

**AUXILIARY ORGANIZATIONS**  
**CALIFORNIA STATE UNIVERSITY,**  
**BAKERSFIELD**

**Report Number 05-48**  
**November 10, 2005**

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

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## **ABBREVIATIONS**

ASI	Associated Students, California State University, Bakersfield, Inc.
ATM	Automated Teller Machine
CFO	Chief Financial Officer
CSU	California State University
CSUB	California State University, Bakersfield
CSUBFR	California State University, Bakersfield Foundation for Research
EO	Executive Order
Foundation	California State University Bakersfield Foundation
OMB	Office of Management and Budget
RFIN	Resolution of the Committee on Finance
Union	California State University, Bakersfield Student Union

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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, Bakersfield (CSUB) 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 CSUB campus and its auxiliary organizations from June 6, 2005, through July 8, 2005, and made a study and evaluation of the system of internal compliance/internal control in effect for the period July 2002 to July 2005. This report represents our triennial review.

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

Our study and evaluation at *California State University, Bakersfield Foundation for Research* 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 July 2005, taken as a whole, was sufficient to meet the objectives stated above.

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

Our study and evaluation at *Associated Students, California State University, Bakersfield, 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 July 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**

### **FACILITIES AGREEMENTS [10]**

Certain lease agreements between the campus and the California State University Bakersfield Foundation had not been established, specifically, a lease agreement for the Children's Center and a ground lease agreement for the space occupied by the Jazzman Café.

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

The campus had not provided sufficient guidance for its auxiliaries regarding the implementation of conflict-of-interest policies and procedures. For example, annual conflict-of-interest statements had not been obtained from all board members and/or management at the campus' four auxiliary organizations.

## **CALIFORNIA STATE UNIVERSITY BAKERSFIELD FOUNDATION**

### **OPERATING AND ADMINISTRATIVE AGREEMENTS [12]**

A written agreement between the California State University Bakersfield Foundation (Foundation) and a third party did not contain a proper indemnification clause.

### **FISCAL COMPLIANCE [13]**

The Foundation could not provide documentation evidencing the board of director process to analyze the adequacy of reserves maintained in its annual budget.

### **SEGREGATION OF DUTIES [13]**

Duties and responsibilities over investment, gift processing, and payroll functions were not appropriately segregated.

### **FEES, REVENUES, AND RECEIVABLES [16]**

The Foundation did not perform regular and timely revenue reconciliations between the donor database system and its cashiering system.

### **PURCHASING AND ACCOUNTS PAYABLE [17]**

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

### **TRUSTS AND OTHER LIABILITIES [18]**

The Foundation's management and accounting of endowments required improvement. For example, the methodology for the allocation of both interest and gains and losses did not properly consider the date and quarter of when donations were received. Also, we noted unrealized gains and losses were not allocated to individual endowment funds and some funds were allowed to carry negative balances.

### **AUXILIARY PROGRAMS [20]**

The Foundation's oversight of contracts and grants required improvement. For instance, the Foundation had not fully implemented policies and procedures to adequately monitor effort certification and cost-sharing obligation. In addition, the Foundation did not regularly request and obtain detailed supporting documents to sufficiently review reimbursement/payment requests by sub-recipients of the Valley Fever Grant(s).

**CALIFORNIA STATE UNIVERSITY, BAKERSFIELD FOUNDATION FOR RESEARCH**

**CORPORATE GOVERNANCE [23]**

The California State University, Bakersfield Foundation for Research (CSUBFR) board did not include faculty representation for fiscal year 2004/05. In addition, the CSUBFR did not provide public notice of board meetings.

**CALIFORNIA STATE UNIVERSITY, BAKERSFIELD STUDENT UNION**

**OPERATING AND ADMINISTRATIVE AGREEMENTS [25]**

Certain business agreements between the California State University, Bakersfield Student Union (Union), and third parties were incomplete, required revision, and/or were not executed in a timely manner.

**FACILITIES AGREEMENTS [26]**

A sublease agreement was not established for the automated teller machine located in the Student Union Building.

**CORPORATE GOVERNANCE [26]**

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

**FISCAL COMPLIANCE [27]**

The Union had not formally adopted a reserve policy. In addition, operating reserves were not allocated in the operating budget for fiscal year ended June 30, 2005.

**OPERATIONAL COMPLIANCE [28]**

The Union had not formally developed/adopted written policies and procedures to address travel, hospitality, fixed assets, receiving, accounts payable, and procurement including purchasing and contracting.

**PURCHASING AND ACCOUNTS PAYABLE [29]**

Certain Union cash disbursements were not paid timely nor supported by sufficient and appropriate documentation and/or authorization.

**ASSOCIATED STUDENTS, CALIFORNIA STATE UNIVERSITY, BAKERSFIELD, INC.**

**OPERATING AND ADMINISTRATIVE AGREEMENTS [31]**

Artist performance agreements between the Associated Students, California State University, Bakersfield, Inc. (ASI), and external vendors were not executed consistently, were not authorized by the appropriate official, and lacked a proper indemnification clause.

**CORPORATE GOVERNANCE [32]**

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

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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 July 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 Bakersfield Foundation

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

California State University, Bakersfield Foundation for Research

- ▶ Operating and Administrative Agreements
- ▶ Facilities Agreements
- ▶ Corporate Governance
- ▶ Fiscal Compliance
- ▶ Operational Compliance
- ▶ Program Compliance
- ▶ Campus Oversight and Control
- ▶ Fees, Revenues, and Receivables
- ▶ Purchasing and Accounts Payable
- ▶ Research Administration

California State University, Bakersfield Student Union

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

California State University, Bakersfield Student Union (cont.)

- ▶ Operational Compliance
- ▶ Program Compliance
- ▶ Campus Oversight and Control
- ▶ Fees, Revenues, and Receivables
- ▶ Purchasing and Accounts Payable
- ▶ Auxiliary Programs
- ▶ Information Technology

Associated Students, California State University, Bakersfield, Inc.

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

Campus

- ▶ Campus Oversight and Control

We have not performed any auditing procedures beyond July 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

### FACILITIES AGREEMENTS

Certain lease agreements between the campus and the California State University Bakersfield Foundation (Foundation) had not been established.

We found that:

- ▶ A facility lease agreement had not been established for the Children's Center.
- ▶ A ground lease agreement had not been established for the space occupied by the Jazzman Café.

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 lease arrangements be properly supported by written agreements.

The vice president of business and administrative services stated his belief that a facility lease agreement had been established for the Children's Center but could not be located. He further stated his belief that a ground lease was not necessary for the café, as it was a mobile building and not a permanent fixture.

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

#### **Recommendation 1**

We recommend that the campus, in coordination with the Foundation:

- a. Establish a facility lease agreement for the Children's Center.
- b. Establish a ground lease agreement for the space occupied by the Jazzman Café.

#### **Campus Response**

We concur. The campus will establish a facility lease agreement with the Children's Center and will ensure the Jazzman Café space is incorporated in the current Sodexo agreement. Completion Date: April 2006

## **OPERATIONAL COMPLIANCE**

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

The California State University, Bakersfield Foundation for Research and the California State University, Bakersfield Student Union had not officially adopted a conflict-of-interest policy. In addition, annual conflict-of-interest statements had not been obtained from all board members and/or management at the campus' four auxiliary organizations.

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 vice president of business and administrative services stated that the lack of conflict-of-interest policies or signed statements was due to management oversight.

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

### **Recommendation 2**

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

### **Campus Response**

We concur. The campus will coordinate all conflict-of-interest filings through the office of the vice president for business and administrative services to ensure all auxiliaries are current with their filing. Completion Date: February 2006

## **CALIFORNIA STATE UNIVERSITY BAKERSFIELD FOUNDATION**

### **OPERATING AND ADMINISTRATIVE AGREEMENTS**

A written agreement between the California State University Bakersfield Foundation (Foundation) and a third party was incomplete.

Specifically, we found that the indemnification provision in the business services agreement with the bookstore contractor did not specifically indemnify the State of California, the California State University (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.

Executive Order (EO) 849, *California State University Insurance Requirements*, dated February 5, 2003, states that hold harmless provisions should be modeled after agreements available at the CSU contract resource library. The model auxiliary operating agreement states that 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.

The Foundation executive director stated that the lack of an adequate hold harmless provision was due to oversight. He further stated that since the independent contractor had recently been hired by the Foundation, a written agreement had not been established.

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

#### **Recommendation 3**

We recommend that the Foundation revise the business services agreement with the bookstore contractor to extend the hold harmless provision to the State of California, the CSU Trustees, and the campus.

#### **Campus Response**

We concur. The current service agreement with the bookstore contractor will be revised to incorporate the appropriate hold harmless provisions for the State of California, the CSU Trustees, and the campus. Completion Date: March 2006

## **FISCAL COMPLIANCE**

The Foundation could not provide documentation evidencing the board of director process to analyze the adequacy of reserves maintained in its annual budget.

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

The Foundation executive director stated that the reserve analysis was performed, but documentation had not been maintained.

The lack of appropriate documentation of reserve analysis reduces the ability of the board to exercise its oversight duties and responsibilities and increases the auxiliary's risk to fund future needs.

### **Recommendation 4**

We recommend that the Foundation prepare documentation detailing its process of analyzing the adequacy of its reserves.

### **Campus Response**

We concur. The Foundation will formalize its current process for analyzing the adequacy of reserves during the budget process. Completion Date: April 2006

## **SEGREGATION OF DUTIES**

### **INVESTMENTS**

Duties and responsibilities over certain investment functions were not appropriately segregated at the Foundation.

We found that one employee:

- ▶ Performed and approved investment transactions.
- ▶ Prepared investment journal entries.
- ▶ Reconciled general ledger investment accounts to investment statements.
- ▶ Had check-signing authority on Foundation checking and investment accounts.

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 8.9.2, *Investments*, states that the auxiliary should establish a written internal controls system

that ensures investment and income decisions and recordkeeping are conducted and reviewed by more than one person.

The Foundation executive director stated that investment duties were performed solely by the former Foundation manager due to resource constraints.

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

### **Recommendation 5**

We recommend that the Foundation properly segregate certain investment functions or institute mitigating procedures approved by the campus chief financial officer (CFO).

### **Campus Response**

We concur. The Foundation has recently appointed a Foundation manager and will revise its investment procedures to ensure appropriate segregation of duties is achieved. Completion Date: April 2006

## **GIFT PROCESSING**

Duties and responsibilities over certain accounting functions related to gift processing were not appropriately segregated at the Foundation.

We found that the development services coordinator:

- ▶ Received incoming checks.
- ▶ Entered check amounts into the donor database.
- ▶ Prepared deposits.
- ▶ Prepared gift receipt reconciliation.
- ▶ Prepared acknowledgment and tax deduction letters to donors.

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

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

The Foundation executive director stated that resource constraints did not allow for an appropriate segregation of duties for the development services coordinator.

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

**Recommendation 6**

We recommend that the Foundation properly segregate accounting functions for gift processing or institute mitigating procedures approved by the campus CFO.

**Campus Response**

We concur. The oversight of the Foundation fiscal operations has been moved to the vice president of business and administrative services and appropriate procedures will be developed to ensure segregation of accounting functions for gift processing are instituted. Completion Date: February 2006

**PAYROLL**

Duties and responsibilities over certain payroll and personnel functions were not appropriately segregated at the Foundation.

We found that one employee:

- ▶ Entered new employees into the payroll system.
- ▶ Had the capability to enter/update payroll data (including pay rates) and change employee status to inactive.
- ▶ Entered employee salaries and time into the payroll system.
- ▶ Processed time sheets and submitted payroll information to the payroll service company. In addition, an independent review of payroll processing was not documented.
- ▶ Received payroll checks from the payroll service company.

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 Foundation executive director stated that resource constraints did not allow for an appropriate segregation of duties between the personnel and payroll functions. The campus vice president of

business and administrative services stated his belief that this issue would be resolved when the payroll function becomes the responsibility of the campus.

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

#### **Recommendation 7**

We recommend that the Foundation properly segregate certain payroll and personnel functions until these functions are officially transferred to the campus or institute mitigating procedures approved by the campus CFO.

#### **Campus Response**

We concur. The oversight for Foundation payroll and personnel functions has recently moved to the vice president of business and administrative services. Further, policies and procedures to ensure adequate segregation of duties have been implemented. Completion Date: February 2006

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

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

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

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

The Foundation executive director stated that monthly reconciliations between the donor database system and the cashiering system were not completed timely due to the difficulty in obtaining reports from the new accounting system.

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

### **Recommendation 8**

We recommend that the Foundation perform regular and timely revenue reconciliations between the donor database system and the cashiering system.

### **Campus Response**

We concur. The Foundation will develop a procedure to ensure monthly revenue reconciliations between the donor database and the cashiering system. Completion Date: February 2006

## **PURCHASING AND ACCOUNTS PAYABLE**

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

Our review of 62 cash disbursements disclosed the following processing exceptions:

- ▶ In 25 instances, signature authorization cards were not on file.
- ▶ In 11 instances, check requests were processed for payment without adequate documentation.
- ▶ In three instances, photocopied invoices were accepted for payment without certification that records were verified to prevent duplicate payment.
- ▶ In two instances, one-up signature authorization was not obtained.
- ▶ In one instance, a travel expense claim was processed without an approval signature.
- ▶ In one instance, a check request did not include an official approval signature.

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

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

The Foundation executive director stated that the lack of adequate and/or appropriate documentation was due to oversight. The campus vice president of business and administrative services stated his

belief that the above issues would be resolved when all Foundation accounting functions become the responsibility of the campus, as directed by the campus president.

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

### **Recommendation 9**

We recommend that the Foundation reiterate to staff existing cash disbursement policies and procedures regarding sufficient and appropriate supporting documentation and authorization until accounting functions are officially transferred to the campus.

### **Campus Response**

We concur. The oversight of the accounting functions for the Foundation has been transferred to the campus, and the appropriate reviewed processes have been implemented to ensure sufficient and appropriate supporting documentation. Completion Date: February 2006

## **TRUSTS AND OTHER LIABILITIES**

The Foundation's management and accounting of endowments required improvement.

We noted that:

- ▶ Distributions were made from endowment funds prior to the balance reaching \$5,000.
- ▶ Foundation management calculated the amount of funds available for distribution as a percentage of the entire endowment pool. This practice, coupled with the timing of posting investment income, had allowed for the spending of endowment corpus. In fact, we noted several negative endowment accounts.
- ▶ Unrealized gains and losses were not allocated to individual endowment funds in the general ledger, but were instead recorded in aggregate in a separate general ledger account.
- ▶ The methodology for the allocation of both interest and gains and losses did not properly consider the date and quarter of when donations were received. The allocation was based on an average balance, calculated from the annual beginning and ending balance of an endowment fund.

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 sufficient management and accounting controls over investments.

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 8.9.2, *Investments*, states that the auxiliary should establish a written recordkeeping system that ensures all investment income has been received and recorded in compliance with any source restrictions and other external or internal requirements. Foundation internal requirements prohibit the distribution of endowment funds that have yet reached \$5,000.

The Foundation executive director stated that the distribution from premature endowment funds was due to oversight. He further stated that the funds with negative balances were not true endowments and should have been reclassified. The former Foundation manager stated his belief that allocating the gains and losses in aggregate in the general ledger would be sufficient. He further stated that the allocation methodology used was a management decision and that any variance resulting from the use of this methodology would not be material.

Insufficient management and accounting of endowments increase the risk of errors and irregularities and the risk that funds will be handled contrary to the expectations of the campus and the donors.

#### **Recommendation 10**

We recommend that the Foundation:

- a. Reiterate the current endowment policy to all staff.
- b. Review its current endowments and ensure that distributions from endowments do not include the spending of corpus.
- c. Allocate and record gains and losses to individual endowment funds in the general ledger.
- d. Review its current methodology for the allocation of investment income to ensure the proper timing of donations.

#### **Campus Response**

We concur. The Foundation has recently hired a manager and the current endowment policy will be reviewed and written to reflect the Foundation's process for distribution of endowments, the recording of gains and losses in the general ledger, and the allocation of investment income are consistent with the policy established and approved by the Foundation board of directors. Completion Date: March 2006

## AUXILIARY PROGRAMS

### CONTRACTS AND GRANTS – ADMINISTRATION

The Foundation's oversight of contracts and grants required improvement.

We found that:

- ▶ The Foundation had not fully implemented policies and procedures to adequately monitor effort certification and cost-sharing obligations.
- ▶ Documentation indicating that final 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-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 prior to acceptance, the recipient shall designate either the university or auxiliary to administer the contract or grant. 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 Foundation executive director stated that formal procedures to adequately monitor contracts and grants had not been fully implemented due to resource constraints. The campus vice president of business and administrative services stated that the Foundation was in the process of transferring contracts and grants administration to the campus, and stated his belief that many of these issues would be resolved once this occurs.

Failure to adequately monitor effort certification and to properly maintain project files and monitor technical deliverables increases the risk that: (1) the auxiliary will operate in a manner inconsistent with the educational mission of the campus; (2) contracts and grants will be inappropriately managed; and (3) penalties and disallowances for non-compliance with contracts and grants terms would be awarded.

### **Recommendation 11**

We recommend that the Foundation ensure sufficient oversight of contracts and grants by:

- a. Fully implementing policies and procedures to adequately monitor effort certification and cost-sharing obligations.
- b. Retaining documentation evidencing the submittal of financial reports and other technical deliverables to the sponsoring agency.

### **Campus Response**

We concur. The campus has recently hired an assistant vice president for grants and contracts to ensure adequate policies and procedures are in place for monitoring effort certification, cost-sharing obligations, documentation and submittal of financial reports, and all other deliverables to sponsoring agencies. Completion Date: March 2006

### **VALLEY FEVER GRANT(S) – SUB-RECIPIENT MONITORING**

The sub-recipient monitoring of the Valley Fever Grant(s) required improvement.

We found that:

- ▶ The Foundation did not regularly request and obtain detailed supporting documents to sufficiently review reimbursement/payment requests by sub-recipients.
- ▶ The audit clause in the sub-recipient contracts was not consistently included in all agreements.
- ▶ The indemnification provision in the sub-recipient contracts did not specifically indemnify the Foundation, the State of California, and the CSU Trustees.

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.

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

The campus vice president of business and administrative services stated that the sub-recipient contracts will be revisited since they are due to expire soon. He further stated that these areas of risk will be addressed at that time. In addition, the professor of political science contracted to perform fiscal oversight at the campus stated that he would only review the supporting documentation

submitted by the sub-recipients; he would not regularly request additional fiscal information for increased review or audit.

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 12**

We recommend that the Foundation:

- a. Fully implement established procedures to monitor sub-recipient reimbursements.
- b. Ensure that sub-recipient agreements include the appropriate audit and indemnification clauses.

### **Campus Response**

We concur. The campus activity in the Valley Fever project is decreasing, but we will establish procedures to ensure sub-recipient reimbursements are monitored and agreements include indemnification clauses and reimbursements as appropriate. Completion Date: March 2006

**CALIFORNIA STATE UNIVERSITY, BAKERSFIELD**  
**FOUNDATION FOR RESEARCH**

**CORPORATE GOVERNANCE**

**BOARD COMPOSITION**

The California State University, Bakersfield Foundation for Research (CSUBFR) board did not include a faculty representative for fiscal year 2004/05.

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

The campus vice president of university advancement stated that the faculty member resigned during the year and the academic senate had not reelected an individual to fill the vacant faculty representative seat.

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

**Recommendation 13**

We recommend that the CSUBFR ensure appropriate faculty representation is maintained.

**Campus Response**

We concur. The campus will be more responsive at replacing faculty representation on a timely basis as vacancies occur. Completion Date: February 2006

**PUBLIC MEETINGS**

Notices of the CSUBFR board meetings were not posted in a public area.

Education Code §89920 states that each governing board of an auxiliary organization shall conduct its business in public meetings. Education Code §89924 states that no governing board shall take action on any issue until that issue has been publicly posted for at least one week.

The campus vice president of university advancement stated that the lack of public notice was due to management oversight.

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

**Recommendation 14**

We recommend that the CSUBFR post its meeting notices in a public area in accordance with the Education Code.

**Campus Response**

We concur. The campus will ensure the CSUBFR notices are posted in a public area in accordance with the Education Code. Completion Date: February 2006

## **CALIFORNIA STATE UNIVERSITY, BAKERSFIELD STUDENT UNION**

### **OPERATING AND ADMINISTRATIVE AGREEMENTS**

Certain business agreements between the California State University, Bakersfield Student Union (Union), and third parties were incomplete, required revision, and/or were not executed in a timely manner.

We found that:

- ▶ The timeliness, terms, and contracted parties of an external vendor contract were not appropriate. Specifically, the contract was not executed on a timely basis, and the auxiliary stated as one of the parties to the contract was named erroneously for another auxiliary. Thus, the terms (i.e. commissions, scope of work) were not established with the appropriate party.
- ▶ An artist performance agreement lacked an indemnification provision and a signature from an authorized Union representative.

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 auxiliary organizations shall agree to indemnify, defend, and save harmless the State of California, the Trustees of the CSU, the campus, and the officers, employees, volunteers, and agents of each of them from any and all loss, damage, or liability that may be suffered or incurred by state, caused by, arriving out of, or in any way connected with the operations of the auxiliary.

The campus assistant vice president of fiscal and support services stated that these agreements were incomplete due to the campus financial department's resources being directed to the PeopleSoft implementation during the previous 18 months.

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

#### **Recommendation 15**

We recommend that the Union revise the business agreements noted above to ensure that the appropriate contracted parties and indemnification provision are disclosed, and ensure the agreements are executed by the appropriate officials.

### **Campus Response**

We concur. The Union will work with the campus procurement department to ensure appropriate language and signature authority is exercised on all contracts in business agreements. Completion Date: March 2006

## **FACILITIES AGREEMENTS**

A sublease agreement was not established for the automated teller machine (ATM) located in the Student Union Building.

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 sublease arrangements be properly supported by written agreements.

The campus assistant vice president of fiscal and support services stated that a sublease agreement for the ATM did not exist because it was believed to be included in a service contract with the banking vendor for space used inside the Student Union.

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

### **Recommendation 16**

We recommend that the Union execute a sublease agreement for the ATM located in the Student Union Building.

### **Campus Response**

We concur. The campus has included language regarding the ATM space in the current banking agreement. Completion Date: January 2006

## **CORPORATE GOVERNANCE**

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

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

The campus assistant vice president of fiscal and support services stated that the minutes were not signed by an appropriate official due to oversight.

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

**Recommendation 17**

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

**Campus Response**

We concur. The Union staff transcribing the board minutes will ensure they are signed and approved by the appropriate official. Completion Date: February 2006

**FISCAL COMPLIANCE**

The Union had not formally adopted a reserve policy. In addition, operating reserves were not allocated in the operating budget for fiscal year ended June 30, 2005.

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 adopt written governing board policies that describe appropriate reserve requirements. The compilation further states that the auxiliary should implement financial standards that will assure fiscal viability, including proper provision for professional management, adequate working capital, adequate reserve funds for current operations and capital replacements, and adequate provisions for new business requirements.

The Union director stated that the lack of a formally adopted reserve policy and allocation of operating reserves was due to oversight.

Failure to establish a formally adopted reserve policy and to allocate for operating reserves increases the auxiliary's risk to fund future needs.

**Recommendation 18**

We recommend that the Union:

- a. Formally adopt a reserve policy.
- b. Ensure that the budget process includes the appropriate allocation of operating reserves.

### **Campus Response**

We concur. The Union will have the board of directors adopt a reserve policy and ensure the budget process includes operating reserves in accordance with the adopted procedure. Completion Date: April 2006

## **OPERATIONAL COMPLIANCE**

The Union had not formally developed/adopted written policies and procedures to address travel, hospitality, fixed assets, receiving, accounts payable, and procurement including purchasing and contracting.

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

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

The Union director stated his belief that they were following the written processes and procedures of the Foundation and were unaware that the board was required to formally adopt the Foundation procedures and/or develop their own written processes and procedures.

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

### **Recommendation 19**

We recommend that the Union develop written policies and procedures to address travel, hospitality, fixed assets, receiving, accounts payable, and procurement including purchasing and contracting.

### **Campus Response**

We concur. The Union board of directors will develop and adopt written policies and procedures to address the various fiscal activities of their organization. Completion Date: April 2006

## **PURCHASING AND ACCOUNTS PAYABLE**

Certain Union cash disbursements were not paid timely nor supported by sufficient and appropriate documentation and/or appropriate authorization.

Our review of 60 cash disbursements disclosed the following processing exceptions:

- ▶ In 13 instances, the business purpose for disbursements was not clearly stated.
- ▶ In 13 instances, facsimile or photocopied invoices were accepted for payment without certification that records were verified to prevent duplicate payment.
- ▶ In eight instances, payment was issued without adequate supporting documentation, such as folios and receipts.
- ▶ In seven instances, one-up authorization had not been obtained.
- ▶ In five instances, documentation to support expenditures could not be located.
- ▶ In four instances, official signature approval was not noted on supporting documentation.
- ▶ In four instances, disbursements lacked adequate approval.
- ▶ In one instance, an invoice was not paid timely.
- ▶ In one instance, a list of attendees was not included as supporting documentation.

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

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

The Union director stated that failure to pay invoices timely, submit adequate supporting documentation, and obtain proper authorization was due to misunderstanding of the Union disbursement policy by its employees.

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

**Recommendation 20**

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

**Campus Response**

We concur. The fiscal oversight of Union activity has been moved to the vice president of business and administrative services, and we will ensure disbursement policies and procedures and supporting documentation are consistent with the policies and procedures to be adopted by the Union board.  
Completion Date: February 2006

**ASSOCIATED STUDENTS,**  
**CALIFORNIA STATE UNIVERSITY, BAKERSFIELD, INC.**

**OPERATING AND ADMINISTRATIVE AGREEMENTS**

Artist performance agreements between the Associated Students, California State University, Bakersfield, Inc. (ASI) and external vendors were not executed consistently, were not authorized by the appropriate official, and lacked a proper indemnification 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.

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

The campus assistant vice president of fiscal and support services stated that the artist performance agreements were not executed consistently, not authorized by an appropriate official, and lacked a proper indemnification clause due to oversight and lack of adequate procedures to ensure that agreements were reviewed by campus procurement.

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

**Recommendation 21**

We recommend that the ASI revise artist performance agreements to include a proper indemnification clause and authorization by an appropriate official, and strengthen its current procedures to ensure that the agreements are executed consistently.

**Campus Response**

We concur. The ASI will work with the campus procurement department to ensure proper indemnification clauses and appropriate signatures are included on all executed agreements.  
Completion Date: March 2006

## **CORPORATE GOVERNANCE**

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

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

The campus assistant vice president of fiscal and support services stated that the minutes were not signed by an appropriate official due to oversight.

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

### **Recommendation 22**

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

### **Campus Response**

We concur. ASI will ensure that board minutes are signed and approved by an appropriate official before being finalized. Completion Date: February 2006

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## **APPENDIX A: PERSONNEL CONTACTED**

### **Name**

### **Title**

#### **CAMPUS**

Horace Mitchell	President
W. Michael Chertok	Vice President of University Advancement
Stanley Eugene Clark	Professor, Political Science
Michael Neal	Vice President of Business and Administrative Services
William Perry	Assistant Vice President of Student Life
Sharon Taylor	Assistant Vice President of Fiscal and Support Services
Laura Wolfe	Assistant Vice President of University Advancement

#### **CALIFORNIA STATE UNIVERSITY BAKERSFIELD FOUNDATION**

Karen Anderson	Accounting Technician
Denise Bell	Grants and Contracts Administrator
C. Randal Bye	Foundation Manager (former)
W. Michael Chertok	Executive Director
Diane Hendrickson	Director, Children's Center
Pam Martinez	Grants and Contracts Assistant
Kelly Mejia	Human Resource Administrator
Loraine Navarro	Cashier
Carolyn Powers	Development Services Coordinator
Samantha Sievers	Accountant

#### **CALIFORNIA STATE UNIVERSITY, BAKERSFIELD STUDENT UNION**

Matthew Ducatt	Director, University Student Union
Robin Flores	Administrative Support Assistant

#### **ASSOCIATED STUDENTS, CALIFORNIA STATE UNIVERSITY, BAKERSFIELD, INC.**

Dan Gianoutsos	President
Taren Mulhouse	Office Manager

## **STATEMENT OF INTERNAL CONTROLS**

### **A. INTRODUCTION**

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

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

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

#### 1. Internal Accounting Controls

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

#### 2. Operational Controls

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

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

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

**D. INTERNAL CONTROL SYSTEMS LIMITATIONS**

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



Office of the Vice President  
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THE CALIFORNIA STATE  
UNIVERSITY

December 14, 2005

Larry Mandel  
University Auditor  
California State University  
401 Golden Shore  
Long Beach, CA 90802-4210

Re: Campus Response to Recommendations of Audit Report Number 05-48,  
Auxiliary Organizations at California State University, Bakersfield

Dear Mr. Larry:

Attached are our campus responses and implementation dates to each Recommendation of the  
Auxiliary Organizations Audit Report #05-48 at California State University, Bakersfield.

Please feel free to contact me should you have any questions concerning our campus responses.

Sincerely,

Michael A. Neal  
Vice President for Business  
and Administrative Services

cc: Dr. Horace Mitchell, President  
Sharon Taylor, Assistant Vice President, Fiscal Services  
Aaron Bolin, Audit Manager, Auxiliary Organizations

**"ATTITUDE MAKES THE DIFFERENCE"**

**AUXILIARY ORGANIZATIONS**  
**CALIFORNIA STATE UNIVERSITY,**  
**BAKERSFIELD**

**Report Number 05-48**  
**November 10, 2005**

**CAMPUS**

**FACILITIES AGREEMENTS**

**Recommendation 1**

We recommend that the campus, in coordination with the Foundation:

- a. Establish a facility lease agreement for the Children's Center.
- b. Establish a ground lease agreement for the space occupied by the Jazzman Café.

**Campus Response**

We concur. The campus will establish a Facilities Lease Agreement with the Children's Center and will ensure the Jazzman Café space is incorporated in the current Sodexo agreement. Completion Date: April 2006

**OPERATIONAL COMPLIANCE**

**Recommendation 2**

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

**Campus Response**

We concur. The campus will coordinate all conflict of interest filings through the Office of the Vice President for Business and Administrative Services to ensure all Auxiliaries are current with their filing. Completion Date: February 2006

## **CALIFORNIA STATE UNIVERSITY BAKERSFIELD FOUNDATION**

### **OPERATING AND ADMINISTRATIVE AGREEMENTS**

#### **Recommendation 3**

We recommend that the Foundation revise the business services agreement with the bookstore contractor to extend the hold harmless provision to the State of California, the CSU Trustees, and the campus.

#### **Campus Response**

We concur. The current Service Agreement with the bookstore contractor will be revised to incorporate the appropriate hold harmless provisions for the State of California, the CSU Trustees, and the campus. Completion Date: March 2006

### **FISCAL COMPLIANCE**

#### **Recommendation 4**

We recommend that the Foundation prepare documentation detailing its process of analyzing the adequacy of its reserves.

#### **Campus Response**

We concur. The Foundation will formalize their current process for analyzing the adequacy of reserves during the budget process. Completion Date: April 2006

### **SEGREGATION OF DUTIES**

#### **INVESTMENTS**

#### **Recommendation 5**

We recommend that the Foundation properly segregate certain investment functions or institute mitigating procedures approved by the campus chief financial officer (CFO).

#### **Campus Response**

We concur. The Foundation has recently appointed a Foundation Manager and will revise their investment procedures to ensure appropriate segregation of duties is achieved. Completion Date: April 2006

## **GIFT PROCESSING**

### **Recommendation 6**

We recommend that the Foundation properly segregate accounting functions for gift processing or institute mitigating procedures approved by the campus CFO.

### **Campus Response**

We concur. The oversight of the Foundation fiscal operations has been moved to the Vice President of Business and Administrative Services and appropriate procedures will be developed to ensure segregation of accounting functions for gift processing are instituted. Completion Date: February 2006

## **PAYROLL**

### **Recommendation 7**

We recommend that the Foundation properly segregate certain payroll and personnel functions until these functions are officially transferred to the campus or institute mitigating procedures approved by the campus CFO.

### **Campus Response**

We concur. The oversight for Foundation payroll and personnel functions has recently moved to the Vice President of Business and Administrative Services. Further, policies and procedures to ensure adequate segregation of duties have been implemented. Completion Date: February 2006

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

### **Recommendation 8**

We recommend that the Foundation perform regular and timely revenue reconciliations between the donor database system and the cashiering system.

### **Campus Response**

We concur. The Foundation will develop a procedure to ensure monthly revenue reconciliations between the donor database and the cashiering system. Completion Date: February 2006

## **PURCHASING AND ACCOUNTS PAYABLE**

### **Recommendation 9**

We recommend that the Foundation reiterate to staff existing cash disbursement policies and procedures regarding sufficient and appropriate supporting documentation and authorization until accounting functions are officially transferred to the campus.

**Campus Response**

We concur. The oversight of the Accounting functions for Foundation has been transferred to the campus and the appropriate reviewed processes to ensure sufficient and appropriate supporting documentation have been implemented. Completion Date: February 2006

**TRUSTS AND OTHER LIABILITIES****Recommendation 10**

We recommend that the Foundation:

- a. Reiterate the current endowment policy to all staff.
- b. Review its current endowments and ensure that distributions from endowments do not include the spending of corpus.
- c. Allocate and record gains and losses to individual endowment funds in the general ledger.
- d. Review its current methodology for the allocation of investment income to ensure the proper timing of donations.

**Campus Response**

We concur. The Foundation has recently hired a manager and the current endowment policy will be reviewed and written to reflect the Foundation's process for distribution of endowments, the recording of gains and losses in the general ledger, and the allocation of investment income are consistent with the policy established and approved by the Foundation Board of Directors. Completion Date: March 2006

**AUXILIARY PROGRAMS****CONTRACTS AND GRANTS – ADMINISTRATION****Recommendation 11**

We recommend that the Foundation ensure sufficient oversight of contracts and grants by:

- a. Fully implementing policies and procedures to adequately monitor effort certification and cost-sharing obligations.
- b. Retaining documentation evidencing the submittal of financial reports and other technical deliverables to the sponsoring agency.

**Campus Response**

We concur. The campus has recently hired an Assistant Vice President for Grants and Contracts to ensure adequate policies and procedures are in place for monitoring effort certification, cost sharing

obligations, documentation and submittal of financial reports, and all other deliverables to sponsoring agencies. Completion Date: March 2006

## **VALLEY FEVER GRANT(S) – SUB-RECIPIENT MONITORING**

### **Recommendation 12**

We recommend that the Foundation:

- a. Fully implement established procedures to monitor sub-recipient reimbursements.
- b. Ensure that sub-recipient agreements include the appropriate audit and indemnification clauses.

### **Campus Response**

We concur. The campus activity in the Valley Fever project is decreasing, but we will establish procedures to ensure sub-recipient reimbursements are monitored and agreements include indemnification clauses and reimbursements as appropriate. Completion Date: March 2006

**CALIFORNIA STATE UNIVERSITY, BAKERSFIELD**  
**FOUNDATION FOR RESEARCH**

**CORPORATE GOVERNANCE**

**BOARD COMPOSITION**

**Recommendation 13**

We recommend that the CSUBFR ensure appropriate faculty representation is maintained.

**Campus Response**

We concur. The campus will be more responsive at replacing faculty representation on a timely basis as vacancies occur. Completion Date: February 2006

**PUBLIC MEETINGS**

**Recommendation 14**

We recommend that the CSUBFR post its meeting notices in a public area in accordance with the Education Code.

**Campus Response**

We concur. The campus will ensure the CSUBFR notices are posted in a public area in accordance with the Education Code. Completion Date: February 2006

**CALIFORNIA STATE UNIVERSITY, BAKERSFIELD STUDENT UNION**

**OPERATING AND ADMINISTRATIVE AGREEMENTS**

**Recommendation 15**

We recommend that the Union revise the business agreements noted above to ensure that the appropriate contracted parties and indemnification provision are disclosed, and ensure the agreements are executed by the appropriate officials.

**Campus Response**

We concur. The Union will work with the campus procurement department to ensure appropriate language and signature authority is exercised on all contracts in business agreements. Completion Date: March 2006

**FACILITIES AGREEMENTS**

**Recommendation 16**

We recommend that the Union execute a sublease agreement for the ATM located in the Student Union Building.

**Campus Response**

We concur. The campus has included language regarding the ATM space in the current banking agreement. Completion Date: January 2006

**CORPORATE GOVERNANCE**

**Recommendation 17**

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

**Campus Response**

We concur. The Union staff transcribing the board minutes will ensure they are signed and approved by the appropriate official. Completion Date: February 2006

**FISCAL COMPLIANCE**

**Recommendation 18**

We recommend that the Union:

- a. Formally adopt a reserve policy.

- b. Ensure that the budget process includes the appropriate allocation of operating reserves.

**Campus Response**

We concur. The Union will have the Board of Directors adopt a reserve policy and ensure the budget process includes operating reserves in accordance with the adopted procedure. Completion Date: April 2006

**OPERATIONAL COMPLIANCE**

**Recommendation 19**

We recommend that the Union develop written policies and procedures to address travel, hospitality, fixed assets, receiving, accounts payable, and procurement including purchasing and contracting.

**Campus Response**

We concur. The Union Board of Directors will develop and adopt written policies and procedures to address the various fiscal activities of their organization. Completion Date: April 2006

**PURCHASING AND ACCOUNTS PAYABLE**

**Recommendation 20**

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

**Campus Response**

We concur. The Fiscal oversight of Union activity has been moved to the Vice President of Business and Administrative Services and we will ensure disbursement policies and procedures and supporting documentation are consistent with the policies and procedures to be adopted by the Union Board. Completion Date: February 2006

**ASSOCIATED STUDENTS,**  
**CALIFORNIA STATE UNIVERSITY, BAKERSFIELD, INC.**

**OPERATING AND ADMINISTRATIVE AGREEMENTS**

**Recommendation 21**

We recommend that the ASI revise artist performance agreements to include a proper indemnification clause and authorization by an appropriate official, and strengthen its current procedures to ensure that the agreements are executed consistently.

**Campus Response**

We concur. The ASI will work with campus procurement department to ensure proper indemnification clauses and appropriate signatures are included on all executed agreements. Completion Date: March 2006

**CORPORATE GOVERNANCE**

**Recommendation 22**

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

**Campus Response**

We concur. ASI will ensure that board minutes are signed and approved by an appropriate official before being finalized. Completion Date: February 2006

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

BAKERSFIELD

January 20, 2006

CHANNEL ISLANDS

CHICO

**MEMORANDUM**

DOMINGUEZ HILLS

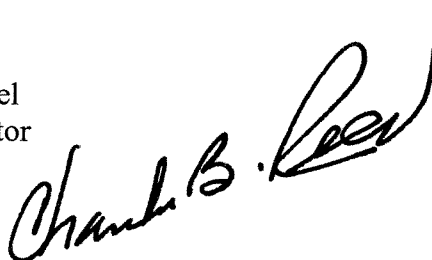
EAST BAY

FRESNO

TO: Mr. Larry Mandel  
University Auditor

FULLERTON

FROM: Charles B. Reed  
Chancellor



HUMBOLDT

LONG BEACH

SUBJECT: Draft Final Report Number 05-48 on *Auxiliary Organizations*,  
California State University, Bakersfield

LOS ANGELES

MARITIME ACADEMY

MONTEREY BAY

In response to your memorandum of January 20, 2006, I accept the response as submitted with the draft final report on *Auxiliary Organizations*, California State University, Bakersfield.

NORTHRIDGE

POMONA

SACRAMENTO

CBR/jt

SAN BERNARDINO

Enclosure

SAN DIEGO

cc: Dr. Horace Mitchell, President

SAN FRANCISCO

Mr. Michael A. Neal, Vice President for Business and Administrative Services

Ms. Sharon Taylor, Assistant Vice President for Fiscal and Support Services

SAN JOSÉ

SAN LUIS OBISPO

SAN MARCOS

SONOMA

STANISLAUS