

AUXILIARY ORGANIZATIONS

SONOMA STATE UNIVERSITY

**Audit Report 06-52
March 20, 2007**

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**BOARD OF TRUSTEES
THE CALIFORNIA STATE UNIVERSITY**

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ABBREVIATIONS

AS	Associated Students of Sonoma State University
CFO	Chief Financial Officer
CSU	California State University
EO	Executive Order
FIRMS	Financial Information Record Management System
Foundation	Sonoma State University Academic Foundation, Inc.
RFIN	Resolution of the Committee on Finance
RMP	Revenue Management Program
SSE	Sonoma State Enterprises, Inc.
Union	Sonoma Student Union Corporation

EXECUTIVE SUMMARY

In July 1981, the Board of Trustee policy concerning auxiliary organizations was adopted in the Resolution of the Committee on Finance (RFIN) 7-81-4. Executive Order 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.

Sonoma State University 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 Sonoma State University campus and its auxiliary organizations from October 2, 2006, through November 3, 2006, and made a study and evaluation of the system of internal compliance/internal control in effect for the period December 2003 to November 2006. This report represents our triennial review.

Our study and evaluation at *Sonoma State University Academic Foundation, 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 November 2006, taken as a whole, was sufficient to meet the objectives stated above.

Our study and evaluation at *Sonoma State Enterprises, 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 November 2006, taken as a whole, was sufficient to meet the objectives stated above.

Our study and evaluation at *Sonoma Student Union 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 November 2006, taken as a whole, was sufficient to meet the objectives stated above.

Our study and evaluation at the *Associated Students of Sonoma State University* 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 November 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

FISCAL COMPLIANCE [10]

Board-designated reserves for the four auxiliary organizations were not recorded within each of their general ledgers.

OPERATIONAL COMPLIANCE [10]

The campus had not provided sufficient guidance for its auxiliaries regarding the required parties to be included in their non-discrimination policy. Currently, the auxiliaries adhere to the non-discrimination policy developed by the campus. However, the campus' current non-discrimination policy did not address discrimination based on pregnancy.

SONOMA STATE UNIVERSITY ACADEMIC FOUNDATION, INC.

CORPORATE GOVERNANCE [12]

Sonoma State University Academic Foundation, Inc. (Foundation) subcommittee minutes were not signed and approved by an appropriate official.

OPERATIONAL COMPLIANCE [12]

The Foundation had not obtained annual conflict-of-interest statements from all board members for fiscal years 2004/05, 2005/06, and 2006/07.

SEGREGATION OF DUTIES [13]

Duties and responsibilities related to endowment investment account unitization were not appropriately segregated at the Foundation. Specifically, one individual performed the calculation of the endowment investment account unitization to the individual endowment funds without an independent review.

INVESTMENTS [14]

The Foundation did not reunite its investment pool at the time funds were added. Specifically, the number of units assigned to a new participating fund or entity should be derived by dividing the market value of the assets added to the pool by the market value per unit of the pool at the time of the addition.

FEES, REVENUES, AND RECEIVABLES [15]

Quarterly reviews of overdue Foundation pledges were not consistently performed and documented.

PURCHASING AND ACCOUNTS PAYABLE [15]

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

TRUSTS AND OTHER LIABILITIES [16]

The Foundation accounting and management of endowments required improvement. For example, unrealized gains and losses were not tracked or allocated on an individual endowment fund basis. Further, the finance committee minutes did not reflect an evaluation of the special investment pool.

SONOMA STATE ENTERPRISES, INC.

OPERATING AND ADMINISTRATIVE AGREEMENTS [19]

Certain agreements among Sonoma State Enterprises, Inc. (SSE) and third parties were not supported by complete or current, written agreements. Specifically, the indemnification provision in several agreements with third parties did not specifically indemnify the California State University Trustees, the campus, and the State of California. Further, a lease agreement with a third party for arcade machines and a pool table was not executed.

FISCAL COMPLIANCE [20]

The SSE finance committee minutes did not reflect the annual review of reserve allocations, as required by its reserve policy.

PURCHASING AND ACCOUNTS PAYABLE [21]

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

PROPERTY AND EQUIPMENT [22]

The current inventory listing for SSE did not reflect all assets and/or assets were not properly identified by location.

AUXILIARY PROGRAMS [23]

Administration of the SSE Wolf Bucks program required improvement. For example, denied off-line transactions were not reviewed and investigated. Further, the cashiering system was not automated to generate reports on denied transactions. Lastly, write-offs of inactive Wolf Bucks accounts were not performed.

SONOMA STUDENT UNION CORPORATION

CORPORATE GOVERNANCE [24]

The Sonoma Student Union Corporation (Union) Articles of Incorporation included an improper dissolution clause; it allowed the board of governors to select a successor.

PURCHASING AND ACCOUNTS PAYABLE [24]

The Union had not fully developed written policies and procedures to address a specified dollar threshold requirement for credit card purchases.

PROPERTY AND EQUIPMENT [25]

Administration of the Union property and equipment required improvement. Specifically, the current inventory listing did not reflect all assets, and equipment was not consistently tagged in a timely manner.

ASSOCIATED STUDENTS OF SONOMA STATE UNIVERSITY

CORPORATE GOVERNANCE [27]

The Associated Students of Sonoma State University board and committee minutes were not signed and approved by an appropriate official.

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 July 2005 to November 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:

Sonoma State University Academic Foundation, 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
- ▶ Fees, Revenues, and Receivables
- ▶ Purchasing and Accounts Payable
- ▶ Personnel and Payroll
- ▶ Property and Equipment
- ▶ Auxiliary Programs
- ▶ Information Technology

Sonoma State Enterprises, 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

Sonoma Student Union 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
- ▶ Auxiliary Programs
- ▶ Information Technology

Associated Students of Sonoma State University

- ▶ Operating and Administrative Agreements
- ▶ Facilities Agreements
- ▶ Corporate Governance
- ▶ Fiscal Compliance
- ▶ Operational Compliance
- ▶ Program Compliance
- ▶ Campus Oversight and Control
- ▶ Segregation of Duties
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- ▶ Property and Equipment
- ▶ Trusts and Other Liabilities
- ▶ Auxiliary Programs
- ▶ Information Technology

Campus

- ▶ Campus Oversight and Control

We have not performed any auditing procedures beyond November 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

FISCAL COMPLIANCE

Board-designated reserves for the four auxiliary organizations were not recorded within each of their general ledgers.

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 recognized within an organization's general ledger.

The vice president of administration and finance/chief financial officer (CFO) stated that due to system limitations, reserves were not allowed to be identified within the general ledger.

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

Recommendation 1

We recommend that the campus ensure that all auxiliary organizations separately record in their general ledgers the portion of the fund balance that is reserved.

Campus Response

We concur. To report the reserves in the general ledger, the campus will use reserve FIRMS object code 304015 designated for operations and contingency provided by the RMP interim guidelines for fiscal year 2006/07 closing. This reserve code will be applied to each auxiliary to record the reserve amount for each auxiliary.

Estimated date of completion of implementation plan: June 4, 2007

OPERATIONAL COMPLIANCE

The campus had not provided sufficient guidance for its auxiliaries regarding the required parties to be included in their non-discrimination policy.

Currently, the auxiliaries adhere to the non-discrimination policy developed by the campus. However, the campus' current non-discrimination policy did not address discrimination based on pregnancy.

Executive Order (EO) 883, *Systemwide Guidelines for Non-discrimination and Affirmative Action Programs in Employment*, dated October 31, 2003, prohibits discrimination on the basis of race, color, religion, national origin, sex, sexual orientation, marital status, pregnancy, age, disability, medical condition, and covered veterans' status.

The vice president of administration and finance/CFO stated that due to oversight, the non-discrimination policy did not address discrimination based on pregnancy.

An inadequate non-discrimination policy increases the campus' risk of non-compliance with state and federal laws and may result in regulatory actions.

Recommendation 2

We recommend that the campus revise its non-discrimination policy to include discrimination based on pregnancy.

Campus Response

We concur. The existing non-discrimination policy has been amended and has been submitted for final approval.

Estimated date of completion: June 4, 2007

SONOMA STATE UNIVERSITY ACADEMIC FOUNDATION, INC.

CORPORATE GOVERNANCE

Sonoma State University Academic Foundation, Inc. (Foundation) subcommittee minutes were not signed and approved by an appropriate official.

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

The campus vice president of administration and finance/CFO stated that he was unaware that an approval signature was required on subcommittee minutes.

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

Recommendation 3

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

Campus Response

We agree. The Foundation subcommittee minutes will be signed and approved by an appropriate official.

Estimated date of completion: June 4, 2007

OPERATIONAL COMPLIANCE

The Foundation had not obtained annual conflict-of-interest statements from all board members for fiscal years 2004/05, 2005/06, and 2006/07.

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.

Title 5 §42401, §42402, §42500 and Education Code §89900 establish a responsibility to operate in accordance with sound business practices in the interest of the campus. Sound business practice mandates establishing conflict-of-interest policies and procedures and compliance with existing policies and procedures.

The campus vice president of administration and finance/CFO stated that attempts were continuously made to obtain conflict-of-interest statements from the board members.

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

Recommendation 4

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

Campus Response

We concur. The Foundation will step up its effort with a series of communication measures to have all board members sign the conflict-of-interest statements.

Estimated date of completion: June 4, 2007

SEGREGATION OF DUTIES

Duties and responsibilities related to endowment investment account unitization were not appropriately segregated at the Foundation.

Specifically, we found that one individual performed the calculation of the endowment investment account unitization to the individual endowment funds without an independent review.

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 campus vice president of administration and finance/CFO stated that the lack of proper segregation of duties was due to oversight.

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

Recommendation 5

We recommend that the Foundation properly segregate certain endowment investment account unitization functions or institute mitigating procedures approved by the campus CFO.

Campus Response

We agree. The calculation of the unitization will be reviewed by the associate vice president of administration and finance.

Estimated date of completion: June 4, 2007

INVESTMENTS

The Foundation did not reunitize its investment pool at the time funds were added.

The number of units assigned to a new participating fund or entity should be derived by dividing the market value of the assets added to the pool by the market value per unit of the pool at the time of the addition.

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 timely reunitization of investment pools.

The campus associate controller and university treasurer stated that the investment policy was recently revised, but the timing of admittance to the endowment investment pool was not revised due to oversight.

Failure to unitize an investment pool at the time funds are added increases the risk that yields will be calculated contrary to the expectations of the campus and donor.

Recommendation 6

We recommend that the Foundation reunitize its investment pool each time funds are added.

Campus Response

We concur. A proposal will be submitted to the finance committee of the Foundation to amend Foundation investment policy. The proposal will include a paragraph that states additions to the endowment pool during a month will be assigned units based upon the unit value of the fund at the end of the month.

Estimated date of proposal submission to the finance committee: June 4, 2007

FEES, REVENUES, AND RECEIVABLES

Quarterly reviews of overdue Foundation pledges were not consistently performed and documented.

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 policies and procedures over pledges receivable be fully implemented.

The campus advancement data and services specialist stated that staffing constraints prevented the Foundation from consistently performing quarterly reviews of overdue pledges in the past; however, a new process had been implemented to address this issue.

Failure to perform quarterly reviews of overdue Foundation pledges increases the risk that inconsistencies and misunderstandings will occur.

Recommendation 7

We recommend that the Foundation perform and document its quarterly reviews of all outstanding pledges.

Campus Response

We concur. The development office will produce a quarterly report of all past due pledges. The report will be reviewed with each development director resulting in action items to clear past due pledges.

Estimated date of completion: June 4, 2007

PURCHASING AND ACCOUNTS PAYABLE

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

Our review of 25 disbursements disclosed the following processing exceptions:

- ▶ In eight instances, payment was made through direct pay, in exception to direct pay guidelines.
- ▶ In two instances, payment was made directly from invoices, which violated state disbursement procedures.

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

The *Compilation of Policies and Procedures for California State University Auxiliary Organizations* sets sound business practice guidelines for auxiliary organizations operating within the CSU system. Section 8.9.1, *Cash*, states that the auxiliary should disburse cash in a consistent manner utilizing systems that ensure integrity of existing internal controls, with annual management review. Section 8.9.5, *Procurement*, states that the auxiliary should establish a written system that provides for purchases and service contracts to be made within governing board policies, source restrictions, funds availability, and other applicable requirements.

The campus accounts payable manager stated that although cash disbursement procedures were not formally documented, procedures and exception items were communicated to staff either verbally or through e-mail.

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 and account holders existing cash disbursement policies and procedures regarding sufficient and appropriate supporting documentation.

Campus Response

We concur. A letter of instruction will be issued to remind personnel of the cash disbursement policies and procedures related to auxiliaries.

Estimated date of completion: June 4, 2007

TRUSTS AND OTHER LIABILITIES

The Foundation accounting and management of endowments required improvement.

We noted that:

- ▶ Unrealized gains and losses were not recorded on an individual endowment fund basis. Specifically, the Foundation accounting methodology tracked unrealized gains and losses in the aggregate and did not allocate these unrealized gains and losses to individual endowment funds. Based on current methodology, the true market value of each individual endowment fund could not be determined.

- ▶ Finance committee minutes did not reflect an evaluation of the special investment pool.
- ▶ Placement of certain older endowments with a specific investment manager responsible for direct control was not clearly documented.

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

The *Compilation of Policies and Procedures for California State University Auxiliary Organizations* sets sound business practice guidelines for auxiliary organizations operating within the California State University (CSU) system. Section 8.9.2, *Investments*, states that the auxiliary should adopt a written governing board investment policy that describes investment objectives and limitations, and provides for practices to be used to meet its business and fiduciary responsibilities.

The campus associate controller and university treasurer stated that unrealized gains and losses were recorded in aggregate within the general ledger, not on an individual endowment level. He further stated that the failure to properly document both the evaluation of the special investment pool and the placement of all endowments with specific investment managers was due to oversight.

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

Recommendation 9

We recommend that the Foundation:

- a. Develop a methodology to ensure unrealized gains and losses are tracked and allocated on an individual endowment fund basis.
- b. Ensure that finance committee minutes properly reflect the evaluation of the special investment pool.
- c. Ensure that the placement of all endowments with a specific investment manager responsible for its direct control is clearly documented.

Campus Response

- a. We concur. The campus will unitize all endowment funds on a monthly basis, and all new contributions will be assigned units. As part of that process, the campus will compute the new market value of each endowment fund showing unrealized gains or losses.

Estimated date of completion: June 4, 2007

- b. We concur. The Foundation finance committee will be provided on a regular basis a schedule of investments which will include the special investment pool. The committee minutes will reflect any discussion and evaluation of the special investment pool.

Estimated date of completion: June 4, 2007

- c. We concur. The Foundation finance committee will be provided periodically a list of the investment managers who have direct control over an endowment. The committee minutes will reflect any discussion or issues regarding the list of endowments and associated investment managers.

Estimated date of completion: June 4, 2007

SONOMA STATE ENTERPRISES, INC.

OPERATING AND ADMINISTRATIVE AGREEMENTS

Certain agreements among Sonoma State Enterprises, Inc. (SSE) and third parties were not supported by complete or current, written agreements.

We found that:

- ▶ The indemnification provision in two agreements with third parties did not specifically indemnify the CSU Trustees, the campus, and the State of California.
- ▶ A lease agreement with a third party for arcade machines and a pool table was not executed.

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

The SSE chief operating officer stated that the inadequate indemnification provision and the absence of a lease agreement for the arcade machines and pool table were 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 10

We recommend that SSE:

- a. Ensure that agreements include appropriate indemnification clauses.
- b. Execute the agreement with the third party for the lease of arcade machines and a pool table.

Campus Response

We agree.

- a. SSE will follow through to have the indemnification clauses included in all agreements with special attention to the two cited agreements.

Estimated date of completion: June 4, 2007

- b. Lease agreements will be issued for the arcade machines and the pool table.

Estimated date of completion: June 4, 2007

FISCAL COMPLIANCE

SSE finance committee minutes did not reflect the annual review of reserve allocations, as required by its reserve policy.

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

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

The campus vice president of administration and finance/CFO stated that reserve allocations were reviewed and updated annually at the finance committee meeting, but were not documented within the meeting minutes.

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

Recommendation 11

We recommend that SSE ensure that finance committee minutes reflect the annual review of reserve allocations in compliance with its reserve policy.

Campus Response

We agree. The SSE finance committee minutes will record the annual review of reserve allocations.

Estimated date of completion: June 4, 2007

PURCHASING AND ACCOUNTS PAYABLE

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

Our review of 25 disbursements disclosed the following processing exceptions:

- ▶ In 13 instances, payment was made through direct pay, in exception to direct pay guidelines.
- ▶ In two instances, payment was made directly from invoices, which violated the state disbursement procedures.

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

The *Compilation of Policies and Procedures for California State University Auxiliary Organizations* sets sound business practice guidelines for auxiliary organizations operating within the CSU system. Section 8.9.1, *Cash*, states that the auxiliary should disburse cash in a consistent manner utilizing systems that ensure integrity of existing internal controls, with annual management review. Section 8.9.5, *Procurement*, states that the auxiliary should establish a written system that provides for purchases and service contracts to be made within governing board policies, source restrictions, funds availability, and other applicable requirements.

The campus accounts payable manager stated that although cash disbursement procedures were not formally documented, procedures and exception items were communicated to staff either verbally or through e-mail.

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

Recommendation 12

We recommend that SSE reiterate to staff and account holders existing cash disbursement policies and procedures regarding sufficient and appropriate supporting documentation and appropriate authorization.

Campus Response

We concur. A letter of instruction will be issued to remind personnel of the cash disbursement policies and procedures related to auxiliaries.

Estimated date of completion: June 4, 2007

PROPERTY AND EQUIPMENT

The current inventory listing for SSE did not reflect all assets, and/or assets were not properly identified by location.

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 campus property program coordinator stated that assets excluded from the current inventory listing were older items for which supporting documentation no longer existed. He further stated that the assets not properly identified by location were relocated during the current year; however, they are still housed on campus property in a warehouse.

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

Recommendation 13

We recommend that SSE update the current inventory listing to reflect all assets and their locations.

Campus Response

We concur. The SSE inventory will be updated to reflect all assets and the corresponding locations.

Estimated date of completion: June 4, 2007

AUXILIARY PROGRAMS

Administration of the SSE Wolf Bucks program required improvement.

We found that:

- ▶ Denied off-line transactions were not reviewed and investigated. Denied off-line transactions occurred when purchases were made with insufficient funds when the cashiering system was off-line. These transactions were applied to the respective accounts once the cashiering system was online; however, certain transactions were subsequently denied due to the lack of sufficient funds or points.
- ▶ The cashiering system was not automated to generate reports on denied transactions. Therefore, denied transactions had been undetected.
- ▶ Write-offs of inactive Wolf Bucks accounts were not performed.

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 auxiliary programs.

The SSE associate director of dining services stated that reports identifying negative balances and off-line transactions were not regularly generated or monitored. Additionally, the campus assistant controller stated that no write-offs had been performed since the cashiering system's inception.

Insufficient administration of auxiliary programs increases the risk of errors, irregularities, and misappropriation of funds.

Recommendation 14

We recommend that SSE:

- a. Review and investigate denied off-line transactions.
- b. Automate the cashiering system to generate reports on denied transactions.
- c. Perform timely write-offs of inactive accounts.

Campus Response

We concur. SSE will implement the suggested improvements in the performance the Wolf Bucks program: On a weekly basis, reports will be generated to review and evaluate denied and denied off-line transactions. Starting with the 2006/07 academic year all remaining balances will be returned to the student accounts at the end of the academic year; for negative balances a write-off procedure will be applied.

Estimated date of completion: June 4, 2007

SONOMA STUDENT UNION CORPORATION

CORPORATE GOVERNANCE

The Sonoma Student Union Corporation (Union) Articles of Incorporation included an improper dissolution clause; it allowed the board of governors to select a successor.

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

The Union executive director stated that he was unaware that the dissolution clause was not in compliance with Title 5.

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

Recommendation 15

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

Campus Response

We concur. Action to amend the Union bylaws section will occur at the next regularly scheduled meeting of the Union board of directors on April 27. Wording for such an amendment will mirror wording in Title 5 §42600.

At the same meeting, the executive director will also present for action the matter of amending the Articles of Incorporation and propose a timetable for amending the Articles of Incorporation.

Estimated date of completion of a timetable: June 4, 2007

PURCHASING AND ACCOUNTS PAYABLE

The Union had not fully developed written policies and procedures to address a specified dollar threshold requirement for credit card purchases.

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 complete policies and procedures to address procurement processes.

The Union executive director stated that he recently became aware of the deficiency in procurement policies and procedures and was in the process of addressing the issue.

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

Recommendation 16

We recommend that the Union revise its policies and procedures to include a specified dollar threshold requirement for credit card purchases.

Campus Response

We concur. The Union credit card policy is being revised to reflect the spending limits for the Union.

Estimated date of completion: June 4, 2007

PROPERTY AND EQUIPMENT

Administration of Union property and equipment required improvement.

We found that:

- ▶ The current inventory listing did not reflect all assets.
- ▶ Equipment was not consistently tagged in a timely manner.

Title 5 §42401 and §42402 indicate that the campus president shall require that auxiliary organizations operate in conformity with policy of the Board of Trustees and the campus. One of the objectives of the auxiliary organizations is to provide fiscal procedures and management systems that allow effective coordination of the auxiliary activities with the campus in accordance with sound business practices. Sound business practice mandates 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, in part, that the auxiliary should establish a written system that ensures proper recording of property and equipment when received and for labeling of equipment.

The Union executive director stated that the lack of proper administration of property and equipment was due to oversight.

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

Recommendation 17

We recommend that the Union:

- a. Update the current inventory listing to reflect all assets.
- b. Ensure equipment is consistently tagged in a timely manner.

Campus Response

We concur. The Union inventory will be updated to reflect all assets. The campus will set up a training session with Union personnel to ensure that all property procedures are followed.

Estimated date of completion: June 4, 2007

ASSOCIATED STUDENTS OF SONOMA STATE UNIVERSITY

CORPORATE GOVERNANCE

Associated Students of Sonoma State University (AS) board and committee minutes were not signed and approved by an appropriate official.

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

The AS executive director stated that every page of the board minutes was affixed with the initials of an appropriate official. He further stated that AS standard operating procedures did not require the formal signature of an appropriate official to approve minutes.

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

Recommendation 18

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

Campus Response

We agree. The AS subcommittee minutes will be signed and approved by an appropriate official.

Estimated date of completion: June 4, 2007

APPENDIX A: PERSONNEL CONTACTED

Name

Title

CAMPUS

Ruben Armiñana	President
John Beckman	Investment Administrator
Letitia Coate	Associate Vice President, Administration and Finance and University Controller
Laurence Furukawa-Schlereth	Vice President, Administration and Finance and Chief Financial Officer
Paul Greenblatt	Advancement Data and Services Specialist
Mark Harlin	Property Program Coordinator
William Ingels	Associate Controller and University Treasurer
Paulette King	Assistant Controller
Kurt Koehle	Director, Internal Operations
Ruth McDonnell	Director, Contracts and Procurement
Cindy Miller	Manager, Accounts Payable
Kathy Mitchell	Accountant, General Accounting
Rebecca Olsen	Accountant, General Accounting
Diane Psota	Accountant II
Paul Santini	Deputy Controller, Student Finance
Nicholas Saschin	Accountant Administrator

SONOMA STATE UNIVERSITY ACADEMIC FOUNDATION, INC.

Letitia Coate	Secretary/Chief Financial Officer
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SONOMA STATE ENTERPRISES, INC.

Lisa Andresen	Director, University Dining Services
Neil Marklay	Chief Operating Officer
Dan O'Brien	Associate Director, Dining Services
Anna Reynolds-Smith	Administrative Project Manager

SONOMA STUDENT UNION CORPORATION

Donna Cavin	Administrative Support Assistant
Peter Neville	Executive Director
Pamela Su	Recreation Sports Coordinator
Bob Williams	Associate Director

ASSOCIATED STUDENTS OF SONOMA STATE UNIVERSITY

Erik Dickson	Executive Director
Nadir Vissanjy	President
Linda Williams	Accountant

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.

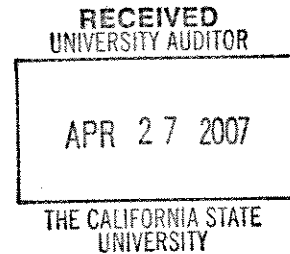


1801 East Cotati Avenue
Rohnert Park, CA 94928-3609

OFFICE OF THE CHIEF FINANCIAL OFFICER AND
VICE PRESIDENT FOR ADMINISTRATION AND FINANCE

707.664.2035 • Fax 707.664.2080

April 23, 2007



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

Dear Mr. Mandel:

On behalf of President Armiñana, I am submitting the campus response to the recommendations of the University Auditor Report Number 06-52, Auxiliary Organizations at Sonoma State University.

Documentation demonstrating implementation of recommendations will be forwarded to you separately.

Sincerely,

A handwritten signature in blue ink, appearing to read "L. Furukawa-Schlereth".

Laurence Furukawa-Schlereth
Chief Financial Officer and
Vice President for Administration and Finance

Attachment

- c: President Ruben Armiñana
- Bucky Peterson, Vice President for Development
- Letitia Coate, Associate Vice President for Administration and Finance/University Controller
- Neil Markley, Senior Director for Entrepreneurial Activities
- Erik Dickson, Executive Director, Associated Students, Inc.
- Peter Neville, Executive Director, Sonoma State Union Corporation
- Kurt Koehle, Director, Internal Operations, Analysis and Review

AUXILIARY ORGANIZATIONS

SONOMA STATE UNIVERSITY

**Audit Report 06-52
March 20, 2007**

CAMPUS

FISCAL COMPLIANCE

Recommendation 1

We recommend that the campus ensure that all auxiliary organizations separately record in their general ledgers the portion of the fund balance that is reserved.

Campus Response

We concur. To report the reserves in the general ledger the campus will use reserve FIRMS Object Code 304015, designated for Operations and Contingency provided by the RMP Interim Guidelines for FY 2006-2007 Closing. This reserve code will be applied to each auxiliary to record the reserve amount for each auxiliary. Estimated date of completion of Implementation Plan: June 4, 2007

OPERATIONAL COMPLIANCE

Recommendation 2

We recommend that the campus revise its non-discrimination policy to include discrimination based on pregnancy.

Campus Response

We concur. The existing non-discrimination policy has been amended and has been submitted for final approval. Estimated date of completion: June 4, 2007

SONOMA STATE UNIVERSITY ACADEMIC FOUNDATION, INC.

CORPORATE GOVERNANCE

Recommendation 3

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

Campus Response

We agree. The Foundation subcommittee minutes will be signed and approved by an appropriate official. Estimated date of completion: June 4, 2007

OPERATIONAL COMPLIANCE

Recommendation 4

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

Campus Response

We concur. The Foundation will step its effort with a series of communication measures to have all board members sign the conflict-of-interest statements. Estimated date of completion: June 4, 2007

SEGREGATION OF DUTIES

Recommendation 5

We recommend that the Foundation properly segregate certain endowment investment account unitization functions or institute mitigating procedures approved by the campus CFO.

Campus Response

We agree. The calculation of the unitization will be reviewed by the Associate Vice President for Administration and Finance. Estimated date of completion: June 4, 2007

INVESTMENTS

Recommendation 6

We recommend that the Foundation reunite its investment pool each time funds are added.

Campus Response

We concur. A proposal will be submitted to the Finance Committee of the Academic Foundation to amend Foundation Investment policy. The proposal will include a paragraph that additions to the endowment pool during a month will be assigned units based upon the unit value of the fund at the end of the month. Estimated date of proposal submission to the Finance Committee: June 4, 2007

FEES, REVENUES, AND RECEIVABLES

Recommendation 7

We recommend that the Foundation perform and document its quarterly reviews of all outstanding pledges.

Campus Response

We concur. The Development Office will produce a quarterly report of all past due pledges. The report will be reviewed with each development director resulting in action items to clear past due pledges. Estimated date of completion: June 4, 2007

PURCHASING AND ACCOUNTS PAYABLE

Recommendation 8

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

Campus Response

We concur. A letter of instruction will be issued to remind personnel of the cash disbursement policies and procedures related to auxiliaries. Estimated date of completion is June 4, 2007.

TRUSTS AND OTHER LIABILITIES

Recommendation 9

We recommend that the Foundation:

- a. Develop a methodology to ensure unrealized gains and losses are tracked and allocated on an individual endowment fund basis.

- b. Ensure that finance committee minutes properly reflect the evaluation of the special investment pool.
- c. Ensure that the placement of all endowments with a specific investment manager responsible for its direct control is clearly documented.

Campus Response

- a. We concur. The campus will unitize all endowment funds on a monthly basis, and all new contributions will be assigned units. As part of that process, the campus will compute the new market value of each endowment fund showing unrealized gains or losses. Estimated date of completion: June 4, 2007
- b. We concur. The Foundation Finance committee will be provided on a regular basis a schedule of investments which will include the Special Investment Pool. The committee meeting minutes will reflect any discussion and evaluation of the Special Investment Pool. Estimated date of completion: June 4, 2007
- c. We concur. The Foundation Finance committee will be provided periodically a list of the investment managers who have direct control over an endowment. The committee meeting minutes will reflect any discussion or issues regarding the list of endowments and associated investment managers. Estimated date of completion: June 4, 2007

SONOMA STATE ENTERPRISES, INC.

OPERATING AND ADMINISTRATIVE AGREEMENTS

Recommendation 10

We recommend that SSE:

- a. Ensure that agreements include appropriate indemnification clauses.
- b. Execute the agreement with the third party for the lease of arcade machines and a pool table.

Campus Response

We agree.

- a. SSE will follow through to have the indemnification clauses included in all agreements with special attention to the two cited agreements. Estimated date of completion: June 4, 2007
- b. Lease agreements will be issued for the arcade machines and the pool table. Estimated date of completion: June 4, 2007

FISCAL COMPLIANCE

Recommendation 11

We recommend that SSE ensure that finance committee minutes reflect the annual review of reserve allocations in compliance with its reserve policy.

Campus Response

We agree. The SSE Finance Committee minutes will record the annual review of reserve allocations. Estimated date of completion: June 4, 2007

PURCHASING AND ACCOUNTS PAYABLE

Recommendation 12

We recommend that SSE reiterate to staff and account holders existing cash disbursement policies and procedures regarding sufficient and appropriate supporting documentation and appropriate authorization.

Campus Response

We concur. A letter of instruction will be issued to remind personnel of the cash disbursement policies and procedures related to auxiliaries. Estimated date of completion: June 4, 2007

PROPERTY AND EQUIPMENT

Recommendation 13

We recommend that SSE update the current inventory listing to reflect all assets and their locations.

Campus Response

We concur. The SSE inventory will be updated to reflect all assets and the corresponding locations.
Estimated date of completion: June 4, 2007

AUXILIARY PROGRAMS

Recommendation 14

We recommend that SSE:

- a. Review and investigate denied off-line transactions.
- b. Automate the cashiering system to generate reports on denied transactions.
- c. Perform timely write-offs of inactive accounts.

Campus Response

We concur. SSE will implement the suggested improvements in the performance the Wolf Bucks program: On a weekly basis reports will be generated to review and evaluate denied and denied off-line transactions. Starting with the 2006/2007 academic year all remaining balances will be returned to the student accounts at the end of the academic year; for negative balances a write-off procedure will be applied. Estimated date of completion: June 4, 2007

SONOMA STUDENT UNION CORPORATION

CORPORATE GOVERNANCE

Recommendation 15

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

Campus Response

We concur. Action to amend the SSUC by-laws section will occur at the next regularly scheduled meeting of the SSUC Board of Directors on April 27. Wording for such an amendment will mirror wording in Title V, section 42600

At the same meeting, the Executive Director will also present for action the matter of amending the Articles of Incorporation, and propose a timetable for amending the Articles of Incorporation. Estimated date of completion of a timetable: June 4, 2007

PURCHASING AND ACCOUNTS PAYABLE

Recommendation 16

We recommend that the Union revise its policies and procedures to include a specified dollar threshold requirement for credit card purchases.

Campus Response

We concur. The Union credit card policy is being revised to reflect the spending limits for the Union. Estimated date of completion: June 4, 2007

PROPERTY AND EQUIPMENT

Recommendation 17

We recommend that the Union:

- a. Update the current inventory listing to reflect all assets.
- b. Ensure equipment is consistently tagged in a timely manner.

Campus Response

We concur. The Union inventory will be updated to reflect all assets. The campus will set up a training session with Union personnel to ensure that all property procedures are followed. Estimated date of completion: June 4, 2007

ASSOCIATED STUDENTS OF SONOMA STATE UNIVERSITY

CORPORATE GOVERNANCE

Recommendation 18

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

Campus Response

We agree. The AS subcommittee minutes will be signed and approved by an appropriate official.
Estimated date of completion: June 4, 2007



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 06-52 on *Auxiliary Organizations*,
Sonoma State University

LOS ANGELES

MARITIME ACADEMY

MONTEREY BAY

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

NORTHRIDGE

POMONA

SACRAMENTO

CBR/jt

SAN BERNARDINO

Enclosure

SAN DIEGO

cc: Dr. Ruben Armijañana, President
Mr. Laurence Furukawa-Schlereth, Vice President, Administration
and Finance

SAN FRANCISCO

SAN JOSÉ

SAN LUIS OBISPO

SAN MARCOS

SONOMA

STANISLAUS