

AUXILIARY ORGANIZATIONS
CALIFORNIA STATE UNIVERSITY,
SACRAMENTO

Audit Report 08-49
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ABBREVIATIONS

AS	Associated Students of California State University, Sacramento
CFO	Chief Financial Officer
CPR	Capital Public Radio, Inc.
CSU	California State University
CSURMA	California State University Risk Management Authority
EO	Executive Order
Foundation	The University Foundation at Sacramento State
IRS	Internal Revenue Service
Lofts	Upper Eastside Lofts
OMB	Office of Management and Budget
PCI DSS	Payment Card Industry Data Security Standard
RACA	Research Administration and Contract Administration
RFIN	Resolution of the Committee on Finance
UEDG	University Enterprises Development Group
UEI	University Enterprises, Inc.
Union	University Union Operation of California State University, Sacramento

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, Sacramento 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, Sacramento campus and its auxiliary organizations from May 27, 2008, through June 26, 2008, and made a study and evaluation of the system of internal compliance/internal control in effect as of June 26, 2008. This report represents our triennial review.

Our study and evaluation at *The University Foundation at Sacramento State* 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 June 26, 2008, taken as a whole, was sufficient to meet the objectives stated above.

Our study and evaluation at *University Enterprises, 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 June 26, 2008, taken as a whole, was sufficient to meet the objectives stated above.

Our study and evaluation at *University Enterprises Development Group* 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 June 26, 2008, taken as a whole, was sufficient to meet the objectives stated above.

Our study and evaluation at *Capital Public Radio, 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 June 26, 2008, taken as a whole, was sufficient to meet the objectives stated above.

Our study and evaluation at *Associated Students of California State University, Sacramento* 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 June 26, 2008, taken as a whole, was sufficient to meet the objectives stated above.

Our study and evaluation at *University Union Operation of California State University, Sacramento* 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 June 26, 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.

THE UNIVERSITY FOUNDATION AT SACRAMENTO STATE

FEES, REVENUES, AND RECEIVABLES [12]

The University Foundation at Sacramento State (Foundation) had not developed procedures to monitor corporate matching gift claims. The Foundation was unable to provide evidence of follow-up for 84 aged claims dated between July 20, 1999, and May 14, 2007, totaling \$19,461.

PURCHASING AND ACCOUNTS PAYABLE [13]

The approval of Foundation disbursements required improvement. Four of 32 disbursements reviewed, totaling \$220,342, were not approved by the individuals specifically designated as the appointed individuals authorized to approve disbursements from the expenditure account.

UNIVERSITY ENTERPRISES, INC.

OPERATING AND ADMINISTRATIVE AGREEMENTS [14]

Certain agreements between the University Enterprises, Inc. (UEI) and other auxiliaries were not signed until several months after the inception date. Three loan agreements for the Ramona Avenue Village and Upper Eastside Lofts (Lofts) projects were signed almost 12 months after their inception date, and the annual renewal of the contract and agreement for leased space provided by the University Union Operation of California State University, Sacramento was signed nine months after its renewal date.

PURCHASING AND ACCOUNTS PAYABLE [15]

UEI administration of purchasing and accounts payable required improvement. Signature authorization forms had not been verified by grant administrators in four of ten instances, and travel approval for the executive director and department directors was not sufficiently documented.

AUXILIARY PROGRAMS [16]

The UEI's effort certification process did not consider other campus work assignments for faculty members in its calculation of actual faculty effort provided to sponsored projects. Further, UEI administration of the meal point system at the Dining Commons required improvement. Although the assistant director of dining services reviewed and approved all receipts, an independent reconciliation of meal point additions was only performed on an annual basis.

UNIVERSITY ENTERPRISES DEVELOPMENT GROUP

OPERATING AND ADMINISTRATIVE AGREEMENTS [19]

The University Enterprises Development Group (UEDG) had neither established a written agreement for legal services nor used the proper indemnification provision in a property management and certain lease agreements.

CAMPUS OVERSIGHT AND CONTROL [20]

The UEDG had not adopted a process for preparing an entity-wide budget or submitted its annual operating budget to the campus president or his designee for review and approval.

PURCHASING AND ACCOUNTS PAYABLE [21]

The UEDG had not developed written procedures for the oversight of purchasing activities performed by the property management firm for the Lofts. Currently, purchase transactions were reviewed on an after the fact basis and only reviewed in advance if the transaction exceeded the budgeted amount.

CAPITAL PUBLIC RADIO, INC.

OPERATING AND ADMINISTRATIVE AGREEMENTS [22]

The operating agreement between Capital Public Radio, Inc. (CPR) and the Trustees was not signed until almost five months after its inception date.

FACILITIES AGREEMENTS [22]

Certain lease agreements between CPR and third parties for an office lease and a communications license did not include insurance and indemnification provisions that protected CPR's interests.

FISCAL COMPLIANCE [23]

CPR's reserve policy did not include the methodology for calculating reserves and all the general ledger accounts in which the reserves were to be maintained. In addition, the CPR general ledger only included a capital reserve fund account; reserve accounts for the other categories, short-term working capital and operating expenses, had not been created.

SEGREGATION OF DUTIES [24]

Duties and responsibilities over certain payroll/personnel functions and property/equipment functions were not appropriately segregated at CPR. One employee processed employee additions, deletions, and changes to the payroll system and reviewed and reconciled payroll change reports to change confirmation reports. Another employee recorded equipment additions and disposals in the fixed assets system, assigned equipment tag numbers, reconciled equipment logs to the accounting system, and performed limited inventory reviews.

FEES, REVENUES, AND RECEIVABLES [26]

CPR's administration of corporate matching gifts required improvement. A written policy and procedures had not been developed for the administration of corporate matching gifts, corporate matching gift agreements were not obtained, documentation was not maintained to support that corporate matching gifts were evaluated for eligibility of matching and deposited as directed in a timely manner, and there was no oversight of aged matched gifts.

PURCHASING AND ACCOUNTS PAYABLE [27]

Certain CPR disbursements were not supported by sufficient and appropriate documentation. One invoice was paid based on the terms of an unsigned contract, one expense reimbursement claim was not signed by the employee, and another expense reimbursement claim was missing supporting receipts.

PROPERTY AND EQUIPMENT [28]

Administration of CPR property and equipment did not ensure proper accountability and identification. Although physical inventories were performed on randomly selected property and equipment, it was unknown whether all assets had been verified against their assigned equipment tag numbers.

INFORMATION TECHNOLOGY [29]

Physical access to the computer equipment rooms had not been appropriately restricted.

ASSOCIATED STUDENTS OF CALIFORNIA STATE UNIVERSITY, SACRAMENTO

CORPORATE GOVERNANCE [30]

The Associated Students of California State University, Sacramento (AS) board minutes were not always certified by an appropriate AS official. Meeting minutes from three meetings in February and March 2008 had not been certified by an appropriate AS official.

OPERATIONAL COMPLIANCE [30]

AS had not obtained annual conflict-of-interest statements from three of the five ex-officio board members for fiscal year 2007/08. This is a repeat finding from the prior auxiliary organizations audit.

PROGRAM COMPLIANCE [31]

AS did not report student officers' cell phone allowances to the campus financial aid office.

SEGREGATION OF DUTIES [32]

Duties and responsibilities over purchasing of food at the AS Children's Center were not appropriately segregated. One employee ordered food, received and stocked food orders, and performed physical inventories of food.

TRUST AND OTHER LIABILITIES [33]

Certain trust accounts went into a deficit during fiscal years 2005/06 and 2006/07. Deficit balances ranged between \$34 and \$900.

INFORMATION TECHNOLOGY [34]

AS did not have its servers firewalled from the general campus network and the ability to limit which individuals had access to its servers. Further, AS had neither determined its overall information security needs nor established requirements of how those needs were being met by the campus on its behalf. In addition, AS had not developed a written information technology disaster recovery plan, did not have the capability to automatically force password changes on a periodic basis, and had not determined whether it was compliant with the Payment Card Industry Data Security Standard requirements.

UNIVERSITY UNION OPERATION OF CALIFORNIA STATE UNIVERSITY, SACRAMENTO

FACILITIES AGREEMENTS [37]

Certain lease agreements among the University Union Operation of California State University, Sacramento (Union), another auxiliary, and a third party were not signed until several months after the inception date. A lease agreement between the Union and AS for space was signed ten months after its inception date, and a lease agreement between the Union and The Box Center for space was signed nine months after its inception date.

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 June 26, 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:

The University Foundation at Sacramento State

- ▶ 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
- ▶ Information Technology

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

University Enterprises Development Group

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

Capital Public Radio, 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
- ▶ Information Technology

Associated Students of California State University, Sacramento

- ▶ 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

Associated Students of California State University, Sacramento (cont.)

- ▶ Information Technology

University Union Operation of California State University, Sacramento

- ▶ 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
- ▶ Property and Equipment
- ▶ Auxiliary Programs
- ▶ Information Technology

Campus

Campus Oversight and Control

We have not performed any auditing procedures beyond June 26, 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

THE UNIVERSITY FOUNDATION AT SACRAMENTO STATE

FEES, REVENUES, AND RECEIVABLES

The University Foundation at Sacramento State (Foundation) had not developed procedures to monitor corporate matching gift claims.

Our review of outstanding corporate matching gift claims disclosed 84 claims dated between July 20, 1999, and May 14, 2007, totaling \$19,461. The Foundation was unable to provide evidence of follow-up.

Executive Order (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 California State University (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 campus director of development operations stated that the lack of formal, written procedures to monitor corporate matching gift claims was due to oversight.

Insufficient control over corporate matching gift claims reduces the likelihood of collection and negatively impacts cash flow.

Recommendation 1

We recommend that the Foundation develop procedures to monitor corporate matching gift claims.

Campus Response

We concur. Written procedures will be developed to monitor corporate matching gift claims. These procedures will be completed by February 28, 2009.

PURCHASING AND ACCOUNTS PAYABLE

The approval of Foundation disbursements required improvement.

Our review of 32 disbursements disclosed that four disbursements totaling \$220,342 were not approved by the individuals specifically designated as the appointed individuals authorized to approve disbursements from the expenditure account. Instead, the disbursements were approved by the campus vice president and deans who approved the set up of the expenditure account. These individuals designated authority to others to approve disbursements.

The Foundation's *Accounting Specification Sheet* specifically lists person(s) who are authorized to approve disbursements from each Foundation expenditure account. The approval to set up the account and appoint specific individuals authorized to make disbursements is authorized by campus executives and University Enterprise, Inc. (UEI) management and are listed separately.

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 adopt and annually review governing board policy that identifies signature authority and provides practice for the receipt and disbursement of cash.

The UEI controller stated that the disbursements were authorized by the dean of the department or the vice president of the division where the expenditure originated. He further stated that the section on the Foundation's *Accounting Specification Sheet* where individuals, such as vice presidents and deans, sign their approval for account set up and specific designation of others authorized to approve disbursements was intended to identify those individuals as also having authority to approve disbursements.

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

Recommendation 2

We recommend that the Foundation modify its procedures to clearly identify individuals authorized to approve disbursements.

Campus Response

We concur. The accounting specification sheet will be modified so that signature authority will be more clearly identified. This modification will occur by February 28, 2009.

UNIVERSITY ENTERPRISES, INC.

OPERATING AND ADMINISTRATIVE AGREEMENTS

Certain agreements between the University Enterprises, Inc. (UEI) and other auxiliaries were not signed until several months after the inception date.

We found that:

- ▶ Three loan agreements to provide financial assistance to the University Enterprise Development Group (UEDG) for the Ramona Avenue Village and Upper Eastside Lofts (Lofts) projects were signed on June 25, 2007, almost 12 months after their July 1, 2006, inception date.
- ▶ The annual renewal of the contract and agreement for leased space provided by the University Union Operation of California State University, Sacramento (Union) for operation of a convenience store was signed April 1, 2008, nine months after its July 1, 2007, renewal 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 executed in a timely manner.

The UEI director of finance stated that the three loan agreements were dated as of the first day of the fiscal year that UEDG received its tax-exempt status from the Internal Revenue Service (IRS), even though the tax exemption status was not received until the end of the fiscal year. She further stated that UEI had the agreements signed and fully executed within 30 days of receiving the IRS determination letter that approved UEDG's tax-exempt status. The UEI controller stated that the annual renewal of the contract and agreement with the Union was not timely executed due to oversight. He further stated that contract terms indicated that the lease would convert to a month-to-month basis.

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

Recommendation 3

We recommend that the UEI ensure that all future agreements are executed prior to inception.

Campus Response

We concur. By January 31, 2009, the UEI executive director will provide a written reminder to the management staff regarding the importance of ensuring that agreements are executed prior to inception.

PURCHASING AND ACCOUNTS PAYABLE

UEI administration of signature authorization forms and travel approval required improvement.

We found that:

- ▶ Signature authorization forms had not been verified by grant administrators, as required, for four of ten contracts and grants files reviewed.
- ▶ Travel approval for the executive director and department directors was not sufficiently documented. Specifically, we found no evidence that travel requests were verified to travel pre-approved through the annual budget process. In addition, the UEI *Travel Policy* did not specifically address the approval requirements for executive director and department director travel.

The UEI *Process and Procedure for Signature Authorization Forms* states that contact should be made (by the grant administrator) with the project director/principle investigator to verify that he/she has authorized all signers that have signed the form. Further, the verification box on the form should be initialed.

The UEI *Travel Policy* states that prior approval is required for all travel. For travel pre-approved through the annual budget process, the appropriate enterprise director or designee's approval should be obtained. The executive or designee's approval is required for all travel not pre-approved through the annual budget process.

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

The UEI director of contract and research administration stated that the lack of verification of signature authorization forms by the grant administrators was due to oversight. The UEI controller stated his belief that travel approval for the executive director and department directors was documented through the annual budget, which was approved by the campus president, and therefore was sufficient.

Failure to verify signature authorization forms and sufficiently document travel approval increases the risk of errors, irregularities, and misappropriation of funds.

Recommendation 4

We recommend that the UEI:

- a. Reiterate to staff the existing process and procedure regarding verification of signature authorization forms.

- b. Ensure that all travel requests are properly reviewed and approved and update its travel policy to include the approval requirements for executive director and department director travel.

Campus Response

We concur, and the following actions will be taken:

- a. UEI research administration and contract administration (RACA) will provide staff with a written reminder about the current signature authorization forms and staff verification process. This notification will include a copy of the formal policy and will occur by January 31, 2009.
- b. By January 31, 2009, the travel policy will be modified to indicate that travel requests from department directors will be approved by the executive director or designee. The executive director's travel request will be approved by the UEI director of finance or designee.

AUXILIARY PROGRAMS

CONTRACTS AND GRANTS

The UEI's effort certification process did not consider other campus work assignments for faculty members.

Although UEI reviewed timesheets prepared by the faculty members, the information was not compared to other campus work assignments. Without this critical information, the calculation of a faculty member's actual effort on a sponsored project cannot be determined.

Office of Management and Budget (OMB) Circular A-21, *Cost Principles for Educational Institutions*, §.J.10.b.(2)(b), states that the method of documenting the distribution of charges for personal services must recognize the principle of after-the-fact confirmation or determination so that costs distributed represent actual costs, unless a mutually satisfactory alternative agreement is reached. Direct cost activities and facilities and administration cost activities may be confirmed by responsible persons with suitable means of verification that the work was performed.

OMB Circular A-110, *Uniform Administrative Requirements for Grants and Agreements With Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations Financial Reporting*, §.71(a), states that recipients shall submit, within 90 calendar days after the date of completion of the award, all financial, performance, and other reports as required by the terms and conditions of the award.

The UEI director of contract and research administration stated that UEI did not have access to the campus system that contained this information.

Failure to consider all faculty work assignments in the effort certification process increases the risk of non-compliance with OMB requirements and exposes the auxiliary organization to penalties and disallowances for non-compliance with contracts and grants terms.

Recommendation 5

We recommend that the UEI request faculty members' campus work assignments for inclusion in its calculation of the actual level of faculty effort provided to sponsored projects.

Campus Response

We concur. Beginning July 1, 2009, UEI RACA will request a current copy of a faculty member's campus work assignment from the appropriate college when a sponsored activity award is received. The most current version of a faculty member's work assignment on file with RACA will be used in the calculation of his/her level of effort on sponsored projects. RACA will notify all deans of this new process by April 30, 2009. In addition, RACA will include the workload report as part of the RACA Principle Investigator/Project Director Project Orientation form effective July 1, 2009.

MEAL POINT ADMINISTRATION

UEI administration of the meal point system at the Dining Commons required improvement.

We found that the Dining Commons clerk performed cash handling duties; prepared daily deposits; added, deleted, transferred, and edited accounts in the meal point system; and reconciled additions to the meal point system. Although the assistant director of dining services reviewed and approved all receipts, an independent reconciliation of meal point additions was only performed on an annual basis.

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 regular and timely revenue reconciliations.

The UEI controller stated that more frequent independent reconciliations were not performed due to lack of appropriate personnel resources.

Insufficient administration of the meal point system increases the risk of errors and/or misappropriation of funds.

Recommendation 6

We recommend that the UEI perform independent reconciliations of meal point additions to the meal point system on a monthly basis.

Campus Response

We concur. Procedures will be developed to require monthly reconciliations of the meal point system. These procedures will be completed by February 28, 2009.

UNIVERSITY ENTERPRISES DEVELOPMENT GROUP

OPERATING AND ADMINISTRATIVE AGREEMENTS

Certain arrangements between the University Enterprises Development Group (UEDG) and third parties were not supported by complete, written agreements.

We found that:

- ▶ The arrangement between UEDG and a law firm for legal counsel was not supported by a written agreement.
- ▶ The written agreement with a property management firm for the management of the Lofts did not specifically indemnify the CSU Trustees, the campus, and the State of California.
- ▶ The lease agreement between UEDG and an investment group for the Lofts project and the sublease agreement for the operation of a fitness center in the Lofts did not specifically indemnify the CSU Trustees, the campus, and the State of California.

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.

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

The UEI director of finance stated that the absence of a written agreement and appropriate indemnification provisions was due to oversight.

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

Recommendation 7

We recommend that the UEDG:

- a. Establish written agreement with the legal counsel.
- b. Ensure all future agreements include an appropriate indemnification provision.

Campus Response

We concur.

- a. A separate legal agreement for UEDG will be obtained by February 28, 2009.
- b. In June 2008, management personnel were reminded of the need to obtain appropriate indemnification provisions in contracts. This item has been completed.

CAMPUS OVERSIGHT AND CONTROL

The UEDG had not adopted a process for preparing an entity-wide budget or submitted its annual operating budget to the campus president or his designee for review and approval.

Title 5 §42402 indicates that the campus president shall require that auxiliary organizations operate in conformity with policy of the Board of Trustees and the campus. To execute this authority, the president shall require that each auxiliary organization submit its programs and budgets for review at a time and in a manner specified by the president.

The UEI director of finance stated that budget data from a third-party property management firm that covered most of its operations had been received and approved by UEDG. She further stated that UEDG did not incorporate the property management firm's budget into an entity-wide budget for submission to the campus president due to oversight.

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

Recommendation 8

We recommend that the UEDG adopt a budgeting process for preparing an entity-wide budget and annually submit the budget to the campus president for review and approval.

Campus Response

We concur. An entity-wide budget for fiscal year 2009/10 and subsequent years will be submitted to the campus president for approval. The fiscal year 2009/10 budget will be submitted to the campus president by May 31, 2009.

PURCHASING AND ACCOUNTS PAYABLE

The UEDG had not developed written procedures for the oversight of purchasing activities performed by the property management firm for the Lofts.

The written agreement with the property management firm required that the firm establish an annual budget for operating expenses associated with the Lofts. During the year, the property management firm was allowed to procure goods and services for the Lofts' operation up to the budgeted amounts. The UEDG subsequently reviewed these transactions and reimbursed the property management firm for all disbursements. The UEDG only approved a transaction in advance of procurement if the transaction exceeded the budgeted amount.

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 supporting significant procurement processes with written procedures.

The UEI director of finance stated that the UEDG was operating under the procurement guidelines within the property management agreement, but had not yet established specific written oversight procedures.

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

Recommendation 9

We recommend that the UEDG develop written procedures for its oversight of purchasing activities performed by the property management firm for the Lofts.

Campus Response

We concur. Written procedures regarding the oversight of purchasing activities by the property management firm will be developed. These procedures will be completed by February 28, 2009.

CAPITAL PUBLIC RADIO, INC.

OPERATING AND ADMINISTRATIVE AGREEMENTS

The operating agreement between Capital Public Radio, Inc. (CPR) and the Trustees was signed on April 24, 2006, almost five months after its December 2, 2005, inception date.

Title 5 §42501 indicates that a written operating 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.

The CPR chief financial officer (CFO) stated that the agreement was not timely executed due to oversight.

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

Recommendation 10

We recommend that CPR ensure that future operating agreements with the Trustees are executed prior to inception.

Campus Response

We concur. CPR will ensure that renewal of the operating agreement will occur by July 1, 2013, which is prior to the current expiration date of December 1, 2013. CPR staff, including the CFO, executive assistant, and business operations officer, has added this task to their calendars.

FACILITIES AGREEMENTS

Certain lease agreements between CPR and third parties did not include insurance and indemnification provisions that protected CPR's interests.

Specifically, insurance and indemnification provisions for an office lease and a communications license were written to only protect third party interests.

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

The CPR CFO stated that failure to include insurance and indemnification provisions protecting CPR's interests was due to oversight.

The absence of insurance and indemnification provisions that protect the auxiliary's interests subjects both the auxiliary and CSU to potential liability.

Recommendation 11

We recommend that CPR ensure that all future lease agreements include insurance and indemnification provisions that protect its interests.

Campus Response

We concur. CPR obtained guidelines from the California State University Risk Management Authority (CSURMA) regarding insurance requirements. The CPR CFO will instruct the business operations officer to ensure that appropriate insurance and indemnification language is included in future agreements and the CSURMA guidelines will be attached. This written notification will be completed by March 31, 2009.

FISCAL COMPLIANCE

CPR's reserve policy did not include the methodology for calculating reserves and all the general ledger accounts in which the reserves were to be maintained.

The CPR reserve policy listed the types of reserves categories that would be established, but did not include the methodology for calculating reserve amounts for each category. In addition, the CPR general ledger only included a capital reserve fund account. General ledger reserve accounts for the other categories, short-term working capital and operating expenses, had not been created.

The CPR *Reserve Policy* states that CPR will establish and maintain working capital reserves for the following purposes: short-term working capital needs during seasonal low fund-raising periods, replacement or repair of equipment on an emergency basis, expansion, and operating expenses during periods of sudden economic downturn until revenues return to prior levels or expenses are reduced to a balanced budget situation. Working capital reserve targets are established annually in conjunction with the budgeting process.

The *Compilation of Policies and Procedures for California State University Auxiliary Organizations* sets sound business practice guidelines for auxiliary organizations operating within the CSU system. Section 8.1.1.2 A-2, *Basis for Financial Standards and Fiscal Viability – Financial Statements*, states that annually each auxiliary governing board shall review the fiscal viability of the auxiliary organization to include an evaluation of the need for reserves in the following areas: a) Working capital, b) Current operations, c) Capital replacement, and d) Planned future operations.

Title 5 §42401 and §42402 indicate that the campus president shall require that auxiliary organizations operate in conformity with policy of the Board of Trustees and the campus. One of the

objectives of the auxiliary organizations is to provide fiscal procedures and management systems that allow effective coordination of the auxiliary activities with the campus in accordance with sound business practices. Sound business practice mandates that a designated fund balance be recognized within an organization's general ledger.

The CPR CFO stated that the lack of a methodology for calculating reserves was due to oversight, and failure to record designated reserves within the general ledger was due to the accounting system's inability to handle fund accounting.

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

Recommendation 12

We recommend that CPR develop a methodology for calculating reserves and record designated reserves within the general ledger.

Campus Response

We concur. The reserve policy will be reviewed and a methodology for calculating and accounting for reserves will be developed by March 31, 2009.

SEGREGATION OF DUTIES

PAYROLL AND PERSONNEL

Duties and responsibilities over certain payroll and personnel functions were not appropriately segregated at CPR.

We found that one employee:

- ▶ Processed employee additions, deletions, and changes to the payroll system.
- ▶ Reviewed and reconciled payroll change reports to change confirmation reports.

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

The *Compilation of Policies and Procedures for California State University Auxiliary Organizations* sets sound business practice guidelines for auxiliary organizations operating within the CSU system. Section 8.9.6, *Payroll*, states that the auxiliary should establish a written controls system that ensures payroll preparation is segregated from the general ledger function and other payroll functions such as hiring authorization, timekeeping, and distribution of checks.

The CPR CFO stated that the limited number of staff with the authority to handle this highly sensitive information did not allow for an appropriate segregation of duties.

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

Recommendation 13

We recommend that CPR appropriately segregate certain payroll and personnel functions or institute mitigating procedures approved by the campus CFO.

Campus Response

We concur. Effective October 1, 2008, the business operations officer was given the responsibility of adding, deleting, and making changes to the payroll system. The payroll change reports are reviewed by CPR's CFO, and the document is signed by both the business operations officer and CPR's CFO. This item has been completed.

PROPERTY AND EQUIPMENT

Duties and responsibilities over certain property and equipment functions were not appropriately segregated at CPR.

We found that one employee:

- ▶ Recorded equipment additions and disposals in the fixed assets system.
- ▶ Assigned equipment tag numbers.
- ▶ Reconciled equipment logs to the accounting system.
- ▶ Performed limited inventory reviews.

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 8.9.7, *Property and Equipment*, states that the auxiliary should establish a written controls system that ensures employees maintaining fixed asset records are independent of those maintaining physical control inventory of property and equipment.

The CPR CFO stated that failure to adequately segregate the functions related to property and equipment was due to staffing constraints.

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

Recommendation 14

We recommend that CPR appropriately segregate certain property and equipment functions or institute mitigating procedures approved by the campus CFO.

Campus Response

We concur. On October 29, 2008, a memo from CPR's CFO was sent to engineering and accounting staff stating that maintenance of physical inventory of property and equipment shall be the responsibility of the engineering department. The director of engineering shall be primarily responsible for physical inventory, thereby segregating functions between engineering and finance. The item has been completed.

FEES, REVENUES, AND RECEIVABLES

CPR's administration of corporate matching gifts required improvement.

We found that:

- ▶ A written policy and procedures had not been developed for the administration of corporate matching gifts.
- ▶ Corporate matching gift agreements were not obtained.
- ▶ Documentation was not maintained to support that corporate matching gifts were evaluated for eligibility of matching and deposited as directed in a timely manner.
- ▶ There was no follow-up and/or write-off of aged outstanding corporate matching gift pledges.

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 CPR CFO stated that a lack of a written corporate matching gift policy and procedures, failure to maintain certain documentation, and lack of oversight over aged outstanding matching gifts were due to oversight.

Inadequate administration of corporate matching gifts increases the risk of errors and irregularities, compromises accountability, and reduces the likelihood of collection.

Recommendation 15

We recommend that CPR:

- a. Develop a written policy and procedures for the administration of corporate matching gifts.
- b. Obtain corporate matching gift agreements.
- c. Maintain documentation to support the evaluation and receipt of corporate matching gifts.
- d. Develop procedures to monitor aged outstanding corporate matching gifts.

Campus Response

We concur. The membership department will document corporate matching gift policies and procedures to include administration of the gifts, retention of agreements, documentation related to evaluation of the gifts, and monitoring of aged outstanding gifts. These policies and procedures will be completed by March 31, 2009.

PURCHASING AND ACCOUNTS PAYABLE

Certain CPR disbursements were not supported by sufficient and appropriate documentation.

Our review of 30 disbursements disclosed the following processing exceptions:

- ▶ In one instance, an invoice was paid based on the terms of an unsigned contract.
- ▶ In one instance, an expense reimbursement claim was not signed by the employee.
- ▶ In one instance, an expense reimbursement claim was missing supporting receipts.

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

The CPR CFO stated that failure to obtain appropriate signatures on the contract and expense claim as well as obtaining receipts on the expense reimbursement claim was due to oversight.

Lack of sufficient and appropriate supporting documentation increases the risk of errors, irregularities, and misappropriation of funds.

Recommendation 16

We recommend that CPR reiterate to staff existing cash disbursement policies and procedures regarding sufficient and appropriate supporting documentation for invoices and expense reimbursements.

Campus Response

We concur. By December 31, 2008, the CFO will conduct a meeting with finance staff to reinforce the accounts payable policy regarding documentation requirements for expenses, and to ensure that the documentation is obtained prior to posting invoices to the accounts payable ledger.

PROPERTY AND EQUIPMENT

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

We found that CPR did not perform a complete physical inventory of all capitalized property and equipment on a regular basis. Physical inventories were performed on randomly selected property and equipment; however, it was unknown whether all assets had been verified against their assigned equipment tag numbers.

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 as well as physical inspection of property and equipment on a service life schedule.

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 CPR CFO stated that failure to perform a complete physical inventory of all capitalized property and equipment was due to both limited resources and the location of many assets being widespread through multiple counties.

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

Recommendation 17

We recommend that CPR perform complete physical inventory of all capitalized property and equipment.

Campus Response

We concur. A full inventory of capitalized property and equipment has been scheduled for the spring of 2009. This task will be completed by May 31, 2009.

INFORMATION TECHNOLOGY

Physical access to the CPR computer equipment rooms had not been appropriately restricted.

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 CPR information technology coordinator stated that the existing conditions were the result of inadequate restrictions placed on security card keys and space limitations that required some equipment to be installed in a separate room upstairs that had not yet been secured.

Without appropriate physical safeguards over the facilities housing the computer equipment, there is an increased risk of unauthorized access and disruption of data processing services.

Recommendation 18

We recommend that CPR restrict access to the rooms where data processing equipment is housed to only those individuals that require such access for their normal job duties.

Campus Response

We concur. As of September 19, 2008, a new access group called CPR information technology staff was created by facilities services. This limits key card access of the information technology shop area to the engineering/information technology staff and the CFO. This item has been completed.

ASSOCIATED STUDENTS OF
CALIFORNIA STATE UNIVERSITY, SACRAMENTO

CORPORATE GOVERNANCE

The Associated Students of California State University, Sacramento (AS) board minutes were not always certified by an appropriate AS official.

We found that the board minutes from February 20, 2008, February 27, 2008, and March 12, 2008, had not been certified by an appropriate AS official.

Corporations Code §5215 states that the original or a copy of the bylaws or of the minutes of any incorporators', members', directors', committee or other meeting or of any resolution adopted by the board or a committee thereof, or members, certified to be a true copy by a person purporting to be the secretary or an assistant secretary of the corporation, is prima facie evidence of the adoption of such bylaws or resolution or of the due holding of such meeting and of the matters stated therein.

The AS executive director stated that the meeting minutes were approved by the board of directors during its meetings; however, the signing of the minutes by the board chair was mistakenly overlooked due to the required delay for the board of directors to approve the minutes at a subsequent meeting.

Failure to maintain signed and approved board minutes increases the risk of misunderstandings and may increase legal liability.

Recommendation 19

We recommend that AS take appropriate measures to ensure that its board minutes are consistently signed and approved by an appropriate official.

Campus Response

We concur. As of August 31, 2008, the board associate was retrained on procedures for acquiring the signature of the board chair for all board minutes on a timely basis. AS acquired the appropriate official signature on all documents to date. This item has been completed.

OPERATIONAL COMPLIANCE

AS had not obtained annual conflict-of-interest statements from all ex-officio board members.

We found that three of the five ex-officio board members had not signed a conflict-of-interest statement for fiscal year 2007/08. This is a repeat finding from the prior auxiliary organizations audit.

The AS *Conflict of Interest Policy* states, in part, that each covered person annually shall complete a conflict-of-interest questionnaire provided by the AS, and shall update such questionnaire as necessary to reflect changes during the course of the year.

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

The AS director of finance and administration stated that the conflict-of-interest statements were not obtained from the ex-officio board members due to a misunderstanding about the requirement.

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

Recommendation 20

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

Campus Response

We concur. As of August 31, 2008, the board associate was retrained to incorporate the conflict-of-interest statement into the annual board orientation paperwork. All board members are current with their annual conflict-of-interest statements. This item has been completed.

PROGRAM COMPLIANCE

AS did not report student officers' cell phone allowances to the campus financial aid office.

AS provided its student officers with a cell phone allowance of \$40 per month; however, these payments were not reported to the campus financial aid.

Title 5 §42500(d) states that a record of financial assistance, such as student loans, scholarships, stipends, and grants-in-aid shall be forwarded on a timely basis to the campus financial aid office and shall be documented on student financial aid recipient records in that office.

The AS director of finance and administration stated that the AS was unaware that cell phone allowances were required to be reported as financial aid to the student officers.

Failure to report student officer cell phone allowances to the campus financial aid office may result in an overpayment of financial aid funds and increases the risk of fines and penalties.

Recommendation 21

We recommend that AS report all student officer cell phone allowances to the campus financial aid office.

Campus Response

We concur. As of July 31, 2008, AS reports all student officer cell phone allowances to the campus financial aid office. This item has been completed.

SEGREGATION OF DUTIES

Duties and responsibilities over purchasing of food for the AS Children's Center were not appropriately segregated.

We found that one employee:

- ▶ Placed the verbal food order with vendors.
- ▶ Received food orders from vendors.
- ▶ Stocked food inventory orders.
- ▶ Performed physical inventories of food.

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 both receiving and shipping, and payables and disbursements.

The AS executive director stated that the director or associate director of the Children's Center reviewed and verbally authorized the food orders; however, written verification had not been maintained.

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

Recommendation 22

We recommend that AS appropriately segregate food purchasing functions for its Children's Center or institute mitigating procedures approved by the campus CFO.

Campus Response

We concur. As of June 30, 2008, Children’s Center management implemented procedures that ensure an independent review and approval of food purchases by supervisory staff above the cook position. This item has been completed.

TRUST AND OTHER LIABILITIES

Certain AS trust accounts operated in a deficit during fiscal years 2005/06 and 2006/07.

Our review disclosed that several trust accounts maintained deficit balances ranging between \$34 and \$900 during fiscal years 2005/06 and 2006/07.

The *AS Agreement for Establishment of a Trust Account* states that the AS cannot honor any withdrawal when the trust account has an insufficient balance to cover the withdrawal.

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

The AS director of finance and administration stated that the deficits were caused by miscoding of general ledger account numbers; however, this error was not discovered until the documentation was pulled as a result of this audit.

Insufficient control over trust accounts increases the risk of inappropriate expenditures and misunderstandings about account operations.

Recommendation 23

We recommend that AS reiterate to staff existing policy regarding not honoring any withdrawal when the trust account has an insufficient balance to cover the withdrawal.

Campus Response

We concur. As of July 31, 2008, the AS director of finance and administration retrained accounts payable staff to decline any withdrawal that would result in an insufficient balance in account funds. This item has been completed.

INFORMATION TECHNOLOGY

NETWORK SECURITY

AS did not have its servers firewalled from the general campus network and the ability to limit which individuals had access to its servers. Further, AS had neither determined its overall information security needs nor established requirements of how those needs were being met by the campus on its behalf.

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.

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

The AS information technology manager stated his belief that the campus network equipment would provide some protection to the AS servers, but was unable to assess the existing controls since the equipment was supported by the campus information technology department.

The lack of a sufficiently documented memorandum of security requirements and the capability to monitor and track access to auxiliary servers and systems increases the risk of compromised production systems and potential disclosure of confidential data.

Recommendation 24

We recommend that AS define its security requirements and work with the campus to implement security devices to limit and control unauthorized network traffic to production systems and restrict which persons are allowed logical access to the equipment.

Campus Response

We concur. As of August 31, 2008, a new memorandum of understanding was established to address controls on access. AS policies regarding security devices will be developed and implemented by June 30, 2009.

DISASTER RECOVERY PLAN

AS had not developed a written information technology disaster recovery plan.

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 AS information technology manager stated that a disaster recovery plan was currently being developed in conjunction with campus safety and planning.

Without a detailed, written information technology disaster recovery plan, business operations may be interrupted and data processing operations may not be restored within a reasonable time frame.

Recommendation 25

We recommend that AS develop a written information technology disaster recovery plan.

Campus Response

We concur. AS will work with the university to develop a written information technology disaster recovery plan that reflects the university's current plan and procedures. This plan will be completed by June 30, 2009.

FORCED PASSWORD CHANGES

AS did not have the capability to automatically force password changes on a periodic basis.

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.

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 password expiration settings.

The AS information technology manager stated that password change capability was controlled by the campus information technology department and that despite requests for a change, the password change capability had not been implemented.

Inadequate settings of password security parameters increase the risk of unauthorized access to auxiliary systems and confidential data.

Recommendation 26

We recommend that AS define its security requirements and work with campus personnel to set effective password security controls for its computer systems to ensure that passwords are subject to periodic change.

Campus Response

We concur. AS will define security requirements and work with the university to implement effective password security controls to include provision that passwords are subject to periodic change. This action will be completed by June 30, 2009.

PAYMENT CARD INDUSTRY DATA SECURITY STANDARD COMPLIANCE

AS had not determined whether it was compliant with the Payment Card Industry Data Security Standard (PCI DSS) requirements.

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 AS information technology manager stated that the PCI DSS had recently been issued and that applicability to its systems had not yet been determined.

Non-compliance with PCI DSS could subject the auxiliary to fines or termination of credit card services, and could expose sensitive customer information to unauthorized access.

Recommendation 27

We recommend that AS perform an assessment of its credit card processing operations and if necessary, implement changes to ensure compliance with the industry's security standards.

Campus Response

We concur. AS will work with the university to assess its credit card processing operations and ensure compliance with industry's security standards. This assessment and any needed improvements will be completed by June 30, 2009.

UNIVERSITY UNION OPERATION OF
CALIFORNIA STATE UNIVERSITY, SACRAMENTO

FACILITIES AGREEMENTS

Certain lease agreements among the University Union Operation of California State University, Sacramento (Union), another auxiliary, and a third party were not signed until several months after the inception date.

We found that:

- ▶ The lease agreement between the Union and AS for space occupied during fiscal year 2007/08 was signed on May 9, 2008, ten months after its July 1, 2007, inception date.
- ▶ The lease agreement between the Union and The Box Center was signed on April 14, 2008, nine months after its July 1, 2007, inception date.

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

The Union executive director stated that documentation existed that demonstrated the AS agreement was sent to AS, and then returned to the Union. She stated that the Union did not have a record of receipt nor a properly executed copy and in May 2008, when the Union discovered this situation, appropriate steps were taken to obtain a signed agreement. She further stated that the agreement with The Box Center was not timely executed due to ongoing negotiations regarding terms.

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

Recommendation 28

We recommend that the Union ensure that future lease agreements with another auxiliary organization or third party are executed prior to inception.

Campus Response

We concur. The Union will reinforce with staff the necessity of obtaining executed agreements prior to the inception or renewal date, and to properly retain these agreements. This action will be completed by December 31, 2008.

APPENDIX A: PERSONNEL CONTACTED

Name

Title

CAMPUS

Alexander Gonzalez	President
Frances Baxter Guigli	Director of Development Operations
Stephen Garcia	Vice President for Administration and Chief Financial Officer
Suzanne Green	Associate Vice President for Financial Services
Carole Hayashino	Vice President, University Advancement
Yavette Hayward	Senior Management Auditor
Aimee Hendrie	Assistant to the Vice President of University Advancement
Kathi McCoy	Director, Auditing Services
Rebecca Thompson	Associate Vice President, University Advancement

THE UNIVERSITY FOUNDATION AT SACRAMENTO STATE

Scott Adams	Senior Database Coordinator
Frances Baxter Guigli	Director, Development Operations
Sue Garcia	Director, Advancement Services
Carole Hayashino	Corporate Secretary
Maurya Perazzo	Development Assistant
Marisa Rollin	Financial Gift Steward

UNIVERSITY ENTERPRISES, INC.

Stacy Bounds	Cash Room Supervisor
Emily Chu	Accounting Manager
Marti Gray	Interim Executive Director
Monica Kauppinen	Director, Contract and Research Administration
Ada Lai	Business Analyst
Mark Lewandowski	Assistant Director, Dining Services
Mark Matulich	Controller
Meri McGraw	Director, Information Technology
Donna McLeod	Payroll Manager
Veronica Nute	Assistant Director, Administration and Operations
Donna Parenti	Director of Finance
Lisa Rogers	Assistant Director, Campus Catering
Sandy Siu	Accounts Payable Supervisor
Cathy Sorace	Accounts Receivable Supervisor

CAPITAL PUBLIC RADIO, INC.

Rachel Burns	Membership Assistant
Rick Copeland	Information Technology Coordinator
Susan Damberger	Executive Assistant
Rick Eytcheson	President and General Manager
Victoria Hagele	Business Assistant
Jennifer Halm	Member Services Director
Jun Reina	Chief Financial Officer

**ASSOCIATED STUDENTS OF
CALIFORNIA STATE UNIVERSITY, SACRAMENTO**

Scott Baker	Information Technology Manager
Davin Brown	Director, Student Life and Services
Brian Dulgar	Director, Aquatic Center
Tatyana Dyda	Accounting Technician
Elvia Felix	Accounting Technician
Mario Garcia	Safe Rides Coordinator
Darlene Gillum	Director, Finance and Administration
Stacy Matthews	Lead Payroll Technician
Leah Spratt	Director, Human Resources
Denise Wessels	Director, Children's Center
Pat Worley	Executive Director
Jael Young	Director, Peak Adventures
Robert Young	Manager, KSSU Radio

**UNIVERSITY UNION OPERATION OF
CALIFORNIA STATE UNIVERSITY, SACRAMENTO**

Leslie Davis	Executive Director
Rebecca Dietzler	Event Services Manager
Steve Forseth	Custodial Services Manager
Bill Olmsted	Associate Director, Operations
Norma Sanchez	Program Service Manager
Andrew Singletary	Information Technology Specialist

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.