to the auxiliary organization.

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

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

The vice president of finance and administration stated that a hospitality policy was currently being developed.

The lack of written hospitality policies and procedures could result in expenditures that are not consistent with the mission and fiduciary responsibility of the university.

Recommendation 2

We recommend that the campus develop written hospitality policies and procedures applicable to the auxiliary organizations.

Campus Response

We concur. Policies will be drafted and approved by the respective auxiliaries by January 1, 2006.

CONFLICT OF INTEREST

The campus had not provided sufficient guidance to its auxiliary organizations regarding the development and/or implementation of conflict-of-interest policies and procedures.

The Associated Students of California State University, Channel Islands (AS) and the University Glen Corporation (UGC) had not developed written conflict-of-interest policies and procedures. In addition, the California State University, Channel Islands Foundation (Foundation) had not obtained annual conflict-of-interest statements from its board members.

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.

Education Code §89906 and other similar provisions are established to prevent imprudent or improper decisions by auxiliary board and management 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. Sound business practice mandates establishing conflict-of-interest policies and procedures and compliance with existing policies and procedures.

The vice president of finance and administration stated that since the AS and the UGC were in their formative years, the campus was in the process of providing guidance to develop conflict-of-interest policies and procedures. She further stated that the Foundation board members were unaware of the requirement to sign annual conflict-of-interest statements.

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

Recommendation 3

We recommend that the campus provide guidance for its auxiliaries to strengthen or establish written conflict-of-interest policies and procedures to address, among other things: filing of annual statements by board and management personnel; determination of whether a conflict-of-interest exists; actions required in association with a conflict; and actions required when violations of conflict-of-interest policy are discovered.

Campus Response

We concur. Such policies have been drafted and will be approved at the next board meeting of the auxiliary.

PROPERTY AND EQUIPMENT

The campus had not formally developed a procedure documenting the process for the transfer of auxiliary property and equipment to the campus.

Specifically, we found that no procedures exist to ensure that auxiliary fixed assets are tagged and properly recorded and reconciled by the campus.

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

The *Compilation of Policies and Procedures for California State University Auxiliary Organizations* sets sound business practice guidelines for auxiliary organizations operating within the CSU system. Section 8.9.7, *Property and Equipment*, states that the auxiliary should establish a written system that ensures proper recording of property and equipment when received and for labeling of equipment.

The vice president of finance and administration stated that policies and procedures over fixed assets were still in progress.

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

Recommendation 4

We recommend that the campus develop policies and procedures regarding the management and administration of auxiliary fixed assets transferred to the campus.

Campus Response

We concur. Policies and practices will be documented by the end of September 2005.

CALIFORNIA STATE UNIVERSITY, CHANNEL ISLANDS FOUNDATION

OPERATING AND ADMINISTRATIVE AGREEMENTS

The hold harmless provision in the California State University, Channel Islands Foundation (Foundation) operating agreement had not been updated to indemnify the campus.

EO 849, *California State University Insurance Requirements*, dated February 5, 2003, states that auxiliary organizations shall agree to indemnify, defend, and save harmless the State of California, the Trustees of the CSU, 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, arriving out of, or in any way connected with the operations of the auxiliary.

The campus vice president of finance and administration stated that the campus did not exist when the Foundation executed an operating agreement with the chancellor's office.

The absence of a complete indemnification clause in the operating agreement increases the risk of misunderstandings and miscommunication regarding rights and responsibilities.

Recommendation 5

We recommend that the Foundation update its operating agreement to extend the hold harmless provision to the campus.

Campus Response

We concur. An updated operating agreement will be presented to the board at its August 2005 meeting.

CORPORATE GOVERNANCE

DISSOLUTION OF AUXILIARY

The Foundation Articles of Incorporation included an improper dissolution clause; it only allowed a non-profit organization to be selected as successor.

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 campus vice president of finance and administration stated that she was unaware that the dissolution clause was not in compliance with Title 5.

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

Recommendation 6

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

Campus Response

We concur. Revised Articles of Incorporation will be presented to the board at its August 2005 meeting.

BOARD MINUTES

Foundation finance committee minutes were not signed and approved by an appropriate official.

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 campus vice president of finance and administration stated that the finance committee minutes were not signed due to oversight.

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

Recommendation 7

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

Campus Response

We concur. The executive assistant to the vice president has agreed to regularly review for unsigned minutes.

FISCAL COMPLIANCE

The Foundation reserve policy had not fully addressed the reserve requirements placed upon auxiliaries.

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

The *Compilation of Policies and Procedures for California State University Auxiliary Organizations* sets sound business practice guidelines for auxiliary organizations operating within the CSU system. Section 8.9.9, *Reserves and Net Assets*, states that the auxiliary should implement financial standards that will assure fiscal viability, including proper provision for professional management, adequate working capital, adequate reserve funds for current operations and capital replacements, and adequate provisions for new business requirements.

The campus vice president of finance and administration stated her belief that the reserve policy was adequate. She further stated that all required areas were not addressed due to oversight.

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

Recommendation 8

We recommend that the Foundation amend its reserve policy to fully address or consider the following areas: minimum reserve requirements; the methodology used for the calculation of reserves; board review of reserve levels; reserves for capital replacements, working capital, and current operations; and adequacy of reserves.

Campus Response

We concur. A revised policy will be presented to the board at its August 2005 meeting.

OPERATIONAL COMPLIANCE

The Foundation budgets for fiscal years 2002/03, 2003/04 and 2004/05 were not approved in a timely manner.

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

The campus vice president of finance and administration stated that the failure to approve the budget in a timely manner was due to oversight.

The lack of timely budget approval increases the risk of misunderstandings over the allocation of funds.

Recommendation 9

We recommend that the Foundation ensure that budgets are approved by its board and submitted to the campus president for approval in a timely manner.

Campus Response

We concur. Steps have been taken to ensure that budgets are completed earlier in the year so that the entire board and presidential review can occur prior to the start of the fiscal year.

FEES, REVENUES, AND RECEIVABLES

The Foundation did not perform regular and timely revenue reconciliations between the donor database system and the general ledger accounting system.

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 regular and timely revenue reconciliations.

The *Compilation of Policies and Procedures for California State University Auxiliary Organizations* sets sound business practice guidelines for auxiliary organizations operating within the CSU system. Section 8.9.1, *Cash*, states that the auxiliary should receive cash in a consistent manner utilizing systems that ensure integrity of existing internal controls. It further states that the auxiliary should establish a written recordkeeping system that enables gifts to be properly received, recorded, and acknowledged in accordance with donor restrictions and other requirements.

The campus vice president of finance and administration stated that monthly reconciliations between donor and accounting records were not completed timely due to workload issues.

Failure to complete timely reconciliations of donor and accounting records increases the risk of reporting errors and/or misappropriations of funds.

Recommendation 10

We recommend that the Foundation perform regular and timely revenue reconciliations of the donor database system and the general ledger accounting system.

Campus Response

We concur. Such reconciliations shall be done on a monthly basis and within 30 days of closing.

PURCHASING AND ACCOUNTS PAYABLE

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

Our review of 60 cash disbursements disclosed the following:

Process Controls

- ▶ In seven instances, facsimile and photocopied invoices were accepted for payment without certification that records were verified to prevent duplicate payment.
- ▶ In 12 instances, payment was issued without a request for goods and services, formal bids, and/or price quotation.

Processing Exceptions

- ▶ In two instances, dual signatures were not obtained for checks over \$10,000.
- ▶ In two instances, a check request was not completed.
- ▶ In one instance, one-up signature authorization was not obtained.
- ▶ In two instances, disbursements to scholarship recipients were not reported to financial aid.
- ▶ In two instances, a list of attendees was not included as supporting documentation for hospitality expenses.

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

The *Compilation of Policies and Procedures for California State University Auxiliary Organizations* sets sound business practice guidelines for auxiliary organizations operating within the CSU system. Section 8.9.1, *Cash*, states that the auxiliary should disburse cash in a consistent manner utilizing systems that ensure integrity of existing internal controls, with annual management review. Section 8.9.5, *Procurement*, states that the auxiliary should establish a written system that ensures purchases and service contracts' coding, classification, recording, and competitive bidding requirements are applied in a consistent manner.

The campus general accounting manager stated that although the accounting software flagged duplicate invoices, their practice did not consistently certify facsimile and photocopied invoices. In addition, she stated that the procurement policy was new and, therefore, may not have been communicated or demonstrated clearly to the staff. She further stated that the lack of supporting documentation and/or authorization 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:

- a. Develop procedures to ensure that facsimile or photocopied invoices are verified to prevent duplicate payment.
- b. Develop procedures to ensure the adherence of procurement requirements related to the bidding process.
- c. Reiterate to staff existing cash disbursement policies and procedures regarding sufficient and appropriate supporting documentation and appropriate authorization.

Campus Response

We concur. We have more thoroughly developed our procedures and will have them fully documented in September 2005.

UNIVERSITY GLEN CORPORATION

OPERATING AND ADMINISTRATIVE AGREEMENTS

Certain written agreements among the University Glen Corporation (UGC) and other entities were incomplete.

We found that:

- ▶ The indemnification provision in the standard independent contractor waiver and release form and the contract rider agreement did not specifically indemnify the State of California, the CSU Trustees, and the campus.
- ▶ The operating agreement between the UGC and a third party did not contain an indemnification provision within the agreement that specifically indemnified the CSU Trustees.

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

EO 849, *California State University Insurance Requirements*, dated February 5, 2003, states that hold harmless provisions should be modeled after agreements available at the CSU contract resource library. The model auxiliary operating agreement states that the auxiliary organizations shall agree to indemnify, defend, and save harmless the State of California, the Trustees of the CSU, 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 campus vice president of finance and administration stated that failure to provide for a complete indemnification clause in the independent contractor waiver and release form and the contract rider agreement was due to oversight.

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

Recommendation 12

We recommend that the UGC ensure that agreements include appropriate indemnification clauses.

Campus Response

We concur. A revised operating agreement will be reviewed by the board at its July 2005 meeting.

CORPORATE GOVERNANCE

DISSOLUTION OF AUXILIARY

The UGC Articles of Incorporation included an improper dissolution clause; it only allowed a non-profit organization to be selected as successor.

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 campus vice president of finance and administration stated her belief that the dissolution clause was in compliance at the time the Articles of Incorporation were drafted.

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

Recommendation 13

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

Campus Response

We concur. Revised Articles of Incorporation will be reviewed by the board at its July 2005 meeting.

BOARD COMPOSITION

The UGC board of directors did not include non-campus and student representatives for fiscal years 2002/03 and 2003/04.

Title 5 §42602(b) specifically requires non-campus representation and students on auxiliary organization boards.

The campus vice president of finance and administration stated that it was difficult to fill the positions with students and non-campus personnel, especially with background experience in the commercial leasing industry.

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

Recommendation 14

We recommend that the UGC ensure that non-campus and student representation is maintained in accordance with Title 5.

Campus Response

We concur. We now have the full complement of board members and will do our best to maintain it.

FISCAL COMPLIANCE

The UGC draft reserve policy, which had yet to be approved by its board of directors, did not fully address the reserve requirements placed upon auxiliaries.

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

The *Compilation of Policies and Procedures for California State University Auxiliary Organizations* sets sound business practice guidelines for auxiliary organizations operating within the CSU system. Section 8.9.9, *Reserves and Net Assets*, states that the auxiliary should implement financial standards that will assure fiscal viability, including proper provision for professional management, adequate working capital, adequate reserve funds for current operations and capital replacements, and adequate provisions for new business requirements.

The campus vice president of finance and administration stated her belief that the reserve policy was adequate for an organization with limited activities. She further stated that required areas were not addressed due to oversight.

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

Recommendation 15

We recommend that the UGC amend and have approved its reserve policy that will fully address or consider the following areas: minimum reserve requirements; the methodology used for the calculation of reserves; board review of reserve levels; reserves for capital replacements, working capital, and current operations; and adequacy of reserves.

Campus Response

We concur. The policy will be presented to the board at its July 2005 meeting.

OPERATIONAL COMPLIANCE

The UGC budgets for fiscal years 2002/03 and 2003/04 were not approved in a timely manner.

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

The campus vice president of finance and administration stated that the failure to approve the budget in a timely manner was due to oversight.

The lack of timely budget approval increases the risk of misunderstandings over the allocation of funds.

Recommendation 16

We recommend that the UGC ensure that budgets are approved by its board and submitted to the campus president for approval in a timely manner.

Campus Response

We concur. Steps have been taken to ensure that budgets are completed earlier in the year so that the entire board and presidential review can occur prior to the start of the fiscal year.

PURCHASING AND ACCOUNTS PAYABLE

SUPPORTING DOCUMENTATION

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

Our review of 60 disbursements disclosed the following:

Process Controls

- ▶ In 14 instances, facsimile and photocopied invoices were accepted for payment without certification that records were verified to prevent duplicate payment.
- ▶ In five instances, a payment was issued without a request for goods and services, service order, and/or price quotation.
- ▶ In 31 instances, check requests were not completed because the check requestor, the date of request, and/or the nature and purpose of the payment could not be determined or were unclear.

Processing Exceptions

- ▶ In one instance, a purchase order was dated subsequent to the invoice date.
- ▶ In five instances, a list of attendees and proof of receipt of goods were not provided as supporting documentation for hospitality expenses.
- ▶ In three instances, no supporting documentation could be provided by the UGC.
- ▶ In one instance, an invoice was paid untimely.
- ▶ In two instances, the purchase order was not approved.

- ▶ In two instances, the check payee and signer were the same.
- ▶ In two instances, the same individual approved the expenditure and prepared and signed the manual check.

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

The *Compilation of Policies and Procedures for California State University Auxiliary Organizations* sets sound business practice guidelines for auxiliary organizations operating within the CSU system. Section 8.9.1, *Cash*, states that the auxiliary should disburse cash in a consistent manner utilizing systems that ensure integrity of existing internal controls, with annual management review. Section 8.9.5, *Procurement*, states that the auxiliary should establish a written system that ensures purchases and service contracts' coding, classification, recording, and competitive bidding requirements are applied in a consistent manner.

The campus general accounting manager stated that although the accounting software flagged duplicate invoices, their practice did not consistently certify facsimile and photocopied invoices. In addition, she stated that the procurement policy was new and, therefore, may not have been communicated or demonstrated clearly to the staff. She further stated that their practice did not include completing check requests. Lastly, the campus general accounting manager stated that the lack of adequate supporting documentation and/or authorization and timeliness of payment were due to oversight. The campus vice president of finance and administration stated that failure to segregate the check requestor, approver of expenditure, and signer of the manual check was due to staff constraints.

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

Recommendation 17

We recommend that the UGC:

- a. Develop procedures to ensure that facsimile or photocopied invoices are verified to prevent duplicate payments.
- b. Develop procedures to ensure the adherence of procurement requirements related to the bidding process.
- c. Develop procedures regarding the completion of check requests prior to the issuance of disbursements.

- d. Reiterate to staff existing cash disbursements policies and procedures regarding sufficient and appropriate supporting documentation and authorization.

Campus Response

We concur. We have more thoroughly developed our procedures and will have them fully documented in September 2005.

UNAUTHORIZED FUNCTION

Several UGC expenditures for goods and services were outside of the stated scope of a written agreement with a third-party entity.

The third-party entity delegated certain administrative, management, and marketing functions for home sales and leasing activities to the UGC. However, we found expenditures that were non-related to these delegated functions, such as engineering services, construction, design and interior planning, and amenities for the University Glen community.

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 business arrangements be supported by a complete, written agreement.

The campus vice president of finance and administration stated that housing construction and completion of amenities for the community were oftentimes delayed, and therefore, UGC paid for expenditures at the request of the third party due to time constraints. In addition, she stated that in the formative years, UGC paid for all expenditures presented to them for payment without performing thorough due diligence.

Performing unauthorized functions increases the risk of misunderstandings and miscommunication regarding rights and responsibilities and subjects the CSU to unwarranted liability.

Recommendation 18

We recommend that the UGC perform only those functions approved within its written agreement with third-party entities.

Campus Response

We concur. The operating agreement has been revised to include an expanded list of functions and will be reviewed by the board at the July 2005 meeting.

AUTHORIZATION OF DISBURSEMENTS

Written signature authorization cards identifying designated individuals to approve certain UGC disbursements were not maintained.

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

The *Compilation of Policies and Procedures for California State University Auxiliary Organizations* sets sound business practice guidelines for auxiliary organizations operating within the CSU system. Section 8.9.1, *Cash*, states that the auxiliary should adopt and annually review governing board policy that identifies signature authority and provides practices for the disbursement of cash.

The campus general accounting manager stated that signature authorization cards were not maintained, as the number of individuals authorized to approve certain disbursements was minimal. She further stated that the vice president of finance and administration performed the final review and approval of all check requests.

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

Recommendation 19

We recommend that the UGC maintain written signature authorization cards identifying individuals designated to approve all disbursements.

Campus Response

We concur. The board will review general signature delegation policy at its July 2005 board meeting.

**ASSOCIATED STUDENTS OF
CALIFORNIA STATE UNIVERSITY, CHANNEL ISLANDS**

OPERATING AND ADMINISTRATIVE AGREEMENTS

Funds held by the campus on behalf of the Associated Students of California State University, Channel Islands (AS) were not supported by a trust agreement.

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 and operating arrangements be supported by written agreements.

The campus vice president of finance and administration stated that the current procedure was being practiced; however, the lack of a trust agreement with the campus was due to oversight.

The absence of trust agreements increases the risk of inappropriate expenditures and misunderstandings about account operation.

Recommendation 20

We recommend that the AS establish a trust agreement with the campus to support its business and operating arrangement over student body fees.

Campus Response

We concur. An agreement will be drafted and presented to the board by September 2005.

OPERATIONAL COMPLIANCE

Administration of AS student travel was inadequate.

We found that:

- ▶ A written AS travel policy did not exist.
- ▶ Travel authorization forms were not consistently completed prior to travel.

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

business practices. Sound business practice mandates supporting travel processes with current policies and procedures.

The campus vice president of finance and administration stated that AS travel policies and procedures were currently being developed.

The lack of written policies and procedures increases the risk of errors or misappropriation.

Recommendation 21

We recommend that the AS develop travel policies and procedures to ensure expenditures are properly authorized and documented.

Campus Response

We concur. Such policy shall be drafted and approved by January 1, 2006.

SEGREGATION OF DUTIES

Duties and responsibilities over certain accounting functions for cash receipts were not appropriately segregated at the AS.

We found that one employee:

- ▶ Prepared the daily bank deposits.
- ▶ Approved the daily bank deposits.
- ▶ Had full access to the general ledger accounting system.

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

The *Compilation of Policies and Procedures for California State University Auxiliary Organizations* sets sound business practice guidelines for auxiliary organizations operating within the CSU system. Section 8.9.1, *Cash*, states that the auxiliary should receive cash in a consistent manner utilizing systems that ensure integrity of existing internal controls, with annual management review.

The campus general accounting manager stated that the lack of segregation of duties was due to oversight.

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

Recommendation 22

We recommend that the AS properly segregate accounting functions over cash receipts or institute mitigating procedures approved by the campus chief financial officer.

Campus Response

We concur. We changed our process as soon as we realized the control issue.

PURCHASING AND ACCOUNTS PAYABLE

SUPPORTING DOCUMENTATION

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

Our review of 30 cash disbursements disclosed the following:

- ▶ In seven instances, facsimile or photocopied invoices were accepted for payment without certification that records were verified to prevent duplicate payment.
- ▶ In five instances, supporting documentation, such as the purpose of the event, the list of attendees, or a record of the number of students attending a catered event, was not included for hospitality expenses.

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

The *Compilation of Policies and Procedures for California State University Auxiliary Organizations* sets sound business practice guidelines for auxiliary organizations operating within the CSU system. Section 8.9.1, *Cash*, states that the auxiliary should disburse cash in a consistent manner utilizing systems that ensure integrity of existing internal controls, with annual management review.

The campus general accounting manager stated that most of above instances occurred in formative years when procedures were not established.

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

Recommendation 23

We recommend that the AS develop procedures to ensure that:

- a. Facsimile and photocopied invoices are verified against records to prevent duplicate payment.
- b. Supporting documentation, such as the purpose of the event, the list of attendees, or a record of the number of students attending a catering event is provided for all disbursements.

Campus Response

We concur. We have more thoroughly developed our procedures and will have them fully documented in September 2005.

AUTHORIZATION OF DISBURSEMENTS

Written signature authorization cards identifying designated individuals to approve certain AS disbursements were not maintained.

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

The *Compilation of Policies and Procedures for California State University Auxiliary Organizations* sets sound business practice guidelines for auxiliary organizations operating within the CSU system. Section 8.9.1, *Cash*, states that the auxiliary should adopt and annually review governing board policy that identifies signature authority and provides practices for the disbursement of cash.

The campus general accounting manager stated that the signature authorization cards were not maintained due to an oversight.

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

Recommendation 24

We recommend that the AS maintain written signature authorization cards identifying individuals designated to approve certain disbursements.

Campus Response

We concur. The board will review general signature delegation policy at its August 2005 board meeting.

CREDIT CARDS

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

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

The campus general accounting manager stated that the procurement department did not have a formal policy; however, the department did provide a credit card information sheet with issuance of each credit card.

The lack of formal written policies and procedures increases the risk of errors or misappropriation.

Recommendation 25

We recommend that the AS develop and disseminate formal credit card policies and procedures that include:

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

Campus Response

We concur. Such policy shall be drafted and approved by January 1, 2006.

TRUSTS AND OTHER LIABILITIES

Funds held and administered by the AS on behalf of student club organizations were not supported by trust agreements or written policies and procedures.

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 regarding trust funds be properly supported by agreements and written policies and procedures.

The campus vice president of finance and administration stated that the policies and procedures over trust accounts were currently being developed.

The absence of trust agreements and written policies and procedures over trust accounts increases the risk of inappropriate expenditures and misunderstandings about account operations.

Recommendation 26

We recommend that the AS establish a trust agreement and written policies and procedures regarding funds held and administered by the AS on behalf of student club organizations.

Campus Response

We concur. We will establish such policy and procedures by January 1, 2006.

APPENDIX A: PERSONNEL CONTACTED

Name

Title

CAMPUS

Richard R. Rush	President
Christina Canchola	Cashier
Joanne Coville	Vice President, Finance and Administration
Chanda Cunningham	Procurement Analyst
Emily Deakin	Manager, General Accounting
Marti DeLao	Director, Donor Relations
Caroline Doll	Real Estate Manager, University Glen Corporation
Theresa Hernandez	Accountant
Leah Kirklin	Manager, Procurement
Bill Kupfer	Director Environment, Safety and Risk Management
Carol McCrory	Sales and Marketing, University Glen Corporation
Louise Siefert	Accounts Payable, Lead
Diana Smith	Information Specialist
Rhonda Tyacke	Executive Assistant to Vice President, Finance and Administration
Leticia Vargas	Cashier
Jenny Wang	Accountant
Dianne Wei	Development Assistant
Helina Wu	Accounting Technician

ASSOCIATED STUDENTS OF CALIFORNIA STATE UNIVERSITY, CHANNEL ISLANDS

Matthew Hewitt	President
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STATEMENT OF INTERNAL CONTROLS

A. INTRODUCTION

Internal accounting and related operational controls established by the State of California, the California State University 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 that 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 recordkeeping 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.



Division of Finance and Administration

August 15, 2005

RECEIVED
UNIVERSITY AUDITOR



THE CALIFORNIA STATE
UNIVERSITY

Mr. Larry Mandel
University Auditor
401 Golden Shore, 4th Floor
Long Beach, CA 90802-4200

Re: Campus Response to Recommendations
Auxiliary Organizations Audit, Report No. 05-46
California State University, Channel Islands

Dear Larry:

Enclosed is the campus response to the recommendations of the above-referenced audit report. The campus has addressed these recommendations.

Very truly yours,

A handwritten signature in cursive script, appearing to read 'Joanne Coville'.

Joanne Coville
Vice President for Finance
and Administration

JC/rt
Enclosures

cc: Richard Rush, President
Emily Deakin, Accounting Manager

AUXILIARY ORGANIZATIONS
CALIFORNIA STATE UNIVERSITY,
CHANNEL ISLANDS

REPORT NUMBER 05-46
JULY 1, 2005

CAMPUS

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. We will document the types of costs that are involved and, if significant bill the auxiliaries for their share. This project should be completed by January 1, 2006.

OPERATIONAL COMPLIANCE

HOSPITALITY

Recommendation 2

We recommend that the campus develop written hospitality policies and procedures applicable to the auxiliary organizations.

Campus Response

We concur. Policies will be drafted and approved by the respective auxiliaries by January 1, 2006.

CONFLICT OF INTEREST

Recommendation 3

We recommend that the campus provide guidance for its auxiliaries to strengthen or establish written conflict-of-interest policies and procedures to address, among other things: filing of annual statements by board and management personnel; determination of whether a conflict-of-interest exists; actions required in association with a conflict; and actions required when violations of conflict-of-interest policy are discovered.

Campus Response

We concur. Such policies have been drafted and will be approved at the next Board meeting of the auxiliary.

PROPERTY AND EQUIPMENT

Recommendation 4

We recommend that the campus develop policies and procedures regarding the management and administration of auxiliary fixed assets transferred to the campus.

Campus Response

We concur. Policies and practices will be documented by the end of September 2005.

CALIFORNIA STATE UNIVERSITY, CHANNEL ISLANDS FOUNDATION

OPERATING AND ADMINISTRATIVE AGREEMENTS

Recommendation 5

We recommend that the Foundation update its operating agreement to extend the hold harmless provision to the campus.

Campus Response

We concur. An updated operating agreement will be presented to the Board at its August 2005 meeting.

CORPORATE GOVERNANCE

DISSOLUTION OF AUXILIARY

Recommendation 6

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

Campus Response

We concur. Revised Articles of Incorporation will be presented to the Board at their August 2005 meeting.

BOARD MINUTES

Recommendation 7

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

Campus Response

We concur. The Executive Assistant to the Vice President has agreed to regularly review for unsigned minutes.

FISCAL COMPLIANCE

Recommendation 8

We recommend that the Foundation amend its reserve policy to fully address or consider the following areas: minimum reserve requirements; the methodology used for the calculation of reserves; board review of reserve levels; reserves for capital replacements, working capital, and current operations; and adequacy of reserves.

Campus Response

We concur. A revised policy will be presented to the Board at its August 2005 meeting.

OPERATIONAL COMPLIANCE

Recommendation 9

We recommend that the Foundation ensure that budgets are approved by its board and submitted to the campus president for approval in a timely manner.

Campus Response

We concur. Steps have been taken to assure that budgets are completed earlier in the year so that the entire Board and Presidential review can occur prior to the start of the fiscal year.

FEES, REVENUES, AND RECEIVABLES

Recommendation 10

We recommend that the Foundation perform regular and timely revenue reconciliations of the donor database system and the general ledger accounting system.

Campus Response

We concur. Such reconciliations shall be done on a monthly basis and within 30 days of closing.

PURCHASING AND ACCOUNTS PAYABLE

Recommendation 11

We recommend that the Foundation:

- a. Develop procedures to ensure that facsimile or photocopied invoices are verified to prevent duplicate payment.
- b. Develop procedures to ensure the adherence of procurement requirements related to the bidding process.
- c. Reiterate to staff existing cash disbursement policies and procedures regarding sufficient and appropriate supporting documentation and appropriate authorization.

Campus Response

We concur. We have more thoroughly developed our procedures and will have them fully documented in September 2005.

UNIVERSITY GLEN CORPORATION

OPERATING AND ADMINISTRATIVE AGREEMENTS

Recommendation 12

We recommend that the UGC ensure that agreements include appropriate indemnification clauses.

Campus Response

We concur. A revised operating agreement will be reviewed by the Board at their July 2005 meeting.

CORPORATE GOVERNANCE

DISSOLUTION OF AUXILIARY

Recommendation 13

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

Campus Response

We concur. Revised Articles of Incorporation will be reviewed by the Board at their July 2005 meeting.

BOARD COMPOSITION

Recommendation 14

We recommend that the UGC ensure that non-campus and student representation is maintained in accordance with Title 5.

Campus Response

We concur. We now have the full complement of Board members and will do our best to maintain it.

FISCAL COMPLIANCE

Recommendation 15

We recommend that the UGC amend and have approved its reserve policy that will fully address or consider the following areas: minimum reserve requirements; the methodology used for the calculation of reserves; board review of reserve levels; reserves for capital replacements, working capital, and current operations; and adequacy of reserves.

Campus Response

We concur. The policy will be presented to the Board at its July 2005 meeting.

OPERATIONAL COMPLIANCE

Recommendation 16

We recommend that the UGC ensure that budgets are approved by its board and submitted to the campus president for approval in a timely manner.

Campus Response

We concur. Steps have been taken to assure that budgets are completed earlier in the year so that they entire Board and Presidential review can occur prior to the start of the fiscal year.

PURCHASING AND ACCOUNTS PAYABLE

SUPPORTING DOCUMENTATION

Recommendation 17

We recommend that the UGC:

- a. Develop procedures to ensure that facsimile or photocopied invoices are verified to prevent duplicate payments.
- b. Develop procedures to ensure the adherence of procurement requirements related to the bidding process.
- c. Develop procedures regarding the completion of check requests prior to the issuance of disbursements.
- d. Reiterate to staff existing cash disbursements policies and procedures regarding sufficient and appropriate supporting documentation and authorization.

Campus Response

We concur. We have more thoroughly developed our procedures and will have them fully documented in September 2005.

UNAUTHORIZED FUNCTION

Recommendation 18

We recommend that the UGC perform only those functions approved within its written agreement with third-party entities.

Campus Response

We concur. The operating agreement has been revised to include an expanded list of functions and will be reviewed by the Board at the July 2005 meeting.

AUTHORIZATION OF DISBURSEMENTS

Recommendation 19

We recommend that the UGC maintain written signature authorization cards identifying individuals designated to approve all disbursements.

Campus Response

We concur. The Board will review general signature delegation policy at its July 2005 Board meeting.

ASSOCIATED STUDENTS OF
CALIFORNIA STATE UNIVERSITY, CHANNEL ISLANDS

OPERATING AND ADMINISTRATIVE AGREEMENTS

Recommendation 20

We recommend that the AS establish a trust agreement with the campus to support its business and operating arrangement over student body fees.

Campus Response

We concur. An agreement will be drafted and presented to the Board by September 2005.

OPERATIONAL COMPLIANCE

Recommendation 21

We recommend that the AS develop travel policies and procedures to ensure expenditures are properly authorized and documented.

Campus Response

We concur. Such policy shall be drafted and approved by January 1, 2006.

SEGREGATION OF DUTIES

Recommendation 22

We recommend that the AS properly segregate accounting functions over cash receipts or institute mitigating procedures approved by the campus chief financial officer.

Campus Response

We concur. We changed our process as soon as we realized the control issue.

PURCHASING AND ACCOUNTS PAYABLE

SUPPORTING DOCUMENTATION

Recommendation 23

We recommend that the AS develop procedures to ensure that:

- a. Facsimile and photocopied invoices are verified against records to prevent duplicate payment.

- b. Supporting documentation, such as the purpose of the event, the list of attendees, or a record of the number of students attending a catering event is provided for all disbursements.

Campus Response

We concur. We have more thoroughly developed our procedures and will have them fully documented in September 2005.

AUTHORIZATION OF DISBURSEMENTS

Recommendation 24

We recommend that the AS maintain written signature authorization cards identifying individuals designated to approve certain disbursements.

Campus Response

We concur. The Board will review general signature delegation policy at its August 2005 Board meeting.

CREDIT CARDS

Recommendation 25

We recommend that the AS develop and disseminate formal credit card policies and procedures that include:

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

Campus Response

We concur. Such policy shall be drafted and approved by January 1, 2006.

TRUSTS AND OTHER LIABILITIES

Recommendation 26

We recommend that the AS establish a trust agreement and written policies and procedures regarding funds held and administered by the AS on behalf of student club organizations.

Campus Response

We concur. We will establish such policy and procedures by January 1, 2006.


THE CALIFORNIA STATE UNIVERSITY
 OFFICE OF THE CHANCELLOR

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- DOMINGUEZ HILLS
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- STANISLAUS

September 19, 2005

MEMORANDUM

TO: Mr. Larry Mandel
University Auditor

FROM: Charles B. Reed
Chancellor



SUBJECT: Draft Final Report Number 05-46 on *Auxiliary Organizations*,
California State University, Channel Islands

In response to your memorandum of September 19, 2005, I accept the response as submitted with the draft final report on *Auxiliary Organizations*, California State University, Channel Islands.

CBR/jt

Enclosure

cc: Dr. Richard R. Rush, President