

AUXILIARY ORGANIZATIONS
CALIFORNIA STATE UNIVERSITY,
BAKERSFIELD

Audit Report 08-47
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BOARD OF TRUSTEES
THE CALIFORNIA STATE UNIVERSITY

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ABBREVIATIONS

ASI	Associated Students, California State University, Bakersfield, Inc.
Board	Board of Directors
CSU	California State University
EO	Executive Order
Foundation	California State University Bakersfield Foundation
MOU	Memorandum of Understanding
RFIN	Resolution of the Committee on Finance
Union	California State University, Bakersfield Student Union

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, Bakersfield 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, Bakersfield campus and its auxiliary organizations from April 7, 2008, through May 1, 2008, and made a study and evaluation of the system of internal compliance/internal control in effect as of May 1, 2008. This report represents our triennial review.

Our study and evaluation at *California State University Bakersfield 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 May 1, 2008, taken as a whole, was sufficient to meet the objectives stated above.

Our study and evaluation at *California State University, Bakersfield Foundation for Research* 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 May 1, 2008, taken as a whole, was sufficient to meet the objectives stated above.

Our study and evaluation at *California State University, Bakersfield Student Union* 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 May 1, 2008, taken as a whole, was sufficient to meet the objectives stated above.

Our study and evaluation at *Associated Students, California State University, Bakersfield, 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 May 1, 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 BAKERSFIELD FOUNDATION

OPERATING AND ADMINISTRATIVE AGREEMENTS [10]

The operating agreement between the California State University Bakersfield Foundation (Foundation) and the campus was not signed until two years after its inception. Further, certain memoranda of understanding between the Foundation and the campus were not timely established and/or signed and complete.

FACILITIES AGREEMENTS [11]

A facilities lease agreement between the Foundation and the campus for food service, childcare, conferences, and meeting facilities was not signed until two years after its inception date. Further, since food service operations were transferred to the campus in fiscal year 2007/08, the Foundation's facilities lease agreement needed to be amended to delete the space assigned to this function.

FISCAL COMPLIANCE [12]

The Foundation did not record designated reserves within the general ledger in accordance with its reserve policy. The Foundation's general ledger only included a reserve account for unrestricted reserves; reserve accounts had not been established for capital replacement and planned future operations.

OPERATIONAL COMPLIANCE [13]

The Foundation's risk management policy did not address procedures used to actively identify, analyze, quantify, and manage risk.

CAMPUS OVERSIGHT AND CONTROL [14]

The Foundation's transfer of the bookstore and dining services contracts to the campus was not supported by timely board of directors (Board) action transferring the rights and responsibilities of these activities to the campus. For example, commission revenue was deposited into campus accounts as of November 30, 2006; however, the Foundation Board did not pass a motion transferring all rights and responsibilities to the campus until September 26, 2007.

FEES, REVENUES, AND RECEIVABLES [15]

Foundation administration of corporate matching gifts required improvement. For example, corporate matching gift agreements were not being obtained and maintained, other important gift documentation was not consistently maintained, and donor credit card information was inappropriately retained. Further, a written policy and procedures had not been developed for the administration of corporate matching gifts. In addition, the athletics department administration of gift processing, on behalf of the Foundation, required improvement. For example, checks were not restrictively endorsed upon receipt, a check log was not maintained within the athletics department, acknowledgement letters sent by athletics were not reviewed and approved by the Foundation prior to mailing, and reconciliations among the athletics department donor database, campus accounting system, and the Foundation donor database were either untimely or not performed. Lastly, a written policy and procedure had not been developed for the administration of gift processing by the athletics department.

PROPERTY AND EQUIPMENT [18]

The Foundation was unable to reconcile its fixed asset sub ledger to the campus property accounting system. As of July 1, 2007, administration of Foundation property and equipment was transferred to the campus, although the Foundation continued to maintain a fixed assets sub ledger. However, the Foundation had been unable to reconcile its fixed assets sub ledger to the campus property accounting system. As of June 30, 2007, these two records differed by \$632,981.

ENDOWMENT ADMINISTRATION [19]

Administration of Foundation endowments required improvement. Endowment agreements did not address either the Foundation's account set-up fee or the annual spending policy, and certain endowment files did not include account set-up forms and/or fully executed endowment agreements.

AUXILIARY PROGRAMS [20]

State funds generated by campus-designated programs were misclassified as Foundation revenue. Revenues generated by four campus-designated programs were misclassified as Foundation revenue. Fiscal year 2007/08 revenue as of March 2008 totaled \$55,643 for the four programs.

CALIFORNIA STATE UNIVERSITY, BAKERSFIELD STUDENT UNION

OPERATING AND ADMINISTRATIVE AGREEMENTS [22]

A memorandum of understanding (MOU) between the California State University, Bakersfield Student Union (Union) and the campus for administrative and accounting services had not been established.

FACILITIES AGREEMENTS [22]

Current sublease agreements among the Union, another auxiliary, and a third party had not been executed. A sublease agreement between the Union and Foundation for the space occupied by Wiley's Pub expired on June 30, 2005, and a sublease agreement between the Union and a video game vendor expired on June 30, 2006.

PURCHASING AND ACCOUNTS PAYABLE [23]

The Union did not require the completion of a travel approval form prior to traveling. Three instances were noted where travel approval forms were not utilized prior to traveling to conferences.

PROPERTY AND EQUIPMENT [24]

Administration of Union property and equipment needed improvement. Property and equipment disposals were not authorized by the property survey board, and the Union and campus were utilizing inconsistent thresholds for the capitalization of property and equipment.

ASSOCIATED STUDENTS, CALIFORNIA STATE UNIVERSITY, BAKERSFIELD, INC.

OPERATING AND ADMINISTRATIVE AGREEMENTS [26]

The Associated Students, California State University, Bakersfield, Inc. (ASI) had not executed an operating agreement with the campus authorizing the issuance of scholarships and stipends. Further, the MOU between the ASI and campus for various accounting and administrative services expired on June 30, 2006, and had not been renewed.

FACILITIES AGREEMENTS [27]

The lease agreement between the ASI and the campus for space at the Antelope Valley Campus was not signed until eight months after its inception date and expired on October 31, 2007.

FISCAL COMPLIANCE [28]

The ASI had not developed a methodology for allocating net assets surplus into reserve categories, such as working capital, current operations, capital replacement and planned future operations, and the general ledger accounts in which such reserves were to be maintained.

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 May 1, 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 Bakersfield 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
- ▶ Fees, Revenues, and Receivables
- ▶ Purchasing and Accounts Payable
- ▶ Personnel and Payroll
- ▶ Trusts and Other Liabilities
- ▶ Endowment Administration
- ▶ Auxiliary Programs
- ▶ Information Technology

California State University, Bakersfield Foundation for Research

- ▶ Corporate Governance

California State University, Bakersfield Student Union

- ▶ 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
- ▶ Fees, Revenues, and Receivables
- ▶ Purchasing and Accounts Payable
- ▶ Personnel and Payroll
- ▶ Trusts and Other Liabilities

California State University, Bakersfield Student Union (cont.)

- ▶ Auxiliary Programs
- ▶ Information Technology

Associated Students, California State University, Bakersfield, 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
- ▶ Fees, Revenues, and Receivables
- ▶ Purchasing and Accounts Payable
- ▶ Personnel and Payroll
- ▶ Trusts and Other Liabilities
- ▶ Auxiliary Programs
- ▶ Information Technology

Campus

- ▶ Campus Oversight and Control

We have not performed any auditing procedures beyond May 1, 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 BAKERSFIELD FOUNDATION

OPERATING AND ADMINISTRATIVE AGREEMENTS

OPERATING AGREEMENT

The operating agreement between the California State University Bakersfield Foundation (Foundation) and the campus was not signed until two years after its 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 written agreements executed in a timely manner.

The Foundation manager stated that the agreement was not timely executed due to oversight.

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

Recommendation 1

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

Campus Response

We concur. The Foundation manager now has access to the procurement database that will enable him to track agreements with the university and their expiration dates. This has been implemented.

ADMINISTRATIVE AGREEMENTS

Certain memoranda of understanding between the Foundation and the campus were not timely established and/or signed and complete.

We found that:

- ▶ The memorandum of understanding (MOU) for administrative services provided to athletics had not been established until almost two years after its inception date.

- ▶ The MOU for conference and event programming provided to the Leadership Development Center had not been established until nine months after its inception date.
- ▶ The MOU for business administrative support services provided by the campus to the Foundation was signed a year after its inception date. Further, the MOU did not include cash collection and property administration services also provided by 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 complete, written agreements executed in a timely manner.

The Foundation manager stated that not establishing and executing agreements in a timely manner was due to a combination of oversight and an extended contract negotiation process. He further stated that not including the cash collection and property administration services in the MOU was due to oversight.

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

Recommendation 2

We recommend that the Foundation ensure that future agreements with the campus are timely established and executed and the MOU for business administration support services are promptly amended to include cash collection and property administration.

Campus Response

We concur. The Foundation manager now has access to the procurement database that will enable him to track agreements with the university and their expiration dates. This has been implemented.

FACILITIES AGREEMENTS

A facilities lease agreement between the Foundation and the campus for food service, childcare, conferences, and meeting facilities was not signed until two years after its inception date and needed to be amended.

Specifically, since food service operations were transferred to the campus in fiscal year 2007/08, the Foundation's facilities lease agreement needed to be amended to delete the space assigned to this function.

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 facilities lease arrangements be supported by written agreements executed in a timely manner.

The Foundation manager stated that the lease agreement was not timely executed and amended due to oversight.

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

Recommendation 3

We recommend that the Foundation ensure that future facilities lease agreements with the campus are executed prior to inception and the current facilities lease be amended to eliminate the space previously needed for food service operations.

Campus Response

We concur. The current facilities lease agreement is being modified to exclude auxiliary operations that the Foundation no longer manages. Target completion date is January 31, 2009.

FISCAL COMPLIANCE

The Foundation did not record designated reserves within the general ledger in accordance with its reserve policy.

Specifically, the Foundation general ledger only included a reserve account for unrestricted reserves; reserve accounts had not been established for capital replacement and planned future operations.

The Foundation's *Reserve Funding* policy states that the Foundation should reserve for deficit funding in the amount of one-third of each prior year's general fund budget or \$15,000, whichever is larger. These reserves are to be allocated to capital replacement, planned future operations, and an unreserved fund balance. Once funds are allocated by the board, they will be transferred to and reserved in the board designated fund and dispersed from there.

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 Foundation manager stated that although executive management decided to maintain at least one-third of the Foundation's prior year general fund budget as reserves, they had not decided how to specifically categorize the funds.

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

Recommendation 4

We recommend that the Foundation record designated reserves within the general ledger in accordance with its reserve policy.

Campus Response

We concur. The Foundation will establish accounts in the general ledger in line with its reserve policy. Target completion date is January 31, 2009.

OPERATIONAL COMPLIANCE

The Foundation's risk management policy did not address procedures used to actively identify, analyze, quantify, and manage risk.

Executive Order (EO) 715, *California State University Risk Management Policy*, dated October 27, 1999, delegated authority and responsibility to the campus president to implement campus risk management policies consistent with the CSU Risk Management Policy guidelines. This includes an ongoing process to identify risks, analyze the frequency and severity of the potential risks, and select the best management techniques to manage the risks.

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 8.7, *Risk Management*, states that auxiliary organizations should develop programs to manage risk related to activities in which the organizations are engaged.

The Foundation manager stated that the policy had not yet been updated due to staffing constraints.

The absence of a comprehensive risk policy increases the risk that all current risk related activities may not be adequately evaluated.

Recommendation 5

We recommend that the Foundation update its risk management policy to include the procedures used to actively identify, analyze, quantify, and manage risk.

Campus Response

We concur. The Foundation will modify its operating manual to include a risk assessment policy and procedures that reflects current practice, which includes procedures for monitoring and managing risk. Target completion date is January 31, 2009.

CAMPUS OVERSIGHT AND CONTROL

The Foundation's transfer of the bookstore and dining services contracts to the campus was not supported by timely board of directors' (Board) action transferring the rights and responsibilities of these activities to the campus.

We noted the following timeline of activities/actions:

- ▶ Foundation Board meeting on June 1, 2005: The campus president advised the Board that he was considering the transfer of bookstore and dining services to the campus on or before September 20, 2005.
- ▶ Foundation Board meeting on December 7, 2005: The campus president stated that the bookstore and dining services would be transferred on January 1, 2006.
- ▶ Foundation Board meeting on March 8, 2006: The transfer date was rescheduled for July 1, 2006.
- ▶ Commission revenue from the bookstore operations was deposited into campus accounts as of November 30, 2006.
- ▶ Foundation Board meeting on September 26, 2007: A motion was passed to transfer all rights and responsibilities for the bookstore and dining services over to the campus.
- ▶ Commission revenue from dining services was signed over to 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 the transfer of auxiliary activities to the campus be supported by timely Board action.

The Foundation manager stated that although Board action was not taken until the process was completed, they were informed of all decisions and transfer progress on an ongoing basis.

The lack of timely Board action on proposed business activities increases the risk of misunderstandings, miscommunications, and missed opportunities in executing these activities.

Recommendation 6

We recommend that the Foundation ensure that future Board actions concerning proposed business activities be completed in a timely manner.

Campus Response

We concur. This has been implemented.

FEES, REVENUES, AND RECEIVABLES

MATCHING GIFTS

Foundation administration of corporate matching gifts required improvement.

Our review of 13 corporate matching gifts, received between July 1, 2005, and May 1, 2008, and related procedures disclosed that:

- ▶ In every instance, corporate matching gift agreements were not obtained and maintained.
- ▶ In two instances, documentation to support the company's matching gift was not maintained.
- ▶ In two instances, evidence of the donors' payment was not maintained.
- ▶ In two instances, donor credit card information was inappropriately retained.
- ▶ In three instances, gifts were not supported by corporate matching documents.
- ▶ A written policy and procedures had not been developed for the administration of corporate matching gifts.

EO 676, *Delegation of Gift Evaluation and Acceptance to Campuses*, dated February 1, 1998, delegated authority to campus presidents to evaluate and accept gifts, bequests, and donations of personal property to campuses. Campus presidents may further delegate this authority in whole or in part to campus officers and employees. Henceforth, campuses will evaluate potential campus gifts,

bequests, and donations and accept and receipt campus gifts, bequests, and donations in accordance with the requirements of the California Education Code Sections 89720 and 66010.4(b).

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 manager stated that failure to maintain certain documentation, retention of donor credit card information, and the lack of a written matching gift policy and procedures were due to oversight.

Inadequate administration of corporate matching gifts increases the risk of inconsistencies, misunderstandings, and loss or misappropriation of funds.

Recommendation 7

We recommend that the Foundation:

- a. Obtain and maintain corporate matching gift agreements.
- b. Maintain supporting documentation for the company's matching gift.
- c. Maintain evidence of donor payments.
- d. Properly discard donor credit card information.
- e. Complete a corporate matching gift document for all matching gifts.
- f. Develop a written matching gift policy that addresses the acceptance of matching gifts and the corresponding processing and accounting procedures.

Campus Response

We concur. The new vice president of university advancement is in the process of writing a new gift policy and procedures manual that will address the different aspects of this finding. Target completion date is January 31, 2009.

GIFT PROCESSING

The athletics department administration of gift processing, on behalf of the Foundation, required improvement.

We found that:

- ▶ Checks received as gifts by the athletics department were not restrictively endorsed upon receipt. The checks were not restrictively endorsed until received in the cashier's office.
- ▶ A check log was not maintained to provide accountability over donations received by the athletics department either through the mail or from a development officer.
- ▶ Gift acknowledgement letters produced by the athletics department were not reviewed and approved by the Foundation prior to mailing to the donor.
- ▶ The athletics department did not provide the Foundation with supporting documentation for its monthly report of donations received.
- ▶ Reconciliations between the Foundation and the athletics department donor databases were not performed.
- ▶ Reconciliations between the athletics department computerized donor records and the campus accounting system were not performed in a timely manner.
- ▶ A written policy and procedures had not been developed for the administration of gift processing by the athletics department.

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.

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 administration of gift processing.

The Foundation manager stated that the failure to properly administer gift processing was due to a lack of control and communication over gifts processed through the athletics department.

Inadequate administration of gift processing increases that risk of inconsistencies, misunderstandings, and loss or misappropriation of funds.

Recommendation 8

We recommend that the Foundation:

- a. Require that checks received in athletics department be restrictively endorsed upon receipt.
- b. Implement the use of a check log within the athletics department to document the receipt of donations via mail or by a development officer.
- c. Require that acknowledgement letters be submitted to the Foundation for review and approval prior to mailing to the donor.
- d. Require that the athletics department provide the Foundation with supporting documentation for its monthly report of donations received.
- e. Perform monthly reconciliations between the Foundation and the athletics department donor databases.
- f. Require that timely reconciliations be performed between the athletics department computerized donor records and the campus accounting system.
- g. Develop a written policy and procedures for the administration of gift processing by the athletics department.

Campus Response

We concur. The new vice president of university advancement is in the process of writing a new gift policy and procedures manual that will address the different aspects of this finding. Target completion date is January 31, 2009.

PROPERTY AND EQUIPMENT

The Foundation was unable to reconcile its fixed assets sub ledger to the campus property accounting system.

As of July 1, 2007, administration of Foundation property and equipment was transferred to the campus, although the Foundation continued to maintain a fixed assets sub ledger. Further, the Foundation increased its capitalization threshold from \$500 to \$2,500. Our review disclosed that the Foundation had been unable to reconcile its fixed assets sub ledger to the campus property accounting system. As of June 30, 2007, these two records differed by \$632,981.

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 reconcile physical inventories to the general ledger on a timely basis with review by management.

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

The Foundation manager stated that the failure to reconcile its fixed assets sub ledger to the campus property accounting system was due to the recent change in the fixed assets capitalization threshold and the time required to implement the change.

Failure to reconcile property control records to the property accounting system increases the risk of misstated property records, misrepresentation in the financial statements, and/or loss of assets.

Recommendation 9

We recommend that the Foundation promptly reconcile its fixed assets sub ledger to the campus property accounting system.

Campus Response

We concur. During the most recent capital and non-capital inventory, the Foundation reconciled its property records with that of the university. This has been completed.

ENDOWMENT ADMINISTRATION

Administration of Foundation endowments required improvement.

Our review of 21 endowment files disclosed that:

- ▶ Endowment agreements did not address either the Foundation's account set-up fee or the annual spending policy.
- ▶ In 16 instances, endowment files did not contain an account set-up form. This form included important information such as endowment account number, corresponding distribution account, and authorized signatories.
- ▶ In seven instances, endowment files did not contain fully executed endowment agreements.

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.

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 of endowments.

The Foundation manager stated that failure to properly administer endowments was due to oversight and the inability to go back and obtain documentation for older accounts.

Insufficient administration of endowment increases the risk errors and irregularities will occur.

Recommendation 10

We recommend that the Foundation:

- a. Update its standard endowment agreement to address the account set-up fee and spending policy.
- b. Review all endowment files and ensure that each file contains an account set-up form.
- c. Ensure the completion of endowment agreements for all future endowments.

Campus Response

We concur. The new vice president of university advancement is in the process of writing a new gift policy and procedures manual that will address the different aspects of this finding particularly as it relates to endowment account set-up fees, forms, and agreements. Target completion date is January 31, 2009.

AUXILIARY PROGRAMS

State funds generated by campus-designated programs were misclassified as Foundation revenue.

We found that the revenues generated by four campus-designated programs, the Applied Center for Research, Kern/Eastern Sierra Writing Project, Advising Information Center-Occupational Health Psychology, and the Center for Economic Education and Research, were misclassified as Foundation revenue. Fiscal year 2007/08 revenue as of March 2008 totaled \$55,643 for the four programs.

EO 751, *Centers, Institutes and Similar Organizations on Campuses of the California State University*, dated July 5, 2000, governs the development of these types of enterprises on each campus. The EO also states that programs can either be owned by the campus or owned by an auxiliary and that financial responsibility follows the ownership decision.

EO 919, *Policy Governing Non-General Fund Receipts*, dated October 15, 2004, states that each campus provide administration of their non-General Fund receipts that are subject to local campus control, ensure that the funds are held in proper accounts and are administered in accordance with applicable laws and regulations.

The Foundation manager stated that the misclassification of Foundation revenue was due to oversight.

Misclassification of state funds in auxiliary accounts increases the risk that funds will be expended for inappropriate purposes and of misrepresentation in the financial statements.

Recommendation 11

We recommend that the Foundation, together with the campus, ensure that all state revenues for campus-designated programs are maintained and administered in state accounts and that all state funds currently residing in Foundation accounts be immediately transferred to the state.

Campus Response

We concur. The remaining identified accounts are in the process of being transferred to state accounts. Target completion date is January 31, 2009.

CALIFORNIA STATE UNIVERSITY, BAKERSFIELD STUDENT UNION

OPERATING AND ADMINISTRATIVE AGREEMENTS

A MOU between the California State University, Bakersfield Student Union (Union) and the campus for administrative and accounting services had not been established.

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 Union executive director stated that in 2006, the Union moved from operating under the Foundation to the campus; however, the MOU between the Foundation and the Union was never transferred to the campus.

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

Recommendation 12

We recommend that the Union establish a MOU with the campus regarding responsibilities over administrative and accounting services.

Campus Response

We concur. Both parties have signed a MOU between the Union and the campus.

FACILITIES AGREEMENTS

Current sublease agreements among the Union, another auxiliary, and a third party had not been executed:

We found that:

- ▶ The sublease agreement between the Union and Foundation for the space occupied by Wiley's Pub expired on June 30, 2005, and was continuing on a month-to-month extension clause.
- ▶ The sublease agreement between the Union and a video game vendor expired on June 30, 2006.

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 facilities lease arrangements be supported by current, written agreements.

The Union executive director stated that the delay in renewing or modifying these lease agreements was due to the movement of food services from the Foundation to the campus and an extensive search for a new video game vendor. She added that the leases were allowed to expire and were not renewed during the transition period.

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

Recommendation 13

We recommend that the Union execute current facilities lease agreements with the other auxiliary and third party.

Campus Response

We concur. A MOU has been established between the Union and the campus regarding auxiliary and third-party lease agreements.

PURCHASING AND ACCOUNTS PAYABLE

The Union did not require the completion of a travel approval form prior to traveling.

We noted three instances where travel approval forms were not utilized prior to traveling to conferences.

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 business travel be supported by a travel approval form prior to its commencement.

The Union executive director stated that the lack of a travel approval form was due to oversight. She further stated that the Union currently obtained informal travel approval through meetings and e-mail with the campus vice president of student affairs.

Lack of appropriate travel authorization increases the risk of errors, irregularities, and misappropriation of funds.

Recommendation 14

We recommend that the Union require completion of a travel approval form prior to the commencement of travel.

Campus Response

We concur. A Union travel approval form has been implemented.

PROPERTY AND EQUIPMENT

Administration of Union property and equipment needed improvement.

We found that:

- ▶ Property and equipment disposals were not authorized by the property survey board.
- ▶ The Union and campus were utilizing inconsistent thresholds for the capitalization amount of property and 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 Union executive director stated that the disposal of property and equipment without property survey board authorization was due to the oversight. She further stated that the Union and campus had not formalized the arrangement to administer property and equipment that would include a consistent capitalization amount.

Insufficient administration of property and equipment increases the risk that property may be lost or stolen, and of misrepresentation in the financial statements.

Recommendation 15

We recommend that the Union:

- a. Dispose of assets through the use of the property survey board.
- b. Establish a threshold with the campus for the capitalization of assets.

Campus Response

We concur. The Union will implement the campus asset policy. Target completion date is January 31, 2009.

ASSOCIATED STUDENTS,
CALIFORNIA STATE UNIVERSITY, BAKERSFIELD, INC.

OPERATING AND ADMINISTRATIVE AGREEMENTS

OPERATING AGREEMENT

The Associated Students, California State University, Bakersfield, Inc. (ASI) had not executed an operating agreement with the campus authorizing the issuance of scholarships and stipends.

The ASI annually provided \$500 in scholarships to seven students and stipends to ASI officers.

Title 5 §42501 requires a written agreement on behalf of the State of California by the chancellor of the CSU and the auxiliary organization is required for the performance by such auxiliary organization of any functions listed in §42500, except student body organization activities. If the auxiliary performs more than a single function, then the written agreement may cover any number of the functions. Title 5 §42502 states that the operating agreement should specify the function or functions which the organization is to manage, operate, or administer.

The ASI office manager stated that the ASI had been in operation for 30 years without an operating agreement and had not previously received an audit finding.

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

Recommendation 16

We recommend that the ASI execute an operating agreement with campus including scholarships and stipends as an authorized function.

Campus Response

We concur. The ASI will prepare and approve an operating agreement with the campus stipulating approved auxiliary functions. Target completion date is January 31, 2009.

ADMINISTRATIVE AGREEMENTS

The MOU between the ASI and campus for various accounting and administrative services expired on June 30, 2006, and had not been renewed.

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 ASI office manager stated that the MOU had expired and 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 17

We recommend that the ASI renew its MOU with the campus for the various accounting and administrative services.

Campus Response

We concur. The ASI will review and approve a MOU outlining accounting and administrative services provided by the campus. Target completion date is January 31, 2009.

FACILITIES AGREEMENTS

The lease agreement between the ASI and the campus for space at the Antelope Valley Campus was not signed until eight months after its inception date and expired on October 31, 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 current fully executed, written agreements.

The ASI office manager stated that the ASI had previously requested that the lease be renewed, and new terms and conditions were currently being proposed.

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

Recommendation 18

We recommend that the ASI renew its lease with the campus for the Antelope Valley Campus location.

Campus Response

We concur. A funding MOU has been prepared and presented for approval. Target completion date is January 31, 2009.

FISCAL COMPLIANCE

The ASI had not developed a methodology for allocating net assets surplus into reserve categories, such as working capital, current operations, capital replacement and planned future operations, and the general ledger accounts in which such 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 board-designated fund balance be appropriately recognized within an organization's general ledger.

The campus vice president of business and administrative services stated his belief that the ASI had sufficient fund balance for the size of its operation and the fact it was not allocated to various reserve categories or maintained separately in the general ledger was less important than the assurance received during the review of reserve levels performed by the campus during the annual budgetary process.

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

Recommendation 19

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

Campus Response

We concur. The ASI will develop and approve a reserve policy for the allocation of net surplus assets. Target completion date is January 31, 2009.

APPENDIX A: PERSONNEL CONTACTED

Name

Title

CAMPUS

Horace Mitchell	President
Catherine Byrne	Manager, Student Financial Services
Kellie Garcia	Director, Human Resources
Cindy Goodmon	Business Manager, Athletic Department
Janet Martin	Payroll Director
Emmanuel (Manny) Mourtzanos	Dean of Student Life
Suzanne Muller	General Accounting Manager
Michael Neal	Vice President, Business and Administrative Services
Shelley Ruelas	Vice President, Student Affairs
Johnny Villasenor	Accountant II
Laura Wolfe	Assistant Vice President, Development

CALIFORNIA STATE UNIVERSITY BAKERSFIELD FOUNDATION

Stephanie Kumpel	Director, Children's Center
Carolyn Powers	Development Services Coordinator
Doug Wade	Foundation Manager

CALIFORNIA STATE UNIVERSITY, BAKERSFIELD STUDENT UNION

Laura Catherman	Executive Director
Robin Flores	Administrative Support Assistant

ASSOCIATED STUDENTS, CALIFORNIA STATE UNIVERSITY, BAKERSFIELD, INC.

Elena Avina	President
Wendy Martinez	Vice President, Programming
Taren Mulhause	Office Manager
Valerie Poynor	Executive Vice President
Adriana Sandoval	Vice President, Finance

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

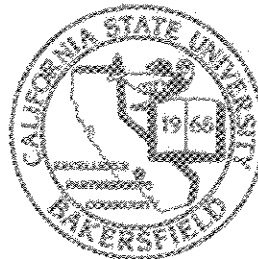
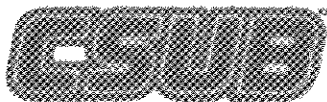
Operational controls comprise the plan of organization and all methods and procedures that are concerned mainly with operational efficiency and adherence to managerial policies and usually relate only indirectly to the financial records.

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.



Office of the Vice President of Business and Administrative Services
California State University, Bakersfield

38 ADM
9001 Stockdale Highway
Bakersfield, California 93311-1022

(861) 854-2287
FAX (861) 854-8923
Email: mneal@csub.edu

RECEIVED
UNIVERSITY AUDITOR

SEP 8 2008

THE CALIFORNIA STATE
UNIVERSITY

September 8, 2008

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

Re: Campus Response to Recommendations of Audit Report Number 08-47 Auxiliary Audit
California State University, Bakersfield

Dear Mr. Mandel: *harry*

The attached documents are being submitted to satisfy the "Audit Response and Follow-up Procedures". Included you will find the audit recommendations with our campus response, corrective action plan and date of expected implementation. An electronic copy of these documents is also being provided to Anne Douglas.

Please have your staff review our responses and corrective action plan and return any comments or suggestions to myself and Douglas Wade. Our plan is to have corrective actions implemented and evidence provided to your office by the end of January 2009.

Sincerely,

Michael A. Neal
Vice President
Business and Administrative Services

cc's: without attachments

Horace Mitchell, President
Douglas Wade, Assistant Vice President, Fiscal Services

"ATTITUDE MAKES THE DIFFERENCE"

AUXILIARY ORGANIZATIONS

**CALIFORNIA STATE UNIVERSITY,
BAKERSFIELD**

Audit Report 08-47

CALIFORNIA STATE UNIVERSITY BAKERSFIELD FOUNDATION

OPERATING AND ADMINISTRATIVE AGREEMENTS

OPERATING AGREEMENT

Recommendation 1

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

Campus Response

We concur. The Foundation Manager now has access to the procurement database that will enable him to track agreements with the University and their expiration dates. Already implemented.

ADMINISTRATIVE AGREEMENTS

Recommendation 2

We recommend that the Foundation ensure that future agreements with the campus are timely established and executed and the MOU for business administration support services are promptly amended to include cash collection and property administration.

Campus Response

We concur. The Foundation Manager now has access to the procurement database that will enable him to track agreements with the University and their expiration dates. Already implemented.

FACILITIES AGREEMENTS

Recommendation 3

We recommend that the Foundation ensure that future facilities lease agreements with the campus are executed prior to inception and the current facilities lease be amended to eliminate the space previously needed for food service operations.

Campus Response

We concur. The current facilities lease agreement is being modified to exclude auxiliary operations that the Foundation no longer manages. Target completion date is 1/31/09.

FISCAL COMPLIANCE

Recommendation 4

We recommend that the Foundation record designated reserves within the general ledger in accordance with its reserve policy.

Campus Response

We concur. The Foundation will establish accounts in the general ledger in line with its reserve policy. Target completion date is 1/31/09.

OPERATIONAL COMPLIANCE

Recommendation 5

We recommend that the Foundation update its risk management policy to include the procedures used to actively identify, analyze, quantify, and manage risk.

Campus Response

We concur. The Foundation will modify its operating manual to include a risk assessment policy and procedures that reflects current practice, which includes procedures for monitoring and managing risk. Target completion date is 1/31/09.

CAMPUS OVERSIGHT AND CONTROL

Recommendation 6

We recommend that the Foundation ensure that future Board actions concerning proposed business activities be completed in a timely manner.

Campus Response

We concur. Already implemented.

FEES, REVENUES, AND RECEIVABLES

MATCHING GIFTS

Recommendation 7

We recommend that the Foundation:

- a. Obtain and maintain corporate matching gift agreements.
- b. Maintain supporting documentation for the company's matching gift.
- c. Maintain evidence of donor payments.
- d. Properly discard donor credit card information.
- e. Complete a corporate matching gift document for all matching gifts.
- f. Develop a written matching gift policy that addresses the acceptance of matching gifts and the corresponding processing and accounting procedures.

Campus Response

We concur. The new VP for University Advancement is in the process of writing a new gift policy and procedure manual that will address the different aspects of this finding. Target completion date is 1/31/09.

GIFT PROCESSING

Recommendation 8

We recommend that the Foundation:

- a. Require that checks received in athletics department be restrictively endorsed upon receipt.
- b. Implement the use of a check log within the athletics department to document the receipt of donations via mail or by a development officer.
- c. Require that acknowledgement letters be submitted to the Foundation for review and approval prior to mailing to the donor.
- d. Require that the athletics department provide the Foundation with supporting documentation for its monthly report of donations received.
- e. Perform monthly reconciliations between the Foundation and the athletics department donor databases.
- f. Require that timely reconciliations be performed between the athletics department computerized donor records and the campus accounting system.

- g. Develop a written policy and procedures for the administration of gift processing by the athletics department.

Campus Response

We concur. The new VP for University Advancement is in the process of writing a new gift policy and procedure manual that will address the different aspects of this finding. Target completion date is 1/31/09.

PROPERTY AND EQUIPMENT

Recommendation 9

We recommend that the Foundation promptly reconcile its fixed assets sub ledger to the campus property accounting system.

Campus Response

We concur. During the most recent capital and non-capital inventory, the Foundation reconciled its property records with that of the University. Already completed.

ENDOWMENT ADMINISTRATION

Recommendation 10

We recommend that the Foundation:

- a. Update its standard endowment agreement to address the account set-up fee and spending policy.
- b. Review all endowment files and ensure that each file contains an account set-up form.
- c. Ensure the completion of endowment agreements for all future endowments.

Campus Response

We concur. The new VP for University Advancement is in the process of writing a new gift policy and procedures manual that will address the different aspects of this finding particularly as it relates to endowment account set up fees, forms and agreements. Target completion date is 1/31/09.

AUXILIARY PROGRAMS

Recommendation 11

We recommend that the Foundation, together with the campus, ensure that all state revenues for campus-designated programs are maintained and administered in state accounts and that all state funds currently residing in Foundation accounts be immediately transferred to the state.

Campus Response

We concur. The remaining identified accounts are in the process of being transferred to state accounts. Target completion date is 1/31/09.

CALIFORNIA STATE UNIVERSITY, BAKERSFIELD STUDENT UNION

OPERATING AND ADMINISTRATIVE AGREEMENTS

Recommendation 12

We recommend that the Union establish a MOU with the campus regarding responsibilities over administrative and accounting services.

Campus Response

We concur. Both parties have signed an MOU between the Student Union and the campus.

FACILITIES AGREEMENTS

Recommendation 13

We recommend that the Union execute current facilities lease agreements with the other auxiliary and third party.

Campus Response

We concur. An MOU has been established between the Student Union and the campus regarding auxiliary and third party lease agreements.

PURCHASING AND ACCOUNTS PAYABLE

Recommendation 14

We recommend that the Union require completion of a travel approval form prior to the commencement of travel.

Campus Response

We concur. A Student Union travel approval form has been implemented.

PROPERTY AND EQUIPMENT

Recommendation 15

We recommend that the Union:

- a. Dispose of assets through the use of the property survey board.
- b. Establish a threshold with the campus for the capitalization of assets.

Campus Response

We concur. The Student Union will implement the campus asset policy. Target completion date is 1/31/09.

ASSOCIATED STUDENTS,
CALIFORNIA STATE UNIVERSITY, BAKERSFIELD, INC.

OPERATING AND ADMINISTRATIVE AGREEMENTS

OPERATING AGREEMENT

Recommendation 16

We recommend that the ASI execute an operating agreement with campus including scholarships and stipends as an authorized function.

Campus Response

We concur. ASI will prepare and approve an operating agreement with the campus stipulating approved auxiliary functions. Target completion date is 1/31/09.

ADMINISTRATIVE AGREEMENTS

Recommendation 17

We recommend that the ASI renew its MOU with the campus for the various accounting and administrative services.

Campus Response

We concur. ASI will review and approve an MOU outlining accounting and administrative services provided by the campus. Target completion date is 1/31/09.

FACILITIES AGREEMENTS

Recommendation 18

We recommend that the ASI renew its lease with the campus for the Antelope Valley Campus location.

Campus Response

We concur. A funding MOU has been prepared and presented for approval. Target completion date is 1/31/09.

FISCAL COMPLIANCE

Recommendation 19

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

Campus Response

We concur. ASI will develop and approve a reserve policy for the allocation of net surplus assets. Target completion date is 1/31/09.



THE CALIFORNIA STATE UNIVERSITY
OFFICE OF THE CHANCELLOR

BAKERSFIELD

September 19, 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 08-47 on *Auxiliary Organizations*,
California State University, Bakersfield

LOS ANGELES

MARITIME ACADEMY

In response to your memorandum of September 19, 2008, I accept the response
as submitted with the draft final report on *Auxiliary Organizations*, California
State University, Bakersfield.

MONTEREY BAY

NORTHRIDGE

POMONA

CBR/jt

SACRAMENTO

Enclosure

SAN BERNARDINO

cc: Dr. Horace Mitchell, President

SAN DIEGO

Mr. Michael A. Neal, Vice President, Business and Administrative Services

SAN FRANCISCO

SAN JOSÉ

SAN LUIS OBISPO

SAN MARCOS

SONOMA

STANISLAUS