

AUXILIARY ORGANIZATIONS
CALIFORNIA STATE UNIVERSITY,
FRESNO

Audit Report 08-46
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ABBREVIATIONS

Ag Foundation Association	The Agricultural Foundation of California State University, Fresno
Athletic Corporation	California State University, Fresno Association, Inc.
CFO	The California State University, Fresno Athletic Corporation
CSU	Chief Financial Officer
EO	California State University
Foundation	Executive Order
PFC	California State University, Fresno Foundation
RFIN	Fresno State Programs for Children, Inc.
USDA	Resolution of the Committee on Finance
	United States Department of Agriculture

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, Fresno 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, Fresno campus and its auxiliary organizations from January 28, 2008, through March 13, 2008, and made a study and evaluation of the system of internal compliance/internal control in effect as of March 13, 2008. This report represents our triennial review.

Our study and evaluation at the *California State University, Fresno 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 March 13, 2008, taken as a whole, was sufficient to meet the objectives stated above.

Our study and evaluation at *California State University, Fresno Association, 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 13, 2008, taken as a whole, was sufficient to meet the objectives stated above.

Our study and evaluation at *The Agricultural Foundation of California State University, Fresno* 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 13, 2008, taken as a whole, was sufficient to meet the objectives stated above.

Our study and evaluation at *The California State University, Fresno Athletic Corporation* did not reveal any significant internal control problems or weaknesses that would be considered pervasive in their effects on the accounting and administrative controls. However, we did identify other reportable weaknesses that are described in the executive summary and in the body of the report. In our opinion, the accounting and administrative control in effect as of March 13, 2008, taken as a whole, was sufficient to meet the objectives stated above.

Our study and evaluation at *Fresno State Programs for Children, 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 13, 2008, taken as a whole, was sufficient to meet the objectives stated above.

Our study and evaluation at *Associated Students California State University, Fresno* did not reveal any major findings or significant internal control problems or weaknesses that would be considered pervasive in their effects on the accounting and administrative controls. In our opinion, the accounting and administrative control in effect as of March 13, 2008, 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, FRESNO FOUNDATION

FISCAL COMPLIANCE [12]

The California State University, Fresno Foundation (Foundation) had not developed a documented procedure to periodically review the accuracy of invoices received from the campus scholarship office.

CALIFORNIA STATE UNIVERSITY, FRESNO ASSOCIATION, INC.

OPERATING AND ADMINISTRATIVE AGREEMENTS [14]

Certain agreements between the California State University, Fresno Association, Inc. (Association) and the campus were not signed until several months after the inception date. For example, the agreement with the campus for the licensing and use of university logo was signed on May 23, 2006, almost 11 months after its July 1, 2005, inception date, and the agreement with the campus regarding the Central Valley Internet project/information technology services was signed on January 28, 2008, 19 months after its July 1, 2006, inception date.

FISCAL COMPLIANCE [15]

The Association had not adopted a realistic process for budgeting Save Mart Center revenues and expenditures. Activities and accounts for fiscal years 2004/05 and 2005/06 listed on the annual budget for the Save Mart Center did not reflect the actual activities and accounts recorded in the financial system. In addition, the Association had not developed a methodology for allocating net assets surplus into the reserve categories listed within its reserve policy and the general ledger account in which the reserves were to be maintained. Further, the Association's financial health, as measured by its financial statements, was in need of improvement. For the fiscal years 2004/05, 2005/06, and 2006/07, the audited financial statements for the Association showed operating losses of approximately \$1.5 million, \$3 million, and \$2.8 million, respectively.

OPERATIONAL COMPLIANCE [18]

The Association had not developed procedures to address the management and/or control of inventory shrinkage related to bookstore operations.

SEGREGATION OF DUTIES [19]

Duties and responsibilities over certain accounting functions were not appropriately segregated at the Association. One employee created and mailed accounts receivable invoices, processed checks received through the mail, recorded payments, handled accounts receivable disputes, prepared the accounts receivable aging schedule, posted accounting entries to the general ledger, and prepared the bank reconciliation.

PURCHASING AND ACCOUNTS PAYABLE [20]

The Association had not developed a standardized service agreement addressing duties, rights, and responsibilities for use in acquiring the services of third-party vendors.

PERSONNEL AND PAYROLL [20]

The Association did not consistently perform a review of payroll add/edit reports in a timely manner and had not developed procedures for the separation of part-time employees.

PROPERTY AND EQUIPMENT [22]

The Association had not capitalized and depreciated University Student Union and Student Recreation Center equipment meeting its capitalization threshold of \$1,500. Further, certain equipment at the University Student Union and Student Recreation Center was not tagged.

THE AGRICULTURAL FOUNDATION OF CALIFORNIA STATE UNIVERSITY, FRESNO

OPERATING AND ADMINISTRATIVE AGREEMENTS [24]

The Agricultural Foundation of California State University, Fresno (Ag Foundation) sheep enterprise unit did not maintain a written agreement for the storage of rams owned as part of a partnership with a third party.

FACILITIES AGREEMENTS [24]

A current sublease agreement between the Ag Foundation and the United States Department of Agriculture for the Glassy-winged Sharp Shooter Research Lab had not been executed. The sublease agreement expired on December 12, 2006, and was continuing on a month-to-month extension clause.

CASH RECEIPTS AND HANDLING [25]

Checks received by the Ag Foundation quarter horse unit and student horse center were not forwarded to the Association business office for deposit in a timely manner.

PROPERTY AND EQUIPMENT [26]

Ag Foundation equipment costing \$1,500 or more maintained within the enterprise units was not tagged.

INFORMATION TECHNOLOGY [26]

The Ag Foundation winery computer system contained sensitive customer information that was not stored in an encrypted format.

THE CALIFORNIA STATE UNIVERSITY, FRESNO ATHLETIC CORPORATION

OPERATING AND ADMINISTRATIVE AGREEMENTS [28]

An agreement among the California State University, Fresno Athletic Corporation (Athletic Corporation), Ag Foundation, university plant operations, university agricultural operations, and department of animal science and education was not signed until 16 months after its inception date. The memorandum of understanding for the care of lesson horses, maintenance of facilities, and working relationships regarding the university equestrian team with an inception date of July 1, 2006, was not signed by all parties until November 2, 2007.

PERSONNEL AND PAYROLL [29]

The Athletic Corporation process to report certain employee fringe benefits had not been fully implemented. Specifically, employees who received a free round of golf were required to record their use of this benefit on a sign-in sheet maintained by the golf course, which would then be forwarded to the Athletic Corporation to be reported as a fringe benefit. Although the policy and procedures had been drafted, the actual process had yet to be implemented.

PROPERTY AND EQUIPMENT [29]

Administration of Athletic Corporation property and equipment did not ensure proper accountability and identification. A physical inventory had not been performed since fiscal year 2005/06, property and equipment acquisitions were not currently being tagged, and the list of sensitive equipment was not reconciled to property and equipment accounting records. Further, documentation of annual athletic equipment physical inventory counts had not been maintained, and reconciliation to the perpetual inventory system had not been performed.

AUXILIARY PROGRAMS [31]

The Athletics Corporation had not performed criminal background checks for all instructors participating in a winter baseball camp. Criminal background checks had not been completed for three of the five participating instructors.

FRESNO STATE PROGRAMS FOR CHILDREN, INC.

SEGREGATION OF DUTIES [32]

Duties and responsibilities over purchasing of food and linens for the childcare centers were not adequately segregated at the Fresno State Programs for Children, Inc. (PFC). One employee placed all food and linen orders, received the same orders, maintained custodianship of food and linen stock, and approved all related vendor invoices for payment.

FEES, REVENUES, AND RECEIVABLES [33]

Administration of PFC student tuition payments required improvement. The collection of student tuition payments differed between the two PFC childcare facilities and business offices or had not been fully implemented. The current process for collecting student tuition payments at the Campus Children's Center differed from the PFC official policy and procedure and had not been approved by PFC management. Further, the recently updated procedure for collecting student tuition payments at the Huggins Center had not been fully implemented.

PURCHASING AND ACCOUNTS PAYABLE [34]

PFC invoices and/or delivery documents accompanying food orders were not always signed upon receipt verifying the accuracy of the shipment prior to payment. Three unsigned invoices were found, with totals ranging between \$77.66 and \$752.56, for delivery of food orders to the childcare centers. Further, PFC did not require sufficient supporting documentation for the reimbursement of employee travel expenses when attending conferences. Three instances were found where travel reimbursement for conference attendance was not supported with conference fee receipts and agendas showing provided meals.

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 March 13, 2008. 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, Fresno Foundation

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

California State University, Fresno Association, 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

California State University, Fresno Association, Inc. (cont.)

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

The Agricultural Foundation of California State University, Fresno

- ▶ 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

The California State University, Fresno Athletic Corporation

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

Fresno State Programs for Children, 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

Associated Students California State University, Fresno

- ▶ Operating and Administrative Agreements
- ▶ Facilities Agreements
- ▶ Corporate Governance
- ▶ Fiscal Compliance
- ▶ Operational Compliance
- ▶ Program Compliance
- ▶ Campus Oversight and Control
- ▶ Personnel and Payroll
- ▶ Trusts and Other Liabilities

Campus

Campus Oversight and Control

We have not performed any auditing procedures beyond March 13, 2008. Accordingly, our comments are based on our knowledge as of that date. Since the purpose of our comments is to suggest areas for improvement, comments on favorable matters are not addressed.

OBSERVATIONS, RECOMMENDATIONS, AND CAMPUS RESPONSES

CALIFORNIA STATE UNIVERSITY, FRESNO FOUNDATION

FISCAL COMPLIANCE

The California State University, Fresno Foundation (Foundation) had not developed a documented procedure to periodically review the accuracy of invoices received from the campus scholarship office.

The campus scholarship office submitted an invoice with a list of recipients, disbursement amounts, and scholarship fund descriptions/account numbers for reimbursement from scholarship accounts maintained at the Foundation. The Foundation accounts payable clerk ensured that sufficient funds were available for payment. However, the Foundation did not periodically request academic department or scholarship committee award letters to verify the accuracy of the list of recipients and corresponding award information.

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 scholarship payments be reviewed for accuracy.

The Foundation director of financial services stated that the Foundation relied solely on backup documentation provided by the campus scholarship office and historically had not compared the award amounts included in the invoice to the actual award letters issued by the campus scholarship office. He added that this was not a step in the process that the Foundation was aware to be its responsibility given the review and oversight provided by the campus.

Lack of periodic review increases the risk of errors, irregularities, and misappropriation of scholarship funds.

Recommendation 1

We recommend that the Foundation develop a documented procedure to periodically review the accuracy of invoices received from the campus scholarship office supporting scholarship payments.

Campus Response

We concur in that the campus already addressed this area prior to audit fieldwork. We completed an extensive internal audit of donor intent and the scholarship award process. We found high compliance with the accuracy of scholarship awards while recognizing some improvements were needed. We believe our existing internal audit recommendation number three encompasses the suggestion from this audit to periodically examine that the awards the Foundation disburses are accurate and based on adequate support. By the end of the fall 2008 term, the Foundation will

develop a statement of procedures that reflects such a periodic review by the Foundation and the university.

CALIFORNIA STATE UNIVERSITY, FRESNO ASSOCIATION, INC.

OPERATING AND ADMINISTRATIVE AGREEMENTS

Certain agreements between the California State University, Fresno Association, Inc. (Association) and the campus were not signed until several months after the inception date.

We found that:

- ▶ The agreement with the campus for the licensing and use of the university logo was signed on May 23, 2006, almost 11 months after its July 1, 2005, inception date.
- ▶ The agreement with the campus regarding the Central Valley Internet project/information technology services was signed on January 28, 2008, 19 months after its July 1, 2006, inception date.
- ▶ The agreement with the campus for financial report information and database access services was signed on February 16, 2006, about 8 months after its July 1, 2005, 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 that are executed in a timely manner.

The Association executive director stated that the agreements were not executed timely due to ongoing negotiations of contract terms. She further stated that each of these agreements contained a provision for month-to-month extension of contract terms after contract expiration.

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

Recommendation 2

We recommend that the Association ensure that future agreements with the campus are executed prior to inception.

Campus Response

We concur. As of the conclusion of this audit, we will endeavor to execute future agreements on time.

FISCAL COMPLIANCE

BUDGET

The Association had not adopted a realistic process for budgeting Save Mart Center revenues and expenditures.

We found that the activities and accounts for fiscal years 2004/05 and 2005/06 listed on the annual budget for the Save Mart Center did not reflect the actual activities and accounts recorded in the financial system. For example, the budget showed two types of revenue accounts, event revenue and contractual obligation income. However, the financial system listed nine different revenue accounts for fiscal year 2006/07. On the expenditure portion of the budget, building operations, management fees, and utilities were used with no corresponding financial system accounts for the same or similar activity.

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 budget reflect actual and/or anticipated financial activities for the budget year.

The Association executive director stated that the date for submission of the operating budget from the third-party company responsible for managing the Save Mart Center was not available timely for the Association annual budget submission deadline. She further stated that accounting assumptions utilized for projecting the budget estimates did not always follow the prior year's actual financial performance.

The lack of a sound budget process increases the risk of overspending and may negatively impact fiscal viability.

Recommendation 3

We recommend that the Association adopt a budgeting process for Save Mart Center revenues and expenditures that is consistent with actual activities and accounts recorded in the financial system.

Campus Response

We concur. The 2008/09 annual budget for the Save Mart Center now includes budget line items consistent with the annual report (audit) and is more reflective of past year's financial performance.

RESERVES

The Association had not developed a methodology for allocating net assets surplus into the reserve categories listed within its reserve policy and the general ledger account in which the reserves were to be maintained.

The Association's *Surplus Funds/Reserve Policy* states, in part, the governing board shall review the fiscal viability of the auxiliary. This review should include an evaluation of the needs for working capital, current operations, capital replacement, and planned future operation reserves. The Association should establish and/or revise reserves and their funding levels in accordance with this evaluation.

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 8.1.1.2 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 Association executive director stated that net assets were maintained as reserves and a detailed net asset analysis was performed and documented annually for review and approval by the Association's audit committee and board of directors. She further stated her belief that because of the Association's amount of liquid assets, it was not necessary to allocate the net assets surplus into reserve categories. She also stated that the form and detail of this report on net assets was reviewed during prior CSU auxiliary audit cycles and was modified accordingly as a recommendation in the 2002 auxiliary audit.

Failure to maintain a proper reserve allocation methodology and appropriately record designated amounts increase the risk of misunderstandings and miscommunication regarding available reserves.

Recommendation 4

We recommend that the Association develop a methodology for allocating net assets surplus into reserve categories and the general ledger account in which the reserves are to be maintained.

Campus Response

We concur. By June 30, 2009, we will develop a methodology for allocating net assets surplus into reserve categories and the general ledger account in which the reserves are to be maintained that has been approved by both the Association audit committee and Association board of directors.

OPERATING LOSSES

The Association's financial health, as measured by its financial statements, was in need of improvement.

For the fiscal years 2004/05, 2005/06, and 2006/07, the audited financial statements for the Association showed operating losses of approximately \$1.5 million, \$3 million, and \$2.8 million, respectively.

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 an auxiliary operate in a manner such that sustained losses will not be borne without a formal plan for improvement.

The Association executive director stated that the losses were primarily attributed to non-cash expenditures such as depreciation and the requirement to continue to show the 2002 senior and subordinate revenue bonds that will be fully defeased in 2012, but were still required to be shown on the Association's financial statements.

Sustained operating losses increase the risk of fiscal instability and may negatively impact future auxiliary operations.

Recommendation 5

We recommend that the Association develop a long-term financial plan that is reviewed and monitored periodically (no less than semi-annually) by the campus president and the chief financial officer (CFO) so as to mitigate losses and impact on cash reserves.

Campus Response

We concur. The Association's executive director will present a long-term financial plan that is reviewed and monitored periodically (no less than semi-annually) by the campus president and CFO so as to mitigate losses and impact on cash reserves. The first review has already occurred.

OPERATIONAL COMPLIANCE

The Association had not developed procedures to address the management and/or control of inventory shrinkage related to bookstore operations.

Specifically, procedures should address:

- ▶ Development of acceptable levels of inventory shrinkage and guidelines for when shrinkage exceed these amounts.
- ▶ Recording the type and cost of inventory shrinkage generated by each bookstore division.
- ▶ Periodic management review of inventory shrinkage data.

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

The Association executive director stated that a formal procedure for budgeting and tracking inventory shrinkage was currently not in place as a line item in the bookstore's budget.

The absence of written procedures for inventory shrinkage increases the risk of errors or misappropriation.

Recommendation 6

We recommend that the Association develop procedures to address the management and/or control of inventory shrinkage related to bookstore operations.

Campus Response

We concur. The 2008/09 budget for the Kennel Bookstore now has a budgeted line item for inventory shrinkage. By December 1, 2008, we will have new procedures written to address how the amount for shrinkage is determined, reviewed, and adjusted as part of the bookstore's annual inventory process.

SEGREGATION OF DUTIES

Duties and responsibilities over certain accounting functions were not appropriately segregated at the Association.

We noted that one employee:

- ▶ Created and mailed accounts receivable invoices.
- ▶ Processed checks received through the mail.
- ▶ Recorded payments.
- ▶ Handled accounts receivable disputes.
- ▶ Prepared the accounts receivable aging schedule.
- ▶ Posted accounting entries to the general ledger.
- ▶ Prepared the bank reconciliation.

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

The *Compilation of Policies and Procedures for California State University Auxiliary Organizations* sets sound business practice guidelines for auxiliary organizations operating within the CSU system. Section 8.9.4, *Receivables*, states that the auxiliary should establish a written internal controls system that ensures billing, cash collection, customer inquiries, and subsidiary reconciliations are conducted separately and with due regard for the receivable duties.

The Association executive director stated her belief that present mitigating controls indicated a minimal risk and were considered sufficient.

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 Association appropriately segregate certain functions within the accounting office or institute mitigating procedures approved by the campus CFO.

Campus Response

We concur. As part of the 2007/08 annual audit process, Association management has requested that its external auditor review the segregation of duties of the Association's accounting staff including the CFO duties recently assumed by the director of Foundation financial services. In the meantime, we have already made certain changes in the accounting operations area to ensure that proper review and approvals are in place by the unit director, the corporate operations manager, the interim CFO, or the executive director in order to ensure proper segregation of duties for specific accounting tasks. The campus CFO has approved these changes.

PURCHASING AND ACCOUNTS PAYABLE

The Association had not developed a standardized service agreement addressing duties, rights, and responsibilities for use in acquiring the services of third-party vendors.

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, in part, that the auxiliary should establish a written system that provides for purchases and service contracts to be made within governing board policies, source restrictions, funds availability, and other applicable requirements.

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 appropriate written agreements.

The Association executive director stated that vendor-provided service agreements might not be consistent depending upon type of product or services being procured by the Association. She further stated that staff counsel reviews all agreements prior to execution by the executive director.

The absence of an appropriate written agreement increases the risk of misunderstandings and miscommunication regarding rights and responsibilities and subjects the CSU to potential liability.

Recommendation 8

We recommend that the Association consider developing a standardized service agreement addressing duties, rights, and responsibilities for use in acquiring the services of third-party vendors.

Campus Response

We concur. We will consider by October 30, 2008, developing a standardized format for contracts and agreements for certain types of commodities and professional services other than construction services for which a standard agreement is used.

PERSONNEL AND PAYROLL

PAYROLL REPORT

The Association did not consistently perform a review of payroll add/edit reports in a timely manner.

The *Compilation of Policies and Procedures for California State University Auxiliary Organizations* sets sound business practice guidelines for auxiliary organizations operating within the CSU system. Section 8.9.6, *Payroll*, states that the auxiliary should establish a written system that ensures proper

authorization, approval, and documentation of new hires, changes in employment, salary and wage rates, and payroll deductions.

The Association executive director stated that the lack of consistent and timely review of payroll reports was due to payroll employee turnover.

Failure to perform a consistent and timely review of payroll-related data increases the risk of inappropriate new employee additions and modifications to pay rates.

Recommendation 9

We recommend that Association management perform a consistent and timely review of payroll add/edit reports.

Campus Response

We concur. We have initiated performing more consistent and timely reviews of payroll add/edit (exception) reports.

EMPLOYEE SEPARATION

The Association had not developed procedures for the separation of part-time employees.

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 employee separations.

The Association executive director stated that the Association's procedures for removing separated part-time employees from the payroll system had lapsed due to employee transition/turnover in the human resources department.

Insufficient control over employee separations increases the risk that all appropriate separation documentation will not be completed and any assets in the possession of terminating employees will not be recovered.

Recommendation 10

We recommend that the Association develop procedures to ensure the completion of required separation documentation for part-time employees.

Campus Response

We concur. The Association's procedures for removing separated part-time employees from the payroll system had lapsed due to employee transition/turnover in human resources. We have already modified our procedures to ensure that this process is performed at least quarterly by the human resources staff and notification is provided to the Association's executive director on a regular basis.

PROPERTY AND EQUIPMENT

ACCOUNTING

The Association had not capitalized and depreciated University Student Union and Student Recreation Center equipment meeting its capitalization threshold of \$1,500.

The audited financial statements stated that University Student Union and Student Recreation Center equipment totaling \$249,772 and \$213,646 acquired in fiscal years 2005/06 and 2006/07, respectively, was expensed instead of being capitalized and depreciated.

The Association's *Fixed Asset Policy and Procedures* state that the limit for capitalizing a fixed asset is \$1,500. A fixed asset is any capital asset purchase with an effective usable life of more than one year and a cost of \$1,500 or more.

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 accounting of property and equipment.

The Association executive director stated that based on past practice the Association was not required to depreciate equipment purchased with bond funds for the University Student Union or the Student Recreation Center. However, she was unable to provide documentary evidence of such authorization.

Failure to appropriately capitalize and depreciate property and equipment acquisitions increases the risk of misstated property records and misrepresentation in the financial statements.

Recommendation 11

We recommend that the Association ensure that all property and equipment for the University Student Union and the Student Recreation Center is appropriately capitalized and depreciated.

Campus Response

We concur. The Association will work with the university's associate vice president of financial services to properly account for future depreciation of new equipment and capital improvements for

the University Student Union and the Student Recreation Center while not impacting cash flow for the Association given that these two units are funded with student body center fee revenue which funds, including reserves, are held by the university. Beginning with equipment acquired during the 2008/09 fiscal year, depreciation schedules will be established.

ADMINISTRATION

Certain Association equipment was not tagged.

We found that equipment costing \$1,500 or more maintained at the University Student Union and Student Recreation Center was not tagged.

The Association's *Fixed Asset Policy and Procedures* state that all Association assets which have a service life of one year or more remaining and an estimated current value of \$1,500 or more shall be assigned an identification number by the CFO.

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 labeling of equipment.

The Association executive director stated that the equipment was not tagged due to oversight.

Failure to tag equipment increases the risk of theft or loss.

Recommendation 12

We recommend that the Association ensure that all equipment is tagged.

Campus Response

We concur. We will tag all capitalized assets in accordance with board approved policy. We will begin the process by January 2009. It is important to note that the Association currently tracks all fixed assets and has each unit director review these reports each year for accuracy and any write-off of any obsolete items.

**THE AGRICULTURAL FOUNDATION OF
CALIFORNIA STATE UNIVERSITY, FRESNO**

OPERATING AND ADMINISTRATIVE AGREEMENTS

The Agricultural Foundation of California State University, Fresno (Ag Foundation) sheep enterprise unit did not maintain a written agreement for the storage of rams owned as part of a partnership with a third party.

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

The Ag Foundation executive director stated that she was aware that some units did not maintain written agreements and was currently working with managers to ensure that written agreements were obtained for necessary operations.

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

Recommendation 13

We recommend that the Ag Foundation obtain a written agreement for the storage of rams by its sheep enterprise unit and complete its review of the need for written agreements for other operations.

Campus Response

We concur. By December 31, 2008, the Ag Foundation will obtain a written agreement for the storage of rams by its sheep enterprise unit and complete its review of the need for written agreements for other operations.

FACILITIES AGREEMENTS

A current sublease agreement between the Ag Foundation and the United States Department of Agriculture (USDA) for the Glassy-winged Sharp Shooter Research Lab had not been executed.

The sublease agreement expired on December 12, 2006, and was continuing on a month-to-month extension clause.

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 Ag Foundation executive director stated that the expired agreement had not been renewed due to oversight.

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

Recommendation 14

We recommend that the Ag Foundation execute a current sublease agreement with the USDA for the Glassy-winged Sharp Shooter Research Lab.

Campus Response

We concur. A letter was sent to the USDA on February 1, 2008, requesting extension of the sublease until June 30, 2009. The extension letter was signed and approved by the USDA on March 12, 2008.

CASH RECEIPTS AND HANDLING

Checks received by the Ag Foundation quarter horse unit and student horse center were not forwarded to the Association business office for deposit in a timely manner.

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.

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

The Ag Foundation executive director stated that the lack of timely deposits was due to the enterprise manager not forwarding checks to the Association business office when received or on a regular basis.

Failure to timely deposit checks increases the risk of loss or misappropriation of funds and negatively impacts cash flow.

Recommendation 15

We recommend that the Ag Foundation ensure the timely deposit of all check receipts.

Campus Response

We concur. Ag Foundation receipts are now deposited in a more timely fashion. In addition, the horse unit now has its own credit card machine, which is allowing for more timely processing of horse stall rental payments and sale of horses.

PROPERTY AND EQUIPMENT

Ag Foundation equipment costing \$1,500 or more maintained within the enterprise units was not tagged.

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 labeling of equipment.

The Ag Foundation executive director stated that the equipment was not tagged due to oversight.

Failure to properly tag equipment increases the risk of theft or loss.

Recommendation 16

We recommend that the Ag Foundation ensure that all equipment costing \$1,500 or more is tagged.

Campus Response

We concur. We will tag all capitalized assets in accordance with board-approved policy. We will begin this project by January 2009.

INFORMATION TECHNOLOGY

The Ag Foundation winery computer system contained sensitive customer information that was not stored in an encrypted format.

EO 698, *Board of Trustees Policy for The California State University Auxiliary Organization*, 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 Ag Foundation winery marketing manager stated that all other aspects of computer and network security had been implemented, and that encryption had just recently been made available in the newest release of the software.

Failure to encrypt sensitive customer information could require the auxiliary to notify all affected individuals in the event of a breach of security and potentially damage the auxiliary's reputation.

Recommendation 17

We recommend that the Ag Foundation immediately update its software to encrypt sensitive customer information.

Campus Response

We concur. We have entered into an agreement as of July 2008 with a new company (Inertia) that hosts online wine club sales websites and that agreement includes the requirement for Payment Card Industry compliance and encryption of sensitive customer (credit card) information.

THE CALIFORNIA STATE UNIVERSITY,
FRESNO ATHLETIC CORPORATION

OPERATING AND ADMINISTRATIVE AGREEMENTS

An agreement among the California State University, Fresno Athletic Corporation (Athletic Corporation), Ag Foundation, university plant operations, university agricultural operations, and department of animal science and education was not signed until 16 months after its inception date.

We found that the memorandum of understanding for the care of lesson horses, maintenance of facilities, and working relationships regarding the university equestrian team had an agreement term from July 1, 2006, through June 30, 2009; however, the agreement was not signed by all parties until November 2, 2007.

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 that are executed in a timely manner.

The Athletic Corporation associate athletics director of business operations stated that the delay in execution was due to oversight.

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

Recommendation 18

We recommend that the Athletic Corporation ensure that future agreements are executed prior to inception.

Campus Response

We concur. We are currently reviewing all our agreements to ensure we have executed agreements. Additionally, the associate athletics director of business operations will be the custodian of all agreements and be responsible for tracking agreements to have them executed in a timely manner as of the conclusion of this audit.

PERSONNEL AND PAYROLL

The Athletic Corporation process to report certain employee fringe benefits had not been fully implemented.

Employees who received a free round of golf were required to record their use of this benefit on a sign-in sheet maintained by the golf course, which would then be forwarded to the Athletic Corporation to be reported as a fringe benefit. Although the policy and procedures had been drafted, the actual process had yet to be implemented.

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 employee fringe benefits.

The Athletic Corporation associate athletics director of business operations stated that due to workload issues, the sign-in sheets had not been implemented.

Failure to properly report employee fringe benefits exposes the auxiliary to tax concerns and potential fines and penalties.

Recommendation 19

We recommend that the campus and the Athletic Corporation ensure that employee golf benefits are properly reported as taxable income.

Campus Response

We concur. Starting in October 2008, we will provide the country club with a list of employees who are eligible to receive this benefit, provide a sign-in sheet to the country club, and have the country club return the sheet each month to the athletic business office. The business office will forward this information to the campus office of human resources.

PROPERTY AND EQUIPMENT

Administration of Athletic Corporation property and equipment did not ensure proper accountability and identification.

We found that:

- ▶ A physical inventory had not been performed since fiscal year 2005/06.
- ▶ Property and equipment acquisitions were not currently being tagged. Although the Athletic Corporation had tagged all property and equipment in service at the time of its last physical

inventory, which was performed in response to our previous audits, property and equipment placed in service since that time had not been tagged.

- ▶ The list of sensitive equipment was not reconciled to property and equipment accounting records.
- ▶ Documentation of annual athletic equipment physical inventory counts had not been maintained.
- ▶ Reconciliation between the annual athletic equipment physical inventory count and the perpetual inventory system had not been performed.

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

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 over property and equipment.

The Athletic Corporation associate athletics director of business operations stated that the failure to perform a physical inventory, tag property and equipment, and reconcile sensitive equipment to accounting records was due to turnover in management positions.

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

Recommendation 20

We recommend that the Athletic Corporation:

- a. Perform periodic physical inventory counts of property and equipment.
- b. Ensure that property and equipment are tagged in a timely manner.
- c. Perform periodic reconciliations of the sensitive equipment list to property and equipment accounting records.
- d. Maintain documentation of annual athletic equipment physical inventory counts.
- e. Reconcile the annual athletic equipment physical inventory count to the perpetual inventory system.

Campus Response

We concur. We will perform these duties at least annually with the coordination of our facilities department, equipment department, and athletic business office. Additionally, when equipment valued at \$5,000 or more and sensitive equipment are received, they will be tagged in a timely manner. To accomplish our first corrective actions, we will perform these tasks by December 31, 2008.

AUXILIARY PROGRAMS

The Athletic Corporation had not performed criminal background checks for all instructors participating in a winter baseball camp.

We noted that criminal background checks had not been completed for three of the five participating instructors.

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 proper oversight of sports camps.

The Athletic Corporation associate athletics director of business operations stated that the failure to perform background checks was due to the background checking system being upgraded during this period.

The absence of criminal background checks increases the risk of inappropriate personnel assignments for sports camps and clinics, which could potentially damage the auxiliary's and campus' reputations.

Recommendation 21

We recommend that the Athletic Corporation ensure that criminal background checks are performed for all instructors prior to the start of sports camps.

Campus Response

We concur. The athletics business operations manager is now ensuring that criminal background checks are performed. Sport camp directors have been informed that sport camp employees will not receive their paychecks if they have not had a criminal background check performed.

FRESNO STATE PROGRAMS FOR CHILDREN, INC.

SEGREGATION OF DUTIES

Duties and responsibilities over purchasing of food and linens for the childcare centers were not adequately segregated at Fresno State Programs for Children, Inc. (PFC).

We found that one employee:

- ▶ Placed all food and linen orders.
- ▶ Received all food and linen orders.
- ▶ Maintained custodianship of food and linen stock.
- ▶ Approved vendor invoices for payment.

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 8.9.5, *Procurement*, states, in part, that the auxiliary should establish a written internal controls system that provides purchase orders and service contracts are prepared separately from receiving and shipping and payables and disbursements.

The PFC program director stated that the insufficient segregation of certain duties was due to staffing constraints.

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

Recommendation 22

We recommend that PFC properly segregate the duties and responsibilities over purchasing of food and linens or institute mitigating procedures approved by the campus CFO.

Campus Response

We concur. The following segregation of duties have been implemented: Placement of food and linen orders – cook; receipt of food and linen orders – assistant cook; maintenance of food and linen stock – all items received and stored are verified by a PFC administrator; approval of vendor invoices for payment – program director. (The Association accountant will not pay invoices without PFC program director’s approval.).

FEES, REVENUES, AND RECEIVABLES

Administration of PFC student tuition payments required improvement.

We found that the collection of student tuition payments differed between the two PFC childcare facilities and business offices or had not been fully implemented:

- ▶ The current process for collecting student tuition payments at the Campus Children's Center differed from the PFC official policy and procedure and had not been approved by PFC management.
- ▶ The recently updated procedure for collecting student tuition payments at the Huggins Center had not been fully implemented.

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 student tuition payments.

The PFC program director stated that a lack of communication and effort to streamline the collection procedures at the childcare center locations caused the variance in collection procedures.

Inadequate administration of student tuition payments increases the risk that inconsistencies and misunderstandings will occur and may result in loss of tuition revenue.

Recommendation 23

We recommend that PFC:

- a. Review and approve the current process for collecting student tuition payments at the Campus Children's Center.
- b. Ensure full implementation of the current policy for collecting student tuition payments at the Huggins Center.

Campus Response

We concur.

- a. The Campus Children's Center office manager and PFC program associate have been advised and trained on the appropriate fee collection procedures as outlined by California Department of Education funding terms and conditions.

- b. The collection of payments at the Huggins Center will be handled in accordance with existing PFC procedures consistent with the other childcare sites. On March 4, 2008, all PFC staff who have responsibility for collecting and processing of childcare fees signed a memo indicating that they have reviewed and understand the established procedures for proper handling of fees/payments.

PURCHASING AND ACCOUNTS PAYABLE

RECEIVING

PFC invoices and/or delivery documents accompanying food orders were not always signed upon receipt verifying the accuracy of the shipment prior to payment.

We found three unsigned invoices with totals ranging between \$77.66 and \$752.56 for delivery of food orders to the childcare centers.

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, in part, that the auxiliary should establish a written internal controls system that ensures materials are received in a consistent manner, and that they are properly inspected, recorded, and reported to the purchasing agent or equivalent.

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 verification of goods and services received prior to payment.

The PFC head cook stated that failure to sign the invoices was due to having only two staff members who were often preoccupied during food deliveries, and working with the same vendor for several years, which often dropped off deliveries without asking for a signature.

Insufficient receiving procedures increase the risk of errors, irregularities, and misappropriation of funds.

Recommendation 24

We recommend that PFC ensure that all food deliveries are promptly verified and signed for upon receipt.

Campus Response

We concur. The kitchen staff has received a memo reminding them that they are to sign for all deliveries at the time to ensure proper receipt of all items. If they are unavailable at the time of delivery, they are to contact the main office so that an administrator can sign for delivery.

SUPPORTING DOCUMENTATION

PFC did not require sufficient supporting documentation for the reimbursement of employee travel expenses when attending conferences.

We found three instances where travel reimbursement for conference attendance was not supported with conference fee receipts and agendas showing provided meals. We noted that other auxiliary organizations on campus did require this type of supporting documentation.

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

The PFC program director stated that not requiring conference fee receipts and agendas to substantiate expenditures for conference attendance travel was due to oversight.

Insufficient supporting travel documentation increases the risk of errors, irregularities, and misappropriation of funds.

Recommendation 25

We recommend that PFC require more complete documentation for the reimbursement of employee travel expenses when attending conferences.

Campus Response

We concur and have implemented the following improvements as of the conclusion of this audit. PFC will require more complete documentation for the reimbursement of employee travel expenses when attending conferences. The Association accountant will ensure that when travel expense claims are submitted by PFC that PFC follows the Association's travel policy and utilizes the standard forms prepared by the Association for PFC. In addition, PFC will ensure that the conference agenda is included as part of the backup documentation with the travel expense claim for validation of conference schedule and meals included as part of registration fee.

APPENDIX A: PERSONNEL CONTACTED

<u>Name</u>	<u>Title</u>
CAMPUS	
John D. Welty	President
Matt Babick	Internal Auditor
Clinton Moffitt	Associate Vice President, Financial Services
Chris Robinson	University Controller
Peter Smits	Vice President, University Advancement
Paul John (P.J.) Soligian	Accountant
Cynthia Teniente-Matson	Vice President, Administration and Chief Financial Officer

CALIFORNIA STATE UNIVERSITY, FRESNO FOUNDATION

Sally Cardell	Accounts Payable Clerk
Doug Carey	Grant Administrator
Linda Christian	Grant Accounting Supervisor
Sandy High	Receptionist
Keith Kompsi	Director, Financial Services
Jill Richards	Procurement Technician
Rebecca Rossol	Staff Accountant
Michelle Serrano	Trust Accountant
Elizabeth Sinor	Accounting Supervisor
Peter Smits	Executive Director
Nathan Zanoni	Grant Accountant

CALIFORNIA STATE UNIVERSITY, FRESNO ASSOCIATION, INC.

Deborah Adishian-Astone	Executive Director
Susan Bartel	Book Department Manager, Kennel Bookstore
Erin Boele	Director, University Courtyard
Debbie Dehner	Auxiliaries Cashier
Tamara Durant	Corporate Operations Manager
Ron Durham	Director, Kennel Bookstore
Stephen Fernandez	Executive Chef
Karen Focarazzo	Manager, University Catering
Jack Gartner	Assistant Bookstore Manager
Debbie Guill	Manager, University Dining Hall
Erin Kent	Operations Services Coordinator, University Student Union
Carol Lillian	Office Manager, University Dining Services
John Milikian	Staff Counsel
Curt Parkinson	Operations Manager, Kennel Bookstore
Sally Ramage	Director, University Student Union
Kathy Simpson	Administrative Manager, Kennel Bookstore
Patricia Thomason	Recreation Center Manager, University Student Union
Rachel Viramontes	Interim Human Resources Manager
Derek Walters	Director, Student Recreation Center
Mehrzad Zarrin	Associate Director, University Student Union

THE AGRICULTURAL FOUNDATION OF CALIFORNIA STATE UNIVERSITY, FRESNO

Deborah Adishian-Astone	Executive Director
Dan Avila	Dairy Processing Manager
Elisa Castro	Floral Manager
Gary Chavira	Vegetable Crops Manager
John Cordeiro	Sheep Unit Manager
Calliope Correia	Nursery Manager
Melinda Dresser-Oakes	Administrative Assistant
Tamara Durant	Corporate Operations Manager
Gino Favagrossa	Orchard Manager
John Giannini	Winemaker
John Henson	Meats Lab Faculty Advisor
Randy Long	Meats Lab Student Assistant
Peggy Maxwell	Association Accountant
Garrett Miller	Field Crops Manager
Mike Mosinski	Coordinator of Farm Management and Department Safety
Art Parham	Poultry/Rodeo Unit Faculty Advisor
Randy Perry	Beef Unit Faculty Advisor
Idalia Reveles	Farm Market Student Assistant Manager
Jon Robison	Dairy Unit Faculty Advisor
Anne Rodiek	Horse Units Manager
Mark Salwasser	Vineyard Manager
Ganesan Srinivasan	Director
Jessup Wiley	Winery Marketing Manager
Scott Williamson	Swine Unit Faculty Advisor

THE CALIFORNIA STATE UNIVERSITY, FRESNO ATHLETIC CORPORATION

Martina Buckley	Associate Athletics Director, Business Operations
Ryan Nelson	Network Analyst
Mark Younger	Manager, Equipment Room

FRESNO STATE PROGRAMS FOR CHILDREN, INC.

Shareen Abramson	Supervisor, Huggins Early Education Center
Alma Major	Supervisor, Campus Children's Center
Annette Martinez	Head Cook
Catherine Mathis	Program Director
Anna Munoz	Office Manager, Huggins Early Education Center
Kenneth Shipley	Executive Director
Isabella Torres	Office Manager, Campus Children's Center

ASSOCIATED STUDENTS CALIFORNIA STATE UNIVERSITY, FRESNO

Juan Pablo Moncayo	President
Russel Statham	Vice President, Finance
Annie Tremp	Business Manager

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.