

AUXILIARY ORGANIZATIONS
CALIFORNIA STATE UNIVERSITY,
SAN BERNARDINO

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ABBREVIATIONS

AS	Associated Students California State University, San Bernardino
CSU	California State University
Foundation	Foundation for the California State University, San Bernardino
RFIN	Resolution of the Committee on Finance
Union	Santos Manuel Student Union of California State University, San Bernardino

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, San Bernardino 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 California State University, San Bernardino campus and its auxiliary organizations from March 6, 2006, through April 14, 2006, and made a study and evaluation of the system of internal compliance/internal control in effect for the period July 2003 to April 2006. This report represents our triennial review.

Our study and evaluation at the *Foundation for the California State University, San Bernardino* 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 April 2006, taken as a whole, was sufficient to meet the objectives stated above.

Our study and evaluation at the *Associated Students California State University, San Bernardino* 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 April 2006, taken as a whole, was sufficient to meet the objectives stated above.

Our study and evaluation at the *Santos Manuel Student Union of California State University, San Bernardino* 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 April 2006, 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.

FOUNDATION FOR THE CALIFORNIA STATE UNIVERSITY, SAN BERNARDINO

FACILITIES AGREEMENTS [9]

The bookstore sublease agreement between the Foundation for the California State University, San Bernardino (Foundation) and the National Center for Distance Learning was not submitted to the chancellor's office for approval.

CORPORATE GOVERNANCE [10]

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

SEGREGATION OF DUTIES [11]

Duties and responsibilities related to the procurement process were not properly segregated at the Foundation. Bookstore department managers who had the ability to approve purchase orders and invoices also had the ability to add vendors to the master vendor file within the bookstore's accounting system.

CASH RECEIPTS AND HANDLING [12]

Foundation bank reconciliations were not performed timely nor signed and dated by the appropriate person.

PETTY CASH AND CHANGE FUNDS [12]

Administration of the Foundation petty cash and change funds was insufficient. For example, actual counts of petty cash and change funds did not reconcile to the general ledger at several locations.

PURCHASING AND ACCOUNTS PAYABLE [14]

Certain Foundation cash disbursements were not supported by sufficient and appropriate documentation and/or appropriate authorization. Specifically, written signature authorization forms identifying designated individuals to approve certain Foundation disbursements were not maintained.

PROPERTY AND EQUIPMENT [15]

Foundation inspection reports did not always clearly state the current disposition of sponsored programs' equipment.

ASSOCIATED STUDENTS CALIFORNIA STATE UNIVERSITY, SAN BERNARDINO

FACILITIES AGREEMENTS [16]

A sublease agreement between the Associated Students California State University, San Bernardino (AS) and the campus pertaining to office space for the Palm Desert campus had not been established.

CORPORATE GOVERNANCE [16]

The AS board did not include the required number of directors and ex-officio members as mandated by its bylaws. AS finance committee minutes were not maintained for fiscal years ended June 30, 2004 and 2005.

OPERATIONAL COMPLIANCE [18]

The AS had not consistently obtained or maintained annual conflict-of-interest statements from all board and committee members for fiscal years 2003/04, 2004/05, or 2005/06.

CASH RECEIPTS AND HANDLING [19]

The AS ticket box office accumulated cash in excess of the \$1,000 limit prior to depositing monies at the bursar's office.

**SANTOS MANUEL STUDENT UNION OF
CALIFORNIA STATE UNIVERSITY, SAN BERNARDINO**

OPERATING AND ADMINISTRATIVE AGREEMENTS [20]

Certain agreements among the Santos Manuel Student Union of California State University, San Bernardino (Union) and other entities had not been properly executed.

FACILITIES AGREEMENTS [21]

Certain written agreements between the Union and other entities were incomplete or had not been established.

OPERATIONAL COMPLIANCE [22]

Annual conflict-of-interest statements had not been obtained from all Union board and committee members for fiscal years 2003/04, 2004/05, or 2005/06.

PURCHASING AND ACCOUNTS PAYABLE [23]

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

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 2003/2004 and 2004/2005 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 2005 to April 2006. 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:

Foundation for the California University, San Bernardino

- ▶ 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

Associated Students California State University, San Bernardino

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

Santos Manuel Student Union of California State University, San Bernardino

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

We have not performed any auditing procedures beyond April 2006. Accordingly, our comments are based on our knowledge as of that date. Since the purpose of our comments is to suggest areas for improvement, comments on favorable matters are not addressed.

OBSERVATIONS, RECOMMENDATIONS, AND CAMPUS RESPONSES

FOUNDATION FOR THE CALIFORNIA STATE UNIVERSITY, SAN BERNARDINO

FACILITIES AGREEMENTS

The bookstore sublease agreement between the Foundation for the California State University, San Bernardino (Foundation) and the National Center for Distance Learning was not submitted to the chancellor's office for approval.

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 properly authorized written agreements.

The campus vice president of administration and finance stated that the failure to obtain the chancellor's office approval for the bookstore sublease was due to oversight.

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

Recommendation 1

We recommend that the Foundation submit the bookstore sublease between the Foundation and the National Center for Distance Learning to the chancellor's office for approval.

Campus Response

We concur with the recommendation. Per the director of contract services and procurement at the chancellor's office and Executive Order 669, the sublease agreement will be submitted to the California State University, San Bernardino campus president for approval. A copy of the fully executed agreement will be provided.

Projected completion date: November 15, 2006

CORPORATE GOVERNANCE

DISSOLUTION OF AUXILIARY

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

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

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

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

Recommendation 2

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 with the recommendation. The Foundation Articles of Incorporation will be revised. A copy of the approved document will be provided.

Projected completion date: January 31, 2007

BOARD MINUTES

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

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

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

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

Recommendation 3

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

Campus Response

We concur with the recommendation. Procedures have been implemented to ensure that subcommittee minutes are signed and approved. A copy of the procedures will be provided.

Projected completion date: November 15, 2006

SEGREGATION OF DUTIES

Duties and responsibilities related to the procurement process were not properly segregated at the Foundation.

We noted that bookstore managers:

- ▶ Approved purchase orders and invoices for subsequent payments.
- ▶ Added vendors to the master vendor file within the bookstore's accounting system.

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

The Foundation bookstore director stated that the lack of proper segregation of duties was due to oversight.

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

Recommendation 4

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

Campus Response

We concur with the recommendation. A written procedure delineating a process to ensure segregation of duties will be provided.

Projected completion date: November 30, 2006

CASH RECEIPTS AND HANDLING

Foundation bank reconciliations were not performed timely nor signed and dated by the appropriate person.

The *Compilation of Policies and Procedures for California State University Auxiliary Organizations* sets sound business practice guidelines for auxiliary organizations operating within the California State University (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 also states that the auxiliary should reconcile bank accounts on a timely basis with independent management review.

The campus vice president of administration and finance stated that the failure to complete bank reconciliations in a timely manner was due to inadequate staffing.

Failure to perform bank reconciliations in a timely manner increases the risk that inconsistencies and misunderstandings will occur.

Recommendation 5

We recommend that the Foundation ensure that bank reconciliations are signed, dated, and performed in a timely manner.

Campus Response

We concur with the recommendation and will implement and communicate to applicable staff members a written procedure to ensure timely and accurate processing of bank reconciliations.

Projected completion date: November 15, 2006

PETTY CASH AND CHANGE FUNDS

Administration of the Foundation petty cash and change funds was insufficient.

We found that:

- ▶ Actual counts of petty cash and change funds did not reconcile to the general ledger at several locations.
- ▶ Documentation evidencing independent, unannounced counts of petty cash and change funds was not maintained.
- ▶ Documentation indicating user access to safes at the bookstore and Foundation offices was not maintained.

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

The campus vice president of administration and finance stated that the lack of sufficient administration related to petty cash and change funds was due to recent turnover in Foundation personnel.

Inadequate administration of petty cash and change funds increases the risk of a loss or misappropriation of funds.

Recommendation 6

We recommend that the Foundation:

- a. Reconcile actual counts of petty cash and change funds to the general ledger.
- b. Retain documentation evidencing periodic and independent, unannounced counts of petty cash and change funds.
- c. Retain documentation indicating user access to safes at the bookstore and Foundation offices.

Campus Response

- a. We concur with the recommendation and will implement and communicate to applicable staff members a written procedure to ensure timely reconciliation of petty cash and change funds to the general ledger. Projected completion date: November 15, 2006
- b. We concur with the recommendation and will implement and communicate to applicable staff a written procedure to ensure proper maintenance and retention of petty cash and change fund documentation. Projected completion date: November 15, 2006
- c. We concur with the recommendation and will maintain a listing of staff who are authorized access to safes at the bookstore and Foundation locations. A written process will be implemented and communicated to applicable staff. Projected completion date: October 31, 2006

PURCHASING AND ACCOUNTS PAYABLE

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

Our review of 65 cash disbursements disclosed the following:

Process Controls:

- ▶ Written signature authorization forms identifying designated individuals to approve certain Foundation disbursements were not maintained.

Processing Exceptions:

- ▶ In two instances, disbursements were processed with an unauthorized approval signature.
- ▶ In one instance, a check over \$10,000 did not contain dual signatures.
- ▶ In four instances, signature authorization forms were not on file.
- ▶ In two instances, the disbursement could not be located.

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 accounting supervisor 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 7

We recommend that the Foundation:

- a. Maintain written signature authorization forms identifying individuals designated to approve all disbursements.
- b. Reiterate to staff existing cash disbursement policies and procedures regarding sufficient and appropriate supporting documentation and authorization.

Campus Response

- a. We concur with the recommendation and will implement and communicate to applicable staff a written procedure to ensure that signature authorization for approval of disbursements is properly maintained. Projected completion date: November 15, 2006
- b. We concur with the recommendation and will communicate to applicable staff the established written cash disbursement policies and procedures. Projected completion date: November 15, 2006

PROPERTY AND EQUIPMENT

Foundation inspection reports did not always clearly state the current disposition of sponsored programs' equipment.

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

The Foundation director of sponsored programs stated that the failure to document the current disposition of assets in its inspection reports was due to oversight.

Failure to adequately document physical inventory counts increases the risk that lost or stolen property may not be detected.

Recommendation 8

We recommend that the Foundation appropriately document the disposition of its fixed assets during its physical inventory.

Campus Response

We concur with the recommendation and will implement a written procedure to ensure that physical inventory is properly documented. The procedure will be communicated to applicable Foundation staff and sponsored programs managers.

Projected completion date: December 15, 2006

ASSOCIATED STUDENTS
CALIFORNIA STATE UNIVERSITY, SAN BERNARDINO

FACILITIES AGREEMENTS

A sublease agreement between the Associated Students California State University, San Bernardino (AS) and the campus pertaining to office space for the Palm Desert campus 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 business arrangements be supported by written agreements.

The AS executive director stated that he was unaware an agreement was required for the office space.

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

Recommendation 9

We recommend that the AS establish a sublease agreement with the campus pertaining to office space for the Palm Desert campus.

Campus Response

We concur with the recommendation. AS has initiated steps through the campus purchasing department to produce a lease agreement with the Palm Desert campus, which will include appropriate rental charges. The process will be communicated to applicable staff.

Projected completion date: January 31, 2006

CORPORATE GOVERNANCE

BOARD OF DIRECTORS

The AS board did not include the required number of directors and ex-officio members as mandated by its bylaws.

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

business practices. Sound business practice mandates that an auxiliary ensure that it meets the requirements set forth in its bylaws.

The AS executive director stated that proper board representation was not maintained due to recruitment difficulties.

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

Recommendation 10

We recommend that the AS ensure appropriate board representation is maintained in accordance with its bylaws.

Campus Response

We concur with the recommendation. The AS will present a proposal to the AS board of directors to change the AS bylaws to reflect the possibility of intermittent unfilled board of directors' positions due to unanticipated resignations from the board.

Projected completion date: January 31, 2007

BOARD MINUTES

AS finance committee minutes were not maintained for fiscal years ended June 30, 2004 and 2005.

Corporations Code §6230(a)(2) states that each corporation shall keep minutes of the proceedings of its members, board, and committees of the board.

The AS executive director stated that he was unaware of the requirement to maintain finance committee minutes.

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

Recommendation 11

We recommend that the AS take appropriate measures to ensure that finance committee minutes are maintained.

Campus Response

We concur with the recommendation. AS has revised its procedures to ensure that finance committee minutes are maintained for a minimum three-year period.

Projected completion date: October 6, 2006

OPERATIONAL COMPLIANCE

The AS had not consistently obtained or maintained annual conflict-of-interest statements from all board and committee members for fiscal years 2003/04, 2004/05, or 2005/06.

We found that:

- ▶ The AS did not maintain annual conflict-of-interest statements for fiscal years 2003/04 and 2004/05.
- ▶ The AS did not obtain all annual conflict-of-interest statements in the time frame required by AS procedures for fiscal year 2005/06; 13 statements had yet to be obtained.

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 executive director stated that conflict-of-interest statements for fiscal years 2003/04 and 2004/05 had been obtained, but were not maintained on file. He further stated that conflict-of-interest statements for fiscal year 2005/06 were not obtained timely due to oversight.

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

Recommendation 12

We recommend that the AS ensure that annual conflict-of-interest statements are obtained from all board and committee members and appropriately maintained on file.

Campus Response

We concur with the recommendation. AS has established a procedure to ensure that conflict-of-interest statements are obtained from all board members and that statements are maintained in AS files for a minimum three-year period.

Projected completion date: October 6, 2006

CASH RECEIPTS AND HANDLING

The AS ticket box office accumulated cash in excess of the \$1,000 limit prior to depositing monies at the bursar's office.

AS ticket box office policies and procedures state that the office will accumulate collections until they amount to \$1,000 in cash or \$10,000 in cash, checks, or money orders whichever occurs first. The AS accumulated cash collections above the \$1,000 limit prior to depositing collections.

Title 5 §42401 and §42402 indicate that the campus president shall require that auxiliary organizations operate in conformity with policy of the Board of Trustees and the campus. One of the objectives of the auxiliary organizations is to provide fiscal procedures and management systems that allow effective coordination of the auxiliary activities with the campus in accordance with sound business practices. Sound business practice mandates that an auxiliary ensure that it meets the requirements set forth in its policies and procedures for cash receipts and handling.

The AS executive director stated that the failure to follow AS ticket box office deposit policies and procedures was due to oversight.

Failure to follow established deposit policies and procedures increases the risk of a loss or misappropriation of funds.

Recommendation 13

We recommend that the AS reiterate to staff existing policies and procedures regarding the deposit of accumulated AS ticket box office cash collections.

Campus Response

We concur with the recommendation. AS has revised box office deposit policies to ensure that appropriate maximum cash limits are identified, and will conduct periodic training with staff to ensure that cash handling procedures are not compromised.

Projected completion date: May 16, 2006

SANTOS MANUEL STUDENT UNION OF
CALIFORNIA STATE UNIVERSITY, SAN BERNARDINO

OPERATING AND ADMINISTRATIVE AGREEMENTS

Certain agreements among the Santos Manuel Student Union of California State University, San Bernardino (Union) and other entities had not been properly executed.

We found that:

- ▶ A current copying machine customer service contract was not signed by the vendor.
- ▶ A current phone line subscription contract was not signed by the vendor.

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 Union executive director stated that some agreements were not executed due to the failure of previous leadership to comply with established procedures.

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

Recommendation 14

We recommend that the Union execute the contract agreements after obtaining signatures from both vendors.

Campus Response

We concur with the recommendation. Union management will contact representatives of the vendors and will secure signatures on applicable agreements. Staff in the applicable area of Union operations have been directed in writing to ensure that contracts are fully executed in the future.

Projected completion date: November 30, 2006

FACILITIES AGREEMENTS

Certain written agreements between the Union and other entities were incomplete or had not been established.

We found that:

- ▶ An agreement pertaining to subleased modular space used by the AS had not been established.
- ▶ A ground lease agreement pertaining to space used for the modulators had not been established between the Union and the campus.
- ▶ A sublease agreement pertaining to modular space used by the student leadership and development office was not signed by any of the parties involved in the 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.

The Union executive director stated that some agreements were not recognized as being necessary under the temporary accommodations of the modular units.

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

Recommendation 15

We recommend that the Union ensure that current and future business arrangements are supported by fully executed and complete, written agreements.

Campus Response

We concur with the recommendation and have established a written process to ensure that all written agreements are fully executed.

Projected completion date: September 20, 2006

OPERATIONAL COMPLIANCE

Annual conflict-of-interest statements had not been obtained from all Union board and committee members for fiscal years 2003/04, 2004/05, or 2005/06.

Specifically, nine statements were not obtained for fiscal year 2003/04, six statements were not obtained for fiscal year 2004/05, and seven statements had yet to be obtained for fiscal year 2005/06.

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 Union executive director stated that one conflict-of-interest form was not obtained from a board member due to an inadvertent error. The remaining statements were not signed by committee members nor were committee members required to sign conflict-of-interest statements due to oversight.

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

Recommendation 16

We recommend that the Union obtain annual conflict-of-interest statements from all board and committee members.

Campus Response

We concur with the recommendation. The Union will establish a procedure to ensure that conflict-of-interest statements are obtained from all board and committee members, and that all statements are maintained in Union files for a minimum three-year period.

Projected completion date: October 31, 2006

PURCHASING AND ACCOUNTS PAYABLE

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

Our review of 24 disbursements disclosed the following processing exceptions:

- ▶ In 12 instances, documentation evidencing compliance with the bidding process was not maintained.
- ▶ In ten instances, payments were issued without an approved requisition.
- ▶ In seven instances, proper authorization was not obtained.
- ▶ In three instances, payments were issued without an approved purchase order or contract.
- ▶ In three instances, receipts were not included as supporting documentation.
- ▶ In two instances, facsimile and/or photocopied documents were accepted for payment without certification that records were verified to prevent duplicate payment.
- ▶ In three instances, invoices were 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 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 executive director stated that the lack of sufficient supporting documentation and authorization was due to the failure of previous leadership to ensure compliance with required policies and, in a few instances, due to inadvertent error.

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

Recommendation 17

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

Campus Response

We concur with the recommendation. A written communication has been distributed to Union staff as a reminder of established purchasing procedures.

Projected completion date: September 20, 2006

APPENDIX A: PERSONNEL CONTACTED

Name

Title

CAMPUS

Albert K. Karnig	President
Cathy Bates	Accounting Technician
Rick Craig	Recreational Sports Director
David DeMauro	Vice President, Administration and Finance
Carol Dixon	Director, Coussoulis Arena
Helga Kray	Assistant Vice President, Student Affairs
Maria Najera-Neri	Accountant
Linda Pella-Hartley	Executive Assistant
Sheryl Pytlak	Director, Accounting
William Takehara	Associate Vice President, Financial Operations

FOUNDATION FOR THE CALIFORNIA STATE UNIVERSITY, SAN BERNARDINO

Kim Ball	Bookstore Director
Deborah Burns	Human Resources Director
Hector Calderon	Assistant Director, Catering and Mountain View Plaza
Adrienne Davis	Accounts Receivable Technician
Lisa Iannola	Accounting Supervisor
Maria Iporac	Lead Vault Cashier
Melinda Jensen	Accounts Payable Administrator, Sponsored Programs
Barb Kirby	Director, Children's Center
Carol Northcutt	Supervisor, Sponsored Programs
Bindy O'Kelly	Accounting Supervisor
Siska Purnawan	Payroll Supervisor
Rick Rasmussen	Information Technology Consultant
Cheryl Ruzak	Associate Director, University Food Services
C. Stan Stanley	Director, Sponsored Programs
Diane Trujillo	Senior Research Administration Supervisor
Cathy Wapniarski	Accounts Payable Technician, Bookstore, Food Services
Esther Watkins	Accounting Technician
Lynn Williams	Accounts Receivable Administrator, Sponsored Programs

ASSOCIATED STUDENTS CALIFORNIA STATE UNIVERSITY, SAN BERNARDINO

Patrick Areffi	Executive Director
Dacia Sealey	Administrative Support Coordinator
Ginny Stewart	Office Assistant/Box Office Manager

SANTOS MANUEL STUDENT UNION OF CALIFORNIA STATE UNIVERSITY, SAN BERNARDINO

Margaret Degroff	Administrative Analyst
Greg Lehr	Executive Director

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.



**CALIFORNIA STATE UNIVERSITY
SAN BERNARDINO**

5500 University Parkway, San Bernardino, CA 92407-2397

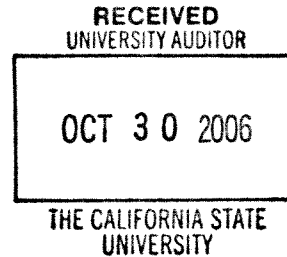
ADMINISTRATION AND FINANCE

Office of the Vice President

(909) 537-5130

October 30, 2006

Mr. Larry Mandel
University Auditor
Office of the University Auditor
The California State University
401 Golden Shore
Long Beach, CA 90802-4210



re: Audit Report Number 06-47, *Auxiliary Organizations*, at California State University, San Bernardino

Dear Mr. Mandel:

As requested in your letter dated September 27, 2006, enclosed are the campus responses to recommendations of Audit Report Number 06-47, *Auxiliary Organizations*. We have read the report, and we concur with the observations and recommendations. By separate correspondence, we will provide documents to demonstrate completion of corrective actions for each recommendation.

If you have questions or require additional information, please contact my office at 909-537-5130.

Sincerely,

David DeMauro
Vice President for
Administration and Finance

- c: Albert K. Karnig, President
- Patrick Areffi, Executive Director, Associated Students, Inc.
- Deborah Burns, Interim General Manager, Foundation for CSUSB
- Lisa Iannolo, Finance Manager, Foundation for CSUSB
- Helga Kray, Assistant Vice President, Student Affairs/Student Development
- William Takehara, AVP for Financial Operations

Enclosure

AUXILIARY ORGANIZATIONS
CALIFORNIA STATE UNIVERSITY,
SAN BERNARDINO

Report Number 06-47
September 21, 2006

FOUNDATION FOR THE
CALIFORNIA STATE UNIVERSITY, SAN BERNARDINO

FACILITIES AGREEMENTS

Recommendation 1

We recommend that the Foundation submit the bookstore sublease between the Foundation and the National Center for Distance Learning to the chancellor's office for approval.

Campus Response

We concur with the recommendation. Per the Director of Contract Services and Procurement at the Chancellor's Office and EO 669, the sublease agreement will be submitted to the CSUSB campus president for approval. A copy of the fully executed agreement will be provided.

Projected completion date: November 15, 2006

CORPORATE GOVERNANCE

DISSOLUTION OF AUXILIARY

Recommendation 2

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

The Foundation's Articles of Incorporation will be revised. A copy of the approved document will be provided.

Projected completion date: January 31, 2007

BOARD MINUTES

Recommendation 3

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

Campus Response

Procedures have been implemented to ensure that subcommittee minutes are signed and approved. A copy of the procedures will be provided.

Projected completion date: November 15, 2006

SEGREGATION OF DUTIES

Recommendation 4

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

Campus Response

We concur with the recommendation. A written procedure delineating a process to ensure segregation of duties will be provided.

Projected completion date: November 30, 2006

CASH RECEIPTS AND HANDLING

Recommendation 5

We recommend that the Foundation ensure that bank reconciliations are signed, dated, and performed in a timely manner.

Campus Response

We concur with the recommendation and will implement and communicate to applicable staff members a written procedure to ensure timely and accurate processing of bank reconciliations.

Projected completion date: November 15, 2006

PETTY CASH AND CHANGE FUNDS

Recommendation 6

We recommend that the Foundation:

- a. Reconcile actual counts of petty cash and change funds to the general ledger.
- b. Retain documentation evidencing periodic and independent, unannounced counts of petty cash and change funds.
- c. Retain documentation indicating user access to safes at the bookstore and Foundation offices.

Campus Response

- a. We concur with the recommendation and will implement and communicate to applicable staff members a written procedure to ensure timely reconciliation of petty cash and change to the general ledger. Projected completion date: November 15, 2006
- b. We concur with the recommendation and will implement and communicate to applicable staff a written procedure to ensure proper maintenance and retention of petty cash and change fund documentation. Projected completion date: November 15, 2006
- c. We concur with the recommendation and will maintain a listing of staff who are authorized access to the safes at the bookstore and Foundation locations. A written process will be implemented and communicated to applicable staff. Projected completion date: October 31, 2006

PURCHASING AND ACCOUNTS PAYABLE

Recommendation 7

We recommend that the Foundation:

- a. Maintain written signature authorization forms identifying individuals designated to approve all disbursements.
- b. Reiterate to staff existing cash disbursement policies and procedures regarding sufficient and appropriate supporting documentation and authorization.

Campus Response

- a. We concur with the recommendation and will implement and communicate to applicable staff a written procedure to ensure that signature authorization for approval of disbursements is properly maintained. Projected completion date: November 15, 2006
- b. We concur with the recommendation and will communicate to applicable staff the established written cash disbursement policies and procedures. Projected completion date: November 15, 2006

PROPERTY AND EQUIPMENT

Recommendation 8

We recommend that the Foundation appropriately document the disposition of its fixed assets during its physical inventory.

Campus Response

We concur with the recommendation and will implement a written procedure to ensure that physical inventory is properly documented. The procedure will be communicated to applicable Foundation staff and sponsored programs managers.

Projected completion date: December 15, 2006

ASSOCIATED STUDENTS
CALIFORNIA STATE UNIVERSITY, SAN BERNARDINO

FACILITIES AGREEMENTS

Recommendation 9

We recommend that the AS establish a sublease agreement with the campus pertaining to office space for the Palm Desert campus.

Campus Response

We concur with the recommendation. ASI has initiated steps through the campus purchasing department to produce a lease agreement with the Palm Desert campus which will include appropriate rental charges. The process will be communicated to applicable staff.

Projected completion date: January 31, 2006

CORPORATE GOVERNANCE

BOARD OF DIRECTORS

Recommendation 10

We recommend that the AS ensure appropriate board representation is maintained in accordance with its bylaws.

Campus Response

We concur with the recommendation. The ASI will present a proposal to the ASI board of directors to change the ASI bylaws to reflect the possibility of intermittent unfilled board of directors' positions due to unanticipated resignations from the board.

Projected completion date: January 31, 2007

BOARD MINUTES

Recommendation 11

We recommend that the AS take appropriate measures to ensure that finance committee minutes are maintained.

Campus Response

We concur with the recommendation. ASI has revised its procedures to ensure that finance committee minutes are maintained for a minimum three-year period.

Projected completion date: October 6, 2006

OPERATIONAL COMPLIANCE

Recommendation 12

We recommend that the AS ensure that annual conflict-of-interest statements are obtained from all board and committee members and appropriately maintained on file.

Campus Response

We concur with the recommendation. ASI has established a procedure to ensure that conflict-of-interest statements are obtained from all Board members and that statements are maintained in ASI files for a minimum three-year period.

Projected completion date: October 6, 2006

CASH RECEIPTS AND HANDLING

Recommendation 13

We recommend that the AS reiterate to staff existing policies and procedures regarding the deposit of accumulated AS ticket box office cash collections.

Campus Response

We concur with the recommendation. ASI has revised box office deposit policies to ensure that appropriate maximum cash limits are identified, and will conduct periodic training with staff to ensure that cash handling procedures are not compromised.

Projected completion date: May 16, 2006

**SANTOS MANUEL STUDENT UNION OF
CALIFORNIA STATE UNIVERSITY, SAN BERNARDINO**

OPERATING AND ADMINISTRATIVE AGREEMENTS

Recommendation 14

We recommend that the Union execute the contract agreements after obtaining signatures from both vendors.

Campus Response

We concur with the recommendation. Union management will contact representatives of the vendors and will secure signatures on applicable agreements. Staff in the applicable area of Union operations have been directed in writing to ensure that contracts are fully executed in the future.

Projected completion date: November 30, 2006

FACILITIES AGREEMENTS

Recommendation 15

We recommend that the Union ensure that current and future business arrangements are supported by fully executed and complete, written agreements.

Campus Response

We concur with the recommendation and has established a written process to ensure that all written agreements are fully executed.

Projected completion date: September 20, 2006

OPERATIONAL COMPLIANCE

Recommendation 16

We recommend that the Union obtain annual conflict-of-interest statements from all board and committee members.

Campus Response

We concur with the recommendation. The Union will establish a procedure to ensure that conflict-of-interest statements are obtained from all board and committee members, and that all statements are maintained in Union files for a minimum three-year period.

Projected completion date: October 31, 2006

PURCHASING AND ACCOUNTS PAYABLE

Recommendation 17

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

Campus Response

We concur with the recommendation. A written communication has been distributed to Union staff as a reminder of established purchasing procedure.

Projected completion date: September 20, 2006


THE CALIFORNIA STATE UNIVERSITY
 OFFICE OF THE CHANCELLOR

BAKERSFIELD

November 15, 2006

CHANNEL ISLANDS

CHICO

MEMORANDUM

DOMINGUEZ HILLS


EAST BAY

TO: Mr. Larry Mandel
University Auditor

FRESNO

FULLERTON

FROM: Charles B. Reed
Chancellor



HUMBOLDT

LONG BEACH

SUBJECT: Draft Final Report Number 06-47 on *Auxiliary Organizations*,
California State University, San Bernardino

LOS ANGELES

MARITIME ACADEMY

In response to your memorandum of November 15, 2006, I accept the response as submitted with the draft final report on *Auxiliary Organizations*, California State University, San Bernardino.

MONTEREY BAY

NORTHRIDGE

POMONA

SACRAMENTO

CBR/jt

SAN BERNARDINO

Enclosure

SAN DIEGO

cc: Mr. David DeMauro, Vice President for Administration and Finance
Dr. Albert K. Karnig, President

SAN FRANCISCO

SAN JOSÉ

SAN LUIS OBISPO

SAN MARCOS

SONOMA

STANISLAUS