

AUXILIARY ORGANIZATIONS
CALIFORNIA STATE UNIVERSITY,
NORTHRIDGE

Audit Report 06-49
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THE CALIFORNIA STATE UNIVERSITY

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ABBREVIATIONS

ASI	Associated Students California State University, Northridge, Inc.
CASE	Council for Advancement and Support of Education
CFO	Chief Financial Officer
Corporation	The University Corporation
CSU	California State University
EO	Executive Order
Foundation	California State University, Northridge, Foundation
IRS	Internal Revenue Service
MOU	Memoranda of Understanding
OMB	Office of Management and Budget
RFIN	Resolution of the Committee on Finance
Student Union	University Student Union of California State University, Northridge
UBI	Unrelated Business Income

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, Northridge 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, Northridge campus and its auxiliary organizations from June 5, 2006, through July 13, 2006, and made a study and evaluation of the system of internal compliance/internal control in effect for the period August 2003 to July 2006. This report represents our triennial review.

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

Our study and evaluation at *The University Corporation* did not reveal any significant internal control problems or weaknesses that would be considered pervasive in their effects on the accounting and administrative controls. However, we did identify other reportable weaknesses that are described in the executive summary and in the body of the report. In our opinion, the accounting and administrative control in effect as of July 2006, taken as a whole, was sufficient to meet the objectives stated above.

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

Our study and evaluation at the *University Student Union of California State University, Northridge* 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 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.

CAMPUS

OPERATING AND ADMINISTRATIVE AGREEMENTS [11]

Several agreements between the campus and the auxiliaries were not executed timely, specifically, two administrative agreements and several memoranda of understanding.

TRUSTS AND OTHER LIABILITIES [12]

The campus chief financial officer was not acting as the custodian of all state trust funds.

INFORMATION TECHNOLOGY [12]

Password security parameters were not set to provide effective access control for the PeopleSoft system at each of the campus auxiliary organizations. Specifically, password history was not retained and password syntax controls did not require passwords to be unique from user identification.

CALIFORNIA STATE UNIVERSITY, NORTHRIDGE, FOUNDATION

OPERATING AND ADMINISTRATIVE AGREEMENTS [14]

Certain agreements among the California State University, Northridge, Foundation (Foundation), the campus, and third parties were not supported by complete or current, written agreements. Administrative service agreements with the campus property, plant, and maintenance department had not been executed and the indemnification provision within an agreement with a third-party software consultant did not specifically indemnify the California State University (CSU) Trustees, the campus, and the State of California.

FISCAL COMPLIANCE [15]

The Foundation did not record board-designated reserves within appropriate general ledger accounts.

OPERATIONAL COMPLIANCE [16]

A Foundation board member received a payment for services from the Foundation without reporting the financial transaction to the board of directors in violation of the conflict-of-interest policy.

SEGREGATION OF DUTIES [16]

Duties and responsibilities over certain accounts payable functions related to the cash disbursement process were not adequately segregated at the Foundation. One individual had access to the blank check stock, created new vendors, had signature authority on checks, and had essentially full access to the general ledger system.

PURCHASING AND ACCOUNTS PAYABLE [17]

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

PROPERTY AND EQUIPMENT [18]

Administration of Foundation property and equipment was deficient. Specifically, the listing of previously capitalized assets had not been updated to reflect the current disposition and the Foundation's property and equipment policy required revision to reflect the current business practice of immediately transferring all property purchases to the campus.

GIFTS-IN-KIND [19]

Foundation procedures related to the accounting and administration of gifts-in-kind were not fully developed and documented. For example, procedures did not sufficiently address the verification of donors' titles to gifts-in-kind or clearly require independent and qualified appraisals for gifts-in-kind with fair market values of more than \$5,000.

INFORMATION TECHNOLOGY [22]

The Foundation had not developed security guidelines and procedures for the protection of sensitive information pertaining to data processing of donations by an outsourced vendor.

THE UNIVERSITY CORPORATION

OPERATING AND ADMINISTRATIVE AGREEMENTS [23]

Certain agreements among The University Corporation (Corporation), the campus, and third parties were not supported by complete or current, written agreements. For example, sports camp liability waivers and several agreements with third parties did not specifically indemnify the CSU Trustees, the campus, and the State of California, and a current agreement with a third party contained outdated party names on the contract.

FISCAL COMPLIANCE [25]

The Corporation had not accounted for or tracked unrelated business income for University Club services provided to community members, nor did the Corporation file an Internal Revenue Service Form 990-T.

OPERATIONAL COMPLIANCE [25]

The Corporation had not developed accounts receivable policies and procedures for sponsored programs that address accounts receivable aging, timely action on uncollected receivables, the write-off of uncollectible accounts, and assessment of allowance for doubtful accounts. Further, the Corporation had not performed an analysis of the comparability of salaries, wages, and benefits for its full-time employees in relation to those provided campus employees performing substantially similar positions.

SEGREGATION OF DUTIES [27]

Duties and responsibilities over both the administration of the meal plan and the gift certificates were not adequately segregated at the Corporation. The meal plan administrator received monies and activated accounts without an independent review, and one individual issued, authorized, and reconciled gift certificates at the University Club. Further, certain duties and responsibilities over dining operations were not adequately segregated at the Corporation. One employee at several dining operations placed and received orders for products, approved vendor invoices for payment, and performed monthly food service inventory.

CASH RECEIPTS AND HANDLING [29]

The Corporation did not conduct an independent count of the cash room safe on a regular basis.

PROPERTY AND EQUIPMENT [29]

Administration of Corporation property and equipment was deficient. Specifically, equipment was not consistently tagged and items listed on the inventory sheet could not be located.

AUXILIARY PROGRAMS [30]

The Corporation oversight of contracts and grants required improvement. Specifically, principal investigators did not consistently submit to the Corporation applicable cost-sharing records and source documentation throughout the contract period of the sponsored program project. Further, the Corporation did not regularly provide effort-reporting information to the campus.

ASSOCIATED STUDENTS CALIFORNIA STATE UNIVERSITY, NORTHRIDGE, INC.

OPERATING AND ADMINISTRATIVE AGREEMENTS [32]

Agreements between the Associated Students California State University Northridge, Inc. (ASI) and the University Student Union of California State University, Northridge for the election of officers for fiscal years ended 2003/04, 2004/05, and 2005/06 were either not executed or not executed in a timely manner.

PETTY CASH AND CHANGE FUNDS [32]

Administration of ASI petty cash and change funds was insufficient. Specifically, two of three independent petty cash counts during fiscal year 2005/06 at the children's center did not reconcile to the general ledger and all of the independent change fund counts during fiscal year 2005/06 at the fitness center did not reconcile to the general ledger.

PROPERTY AND EQUIPMENT [33]

Administration of ASI property and equipment required improvement. Equipment was not consistently tagged and the property and equipment policy did not address the current practice of not tracking equipment purchased with agency funds to ensure proper disposition.

UNIVERSITY STUDENT UNION OF CALIFORNIA STATE UNIVERSITY, NORTHRIDGE

OPERATING AND ADMINISTRATIVE AGREEMENTS [35]

Certain written agreements between the University Student Union of California State University, Northridge (Student Union) and other entities had not been properly executed or executed in a timely manner. For example, several agreements were not fully executed until after performance, and final execution ranged between 21 days and over three years.

FACILITIES AGREEMENTS [36]

Certain written agreements between the Student Union and other entities were not properly supported or were executed with inadequate provisions. For example, the Student Union was not made a party to a contract between the campus and a private entity for leased space in the Student Union for the operation of an international language school, and 21 of 25 leases and/or subleases were not dated by the signatories.

OPERATIONAL COMPLIANCE [37]

The Student Union had not developed written policies and procedures to address both human resource processes (such as personnel hiring, separation, and position changes) and payments made to non-resident aliens in compliance with federal/state allowable payments, withholding, and tax reporting requirements.

PURCHASING AND ACCOUNTS PAYABLE [38]

Certain Student Union cash disbursements were not supported by sufficient and appropriate documentation and/or appropriate authorization. In addition, the Student Union had not fully developed procurement policies and procedures to address areas such as documentation justifying revising and increasing the dollar value of a purchase order or splitting purchase orders to avoid obtaining quotes.

PROPERTY AND EQUIPMENT [40]

Administration of Student Union property and equipment required improvement. Specifically, during the conversion to PeopleSoft, certain assets were transferred and recorded into the new system with erroneous asset identification numbers. In addition, equipment was not consistently tagged; one had the wrong asset tag number, three had no asset tags, and five could not be verified.

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 2004/05 and 2005/06 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 August 2005 to July 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:

California State University, Northridge, Foundation

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

The University Corporation

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

Associated Students California State University, Northridge, Inc.

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

University Student Union of California State University, Northridge

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

Campus

- ▶ Campus Oversight and Control

We have not performed any auditing procedures beyond July 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

CAMPUS

OPERATING AND ADMINISTRATIVE AGREEMENTS

Several agreements between the campus and the auxiliaries were not executed timely.

We found that:

- ▶ An administrative service agreement between the University Student Union of California State University, Northridge (Student Union) and the campus property, plant, and maintenance department was not executed timely.
- ▶ An administrative service agreement between the Student Union and the campus information technology resources department was not executed timely.
- ▶ Memoranda of understanding (MOU) between the campus and the California State University, Northridge, Foundation, The University Corporation (Corporation), and the Student Union for the allocation of PeopleSoft system costs were not executed 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 business arrangements be supported by written agreements and executed in a timely manner.

The university controller and associate vice president of financial and accounting services stated that the agreements between the campus and the auxiliaries were not executed timely due to oversight.

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

Recommendation 1

We recommend that the campus ensure that all agreements with the auxiliaries are executed in a timely manner.

Campus Response

We concur. The vice president of administration and finance will send a memo to campus service providers indicating that annual MOU and operating agreements with auxiliaries should be completed prior to the beginning of each fiscal year.

Expected completion date: May 1, 2007

TRUSTS AND OTHER LIABILITIES

The campus chief financial officer (CFO) was not acting as the custodian of all state trust funds.

We noted that the Corporation held \$250,333 in state trust funds at fiscal year ended June 30, 2005.

Executive Order (EO) 919, *Policy Governing Non-General Fund Receipts*, dated October 15, 2004, states that each California State University (CSU) campus shall administer their non-General Fund receipts to ensure that the funds are held in proper accounts.

The campus CFO stated that state agency accounts had been identified at the Corporation and were in the process of being transferred to the campus.

The campus' required oversight of state funds is limited when funds are deposited outside the custody of the CFO.

Recommendation 2

We recommend that state trust funds be retained in campus trust accounts to enable the campus CFO to strengthen his custodianship over such funds.

Campus Response

We concur. The university controller and associate vice president of financial and accounting services will ensure that any state trust funds held in auxiliary accounts are moved into state trust accounts.

Expected completion date: June 30, 2007

INFORMATION TECHNOLOGY

Password security parameters were not set to provide effective access control for the PeopleSoft system at each of the campus auxiliary organizations.

Specifically, we noted that password history was not retained and password syntax controls did not require passwords to be unique from user identification.

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 auxiliary financial support coordinator stated that the setting of these security parameters was an oversight.

Inadequate settings of password security parameters increase the risk of unauthorized and undetected access to auxiliary systems and confidential data.

Recommendation 3

We recommend that the campus set password security controls to help ensure that all system access is adequately authenticated and authorized.

Campus Response

We concur. Additional security controls have been established to ensure that users granted access to PeopleSoft/Oracle Finance for auxiliaries are authenticated and authorized.

CALIFORNIA STATE UNIVERSITY, NORTHRIDGE, FOUNDATION

OPERATING AND ADMINISTRATIVE AGREEMENTS

Certain agreements among the California State University, Northridge, Foundation (Foundation), the campus, and third parties were not supported by complete or current, written agreements.

We found that:

- ▶ Administrative service agreements with the campus property, plant, and maintenance department had not been executed.
- ▶ The indemnification provision within an agreement with a third-party software consultant did not specifically indemnify the CSU Trustees, the campus, and the State of California.

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 and current, written agreements.

EO 849, *California State University Insurance Requirements*, dated February 5, 2003, in part, states that hold harmless provisions should be modeled after agreements available at the CSU contract resource library. The model auxiliary operating agreement 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 Foundation CFO stated that the administrative service agreements had not been executed due to miscommunication regarding consideration for the services the Foundation provides to the campus advancement department. She further stated that the lack of an appropriate indemnification clause in the agreement with a third-party software consultant was an oversight.

The absence of complete and current, written agreements increases the risk of misunderstandings and miscommunication regarding rights and responsibilities and subjects the CSU to potential liability.

Recommendation 4

We recommend that the Foundation:

- a. Execute written agreements in a timely manner for services provided by the campus.
- b. Revise the agreement with the third-party software consultant to include the proper indemnification clause.

Campus Response

We concur.

- a. We have developed a checklist of agreements to ensure that the agreements are executed in a timely manner.
- b. We will revise the third-party agreement to include the proper indemnification clause.

Expected completion date: May 31, 2007

FISCAL COMPLIANCE

The Foundation did not record board-designated reserves within appropriate general ledger accounts.

Title 5 §42401 and §42402 indicate that the campus president shall require that auxiliary organizations operate in conformity with policy of the Board of Trustees and the campus. One of the objectives of the auxiliary organizations is to provide fiscal procedures and management systems that allow effective coordination of the auxiliary activities with the campus in accordance with sound business practices. Sound business practice mandates that a designated fund balance be appropriately recognized within an organization's general ledger and that proper reserve documentation be maintained.

The Foundation CFO stated that although the total amount of reserves was recorded in the general ledger, reserves were not designated into individual accounts due to oversight. The Foundation manager of advancement resources stated that the lack of documentation indicated that there was no need for reserves related to capital acquisition and replacement.

Failure to appropriately record designated amounts and maintain proper reserve documentation increases the risk of misunderstandings and miscommunication regarding available reserves.

Recommendation 5

We recommend that the Foundation record board-designated reserves within the appropriate general ledger accounts.

Campus Response

We concur. We have moved the reserves to a separate general ledger account.

OPERATIONAL COMPLIANCE

A Foundation board member received a payment for services from the Foundation without reporting the financial transaction to the board of directors in violation of the conflict-of-interest policy.

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

The Foundation CFO stated that this payment of services was immaterial and believed the board member did not report it to the board of directors due to oversight.

Failure to adhere to the conflict-of-interest policy increases the liability for acts contrary to the code.

Recommendation 6

We recommend that the Foundation require the board member to report the transaction and ensure the board of directors takes the appropriate measures required by the policy.

Campus Response

We concur. We require the board members to sign a compliance statement annually confirming that they have read and understood the conflict-of-interest policy regarding the disclosure requirements for financial transactions.

SEGREGATION OF DUTIES

Duties and responsibilities over certain accounts payable functions related to the cash disbursement process were not adequately segregated at the Foundation.

We found that one individual:

- ▶ Had access to the blank check stock.
- ▶ Created new vendors.
- ▶ Had signature authority on checks.
- ▶ Had essentially full access to the general ledger system.

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

The *Compilation of Policies and Procedures for California State University Auxiliary Organizations* sets sound business practice guidelines for auxiliary organizations operating within the CSU system. Section 8.9.1, *Cash*, states that the auxiliary should establish a written internal controls system that ensures cash receipts and disbursements are conducted with appropriate segregation of duties.

The Foundation CFO stated that she was unaware that certain accounting functions were not adequately segregated and would take appropriate steps to segregate immediately.

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 accounts payable functions related to the cash disbursement process or institute mitigating procedures approved by the campus CFO.

Campus Response

We concur. The Foundation manager of advancement resources no longer has access to create new vendors and he does not have access to print checks from the manual check stock.

PURCHASING AND ACCOUNTS PAYABLE

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

Our review of 45 cash disbursements disclosed the following processing exceptions:

- ▶ In 14 instances, payment was issued without sufficient supporting documentation, including check bid documentation, purchase requisitions, and purchase orders.
- ▶ In five instances, approval was not obtained for the payment of hospitality expenses.
- ▶ In five instances, facsimile invoices were accepted for payment without certification that records were verified to prevent duplicate payment.
- ▶ In two instances, one-up authorization was not obtained.

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

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

The Foundation CFO stated that the lack of sufficient and appropriate documentation and authorization was due to oversight.

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

Recommendation 8

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

Campus Response

We concur. The Foundation CFO has issued a memo to the staff reiterating the importance of following procedures and policies.

PROPERTY AND EQUIPMENT

Administration of Foundation property and equipment was deficient.

We found that:

- ▶ The listing of previously capitalized assets had not been updated to reflect the current disposition.
- ▶ The Foundation's property and equipment policy required revision to reflect the current business practice of immediately transferring all property purchases to 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 sufficient administration of property and equipment.

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

The Foundation manager of advancement resources stated that proper administration of property and equipment had not been performed due to minimal equipment activity and further stated his understanding that all equipment purchases were immediately transferred to the campus.

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

Recommendation 9

We recommend that the Foundation:

- a. Update the listing of previously capitalized assets to reflect the current disposition.
- b. Revise the property and equipment policy to reflect current business practice of immediately transferring all property purchases to the campus.

Campus Response

We concur.

- a. We have updated the capitalized assets list to reflect the disposition of certain fully depreciated assets.
- b. We will revise the property and equipment policy to reflect current practices.

Expected completion date: May 31, 2007

GIFTS-IN-KIND

Foundation procedures related to the accounting and administration of gifts-in-kind were not fully developed and documented.

We noted the following weaknesses regarding gifts-in-kind processes on the campus:

Verification of Title

Procedures did not sufficiently address the verification of donors' title to gifts-in-kind.

The Foundation's general practice was to obtain a written statement/agreement from the donor as to clarity of title. Standards for evaluating sufficiency of title had not been clearly established. For example, ownership interest for items of significant value might be confirmed through a review of acquisition documentation, verification of insurance coverage, or important papers, which specifically identify items gifted.

Qualified Independent Appraisal

Procedures did not clearly describe the process for ensuring independent and qualified appraisals for gifts-in-kind with fair market values of more than \$5,000.

Appraisals for value were often made by or obtained from donors. In many instances, the face value of such appraisals was used to support transactions in accounting records. The Foundation typically did not verify an appraiser's qualifications or work. Additionally, the scope and methodology of

appraisals was not consistently evaluated for appropriateness and sufficiency. A qualified appraisal would be current, not involve a prohibited appraisal fee (i.e., one based upon the appraised value), and include certain information, and be prepared, signed, and dated by a qualified appraiser.

Special Collections Inventory

Procedures did not sufficiently address the recording and control of special collections inventory.

Documentation utilized to identify and otherwise record special collections retained by the Foundation did not sufficiently label or otherwise identify the inventory (for protection and/or misplacement/misappropriation). In addition, duties regarding Foundation special collection inventory were not adequately separated. We found that records of Foundation-owned special collection inventory maintained by the library gallery were controlled by the same individual assigned custody over such gifts-in-kind.

Donor Restrictions

Procedures did not sufficiently address the documentation of donor restrictions associated with gifts-in-kind.

Donor agreements did not appropriately and consistently reflect donor restrictions, and in certain instances, some restrictions were not consistently complied with. Further, a systematic methodology was not established to ensure restrictions were met in the future.

Delegation of Authority

Procedures did not clearly address authority to accept gifts-in-kind. For example, a gift acceptance committee or other process was not formally established to evaluate the costs and benefits associated with accepting such gifts.

General Funds

Procedures did not clearly describe the process for determining and documenting consideration (dollars or otherwise) which accrued to the campus in exchange for costs incurred in association with the acceptance and maintenance of gifts-in-kind.

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 procedures be fully developed and documented.

The campus vice president of university advancement and Foundation president stated that the campus had only recently accepted more significant gifts-in-kind and policies and procedures have been in flux as the Foundation seeks to administer such gifts in accordance with best business practices.

Failure to fully develop and document gifts-in-kind procedures and delegations of authority increases the risk of inappropriate handling of gifts and misunderstandings about the Foundation's accounting and administration of these assets.

Recommendation 10

We recommend that the Foundation ensure compliance with current CSU, Council for Advancement and Support of Education (CASE), and Internal Revenue Service (IRS) requirements related to the accounting and administration of gifts-in-kind by fully documenting procedures addressing:

- a. Verification and receipt of clear title (i.e., valid and free from encumbrance) to gifts-in-kind.
- b. Appraisals by expert, competent, and independent appraisers ¹for gifts-in-kind with fair market values of more than \$5,000 and that those appraisals are prepared in accordance with professional standards.²
- c. Recording and control of special collections inventory.
- d. Documentation of donor restrictions associated with gifts-in-kind.
- e. Delegation of authority to accept gifts-in-kind.
- f. Proper reimbursement of the General Fund for facilities, goods, and services provided to the Foundation in relation to gifts-in-kind.

¹ An individual who declares on the appraisal summary that he or she holds himself or herself out to the public as an appraiser or performs appraisals on a regular basis; and is qualified to make appraisals of the type of property being valued because of his or her qualifications described in the appraisal; and has no actual or perceived interest in the gift being donated.

² A complete description of the object, indicating:

- The size, subject matter, medium, name of the artist (or culture), and approximate date created.
- The cost, date, and manner of acquisition.
- A history of the item, including proof of authenticity.
- A professional quality image of the object.
- The facts on which the appraisal was based, such as:
 - Sales or analyses of similar works by the artist, particularly on or around the valuation date.
 - Quoted prices in dealer's catalogs of item or items of comparable stature.
 - A record of any exhibitions at which items had been displayed.
 - The economic state of the art market at the time of valuation, particularly with respect to the specific property.
 - The standing of the artist in his/her profession and in the particular school or time period.

Campus Response

We concur. The Foundation has a non-cash charitable contributions policy, which addresses CASE and IRS requirements. We will develop written procedures to implement the policy and the points noted above.

Expected completion date: June 30, 2007

INFORMATION TECHNOLOGY

The Foundation had not developed written security guidelines and procedures for the protection of sensitive information pertaining to data processing of donations by an outsourced vendor.

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 Foundation CFO stated her belief that the Foundation follows campus policy related to information security and consults with the campus chief technology officer prior to executing an agreement with an outsourced vendor; however, the lack of written security guidelines specific to the Foundation was due to oversight.

Failure to ensure that sensitive information is adequately protected could require the auxiliary to notify all affected personnel in the event of a breach of security.

Recommendation 11

We recommend that the Foundation develop written security guidelines and procedures for the protection of sensitive information pertaining to data processing of donations by an outsourced vendor, including security and recovery of the information.

Campus Response

We concur. The Foundation will develop written security guidelines and procedures for the protection of data in consultation with the chief information officer and information security officer of the university.

Expected completion date: June 30, 2007

THE UNIVERSITY CORPORATION

OPERATING AND ADMINISTRATIVE AGREEMENTS

ADMINISTRATIVE AGREEMENTS

Certain agreements among The University Corporation (Corporation), the campus, and third parties were not supported by complete or current, written agreements.

We found that:

- ▶ The indemnification provision in several agreements with third parties did not specifically indemnify the CSU Trustees, the campus, and the State of California.
- ▶ A current agreement with a third party contained outdated party names on the contract.
- ▶ A written agreement had not been established with the campus for the delinquent meal plan fee collection.

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 and current, written agreements.

The Corporation executive director stated that the above-noted agreements were not supported by complete or current, written agreements due to oversight.

The absence of complete and current, written agreements increases the risk of misunderstandings and miscommunication regarding rights and responsibilities and subjects the CSU to potential liability.

Recommendation 12

We recommend that the Corporation:

- a. Ensure that agreements include appropriate indemnification clauses.
- b. Revise agreements to reflect the current parties.
- c. Establish a written agreement with the campus for the delinquent meal plan fee collection.

Campus Response

We concur.

- a. The Corporation has implemented a checklist for the purpose of ensuring that future agreements include the appropriate indemnification clauses. In addition, the Corporation has sent out proposed amendments to existing agreements with third parties. The amendments include the appropriate indemnification clauses that would bring these agreements into compliance.
- b. The Corporation has sent a contract amendment to Subway that revises the agreement to reflect the current parties. The Corporation has a letter on file from Subway dated February 5, 2005, recognizing the Corporation as the franchisee.
- c. A written agreement with the campus for delinquent meal plan fee collection has been established.

SPORTS CAMPS

Sports camp liability waivers administered by the Corporation did not indemnify the State of California, CSU Trustees, and the campus.

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

The Corporation associate director stated that the inadequate indemnification clause in the sports camp liability waivers was due to oversight.

The lack of appropriate indemnification provisions increases the risk of loss and subjects the CSU to potential liability.

Recommendation 13

We recommend that the Corporation ensure that sports camp liability waivers indemnify the State of California, CSU Trustees, and the campus.

Campus Response

We concur. Agreements with sports camps include liability waivers that indemnify the State of California, the CSU Trustees, and the campus.

FISCAL COMPLIANCE

The Corporation had not accounted for or tracked unrelated business income (UBI) for University Club services provided to community members, nor did the Corporation file an IRS Form 990-T.

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

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

The Corporation CFO stated that the failure to track and subsequently report UBI information to the IRS was due to oversight.

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

Recommendation 14

We recommend that the Corporation account for and track UBI for University Club services provided to community members, and file federal income tax returns as appropriate.

Campus Response

We concur. An accounting procedure was written and implemented to capture and report this activity. A Form 990-T was subsequently prepared and filed for fiscal year 2005/06.

OPERATIONAL COMPLIANCE

POLICIES AND PROCEDURES

The Corporation had not developed accounts receivable policies and procedures for sponsored programs that address accounts receivable aging, timely action on uncollected receivables, the write-off of uncollectible accounts, and assessment of allowance for doubtful accounts.

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

effective coordination of the auxiliary activities with the campus in accordance with sound business practices. Sound business practice mandates the development of policies and procedures to address accounts receivable for sponsored programs.

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

The Corporation CFO stated that accounts receivable policies and procedures had not been developed due to oversight.

Failure to develop written policies and procedures increases the risk of errors or misappropriation.

Recommendation 15

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

Campus Response

We concur. The Corporation has amended its billing and accounts receivable collections procedures to include a section for sponsored programs.

EMPLOYEES

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

Title 5 §42405 states that the governing board of each auxiliary organization shall provide salaries, working conditions, and benefits for its full-time employees which are comparable to those provided campus employees performing substantially similar services. For those full-time employees who perform services that are not substantially similar to the services performed by campus employees, the salaries established shall be at least equal to the salaries prevailing in other educational institutions in the area or commercial operations of like nature.

The Corporation executive director stated that although a salary and benefit analysis was conducted on selected management positions, not all positions were formally evaluated on a regular basis.

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

Recommendation 16

We recommend that the Corporation perform an analysis of the comparability of salaries, wages, and benefits for its full-time employees in relation to those provided campus employees performing substantially similar services.

Campus Response

We concur. The Corporation's written procedure for conducting salary comparability analyses has been implemented and it is in the process of conducting the analyses.

Expected completion date: June 30, 2007

SEGREGATION OF DUTIES

CASH RECEIPTS

Duties and responsibilities over both the administration of the meal plan and the gift certificates were not adequately segregated at the Corporation.

We found that:

- ▶ The meal plan administrator received monies and activated accounts without an independent review.
- ▶ One individual issued, authorized, and reconciled gift certificates at the University Club.

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

The *Compilation of Policies and Procedures for California State University Auxiliary Organizations* sets sound business practice guidelines for auxiliary organizations operating within the CSU system. Section 8.9.1, *Cash*, states that the auxiliary should establish a written internal controls system that ensures cash receipts and disbursements are conducted with appropriate segregation of duties.

The Corporation CFO stated that although a cash receipts policy was in place with appropriate controls, the acceptance of payment by the meal plan administrator was due to oversight. Further, he stated that a policy had recently been established regarding the proper controls and accountability for gift cards, but was unaware of the gift certificate program at the University Club.

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

Recommendation 17

We recommend that the Corporation properly segregate the duties and responsibilities over its administration of the meal plan and gift certificates or institute mitigating procedures approved by the campus CFO.

Campus Response

We concur. The Corporation has revised its *Meal Plan Payments Procedure* to ensure segregation of duties concerning meal plan administration and receipt of funds. The gift certificate program has been discontinued.

PURCHASING

Certain duties and responsibilities over dining operations were not adequately segregated at the Corporation.

We found that one employee at several dining operations:

- ▶ Placed orders for products.
- ▶ Received orders for products.
- ▶ Approved vendor invoices for payment.
- ▶ Performed monthly food service inventory.

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 Corporation CFO stated that he mistakenly believed the food service inventory control functions could be performed by the same individual.

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

Recommendation 18

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

Campus Response

We concur. To better identify responsibilities and ensure proper segregation of duties, Corporation management created and implemented a food service purchasing and inventory procedure.

CASH RECEIPTS AND HANDLING

The Corporation did not conduct an independent count of the cash room safe on a regular basis.

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

The Corporation CFO stated that although a cash handling policy was in place, the lack of an independent count of the cash room safe was an oversight.

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

Recommendation 19

We recommend that the Corporation conduct periodic, independent counts of the cash room safe.

Campus Response

We concur. The Corporation amended its written procedures to include periodic, independent counts of the cash room safe.

PROPERTY AND EQUIPMENT

Administration of Corporation property and equipment was deficient.

We found that:

- ▶ Equipment was not consistently tagged.
- ▶ Items listed on the inventory sheet 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 sufficient administration of property and equipment.

The *Compilation of Policies and Procedures for California State University Auxiliary Organizations* sets sound business practice guidelines for auxiliary organizations operating within the CSU system.

Section 8.9.7, *Property and Equipment*, states that the auxiliary should establish a written system that ensures proper recording of property and equipment when received and for labeling of equipment.

The Corporation CFO stated that the inconsistent tagging and control of fixed assets was an oversight and that the existing fixed asset policy would be improved.

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

Recommendation 20

We recommend that the Corporation:

- a. Ensure that all equipment is tagged.
- b. Update the current inventory listing to reflect all current property and equipment.

Campus Response

We concur. The Corporation has tagged all equipment and amended its written procedures to ensure equipment is properly tagged and reported on inventory listings.

AUXILIARY PROGRAMS

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

We found that:

- ▶ Principal investigators did not consistently submit to the Corporation applicable cost-sharing records and source documentation throughout the contract period of the sponsored program project.
- ▶ The Corporation did not regularly provide effort-reporting information to the campus.

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

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 clear policies and procedures with respect to tracking and monitoring compliance requirements.

The Corporation director of sponsored programs stated that management was aware of the need to improve cost-sharing monitoring; however, some principal investigators did not agree with the value of recording and reporting costs throughout the life of a sponsored project. Further, he stated that although the effort-reporting system had been in development over the past year, it had not yet been utilized to prepare management reports.

Failure to provide adequate sponsored program oversight increases the risk of non-compliance with OMB requirements, the risk 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 21

We recommend that the Corporation:

- a. Establish with the campus office of research and sponsored programs a process to ensure that principal investigators consistently submit to the Corporation applicable cost-sharing records and source documentation throughout the contract period of the sponsored program project.
- b. Regularly provide effort-reporting information to the campus.

Campus Response

We concur.

- a. The Corporation and the campus will establish policies and procedures to require principal investigators to submit cost-sharing documentation during the course of the project.

Expected completion date: June 30, 2007

- b. The Corporation has implemented a new time and effort-reporting policy that requires regularly providing effort-reporting information to the campus.

ASSOCIATED STUDENTS
CALIFORNIA STATE UNIVERSITY, NORTHRIDGE, INC.

OPERATING AND ADMINISTRATIVE AGREEMENTS

Agreements between the Associated Students California State University Northridge, Inc. (ASI) and the University Student Union of California State University, Northridge (Student Union) for the election of officers for fiscal years ended 2003/04, 2004/05, and 2005/06 were either not executed or not executed in a timely manner.

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

The ASI general manager stated that the failure to execute and/or execute the agreements in a timely manner was due to oversight.

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

Recommendation 22

We recommend that the ASI ensure that all agreements with the Student Union are executed and/or executed in a timely manner.

Campus Response

We concur. We have electronically logged our MOU and electronically calendared their renewal dates.

PETTY CASH AND CHANGE FUNDS

Administration of ASI petty cash and change funds was insufficient.

We noted that:

- ▶ Two of three independent petty cash counts during fiscal year 2005/06 at the children's center did not reconcile to the general ledger.
- ▶ All of the independent change fund counts during fiscal year 2005/06 at the fitness center did not reconcile to the general ledger.

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

The ASI director of accounting and financial services stated that current procedures for the administration of petty cash counts were not followed at the children's center. She further stated that the shortage in the change fund at the fitness center was due to personnel mistakenly using the fund as petty cash.

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

Recommendation 23

We recommend that the ASI reiterate to staff existing policies and procedures on the administration and use of petty cash and change funds.

Campus Response

We concur. A revised policy and procedure document addressing petty cash and change funds has been provided to ASI staff that have responsibilities in these areas.

PROPERTY AND EQUIPMENT

Administration of ASI property and equipment required improvement.

We found that:

- ▶ Equipment was not consistently tagged.
- ▶ The ASI's property and equipment policy did not address the current practice of not tracking equipment purchased with agency funds to ensure proper disposition.

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 property and equipment.

The *Compilation of Policies and Procedures for California State University Auxiliary Organizations* sets sound business practice guidelines for auxiliary organizations operating within the CSU system.

Section 8.9.7, *Property and Equipment*, states that the auxiliary should establish a written system that ensures proper recording of property and equipment when received and for labeling of equipment.

The ASI director of accounting and financial services stated that some equipment was not tagged due to problems encountered with the transition to a new fixed assets system. She further stated that although the respective agency account holders were notified of the new ASI policy, written policies and procedures had not been established to address the disposition of the equipment.

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

Recommendation 24

We recommend that the ASI:

- a. Ensure that all equipment is tagged.
- b. Revise its property and equipment policy to address the proper disposition of assets not tracked by the ASI.

Campus Response

We concur. We have tagged all equipment and revised our procedure to ensure that our assets are tagged in a timely manner. We have revised our policy to address the proper disposition of assets.

UNIVERSITY STUDENT UNION OF
CALIFORNIA STATE UNIVERSITY, NORTHRIDGE

OPERATING AND ADMINISTRATIVE AGREEMENTS

Certain written agreements between the University Student Union of California State University, Northridge (Student Union) and other entities had not been properly executed or executed in a timely manner.

We found that:

- ▶ Twenty agreements were not fully executed until after performance. Final execution ranged between 21 days and over three years.
- ▶ Five agreements were either missing signatures or dates of execution.
- ▶ Two agreements were not signed or dated by either party to 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 and executed in a timely manner.

The Student Union executive director stated that in some instances, the condition was caused by the time required to negotiate all aspects of the agreements. In other instances, she stated that the condition was caused by oversight.

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

Recommendation 25

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

Campus Response

We concur. All business arrangements between the Student Union and other entities are supported by fully executed and complete, written agreements. An internal procedure and spreadsheet have been developed to monitor all MOU between the Student Union and other campus related organizations.

FACILITIES AGREEMENTS

Certain written agreements between the Student Union and other entities were not properly supported or were executed with inadequate provisions.

We found that:

- ▶ The Student Union was not made a party to a contract between the campus and a private entity for leased space in the Student Union for the operation of an international language school.
- ▶ Twenty-one of 25 leases and/or subleases were not dated by the signatories.
- ▶ The indemnification provisions in two agreements did not indemnify the State of California, CSU Trustees, and 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.

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 Student Union executive director stated that the omission of the Student Union in the contract for leased space and the lack of adequate indemnification clauses in the agreements were due to oversight. Further, she stated her belief that the dates of execution referenced in the body of the leases were sufficient.

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

Recommendation 26

We recommend that the Student Union:

- a. Ensure that it is a party to all agreements that involve Student Union facilities.
- b. Ensure that all leases and subleases include the date signed by the parties.
- c. Include proper indemnification clauses in agreements.

Campus Response

We concur. The Student Union has developed an internal procedure and spreadsheet for the proper verification and execution of all contracts and agreements. The procedure is monitored by the commercial services manager and ensures appropriate signatures, date of signatures, indemnification, and insurance requirements.

OPERATIONAL COMPLIANCE

The Student Union had not developed written policies and procedures to address both human resource processes (such as personnel hiring, separation, and position changes) and payments made to non-resident aliens in compliance with federal/state allowable payments, withholding, and tax reporting requirements.

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.

The Student Union executive director stated that although procedures were adhered to, written procedures had not been implemented due to workload issues.

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

Recommendation 27

We recommend that the Student Union develop written policies and procedures to address human resource processes and payments to non-resident aliens.

Campus Response

We concur. The Student Union has developed written procedures to address human resource processes. The Student Union will update current written policies and procedures to address payments to non-resident aliens.

Expected completion date: May 31, 2007

PURCHASING AND ACCOUNTS PAYABLE

DISBURSEMENTS

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

Our review of 40 cash disbursements disclosed the following processing exceptions:

- ▶ In five instances, payment was issued without a purchase order and/or requisition.
- ▶ In three instances, photocopied invoices were accepted for payment without certification that records were verified to prevent duplicate payments.
- ▶ In three instances, credit card payments were not processed in accordance with Student Union policy.
- ▶ In two instances, invoices did not match the purchase order.
- ▶ In one instance, a contract did not have adequate 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 Student Union accounting manager stated that the lack of sufficient and appropriate documentation and authorization was due to oversight.

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

Recommendation 28

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

Campus Response

We concur. The Student Union has reiterated to staff existing cash disbursement policies and procedures regarding the sufficient and appropriate documentation and authorization for cash disbursements.

PROCUREMENT PROCESS

The Student Union had not fully developed procurement policies and procedures.

We found that the policies and procedures did not address:

- ▶ Documentation justifying revising and increasing the dollar value of a purchase order.
- ▶ Actions to be taken in the event the dollar value of a revised purchase order exceeds the threshold that would generally require obtaining quotes.
- ▶ Splitting purchase orders to avoid obtaining quotes.
- ▶ Instances when services provided by a contractor would require a written agreement versus a purchase order.

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

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 compilation further states that the auxiliary should establish a written system that ensures purchases and service contracts' coding, classification, recording, and competitive bidding requirements are applied in a consistent manner.

The Student Union accounting manager stated that although the purchasing policy clearly outlines the procedures for informal, formal, and sole source bids, it did not address the other procedural requirements.

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

Recommendation 29

We recommend that the Student Union revise its policies and procedures to include the following:

- a. Documentation for revising purchase orders that include a justification for increasing the dollar value of a purchase order.
- b. A criteria for the appropriateness of obtaining or not obtaining quotes on revised purchase orders that exceed the quote threshold.
- c. A prohibition on the splitting of purchase orders to avoid obtaining quotes.
- d. Procedures to determine when services provided by a contractor would require a written agreement versus a purchase order.

Campus Response

We concur. The purchasing policy was revised to incorporate the report's recommendations.

PROPERTY AND EQUIPMENT

Administration of Student Union property and equipment required improvement.

We found that:

- ▶ During the conversion to PeopleSoft, certain assets were transferred and recorded into the new system with erroneous asset identification numbers.
- ▶ Equipment was not consistently tagged. One had the wrong asset tag number, three had no asset tags, and five could not be verified.

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 property and equipment.

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

The Student Union accounting manager stated that asset identification numbers were not considered in the migration of fixed assets into the PeopleSoft asset management system and in some instances

contributed to the inability to verify identification numbers. In other instances, he stated that the failure to tag fixed assets correctly was due to oversight.

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

Recommendation 30

We recommend that the Student Union:

- a. Accurately record asset identification numbers in the PeopleSoft Financial system.
- b. Ensure that all fixed assets are tagged.

Campus Response

We concur. The Student Union records asset identification numbers in the PeopleSoft Financial system and written procedures are in place regarding tagging fixed assets. Further, the Student Union has tagged all fixed assets.

APPENDIX A: PERSONNEL CONTACTED

Name

Title

CAMPUS

Jolene Koester	President
Robert Barker	University Controller and Associate Vice President, Financial and Accounting Services
Steve Fitzgerald	Chief Technology Officer
Judy Knudson	Vice President, University Advancement
Allen Le	Auxiliary Financial Support Coordinator
Howard Lutwak	Director, Internal Audit
Mohammad Qayoumi	Vice President, Administration and Finance and Chief Financial Officer (CFO) (At time of review)
James Sullivan	Interim Vice President, Administration and Finance and Interim CFO
Geetha Thomas	Assistant Vice President, Resource Management
William Watkins	Associate Vice President, Student Affairs and Dean of Students

CALIFORNIA STATE UNIVERSITY, NORTHRIDGE, FOUNDATION

Melissa Castro	Accounts Receivable Technician
Darlene Goldberger	Accounts Payable Technician
Judy Knudson	President
Aline Koseyan	Accountant
Ali Sadri	Manager, Advancement Resources
Geetha Thomas	CFO

THE UNIVERSITY CORPORATION

Elmer Bautista	Freudian Sip Manager
Judy Berger	Senior Sponsored Programs Administrator
Teresa Bott	Assistant Food Services Supervisor
Heather Cairns	University Club Manager
Betsy Corrigan	Executive Chef
Jane DeLorenzis	Director, Real Estate and Contracts
Grace Delossantos	Licensing Assistant
Judy Dickerson	Accounting Supervisor
Nadine Dotto	Accounting Assistant, Sponsored Programs
Rick Evans	Associate Director
John Griffin	CFO
Georg Jahn	Director, Sponsored Programs
Pat Jolley	Meal Plan Administrator
Tim Killops	Facilities and Project Manager
Elizabeth Kioussis	Executive Assistant
Karla LaRosa	Manager, Licensing
Teresa Loren	Accounting Manager
Pablo Mapile	Lead, Cash Room
Tom McCarron	Executive Director
Nasir Monem	Accounting Technician

APPENDIX A: PERSONNEL CONTACTED

Geri Nann	Accountant
Dave Nirenberg	Director, Commercial Services
Eva Orellana	Food Services Supervisor
Joann Spruill	Payroll Coordinator

ASSOCIATED STUDENTS CALIFORNIA STATE UNIVERSITY, NORTHRIDGE, INC.

Kamme Brown	Accounts Payable Technician
Anna Cauntay	Assistant Director
David Crandall	General Manager
Steven De Luca	Coordinator of Technology Support
Ken Etter	Coordinator of Support Services and Ticketing
Diane Hartjen	Director, Accounting and Financial Services
David Kleen	Network Administrator
Michelle Messiha	Assistant Director, Associated Students Recreation Sports
Robert Richards	Financial Analyst

UNIVERSITY STUDENT UNION OF CALIFORNIA STATE UNIVERSITY, NORTHRIDGE

Tamika Braud	Accounts Receivable Technician
Jairo Galdalmez	Business Services Technician
Alexander Gonzales	Technology Support Services Manager
Jeremy Hamlett	Commercial Services Manager
Debra Hammond	Executive Director
Joe Illuminate	Accounting Manager
Anita Kapil	Accounting Coordinator
Travon Meeks	Accounting Supervisor
Jonathan Navarro	Accounting Coordinator
Jessica Olivares	Accounts Payable Technician
Kristen Pichler	Human Resources Officer
Ossana Terterian	Human Resources Assistant
Gurjit Walia	Payroll Technician

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

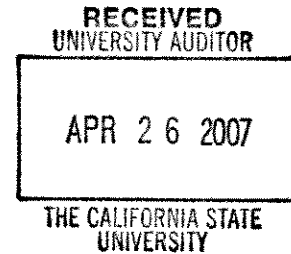
There are inherent limitations that should be recognized in considering the potential effectiveness of any system of internal accounting and related operational control. In the performance of most control procedures, errors can result from misunderstanding of instruction, mistakes of judgment, carelessness, 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
Northridge

Jolene Koester
President

April 26, 2007

Mr. Larry Mandel, University Auditor
Office of the University Auditor
The California State University
401 Golden Shore, 4th Floor
Long Beach, CA 90802



Subject: Campus Response to Recommendations of Audit Report Number 06-49,
Auxiliary Organizations at California State University, Northridge

Dear Larry:

Enclosed please find the California State University, Northridge (CSUN) response to the recommendations of the audit, as requested in your letter of March 29, 2007.

We have read the report including the observations and recommendations, and agree with them. Corrective action to implement all of the recommendations has been taken. By separate correspondence, the applicable documents evidencing completion of our implementation process and corrective action for each recommendation will be provided.

Should there be questions regarding the contents of the response, they may be addressed to Howard Lutwak, CSUN Internal Audit Director at (818) 677-2333.

We appreciate the recommendations to improve CSUN's systems of internal control.

Sincerely,


Dr. Jolene Koester
President

JK:mh

Enclosures

cc: Randy Harris, Vice President Administration and Finance/Chief Financial Officer
Howard Lutwak, Director, Internal Audit

AUXILIARY ORGANIZATIONS
CALIFORNIA STATE UNIVERSITY,
NORTHRIDGE

Audit Report 06-49
February 28, 2007

CAMPUS

OPERATING AND ADMINISTRATIVE AGREEMENTS

Recommendation 1

We recommend that the campus ensure that all agreements with the auxiliaries are executed in a timely manner.

Campus Response

We concur. The Vice President of Administration and Finance will send a memo to Campus service providers indicating that annual MOU's and operating agreements with auxiliaries should be completed prior to the beginning of each fiscal year. Expected completion date: May 1, 2007

TRUSTS AND OTHER LIABILITIES

Recommendation 2

We recommend that state trust funds be retained in campus trust accounts to enable the campus CFO to strengthen his custodianship over such funds.

Campus Response

We concur. The Associate Vice President and University Controller will ensure that any state trust funds held in auxiliary accounts are moved into State Trust accounts. Expected completion date: June 30, 2007

INFORMATION TECHNOLOGY

Recommendation 3

We recommend that the campus set password security controls to help ensure that all system access is adequately authenticated and authorized.

Campus Response

We concur. Additional security controls have been established to ensure that users granted access to PeopleSoft/Oracle Finance for auxiliaries are authenticated and authorized.

CALIFORNIA STATE UNIVERSITY, NORTHRIDGE, FOUNDATION

OPERATING AND ADMINISTRATIVE AGREEMENTS

Recommendation 4

We recommend that the Foundation:

- a. Execute written agreements in a timely manner for services provided by the campus.
- b. Revise the agreement with the third-party software consultant to include the proper indemnification clause.

Campus Response

We concur.

- a. We have developed a check list of agreements to ensure that the agreements are executed in a timely manner.
- b. We will revise the third party agreement to include the proper indemnification clause. Expected completion date: May 31, 2007

FISCAL COMPLIANCE

Recommendation 5

We recommend that the Foundation record board-designated reserves within the appropriate general ledger accounts.

Campus Response

We concur. We have moved the reserve to a separate general ledger account.

OPERATIONAL COMPLIANCE

Recommendation 6

We recommend that the Foundation require the board member to report the transaction and ensure the board of directors takes the appropriate measure required by the policy.

Campus Response

We concur. We require the Board members to sign a compliance statement annually confirming that they have read and understood the Conflict of Interest policy regarding the disclosure requirements regarding financial transactions.

SEGREGATION OF DUTIES

Recommendation 7

We recommend that the Foundation properly segregate certain accounts payable functions related to the cash disbursement process or institute mitigating procedures approved by the campus CFO.

Campus Response

We concur. The accounting manager no longer has access to create new vendors and he does not have access to print checks from the manual check stock.

PURCHASING AND ACCOUNTS PAYABLE

Recommendation 8

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

Campus Response

We concur. The Foundation CFO has issued a memo to the staff reiterating the importance of following procedures and policies.

PROPERTY AND EQUIPMENT

Recommendation 9

We recommend that the Foundation:

- a. Update the listing of previously capitalized assets to reflect the current disposition.
- b. Revise the property and equipment policy to reflect current business practice of immediately transferring all property purchases to the campus.

Campus Response

We concur.

- a. We have updated the capitalized assets list to reflect the disposition of certain fully depreciated assets.
- b. We will revise the property and equipment policy to reflect current practices. Expected completion date: May 31, 2007

GIFTS-IN-KIND

Recommendation 10

We recommend that the Foundation ensure compliance with current CSU, Council for Advancement and Support of Education (CASE), and Internal Revenue Service (IRS) requirements related to the accounting and administration of gifts-in-kind by fully documenting procedures addressing:

- a. Verification and receipt of clear title (i.e., valid and free from encumbrance) to gifts-in-kind.
- b. Appraisals by expert, competent, and independent appraisers ¹for gifts-in-kind with fair market values of more than \$5,000 and that those appraisals are prepared in accordance with professional standards.²
- c. Recording and control of special collections inventory.
- d. Documentation of donor restrictions associated with gifts-in-kind.
- e. Delegation of authority to accept gifts-in-kind.
- f. Proper reimbursement of the General Fund for facilities, goods, and services provided to the Foundation in relation to gifts-in-kind.

Campus Response

We concur. The Foundation has a Non-cash Charitable Contributions policy which addresses CASE and IRS requirements. We will develop written procedures to implement the policy and the points noted above. Expected completion date: June 30, 2007

¹ An individual who declares on the appraisal summary that he or she holds himself or herself out to the public as an appraiser or performs appraisals on a regular basis; and is qualified to make appraisals of the type of property being valued because of his or her qualifications described in the appraisal; and has no actual or perceived interest in the gift being donated.

² A complete description of the object, indicating:

- The size, subject matter, medium, name of the artist (or culture), and approximate date created.
- The cost, date, and manner of acquisition.
- A history of the item, including proof of authenticity.
- A professional quality image of the object.
- The facts on which the appraisal was based, such as:
 - Sales or analyses of similar works by the artist, particularly on or around the valuation date.
 - Quoted prices in dealer's catalogs of item or items of comparable stature.
 - A record of any exhibitions at which items had been displayed.
 - The economic state of the art market at the time of valuation, particularly with respect to the specific property.
 - The standing of the artist in his/her profession and in the particular school or time period.

INFORMATION TECHNOLOGY

Recommendation 11

We recommend that the Foundation develop written security guidelines and procedures for the protection of sensitive information pertaining to data processing of donations by an outsourced vendor, including security and recovery of the information.

Campus Response

We concur. The Foundation will develop written security guidelines and procedures for the protection of data in consultation with CIO and ISO of the University. Expected completion date: June 30, 2007

THE UNIVERSITY CORPORATION

OPERATING AND ADMINISTRATIVE AGREEMENTS

ADMINISTRATIVE AGREEMENTS

Recommendation 12

We recommend that the Corporation:

- a. Ensure that agreements include appropriate indemnification clauses.
- b. Revise agreements to reflect the current parties.
- c. Establish a written agreement with the campus for the delinquent meal plan fee collection.

Campus Response

We concur.

- a. The Corporation has implemented a checklist for the purpose of ensuring that future agreements include the appropriate indemnification clauses. In addition, the Corporation has sent out proposed amendments to existing agreements with third parties. The amendments include the appropriate indemnification clauses that would bring these agreements into compliance.
- b. The Corporation has sent a contract amendment to Subway that revises the agreement to reflect the current parties. The Corporation has a letter on file from Subway dated February 5, 2005, recognizing The University Corporation as the franchisee.
- c. A written agreement with the campus for delinquent meal plan fee collection has been established.

SPORTS CAMPS

Recommendation 13

We recommend that the Corporation ensure that sports camp liability waivers indemnify the State of California, CSU Trustees, and the campus.

Campus Response

We concur. Agreements with sports camps include liability waivers that indemnify the State of California, the CSU Trustees, and the campus.

FISCAL COMPLIANCE

Recommendation 14

We recommend that the Corporation account for and track UBI for University Club services provided to community members, and file federal income tax returns as appropriate.

Campus Response

We concur. An accounting procedure was written and implemented to capture and report this activity. A form 990-T was subsequently prepared and filed for FY 05/06.

OPERATIONAL COMPLIANCE**POLICIES AND PROCEDURES****Recommendation 15**

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

Campus Response

We concur. The Corporation has amended its billing and accounts receivable collections procedures to include a section for Sponsored Programs.

EMPLOYEES**Recommendation 16**

We recommend that the Corporation perform an analysis of the comparability of salaries, wages, and benefits for its full-time employees in relation to those provided campus employees performing substantially similar services.

Campus Response

We concur. The Corporation has written procedure for conducting salary comparability analyses has been implemented and is in the process of conducting the analyses. Expected completion date: June 30, 2007

SEGREGATION OF DUTIES**CASH RECEIPTS****Recommendation 17**

We recommend that the Corporation properly segregate the duties and responsibilities over its administration of the meal plan and gift certificates or institute mitigating procedures approved by the campus CFO.

Campus Response

We concur. The Corporation has revised its *Meal Plan Payments Procedure* to ensure segregation of duties concerning meal plan administration and receipt of funds. The gift certificate program has been discontinued.

PURCHASING

Recommendation 18

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

Campus Response

We concur. To better identify responsibilities and ensure proper segregation of duties, Corporation management created and implemented a food service purchasing and inventory procedure.

CASH RECEIPTS AND HANDLING

Recommendation 19

We recommend that the Corporation conduct periodic, independent counts of the cash room safe.

Campus Response

We concur. The Corporation amended its written procedures to include periodic, independent counts of the cash room safe.

PROPERTY AND EQUIPMENT

Recommendation 20

We recommend that the Corporation:

- a. Ensure that all equipment is tagged.
- b. Update the current inventory listing to reflect all current property and equipment.

Campus Response

We concur. The Corporation has tagged all equipment and amended its written procedures to ensure equipment is properly tagged and reported on inventory listings.

AUXILIARY PROGRAMS

Recommendation 21

We recommend that the Corporation:

- a. Establish with the campus office of research and sponsored programs a process to ensure that principal investigators consistently submit to the Corporation applicable cost-sharing records and source documentation throughout the contract period of the sponsored program project.
- b. Regularly provide effort-reporting information to the campus.

Campus Response

We concur.

- a. The Corporation and the campus will establish policies and procedures to require principal investigators to submit cost sharing documentation during the course of the project. Expected completion date: June 30, 2007
- b. The Corporation has implemented a new time and effort reporting policy that requires regularly providing effort-reporting information to the campus.

ASSOCIATED STUDENTS
CALIFORNIA STATE UNIVERSITY, NORTHRIDGE, INC.

OPERATING AND ADMINISTRATIVE AGREEMENTS

Recommendation 22

We recommend that the ASI ensure that all agreements with the Student Union are executed and/or executed in a timely manner.

Campus Response

We concur. We have electronically logged our MOU's and electronically calendared their renewal dates.

PETTY CASH AND CHANGE FUNDS

Recommendation 23

We recommend that the ASI reiterate to staff existing policies and procedures on the administration and use of petty cash and change funds.

Campus Response

We concur. A revised policy and procedure document addressing petty cash and change funds has been provided to ASI staff that have responsibilities in these areas.

PROPERTY AND EQUIPMENT

Recommendation 24

We recommend that the ASI:

- a. Ensure that all equipment is tagged.
- b. Revise its property and equipment policy to address the proper disposition of assets not tracked by the ASI.

Campus Response

We concur. We have tagged all equipment and revised our procedure to ensure that our assets are tagged in a timely manner. We have revised our policy to address the proper disposition of assets.

**UNIVERSITY STUDENT UNION OF
CALIFORNIA STATE UNIVERSITY, NORTHRIDGE**

OPERATING AND ADMINISTRATIVE AGREEMENTS

Recommendation 25

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

Campus Response

We concur. All business arrangements between the USU and other entities are supported by fully executed and complete written agreements. An internal procedure and spreadsheet have been developed to monitor all memoranda of understanding between the USU and other campus related organizations.

FACILITIES AGREEMENTS

Recommendation 26

We recommend that the Student Union:

- a. Ensure that it is a party to all agreements that involve Student Union facilities.
- b. Ensure that all leases and subleases include the date signed by the parties.
- c. Include proper indemnification clauses in agreements.

Campus Response

We concur. The USU has developed an internal procedure and spreadsheet for the proper verification and execution of all contracts and agreements. The procedure is monitored by the Commercial Services Manager and ensures appropriate signatures, date of signatures, indemnification and insurance requirements.

OPERATIONAL COMPLIANCE

Recommendation 27

We recommend that the Student Union develop written policies and procedures to address human resource processes and payments to non-resident aliens.

Campus Response

We concur. The USU has developed written procedures to address human resource processes. The Student Union will update current written policies and procedures to address payments to non-resident aliens. Expected completion date: May 31, 2007

PURCHASING AND ACCOUNTS PAYABLE

DISBURSEMENTS

Recommendation 28

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

Campus Response

We concur. The Student Union has reiterated to staff existing cash disbursement policies and procedures regarding the sufficient and appropriate documentation and authorization for cash disbursements.

PROCUREMENT PROCESS

Recommendation 29

We recommend that the Student Union revise its policies and procedures to include the following:

- a. Documentation for revising purchase orders that include a justification for increasing the dollar value of a purchase order.
- b. A criteria for the appropriateness of obtaining or not obtaining quotes on revised purchase orders that exceed the quote threshold.
- c. A prohibition on the splitting of purchase orders to avoid obtaining quotes.
- d. Procedures to determine when services provided by a contractor would require a written agreement versus a purchase order.

Campus Response

We concur. The Purchasing Policy was revised to incorporate the report's recommendations.

PROPERTY AND EQUIPMENT

Recommendation 30

We recommend that the Student Union:

- a. Accurately record asset identification numbers in the PeopleSoft Financial system.
- b. Ensure that all fixed assets are tagged.

Campus Response

We concur. The Student Union records asset identification numbers in the PeopleSoft Financial System and written procedures are in place regarding tagging fixed assets. Further, the Student Union has tagged all fixed assets.



THE CALIFORNIA STATE UNIVERSITY
 OFFICE OF THE CHANCELLOR

BAKERSFIELD

May 15, 2007

CHANNEL ISLANDS

CHICO

MEMORANDUM

DOMINGUEZ HILLS

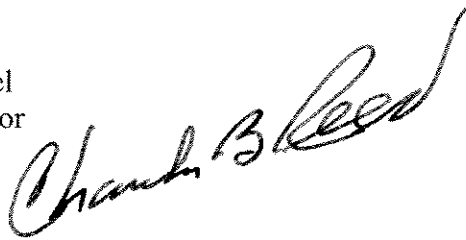
EAST BAY

TO: Mr. Larry Mandel
University Auditor

FRESNO

FULLERTON

FROM: Charles B. Reed
Chancellor



HUMBOLDT

LONG BEACH

SUBJECT: Draft Final Audit Report 06-49 on *Auxiliary Organizations*,
California State University, Northridge

LOS ANGELES

MARITIME ACADEMY

In response to your memorandum of May 15, 2007, I accept the response as submitted with the draft final report on *Auxiliary Organizations*, California State University, Northridge.

MONTEREY BAY

NORTHRIDGE

POMONA

SACRAMENTO

CBR/jt

SAN BERNARDINO

Enclosure

SAN DIEGO

cc: Mr. Randy J. Harris, Vice President, Administration and Finance and
Chief Financial Officer

SAN FRANCISCO

Dr. Jolene Koester, President

SAN JOSÉ

Mr. Howard Lutwak, Director of Internal Audit

SAN LUIS OBISPO

SAN MARCOS

SONOMA

STANISLAUS