

AUXILIARY ORGANIZATIONS
CALIFORNIA STATE POLYTECHNIC UNIVERSITY,
POMONA

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ABBREVIATIONS

Advisor	Principal Investment Advisor
ASI	Associated Students, Incorporated, California State Polytechnic University, Pomona
ATM	Automated Teller Machine
CFO	Chief Financial Officer
CSU	California State University
EO	Executive Order
Foundation	The Cal Poly Pomona Foundation, Inc.
IRS	Internal Revenue Service
RFIN	Resolution of the Committee on Finance
UET	Cal Poly Pomona University Educational Trust

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 Polytechnic University, Pomona 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 Polytechnic University, Pomona campus and its auxiliary organizations from January 29, 2007, through March 2, 2007, and made a study and evaluation of the system of internal compliance/internal control in effect for the period March 2004 to March 2007. This report represents our triennial review.

Our study and evaluation at *The Cal Poly Pomona 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 March 2007 taken as a whole, was sufficient to meet the objectives stated above.

Our study and evaluation at the *Cal Poly Pomona University Educational Trust* 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 March 2007 taken as a whole, was sufficient to meet the objectives stated above.

Our study and evaluation at the *Associated Students, Incorporated, California State Polytechnic University, Pomona* 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 March 2007 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]

The campus did not seek timely reimbursement for the General Fund for space related to sponsored programs and certain direct and indirect costs associated with services provided to The Cal Poly Pomona Foundation, Inc.'s (Foundation) Innovation Village project.

PROGRAM COMPLIANCE [11]

The campus financial aid office did not issue Internal Revenue Service Form 1098-T to students for the reporting of certain Foundation scholarship awards.

CAMPUS OVERSIGHT AND CONTROL [12]

The campus classified donor requirements in the development system by fund restriction categories, however, these categories were not communicated to the auxiliaries.

AUXILIARY PROGRAMS [12]

Cost share commitments by the campus were not sufficiently identified to ensure commitments were verifiable and were not included as contributions for other federally funded projects.

THE CAL POLY POMONA FOUNDATION, INC.

OPERATING AND ADMINISTRATIVE AGREEMENTS [14]

The indemnification provisions in certain agreements among The Cal Poly Pomona Foundation, Inc. (Foundation) and two food service vendors did not include clauses to indemnify the California State University Trustees, the campus, and the State of California.

SEGREGATION OF DUTIES [14]

Certain duties and responsibilities related to cash receipts processing were not appropriately segregated at the Foundation bookstore. Specifically, bookstore accounting technicians reconciled cash till bags and prepared daily deposits. Further, duties and responsibilities over certain payroll functions were not appropriately segregated at the Foundation. For example, department managers authorized personnel transactions, approved timesheets, and picked up payroll checks. In addition, certain Foundation operational and accounting management personnel had unrestricted access to the campus card information system.

CASH RECEIPTS AND HANDLING [17]

The Foundation had not developed written policies and procedures addressing its methodology for calculating sales tax on commercial dining operations.

INVESTMENTS [18]

Foundation investment and endowment accounting procedures were not documented, including those specifically related to its accounting for Cal Poly Pomona University Educational Trust endowment and other funds.

PURCHASING AND ACCOUNTS PAYABLE [19]

The Foundation inappropriately recorded adjusted invoice dates within its accounting system.

PROPERTY AND EQUIPMENT [20]

Administration of Foundation property and equipment was deficient. Specifically, capitalized equipment was not consistently tagged and non-capitalized, controlled equipment was not tagged or tracked.

CAL POLY POMONA UNIVERSITY EDUCATIONAL TRUST

OPERATING AND ADMINISTRATIVE AGREEMENTS [22]

The business arrangement between the Cal Poly Pomona University Educational Trust (UET) and its principal investment advisor (Advisor) for certain trust and endowment accounting services (endowment unitization) was not included with its current, written agreement.

FISCAL COMPLIANCE [22]

The UET had not fully reimbursed the General Fund for direct and indirect costs associated with services provided by certain campus staff.

SEGREGATION OF DUTIES [23]

Certain duties and responsibilities related to endowment gift processing (performed by the Foundation for the UET) were not appropriately segregated. For example, a Foundation financial services accountant prepared bank deposits, directed deposits to the bank, created entries to subsidiary ledger or detailed record, and reconciled bank accounts.

ENDOWMENT ADMINISTRATION [24]

UET endowment account reports from the Advisor for fiscal year 2005/06 were inappropriately distributed to account administrators prior to being verified by the Foundation for accuracy and reconciled to accounting general ledgers.

ASSOCIATED STUDENTS, INCORPORATED, CALIFORNIA STATE POLYTECHNIC UNIVERSITY, POMONA

FACILITIES AGREEMENTS [26]

Certain facility agreements between the Associated Students, Incorporated, California State Polytechnic University, Pomona (ASI) and other entities were incomplete. For example, the sublease with the bank for space for the automated teller machine did not grant the president of the campus authority to approve the agreement and did not contain a master agreement clause and consideration was not sufficiently articulated in the memorandum of understanding between the campus and the ASI for the ground lease and services provided by the campus to the children's center.

CORPORATE GOVERNANCE [27]

The ASI had not updated the public meetings procedures to reflect the requirements of the Gloria Romero Open Meetings Act.

FISCAL COMPLIANCE [28]

The ASI did not maintain documentation evidencing the need for reserves related to capital acquisition and replacement.

OPERATIONAL COMPLIANCE [29]

The ASI had neither developed nor implemented policies and procedures to address the administration of student volunteers.

SEGREGATION OF DUTIES [30]

Certain duties and responsibilities related to cash receipts processing and accounts receivable were not adequately segregated at the ASI. For example, one employee had access to the vault, had the ability to make adjustments to deposit batches, and had access to blank checks.

PURCHASING AND ACCOUNTS PAYABLE [31]

Certain ASI cash disbursements were not supported by sufficient and appropriate documentation and/or appropriate authorization. A review of 51 cash disbursements disclosed that in four instances, travel advances were issued without travel authorizations. In addition, the ASI had not developed written procurement policies and procedures to address competitive bids for contracts.

PROPERTY AND EQUIPMENT [33]

Administration of ASI property and equipment was deficient. Specifically, capitalized equipment was not tagged and non-capitalized equipment was not tagged or tracked.

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 2006 to March 2007. 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:

The Cal Poly Pomona 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
- ▶ Investments
- ▶ Fees, Revenues, and Receivables
- ▶ Purchasing and Accounts Payable
- ▶ Personnel and Payroll
- ▶ Property and Equipment
- ▶ Trusts and Other Liabilities
- ▶ Auxiliary Programs
- ▶ Information Technology

Cal Poly Pomona University Educational Trust

- ▶ 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

Cal Poly Pomona University Educational Trust (cont.)

- ▶ Property and Equipment
- ▶ Trusts and Other Liabilities
- ▶ Auxiliary Programs
- ▶ Information Technology

Associated Students, Incorporated, California State Polytechnic University, Pomona

- ▶ 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

We have not performed any auditing procedures beyond March 2007. 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

The campus did not seek timely reimbursement for the General Fund for certain direct and indirect costs associated with services provided to The Cal Poly Pomona Foundation, Inc. (Foundation).

We noted that:

- ▶ Reimbursement by the Foundation for space related to sponsored programs was untimely due to the lack of proper invoicing by the campus.
- ▶ An evaluation of maintenance, security, and other related costs associated with the common areas within Innovation Village had not been performed since 2003.

Executive Order (EO) 753, *Allocation of Costs to Auxiliary Enterprises*, dated July 28, 2000, established the responsibility for auxiliaries to pay allowable direct costs plus an allocable portion of indirect costs associated with facilities, goods, and services provided by the campus and funded by the General Fund.

The associate vice president of finance and administrative affairs stated that the calculation of space utilization costs was performed after fiscal year-end and the late invoicing was due to workload issues. He further stated that the common area cost allocation was due for an update.

Failure to timely reimburse for all costs associated with state services could result in the General Fund not being properly reimbursed for services provided to the auxiliary organization.

Recommendation 1

We recommend that the campus:

- a. Timely request reimbursement from the Foundation for use of campus space for Foundation sponsored programs.
- b. Perform an evaluation, in conjunction with the Foundation, of maintenance, security, and other related costs associated with the common areas within Innovation Village and reimburse as appropriate.

Campus Response

We concur.

- a. The campus will invoice the Foundation before the end of July of each year so that the receivable is recorded before the legal basis year-end closing.
- b. An update of maintenance, security, and other related costs associated with the common areas within Innovation Village will be performed and reimbursements will be revised accordingly.

Timeline: July 31, 2008

PROGRAM COMPLIANCE

The campus financial aid office did not issue Internal Revenue Service (IRS) Form 1098-T to students for the reporting of certain Foundation scholarship awards.

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 proper reporting of scholarship funds awarded to students.

The associate vice president of finance and administrative affairs stated that the failure to issue IRS Form 1098-T to students was due to information not transferred from the financial aid office to the student accounting office, which prepares the 1098-T reports.

Failure to issue appropriate tax-related documents increases the risk of tax penalties on awarded scholarship funds.

Recommendation 2

We recommend that the campus financial aid office, upon notification from the Foundation, inform the student accounting office to issue IRS Form 1098-T to students for the reporting of scholarship awards.

Campus Response

We concur.

The financial aid department and student accounting department will implement procedures to ensure that Foundation scholarship awards are reported in the students' Form 1098-T.

Timeline: January 31, 2008

CAMPUS OVERSIGHT AND CONTROL

The campus classified donor requirements in the development system by fund restriction categories, however, these categories were not communicated to the auxiliaries.

Specifically, the campus and its auxiliaries received various types of donor restricted funds. The campus created a number of fund restriction categories within the development system to account for the various donor requirements. However, the campus had not shared these categories with the auxiliaries.

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 8.9.3, *Donations, Program Service Fees, Other Income*, states that an auxiliary should properly record and account for donations, program service fees and other income in accordance with external and internal requirements.

The associate vice president of finance and administrative affairs stated that the campus understands that additional oversight of funding source restrictions was necessary; however, conflicting requirements prevented implementation.

Failure to properly coordinate oversight and control of fund restrictions increases the risk of misunderstandings and miscommunication regarding rights and responsibilities and non-compliance with donor intentions.

Recommendation 3

We recommend that the campus communicate the fund restriction categories in the development system to its auxiliaries.

Campus Response

We concur.

The campus will implement procedures to communicate fund restriction categories to the auxiliaries each time a category is added, modified, or deleted.

AUXILIARY PROGRAMS

Cost share commitments by the campus were not sufficiently identified to ensure commitments were verifiable and were not included as contributions for other federally funded projects.

Office of Management and Budget Circular A-110, *Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Non-Profit*

Organizations, §.51(a), indicates that recipients are responsible for managing and monitoring each project, program, sub-award, function, or activity supported by the award.

Title 5 §42401, §42402, §42500 and Education Code §89900 establish a responsibility to operate in accordance with sound business practices in the interest of the campus. Sound business practice mandates clear policies and procedures with respect to tracking and monitoring compliance requirements.

The Foundation contracts and grants director stated her belief that cost share partners had signed a budget sheet evidencing their awareness of their role and responsibilities.

Failure to provide adequate sponsored program oversight increases the risk of grants being inappropriately managed, and penalties and disallowances for non-compliance with grants terms.

Recommendation 4

We recommend that the campus record cost share commitments on the campus ledgers.

Campus Response

We concur.

The campus will record cost share commitments in a memorandum ledger.

Timeline: January 31, 2008

THE CAL POLY POMONA FOUNDATION, INC.

OPERATING AND ADMINISTRATIVE AGREEMENTS

The indemnification provisions in certain agreements among The Cal Poly Pomona Foundation, Inc. (Foundation) and two food service vendors did not include clauses to indemnify the CSU Trustees, the campus, and the State of California.

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

The Foundation executive director stated that the inadequate indemnification provision was due to oversight.

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

Recommendation 5

We recommend that the Foundation ensure that all agreements include appropriate indemnification clauses.

Campus Response

We concur.

The Foundation will ensure that all agreements include appropriate indemnification clauses.

Timeline: November 30, 2007

SEGREGATION OF DUTIES

CASH RECEIPTS

Certain duties and responsibilities related to cash receipts processing were not appropriately segregated at the Foundation bookstore.

We found that bookstore accounting technicians:

- ▶ Reconciled cash till bags.

- ▶ Prepared daily deposits.

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 control system that ensures cash receipts and disbursements are conducted with appropriate segregation of duties. It further states that reconciliations and reviews should be done on a timely basis with independent management review.

The Foundation chief financial officer (CFO) stated his belief that certain mitigating procedures guarded against errors and irregularities from occurring.

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

Recommendation 6

We recommend that the Foundation bookstore properly segregate the reconciliation of cash till bags from the preparation of daily deposits.

Campus Response

We concur.

The Foundation will revise the procedures for reconciling the cash till bags and the preparation of the daily deposits to properly segregate these functions.

Timeline: November 30, 2007

PAYROLL

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

We found that department managers:

- ▶ Authorized personnel transactions.
- ▶ Approved timesheets.
- ▶ Picked up payroll checks.

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 CSU system. Section 8.9.6, *Payroll*, states that the auxiliary should establish a written internal control system that ensures payroll preparation is segregated from the general ledger function and other payroll functions such as hiring authorization, timekeeping, and distribution of checks.

The Foundation payroll manager 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 7

We recommend that the Foundation properly segregate certain payroll functions or institute mitigating procedures approved by the campus CFO.

Campus Response

We concur.

The Foundation will document that it has revised the payroll procedures to properly segregate these functions.

Timeline: November 30, 2007

INFORMATION TECHNOLOGY

Certain Foundation operational and accounting management personnel had unrestricted access to the campus card information system.

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

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

The Foundation CFO stated that staffing constraints did not allow for an appropriate segregation of duties and mitigating control had only recently been implemented.

The absence of appropriate system access controls increases the risk of unauthorized and inappropriate acts.

Recommendation 8

We recommend that the campus limit access to the card information system or consider implementing regular supervisory reviews of transaction detail reports for users with unrestricted access to the card information system.

Campus Response

We concur.

The Foundation will revise the procedure and implement regular supervisory reviews of transaction detail reports for users with unrestricted access to the card information system.

Timeline: November 30, 2007

CASH RECEIPTS AND HANDLING

The Foundation had not developed written policies and procedures addressing its methodology for calculating sales tax on commercial dining operations.

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 sales tax be fully developed.

The Foundation CFO stated that the lack of policies and procedures to address sales tax on commercial dining operations was due to an oversight.

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

Recommendation 9

We recommend that the Foundation develop written policies and procedures to address its methodology for calculating sales tax on commercial dining operations.

Campus Response

We concur.

The Foundation will document that it has developed written policies and procedures to address its methodology for calculating sales tax on commercial dining operations.

Timeline: November 30, 2007

INVESTMENTS

Foundation investment and endowment accounting procedures were not documented, including those specifically related to its accounting for Cal Poly Pomona University Educational Trust (UET) endowment and other funds.

Such accounting procedures should address:

- ▶ Periodic reconciliations of investment records to general ledger accounts.
- ▶ Methodology for the distribution of investment earnings.
- ▶ Appropriate level of approval for investment purchases and sales transactions.
- ▶ Process for the quarterly calculation of the fixed income yield and quarterly allocation of the investment account value to market adjustment.

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 the administration and management of investment accounts.

The *Compilation of Policies and Procedures for California State University Auxiliary Organizations* sets sound business practice guidelines for auxiliary organizations operating within the CSU system. Section 8.9.2, *Investments*, states that the auxiliary should protect and properly account for investments and investment income in accordance with source restrictions and other requirements.

The Foundation CFO stated that investment and endowment accounting procedures were not documented due to recent staff turnover and changes in processes.

Failure to document investment and endowment accounting procedures increases the risk that funds will be handled inappropriately and contrary to the expectations of the campus and donors.

Recommendation 10

We recommend that the Foundation document its investment and endowment accounting procedures, including those specifically related to its UET endowment and other funds.

Campus Response

We concur.

The Foundation will develop written investment and endowment accounting procedures, including those specifically related to its UET endowment and other funds.

Timeline: November 30, 2007

PURCHASING AND ACCOUNTS PAYABLE

The Foundation inappropriately recorded adjusted invoice dates within its accounting system.

During our review of disbursements, we noted six past-due invoices that were submitted to the Foundation's accounts payable department. We found that it was the practice of accounts payable staff to change the invoice date in the accounting system to the first day of the current month that the invoice was submitted by campus and bookstore staff.

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 accurate recording and timely payment of invoices.

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 8.9.5, *Procurement*, states that the auxiliary should establish written system that ensures accurate and timely payment of vendors after the determination of the receipt of goods or services or under the terms of the transaction.

The Foundation general business manager stated that invoice dates were changed in the accounting system to make it easier to find the most current payment to a particular vendor.

Intentionally altering invoice information in the accounting system increases the risk of errors, irregularities, or misappropriation of funds.

Recommendation 11

We recommend that the Foundation record accurate invoice information into its accounting system.

Campus Response

We concur.

The Foundation will document that it has begun to enter the invoice date in the accounts payable system as it appears on the invoice.

Timeline: November 30, 2007

PROPERTY AND EQUIPMENT

Administration of Foundation property and equipment was deficient.

We found that:

- ▶ Capitalized equipment was not consistently tagged.
- ▶ Non-capitalized, controlled equipment was not tagged or tracked.

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

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

The Foundation CFO stated that the failure to appropriately tag and track equipment was due to oversight.

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

Recommendation 12

We recommend that the Foundation:

- a. Ensure that all equipment is tagged in a timely manner.
- b. Tag or track non-capitalized, controlled equipment.

Campus Response

We concur.

- a. The Foundation will tag all fixed assets portable equipment greater than \$5,000 in the fixed assets module by the subsequent month.
- b. Controlled equipment not capitalized will be tracked in the accounting system.

Timeline: January 31, 2008

CAL POLY POMONA UNIVERSITY EDUCATIONAL TRUST

OPERATING AND ADMINISTRATIVE AGREEMENTS

The business arrangement between the Cal Poly Pomona University Educational Trust (UET) and its principal investment advisor (Advisor) for certain trust and endowment accounting services (endowment unitization) was not included with its current, written agreement.

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

The UET executive director stated that the current agreement did not include the endowment unitization services provided by the Advisor due to oversight.

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

Recommendation 13

We recommend that the UET ensure that the board's approval of the continuation of the agreement with the Advisor for certain trust and endowment accounting services is formally approved via board resolution or other form of formal ratification.

Campus Response

We concur.

The UET board will review and approve the amendment to the agreement between the UET and the Advisor regarding certain trust and endowment accounting services.

Timeline: November 30, 2007

FISCAL COMPLIANCE

The UET had not fully reimbursed the General Fund for direct and indirect costs associated with services provided by certain campus staff.

EO 753, *Allocation of Costs to Auxiliary Enterprises*, dated July 28, 2000, established the responsibility for auxiliaries to pay allowable direct costs plus an allocable portion of indirect costs

associated with facilities, goods, and services provided by the campus and funded by the General Fund.

The UET executive director stated that such costs were limited and had not been updated.

Failure to reimburse for all costs associated with state services could result in the General Fund not being properly reimbursed for services provided to the auxiliary organization.

Recommendation 14

We recommend that the UET fully reimburse the General Fund for direct and indirect costs associated with services provided by campus staff.

Campus Response

We concur.

The UET will fully reimburse the General Fund for direct and indirect costs associated with services provided by campus staff.

Timeline: December 31, 2007

SEGREGATION OF DUTIES

Certain duties and responsibilities related to endowment gift processing (performed by the Foundation for the UET) were not appropriately segregated.

We found that a Foundation financial services accountant:

- ▶ Prepared bank deposits.
- ▶ Physically directed deposits to the bank.
- ▶ Created accounting entries to the general ledger.
- ▶ Reconciled bank accounts.

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

The *Compilation of Policies and Procedures for California State University Auxiliary Organizations* sets sound business practice guidelines for auxiliary organizations operating within the CSU system. Section 8.9.1, *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 CFO stated that the failure to segregate the duties was an oversight.

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

Recommendation 15

We recommend that the Foundation properly segregate certain duties and responsibilities related to endowment gift processing for the UET or institute mitigating controls approved by the campus CFO.

Campus Response

We concur.

The Foundation will properly segregate certain duties and responsibilities and institute mitigating controls related to endowment gift processing for the UET.

Timeline: November 30, 2007

ENDOWMENT ADMINISTRATION

UET endowment account reports from the Advisor for fiscal year 2005/06 were inappropriately distributed to account administrators prior to being verified by the Foundation for accuracy and reconciled to accounting 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 endowment activity reports be appropriately verified for accuracy and reconciled to accounting general ledgers.

The UET executive director stated that administrative staff distributed reports transmitted by the Advisor prior to the Foundation verifying the accuracy due to oversight.

Failure to verify and reconcile financial reports prior to distribution increases the risk that errors and irregularities will not be detected timely.

Recommendation 16

We recommend that the UET ensure that endowment account reports from the Advisor are verified for accuracy by the Foundation and reconciled to accounting general ledgers prior to distribution to account administrators.

Campus Response

We concur.

The UET will ensure through the Foundation CFO that endowment account reports from the Advisor are verified for accuracy and reconciled to accounting general ledgers prior to distribution to account administrators.

Timeline: November 30, 2007

ASSOCIATED STUDENTS, INCORPORATED,
CALIFORNIA STATE POLYTECHNIC UNIVERSITY, POMONA

FACILITIES AGREEMENTS

Certain facility agreements between the Associated Students, Incorporated, California State Polytechnic University, Pomona (ASI) and other entities were incomplete.

We found that:

- ▶ The sublease with the bank for space for the automated teller machine (ATM) did not grant the president of the campus authority to approve the agreement and did not contain a master agreement clause.
- ▶ Consideration was not sufficiently articulated in the memorandum of understanding between the campus and the ASI for the ground lease and services provided by the campus to the children's center.

Education Code §89046 and Title 5 §42601 and §42502 mandate that auxiliaries appropriately pay rent on space in tax-supported buildings.

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

The ASI administrator-in-charge of business services stated that the ATM sublease was incomplete due to oversight. The ASI executive director stated that consideration for the sublease was articulated to the campus, but was not specified in the agreement.

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

Recommendation 17

We recommend that the ASI ensure that current and future business arrangements are supported by complete agreements.

Campus Response

We concur.

The ASI will ensure that current and future business arrangements are supported by complete agreements.

Timeline: March 30, 2008

CORPORATE GOVERNANCE

The ASI had not updated public meeting procedures to reflect the requirements of the Gloria Romero Open Meetings Act.

Education Code §89305 through §89307.4 known as the Gloria Romero Open Meetings Act of 2000 prescribes specific requirements regarding public meetings unique to CSU student body organizations.

The ASI administrator-in-charge of business services stated that although specific procedures had not been written, public meetings had been in compliance with the Gloria Romero Open Meetings Act.

Insufficiently developed procedures increase the risk of misunderstandings and miscommunication regarding rights and responsibilities and non-compliance with legal requirements.

Recommendation 18

We recommend that the ASI update public meeting procedures to reflect the requirements of the Gloria Romero Open Meetings Act.

Campus Response

We concur.

The ASI government will update its public meeting procedures.

Timeline: March 30, 2008

FISCAL COMPLIANCE

The ASI did not maintain documentation evidencing the need for reserves related to capital acquisition and replacement.

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 proper reserve documentation be maintained.

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 8.1.1.2 A-2, *Basis for Financial Standards and Fiscal Viability – Financial Statements*, states that an evaluation of the need for reserves in the following areas: a) Working capital, b) Current operations, c) Capital replacement, and d) Planned future operations.

The ASI administrator-in-charge of business services stated that reserve analysis was performed as part of the ASI strategic planning, but documentation had not been maintained.

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

Recommendation 19

We recommend that the ASI maintain documentation evidencing the need for reserves related to capital acquisition and replacement.

Campus Response

We concur.

The ASI will review our reserve documentation for capital acquisition and replacement and update it for current and future projected requirements.

Timeline: March 30, 2008

OPERATIONAL COMPLIANCE

The ASI had neither developed nor implemented policies and procedures to address the administration of student volunteers.

Volunteer policies and procedures, at a minimum, should consider the following:

- ▶ Management of organizational volunteers.
- ▶ Potential workers' compensation issues relating to volunteers.
- ▶ Risk management concerns relating to volunteers.
- ▶ The collection and management of confidential records and information relating to volunteers.

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 written policies and procedures addressing the administration of volunteers be developed and implemented.

The ASI administrator-in-charge of programs, recreational sports and marketing stated that the failure to develop and implement policies and procedures to address the administration of volunteers was due to oversight.

Failure to fully develop and communicate written policies and procedures weakens internal controls, increases the risk that misunderstandings will occur, and may subject the auxiliary and the CSU to potential liability.

Recommendation 20

We recommend that the ASI coordinate with the campus to develop and implement policies and procedures to address the administration of student volunteers.

Campus Response

We concur.

The ASI will develop and implement policies and procedures to address the administration of student volunteers.

Timeline: March 30, 2008

SEGREGATION OF DUTIES

Certain duties and responsibilities related to cash receipts processing and accounts receivable were not adequately segregated at the ASI.

We found that one employee:

- ▶ Had access to the vault.
- ▶ Collected and posted cash receipts.
- ▶ Had the ability to make adjustments to deposit batches.
- ▶ Had full access to the accounts receivable database and general ledger accounting system.
- ▶ Prepared invoices, created accounts receivables, and mailed invoices.
- ▶ Had access to blank invoices.

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

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

The ASI administrator-in-charge of business services stated that deficiencies were due to staffing constraints that had resulted from consolidation of duties.

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

Recommendation 21

We recommend that the ASI properly segregate certain accounting functions for cash receipts processing and accounts receivable or institute mitigating procedures approved by the campus CFO.

Campus Response

We concur.

The duties and responsibilities related to cash receipts processing and accounts receivable will be reviewed and changed to ensure proper segregation.

Timeline: September 30, 2007

PURCHASING AND ACCOUNTS PAYABLE

DISBURSEMENTS

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

Our review of 51 cash disbursements disclosed the following:

Process Controls

- ▶ In four instances, travel advances were issued without travel authorizations.

Processing Exceptions

- ▶ In four instances, payment was issued without sufficient supporting documentation.
- ▶ In one instance, payment was issued without an authorized signer on the disbursement request.

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

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

The ASI administrator-in-charge of business services stated that the travel advances were approved during the annual budget and stated her belief that obtaining travel authorizations again would be excessive. She further stated that the lack of supporting documentation was due to the requester not being comfortable with providing credit card statements. In addition, she stated that the unauthorized signer for the disbursement request was due to oversight.

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

Recommendation 22

We recommend that the ASI:

- a. Ensure that written travel authorization is included within the travel advance process.

- b. Reiterate to staff on cash disbursement policies and procedures regarding sufficient and appropriate supporting documentation and authorization.

Campus Response

We concur.

- a. The ASI travel policy will be revised to reflect that written travel authorization is included within the travel advance process.
- b. Staff will be advised concerning the cash disbursement policies and procedures regarding sufficient and appropriate supporting documentation and authorization.

Timeline: September 30, 2007

PROCUREMENT PROCESS

The ASI had not developed written procurement policies and procedures to address competitive bids for contracts.

Policies and procedures for competitive bidding, at a minimum, should consider the following:

- ▶ Analyzing the pre-qualifications of the contractors, subcontractors, and/or suppliers.
- ▶ Evaluating their performance ability from a financial and operational standpoint.

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 written policies and procedures addressing competitive bids for contracts be developed.

The ASI administrator-in-charge of business services stated that although procurement policies and procedures were not written, management had in the past competitively bid on certain contracts where they believed it was appropriate.

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

Recommendation 23

We recommend that the ASI develop written procurement policies and procedures to address competitive bids for contracts.

Campus Response

We concur.

The ASI financial policy and procedures on procurement will be revised to incorporate competitive bidding on contracts.

Timeline: March 30, 2008

PROPERTY AND EQUIPMENT

Administration of ASI property and equipment was deficient.

We found that:

- ▶ Capitalized equipment was not tagged.
- ▶ Non-capitalized, controlled equipment was not tagged or tracked.

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 proper administration of property and equipment.

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

The ASI administrator-in-charge of business services stated that failure to appropriately tag or track equipment was due to oversight.

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

Recommendation 24

We recommend that the ASI:

- a. Ensure that all equipment is tagged in a timely manner.
- b. Tag or track non-capitalized, controlled equipment.

Campus Response

We concur.

- a. The ASI receiving procedures will be revised to ensure all equipment is tagged and inventoried in a timely manner.
- b. The ASI will ensure that all non-capitalized, controlled equipment is tagged or tracked promptly.

Timeline: March 30, 2008

APPENDIX A: PERSONNEL CONTACTED

Name

Title

CAMPUS

J. Michael Ortiz	President
Edwin Barnes, III	Vice President, Administrative Affairs and Chief Financial Officer (CFO)
Darwin Labordo	Associate Vice President, Finance and Administrative Affairs and Associate CFO
Scott Warrington	Vice President, University Advancement

THE CAL POLY POMONA FOUNDATION, INC.

Michael Au-Yeung	General Financial Manager
Debra Chavez	Financial Systems Accountant
Anh Nita Chen	Financial Systems Manager
Sue Chiazza	Senior Accountant
Sharon Fradella	Payroll Manager
Dennis Miller	Human Resources Director
Haleh Minakary	General Business Manager
Michael Nunez	General Accountant
Nancy O'Brien	Accounting Clerk
Debra Poe	Accounts Specialist
David Prenovost	CFO
Kathy Ramsey	Interim Manager, Public Relations and Administrative Projects
George Rankin	Dining Services Director
Lavena Reyes	Accounts Specialist
Brett Roth	Cash Operations Manager
Debbie Schroeder-Linthicum	Director, Contracts and Grants
Paul Storey	Executive Director
Leticia Torres	Grants Specialist
Randy Townsend	Management Information Systems Manager
Karen Ward	Director, Bookstore Operations

CAL POLY POMONA UNIVERSITY EDUCATIONAL TRUST

Kathy Odenwald	Administrative Analyst
Francine Ramirez	Executive Assistant and Staff, University Education Trust
Melissa Riordan	Director, Alumni Affairs
Scott Warrington	Executive Director, University Education Trust

**ASSOCIATED STUDENTS, INCORPORATED,
CALIFORNIA STATE POLYTECHNIC UNIVERSITY, POMONA**

Susan Ashe	Administrator-in-Charge, Programs, Recreational Sports and Marketing
Yvonne Bailey	Director, Children's Center
Ivonne Cabezas	Accounting Analyst
Cora Culla	Executive Director
Linda Da Veiga	Administrator-in-Charge, Business Services
Sean Del Rossi	Bronco Fitness Center Manager
Melvin Galang	Accounting Technician
Julie Gonzales	Fund Specialist
Arno Keshishian	ASI President
Eugene Landers	Accounting Supervisor
Ginny Mansfield	Human Resources Assistant
Harry Nguyen	Local Area Network Coordinator
Pat Smith	Accounts Receivable Vault Cashier
Eliane Townsend	Fund Specialist
Powell Velasco	Associate Executive Director

STATEMENT OF INTERNAL CONTROLS

A. INTRODUCTION

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

B. INTERNAL CONTROL DEFINITION

Internal control, in the broad sense, includes 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.

AUXILIARY ORGANIZATIONS

**CALIFORNIA STATE POLYTECHNIC UNIVERSITY,
POMONA**

**Audit Report 07-42
August 10, 2007**

CAMPUS

FISCAL COMPLIANCE

Recommendation 1

We recommend that the campus:

- a. Timely request reimbursement from the Foundation for use of campus space for Foundation sponsored programs.
- b. Perform an evaluation, in conjunction with the Foundation, of maintenance, security, and other related costs associated with the common areas within Innovation Village and reimburse as appropriate.

Campus Response

We concur.

- a. The campus will invoice the Foundation before the end of July of each year so that the receivable is recorded before the legal basis year end closing.
- b. An update of maintenance, security, and other related costs associated with the common areas within Innovation Village will be performed and reimbursements will be revised accordingly.

Timeline: July 31, 2008

PROGRAM COMPLIANCE

Recommendation 2

We recommend that the campus financial aid office, upon notification from the Foundation, inform the student accounting office to issue IRS Form 1098-T to students for the reporting of scholarship awards.

Campus Response

We concur.

The Financial Aid department and Student Accounting department will implement procedures to ensure that Foundation scholarship awards are reported in the students' Form 1098-T.

Timeline: January 31, 2008

CAMPUS OVERSIGHT AND CONTROL

Recommendation 3

We recommend that the campus communicate the fund restriction categories in the development system to its auxiliaries.

Campus Response

We concur.

The campus will implement procedures to communicate fund restriction categories to the auxiliaries each time a category is added, modified, or deleted.

Timeline: November 30, 2007

AUXILIARY PROGRAMS

Recommendation 4

We recommend that the campus record cost share commitments on the campus ledgers.

Campus Response

We concur.

The campus will record cost share commitments in a memorandum ledger.

Timeline: January 31, 2008

THE CAL POLY POMONA FOUNDATION, INC.

OPERATING AND ADMINISTRATIVE AGREEMENTS

Recommendation 5

We recommend that the Foundation ensure that all agreements include appropriate indemnification clauses.

Campus Response

We concur.

The Foundation will ensure that all agreements include appropriate indemnification clauses.

Timeline: November 30, 2007

SEGREGATION OF DUTIES

CASH RECEIPTS

Recommendation 6

We recommend that the Foundation bookstore properly segregate the reconciliation of cash till bags from the preparation of daily deposits.

Campus Response

We concur.

The Foundation will revise the procedures for reconciling the cash till bags and the preparation of the daily deposits to properly segregate these functions.

Timeline: November 30, 2007

PAYROLL

Recommendation 7

We recommend that the Foundation properly segregate certain payroll functions or institute mitigating procedures approved by the campus CFO.

Campus Response

We concur.

The Foundation will document that it has revised the payroll procedures to properly segregate these functions.

Timeline: November 30, 2007

INFORMATION TECHNOLOGY

Recommendation 8

We recommend that the campus limit access to the card information system or consider implementing regular supervisory reviews of transaction detail reports for users with unrestricted access to the card information system.

Campus Response

We concur.

The Foundation will revise the procedure and implement regular supervisory reviews of transaction detail reports for users with unrestricted access to the card information system.

Timeline: November 30, 2007

CASH RECEIPTS AND HANDLING

Recommendation 9

We recommend that the Foundation develop written policies and procedures to address its methodology for calculating sales tax on commercial dining operations.

Campus Response

We concur.

The Foundation will document that it has developed written policies and procedures to address its methodology for calculating sales tax on commercial dining operations.

Timeline: November 30, 2007

INVESTMENTS

Recommendation 10

We recommend that the Foundation document its investment and endowment accounting procedures, including those specifically related to its UET endowment and other funds.

Campus Response

We concur.

The Foundation will develop written investment and endowment accounting procedures, including those specifically related to its UET endowment and other funds.

Timeline: November 30, 2007

PURCHASING AND ACCOUNTS PAYABLE

Recommendation 11

We recommend that the Foundation record accurate invoice information into its accounting system.

Campus Response

We concur.

The Foundation will document that it has begun to enter the invoice date in the accounts payable system as it appears on the invoice.

Timeline: November 30, 2007

PROPERTY AND EQUIPMENT

Recommendation 12

We recommend that the Foundation:

- a. Ensure that all equipment is tagged in a timely manner.
- b. Tag or track non-capitalized, controlled equipment.

Campus Response

We concur.

- a. The Foundation will tag all fixed assets portable equipment greater than \$5,000 in the Fixed Asset module by the subsequent month.
- b. Controlled equipment not capitalized will be tracked in the accounting system.

Timeline: January 31, 2008

CAL POLY POMONA UNIVERSITY EDUCATIONAL TRUST

OPERATING AND ADMINISTRATIVE AGREEMENTS

Recommendation 13

We recommend that the UET ensure that the board's approval of the continuation of the agreement with the Advisor for certain trust and endowment accounting services is formally approved via board resolution or other form of formal ratification.

Campus Response

We concur.

The UET Board will review and approve the amendment to the agreement between the UET and the Advisor regarding certain trust and endowment accounting services.

Timeline: November 30, 2007

FISCAL COMPLIANCE

Recommendation 14

We recommend that the UET fully reimburse the General Fund for direct and indirect costs associated with services provided by campus staff.

Campus Response

We concur.

The UET will fully reimburse the General Fund for direct and indirect costs associated with services provided by campus staff.

Timeline: December 31, 2007

SEGREGATION OF DUTIES

Recommendation 15

We recommend that the Foundation properly segregate certain duties and responsibilities related to endowment gift processing for the UET or institute mitigating controls approved by the campus CFO.

Campus Response

We concur.

The Foundation will properly segregate certain duties and responsibilities and instituted mitigating controls related to endowment gift processing for the UET.

Timeline: November 30, 2007

ENDOWMENT ADMINISTRATION

Recommendation 16

We recommend that the UET ensure that endowment account reports from the Advisor are verified for accuracy by the Foundation and reconciled to accounting general ledgers prior to distribution to account administrators.

Campus Response

We concur.

The UET will ensure through the Foundation CFO that endowment account reports from the Advisor are verified for accuracy and reconciled to accounting general ledgers prior to distribution to account administrators.

Timeline: November 30, 2007

ASSOCIATED STUDENTS, INCORPORATED,
CALIFORNIA STATE POLYTECHNIC UNIVERSITY, POMONA

FACILITIES AGREEMENTS

Recommendation 17

We recommend that the ASI ensure that current and future business arrangements are supported by complete agreements.

Campus Response

We concur.

The ASI will ensure that current and future business arrangements are supported by complete agreements.

Timeline: March 30, 2008

CORPORATE GOVERNANCE

Recommendation 18

We recommend that the ASI update public meeting procedures to reflect the requirements of the Gloria Romero Open Meetings Act.

Campus Response

We concur.

The ASI Government will update its public meeting procedures.

Timeline: March 30, 2008

FISCAL COMPLIANCE

Recommendation 19

We recommend that the ASI maintain documentation evidencing the need for reserves related to capital acquisition and replacement.

Campus Response

We concur.

The ASI will review our reserve documentation for capital acquisition and replacement and update it for current and future projected requirements.

Timeline: March 30, 2008

OPERATIONAL COMPLIANCE

Recommendation 20

We recommend that the ASI coordinate with the campus to develop and implement policies and procedures to address the administration of student volunteers.

Campus Response

We concur.

The ASI will develop and implement policies and procedures to address the administration of student volunteers.

Timeline: March 30, 2008

SEGREGATION OF DUTIES

Recommendation 21

We recommend that the ASI properly segregate certain accounting functions for cash receipts processing and accounts receivable or institute mitigating procedures approved by the campus CFO.

Campus Response

We concur.

The duties and responsibilities related to cash receipts processing and accounts receivable will be reviewed and changed to ensure proper segregation.

Timeline: September 30, 2007

PURCHASING AND ACCOUNTS PAYABLE

DISBURSEMENTS

Recommendation 22

We recommend that the ASI:

- a. Ensure that written travel authorization is included within the travel advance process.
- b. Reiterate to staff on cash disbursement policies and procedures regarding sufficient and appropriate supporting documentation and authorization.

Campus Response

We concur.

- a. The ASI Travel Policy will be revised to reflect that written travel authorization is included within the travel advance process.
- b. Staff will be advised concerning the cash disbursement policies and procedures regarding sufficient and appropriate supporting documentation and authorization.

Timeline: September 30, 2007

PROCUREMENT PROCESS

Recommendation 23

We recommend that the ASI develop written procurement policies and procedures to address competitive bids for contracts.

Campus Response

We concur.

The ASI financial policy and procedures on procurement will be revised to incorporate competitive bidding on contracts.

Timeline: March 30, 2008

PROPERTY AND EQUIPMENT

Recommendation 24

We recommend that the ASI:

- a. Ensure that all equipment is tagged in a timely manner.
- b. Tag or track non-capitalized, controlled equipment.

Campus Response

We concur.

- a. The ASI receiving procedures will be revised to ensure all equipment is tagged and inventoried in a timely manner.
- b. The ASI will ensure that all non-capitalized, controlled equipment is tagged or tracked promptly.

Timeline: March 30, 2008



THE CALIFORNIA STATE UNIVERSITY
OFFICE OF THE CHANCELLOR

BAKERSFIELD

September 19, 2007

CHANNEL ISLANDS

CHICO

MEMORANDUM

DOMINGUEZ HILLS

EAST BAY

FRESNO

TO: Mr. Larry Mandel
University Auditor

FULLERTON

FROM: Charles B. Reed
Chancellor


HUMBOLDT

LONG BEACH

SUBJECT: Draft Final Audit Report 07-42 on *Auxiliary Organizations*,
California State Polytechnic University, Pomona

LOS ANGELES

MARITIME ACADEMY

MONTEREY BAY

In response to your memorandum of September 19, 2007, I accept the response as submitted with the draft final report on *Auxiliary Organizations*, California State Polytechnic University, Pomona.

NORTHRIDGE

POMONA

SACRAMENTO

CBR/jt

SAN BERNARDINO

Enclosure

SAN DIEGO

cc: Dr. Edwin A. Barnes, III, Vice President, Administrative Affairs and
Chief Financial Officer

SAN FRANCISCO

Dr. J. Michael Ortiz, President

SAN JOSÉ

SAN LUIS OBISPO

SAN MARCOS

SONOMA

STANISLAUS