

**AUXILIARY ORGANIZATIONS**  
**CALIFORNIA STATE UNIVERSITY,**  
**LOS ANGELES**

**Audit Report 07-46**  
**December 6, 2007**

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**BOARD OF TRUSTEES**  
**THE CALIFORNIA STATE UNIVERSITY**

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## **ABBREVIATIONS**

ASI	Associated Students of California State University Los Angeles, Inc.
CSU	California State University
EO	Executive Order
Foundation	California State University, Los Angeles Foundation
MOU	Memorandum of Understanding
RFIN	Resolution of the Committee on Finance
UAS	Cal State L.A. University Auxiliary Services, Inc.
Union	University-Student Union Board, California State University, Los Angeles

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## 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, Los Angeles 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, Los Angeles campus and its auxiliary organizations from July 23, 2007, through August 23, 2007, and made a study and evaluation of the system of internal compliance/internal control in effect as of August 23, 2007. This report represents our triennial review.

Our study and evaluation at *California State University, Los Angeles 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 August 23, 2007, taken as a whole, was sufficient to meet the objectives stated above.

Our study and evaluation at *Cal State L.A. University Auxiliary Services, 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 August 23, 2007, taken as a whole, was sufficient to meet the objectives stated above.

Our study and evaluation at *University-Student Union Board, California State University, Los Angeles* 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 August 23, 2007, taken as a whole, was sufficient to meet the objectives stated above.

Our study and evaluation at *Associated Students of California State University Los Angeles, 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 August 23, 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.

## **CALIFORNIA STATE UNIVERSITY, LOS ANGELES FOUNDATION**

### **OPERATING AND ADMINISTRATIVE AGREEMENTS [9]**

The operating agreement between the California State University, Los Angeles Foundation (Foundation) and the Trustees had not been updated to reflect the current name of the Foundation. In addition, the Foundation performed real property transactions, a function not authorized by the operating agreement with the campus. Further, a memorandum of understanding between the Foundation, the division of special education and counseling, and the dean of Charter College of Education did not specify a date and term of the agreement.

### **FISCAL COMPLIANCE [10]**

The Foundation's reserve policy did not include the methodology for calculating reserves and the general ledger account in which the reserves were to be maintained.

## **CASH RECEIPTS AND HANDLING [11]**

The Foundation had not adequately developed written policies and procedures addressing the reconciliation of its deposit clearing account. The current clearing account policy did not indicate the type of explanatory documentation required for deposits residing in the clearing account for more than 60 days, and written procedures did not address the performance of monthly reconciliations between deposits received and the clearing account ledger.

## **PURCHASING AND ACCOUNTS PAYABLE [12]**

The Foundation had not obtained updated written signature authorization forms from project directors delegated to approve disbursements for certain campus program, endowment, and scholarship accounts.

## **ENDOWMENT ADMINISTRATION [13]**

The Foundation annual donor report for one account did not include the value of a rental property previously purchased with endowed funds.

## **INFORMATION TECHNOLOGY [14]**

The Foundation password security features had not been enabled to provide effective access control to the gift processing system.

## **CAL STATE L.A. UNIVERSITY AUXILIARY SERVICES, INC.**

### **PETTY CASH AND CHANGE FUNDS [15]**

Administration of the Cal State L.A. University Auxiliary Services, Inc. (UAS) petty cash and change funds was in need of improvement. One petty cash reimbursement was in violation of policy and change and employee personal funds were used to supplement the petty cash.

### **FEES, REVENUES, AND RECEIVABLES [16]**

Administration of UAS contracts and grants accounts receivable required improvement. Payments received were not always properly applied and certain invoices had not been voided in a timely manner.

### **TRUSTS AND OTHER LIABILITIES [17]**

UAS financial statements as of June 30, 2006, showed \$4,666,167 of state funds as “deposits held for others” maintained within its custodial trust accounts.

**UNIVERSITY-STUDENT UNION BOARD,**  
**CALIFORNIA STATE UNIVERSITY, LOS ANGELES**

**OPERATING AND ADMINISTRATIVE AGREEMENTS [18]**

Certain agreements among the University-Student Union Board, California State University, Los Angeles (Union), the campus, and another auxiliary organization were not signed until several months after the inception date. For example, the agreement with the campus for the provision of student life programs, functions, and services was signed on March 8, 2006, eight months after its July 1, 2005, inception date and the agreement with the campus for human resource services was signed on March 29, 2006, almost nine months after its July 1, 2005, inception date.

**ASSOCIATED STUDENTS OF**  
**CALIFORNIA STATE UNIVERSITY LOS ANGELES, INC.**

**FEES, REVENUES, AND RECEIVABLES [20]**

The Associated Students of California State University Los Angeles, Inc. had not developed written policies and procedures for the collection of unpaid fees for damaged, stolen, and late laptop and printer rentals.

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## 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 2005/06 and 2006/07 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 1, 2006, to August 23, 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:

California State University, Los Angeles Foundation

- ▶ Operating and Administrative Agreements
- ▶ Corporate Governance
- ▶ Fiscal Compliance
- ▶ Operational Compliance
- ▶ Program Compliance
- ▶ Campus Oversight and Control
- ▶ Cash Receipts and Handling
- ▶ Investments
- ▶ Fees, Revenues, and Receivables
- ▶ Purchasing and Accounts Payable
- ▶ Endowment Administration
- ▶ Information Technology

Cal State L.A. University Auxiliary Services, Inc.

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

University-Student Union Board, California State University, Los Angeles

- ▶ 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

Associated Students of California State University Los Angeles, Inc.

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

Campus

- ▶ Campus Oversight

We have not performed any auditing procedures beyond August 23, 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.

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# **OBSERVATIONS, RECOMMENDATIONS, AND CAMPUS RESPONSES**

## **CALIFORNIA STATE UNIVERSITY, LOS ANGELES FOUNDATION**

### **OPERATING AND ADMINISTRATIVE AGREEMENTS**

#### **OPERATING AGREEMENT**

The operating agreement between the California State University, Los Angeles Foundation (Foundation) and the Trustees had not been updated to reflect the current name of the Foundation and did not include all functions performed.

We noted that the parties of the operating agreement were listed as California State Los Angeles Foundation, the previous name of the Foundation, and the Trustees. In addition, the Foundation performed real property transactions, a function not authorized by the operating agreement with the campus.

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

Title 5 §42502 states that the operating agreement should specify the function or functions, which the organization is to manage, operate, or administer.

The Foundation executive director stated that failure to update the operating agreement following the formal change of the Foundation's name was due to oversight. He further stated that responsibilities related to real property transactions were a recent activity for the Foundation and the operating agreement had not been updated to reflect the change.

The absence of a current operating agreement increases the risk of misunderstandings and miscommunication regarding rights and responsibilities, while performing unauthorized functions increases the risk that the auxiliary will participate in transactions inconsistent with Title 5 and subjects the California State University (CSU) to unwarranted liability.

#### **Recommendation 1**

We recommend that the Foundation:

- a. Update the operating agreement to reflect the current name of the Foundation.
- b. Amend its operating agreement to include the function of real property transactions.

**Campus Response**

We concur. The campus will re-file its operating agreement with the chancellor’s office to reflect the current name of the Foundation and to reflect the Foundation’s real property transactions activity.

Anticipated completion date: February 15, 2008

**ADMINISTRATIVE AGREEMENTS**

A memorandum of understanding (MOU) between the Foundation, the division of special education and counseling, and the dean of Charter College of Education did not specify a date and term of the agreement.

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

The Foundation executive director stated that the failure to specify a date and term on the MOU was due to oversight.

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

**Recommendation 2**

We recommend that the Foundation ensure dates and terms are included in all agreements.

**Campus Response**

We concur. We will review all agreements to ensure that each specifically includes dates and terms.

Anticipated completion date: February 15, 2008

**FISCAL COMPLIANCE**

The Foundation’s reserve policy did not include the methodology for calculating reserves and the general ledger account in which the reserves were to 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 annually each auxiliary governing board shall review the fiscal viability of the auxiliary organization to include 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.

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

The campus university controller stated that a reserve analysis was performed during the annual budget process; however, documentation evidencing the methodology and general ledger account was not maintained.

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

### **Recommendation 3**

We recommend that the Foundation maintain documentation evidencing the methodology for calculating reserves and the general ledger account in which the reserves are maintained.

### **Campus Response**

We concur. We will review and modify the current reserve policy to include the methodology for calculating reserves and the general ledger accounts in which the reserves are maintained.

Anticipated completion date: February 15, 2008

## **CASH RECEIPTS AND HANDLING**

The Foundation had not adequately developed written policies and procedures addressing the reconciliation of its deposit clearing account.

We found that:

- ▶ The current deposit clearing account policy did not indicate the type of documentation required to explain when deposits reside in the clearing account for more than the expected period of 60 days.
- ▶ Written procedures did not address the performance of the monthly reconciliation process between deposits received and the clearing account ledger.

The Foundation *Clearing Account Policies and Procedures* state that every effort shall be made to transfer balances into appropriate accounts within 60 days.

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 adequate reconciliation policy and procedure documentation be maintained.

The Foundation executive director stated that the failure to adequately document policies and procedures pertaining to reconciliations of the deposit clearing account was due to oversight.

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

#### **Recommendation 4**

We recommend that the Foundation update its written policies and procedures to adequately address both the documentation requirements for deposits in the clearing account and the reconciliation of such account.

#### **Campus Response**

We concur. The Foundation will amend its policies to specifically include methodologies for reconciling deposits to the clearing account and necessary documentation for deposits made to the account.

Anticipated completion date: February 15, 2008

## **PURCHASING AND ACCOUNTS PAYABLE**

The Foundation had not obtained updated written signature authorization forms from project directors delegated to approve disbursements for certain campus program, endowment, and scholarship 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 8.9.1, *Cash*, states that the auxiliary should disburse cash in a consistent manner utilizing systems that ensure integrity of existing internal controls, with annual management review.

The Foundation executive director stated that failure to obtain updated signature authorization forms was due to oversight.

Failure to obtain current, written signature authorization forms increases the risk of errors, irregularities, and misappropriation of funds.

**Recommendation 5**

We recommend that the Foundation obtain updated written signature authorization forms from project directors.

**Campus Response**

We concur. We will update signature authorization forms.

Anticipated completion date: March 15, 2008

**ENDOWMENT ADMINISTRATION**

The Foundation annual donor report for one account did not include the value of a rental property previously purchased with endowed funds.

Title 5 §42401 and §42402 indicate that the campus president shall require that auxiliary organizations operate in conformity with the policy of the Board of Trustees and the campus. One of the objectives of the auxiliary organizations is to provide fiscal procedures and management systems that allow effective coordination of the auxiliary activities with the campus in accordance with sound business practices. Sound business practice mandates that endowment activity reports be complete and appropriately verified for accuracy.

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 8.9.3, *Donations, Program Service Fees, Other Income*, 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 rental property was not included on the donor report because it was unclear how to adequately value the property for reporting purposes.

Incomplete endowment activity reports and failure to verify financial reports prior to distribution increase the risk that funds will be handled contrary to the expectations of the donors and errors and irregularities may occur.

**Recommendation 6**

We recommend that the Foundation include the historic value of a rental property previously purchased with endowed funds.

### **Campus Response**

We concur. We will include the historic value of the condominium property on the quarterly reports to the account holder.

Anticipated completion date: February 15, 2008

## **INFORMATION TECHNOLOGY**

The Foundation password security features had not been enabled to provide effective access control to the gift processing system.

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 Foundation executive director stated that the system had been recently implemented and that the password controls had not been specified at that time.

Without adequate settings of password security, there is no assurance that controls are operating as intended by management or that the system is not compromised.

**During our fieldwork, the Foundation provided documentation evidencing that password controls were activated.**

**CAL STATE L.A. UNIVERSITY AUXILIARY SERVICES, INC.**

**PETTY CASH AND CHANGE FUNDS**

Administration of the Cal State L.A. University Auxiliary Services, Inc. (UAS) petty cash and change funds was in need of improvement.

We found that:

- ▶ One petty cash fund at the children’s center made a reimbursement over \$50 in violation of petty cash policy.
- ▶ Change and employee personal funds were used to supplement the UAS petty cash fund.

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

*UAS Petty Cash Policies and Procedures* state that petty cash reimbursements will be limited to \$50 for each individual transaction.

The UAS associate executive director of financial services stated that insufficient administration of the petty cash and change funds was due to oversight.

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

**Recommendation 7**

We recommend that UAS reiterate to staff petty cash policies and procedures and prohibit supplementing petty cash with change and employee personal funds.

**Campus Response**

UAS agrees. UAS will send a reminder notice to staff reiterating the petty cash policies and procedures.

Anticipated completion date: February 29, 2008

## FEES, REVENUES, AND RECEIVABLES

Administration of UAS contracts and grants accounts receivable required improvement.

Our review of the accounts receivable aging schedule as of June 30, 2007, disclosed:

- ▶ Several credit balances on the accounts receivable aging schedule where payments had not been applied to any particular invoice.
- ▶ Revised invoices that UAS had not intended to bill, which had not been voided. In certain instances, the invoices had been on the aging schedule for over a year.

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 established procedures for the recording and collection of accounts receivables.

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 8.9.4, *Receivables*, states that the auxiliary should properly record and collect receivables in a consistent manner utilizing systems that ensure integrity of existing internal controls.

The UAS director of grants and contracts stated that the failure to apply payments and/or to void invoices was due to staff turnover.

Inadequate administration of contracts and grants accounts receivable increases the risk of errors and/or misappropriation of funds.

### Recommendation 8

We recommend that UAS ensure that:

- a. Credit balances are investigated and payments are promptly applied to invoices on the aging report.
- b. Obsolete invoices are voided in a timely manner.

### Campus Response

UAS will send a reminder notice to staff reiterating its procedures of promptly applying payments and voiding those invoices that are necessary in order to present a correct aging.

Anticipated completion date: February 29, 2008

## TRUSTS AND OTHER LIABILITIES

UAS financial statements as of June 30, 2006, showed \$4,666,167 of state funds as “deposits held for others” maintained within its custodial trust accounts.

UAS management stated that these funds were being held for the following purposes:

- ▶ Gift revenues collected, administered, and maintained by UAS on behalf of the campus.
- ▶ Indirect cost recovery for sponsored programs administered and maintained by UAS on behalf of the campus.
- ▶ Various fees for campus programs deposited and administered by UAS.

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

The campus associate vice president of administration and finance stated that the campus met with the Office of General Counsel in 2003 and based on their opinion and guidance, state funds were placed at the auxiliaries. Also, he stated that he was unaware that the expired EO 919 differed from the opinion received.

The campus’ required oversight of state funds is limited when funds are deposited outside the custody of the chief financial officer.

### Recommendation 9

We recommend that UAS:

- a. Work in conjunction with the Office of the University Auditor to review the custodial trust accounts reflected as “deposits held for others” on its financial statements and determine, within 30 days, which accounts contain state funds.
- b. Develop a plan that is acceptable to the CSU executive vice chancellor and chief financial officer to move those state funds identified in “a” above to campus accounts.

### Campus Response

UAS is meeting with the Office of the University Auditor to review the accounts. Following the meeting, UAS will develop and implement the necessary action plan that is acceptable to the CSU executive vice chancellor and chief financial officer.

Anticipated completion date: May 6, 2008

**UNIVERSITY-STUDENT UNION BOARD,**  
**CALIFORNIA STATE UNIVERSITY, LOS ANGELES**

**OPERATING AND ADMINISTRATIVE AGREEMENTS**

Certain agreements among the University-Student Union Board, California State University, Los Angeles (Union), the campus, and another auxiliary organization were not signed until several months after the inception date.

We found that:

- ▶ The agreement with the campus for the provision of student life programs, functions, and services was signed on March 8, 2006, eight months after its July 1, 2005, inception date.
- ▶ The agreement with the Associated Students of California State University Los Angeles, Inc. (ASI) for the provision of graphic design services was signed on December 12, 2005, five months after its July 1, 2005, inception date.
- ▶ The agreement with the campus for human resource services was signed on March 29, 2006, almost nine months after its July 1, 2005, inception date.
- ▶ The agreement with the ASI for the provision of payroll and benefit services was signed on May 29, 2007, almost ten months after its July 1, 2006, 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 agreements were not executed timely due to ongoing negotiations regarding terms.

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

**Recommendation 10**

We recommend that the Union ensure that future agreements with the campus and other auxiliary organizations are executed prior to inception.

**Campus Response**

We concur. The Union's procedure is to execute all written agreements in a timely manner. Management has reiterated the procedure to staff.

**ASSOCIATED STUDENTS OF  
CALIFORNIA STATE UNIVERSITY LOS ANGELES, INC.**

**FEES, REVENUES, AND RECEIVABLES**

The Associated Students of California State University Los Angeles, Inc. (ASI) had not developed written policies and procedures for the collection of unpaid fees for damaged, stolen, and late laptop and printer rentals.

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 established procedures for invoicing customers promptly and in a consistent manner, while exercising due diligence in the follow-up and collection of past-due accounts.

The ASI assistant director stated that the lack of written policies and procedures was due to administrative constraints.

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

**Recommendation 11**

We recommend that the ASI develop written policies and procedures for the collection of all unpaid fees for laptop and printer rentals.

**Campus Response**

We concur. The ASI will develop and implement a written policy and procedure to collect unpaid fees and damages for laptop and printer rentals.

Anticipated completion date: February 29, 2008

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## **APPENDIX A: PERSONNEL CONTACTED**

### **Name**

### **Title**

#### **CAMPUS**

James M. Rosser	President
Steven Garcia	Vice President, Administration and Finance and Chief Financial Officer (At time of review)
Tanya Ho	University Internal Auditor
Yuet Lee	Associate Vice President, Administration and Finance
Christine Leung	Senior Internal Auditor
Thomas Leung	University Controller

#### **CALIFORNIA STATE UNIVERSITY, LOS ANGELES FOUNDATION**

Kyle Button	Executive Director
Barbara Contreras	Administrative Assistant
Susana Moreno	Staff, University Advancement
Mae Santos	Director, University Budgets
Paula Tcheng	Supervisor, Auxiliary Accounting and Reporting

#### **CAL STATE L.A. UNIVERSITY AUXILIARY SERVICES, INC.**

R. Dean Calvo	Executive Director
Angela Chan	Accounting Manager
Lynne Duong	Financial Analyst
Andre Ferrer	Accounting Manager, Grants and Contracts
Jim Goodrich	Program Coordinator, Anna Bing Children's Center
Pamela Kisor	Director, Anna Bing Children's Center
Ofelia Mercado	Human Resources Benefits Coordinator
Alma Sahagun	Director, Grants and Contracts
Liz Soto	Associate Executive Director, Financial Services
Dorothy Wu	Payroll/Benefits Manager
Florence Zaki	Contracts and Grants Compliance Coordinator

#### **UNIVERSITY-STUDENT UNION BOARD, CALIFORNIA STATE UNIVERSITY, LOS ANGELES**

Joseph Aguirre	Executive Director
Rowena Tran	Assistant Director, Financial Services

#### **ASSOCIATED STUDENTS OF CALIFORNIA STATE UNIVERSITY LOS ANGELES, INC.**

Rainee Redmond	Assistant Director
Intef Weser	Executive Director

## **STATEMENT OF INTERNAL CONTROLS**

### **A. INTRODUCTION**

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

### **B. INTERNAL CONTROL DEFINITION**

Internal control, in the broad sense, includes controls that may be characterized as either accounting or operational as follows:

#### **1. Internal Accounting Controls**

Internal accounting controls comprise the plan of organization and all methods and procedures that are concerned mainly with, and relate directly to, the safeguarding of assets and the reliability of financial records. They generally include such controls as the systems of authorization and approval, separation of duties concerned with recordkeeping and accounting reports from those concerned with operations or asset custody, physical controls over assets, and personnel of a quality commensurate with responsibilities.

#### **2. Operational Controls**

Operational controls comprise the plan of organization and all methods and procedures that are concerned mainly with operational efficiency and adherence to managerial policies and usually relate only indirectly to the financial records.

### **C. INTERNAL CONTROL OBJECTIVES**

The objective of internal accounting and related operational control is to provide reasonable, but not absolute, assurance as to the safeguarding of assets against loss from unauthorized use or disposition, and the reliability of financial records for preparing financial statements and maintaining accountability for assets. The concept of reasonable assurance recognizes that the cost of a system of internal accounting and operational control should not exceed the benefits derived and also recognizes that the evaluation of these factors necessarily requires estimates and judgment by management.

#### **D. INTERNAL CONTROL SYSTEMS LIMITATIONS**

There are inherent limitations that should be recognized in considering the potential effectiveness of any system of internal accounting and related operational control. In the performance of most control procedures, errors can result from misunderstanding of instruction, mistakes of judgment, carelessness, or other personal factors. Control procedures whose effectiveness depends upon segregation of duties can be circumvented by collusion. Similarly, control procedures can be circumvented intentionally by management with respect to the executing and recording of transactions. Moreover, projection of any evaluation of internal accounting and operational control to future periods is subject to the risk that the procedures may become inadequate because of changes in conditions and that the degree of compliance with the procedures may deteriorate. It is with these understandings that internal audit reports are presented to management for review and use.



CALIFORNIA STATE UNIVERSITY, LOS ANGELES

OFFICE OF THE PRESIDENT

January 11, 2008

Mr. Larry Mandel, University Auditor  
Office of the University Auditor  
Office of the Chancellor – The California State University  
401 Golden Shore, 4<sup>th</sup> Floor  
Long Beach, CA 90802-4210

RECEIVED  
UNIVERSITY AUDITOR

JAN 10 2008

THE CALIFORNIA STATE  
UNIVERSITY


Re: *University's Response to Recommendations Contained in Report Number 07-46  
Auxiliary Organizations - CSULA*

  
Dear Mr. Mandel:

Attached are the University's responses to the recommendations contained in Report Number 07-46, Auxiliary Organizations.

Please contact Tanya Ho, University Internal Auditor, at (323) 343-5102, if you wish to discuss any matter contained herein.

Sincerely,

  
James M. Rosser  
President

Attachment

cc: (with attachments)  
George Pardon, Interim Vice President for Administration and Chief Financial Officer  
Yuet Lee, AVP for Administration and Finance  
Tanya Ho, University Internal Auditor

**AUXILIARY ORGANIZATIONS**

**CALIFORNIA STATE UNIVERSITY,  
LOS ANGELES**

**Audit Report 07-46  
December 6, 2007**

**CALIFORNIA STATE UNIVERSITY, LOS ANGELES FOUNDATION**

**OPERATING AND ADMINISTRATIVE AGREEMENTS**

**OPERATING AGREEMENT**

**Recommendation 1**

We recommend that the Foundation:

- a. Update the operating agreement to reflect the current name of the Foundation.
- b. Amend its operating agreement to include the function of real property transactions.

**Campus Response**

We concur. The campus will re-file its operating agreement with the Chancellor's Office to reflect the current name of the Foundation and to reflect the Foundation's real property transactions activity.

Anticipated completion date: February 15, 2008

**ADMINISTRATIVE AGREEMENTS**

**Recommendation 2**

We recommend that the Foundation ensure dates and terms are included in all agreements.

**Campus Response**

We concur. We will review all agreements to ensure that each specifically include dates and terms.

Anticipated completion date: February 15, 2008

## **FISCAL COMPLIANCE**

### **Recommendation 3**

We recommend that the Foundation maintain documentation evidencing the methodology for calculating reserves and the general ledger account in which the reserves are maintained.

### **Campus Response**

We concur. We will review and modify the current reserves policy to include the methodology for calculating reserves and the general ledger accounts in which the reserves are maintained.

Anticipated completion date: February 15, 2008

## **CASH RECEIPTS AND HANDLING**

### **Recommendation 4**

We recommend that the Foundation update its written policies and procedures to adequately address both the documentation requirements for deposits in the clearing account and the reconciliation of such account.

### **Campus Response**

We concur. The Foundation will amend its policies to specifically include methodologies for reconciling deposits to the clearing account and necessary documentation for deposits made to the account.

Anticipated completion date: February 15, 2008

## **PURCHASING AND ACCOUNTS PAYABLE**

### **Recommendation 5**

We recommend that the Foundation obtain updated written signature authorization forms from project directors.

### **Campus Response**

We concur. We will update signature authorization forms.

Anticipated completion date: March 15, 2008

## ENDOWMENT ADMINISTRATION

### **Recommendation 6**

We recommend that the Foundation include the historic value of a rental property previously purchased with endowed funds.

### **Campus Response**

We concur. We will include the historic value of the condominium property on the quarterly reports to the account holder.

Anticipated completion date: February 15, 2008

**CAL STATE L.A. UNIVERSITY AUXILIARY SERVICES, INC.**

**PETTY CASH AND CHANGE FUNDS**

**Recommendation 7**

We recommend that UAS reiterate to staff petty cash policies and procedures and prohibit supplementing petty cash with change and employee personal funds.

**Campus Response**

UAS agrees. UAS will send a reminder notice to staff reiterating the petty cash policies and procedures.

Anticipated completion date: February 29, 2008

**FEES, REVENUES, AND RECEIVABLES**

**Recommendation 8**

We recommend that UAS ensure that:

- a. Credit balances are investigated and payments are promptly applied to invoices on the aging report.
- b. Obsolete invoices are voided in a timely manner.

**Campus Response**

UAS will send a reminder notice to staff reiterating its procedures of promptly applying payments and voiding those invoices that are necessary in order to present a correct aging.

Anticipated completion date: February 29, 2008

**TRUSTS AND OTHER LIABILITIES**

**Recommendation 9**

We recommend that UAS:

- a. Work in conjunction with the Office of the University Auditor to review the custodial trust accounts reflected as “deposits held for others” on its financial statements and determine, within 30 days, which accounts contain state funds.
- b. Develop a plan that is acceptable to the CSU executive vice chancellor and chief financial officer to move those state funds identified in “a” above to campus accounts.

**Campus Response**

UAS is meeting with the Office of the University Auditor to review the accounts. Following the meeting, UAS will develop and implement the necessary action plan that is acceptable to the CSU executive vice chancellor and CFO.

Anticipated completion date: May 6, 2008

**UNIVERSITY-STUDENT UNION BOARD,**  
**CALIFORNIA STATE UNIVERSITY, LOS ANGELES**

**OPERATING AND ADMINISTRATIVE AGREEMENTS**

**Recommendation 10**

We recommend that the Union ensure that future agreements with the campus and other auxiliary organizations are executed prior to inception.

**Campus Response**

We concur. The University-Student Union's procedure is to execute all written agreements in a timely manner. Management has reiterated the procedure to staff.

**ASSOCIATED STUDENTS OF  
CALIFORNIA STATE UNIVERSITY LOS ANGELES, INC.**

**FEEES, REVENUES, AND RECEIVABLES**

**Recommendation 11**

We recommend that the ASI develop written policies and procedures for the collection of all unpaid fees for laptop and printer rentals.

**Campus Response**

We concur. ASI will develop and implement a written policy and procedure to collect unpaid fees and damages for laptop and printer rentals.

Anticipated completion date: February 29, 2008

  
**THE CALIFORNIA STATE UNIVERSITY**  
 OFFICE OF THE CHANCELLOR

BAKERSFIELD

January 29, 2008

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 07-46 on *Auxiliary Organizations*,  
California State University, Los Angeles

LOS ANGELES

MARITIME ACADEMY

In response to your memorandum of January 29, 2008, I accept the response as submitted with the draft final report on *Auxiliary Organizations*, California State University, Los Angeles.

MONTEREY BAY

NORTHRIDGE

POMONA

CBR/jt

SACRAMENTO

Enclosure

SAN BERNARDINO

cc: Ms. Tanya Ho, University Internal Auditor  
Mr. George Pardon, Interim Vice President of Administration and  
Chief Financial Officer  
Dr. James M. Rosser, President

SAN DIEGO

SAN FRANCISCO

SAN JOSÉ

SAN LUIS OBISPO

SAN MARCOS

SONOMA

STANISLAUS