

AUXILIARY ORGANIZATIONS
CALIFORNIA STATE UNIVERSITY,
DOMINGUEZ HILLS

Audit Report 06-53
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CONTENTS

Executive Summary	1
Introduction.....	5
Background	5
Purpose.....	6
Scope and Methodology.....	6

OBSERVATIONS, RECOMMENDATIONS, AND CAMPUS RESPONSES

CALIFORNIA STATE UNIVERSITY DOMINGUEZ HILLS FOUNDATION

Operating and Administrative Agreements.....	9
Operational Compliance	9
Policies and Procedures	9
Conflict of Interest	10
Segregation of Duties.....	11
Gift Receipts	11
Payroll	12
Cash Receipts and Handling	13
Fees, Revenues, and Receivables.....	14
Accounts Receivable.....	14
Gift Processing and Valuation	14

ASSOCIATED STUDENTS, CALIFORNIA STATE UNIVERSITY, DOMINGUEZ HILLS

Fiscal Compliance.....	16
Segregation of Duties.....	17
Cash Receipts and Handling	18
Fees, Revenues, and Receivables.....	18

DONALD P. AND KATHERINE B. LOKER **UNIVERSITY STUDENT UNION, INCORPORATED**

Facilities Agreements.....	20
Fiscal Compliance.....	20

APPENDICES

APPENDIX A:	Personnel Contacted
APPENDIX B:	Statement of Internal Controls
APPENDIX C:	Campus Response
APPENDIX D:	Chancellor's Acceptance

ABBREVIATIONS

AS	Associated Students, California State University, Dominguez Hills
CSU	California State University
EO	Executive Order
IRS	Internal Revenue Service
Foundation	California State University Dominguez Hills Foundation
RFIN	Resolution of the Committee on Finance
UBI	Unrelated Business Income
Union	Donald P. and Katherine B. Loker University Student Union, Incorporated

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, Dominguez Hills 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, Dominguez Hills campus and its auxiliary organizations from November 27, 2006, through December 21, 2006, and made a study and evaluation of the system of internal compliance/internal control in effect for the period January 2004 to December 2006. This report represents our triennial review.

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

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

Our study and evaluation at the *Donald P. and Katherine B. Loker University Student Union, Incorporated* 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 December 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.

CALIFORNIA STATE UNIVERSITY DOMINGUEZ HILLS FOUNDATION

OPERATING AND ADMINISTRATIVE AGREEMENTS [9]

The operating agreement between the California State University Dominguez Hills Foundation (Foundation) and the campus was not signed until one year after the inception date.

OPERATIONAL COMPLIANCE [9]

The Foundation had not developed a written procedure to address donations of stock. Further, the Foundation had not obtained annual conflict-of-interest statements from all board members for fiscal years 2003/04, 2004/05, and 2005/06.

SEGREGATION OF DUTIES [11]

Duties and responsibilities over certain accounting functions related to the gift receipts process were not appropriately segregated at the Foundation. Specifically, one individual had the ability to print gift receipts without an independent review or mitigating controls. In addition, certain duties and responsibilities related to payroll were not appropriately segregated at the Foundation.

CASH RECEIPTS AND HANDLING [13]

Administration of Foundation cash receipts and handling at dining locations were deficient. For example, cash was not adequately transported in a secure manner. Employees were used to transport deposits from satellite locations without adequate security escort. In addition, periodic, independent cash counts of satellite location safes were not documented.

FEES, REVENUES, AND RECEIVABLES [14]

The Foundation had not developed written policies and procedures to address the aging and write-off of pledges receivable. Further, certain gifts received by campus departments/colleges were not reported to university advancement in a timely manner.

ASSOCIATED STUDENTS, CALIFORNIA STATE UNIVERSITY, DOMINGUEZ HILLS

FISCAL COMPLIANCE [16]

The Associated Students, California State University, Dominguez Hills (AS) had neither accounted for nor tracked unrelated business income for childcare services provided to community members, nor filed an Internal Revenue Service Form 990-T.

SEGREGATION OF DUTIES [17]

Duties and responsibilities over certain cashiering functions were not adequately segregated at the AS offices. Several employees performed sales of movie tickets, had full access to the monies within the AS safe, and performed daily reconciliation of the safe.

CASH RECEIPTS AND HANDLING [18]

Administration of cash receipts and handling required improvement. Specifically, cash was not adequately transported in a secure manner. Employees were used to transport deposits from outlying areas to the AS offices without a security escort.

FEES, REVENUES, AND RECEIVABLES [18]

The AS accounts receivable policy and the current practice of the child development center were in conflict regarding the maximum amount of time an unpaid receivable should be allowed to lapse before suspending services.

DONALD P. AND KATHERINE B. LOKER
UNIVERSITY STUDENT UNION, INCORPORATED

FACILITIES AGREEMENTS [20]

The bookstore sublease agreement between the Donald P. and Katherine B. Loker University Student Union, Incorporated (Union) and the Foundation was not signed until one year after the inception date.

FISCAL COMPLIANCE [20]

The Union's reserve policy regarding minimum reserve levels did not reflect the current operational needs of the Union.

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 December 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 Dominguez Hills 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
- ▶ Fees, Revenues, and Receivables
- ▶ Purchasing and Accounts Payable
- ▶ Personnel and Payroll
- ▶ Property and Equipment
- ▶ Auxiliary Programs
- ▶ Information Technology

Associated Students, California State University, Dominguez Hills

- ▶ 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

Donald P. and Katherine B. Loker University Student Union, Incorporated

- ▶ 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

We have not performed any auditing procedures beyond December 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

CALIFORNIA STATE UNIVERSITY DOMINGUEZ HILLS FOUNDATION

OPERATING AND ADMINISTRATIVE AGREEMENTS

The operating agreement between the California State University Dominguez Hills Foundation (Foundation) and the campus was not signed until one year after the inception date.

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 Foundation executive director stated that the operating agreement was not executed timely due to oversight.

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

Recommendation 1

We recommend that the Foundation ensure that future operating agreements with the campus are executed in a timely manner.

Campus Response

We concur. Future operating agreements with the campus will be executed in a timely manner. This will be implemented starting with fiscal year 2007/08.

OPERATIONAL COMPLIANCE

POLICIES AND PROCEDURES

The Foundation had not developed a written procedure to address donations of stock.

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 procedures to address donations of stock.

The Foundation executive director stated that a procedure had not been developed because donations of stock were not a typical occurrence.

Failure to develop written procedures increases the risk that errors and misappropriations inconsistent with donor intentions may occur.

Recommendation 2

We recommend that the Foundation develop procedures to address donations of stock.

Campus Response

We concur. The Foundation will work with university advancement to develop policies and procedures that address donations of stock. This will be completed by June 2007.

CONFLICT OF INTEREST

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

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

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

The Foundation executive director stated that the conflict-of-interest statements were given to all board members for completion at the onset of each fiscal year, but certain board members did not return their completed forms.

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

Recommendation 3

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

Campus Response

We concur. The Foundation has obtained conflict-of-interest statements for past years, and in the future will ensure that annual conflict-of-interest statements are obtained from all board members. This will be implemented starting with fiscal year 2007/08.

SEGREGATION OF DUTIES

GIFT RECEIPTS

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

We found that one individual had the ability to print gift receipts without an independent review or mitigating controls.

Executive Order (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 California State University (CSU) system. Section 8.9.1, *Cash*, states that the auxiliary should receive cash in a consistent manner utilizing systems that ensure integrity of existing internal controls. The compilation further states that the auxiliary should establish a written recordkeeping system that enables gifts to be properly received, recorded, and acknowledged in accordance with donor restrictions and other requirements.

The Foundation executive director stated that the failure to adequately segregate duties related to the gift receipts process was due to oversight.

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

Recommendation 4

We recommend that the Foundation properly segregate certain accounting functions related to the gift receipts process or institute mitigating procedures approved by the campus vice president of administration and finance.

Campus Response

We concur. The Foundation will work with university advancement to properly segregate certain accounting functions related to the gift receipting process or institute mitigating procedures approved by the campus vice president of administration and finance. This will be completed by August 2007.

PAYROLL

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

We found that one individual:

- ▶ Performed payroll add/edit functions.
- ▶ Processed employee timesheets.
- ▶ Distributed paychecks without an independent review or mitigating controls.

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

The *Compilation of Policies and Procedures for California State University Auxiliary Organizations* sets sound business practice guidelines for auxiliary organizations operating within the CSU system. Section 8.9.6, *Payroll*, states that the auxiliary should establish a written system that ensures proper authorization, approval, and documentation of new hires, changes in employment, salary and wage rates, and payroll deductions.

The Foundation director of business and finance stated that the failure to adequately segregate certain payroll functions was due to staffing constraints.

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

Recommendation 5

We recommend that the Foundation properly segregate certain payroll functions or institute mitigating procedures approved by the campus vice president of administration and finance.

Campus Response

We concur. The Foundation will properly segregate certain payroll functions or institute mitigating procedures approved by the campus vice president of administration and finance. This will be completed by June 2007.

CASH RECEIPTS AND HANDLING

Administration of Foundation cash receipts and handling at dining locations were deficient.

We found that:

- ▶ Cash was not adequately transported in a secure manner. Employees were used to transport deposits from satellite locations without adequate security escort.
- ▶ Periodic, independent cash counts of satellite location safes were not 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 adequate administration of cash receipts and handling.

The Foundation office manager of campus dining services stated that the failure to provide adequate security to transport deposits and to document periodic, independent cash counts was due to oversight.

Inadequate administration of cash receipts and handling increases the risk of loss or misappropriation of funds.

Recommendation 6

We recommend that the Foundation:

- a. Ensure that individuals transporting deposits from outlying areas are accompanied by security escort or otherwise safeguarded.
- b. Document periodic, independent cash counts of satellite location safes.

Campus Response

We concur. The Foundation will implement procedures to ensure that individuals transporting deposits from outlying areas are accompanied by security escort or otherwise safeguarded; and, perform and document periodic, independent cash counts of satellite location safes. This will be completed by May 2007.

FEES, REVENUES, AND RECEIVABLES

ACCOUNTS RECEIVABLE

The Foundation had not developed written policies and procedures to address the aging and write-off of pledges receivable.

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 pledges receivable.

The Foundation executive director stated that the lack of the policies and procedures to address the aging and write-off of pledges receivable was due to oversight.

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

Recommendation 7

We recommend that the Foundation develop written policies and procedures to address the aging and write-off of pledges receivable.

Campus Response

We concur. The Foundation will work with university advancement to develop written policies and procedures to address the aging and write-off of pledges receivable. This will be completed by September 2007.

GIFT PROCESSING AND VALUATION

Certain gifts received by campus departments/colleges were not reported to university advancement in a timely manner.

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

The Foundation executive director stated that university advancement was in the process of revising its current procedures for the acceptance of gifts.

Donation acceptance that is not aligned with Foundation policies and procedures increases the risk of incorrect reporting and disallowance of a tax deduction for the donor.

Recommendation 8

We recommend that the Foundation reiterate current gift acceptance procedures to all campus departments/colleges.

Campus Response

We concur. The Foundation will work with university advancement to reiterate current gift acceptance procedures to all campus departments/colleges. This will be completed by July 2007.

ASSOCIATED STUDENTS,
CALIFORNIA STATE UNIVERSITY, DOMINGUEZ HILLS

FISCAL COMPLIANCE

The Associated Students, California State University, Dominguez Hills (AS) had neither accounted for nor tracked unrelated business income (UBI) for childcare services provided to community members, nor filed an Internal Revenue Service (IRS) Form 990-T.

Internal Revenue Code §512 through §514 defines an unrelated trade or business of an exempt organization as any trade or 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 AS general manager stated that childcare services were primarily established for students, faculty, and staff on campus and that services were only offered to the community if space was available at the center. He further stated his belief that since the university's philosophy is to serve and work with the community, childcare services offered to the community are not considered as UBI.

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

Recommendation 9

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

Campus Response

We concur. The AS will track fees from community members who utilize childcare services and will file Form 990-T in relation to this UBI. This will be completed by June 2007 and November 2007, respectively.

SEGREGATION OF DUTIES

Duties and responsibilities over certain cashiering functions were not adequately segregated at the AS offices.

We found that several employees:

- ▶ Performed sales of movie tickets.
- ▶ Had full access to the monies within the AS safe.
- ▶ Performed daily reconciliation of the safe.

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 receipt and disbursements are conducted with appropriate segregation of duties.

The AS general manager stated that the failure to adequately segregate cashiering duties was due to staffing constraints.

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

Recommendation 10

We recommend that the AS properly segregate certain cashiering functions or institute mitigating procedures approved by the campus vice president of administration and finance.

Campus Response

We concur. The AS will properly segregate certain cashiering functions or institute mitigating procedures approved by the campus vice president of administration and finance. This will be completed by July 2007.

CASH RECEIPTS AND HANDLING

Administration of AS cash receipts and handling required improvement.

Specifically, cash was not adequately transported in a secure manner. Employees were used to transport deposits from outlying areas to the AS offices without a security escort.

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

The AS general manager stated that the failure to provide adequate security for the transporting of deposits was due to oversight.

Inadequate controls over cash receipts and handling increase the risk of loss or misappropriation of funds.

Recommendation 11

We recommend that the AS ensure that individuals transporting deposits from outlying areas are accompanied by security escort or otherwise safeguarded.

Campus Response

We concur. The AS has established new procedures where all employees, both the AS and the child development center, transporting deposits to the university cashier's office must have a security escort.

FEES, REVENUES, AND RECEIVABLES

The AS accounts receivable policy and the current practice of the child development center were in conflict regarding the maximum amount of time an unpaid receivable should be allowed to lapse before suspending services.

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 written system to invoice customers promptly, in a consistent manner, while exercising due diligence in the follow-up and collection of past due accounts.

The AS general manager stated that the lack of consistency between the accounts receivable policy and current practices of the child development center was due to oversight.

Failure to ensure current business practices agree with written policies increases the risk that inconsistencies and misunderstandings will occur and subjects the AS to potential liability.

Recommendation 12

We recommend that the AS revise its accounts receivable policy to reflect the current practice of the child development center regarding the maximum amount of time an unpaid receivable should be allowed to lapse before suspending services.

Campus Response

We concur. The AS will revise its accounts receivable policy to reflect the current practice of the child development center regarding the maximum amount of time an unpaid receivable should be allowed to lapse before suspending services. This will be completed by June 2007.

DONALD P. AND KATHERINE B. LOKER
UNIVERSITY STUDENT UNION, INCORPORATED

FACILITIES AGREEMENTS

The bookstore sublease agreement between the Donald P. and Katherine B. Loker University Student Union, Incorporated (Union) and the Foundation was not signed until one year after the inception date.

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 Union executive director stated that the sublease agreement was not executed timely due to ongoing negotiations regarding terms.

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

Recommendation 13

We recommend that the Union ensure that all sublease agreements with the Foundation are executed in a timely manner.

Campus Response

We concur. The Union has executed the agreement with the Foundation and will execute future agreements in a timely manner. This will be implemented starting with fiscal year 2007/08.

FISCAL COMPLIANCE

The Union's reserve policy regarding minimum reserve levels did not reflect the current operational needs of the Union.

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 15.11.2, *Reserve Guidelines*, states that each student body organization shall have a written policy on reserves with specifically defined categories and targeted funding levels for each. Section 8.9.9, *Reserves and Net Assets*, states that the auxiliary should implement financial standards that will assure fiscal viability, including proper provision for professional management, adequate working

capital, adequate reserve funds for current operations and capital replacements, and adequate provisions for new business requirements.

The Union executive director stated that when the reserve policy was adopted, the specified minimum reserve level was adequate for the operational needs of the Union. She further stated that she was aware that the specified minimum reserve level did not reflect current operational needs and that she was in the process of developing a more comprehensive reserve policy after the opening of the new student union building.

An inadequate reserve policy increases the auxiliary's risk of not being able to fund future needs.

Recommendation 14

We recommend that the Union revise its reserve policy to include minimum reserve levels that reflect current operational needs.

Campus Response

We concur. The Union board of directors took action on Friday, April 6, 2007, to adopt a reserve accumulation policy that addresses all of the appropriate reserves. This will be implemented with the fiscal year 2007/08 budget.

APPENDIX A: PERSONNEL CONTACTED

Name

Title

CAMPUS

Boice M. Bowman	Interim President
James E. Lyons, Sr.	President (At time of review)
Olivia Ale	Resource and Fiscal Officer and Development Operations Supervisor
Brian Dahm	Director, Business Process Management (At time of review)
David McCulloch	Associate Director, Business Process Management
Mary Ann Rodriguez	Vice President, Administration and Finance

CALIFORNIA STATE UNIVERSITY DOMINGUEZ HILLS FOUNDATION

Rita Darcy	Grants and Contracts Administrator
Delia Diego	Office Manager, Campus Dining Services
James Egan	Payroll/Human Resources Officer
S. Kent Gibson	Executive Director
Danh Hoang	Accountant
Gloria Mendez	Director, Grants and Contracts Administration
Dawn Shimizu	Director, Business and Finance
Patty Young	Accounts Receivable

ASSOCIATED STUDENTS, CALIFORNIA STATE UNIVERSITY, DOMINGUEZ HILLS

Guy Witherspoon	General Manager
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DONALD P. AND KATHERINE B. LOKER UNIVERSITY STUDENT UNION, INCORPORATED

Linda Brown	Office Manager
Arnecia Bryant	Associate Director
Kim Clark	Executive Director
Cynthia Craig	Administrative and Communications Coordinator

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
Dominguez Hills

Office of the Vice President for Administration and Finance
1000 E. Victoria Street – WH B470 · Carson, CA 90747 · (310) 243-3750 · FAX (310) 234-3869

May 9, 2007

RECEIVED
UNIVERSITY AUDITOR

MAY - 9 2007

THE CALIFORNIA STATE
UNIVERSITY

Mr. Larry Mandel
University Auditor
The California State University
401 Golden Shore, 4th Floor
Long Beach, CA 90802-4210

Dear Mr. Mandel:

Enclosed please find California State University, Dominguez Hills' response to the Auxiliary Organizations Audit 06-53. The campus is committed to addressing and resolving the issues identified in the audit report.

If you have any questions or would like additional information, please contact me.

Sincerely,

A handwritten signature in cursive script that reads "Mary Ann Rodriguez".

Mary Ann Rodriguez
Vice President of Administration and Finance

- c: Boice M. Bowman, Interim President
Randy Zarn, Interim Vice President, Student Affairs
Karen Wall, Associate Vice President, Administration and Finance
Kim Clark, Executive Director, Loker Student Union
Kent Gibson, Executive Director, Foundation
Guy Witherspoon, Executive Director, Associated Student, Inc.

AUXILIARY ORGANIZATIONS
CALIFORNIA STATE UNIVERSITY,
DOMINGUEZ HILLS

Audit Report 06-53
April 17, 2007

CALIFORNIA STATE UNIVERSITY DOMINGUEZ HILLS FOUNDATION

OPERATING AND ADMINISTRATIVE AGREEMENTS

Recommendation 1

We recommend that the Foundation ensure that future operating agreements with the campus are executed in a timely manner.

Campus Response

We concur. Future operating agreements with the campus will be executed in a timely manner. This will be implemented starting with fiscal 2007/08.

OPERATIONAL COMPLIANCE

POLICIES AND PROCEDURES

Recommendation 2

We recommend that the Foundation develop procedures to address donations of stock.

Campus Response

We concur. The Foundation will work with University Advancement to develop policies and procedures that address donations of stock. This will be completed June 2007.

CONFLICT OF INTEREST

Recommendation 3

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

Campus Response

We concur. The Foundation has obtained conflict-of-interest statements for past years, and in the future will ensure that annual conflict-of-interest statements are obtained from all Board members. This will be implemented starting with fiscal 2007/08.

SEGREGATION OF DUTIES

GIFT RECEIPTS

Recommendation 4

We recommend that the Foundation properly segregate certain accounting functions related to the gift receipts process or institute mitigating procedures approved by the campus vice president of administration and finance.

Campus Response

We concur. The Foundation will work with University Advancement to properly segregate certain accounting functions related to the gift receipting process or institute mitigating procedures approved by the campus vice president of administration and finance. This will be completed by August 2007.

PAYROLL

Recommendation 5

We recommend that the Foundation properly segregate certain payroll functions or institute mitigating procedures approved by the campus vice president of administration and finance.

Campus Response

We concur. The Foundation will properly segregate certain payroll functions or institute mitigating procedures approved by the campus vice president of administration and finance. This will be completed by June 2007.

CASH RECEIPTS AND HANDLING

Recommendation 6

We recommend that the Foundation:

- a. Ensure that individuals transporting deposits from outlying areas are accompanied by security escort or otherwise safeguarded.
- b. Document periodic, independent cash counts of satellite location safes.

Campus Response

We concur. The Foundation will implement procedures to ensure that individuals transporting deposits from outlying areas are accompanied by security escort or otherwise safeguarded; and, perform and document periodic, independent cash counts of satellite location safes. This will be completed by May 2007.

FEES, REVENUES, AND RECEIVABLES

ACCOUNTS RECEIVABLE

Recommendation 7

We recommend that the Foundation develop written policies and procedures to address the aging and write-off of pledges receivable.

Campus Response

We concur. The Foundation will work with University Advancement to develop written policies and procedures to address aging and write-off of pledges receivable. This will be completed by September 2007.

GIFT PROCESSING AND VALUATION

Recommendation 8

We recommend that the Foundation reiterate current gift acceptance procedures to all campus departments/colleges.

Campus Response

We concur. The Foundation will work with University Advancement to reiterate current gift acceptance procedures to all campus departments/colleges. This will be completed by July 2007.

ASSOCIATED STUDENTS,
CALIFORNIA STATE UNIVERSITY, DOMINGUEZ HILLS

FISCAL COMPLIANCE

Recommendation 9

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

Campus Response

We concur. AS will track fees from community members who utilize childcare services and will file Form 990T in relation to this Unrelated Business Income. This will be completed by June 2007 and November 2007 respectively.

SEGREGATION OF DUTIES

Recommendation 10

We recommend that the AS properly segregate certain cashiering functions or institute mitigating procedures approved by the campus vice president of administration and finance.

Campus Response

We concur. AS will properly segregate certain cashiering functions or institute mitigating procedures approved by the campus vice president of administration and finance. This will be completed by July 2007.

CASH RECEIPTS AND HANDLING

Recommendation 11

We recommend that the AS ensure that individuals transporting deposits from outlying areas are accompanied by security escort or otherwise safeguarded.

Campus Response

We concur. AS has established new procedures where all employees, both AS and child development center, transporting deposits to the University Cashier's office must have a security escort.

FEES, REVENUES, AND RECEIVABLES

Recommendation 12

We recommend that the AS revise its accounts receivable policy to reflect the current practice of the child development center regarding the maximum amount of time an unpaid receivable should be allowed to lapse before suspending services.

Campus Response

We concur. AS will revise its accounts receivable policy to reflect the current practice of the child development center regarding the maximum amount of time an unpaid receivable should be allowed to lapse before suspending services. This will be completed by June 2007.

DONALD P. AND KATHERINE B. LOKER
UNIVERSITY STUDENT UNION, INCORPORATED

FACILITIES AGREEMENTS

Recommendation 13

We recommend that the Union ensure that all sublease agreements with the Foundation are executed in a timely manner.

Campus Response

We concur. The Union has executed the agreement with the Foundation, and will execute future agreements in a timely manner. This will be implemented starting with fiscal 2007/08.

FISCAL COMPLIANCE

Recommendation 14

We recommend that the Union revise its reserve policy to include minimum reserve levels that reflect current operational needs.

Campus Response

We concur. The Union board of directors took action on Friday, April 6, 2007 to adopt a reserve accumulation policy that addresses all of the appropriate reserves. This will be implemented with the fiscal year 2007/08 budget.

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 06-53 on *Auxiliary Organizations*,
California State University, Dominguez Hills

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, Dominguez Hills.

MONTEREY BAY

NORTHRIDGE

POMONA

CBR/jt

SACRAMENTO

Enclosure

SAN BERNARDINO

cc: Dr. Boice M. Bowman, Interim President
Ms. Mary Ann Rodriguez, Vice President, Administration and Finance

SAN DIEGO

SAN FRANCISCO

SAN JOSÉ

SAN LUIS OBISPO

SAN MARCOS

SONOMA

STANISLAUS