

**AUXILIARY ORGANIZATIONS**  
**CALIFORNIA STATE UNIVERSITY,**  
**FRESNO**

**Report Number 05-47**  
**November 11, 2005**

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## ABBREVIATIONS

Ag Foundation	The Agricultural Foundation of California State University, Fresno
AS	Associated Students California State University, Fresno
Association	California State University, Fresno Association, Inc.
Athletic Corporation	The California State University, Fresno Athletic Corporation
Athletic Stock	Sports Clothing, Shoes, Gear, and Merchandise
ATM	Automated Teller Machine
CFO	Chief Financial Officer
CSU	California State University
CSUF	California State University, Fresno
EO	Executive Order
Foundation	California State University, Fresno Foundation
GAAP	Generally Accepted Accounting Principles
IT	Information Technology
MOU	Memorandum of Understanding
OH	Ornamental Horticulture
OMB	Office of Management and Budget
PFC	Fresno State Programs for Children, Inc.
PSA	Preferred Seating Area
RFIN	Resolution of the Committee on Finance
USDA	United States Department of Agriculture

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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.

California State University, Fresno (CSUF) 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.

We visited the CSUF campus and its auxiliary organizations from April 4, 2005, through June 3, 2005, and made a study and evaluation of the system of internal compliance/internal control in effect for the period July 2002 to June 2005. This report represents our triennial review.

Our study and evaluation at *California State University, Fresno 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 June 2005, taken as a whole, was sufficient to meet the objectives stated above.

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

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

Our study and evaluation at *The California State University, Fresno Athletic 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 June 2005, taken as a whole, was sufficient to meet the objectives stated above.

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

Our study and evaluation at *Associated Students California State University, Fresno* did not reveal any significant internal control problems or weaknesses that would be considered pervasive in their effects on the accounting and administrative controls. However, we did identify other reportable weaknesses that are described in the executive summary and in the body of the report. In our opinion, the accounting and administrative control in effect as of June 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 [15]**

The campus had not maintained and updated, in a timely manner, a current, formal cost allocation plan for the reimbursement of facilities, goods, and services provided to the California State University, Fresno Athletic Corporation.

## **CALIFORNIA STATE UNIVERSITY, FRESNO FOUNDATION**

### **OPERATING AND ADMINISTRATIVE AGREEMENTS [16]**

The California State University Fresno Foundation (Foundation) operating agreement with the campus was not signed and submitted to the chancellor's office for approval in a timely manner.

### **FACILITIES AGREEMENTS [16]**

Certain lease and sublease agreements among the Foundation and other entities were either incomplete, not executed, or not executed in a timely manner.

### **CORPORATE GOVERNANCE [18]**

The Foundation Articles of Incorporation included an improper dissolution clause; it allowed the board of governors to select a successor.

### **OPERATIONAL COMPLIANCE [19]**

Travel advances issued by the Foundation were not cleared in a timely manner. Specifically, travel advances totaling \$103,654.67 were more than 90 days outstanding.

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

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

### **TRUSTS AND OTHER LIABILITIES [21]**

Foundation procedures used to account for and report campus program funds held within agency/custodial accounts were in need of improvement. For instance, Foundation accounting inappropriately treated certain fund-raising proceeds and expenditures as agency transactions, and neither the campus nor the Foundation recognized these unrestricted fund-raising revenues in their financial statements.

## **AUXILIARY PROGRAMS [22]**

Foundation oversight of contracts and grants required improvement. For instance, the Foundation had not developed policies and procedures to certify effort performed on contract and grant projects, and had not fully implemented policies and procedures to adequately monitor sub-recipients and certify cost-sharing or in-kind commitments.

## **CALIFORNIA STATE UNIVERSITY, FRESNO ASSOCIATION, INC.**

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

Certain written agreements among the California State University, Fresno Association, Inc. (Association) and other entities were either incomplete or not established.

### **FACILITIES AGREEMENTS [25]**

Certain lease and sublease arrangements among the Association and the campus and other entities were not properly supported by written agreements or fully executed.

### **CAMPUS OVERSIGHT AND CONTROL [26]**

The Association budget for fiscal year 2004/05 was not submitted to the campus president for approval in a timely manner.

### **SEGREGATION OF DUTIES [27]**

Duties and responsibilities over a dental claims checking account were not adequately segregated at the Association. Specifically, one employee had access to the stock of blank checks, manually signed these checks, and performed the reconciliation for the account. In addition, certain payroll and human resources functions were not appropriately segregated. For example, two payroll employees had the capability to create new employees and change employee pay rates in the payroll system.

### **PERSONNEL AND PAYROLL [29]**

The Association did not maintain in the centralized personnel files documentation of background checks of children's center employees. Further, Association administration of certain terminated hourly employees was insufficient. Specifically, certain employees were coded as active employees, but were no longer employed, and employee clearance forms were not consistently utilized.

**THE AGRICULTURAL FOUNDATION OF CALIFORNIA STATE UNIVERSITY, FRESNO**

**OPERATING AND ADMINISTRATIVE AGREEMENTS [32]**

The Agricultural Foundation of California State University, Fresno (Ag Foundation) did not have an agreement or memorandum of understanding for enterprise-wide information technology services provided by the campus.

**FACILITIES AGREEMENTS [32]**

Certain lease and sublease agreements among the Ag Foundation and other entities were incomplete or not executed.

**OPERATIONAL COMPLIANCE [33]**

The Ag Foundation had not performed, in a timely manner, an analysis of the comparability of salaries, wages, and benefits between its full-time employees in relation to those provided campus employees performing substantially similar positions.

**SEGREGATION OF DUTIES [34]**

Duties and responsibilities over the authorization and reconciliation of gift certificates were not adequately segregated at the Ag Foundation. Specifically, one employee issued, authorized, and reconciled gift certificates.

**CASH RECEIPTS AND HANDLING [35]**

Administration of Ag Foundation cash receipts processing was deficient. A review disclosed cash receipts were not deposited in a timely manner at the Ornamental Horticulture (OH) Floral and Winery, the petty cash fund was not properly accounted for at OH Floral, and the combination to the safe located at the Farm Market was not changed during the last three years.

**FEES, REVENUES, AND RECEIVABLES [36]**

The Ag Foundation had not fully implemented policies and procedures to track the sales of the OH Floral enterprise.

**PURCHASING AND ACCOUNTS PAYABLE [37]**

Certain Ag Foundation cash disbursements were not supported by sufficient and appropriate documentation and/or appropriate authorization, as a payment authorization form did not include a purpose in ten instances. In addition, reconciliations were not performed for the Farm Market inventory, and monthly inventory counts were not conducted at the Winery and Meats Lab in accordance with the inventory policy.

## **THE CALIFORNIA STATE UNIVERSITY, FRESNO ATHLETIC CORPORATION**

### **OPERATING AND ADMINISTRATIVE AGREEMENTS [40]**

Certain agreements among The California State University, Fresno Athletic Corporation (Athletic Corporation), the campus, and third parties were missing, incomplete, or not executed in a timely manner.

### **FACILITIES AGREEMENTS [41]**

Certain Athletic Corporation facility lease and sublease arrangements with the campus and third parties were not properly supported by written agreements.

### **FISCAL COMPLIANCE [42]**

The Athletic Corporation had not fully implemented its draft reserve policy. Specifically, a reserve analysis had not been performed to determine adequate amount of reserves needed within the following categories: working capital, current operations, capital replacement, and planned future operations. In addition, the Athletic Corporation was not operating on a self-sufficient basis and did not take appropriate measures to ensure that its reserve planning was sufficient to assure fiscal viability.

### **SEGREGATION OF DUTIES [44]**

Duties and responsibilities over sports clothing, shoes, gear, and merchandise (athletic stock) were not adequately segregated at the Athletic Corporation. Specifically, one employee negotiated contracts, placed orders, and received orders for athletic equipment, approved invoices for payment, performed monthly inventory, and destroyed and wrote-off old or unneeded athletic equipment.

### **CASH RECEIPTS AND HANDLING [45]**

Administration of Athletic Corporation cashiering duties and cash receipts processing at the ticket office and Bulldog Store were in need of improvement. Specifically, combinations to safes were not changed periodically, and certain policies and procedures had not been developed to address an acceptable level of over/short amounts for cashier registers.

### **PURCHASING AND ACCOUNTS PAYABLE [46]**

Certain Athletic Corporation cash disbursements were not supported by sufficient documentation and appropriate authorization or paid timely. Further, written policies and procedures to address the athletic stock inventory had not been developed. Lastly, written signature authorizations identifying designated individuals to sign contracts on behalf of the auxiliary had not been established.

## **PROPERTY AND EQUIPMENT [49]**

Accounting for Athletic Corporation property and equipment was insufficient. Specifically, periodic physical inventory counts had not been performed and the fixed assets inventory listing had not been reconciled to the general ledger. Further, fixed assets were not always tagged in a timely manner.

## **AUXILIARY PROGRAMS [50]**

The Athletic Corporation's oversight of the sports camps was inadequate. For example, written agreements between the Athletic Corporation and sports camps directors that define basic risk management requirements, facility use terms, and accounting and payroll procedures had not been executed; camp liability waivers did not indemnify all required parties; signature authorization cards were not maintained; and duties and responsibilities for cash receipts were not appropriately segregated.

## **FRESNO STATE PROGRAMS FOR CHILDREN, INC.**

### **OPERATING AND ADMINISTRATIVE AGREEMENTS [52]**

Administrative agreements had not been executed between the Fresno State Programs for Children, Inc. (PFC) and the campus for services provided by state employees at the auxiliary.

### **FACILITIES AGREEMENTS [52]**

A lease arrangement between the PFC and the University Religious Center had not been executed. Further, the indemnification clause in the PFC's proposed lease agreement with the University Religious Center was inadequate.

### **OPERATIONAL COMPLIANCE [53]**

The PFC had not obtained annual conflict-of-interest statements from all of its board members for fiscal years 2002/03 and 2003/04.

### **CAMPUS OVERSIGHT AND CONTROL [54]**

The PFC budget for fiscal year 2002/03 was not submitted to the campus president for approval in a timely manner.

### **SEGREGATION OF DUTIES [54]**

Duties and responsibilities were not appropriately segregated at the Campus Children's Center. Specifically, the PFC office manager received incoming checks, entered amounts into the database, prepared daily deposits, and performed revenue reconciliations.

### **CASH RECEIPTS AND HANDLING [55]**

The PFC had not developed written policies and procedures for cash receipts and handling to address the inconsistency in the manner in which cash was collected, deposited, and reconciled between the two separate childcare facilities.

### **PURCHASING AND ACCOUNTS PAYABLE [56]**

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

### **PERSONNEL AND PAYROLL [57]**

The PFC had not developed written hiring policies and procedures to allow for consistent management oversight of the Campus Children's Center and Huggins Center.

### **ASSOCIATED STUDENTS CALIFORNIA STATE UNIVERSITY, FRESNO**

### **OPERATING AND ADMINISTRATIVE AGREEMENTS [59]**

Certain written agreements between the Associated Students California State University, Fresno (AS) and the campus had expired or had not been established.

### **CORPORATE GOVERNANCE [60]**

The AS Articles of Incorporation included an improper dissolution clause; it allowed the board of directors to select a successor.

### **OPERATIONAL COMPLIANCE [60]**

The AS had not obtained annual conflict-of-interest statements from its board members for fiscal years 2002/03 and 2003/04.

### **CAMPUS OVERSIGHT AND CONTROL [61]**

The AS budgets for fiscal years 2002/03 and 2003/04 were not submitted to the campus president for approval in a timely manner.

### **SEGREGATION OF DUTIES [61]**

Duties and responsibilities related to cash receipts processing were not appropriately segregated at the AS intramural office. Specifically, the AS intramural director received cash for gym and intramural fees, updated the team roster log, and prepared daily deposits.

## **FEES, REVENUES, AND RECEIVABLES [62]**

Revenues received from AS intramural fees were not reconciled to team roster log.

## **PURCHASING AND ACCOUNTS PAYABLE [63]**

Certain AS cash disbursements were not supported by sufficient and appropriate documentation and/or appropriate authorization. Specifically, AS disbursement procedures did not prohibit the acceptance of facsimile and photocopied invoices for payment without certification that records were verified to prevent duplicate payment.

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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 *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 June 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, Fresno 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
- ▶ Petty Cash and Change Funds
- ▶ Investments
- ▶ Fees, Revenues, and Receivables
- ▶ Purchasing and Accounts Payable
- ▶ Personnel and Payroll
- ▶ Property and Equipment
- ▶ Auxiliary Programs

California State University, Fresno Association, Inc.

- ▶ 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
- ▶ Petty Cash and Change Funds
- ▶ Investments
- ▶ Fees, Revenues, and Receivables
- ▶ Purchasing and Accounts Payable
- ▶ Personnel and Payroll
- ▶ Property and Equipment
- ▶ Auxiliary Programs
- ▶ Information Technology

The Agricultural Foundation of California State University, Fresno

- ▶ 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
- ▶ Petty Cash and Change Funds
- ▶ Investments
- ▶ Fees, Revenues, and Receivables
- ▶ Purchasing and Accounts Payable
- ▶ Personnel and Payroll
- ▶ Property and Equipment
- ▶ Auxiliary Programs
- ▶ Information Technology

The California State University, Fresno Athletic 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
- ▶ Petty Cash and Change Funds
- ▶ Fees, Revenues, and Receivables
- ▶ Purchasing and Accounts Payable
- ▶ Personnel and Payroll
- ▶ Property and Equipment
- ▶ Auxiliary Programs
- ▶ Information Technology

Fresno State Programs for Children, Inc.

- ▶ Operating and Administrative Agreements
- ▶ Facilities Agreements
- ▶ Corporate Governance
- ▶ Fiscal Compliance
- ▶ Operational Compliance
- ▶ Program Compliance
- ▶ Campus Oversight and Control
- ▶ Segregation of Duties

Fresno State Programs for Children, Inc. (Cont.)

- ▶ 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
- ▶ Information Technology

Associated Students California State University, Fresno

- ▶ Operating and Administrative Agreements
- ▶ Facilities Agreements
- ▶ Corporate Governance
- ▶ Fiscal Compliance
- ▶ Operational Compliance
- ▶ Program Compliance
- ▶ Campus Oversight and Control
- ▶ Segregation of Duties
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- ▶ Purchasing and Accounts Payable
- ▶ Personnel and Payroll
- ▶ Property and Equipment
- ▶ Auxiliary Programs
- ▶ Information Technology

Campus

- ▶ Campus Oversight and Control

We have not performed any auditing procedures beyond June 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.

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# OBSERVATIONS, RECOMMENDATIONS, AND CAMPUS RESPONSES

## CAMPUS

### FISCAL COMPLIANCE

The campus had not maintained and updated, in a timely manner, a current, formal cost allocation plan for the reimbursement of facilities, goods, and services provided to The California State University, Fresno Athletic Corporation.

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 vice president of administration stated that an updated cost allocation plan had been drafted and was finalized during the fieldwork of this audit. She further stated that although the cost allocation plan had not been updated, the auxiliaries were still being charged for extra services and services provided by the campus units to auxiliary organizations located off-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 maintain and update its formal cost allocation plan, in a timely manner, to ensure that the General Fund is appropriately reimbursed for facilities, goods, and services provided to auxiliary organizations.

#### **Campus Response**

We concur. We have started to update the cost allocation plan. We will complete the update by May 30, 2006.

## **CALIFORNIA STATE UNIVERSITY, FRESNO FOUNDATION**

### **OPERATING AND ADMINISTRATIVE AGREEMENTS**

The California State University Fresno Foundation (Foundation) operating agreement with the campus was not signed and submitted to the chancellor's office for approval in a timely manner.

We found that the operating agreement dated July 1, 2001, was not signed by the Foundation and the campus until December 2001 and May 2002, respectively.

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

The executive director of auxiliary services stated that the operating agreement was not signed in a timely manner due to oversight.

Operating in the absence of a current and approved written agreement increases the risk of misunderstandings and miscommunication regarding rights and responsibilities.

#### **Recommendation 2**

We recommend that the Foundation ensure that its operating agreement with the campus is signed and submitted to the chancellor's office for approval in a timely manner.

#### **Campus Response**

We concur. We will endeavor that future operating agreements are signed and submitted on time.

### **FACILITIES AGREEMENTS**

Certain lease and sublease agreements among the Foundation and other entities were either incomplete, not executed, or not executed in a timely manner.

We found that:

- ▶ The sublease agreement with the University High School did not include an indemnification or insurance provision.
- ▶ The Foundation had not executed a lease agreement with the Lutheran Campus Ministries for office space used by the Friendly Services Program.

- ▶ The lease agreement with the Central Valley Higher Education Consortium was not signed 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 California State University (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, arriving out of, or in any way connected with the operations of the auxiliary. Additionally, the model agreement states that comprehensive general liability insurance shall have minimum limits no less than \$1,000,000 overall, which shall include, but not be limited to, bodily injury, property damage, and umbrella clause.

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.

The executive director of auxiliary services stated that the failure to provide for a complete indemnification clause in the University High School sublease agreement was due to oversight. Further, she stated her belief that a lease agreement was unnecessary with the Lutheran Campus Ministries because the Friendly Services Program was operated by the campus. Lastly, she stated that the Central Valley Higher Education Consortium lease agreement was not signed in a timely manner due to oversight.

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

### **Recommendation 3**

We recommend that the Foundation:

- a. Ensure that agreements include appropriate indemnification and insurance provisions.
- b. Execute a lease agreement with the Lutheran Campus Ministries for office space used by the Friendly Services Program.
- c. Execute written agreements in a timely manner.

### **Campus Response**

We concur.

- a. The Foundation will work with the University High School to develop an amendment to the sub-ground lease agreement in order to comply with these requirements. This sub-ground lease agreement was executed prior to the Foundation's staff counsel being in place. We will execute this agreement by June 1, 2006.
- b. A lease agreement has been executed. The Foundation assisted in executing a no-cost lease for the Friendly Visitors Center, which is affiliated with the Gerontology Program, for space they use at the Lutheran Campus Ministries office.
- c. We will endeavor to execute our agreements on time. The Foundation is a sublessee (on behalf of the Central Valley Higher Education Consortium), as the building is being leased by the university from a private building owner. The Foundation executed the office lease agreement as soon as it was received from the University.

## **CORPORATE GOVERNANCE**

The Foundation Articles of Incorporation included an improper dissolution clause; it allowed the board of governors to select a 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 executive director of auxiliary services stated that she was unaware 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 4**

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. The Articles of Incorporation were amended and approved by the Foundation board of governors at their December 8, 2005, meeting.

## **OPERATIONAL COMPLIANCE**

Travel advances issued by the Foundation were not cleared in a timely manner.

Specifically, we found that travel advances totaling \$103,654.67 were more than 90 days outstanding.

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 travel advances be cleared in a timely manner.

The Foundation director of financial services stated his belief that most of the outstanding advances were for prepaid services. He further stated that currently there is no distinction between prepaid services and travel advances; however, in the future these expenses would be separated to allow better tracking of travel advances and to ensure clearing in a timely manner.

Failure to clear travel advances in a timely manner increases the risk of loss or misappropriation of funds.

### **Recommendation 5**

We recommend that the Foundation take appropriate measures to ensure the timely clearance of travel advances.

### **Campus Response**

We concur. Foundation financial services accounting staff has cleared all outstanding travel advances at the time of fieldwork and, in August 2005, implemented new procedures to prevent this from recurring.

## **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 processing exceptions:

- ▶ In three instances, payment was issued without adequate supporting documentation.
- ▶ In three instances, photocopied credit card statements were accepted as supporting documentation.
- ▶ In two instances, a payment authorization form was not included.

- ▶ In two instances, a list of attendees was not provided as supporting documentation for hospitality events.
- ▶ In two instances, an invoice was charged to an incorrect account.
- ▶ In one instance, a photocopied invoice was accepted for payment without certification that records were verified to prevent duplicate payment.
- ▶ In one instance, the requester/approver was the same person.
- ▶ In one instance, one-up authorization for a disbursement had not been obtained.

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 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 Foundation director of financial services stated that the lack of sufficient documentation and authorization for disbursements was due to oversight.

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

### **Recommendation 6**

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

### **Campus Response**

We concur. Additional training and reminder of corporate policies will be done by June 1, 2006, with the Foundation's accounting staff. A stamp has been purchased for the accounts payable clerk to use when paying from a copy or faxed copy of an invoice.

## TRUSTS AND OTHER LIABILITIES

Foundation procedures used to account for and report campus program funds held within agency/custodial accounts were in need of improvement.

We found that:

- ▶ Foundation accounting inappropriately treated certain fund-raising proceeds and expenditures as agency transactions.
- ▶ Neither the campus nor the Foundation recognized these unrestricted fund-raising revenues in their financial statements.

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 trust accounts.

The Foundation director of financial services stated that action on this issue was delayed due to management turnover and expressed concern regarding the possible inconsistent financial presentation of these accounts from their external auditors.

Insufficient oversight of custodial funds increases the risk that trust duties and responsibilities will not be met and errors or misappropriations will occur.

### **Recommendation 7**

We recommend that the Foundation ensure that fund-raising proceeds and expenditures are accounted for, are reported consistent with Generally Accepted Accounting Principles (GAAP), and are in compliance with the requirements of Title 5, the Education Code, the Probate Code, EO 919, or other CSU policy as applicable.

### **Campus Response**

We concur with the recommendation. These areas of management are ongoing. We will provide a progress report by September 30, 2006.

## AUXILIARY PROGRAMS

Foundation oversight of contracts and grants required improvement.

We found that:

- ▶ Policies and procedures to certify effort performed on contract and grant projects had not been developed.
- ▶ Policies and procedures to adequately monitor sub-recipients and certify cost-sharing or in-kind commitments had not been fully implemented.
- ▶ Documentation indicating that financial reports and other technical deliverables had been submitted to the sponsoring agency was not contained in project files.

Office of Management and Budget (OMB) Circular A-110, *Uniform Administrative Requirements for Grants and Agreements With Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations Financial Reporting*, §.51(a), states that recipients are responsible for managing and monitoring each project, program, award, function, or activity supported by the award.

OMB Circular A-21, *Cost Principles for Educational Institutions*, §.J.10.b.(2)(b), states that the method of documenting the distribution of charges for personal services must recognize the principle of after-the-fact confirmation or determination so that costs distributed represent actual costs, unless a mutually satisfactory alternative agreement is reached. Direct cost activities and facilities and administration cost activities may be confirmed by responsible persons with suitable means of verification that the work was performed. Confirmation by the employee is not a requirement for either direct or facilities and administration cost activities if other responsible persons make appropriate confirmations.

OMB Circular A-110, *Uniform Administrative Requirements for Grants and Agreements With Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations Financial Reporting*, §.71(a), states that recipients shall submit, within 90 calendar days after the date of completion of the award, all financial, performance, and other reports as required by the terms and conditions of the award.

EO 890, *Administration of Grants and Contracts in Support of Sponsored Programs*, dated January 7, 2004, in part, states that proposals for sponsored programs shall not be submitted to the sponsor without prior written approval of the president of the university or the president's university designee and of the chief financial officer of the university or the chief financial officer's designee. It further states that each campus establish necessary controls to ensure sound fiscal management of sponsored programs, regardless of whether the university or auxiliary is responsible for sponsored program administration.

The executive director of auxiliary services stated that the Foundation was working with the campus to ensure proper training of the principal investigators and was in the process of formalizing certain processes and procedures.

Failure to provide adequate sponsored program oversight increases the risk of non-compliance with OMB requirements, the risk that the auxiliary will operate in a manner inconsistent with the educational mission of the campus, the risk that contracts and grants will be inappropriately managed, and the risk of penalties and disallowances for non-compliance with contracts and grants terms.

### **Recommendation 8**

We recommend that the Foundation:

- a. Develop policies and procedures to certify effort performed on contract and grant projects.
- b. Fully implement policies and procedures to adequately monitor sub-recipients and certify cost-sharing or in-kind commitments.
- c. Retain documentation to evidence that financial reports and other technical deliverables are submitted to sponsoring agencies.

### **Campus Response**

We concur. The Foundation is in the process of working with the provost for academic affairs and the office of research and sponsored programs (ORASP) to develop policies, procedures, and training relating to cost share and effort reporting. We have been working with the manager, Sponsored Projects Administration from the chancellor's office to seek guidance on implementing new policies and procedures to support these activities. These new and/or revised policies will include effort certification, the monitoring of sub-recipients, and document retention guidelines. We will provide a progress report by June 30, 2006.

## **CALIFORNIA STATE UNIVERSITY, FRESNO ASSOCIATION, INC.**

### **OPERATING AND ADMINISTRATIVE AGREEMENTS**

Certain written agreements among the California State University, Fresno Association, Inc. (Association) and other entities were either incomplete or not established.

We found that:

- ▶ The indemnification provision within the preferred seating area (PSA) license agreement did not specifically indemnify the State of California, the CSU Trustees, and the campus.
- ▶ A written agreement had not been established between the Association and a third party for accounting services provided to this entity.
- ▶ The arrangement between the Association and The California State University, Fresno Athletic Corporation (Athletic Corporation) to hold athletic events at the Save Mart Center was not supported by a written 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 arrangements be supported by complete, written agreements.

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 Association executive director stated that failure to provide for a complete indemnification clause in the PSA license agreement was due to oversight. Additionally, she stated that written agreements with the third party and the Athletic Corporation were in progress.

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

### **Recommendation 9**

We recommend that the Association:

- a. Ensure the indemnification clause within the PSA license agreement includes all required parties.
- b. Establish written agreements for accounting services provided by a third party and the hosting of Athletic Corporation events at the Save Mart Center.

### **Campus Response**

We concur.

- a. The indemnification clause in the Save Mart Center PSA license agreements will include all required parties and will be implemented upon expiration and renewal of each agreement.
- b. For 2005/06, a management services agreement with the Maddy Institute has been executed. A memorandum of understanding (MOU) between the Association and the Athletic Corporation for usage of the Save Mart Center for intercollegiate athletic events is under development and will be completed by May 1, 2006.

## **FACILITIES AGREEMENTS**

Certain lease and sublease arrangements among the Association and the campus and other entities were not properly supported by written agreements or fully executed.

We found that:

- ▶ A lease agreement with the Athletic Corporation for the Bulldog Shop in the Save Mart Center had not been established.
- ▶ The sublease agreement with the campus police for space in the student union was not executed by the campus as required.
- ▶ The sublease agreement with the credit union for automated teller machines (ATM) had expired, and a current agreement had not been executed.

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

The Association executive director stated that the lease agreement for the Bulldog Shop was in progress. Additionally, she stated that the failure to fully execute the sublease agreement with the campus police was due to oversight. She further stated that the ATM agreement was provided to the credit union for signature but was never obtained.

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

### **Recommendation 10**

We recommend that the Association:

- a. Establish a lease agreement with the Athletic Corporation for space occupied in the Save Mart Center.
- b. Ensure that the sublease agreements for the ATM and space leased to campus police are fully executed.

### **Campus Response**

We concur.

- a. The space used by the Athletic Corporation in the Save Mart Center (Bulldog Shop) will be included in the MOU noted under Recommendation 9.
- b. A sublease with Golden One Credit Union for the ATM locations in the University Student Union and the University Center has been executed and signed by the president. The previously executed sublease with the university police department for space in the University Student Union has been signed by the campus president.

## **CAMPUS OVERSIGHT AND CONTROL**

The Association budget for fiscal year 2004/05 was not submitted to the campus president for approval 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 Association executive director stated that the budget was not approved in a timely manner due to oversight.

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

### **Recommendation 11**

We recommend that the Association ensure that its annual budgets are submitted to the campus president for approval in a timely manner.

### **Campus Response**

We concur. As a matter of standard practice, prior to the campus president's final approval, the Association's budget is reviewed with the president and campus chief financial officer (CFO) prior to final approval by the board of directors.

## **SEGREGATION OF DUTIES**

### **ACCOUNTS PAYABLE**

Duties and responsibilities over a dental claims checking account were not adequately segregated at the Association.

We found that the Association CFO had access to the stock of blank checks, manually signed these checks, and performed the reconciliation for the account.

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 establish a written internal controls system that ensures cash receipts and disbursements are conducted with appropriate segregation of duties.

The Association executive director stated that deficiencies in the segregation of duties were due to oversight.

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

### **Recommendation 12**

We recommend that the Association properly segregate certain duties over the dental claims checking account or implement mitigating controls approved by the campus CFO.

### **Campus Response**

We concur. The Association's CFO is now reconciling the self-funded dental account and the executive director of auxiliary services will review and approve each reconciliation.

### **PAYROLL**

Duties and responsibilities over certain payroll and human resources functions were not appropriately segregated at the Association.

We found that two payroll employees:

- ▶ Had the capability to create new employees and change employee pay rates in the payroll system.
- ▶ Downloaded employee hours to the payroll system or entered the employee hours to the payroll system manually.
- ▶ Verified the time entered into the payroll system to the respective employee voucher, which documents the hours worked.
- ▶ Prepared and distributed payroll checks without independent review of the number of checks actually printed to the payroll register.

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 8.9.6, *Payroll*, states that the auxiliary should establish a written controls system that ensures payroll preparation is segregated from the general ledger function and other payroll functions such as hiring authorization, timekeeping, and distribution of checks.

The Association executive director stated that the current payroll system lacked the capability to restrict access to certain modules. She also stated that a policy had been implemented to inform employees of access restrictions to certain modules although their user code may allow such access. She further stated that each unit manager received a monthly payroll report and was responsible for reviewing payroll expense against the budget. She stated her belief that current controls were adequate to sufficiently mitigate risks.

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

**Recommendation 13**

We recommend that the Association segregate certain payroll and human resources functions or institute mitigating procedures approved by the campus CFO.

**Campus Response**

We concur. The user profiles for the two payroll technicians will be modified to prevent them being able to create new employees and/or change employee pay rates, which should only be done by human resources staff. These profiles will be modified by April 1, 2006. For payroll, we will have a manager involved to reconcile the number of checks printed to the payroll register.

**PERSONNEL AND PAYROLL**

**BACKGROUND CHECKS**

The Association did not maintain in the centralized personnel files documentation of background checks of children's center employees.

Title 22 §101170 and §101216 indicate that the childcare center must submit fingerprints to the California Department of Justice to conduct a criminal record clearance prior to the individual's employment and that proof of clearance must be kept in personnel files.

The Association director of human resources stated that failure to maintain documentation of background checks in the centralized personnel files was due to oversight.

Failure to maintain documentation of background checks in a centralized location increases the risk of misunderstandings and may increase legal liability.

**Recommendation 14**

We recommend that the Association maintain all background checks conducted for children's center employees in the centralized personnel files.

**Campus Response**

We concur. Since the time of fieldwork, copies of all PFC employee background checks are also kept secure in the employee files located in auxiliary services human resources.

## **EMPLOYEE SEPARATION**

Association administration of certain terminated hourly employees was insufficient.

We noted that:

- ▶ Certain employees were coded as active employees, but were no longer employed.
- ▶ Employee clearance forms (which address the return of loaned assets, credit cards, keys, clearance of outstanding advances, or termination of information systems access) were not consistently utilized.

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

The *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 8.9.6, *Payroll*, states that the auxiliary should establish a written system that ensures proper authorization, approval, and documentation of new hires, changes in employment, salary and wage rates, and payroll deductions.

The Association director of human resources stated that certain employees were not removed from the payroll system because they may be reemployed by a Foundation-sponsored program in the future. Additionally, he stated that the Association did not require clearance forms for certain hourly employees due to the volume and remote locations of the various employees who work on Foundation-sponsored programs.

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

### **Recommendation 15**

We recommend that the Association strengthen procedures to ensure that:

- a. Separated employees are removed from the payroll system, or marked as inactive, on a timely basis.
- b. Clearance forms are documented and completed for all separating employees.

### **Campus Response**

We concur. This work is ongoing. Our new goal is remove or deactivate an employee who is no longer employed within 72 hours of receiving notification. Auxiliary services human resources will issue a communication by March 1, 2006, to all auxiliary organizations' managers and supervisors to ensure that clearance forms and/or other acceptable documentation is completed for all separating employees. We will have a progress report on this recommendation prepared by March 31, 2006.

**THE AGRICULTURAL FOUNDATION OF  
CALIFORNIA STATE UNIVERSITY, FRESNO**

**OPERATING AND ADMINISTRATIVE AGREEMENTS**

The Agricultural Foundation of California State University, Fresno (Ag Foundation) did not have an agreement or MOU for enterprise-wide information technology (IT) services provided 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 that business arrangements be supported by written agreements.

The executive director of the Ag Foundation stated her belief that an MOU was unnecessary because IT support was provided by campus IT, whose services were included as part of the self-sufficiency memorandum detailing the educational and commercial operations provided by the Ag Foundation for the campus.

Operating in the absence of a current and approved written agreement increases the risk of misunderstandings and miscommunication regarding rights and responsibilities.

**Recommendation 16**

We recommend that the Ag Foundation ensure that a MOU or agreement is executed with the campus for enterprise-wide IT services or specifically identify these services in the self-sufficiency agreement.

**Campus Response**

We concur. An MOU between the Ag Foundation and the College of Agricultural Sciences and Technology has been executed that stipulates the IT services provided to the Ag Foundation (Winery and Farm Market) by the college's technician.

**FACILITIES AGREEMENTS**

Certain lease and sublease agreements among the Ag Foundation and other entities were incomplete or not executed.

We found that:

- ▶ A current lease agreement with the Bureau of Reclamation for the Millerton Lake had not been executed.

- ▶ The sublease agreement with the United States Department of Agriculture (USDA) for 30 acres of farmland was not signed by the campus president.
- ▶ The lease agreement between the Ag Foundation and the USDA for the San Joaquin Experiment Range had expired. A current lease agreement had not been executed.

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

The executive director of the Ag Foundation stated that there is a holdover clause in the lease agreement with the Bureau of Reclamation and a letter of extension was forthcoming. She further stated that the sublease agreement with the USDA for the 30 acres of farmland was not signed by the campus president nor was the lease agreement with the USDA for the San Joaquin Experiment Range executed, both due to oversight.

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

### **Recommendation 17**

We recommend that the Ag Foundation execute the lease agreement with the Bureau of Reclamation, the sublease agreement with the USDA for the 30 acres of farmland, and the lease agreement with the USDA for the San Joaquin Experiment Range.

### **Campus Response**

We concur. A new lease with the Bureau of Reclamation has been executed with a term through June 30, 2010. The USDA lease of 30 acres for the Fresno State farm has been extended for a year until November 2006 when the property will be transferred to the campus. The lease from USDA for the San Joaquin Experimental Range has been requested. At this time, USDA cannot advise as to status of a new lease; however, the lease allows the Ag Foundation to continue using the range pending USDA's review.

## **OPERATIONAL COMPLIANCE**

The Ag Foundation had not performed, in a timely manner, an analysis of the comparability of salaries, wages, and benefits for its full-time employees in relation to those provided campus employees performing substantially similar positions.

Title 5 §42405 states that the governing board of each auxiliary organization shall provide salaries, working conditions, and benefits for its full-time employees which are comparable to those provided

campus employees performing substantially similar services. For those full-time employees who perform services that are not substantially similar to the services performed by campus employees, the salaries established shall be at least equal to the salaries prevailing in other educational institutions in the area or commercial operations of like nature.

The executive director of the Ag Foundation stated that this analysis had not been performed due to oversight. However, the human resource director had been charged with performing this analysis and recently completed it.

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

**During our fieldwork, the Ag Foundation provided documentation evidencing that the analysis of the comparability of salaries, wages, and benefits for its full-time employees in relation to those provided campus employees performing substantially similar positions had been performed.**

## **SEGREGATION OF DUTIES**

Duties and responsibilities over the authorization and reconciliation of gift certificates were not adequately segregated at the Ag Foundation.

We found that one Farm Market employee issued, authorized, and reconciled gift certificates.

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 establish a written internal controls system that ensures cash receipts and disbursements are conducted with appropriate segregation of duties.

The Ag Foundation director of agricultural operations stated that the sale of gift certificates was a new program at the Farm Market, and as a result, inadequate segregation of duties was an oversight.

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

### **Recommendation 18**

We recommend that the Ag Foundation ensure that the Farm Market segregate certain duties regarding gift certificate issuance and reconciliation or implement mitigating procedures approved by the campus CFO.

### **Campus Response**

We concur. The Farm Market manager will sell and issue the gift certificates. The manager will then provide to the director of agricultural operations the log of serially numbered gift certificates sold to date along with cash register documentation of gift certificate sales for that particular month. The director of agricultural operations will perform a monthly reconciliation of the gift certificates. The Ag Foundation's CFO will approve the reconciliations. This revised procedure will be in place by April 1, 2006.

## **CASH RECEIPTS AND HANDLING**

Administration of Ag Foundation cash receipts processing was deficient.

We found that:

- ▶ Cash receipts were not deposited in a timely manner at the Ornamental Horticulture (OH) Floral and Winery.
- ▶ The petty cash fund was not properly accounted for, as there was a difference noted between the allocated and actual petty cash balance at the OH Floral.
- ▶ The combination to the safe located at the Farm Market was not changed during the last three years.

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 administration of cash receipts and handling.

The Ag Foundation director of agricultural operations stated that he was unaware of the untimely deposits and had since recommended alternative deposit sites to ensure timeliness. He further stated that the petty cash fund had not been replenished since the occurrence of a robbery at OH Floral. Lastly, he stated that he was unaware that the combination to the safe could be changed without the use of a locksmith.

Inadequate administration of cash receipts processing increases the risk of a loss or misappropriation of funds.

### **Recommendation 19**

We recommend that the Ag Foundation:

- a. Ensure that cash receipts from OH Floral and Winery are deposited in a timely manner.

- b. Ensure that the OH Floral petty cash fund is properly accounted for.
- c. Change the safe combination located at the Farm Market immediately and upon employee separation.

### **Campus Response**

We concur.

- a. The director of agricultural operations instructed his staff to deposit their cash receipts in a timely manner.
- b. The director of agricultural operations instructed his staff to ensure they properly account for their petty cash fund.
- c. Since the current safe at the Farm Market is old and does not permit combination changes easily, we have purchased a larger and more modern safe box for the Farm Market. The Farm Market manager will change the combination of this safe upon employee separation and at least once a year. As an added precaution, we will install a Locknetics lock by June 1, 2006, for the door to the room where the safe is kept. A new card for this door can be reissued as needed.

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

The Ag Foundation had not fully implemented policies and procedures to track the sales of the OH Floral enterprise.

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 tracking of revenue.

The Ag Foundation director of agricultural operations stated that the OH Floral manager was a relatively new employee and that she was still learning the Ag Foundation's policies and procedures for tracking of income and expenses.

Inadequate administration of revenues increases the risk that errors or misappropriation of funds will not be detected.

### **Recommendation 20**

We recommend that the Ag Foundation fully implement policies and procedures to track the sales of the OH Floral enterprise.

### **Campus Response**

We concur. The campus does in fact use a system of receipting using invoices referred to by their former name of UARCO. This system is sufficient to track sales if Ag Foundation enterprise staff follows existing procedures. At the time of the audit fieldwork, some of our invoice processing for the OH Floral unit was not as timely as it should have been. We have started to keep the invoices processed and monitored in a timely manner and this will be continual. Also, the Ag Foundation board approved a revised accounts receivable collection policy on September 16, 2005.

## **PURCHASING AND ACCOUNTS PAYABLE**

### **DISBURSEMENTS**

Certain Ag 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 ten instances, the payment authorization form did not include a purpose.

#### Processing Exceptions

- ▶ In four instances, a photocopied invoice was accepted for payment without certification that records were verified to prevent duplicate payment.
- ▶ In two instances, a credit card statement was accepted as supporting documentation.
- ▶ In one instance, payment included a previous balance.
- ▶ In one instance, an invoice was charged to an incorrect account.
- ▶ In one instance, a payment was issued without adequate supporting documentation.
- ▶ In one instance, a payment authorization form was not included.

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 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 Ag Foundation director of agricultural operations stated that the lack of sufficient documentation and authorization was due to oversight.

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

### **Recommendation 21**

We recommend that the Ag Foundation:

- a. Develop procedures to ensure that payment authorization forms include the stated purpose for the disbursement.
- b. Reiterate to staff existing cash disbursement policies and procedures regarding sufficient and appropriate supporting documentation and authorization.

### **Campus Response**

We concur. Additional training and reminder of corporate policies, including adequate payment authorization procedures and sufficiency of documentation, will be done by May 1, 2006, with the Association's accounting staff and the Ag Foundation's unit enterprise managers.

## **INVENTORY**

Administration of Ag Foundation inventory was insufficient.

We found that:

- ▶ The Farm Market inventory count was not reconciled to products received from the various enterprise units.
- ▶ Monthly physical inventory counts for the Winery and the Meats Lab were not performed as required by the Ag Foundation inventory 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 the proper administration of inventory.

The Ag Foundation director of agricultural operations stated that he was unaware that inventory was not being conducted in accordance with the inventory policy.

Insufficient administration of inventory increases the risk that property may be lost or stolen and that accounting records could be misstated.

**Recommendation 22**

We recommend that the Ag Foundation ensure that reconciliations are performed for the Farm Market inventory on a regular basis and monthly inventory counts are conducted at the Winery and Meats Lab in accordance with the inventory policy.

**Campus Response**

We concur. The Association has hired an additional accounting technician who will begin during the spring 2006 semester to reconcile the inventory provided by the Winery and the Meats Lab as compared to the product sold at the Farm Market.

**THE CALIFORNIA STATE UNIVERSITY, FRESNO**  
**ATHLETIC CORPORATION**

**OPERATING AND ADMINISTRATIVE AGREEMENTS**

Certain agreements among The California State University, Fresno Athletic Corporation (Athletic Corporation), the campus, and third parties were missing, incomplete, or not executed in a timely manner.

We found that:

- ▶ Two agreements with third-party marketing companies had not been established in writing. Further, three additional agreements with third-party companies were executed in an untimely manner.
- ▶ Administrative service agreements with the campus for services provided to athletics operations by facility management/plant operations had not been executed.
- ▶ Administrative service agreements with the campus for services provided to off-campus athletics operations by university police had not been executed.
- ▶ The indemnification provision within several agreements with third-party vendors did not indemnify the State of California, CSU Trustees, and 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 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 assistant controller of the Athletic Corporation stated that in the case of the two agreements with third-party marketing companies, the agreements had been made in principle. She stated that one of the agreements was supported by an existing MOU. Further, she stated that the administrative service agreements with the campus for services provided to athletics operations by the campus had not been executed due to management oversight. Lastly, she stated that the indemnification clauses within the

agreements, identified by the audit, were not updated to reflect the specific and broad language currently required by the chancellor's office due to management oversight.

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

### **Recommendation 23**

We recommend that the Athletic Corporation:

- a. Establish agreements with third-party marketing firms in writing.
- b. Execute written agreements in a timely manner for services provided by the campus.
- c. Review all existing written agreements to ensure appropriate indemnification clauses are included.

### **Campus Response**

We concur. We will execute and be timely with the written agreements between the auxiliary and campus as well as ensure that marketing agreements are in writing and that they will include appropriate indemnification clauses.

## **FACILITIES AGREEMENTS**

Certain Athletic Corporation facility lease and sublease arrangements with the campus and third parties were not properly supported by written agreements.

We found that:

- ▶ The Athletic Corporation operated without a signed facility lease with the campus from July 2001 through May 2005. Further, the unsigned facility lease agreement did not contain language that allowed other campus departments, affiliated groups, and the Associated Students California State University, Fresno to utilize space in facilities leased to the Athletic Corporation.
- ▶ The Athletic Corporation had not executed a ground lease agreement with the campus for the land on which the softball stadium and Ricchiuti Academic and Strength and Conditioning Center are constructed.
- ▶ The Athletic Corporation did not execute the subleases of state facilities to third parties.

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 facility lease arrangements be properly supported by written agreements.

The campus university controller agreed that the facility lease agreement did not contain the specific language noted due to the changing needs of the numerous parties that operate within the North Gym. The assistant controller of the Athletic Corporation stated that the ground lease and subleases of state facilities to third parties had not been executed due to management oversight.

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

#### **Recommendation 24**

We recommend that the Athletic Corporation:

- a. Revise the current master facilities lease agreement between the campus and the Athletic Corporation to include language regarding space that will be occupied by other campus departments, affiliated groups, and/or auxiliary organizations.
- b. Establish a ground lease agreement with the campus for the parcels of land where the softball stadium and the Ricchiuti Academic and Strength and Conditioning Center are located.
- c. Execute written sublease agreements, approved by the campus president, for third parties occupying space in state-owned facilities.

#### **Campus Response**

We concur. We will revise or establish the agreements as indicated by June 30, 2006.

### **FISCAL COMPLIANCE**

The Athletic Corporation had not fully implemented its draft reserve policy.

Specifically, a reserve analysis had not been performed to determine adequate amount of reserves needed within the following categories:

- ▶ Working Capital
- ▶ Current Operations
- ▶ Capital Replacement
- ▶ Planned Future Operations

Further, the Athletic Corporation was not operating on a self-sufficient basis. Specifically, for fiscal year ended June 30, 2005, the Athletic Corporation expenditures exceeded revenues by approximately \$650,000.

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.

EO 753, *Allocation of Costs to Auxiliary Enterprises*, dated July 28, 2000, states that the distinguishing characteristic of an auxiliary enterprise is that it is managed on an essentially self-supporting basis.

The campus vice president of administration stated that the Athletic Corporation had properly budgeted a reserve. She added that because of revenue shortfalls during the past several fiscal years, the board of directors authorized the liquidation of budgeted reserves for operational needs. Further, the assistant controller of the Athletic Corporation stated that the shortfall was primarily caused by low basketball season ticket sales.

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

### **Recommendation 25**

We recommend that the Athletic Corporation:

- a. Perform the appropriate analysis for the necessary reserve categories.
- b. Implement its formal plan to ensure self-sufficiency, including financial and operational controls to ensure revenues equal or exceed expenditures.

### **Campus Response**

We concur. The campus agrees that appropriate reserve balances are critical to the financial stability of the Athletic Corporation. However, in the past 18 months, the Athletic Corporation had to take an aggressive approach to management of its fiscal position. Steps taken include the recruitment of a new Athletics Corporation business manager that reports to the university's associate vice president for financial management; a revamping of the revenue and expenditure models used for annual, monthly, and quarterly budgeting; and a practical approach to rebuilding the reserve balance over a three to five year period, which includes striving towards a fund balance that will accommodate unforeseen variances in ticket sales.

The corporation will budget and set aside adequate funds to start rebuilding the reserves. The overall budgeting and financial management process has already been updated to reflect practices that will lead to a balanced budget over the current and next fiscal cycle.

## SEGREGATION OF DUTIES

Duties and responsibilities over sports clothing, shoes, gear, and merchandise (athletic stock) were not adequately segregated at the Athletic Corporation.

We found that one employee:

- ▶ Negotiated contracts for athletic equipment.
- ▶ Placed orders for athletic equipment.
- ▶ Received orders of athletic equipment.
- ▶ Approved vendor invoices for payment.
- ▶ Performed monthly inventory of athletic equipment.
- ▶ Destroyed and wrote-off old or unneeded athletic equipment.

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 8.9.4, *Equipment*, states that the auxiliary should establish a written system that ensures billing, cash collection, customer inquiries, and subsidiary ledger reconciliations are conducted separately and with due regard for the receivable duties.

The assistant controller of the Athletic Corporation stated that the lack of proper segregation of duties was due to staffing constraints.

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

### **Recommendation 26**

We recommend that the Athletic Corporation properly segregate the duties and responsibilities over athletic stock or institute mitigating procedures approved by the campus CFO.

### **Campus Response**

We concur with the recommendation. However, the finding overlooked several mitigating controls that were in place at the time of the audit field work. The finding implies that a single employee had exclusive responsibility over several acquisition-related activities. In actuality, many of the tasks of equipment operations typically involve staff and administrators other than the equipment manager himself. By June 30, 2006, we will complete our review of the manager's duties to keep incompatible duties reasonably separated or monitor the mitigating controls.

## **CASH RECEIPTS AND HANDLING**

Administration of Athletic Corporation cashiering duties and cash receipts processing at the ticket office and Bulldog Store were in need of improvement.

We noted that:

- ▶ Safe combinations were not changed periodically, nor were records maintained of dates the combination changes occurred.
- ▶ Policies and procedures had not been developed to address an acceptable level of over/short amounts for cash registers.

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

The accounting manager of the Athletic Corporation stated that current ticket office and Bulldog Shop management had not developed procedures to address the changing of safe combinations due to oversight. He stated that policies and procedures addressing an “acceptable” level of over/short amounts in cash registers had not been developed since all over/short amounts in cash registers are currently considered “unacceptable.” Further, he stated that variances in cash counts are currently tracked and investigated, regardless of amount.

Inadequate administration of cashiering duties and cash receipts processing increases the risk of a loss or misappropriation of funds.

### **Recommendation 27**

We recommend that the Athletic Corporation:

- a. Change the safe combinations located at the Athletic Corporation periodically and upon employee separation, and maintain a record of dates the safe combination changes occur.
- b. Develop policies and procedures to address an acceptable level of over/short amounts in cash registers and specific management action upon employee non-compliance with the policy.

### **Campus Response**

We concur. We have initiated these corrective actions and will complete them by March 1, 2006.

## **PURCHASING AND ACCOUNTS PAYABLE**

### **DISBURSEMENTS**

Certain Athletic Corporation cash disbursements were not supported by sufficient documentation and appropriate authorization or paid timely.

Our review of 100 cash disbursements disclosed the following processing exceptions:

- ▶ In 46 instances, check requisitions were not approved by the athletic director or appropriate sports supervisor as required by policy and the check requisition form.
- ▶ In 28 instances, purchase requisitions were not completed to document the purpose and authorization for the payment.
- ▶ In 14 instances, one-up authorization for the purchase requisition was not obtained.
- ▶ In six instances, a facsimile invoice was accepted for payment without certification that records were checked to prevent duplicate payment.
- ▶ In six instances, bids from at least three vendors were not documented for purchases exceeding \$5,000.
- ▶ In two instances, the purchase requisition forms did not state the purpose for the disbursement.
- ▶ In one instance, a payment for moving expenses exceeded the amount allowed per policy.
- ▶ In one instance, a transaction was not paid timely.

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.

The assistant controller of the Athletic Corporation stated that the lack of sufficient documentation, authorization, and timely payment were due to oversight.

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

### **Recommendation 28**

We recommend that the Athletic Corporation reiterate to staff existing cash disbursement policies and procedures regarding appropriate and sufficient documentation, proper authorization, and timely payment.

### **Campus Response**

We concur with the recommendation. Regarding the findings, for many or most of the anomalies, we believe the audit may have too narrowly interpreted our existing policies and procedures or not have sufficiently inquired about the individual circumstances of the transactions. Nevertheless, we agree that extra training is important for reiteration of cash disbursement policies, required documentation, proper authorization, and timely payment. We will complete the training by February 28, 2006.

## **INVENTORY**

The Athletic Corporation had not developed written policies and procedures to address the athletic stock inventory.

Specifically, policies and procedures should address:

- ▶ Handling of refunds and exchanges with vendors.
- ▶ Control and distribution of athletic stock.
- ▶ Identification, handling, and disposal of unneeded athletic stock.
- ▶ Sale of athletic stock to the public.
- ▶ Awarding of agreements to exclusive providers of athletic stock for the Athletic Corporation and its teams.

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

The head equipment manager of the Athletic Corporation stated his belief that inventories were being handled appropriately; however, due to staffing levels and limited resources, written policies had not been developed.

The lack of written policies and procedures over inventories increases the risk that property may be lost or stolen.

### **Recommendation 29**

We recommend that the Athletic Corporation develop written policies and procedures to strengthen controls over athletic stock.

**Campus Response**

We concur. We will develop guidelines by March 31, 2006, for staff to follow concerning athletic stock.

**SIGNATURE AUTHORITY**

The Athletic Corporation had not established written signature authorizations identifying designated individuals to sign contracts on behalf of the auxiliary.

We noted that three coaches each signed separate contracts with outside parties authorizing the purchase of goods and services.

Title 5 §42401 and §42402 indicate that campus president shall require that auxiliary organizations operate in conformity with policy of the Board of Trustees and the campus. One of the objectives of the auxiliary organizations is to provide fiscal procedures and management systems that allow effective coordination of the auxiliary activities with the campus in accordance with sound business practices. Sound business practice mandates the identification of individuals authorized to sign contracts on behalf of the Athletic Corporation.

The assistant controller of the Athletic Corporation stated that contracts for the purchase of goods and services were reviewed by the sport supervisors and the assistant controller; however, the coaches had been authorized by past management to execute these agreements.

The lack of written signature authorizations to sign contracts on behalf of the auxiliary increases the risk of misunderstandings and may increase legal liability.

**Recommendation 30**

We recommend that the Athletic Corporation establish written signature authorizations identifying designated individuals to sign contracts on behalf of the auxiliary.

**Campus Response**

We concur. We had already created a control file of signature authorizations in December of 2004. The audit may have encountered a signature or circumstance that needed to be updated. We will ensure that the signature file is periodically updated.

## PROPERTY AND EQUIPMENT

Accounting for Athletic Corporation property and equipment was insufficient.

We found that:

- ▶ Periodic physical inventory counts had not been performed.
- ▶ The fixed assets inventory listing had not been reconciled to the general ledger.
- ▶ The fixed assets were not always tagged in a timely manner.

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

The assistant controller of the Athletic Corporation stated that the physical inventory count had been delayed to accommodate the recent Duncan Building remodel and the recent construction of the Strength and Conditioning Center, which were placed into service at the end of February 2005. She also stated that the reconciliation of the physical inventory to the general ledger is still in process, however, due to staffing constraints. Further, she noted that new assets were not tagged on a timely basis due to oversight in ordering sufficient inventory tags, which delayed the process by over six weeks.

Insufficient accounting of property and equipment increases the risk that property may be lost or stolen.

### **Recommendation 31**

We recommend that the Athletic Corporation:

- a. Perform periodic physical inventory counts of property and equipment.
- b. Reconcile its fixed assets inventory listing to the general ledger.
- c. Ensure that fixed assets are tagged in a timely manner.

### **Campus Response**

We concur. We usually perform all these activities in a timely manner. At times, however, staff constraints and turnover have limited us in these administrative areas. We will perform periodic counts of our athletic property and equipment, reconcile this to the general ledger, and tag assets in a timely manner. These tasks will occur at least annually.

## AUXILIARY PROGRAMS

The Athletic Corporation's oversight of the sports camps was inadequate.

We noted that:

- ▶ Prior to summer 2005, written agreements between the Athletic Corporation and sports camps directors that define basic risk management requirements, facility use terms, and accounting and payroll procedures had not been executed.
- ▶ Camp liability waivers did not indemnify the Athletic Corporation, the State of California, CSU Trustees, and the campus.
- ▶ The Athletic Corporation did not maintain signature authorization cards identifying camp employees authorized to approve expenditures.
- ▶ Duties and responsibilities for sports camp cash receipts were not appropriately segregated.

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 proper oversight of sports camps.

The assistant controller of the Athletic Corporation stated her belief that the sports camps were independent of the Athletic Corporation and therefore did not require similar oversight as other auxiliary operations.

The lack of appropriate management oversight increases the risk of errors, irregularities, and misappropriation of funds and subjects the CSU to potential liability.

### **Recommendation 32**

We recommend that the Athletic Corporation:

- a. Ensure written agreements are executed with the sports camps directors that define basic risk management requirements, facility use terms, and accounting and payroll procedures.
- b. Ensure that camp liability waivers indemnify the Athletic Corporation, the State of California, CSU Trustees, and the campus.
- c. Maintain signature authorization cards identifying camp employees authorized to approve expenditures.
- d. Properly segregate cash receipts duties and responsibilities or institute mitigating procedures approved by the campus CFO.

### **Campus Response**

We concur with recommendations. In the past year, we have significantly improved our oversight of the sports camps. For example, we expanded the scope of the written agreements and the review thereof, and instituted signature cards for us to identify camp employees authorized to approve expenditures. We need to further refine how to best ensure appropriate oversight for camp revenues and expenditures. As part of our review, to be completed by June 30, 2006, we will assess whether alternative approaches are warranted for our sports camps.

## **FRESNO STATE PROGRAMS FOR CHILDREN, INC.**

### **OPERATING AND ADMINISTRATIVE AGREEMENTS**

Administrative agreements had not been executed between the Fresno State Programs for Children, Inc. (PFC) and the campus for services provided by state employees at the auxiliary.

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

The PFC executive director stated that he was unaware that an administrative agreement was required for state employees working at the PFC.

Operating in the absence of current and approved written agreements increases the risk of misunderstandings and miscommunication regarding rights and responsibilities.

#### **Recommendation 33**

We recommend that the PFC execute administrative agreements with the campus for services provided by campus employees at the auxiliary.

#### **Campus Response**

We concur. We executed an agreement in November 2005 to cover the reimbursement for three university employees whose salaries and benefits are reimbursed from PFC's referendum account.

### **FACILITIES AGREEMENTS**

The lease agreement between PFC and the University Religious Center, which houses the off-site childcare center, had not been executed. Further, the indemnification clause in the PFC's proposed lease agreement with the University Religious Center was inadequate.

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.

The PFC executive director stated that he was unaware that the lease agreement was not executed and that the indemnification clause was inadequate.

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

**Recommendation 34**

We recommend that the PFC execute a lease agreement with the University Religious Center that includes an appropriate indemnification clause.

**Campus Response**

We concur. A lease agreement with the University Religious Center, including an appropriate indemnification clause, has been drafted.

**OPERATIONAL COMPLIANCE**

The PFC had not obtained annual conflict-of-interest statements from all of its board members for fiscal years 2002/03 and 2003/04.

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/she 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.

The PFC program director stated that the conflict-of-interest statements were not obtained from all board members due to oversight.

Failure to obtain conflict-of-interest statements from auxiliary board members increases liability for acts contrary to the code.

**Recommendation 35**

We recommend that the PFC ensure that annual conflict-of-interest statements are obtained from all board members.

**Campus Response**

We concur. For 2005/06, all conflict of interest forms have been signed and received from all board members.

## **CAMPUS OVERSIGHT AND CONTROL**

The PFC budget for fiscal year 2002/03 was not submitted to the campus president for approval 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 PFC program director stated that the budget was not approved in a timely manner due to oversight.

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

### **Recommendation 36**

We recommend that the PFC ensure that its annual budgets are submitted to the campus president for approval in a timely manner.

### **Campus Response**

We concur. The 2005/06 PFC budget was approved by the campus president on June 3, 2005.

## **SEGREGATION OF DUTIES**

Duties and responsibilities related to cash receipts processing were not appropriately segregated at the Campus Children's Center.

We found that the PFC office manager:

- ▶ Received incoming checks.
- ▶ Entered amounts received into the database.
- ▶ Prepared daily deposits.
- ▶ Performed revenue reconciliations.

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 PFC program director stated that staff constraints did not allow for a proper segregation of duties.

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

**Recommendation 37**

We recommend that the PFC properly segregate certain cash receipts processing functions at the Campus Children's Center or institute mitigating procedures approved by the campus CFO.

**Campus Response**

We concur. In order to decrease the risk of inappropriate handling of cash receipts, the following duties will be better segregated. For incoming checks, a fixed and locked drop box will be placed at the site for parents to leave checks (cash is not accepted.) The office manager will create a spreadsheet of the checks received. The site administrator will prepare and total the checks for deposit. The program associate will reconcile each month the amount of fees that should have been collected with the amounts actually deposited. The center director will sign and approve the reconciliations. We will implement these changes by March 30, 2006.

**CASH RECEIPTS AND HANDLING**

The PFC had not developed written policies and procedures for cash receipts and handling to address the inconsistency in the manner in which cash was collected, deposited, and reconciled between the two separate childcare facilities.

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 written policies and procedures be maintained.

The PFC program director stated that since PFC is relatively new as an auxiliary, policies and procedures had not yet been developed to address the daily activities of the two childcare facilities.

Failure to maintain current policies and procedures increases the risk that misunderstandings and inconsistencies will occur.

**Recommendation 38**

We recommend that the PFC develop written policies and procedures for cash receipts and handling at the two separate childcare facilities or institute mitigating procedures approved by the campus CFO.

**Campus Response**

We concur. We have developed these written procedures.

## **PURCHASING AND ACCOUNTS PAYABLE**

Certain PFC 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 17 instances, checks were processed using an unauthorized signer.
- ▶ In 14 instances, check requests initiated by the Association were processed without the appropriate PFC approval signatures.
- ▶ In eight instances, facsimile and photocopied invoices were accepted for payment without certification that records were verified to prevent duplicate payment.

### Processing Exceptions

- ▶ In seven instances, a check request was not completed.
- ▶ In two instances, payment was issued without adequate supporting documentation.
- ▶ In two instances, payment was issued without the proper one-up authorization.

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 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 Association CFO stated that although the accounting software flagged duplicate invoices, current practice did not consistently certify facsimile and photocopied invoices. In addition, he stated that certain check requests initiated by the Association to pay for recurring PFC expenses were never routed to PFC for the proper signatures. Lastly, the Association CFO stated that the lack of an authorized check signer was due to oversight.

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

### **Recommendation 39**

We recommend that the PFC:

- a. Develop and implement procedures to ensure that checks are signed by individuals with proper approval authority.
- b. Develop and implement procedures to ensure that appropriate approval signatures are obtained from PFC prior to processing check requests.
- c. Develop and implement procedures to ensure that facsimile or photocopied invoices are verified to prevent duplicate payments.
- d. Reiterate to staff existing cash disbursement policies and procedures regarding sufficient and appropriate supporting documentation and authorization.

### **Campus Response**

We have developed written procedures that address these recommendations. The Association provides accounting services to PFC. The authorized signers on PFC's checking account are the executive director of auxiliary services, PFC's CFO, and the university controller. Additional training and reminder of corporate policies will be done with the Association's accounting staff by April 1, 2006. We have a new stamp for the Association's accounts payable clerk to use when certifying payment from a photocopy or fax of an invoice.

## **PERSONNEL AND PAYROLL**

The PFC had not developed written hiring policies and procedures to allow for consistent management oversight of the Campus Children's Center and Huggins Center.

We noted that the documentation requirements in the personnel files, as well as the hiring procedures, were not consistent between the two centers.

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 fully documented policies and procedures be maintained.

The PFC program director stated that since PFC is relatively new as an auxiliary, policies and procedures had not been developed to oversee the daily activities of the two centers.

Failure to fully document policies and procedures increases the risk that misunderstandings and inconsistencies will occur.

**Recommendation 40**

We recommend that the PFC develop written hiring policies and procedures to allow for consistent management oversight of the Campus Children's Center and Huggins Center.

**Campus Response**

We concur. PFC will develop, by April 1, 2006, with the auxiliary services human resources department written hiring policies and procedures in order to enhance consistency and oversight.

## **ASSOCIATED STUDENTS CALIFORNIA STATE UNIVERSITY, FRESNO**

### **OPERATING AND ADMINISTRATIVE AGREEMENTS**

Certain written agreements between the Associated Students California State University, Fresno (AS) and the campus had expired or had not been established.

We found that:

- ▶ The MOU between the AS and campus for the leadership program had expired.
- ▶ A lease agreement with the campus for the intramural office in the North gym had not been established.

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.

The AS vice president of finance stated that the failure to renew the MOU was due to oversight. The AS advisor stated that he was unaware that a lease agreement was required for the use of the intramural office since AS administered the program for the benefit of the campus.

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

#### **Recommendation 41**

We recommend that the AS establish written agreements with the campus for the leadership program and for the use of the intramural office.

#### **Campus Response**

We concur. AS has completed a written agreement with the leadership program and the intramural/recreation program. AS has also completed a written agreement with the university for use of the office space in the North Gym, room 109, for the intramural/recreation program.

## **CORPORATE GOVERNANCE**

The AS Articles of Incorporation included an improper dissolution clause; it allowed the board of directors to select a 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 AS president 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 42**

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

### **Campus Response**

We concur. By March 31, 2006, AS will redraft its corporate dissolution clause in accordance with Title 5 and include this change in the Articles of Incorporation.

## **OPERATIONAL COMPLIANCE**

The AS had not obtained annual conflict-of-interest statements from its board members for fiscal years 2002/03 and 2003/04.

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/she 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 and compliance with existing policies and procedures.

The AS president stated that the conflict-of-interest statements were not obtained due to the nature of student government whereby the annual turnover of the board made it difficult to maintain institutional compliance.

Failure to obtain conflict-of-interest statements from auxiliary board members increases liability for acts contrary to the code.

**Recommendation 43**

We recommend that the AS ensure that annual conflict-of-interest statements are obtained from all board members.

**Campus Response**

We concur. AS has required and obtained signed statements from the 2005/06 board members. In addition, any new board member appointed during the year will be required to sign a conflict-of-interest statement. Finally, AS will create a policy that requires all board members to sign a statement as a condition of having their position.

**CAMPUS OVERSIGHT AND CONTROL**

The AS budgets for fiscal years 2002/03 and 2003/04 were not submitted to the campus president for approval 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 AS president stated that the budgets were not approved in a timely manner due to oversight.

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

**Recommendation 44**

We recommend that the AS ensure that budgets are submitted to the campus president for approval in a timely manner.

**Campus Response**

We concur. AS will endeavor to follow the timeliness requirement each year.

**SEGREGATION OF DUTIES**

Duties and responsibilities related to cash receipts processing were not appropriately segregated at the AS intramural office.

We found that the AS intramural director:

- ▶ Received cash for gym and intramural fees.
- ▶ Updated the team roster log.
- ▶ Prepared daily deposits.

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

The AS advisor stated that resource constraints did not allow for appropriate segregation of duties for the intramural sports operations.

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

#### **Recommendation 45**

We recommend that the AS properly segregate certain cash receipts processing functions at the intramural office or institute mitigating procedures approved by the campus CFO.

#### **Campus Response**

We concur. The intramural and recreation fee deposits comprise relatively minor revenues. For the past two years, total fee deposits were only \$8,378 (fiscal year 2003/04) and \$9,122 (fiscal year 2004/05). The campus procedures for receiving fees will be significantly revised as part of opening in February 2006 the newly built student recreation center. We will better separate the responsibilities for receiving cash and preparing deposits. The new facility will have a cashiering function separate from the intramural director, who now both receives and deposits the fees.

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

Revenues received from AS intramural fees were not reconciled to the team roster log.

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. Section 8.9.3, *Donations*, 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 AS advisor stated that revenue reconciliations were not performed due to oversight.

Failure to reconcile revenues increases the risk that errors or misappropriation of funds will not be detected.

#### **Recommendation 46**

We recommend that the AS ensure that revenue reconciliations are performed for the intramural fees on a regular basis.

### **Campus Response**

We concur. The reconciliations will begin with the spring 2006 semester, consistent with opening the new student recreation facility.

## **PURCHASING AND ACCOUNTS PAYABLE**

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

Our review of 60 disbursements disclosed the following:

### Process Controls

- ▶ AS disbursement procedures did not prohibit the acceptance of facsimile and photocopied invoices for payment without certification that records were verified to prevent duplicate payment.

### Processing Exceptions

- ▶ In eight instances, payment was issued without adequate documentation.
- ▶ In nine instances, a purchase order was not completed.
- ▶ In three instances, a check request was not completed.

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 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 Association CFO stated that although the accounting software flagged duplicate invoices, current practice did not consistently certify facsimile and photocopied invoices.

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

**Recommendation 47**

We recommend that the AS:

- a. Develop and implement procedures to ensure that facsimile or photocopied invoices are verified to prevent duplicate payments.
- b. Reiterate to staff existing cash disbursement policies and procedures regarding sufficient and appropriate supporting documentation and authorization.

**Campus Response**

We concur. We have a policy and form to use to prevent duplicate payments. In November 2005, all AS officers and staff with expenditure authority confirmed in writing their commitment to follow expenditure policy and procedures.

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## APPENDIX A: PERSONNEL CONTACTED

### Name

### Title

#### **CAMPUS**

John D. Welty	President
Jeanie Artist	Key Card Coordinator
Matt Babick	Internal Auditor
Steve Katz	University Controller
Randy Larson	Director, University Advancement
Gary Nelson	Associated Students California State University, Fresno (AS) Advisor
Cynthia Teniente-Matson	Vice President for Administration and Chief Financial Officer

#### **CALIFORNIA STATE UNIVERSITY, FRESNO FOUNDATION**

Debbie Adishian-Astone	Executive Director of Auxiliary Services
Sally Cardell	Accounts Payable
Linda Christian	Grant Accounting Supervisor
Susan Johnson	Receptionist
Keith Kompsi	Director of Financial Services
Jennifer Lucero	Administrative Assistant
John Melikian	Staff Counsel
Dennis Miller	Director, Human Resources
Shelby Mirzaie	Grant Accountant
Jill Richards	Procurement Technician
Rebecca Rossol	Staff Accountant
Kay Sanders	Staff Accountant
Wilma Satterberg	Grant Accountant
Peter Smits	Executive Director
Jane Stewart	Grant Accountant
Penny Sweazy	Accounts Payable Clerk
Rachel Viramontes	Trust Accounts
Nathan Zanoni	Grant Accountant

#### **CALIFORNIA STATE UNIVERSITY, FRESNO ASSOCIATION, INC.**

Debbie Adishian-Astone	Executive Director
Larissa Allen	Payroll Administrator
Susan Bartel	Text Department Manager
Erin Boele	Assistant Director, University Courtyard
Quinn Cody	Food Court Operations Manager
Debbie Deiner	Cashier
Tamara Durant	Corporate Operations Manager
Ron Durham	Director, Kennel Bookstore
Theresa Eurich	Director, Management Information Systems
Paul Idsvoog	Director, Food Service
Carol Lillian	Office Manager
Jennifer Lucero	Administrative Assistant

**CALIFORNIA STATE UNIVERSITY, FRESNO ASSOCIATION, INC. (CONT.)**

John Melikian	Staff Counsel
Dennis Miller	Director, Human Resources
Pete Prestegard	Chief Financial Officer
Cathy Pronovost	Payroll Administrator
Kathy Reynaga	Accounting Technician
Delma Rodriguez	Accounts Receivable Clerk
Glenda Samonte	Bookkeeping Technician, Administration-Accounting
Doreen Sanchez	Clerical Assistant
Kay Sanders	Staff Accountant
Cathy Simpson	Administrative Manager, Kennel Bookstore
Amy Steadmon	Manager, Human Resources
Marle Workmon	Administrative Assistant

**THE AGRICULTURAL FOUNDATION OF CALIFORNIA STATE UNIVERSITY, FRESNO**

Debbie Adishian-Astone	Executive Director
Jon Amparan	Technician, Meats Lab
Daniel Avila	Technician, Dairy Processing
Diane Downing	Farm Market Manager
Tammy Durant	Corporate Operations Manager
John Giannini	Winemaker
Virginia Guerrero	Receptionist
Garrett Jones	Winery
Sandy Kane	Technician, Ornamental Horticulture Floral
John Melikian	Staff Counsel
Dennis Miller	Director, Auxiliary Human Resources
Carl Pherson	Director, Agricultural Operations
Pete Prestegard	Chief Financial Officer
Kay Sanders	Staff Accountant

**THE CALIFORNIA STATE UNIVERSITY, FRESNO ATHLETIC CORPORATION**

Diane Brock	Manager, Bulldog Shop
Sharon Davis	Assistant Controller
Deena Diboli	Assistant Athletic Director, Marketing and Corporate Sales
Russell Hayden	Director of Ticket Operations
Steve Katz	Chief Financial Officer
John Kriebs	Assistant Athletic Director, Facilities Operations
Tom Mason	Assistant Coach, Football
Tim Montez	Assistant Coach, Baseball
Ruben Nieves	Head Coach, Volleyball
Paul Oliaro	Interim Athletic Director, Chairman of the Board of Directors
Desiree Reed-Francois	Associate Athletic Director, Compliance and Student-Athlete Services
Paul John (P. J.) Soligian	Accounting Manager
Steve Springthorpe	Head Coach, Women's Soccer
Randy Welniak	Associate Athletic Director, External Operations
Adrian Wiggins	Head Coach, Women's Basketball
Mark Younger	Head Equipment Manager

**FRESNO STATE PROGRAMS FOR CHILDREN, INC.**

Elizabeth Ehrlich	Site Supervisor
Catherine Mathis	Program Director
Anna Munoz	Office Manager, Huggins Center
Kenneth Shipley	Executive Director
Renee Venell	Office Manager, Campus Children's Center

**ASSOCIATED STUDENTS CALIFORNIA STATE UNIVERSITY, FRESNO**

Bart Ballard	Intramural Director
Molly Fagundes	President
Delia Perryman	Office Manager
Jennifer Reimer	Vice President of Finance
Gary Nelson	AS Advisor

## **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 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.



CALIFORNIA  
STATE  
UNIVERSITY,  
FRESNO

**MEMORANDUM**

January 25, 2006

TO: Larry Mandel  
University Auditor

FROM: John D. Welty  
President

SUBJECT: **Campus Responses to Recommendations in the  
Auxiliary Audit Report #05-47.**

RECEIVED  
UNIVERSITY AUDITOR

JAN 25 2006

THE CALIFORNIA STATE  
UNIVERSITY

My staff and I have reviewed the findings and the 47 recommendations in the subject audit report. Enclosed is our set of campus responses addressing the recommendations.

Regarding our Association auxiliary, the campus wishes to note that your office recently coordinated another audit performed by KPMG on the construction of the Save Mart Center. Also, during this current review of all auxiliaries, we observed that your staff spent additional time on audit steps related to the financing, operations, and general management of the Save Mart Center, a very unique facility in the CSU system. It is gratifying to see that the audit report had no significant findings from the review of this distinctive venue at Fresno State. I am delighted with the many contributions this facility has made to the Central Valley region. I am pleased that the lack of findings about the Save Mart Center is indicative, in my opinion, that this complex operation is well-managed.

Please contact myself or Matt Babick should you have any questions.

Attachment

cc: (all with Attachment)  
Ms. Debbie Adishian-Astone  
Mr. Matt Babick  
Mr. Thomas Boeh  
Ms. Sharon Davis  
Mr. Steve Katz  
Mr. Keith Kompsi  
Mr. John Melikian  
Mr. Gary Nelson  
Mr. Pete Prestegard  
Dr. Ken Shipley  
Dr. Peter Smits  
Ms. Cindy Teniente-Matson

Office of  
the President

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5241 North Maple Ave. M/S TA48  
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**AUXILIARY ORGANIZATIONS**  
**CALIFORNIA STATE UNIVERSITY,**  
**FRESNO**

**Report Number 05-47**  
**November 11, 2005**

**CAMPUS**

**FISCAL COMPLIANCE**

**Recommendation 1**

We recommend that the campus maintain and update its formal cost allocation plan, in a timely manner, to ensure that the General Fund is appropriately reimbursed for facilities, goods, and services provided to auxiliary organizations.

**Campus Response**

We concur. We have started to update the cost allocation plan. We will complete the update by May 30, 2006.

**CALIFORNIA STATE UNIVERSITY, FRESNO FOUNDATION**

**OPERATING AND ADMINISTRATIVE AGREEMENTS**

**Recommendation 2**

We recommend that the Foundation ensure that its operating agreement with the campus is signed and submitted to the chancellor's office for approval in a timely manner.

**Campus Response**

We concur. We will endeavor that future operating agreements are signed and submitted on time.

**FACILITIES AGREEMENTS**

**Recommendation 3**

We recommend that the Foundation:

- a. Ensure that agreements include appropriate indemnification and insurance provisions.
- b. Execute a lease agreement with the Lutheran Campus Ministries for office space used by the Friendly Services Program.
- c. Execute written agreements in a timely manner.

**Campus Response**

We concur.

- a. The Foundation will work with the University High School to develop an amendment to the sub-ground lease agreement in order to comply with these requirements. This sub-ground lease agreement was executed prior to the Foundation's Staff Counsel being in place. We will execute this agreement by June 1, 2006.
- b. A lease agreement has been executed. The Foundation assisted in executing a no-cost lease for the Friendly Visitors Center, which is affiliated with the Gerontology Program, for space they use at the Lutheran Campus Ministries office.
- c. We will endeavor to execute our agreements on time. The Foundation is a sublessee (on behalf of the Central Valley Higher Education Consortium) as the building is being leased by the University from a private building owner. The Foundation executed the office lease agreement as soon as it was received from the University.

## **CORPORATE GOVERNANCE**

### **Recommendation 4**

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. The Articles of Incorporation were amended and approved by the Foundation Board of Governors at their December 8, 2005 meeting.

## **OPERATIONAL COMPLIANCE**

### **Recommendation 5**

We recommend that the Foundation take appropriate measures to ensure the timely clearance of travel advances.

### **Campus Response**

We concur. Foundation Financial Services accounting staff has cleared all outstanding travel advances at the time of fieldwork and in August 2005 implemented new procedures to prevent this from recurring.

## **PURCHASING AND ACCOUNTS PAYABLE**

### **Recommendation 6**

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

### **Campus Response**

We concur. Additional training and reminder of corporate policies will be done by June 1, 2006 with the Foundation's accounting staff. A stamp has been purchased for the accounts payable clerk to use when paying from a copy or faxed copy of an invoice.

## **TRUSTS AND OTHER LIABILITIES**

### **Recommendation 7**

We recommend that the Foundation ensure that fund-raising proceeds and expenditures are accounted for, are reported consistent with Generally Accepted Accounting Principles (GAAP), and are in compliance with the requirements of Title 5, the Education Code, the Probate Code, EO 919, or other CSU policy as applicable.

**Campus Response**

We concur with the recommendation. These areas of management are on-going. We will provide a progress report by September 30, 2006.

**AUXILIARY PROGRAMS**

**Recommendation 8**

We recommend that the Foundation:

- a. Develop policies and procedures to certify effort performed on contract and grant projects.
- b. Fully implement policies and procedures to adequately monitor sub-recipients and certify cost-sharing or in-kind commitments.
- c. Retain documentation to evidence that financial reports and other technical deliverables are submitted to sponsoring agencies.

**Campus Response**

We concur. The Foundation is in the process of working with the Provost for Academic Affairs and the Office of Research and Sponsored Programs (ORASP) to develop policies, procedures, and training relating to cost share and effort reporting. We have been working with the manager, Sponsored Projects Administration from the Chancellor's Office to seek guidance on implementing new policies and procedures to support these activities. These new and/or revised policies will include effort certification, the monitoring of sub-recipients, and document retention guidelines. We will provide a progress report by June 30, 2006.

**CALIFORNIA STATE UNIVERSITY, FRESNO ASSOCIATION, INC.**

**OPERATING AND ADMINISTRATIVE AGREEMENTS**

**Recommendation 9**

We recommend that the Association:

- a. Ensure the indemnification clause within the PSA license agreement includes all required parties.
- b. Establish written agreements for accounting services provided by a third party and the hosting of Athletic Corporation events at the Save Mart Center.

**Campus Response**

We concur.

- a. The indemnification clause in the Save Mart Center Preferred Seating Area license agreements will include all required parties and will be implemented upon expiration and renewal of each agreement.
- b. For 2005-06 a Management Services Agreement with the Maddy Institute has been executed. A Memorandum of Understanding between the Association and the Athletic Corporation for usage of the Save Mart Center for intercollegiate athletic events is under development and will be completed by May 1, 2006.

**FACILITIES AGREEMENTS**

**Recommendation 10**

We recommend that the Association:

- a. Establish a lease agreement with the Athletic Corporation for space occupied in the Save Mart Center.
- b. Ensure that the sublease agreements for the ATM and space leased to campus police are fully executed.

**Campus Response**

We concur.

- a. The space used by the Athletic Corporation in the Save Mart Center (Bulldog Shop) will be included in the Memorandum of Understanding noted under Recommendation 9.
- b. A sublease with Golden One Credit Union for the ATM locations in the University Student Union and the University Center has been executed and signed by the president. The previously executed sublease with the University Police Department for space in the University Student Union has been signed by the campus president.

## **CAMPUS OVERSIGHT AND CONTROL**

### **Recommendation 11**

We recommend that the Association ensure that its annual budgets are submitted to the campus president for approval in a timely manner.

### **Campus Response**

We concur. As a matter of standard practice, prior to the campus president's final approval, the Association's budget is reviewed with the president and campus CFO prior to final approval by the Board of Directors.

## **SEGREGATION OF DUTIES**

### **ACCOUNTS PAYABLE**

#### **Recommendation 12**

We recommend that the Association properly segregate certain duties over the dental claims checking account or implement mitigating controls approved by the campus CFO.

#### **Campus Response**

We concur. The Association's Chief Financial Officer is now reconciling the self-funded dental account and the Executive Director of Auxiliary Services will review and approve each reconciliation.

### **PAYROLL**

#### **Recommendation 13**

We recommend that the Association segregate certain payroll and human resources functions or institute mitigating procedures approved by the campus CFO.

#### **Campus Response**

We concur. The user profiles for the two payroll technicians will be modified to prevent them being able to create new employees and/or change employee pay rates which should only be done by Human Resources staff. These profiles will be modified by April 1, 2006. For payroll, we will have a manager involved to reconcile the number of checks printed to the payroll register.

## PERSONNEL AND PAYROLL

### BACKGROUND CHECKS

#### Recommendation 14

We recommend that the Association maintain all background checks conducted for children's center employees in the centralized personnel files.

#### Campus Response

We concur. Since the time of fieldwork, copies of all PFC employee background checks are also kept secure in the employee files located in Auxiliary Human Resources.

### EMPLOYEE SEPARATION

#### Recommendation 15

We recommend that the Association strengthen procedures to ensure that:

- a. Separated employees are removed from the payroll system, or marked as inactive, on a timely basis.
- b. Clearance forms are documented and completed for all separating employees.

#### Campus Response

We concur. This work is on-going. Our new goal is remove or deactivate an employee who is no longer employed within 72 hours of receiving notification. Auxiliary Services Human Resources will issue a communication by March 1, 2006, to all auxiliary organizations' managers and supervisors to ensure that clearance forms and/or other acceptable documentation is completed for all separating employees. We will have a progress report on this recommendation prepared by March 31, 2006.

**THE AGRICULTURAL FOUNDATION OF  
CALIFORNIA STATE UNIVERSITY, FRESNO**

**OPERATING AND ADMINISTRATIVE AGREEMENTS**

**Recommendation 16**

We recommend that the Ag Foundation ensure that a MOU or agreement is executed with the campus for enterprise-wide IT services or specifically identify these services in the self-sufficiency agreement.

**Campus Response**

We concur. An MOU between the Ag Foundation and the College of Agricultural Sciences and Technology has been executed that stipulates the IT services provided to the Ag Foundation (Winery and Farm Market) by the College's technician.

**FACILITIES AGREEMENTS**

**Recommendation 17**

We recommend that the Ag Foundation execute the lease agreement with the Bureau of Reclamation, the sublease agreement with the USDA for the 30 acres of farmland, and the lease agreement with the USDA for the San Joaquin Experiment Range.

**Campus Response**

We concur. A new lease with the Bureau of Reclamation has been executed with a term through June 30, 2010. The USDA lease of 30 acres for the Fresno State farm has been extended for a year until November 2006 when the property will be transferred to the campus. The lease from USDA for the San Joaquin Experimental Range has been requested. At this time, USDA cannot advise as to status of a new lease; however, the lease allows the Ag Foundation to continue using the range pending USDA's review.

**SEGREGATION OF DUTIES**

**Recommendation 18**

We recommend that the Ag Foundation ensure that the Farm Market segregate certain duties regarding gift certificate issuance and reconciliation or implement mitigating procedures approved by the campus CFO.

**Campus Response**

We concur. The Farm Market Manager will sell and issue the gift certificates. The Manager will then provide to the Director of Ag Operations the log of serially numbered gift certificates sold to date along with cash register documentation of gift certificate sales for that particular month. The Director of Ag Operations will perform a monthly reconciliation of the gift certificates. The Ag

Foundation's Chief Financial Officer will approve the reconciliations. This revised procedure will be in place by April 1, 2006.

## **CASH RECEIPTS AND HANDLING**

### **Recommendation 19**

We recommend that the Ag Foundation:

- a. Ensure that cash receipts from OH Floral and Winery are deposited in a timely manner.
- b. Ensure that the OH Floral petty cash fund is properly accounted for.
- c. Change the safe combination located at the Farm Market immediately and upon employee separation.

### **Campus Response**

We concur.

- a. The Director of Agricultural Operations instructed his staff to deposit their cash receipts in a timely manner.
- b. The Director of Agricultural Operations instructed his staff to ensure they properly account for their petty cash fund.
- c. Since the current safe at the Farm Market is old and does not permit combination changes easily, we have purchased a larger and more modern safe box for the Farm Market. The Farm Market manager will change the combination of this safe upon employee separation and at least once a year. As an added precaution, we will install a Locknetics lock by June 1, 2006 for the door to the room where the safe is kept. A new card for this door can be re-issued as needed.

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

### **Recommendation 20**

We recommend that the Ag Foundation fully implement policies and procedures to track the sales of the OH Floral enterprise.

### **Campus Response**

We concur. The campus does in fact use a system of receipting using invoices referred to by their former name of UARCO. This system is sufficient to track sales if Ag Foundation enterprise staff follow existing procedures. At the time of the audit fieldwork, some of our invoice processing for the OH Floral unit was not as timely as it should have been. We have started to keep the invoices processed and monitored in a timely manner and this will be continual. Also, the Agricultural Foundation Board approved a revised accounts receivable collection policy on September 16, 2005.

## **PURCHASING AND ACCOUNTS PAYABLE**

### **DISBURSEMENTS**

#### **Recommendation 21**

We recommend that the Ag Foundation:

- a. Develop procedures to ensure that payment authorization forms include the stated purpose for the disbursement.
- b. Reiterate to staff existing cash disbursement policies and procedures regarding sufficient and appropriate supporting documentation and authorization.

#### **Campus Response**

We concur. Additional training and reminder of corporate policies, including adequate payment authorization procedures and sufficiency of documentation, will be done by May 1, 2006, with the Association's accounting staff and the Ag Foundation's unit enterprise managers.

### **INVENTORY**

#### **Recommendation 22**

We recommend that the Ag Foundation ensure that reconciliations are performed for the Farm Market inventory on a regular basis and monthly inventory counts are conducted at the Winery and Meats Lab in accordance with the inventory policy.

#### **Campus Response**

We concur. The Association has hired an additional accounting technician who will begin during the Spring 2006 semester to reconcile the inventory provided by the Winery and the Meats Lab as compared to the product sold at the Farm Market.

**THE CALIFORNIA STATE UNIVERSITY, FRESNO**  
**ATHLETIC CORPORATION**

**OPERATING AND ADMINISTRATIVE AGREEMENTS**

**Recommendation 23**

We recommend that the Athletic Corporation:

- a. Establish agreements with third-party marketing firms in writing.
- b. Execute written agreements in a timely manner for services provided by the campus.
- c. Review all existing written agreements to ensure appropriate indemnification clauses are included.

**Campus Response**

We concur. We will execute and be timely with the written agreements between the auxiliary and campus as well as ensure that marketing agreements are in writing and that they will include appropriate indemnification clauses.

**FACILITIES AGREEMENTS**

**Recommendation 24**

We recommend that the Athletic Corporation:

- a. Revise the current master facilities lease agreement between the campus and the Athletic Corporation to include language regarding space that will be occupied by other campus departments, affiliated groups, and/or auxiliary organizations.
- b. Establish a ground lease agreement with the campus for the parcels of land where the softball stadium and the Ricchiuti Academic and Strength and Conditioning Center are located.
- c. Execute written sublease agreements, approved by the campus president, for third parties occupying space in state-owned facilities.

**Campus Response**

We concur. We will revise or establish the agreements as indicated by June 30, 2006.

**FISCAL COMPLIANCE**

**Recommendation 25**

We recommend that the Athletic Corporation:

- a. Perform the appropriate analysis for the necessary reserve categories.

- b. Implement its formal plan to ensure self-sufficiency, including financial and operational controls to ensure revenues equal or exceed expenditures.

### **Campus Response**

We concur. The campus agrees that appropriate reserve balances are critical to the financial stability of the Athletic Corporation. However, in the past eighteen months the Athletic Corporation had to take an aggressive approach to management of its fiscal position. Steps taken include the recruitment of a new Athletics Corporation business manager that reports to the university's Associate Vice President for Financial Management; a revamping of the revenue and expenditure models used for annual, monthly and quarterly budgeting; and a practical approach to rebuilding the reserve balance over a 3-5 year period which includes striving towards a fund balance that will accommodate unforeseen variances in ticket sales.

The corporation will budget and set-aside adequate funds to start re-building the reserves. The overall budgeting and financial management process has already been updated to reflect practices that will lead to a balanced budget over the current and next fiscal cycle.

## **SEGREGATION OF DUTIES**

### **Recommendation 26**

We recommend that the Athletic Corporation properly segregate the duties and responsibilities over athletic stock or institute mitigating procedures approved by the campus CFO.

### **Campus Response**

We concur with the recommendation. However, the finding overlooked several mitigating controls that were in place at the time of the audit field work. The finding implies that a single employee had exclusive responsibility over several acquisition related activities. In actuality, many of the tasks of equipment operations typically involve staff and administrators other than the equipment manager himself. By June 30, 2006 we will complete our review of the manager's duties to keep incompatible duties reasonably separated or monitor the mitigating controls.

## **CASH RECEIPTS AND HANDLING**

### **Recommendation 27**

We recommend that the Athletic Corporation:

- a. Change the safe combinations located at the Athletic Corporation periodically and upon employee separation, and maintain a record of dates the safe combination changes occur.
- b. Develop policies and procedures to address an acceptable level of over/short amounts in cash registers and specific management action upon employee non-compliance with the policy.

### **Campus Response**

We concur. We have initiated these corrective actions and will complete them by March 1, 2006.

## **PURCHASING AND ACCOUNTS PAYABLE**

### **DISBURSEMENTS**

#### **Recommendation 28**

We recommend that the Athletic Corporation reiterate to staff existing cash disbursement policies and procedures regarding appropriate and sufficient documentation, proper authorization, and timely payment.

#### **Campus Response**

We concur with the recommendation. Regarding the findings, for many or most of the anomalies, we believe the audit may have too narrowly interpreted our existing policies and procedures or not have sufficiently inquired about the individual circumstances of the transactions. Nevertheless, we agree that extra training is important for reiteration of cash disbursement policies, required documentation, proper authorization, and timely payment. We will complete the training by February 28, 2006.

### **INVENTORY**

#### **Recommendation 29**

We recommend that the Athletic Corporation develop written policies and procedures to strengthen controls over athletic stock.

#### **Campus Response**

We concur. We will develop guidelines by March 31, 2006 for staff to follow concerning athletic stock.

### **SIGNATURE AUTHORITY**

#### **Recommendation 30**

We recommend that the Athletic Corporation establish written signature authorizations identifying designated individuals to sign contracts on behalf of the auxiliary.

#### **Campus Response**

We concur. We had already created a control file of signature authorizations in December of 2004. The audit may have encountered a signature or circumstance that needed to be updated. We will ensure that the signature file is periodically updated.

## **PROPERTY AND EQUIPMENT**

#### **Recommendation 31**

We recommend that the Athletic Corporation:

- a. Perform periodic physical inventory counts of property and equipment.

- b. Reconcile its fixed assets inventory listing to the general ledger.
- c. Ensure that fixed assets are tagged in a timely manner.

#### **Campus Response**

We concur. We usually perform all these activities in a timely manner. At times, however, staff constraints and turnover have limited us in these administrative areas. We will perform periodic counts of our athletic property and equipment, reconcile this to the general ledger, and tag assets in a timely manner. These tasks will occur at least annually.

## **AUXILIARY PROGRAMS**

### **Recommendation 32**

We recommend that the Athletic Corporation:

- a. Ensure written agreements are executed with the sports camps directors that define basic risk management requirements, facility use terms, and accounting and payroll procedures.
- b. Ensure that camp liability waivers indemnify the Athletic Corporation, the State of California, CSU Trustees, and the campus.
- c. Maintain signature authorization cards identifying camp employees authorized to approve expenditures.
- d. Properly segregate cash receipts duties and responsibilities or institute mitigating procedures approved by the campus CFO.

#### **Campus Response**

We concur with recommendations. In the past year, we have significantly improved our oversight of the sports camps. For example, we expanded the scope of the written agreements and the review thereof, and instituted signature cards for us to identify camp employees authorized to approve expenditures. We need to further refine how to best ensure appropriate oversight for camp revenues and expenditures. As part of our review, to be completed by June 30, 2006 we will assess whether alternative approaches are warranted for our sports camps.

**FRESNO STATE PROGRAMS FOR CHILDREN, INC.**

**OPERATING AND ADMINISTRATIVE AGREEMENTS**

**Recommendation 33**

We recommend that the PFC execute administrative agreements with the campus for services provided by campus employees at the auxiliary.

**Campus Response**

We concur. We executed an agreement in November 2005 to cover the reimbursement for three University employees whose salaries and benefits are reimbursed from PFC's referendum account.

**FACILITIES AGREEMENTS**

**Recommendation 34**

We recommend that the PFC execute a lease agreement with the University Religious Center that includes an appropriate indemnification clause.

**Campus Response**

We concur. A lease agreement with the University Religious Center, including an appropriate indemnification clause, has been drafted.

**OPERATIONAL COMPLIANCE**

**Recommendation 35**

We recommend that the PFC ensure that annual conflict-of-interest statements are obtained from all board members.

**Campus Response**

We concur. For 2005-06, all conflict of interest forms have been signed and received from all Board members.

**CAMPUS OVERSIGHT AND CONTROL**

**Recommendation 36**

We recommend that the PFC ensure that its annual budgets are submitted to the campus president for approval in a timely manner.

**Campus Response**

We concur. The 2005-06 PFC budget was approved by the campus president on June 3, 2005.

## SEGREGATION OF DUTIES

### Recommendation 37

We recommend that the PFC properly segregate certain cash receipts processing functions at the Campus Children's Center or institute mitigating procedures approved by the campus CFO.

### Campus Response

We concur. In order to decrease the risk of inappropriate handling of cash receipts, the following duties will be better segregated. For incoming checks, a fixed and locked drop box will be placed at the site for parents to leave checks (cash is not accepted.) The Office Manager will create a spreadsheet of the checks received. The Site Administrator will prepare and total the checks for deposit. The Program Associate will reconcile each month the amount of fees that should have been collected with the amounts actually deposited. The Center Director will sign and approve the reconciliations. We will implement these changes by March 30, 2006.

## CASH RECEIPTS AND HANDLING

### Recommendation 38

We recommend that the PFC develop written policies and procedures for cash receipts and handling at the two separate childcare facilities or institute mitigating procedures approved by the campus CFO.

### Campus Response

We concur. We have developed these written procedures.

## PURCHASING AND ACCOUNTS PAYABLE

### Recommendation 39

We recommend that the PFC:

- a. Develop and implement procedures to ensure that checks are signed by individuals with proper approval authority.
- b. Develop and implement procedures to ensure that appropriate approval signatures are obtained from PFC prior to processing check requests.
- c. Develop and implement procedures to ensure that facsimile or photocopied invoices are verified to prevent duplicate payments.
- d. Reiterate to staff existing cash disbursement policies and procedures regarding sufficient and appropriate supporting documentation and authorization.

**Campus Response**

We have developed written procedures that address these recommendations. The Association provides accounting services to PFC. The authorized signers on PFC's checking account are the Executive Director of Auxiliary Services, PFC's Chief Financial Officer, and the University Controller. Additional training and reminder of corporate policies will be done with the Association's accounting staff by April 1, 2006. We have a new stamp for the Association's AP clerk to use when certifying payment from a photo copy or fax of an invoice.

**PERSONNEL AND PAYROLL**

**Recommendation 40**

We recommend that the PFC develop written hiring policies and procedures to allow for consistent management oversight of the Campus Children's Center and Huggins Center.

**Campus Response**

We concur. PFC will develop, by April 1, 2006, with the Auxiliary Services Human Resources Department written hiring policies and procedures in order to enhance consistency and oversight.

**ASSOCIATED STUDENTS CALIFORNIA STATE UNIVERSITY, FRESNO**

**OPERATING AND ADMINISTRATIVE AGREEMENTS**

**Recommendation 41**

We recommend that the AS establish written agreements with the campus for the leadership program and for the use of the intramural office.

**Campus Response**

We concur. AS has completed a written agreement with the Leadership Program and the Intramural/Recreation Program. AS has also completed a written agreement with the university for use of the office space in the North Gym, room 109 for the Intramural/Recreation Program.

**CORPORATE GOVERNANCE**

**Recommendation 42**

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

**Campus Response**

We concur. By March 31, 2006, AS will redraft its corporate dissolution clause in accordance with Title 5 and include this change in the Articles of Incorporation.

**OPERATIONAL COMPLIANCE**

**Recommendation 43**

We recommend that the AS ensure that annual conflict-of-interest statements are obtained from all board members.

**Campus Response**

We concur. AS has required and obtained signed statements from the 2005-06 board members. In addition, any new board member appointed during the year will be required to sign a conflict-of-interest statement. Finally, AS will create a policy that requires all board members to sign a statement as a condition of having their position.

**CAMPUS OVERSIGHT AND CONTROL**

**Recommendation 44**

We recommend that the AS ensure that budgets are submitted to the campus president for approval in a timely manner.

**Campus Response**

We concur. AS will endeavor to follow the timeliness requirement each year.

**SEGREGATION OF DUTIES**

**Recommendation 45**

We recommend that the AS properly segregate certain cash receipts processing functions at the intramural office or institute mitigating procedures approved by the campus CFO.

**Campus Response**

We concur. The intramural (IM) and recreation fee deposits comprise relatively minor revenues. For the past two years, total fee deposits were only \$8,378 (FY 2003/4) and \$9,122 (FY 04/05). The campus procedures for receiving fees will be significantly revised as part of opening in February 2006 the newly built student recreation center. We will better separate the responsibilities for receiving cash and preparing deposits. The new facility will have a cashiering function separate from the IM Director who now both receives and deposits the fees.

**FEES, REVENUES, AND RECEIVABLES**

**Recommendation 46**

We recommend that the AS ensure that revenue reconciliations are performed for the intramural fees on a regular basis.

**Campus Response**

We concur. The reconciliations will begin with the Spring 2006 semester, consistent with opening the new student recreation facility.

**PURCHASING AND ACCOUNTS PAYABLE**

**Recommendation 47**

We recommend that the AS:

- a. Develop and implement procedures to ensure that facsimile or photocopied invoices are verified to prevent duplicate payments.
- b. Reiterate to staff existing cash disbursement policies and procedures regarding sufficient and appropriate supporting documentation and authorization.

**Campus Response**

We concur. We have a policy and form to use to prevent duplicate payments. In November 2005, all AS officers and staff with expenditure authority confirmed in writing their commitment to follow expenditure policy and procedures.



THE CALIFORNIA STATE UNIVERSITY  
OFFICE OF THE CHANCELLOR

BAKERSFIELD

January 30, 2006

CHANNEL ISLANDS

CHICO

**MEMORANDUM**

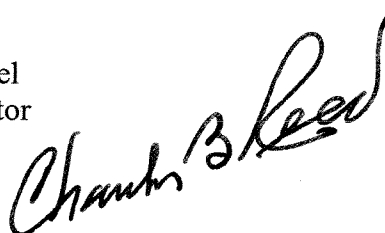
DOMINGUEZ HILLS

EAST BAY

FRESNO

TO: Mr. Larry Mandel  
University Auditor

FULLERTON

FROM: Charles B. Reed  
Chancellor


HUMBOLDT

LONG BEACH

SUBJECT: Draft Final Report Number 05-47 on *Auxiliary Organizations*,  
California State University, Fresno

LOS ANGELES

MARITIME ACADEMY

MONTEREY BAY

In response to your memorandum of January 30, 2006, I accept the response as submitted with the draft final report on *Auxiliary Organizations*, California State University, Fresno.

NORTHRIDGE

POMONA

SACRAMENTO

CBR/amd

SAN BERNARDINO

Enclosure

SAN DIEGO

cc: Mr. Matt Babick, Internal Auditor  
Dr. John D. Welty, President

SAN FRANCISCO

SAN JOSÉ

SAN LUIS OBISPO

SAN MARCOS

SONOMA

STANISLAUS