

AUXILIARY ORGANIZATIONS
CALIFORNIA STATE UNIVERSITY,
EAST BAY

Audit Report 08-50
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BOARD OF TRUSTEES
THE CALIFORNIA STATE UNIVERSITY

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ABBREVIATIONS

AS	Associated Students, California State University, East Bay
ATM	Automated Teller Machine
CSU	California State University
Ed Foundation	Cal State East Bay Educational Foundation
EO	Executive Order
Foundation	California State University, East Bay Foundation, Inc.
OMB	Office of Management and Budget
RFIN	Resolution of the Committee on Finance
Union	University Union, Inc. California State University, East Bay

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, East Bay 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, East Bay campus and its auxiliary organizations from July 28, 2008, through August 21, 2008, and made a study and evaluation of the system of internal compliance/internal control in effect as of August 21, 2008. This report represents our triennial review.

Our study and evaluation at *California State University, East Bay Foundation, Inc.* did not reveal any significant internal control problems or weaknesses that would be considered pervasive in their effects on the accounting and administrative controls. However, we did identify other reportable weaknesses that are described in the executive summary and in the body of the report. In our opinion, the accounting and administrative control in effect as of August 21, 2008, taken as a whole, was sufficient to meet the objectives stated above.

Our study and evaluation at *Cal State East Bay Educational Foundation* did not reveal any significant internal control problems or weaknesses that would be considered pervasive in their effects on the accounting and administrative controls. However, we did identify other reportable weaknesses that are described in the executive summary and in the body of the report. In our opinion, the accounting and administrative control in effect as of August 21, 2008, taken as a whole, was sufficient to meet the objectives stated above.

Our study and evaluation at *Associated Students, California State University, East Bay* did not reveal any significant internal control problems or weaknesses that would be considered pervasive in their effects on the accounting and administrative controls. However, we did identify other reportable weaknesses that are described in the executive summary and in the body of the report. In our opinion, the accounting and administrative control in effect as of August 21, 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.

CAMPUS

CAMPUS OVERSIGHT AND CONTROL [11]

California State University, East Bay did not ensure that the dissolution of the University Union, Inc. California State University, East Bay was properly completed.

CALIFORNIA STATE UNIVERSITY, EAST BAY FOUNDATION, INC.

OPERATING AND ADMINISTRATIVE AGREEMENTS [15]

The operating agreement between the California State University, East Bay Foundation, Inc. (Foundation) and the Trustees was not signed until one year and ten months after its inception date, and certain arrangements between the Foundation, the campus, and third parties were not supported by complete and/or timely written agreements.

CORPORATE GOVERNANCE [17]

The Foundation Articles of Incorporation included an improper dissolution clause; it allowed the Foundation board to select a successor.

FISCAL COMPLIANCE [17]

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

OPERATIONAL COMPLIANCE [18]

The Foundation had not developed policies and procedures to address the accounting and processing of accounts receivable and accounts payable, and the establishment of trust and agency accounts. Further, the Foundation had not obtained annual conflict-of-interest statements from all board members.

CASH RECEIPTS AND HANDLING [20]

The Foundation did not timely record cash transactions for the bookstore and Cal State East Bay Educational Foundation (Ed Foundation) operations and promptly identify and investigate cash shortages and/or overages related to the bookstore.

FEES, REVENUES, AND RECEIVABLES [21]

The Foundation had not completed bank account reconciliations since July 2007 and January 2008 for Foundation and Ed Foundation operations, respectively. Further, the Foundation did not generate an accounts receivable aging report on a regular basis and management review of the aging was not documented.

PURCHASING AND ACCOUNTS PAYABLE [23]

Certain Foundation disbursements were not supported by sufficient and appropriate documentation and timely paid. Further, the Foundation did not maintain signature authorization cards for personnel designated to approve bookstore expenditures.

TRUSTS AND OTHER LIABILITIES [24]

The Foundation had not performed a review of its custodial trust accounts to determine the source of deposits and whether state funds were being inappropriately maintained within these accounts.

AUXILIARY PROGRAMS [25]

Contracts and grants files maintained by the Foundation did not always include an official agreement with the sponsoring agency or evidence that the final report/deliverable had been submitted to the contracting agency or effort certification was completed.

CAL STATE EAST BAY EDUCATIONAL FOUNDATION

OPERATING AND ADMINISTRATIVE AGREEMENTS [27]

The operating agreement between the Cal State East Bay Educational Foundation, (Ed Foundation) and the Trustees expired in November 2007, and had not been renewed.

OPERATIONAL COMPLIANCE [27]

The Ed Foundation had neither implemented a conflict-of-interest policy nor obtained annual conflict-of-interest statements from all board members for fiscal years 2005/06, 2006/07, and 2007/08.

SEGREGATION OF DUTIES [28]

Duties and responsibilities over certain donation processing functions were not adequately segregated at the Ed Foundation.

FEES, REVENUES, AND RECEIVABLES [29]

The Ed Foundation did not perform independent reconciliations between its donor database and the general ledger accounting system maintained by the Foundation. Further, the Ed Foundation had not fully implemented its matching gift policies and procedures.

ENDOWMENT ADMINISTRATION [31]

Certain Ed Foundation endowment files lacked documentation delineating the investment and distribution of funds. Five of the 20 endowment files reviewed, with balances totaling \$348,114, lacked documentation stating how the endowed funds would be invested and distributed.

INFORMATION TECHNOLOGY [32]

Administration of user access to the donor database system was not adequately controlled by the Ed Foundation. Further, password controls for user access to the donor database did not always ensure adequate security, and administration of patches and updates to the donor database system was not adequately controlled.

ASSOCIATED STUDENTS, CALIFORNIA STATE UNIVERSITY, EAST BAY

OPERATING AND ADMINISTRATIVE AGREEMENTS [36]

The operating agreement between the Associated Students, California State University, East Bay (AS) and the Trustees was not amended to reflect the new functions taken over from the University Union, Inc. California State University, East Bay, which was dissolved in 2007. Further, the arrangement between AS and the campus regarding the provision of administrative and accounting services was not supported by a written agreement.

FACILITIES AGREEMENTS [37]

The lease agreement between AS and the credit union had not been executed, and the last amendment to the ground lease agreement between AS and the campus had expired June 2006.

PROGRAM COMPLIANCE [38]

AS did not reported student board members' stipends to the campus financial aid office.

PURCHASING AND ACCOUNTS PAYABLE [38]

Certain AS cash disbursements were not supported by sufficient and appropriate documentation. Supporting purchase orders and invoices were missing, purchase orders were dated after the invoice date, and travel approval was not obtained prior to traveling. Further, AS had not developed policies and procedures for staff and board member business travel.

PROPERTY AND EQUIPMENT [40]

AS was unable to provide evidence of physical inventories of property and equipment and reconciliations of its property sub ledger to the campus property accounting system for fiscal years 2005/06 and 2006/07.

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.

The California State University, East Bay Foundation, Inc. (Foundation) operates and provides bookstore and food services and administers externally funded sponsored projects. Since our last review in October 2005, the Foundation experienced several significant changes. Operation of the campus bookstore was contracted to a third-party vendor in August 2008, and the Foundation assumed oversight responsibility for the dining services contract formally administered by the University Union, Inc. California State University, East Bay (Union). In addition, the Foundation witnessed significant turnover within upper management, and its business office was placed under the supervision of a campus general accounting manager. Further, a new accounting system was implemented by the campus in April 2008.

The Cal State East Bay Educational Foundation (Ed Foundation) acts as the philanthropic auxiliary for the campus. Its sole function is to collect, invest, and administer all gifts, bequests, endowments, trusts, and similar funds received by the campus. The vice president of university advancement provides campus oversight to the Ed Foundation, and the Foundation performs all accounting functions. There have been no significant changes in operations or management since our last review in October 2005.

Associated Students, California State University, East Bay (AS) is charged with operating the student body government and, as of September 2007, operates all Union facilities. Each year the student body holds elections to select new officers. The president of AS is the chief executive of the auxiliary, although AS employs an executive director to manage day-to-day operations and provide consistency between student administrations. Since our last review in October 2005, AS absorbed the operations of the Union and hired a new executive director. Union operations include managing meeting, food service, and bookstore space for the campus, and the Union now operates as a division of AS.

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 2006/07 and 2007/08 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, 2007 to August 21, 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, East Bay Foundation, Inc.

- ▶ Operating and Administrative Agreements
- ▶ Facilities Agreements
- ▶ Corporate Governance
- ▶ Fiscal Compliance
- ▶ Operational Compliance
- ▶ Program Compliance
- ▶ Campus Oversight and Control
- ▶ Segregation of Duties

California State University, East Bay Foundation, Inc. (cont.)

- ▶ Cash Receipts and Handling
- ▶ Fees, Revenues, and Receivables
- ▶ Purchasing and Accounts Payable
- ▶ Personnel and Payroll
- ▶ Property and Equipment
- ▶ Trusts and Other Liabilities
- ▶ Auxiliary Programs

Cal State East Bay Educational 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
- ▶ Property and Equipment
- ▶ Trusts and Other Liabilities
- ▶ Endowment Administration
- ▶ Auxiliary Programs
- ▶ Information Technology

Associated Students, California State University, East Bay

- ▶ 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

Campus

Campus Oversight and Control

We have not performed any auditing procedures beyond August 21, 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

CAMPUS

CAMPUS OVERSIGHT AND CONTROL

California State University, East Bay (CSUEB) did not ensure that the dissolution of the University Union, Inc. California State University, East Bay (Union) was properly completed.

On August 10, 2007, the vice president of student affairs presented a recommendation to the Union board of directors' that the Union and the Associated Students, California State University, East Bay (AS) be merged. On August 21, 2007, the recommendation was formally submitted to and accepted by the campus president. It was further recommended that actions to effect dissolution begin immediately. The Union board was effectively disbanded at the last board meeting on August 23, 2007. Our review of the Union dissolution disclosed that:

- ▶ The campus was unable to provide evidence that a dissolution plan had been developed to ensure a proper and complete dissolution process in accordance with applicable laws and statutes.
- ▶ The campus was unable to provide evidence of a Union board resolution approving the dissolution of the auxiliary or an AS board resolution approving the merger of Union activities into AS.
- ▶ California Secretary of State dissolution forms, Certificate of Election to Wind Up and Dissolve, and Certificate of Dissolution were not signed by an Union officer or board member, as required.
- ▶ The campus was unable to provide evidence of a Union board resolution distributing its net assets and liabilities to the successor organization, AS, and an AS board resolution accepting the distribution.
- ▶ The retained Union employees were still being paid under the Union tax ID even though the corporation had been dissolved as of December 20, 2007.

The *Compilation of Policies and Procedures for California State University Auxiliary Organizations* sets sound business practice guidelines for auxiliary organizations operating with the California State University (CSU) system. Section 5.6, *Dissolution Process*, states that any auxiliary organization contemplating dissolution shall follow a process that has been approved by the campus in consultation with the Office of the Chancellor. A merger is considered to be an act of dissolution for purposes of this requirement. The primary objectives in dissolution are to wind up the business of the existing auxiliary organization, transfer remaining assets to an approved successor organization, and arrange for the orderly continuation of necessary services. These processes require coordination with the campus administration as well as sound legal advice. Prior to the governing board acting to dissolve the organization, it will direct that staff work with legal counsel and the campus president's representative to develop a dissolution plan that is consistent with applicable laws and statutes. The plan shall incorporate steps that will allow the dissolution process to be completed within a reasonable time and contain the means for:

- ▶ The plan to be forwarded for approval by the campus president.
- ▶ Distribution of assets or the proceeds from the sale of assets.
- ▶ Payment of liabilities or distribution of liabilities to a successor.
- ▶ Termination of or arrangements for required performance on all contracts and agreements.
- ▶ Return of funds held in trust or continued maintenance of funds by successor organization.
- ▶ Appropriate handling of personnel matters relating to employees of the organization.

Corporations Code §6011 states that the board of each corporation which desires to merge shall approve an agreement of merger. The agreement shall state:

- ▶ The terms and conditions of the merger.
- ▶ The amendments to the articles of the surviving corporation to be effected by the merger, if any.
- ▶ The amendments to the bylaws of the surviving corporation to be effected by the merger, if any.
- ▶ The name and place of incorporation of each constituent corporation and which of the constituent corporations is the surviving corporation.
- ▶ The manner, if any, of converting memberships of the constituent corporations into memberships of the surviving corporation.
- ▶ Such other details or provisions as are desired, if any.

Corporations Code §6012 states that the principal terms of the merger shall be approved by the members (Section 5034) of each constituent corporation and by each other person or persons whose approval of an amendment of articles is required by the articles; and the approval by the members (Section 5034) or such other person or persons required by the section may be given before or after the approval of the board.

Corporations Code §6610 states that a corporation may elect voluntarily to wind up and dissolve by approval of a majority of all members, the board and the members, or by the board, if the corporation has no members.

Corporations Code §6615 states that when a corporation has been completely wound up without court proceedings, a majority of the directors then in office shall sign and verify a certificate of dissolution stating the following:

- ▶ That the corporation has been completely wound up.
- ▶ That the corporation's known assets have been disposed and the debts and liabilities have been actually paid or that the corporation has incurred no known debts or liabilities, as the case may be. If there are known debts or liabilities for payment of which adequate provision has been made, the certificate shall state what provision has been made, setting forth the name and address of the corporation, person, or governmental agency that has assumed or guaranteed the payment, or the name and address of the depository with which deposit has been made or other information

as may be necessary to enable the creditor or other person to whom payment is to be made to appear and claim payment of the debt or liability.

- ▶ That the corporation is dissolved.
- ▶ That a final franchise tax return, as described by Section 23332 of the Revenue and Taxation Code, has been or will be filed with the Franchise Tax Board.

Corporations Code §5911 states, in part, that a corporation may sell, lease, convey, exchange, transfer, or otherwise dispose of all or substantially all of its assets when the principal terms are approved by the board.

Title 5 §42600(b) states that upon dissolution of the organization, net assets, other than trust funds, shall be distributed to a successor approved by the president of the campus and by the Board of Trustees.

The vice president of administration and finance/chief financial officer stated that the campus did not adhere to all the above-referenced Corporations Code Sections or Section 5.6 of the *Compilation of Policies and Procedures for California State University Auxiliary Organizations*. He further stated that the campus contacted both university counsel and the chancellor's office for guidance on the dissolution process, which coincidentally were steps required by Section 5.6, but neither office pointed the campus to the *Compilation of Policies and Procedures for California State University Auxiliary Organizations* or to the Corporations Code. He added that neither office offered any guidance. He also added that he had searched the Internet to learn of the process to formally dissolve a 501(c)3 corporation in the State of California in accordance with California laws and statutes, and it was that research that led to the dissolution plan followed and accepted by the State of California.

Insufficient oversight over dissolution of an auxiliary increases the risk that the dissolution process will not be consistent with applicable laws and statutes and be accomplished in a proper and complete manner.

Recommendation 1

We recommend that the campus:

- a. Work in conjunction with AS to ensure that approval of the merger of Union activities into AS and the distribution of Union net assets and liabilities to and acceptance by AS is appropriately documented in an AS board action.
- b. Ensure that appropriate action is taken to pay the retained Union employees under the AS tax ID.
- c. Ensure that future actions concerning auxiliary organizations be completed in accordance with related statutes, regulations, policies, and procedures.

Campus Response

We concur.

- a. We will ensure that the AS board accepts the merger and the distribution by April 31, 2009.
- b. We will ensure all retained Union employees are paid appropriately as AS employees using the AS tax ID. This will be done by March 31, 2009.
- c. We will issue a memorandum to management involved in auxiliary organization actions reminding them to be cognizant of statutes, regulations, policies, and procedures related to said organizations by February 27, 2009.

CALIFORNIA STATE UNIVERSITY, EAST BAY FOUNDATION, INC.

OPERATING AND ADMINISTRATIVE AGREEMENTS

OPERATING AGREEMENT

The operating agreement between the California State University, East Bay Foundation, Inc. (Foundation) and the Trustees was not signed until March 1, 2006, one year and ten months after its April 21, 2004, 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 campus associate vice president of enterprise activities stated that the agreement was not timely executed due to a change in management from the inception date to the signature date.

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

Recommendation 2

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

Campus Response

We concur. We will implement a practice that ensures Trustee agreements are executed prior to inception. This will be done by March 31, 2009.

ADMINISTRATIVE SERVICE AGREEMENTS

Certain arrangements between the Foundation, the campus, and third parties were not supported by complete and/or timely written agreements.

We found that:

- ▶ The arrangement between the Foundation and the alumni program for accounting services was not supported by a written agreement.
- ▶ The agreement with the campus regarding administration of the International House residence hall was not signed until November 18, 2005, seven months after its April 5, 2005, inception date.

- ▶ The agreement with Cal State East Bay Educational Foundation (Ed Foundation) for accounting services was not signed until November 21, 2006, one year and four months after its July 1, 2005, inception date.
- ▶ The agreement with a third party for an automated teller machine (ATM) 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 that are executed in a timely manner.

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

The campus associate vice president of enterprise activities stated that the agreements were not timely executed due to a change in management, and the lack of an agreement with the alumni program and proper indemnification clause in the ATM agreement were due to oversight.

The absence of complete and/or timely written agreements and appropriate indemnification clause increases the risk of misunderstandings and miscommunications regarding rights and responsibilities, and subjects the auxiliary and CSU to potential liability.

Recommendation 3

We recommend that the Foundation:

- a. Establish a written agreement with the alumni program.
- b. Ensure that future agreements are executed prior to inception.
- c. Ensure that future agreements include appropriate indemnification provisions.

Campus Response

We concur.

- a. An agreement will be executed no later than March 31, 2009.
- b. All agreements will be reviewed by March 31, 2009, to ensure they are up to date. A reminder will be placed on the associate vice president's calendar 90 days prior to the expiration of all agreements to ensure they are executed in a timely manner.

- c. We will ensure this is done. All agreements will be reviewed by March 31, 2009, to ensure proper indemnification provisions are included. Additionally, we will implement a practice to include appropriate indemnification on all agreements effective March 31, 2009.

CORPORATE GOVERNANCE

The Foundation Articles of Incorporation included an improper dissolution clause; it allowed the Foundation board to select a successor.

Title 5 §42600(b) states that upon dissolution of the organization, net assets, other than trust funds, shall be distributed to a successor approved by the president of the campus and by the Board of Trustees.

The campus associate vice president of enterprise activities stated that he was unaware the dissolution clause was not in compliance with Title 5 since the latest version of the Articles of Incorporation was updated prior to his tenure.

Failure to include a dissolution clause in accordance with Title 5 increases the risk that net assets will not be properly distributed in the event the corporation is dissolved.

Recommendation 4

We recommend that the Foundation update its Articles of Incorporation to reflect a proper dissolution clause.

Campus Response

We concur and will ensure this is done by March 31, 2009.

FISCAL COMPLIANCE

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

The Foundation *Reserve Policy* states that the Foundation should reserve the following: working capital, current operations, capital replacement, planned future operations, sponsored programs and fixed assets (Plant Fund). Further, the fixed asset reserve shall be equal to the cost of the fund's fixed assets less accumulated depreciation and debt related to those assets.

The *Compilation of Policies and Procedures for California State University Auxiliary Organizations* sets sound business practice guidelines for auxiliary organizations operating with the CSU system. Section 8.1.1.2 A-2, *Basis for Financial Standards and Fiscal Viability – Financial Statements*, states that annually each auxiliary governing board shall review the fiscal viability of the auxiliary

organization to include an evaluation of the need for reserves in the following areas: a) Working capital, b) Current operations, c) Capital replacement, and d) Planned future operations.

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

The campus associate vice president of enterprise activities stated that the reserve policy had not been updated to reflect current operations and fixed assets were reserved within the general ledger balance for capital replacement.

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

Recommendation 5

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

Campus Response

We concur. We will ensure all reserves are appropriately accounted for by March 31, 2009.

OPERATIONAL COMPLIANCE

POLICIES AND PROCEDURES

The Foundation had not developed policies and procedures to address the accounting and processing of accounts receivable and accounts payable, and the establishment of trust and agency accounts.

Specifically, procedures should address:

- ▶ Aging and collection of past-due accounts receivable.
- ▶ Valuation of allowance for doubtful accounts receivable.
- ▶ Write-off of uncollectible accounts receivable.
- ▶ Allowable types of expenditures.
- ▶ Sufficient supporting documentation for reimbursement of expenditures.
- ▶ Signature authority to authorize expenditures and sign checks.
- ▶ Travel approval.
- ▶ Authorization for the establishment of trust and agency accounts.

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

The Foundation general accounting manager stated that a lack of policies and procedures was due to staffing constraints and turnover.

The absence of written policies and procedures increases the risk that errors, inconsistencies, misunderstandings, or misappropriation will occur.

Recommendation 6

We recommend that the Foundation develop written policies and procedures to address the accounting and processing of accounts receivable and accounts payable, and the establishment of trust and agency accounts.

Campus Response

We concur. We will ensure this is done by June 30, 2009.

CONFLICT OF INTEREST

The Foundation had not obtained annual conflict-of-interest statements from all board members.

We found that five of the 11 board members had not signed a conflict-of-interest statement for fiscal year 2007/08.

The Foundation *Conflict of Interest Policy and Procedure* states, in part, that board members are to annually complete and sign the Related Parties Questionnaire – Auxiliary Management, and disclose any potential conflicts that may arise.

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 Foundation human resources coordinator/executive assistant stated that the conflict-of-interest statements were not obtained from all board members because they did not attend the annual meeting where the conflict-of-interest policy and statements were presented and had not yet mailed back a signed statement.

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

Recommendation 7

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

Campus Response

We concur. This has been fully completed for the 2008/09 year and will be done timely in the future.

CASH RECEIPTS AND HANDLING

Administration of cash receipts at the Foundation required improvement.

We found that:

- ▶ Cash transactions for the bookstore and Ed Foundation operations were not recorded in a timely manner. Specifically, daily summary amounts were tallied and posted to the general ledger once a month.
- ▶ Cash shortages and/or overages related to the bookstore were not promptly identified and investigated.

The *Compilation of Policies and Procedures for California State University Auxiliary Organizations* sets sound business practice guidelines for auxiliary organizations operating within the CSU system. Section §8.9.1, *Cash*, states that the auxiliary should receive cash in a consistent manner utilizing systems that ensure integrity of existing internal controls. The compilation also states that the auxiliary should reconcile bank accounts on a timely basis with independent management review.

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

The campus associate vice president of enterprise activities stated that staffing constraints and turnover led to these oversights.

Inadequate administration of cash receipts increases the risk of loss or misappropriation of funds.

Recommendation 8

We recommend that the Foundation:

- a. Record cash transactions to the general ledger in a timely manner.
- b. Promptly identify and investigate cash shortages and/or overages.

Campus Response

We concur.

- a. The Foundation general accounting manager will put in place a practice whereby all deposits are done daily and all transactions are processed daily. This will be done by January 31, 2009.
- b. The Foundation general accounting manager will put in place a practice whereby cash discrepancies are identified and investigated no later than the following business day. This will be done by January 31, 2009.

FEES, REVENUES, AND RECEIVABLES

BANK ACCOUNT RECONCILIATION

The Foundation had not completed bank account reconciliations since July 2007 and January 2008 for Foundation and Ed Foundation operations, respectively.

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

The campus associate vice president of enterprise activities stated that staffing constraints and turnover led to this oversight.

Untimely bank account reconciliations limit the auxiliary's ability to detect errors and irregularities, increase the likelihood of loss of funds, and compromise accountability.

Recommendation 9

We recommend that the Foundation ensure that bank account reconciliations are prepared in a timely manner.

Campus Response

We concur and will ensure bank accounts are reconciled no later than 30 days after the statement end date, effective March 1, 2009, for the February bank statement.

ACCOUNTS RECEIVABLE

The Foundation did not generate an accounts receivable aging report on a regular basis and management review of the aging was not documented.

The *Compilation of Policies and Procedures for California State University Auxiliary Organizations* sets sound business practice guidelines for auxiliary organizations operating within the CSU system. Section 8.9.4, *Receivables*, states that the auxiliary the auxiliary should establish a written system to invoice customers promptly, in a consistent manner, while exercising due diligence in the follow-up and collection of past due accounts. Further, reconcile subsidiary receivables ledgers to the general ledger on a timely basis with independent management review.

The campus associate vice president of enterprise activities stated that staffing constraints and turnover led to this oversight.

Failure to regularly generate accounts receivable aging reports and perform a documented management review limits the auxiliary's ability to detect errors and irregularities and pursue delinquent accounts, increases the likelihood of loss of funds, and compromises accountability.

Recommendation 10

We recommend that the Foundation generate accounts receivable aging reports on a regular basis and perform a documented management review.

Campus Response

We concur. The Foundation general accounting manager will assign the staff to this project with an expected completion date of March 31, 2009. Once caught up, this aging report will be kept current in the future. We also expect to implement the PeopleSoft Accounts Receivable module by June 30, 2009. Additionally, beginning March 31, 2009, appropriate management review will be completed quarterly.

PURCHASING AND ACCOUNTS PAYABLE

DISBURSEMENTS

Certain Foundation cash disbursements were not supported by sufficient and appropriate documentation and timely paid.

Our review of 60 cash disbursements disclosed the following:

- ▶ In two instances, payments were issued without sufficient supporting documentation.
- ▶ In two instances, payments were issued without fully executed agreements.
- ▶ In five instances, travel approval was not obtained prior to traveling.
- ▶ In one instance, an invoice was paid three months after receipt.

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.

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

The Foundation general accounting manager stated that the two payments issued without sufficient supporting documentation and the untimely payment were due to oversight. The Foundation grants and contracts manager stated that the two payments issued without a fully executed contract were due to accounting being unaware that the project directors had not signed their portion of the contract, and the failure to obtain travel approval was due to the requirement not being in effect at that time. She added that the travel approval requirement became effective June 2008.

Lack of sufficient and appropriate supporting documentation and untimely payments increase the risk of errors, irregularities, and misappropriation of funds.

Recommendation 11

We recommend that the Foundation reiterate to staff existing cash disbursement policies and procedures regarding sufficient and appropriate supporting documentation, the need for travel pre-approval, and timeliness of payment.

Campus Response

We concur. Staff have been retrained in this area, and our travel form and procedure have been revised to facilitate the requirement for pre-approval.

SIGNATURE AUTHORITY

The Foundation did not maintain signature authorization cards for personnel designated to approve bookstore expenditures.

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 campus associate vice president of enterprise activities stated that the lack of signature authorization cards for personnel designated to approve bookstore purchases was due to the accounting staff's ability to identify the relatively small number of bookstore personnel who were able to approve bookstore expenditures.

Failure to maintain signature authorization cards increases the risk of errors, irregularities, and misappropriation of funds.

Recommendation 12

We recommend that the Foundation maintain signature authorization cards for individuals designated to approve bookstore expenditures.

Campus Response

The bookstore operations were outsourced to a vendor on August 2008; therefore, this process is no longer necessary.

TRUSTS AND OTHER LIABILITIES

The Foundation had not performed a review of its custodial trust accounts to determine the source of deposits and whether state funds were being inappropriately maintained within these accounts.

We noted that, as of fiscal year end June 30, 2007, the Foundation administered and maintained \$5,727,205 in its custodial trust accounts for campus' departments, colleges, and other groups. However, the Foundation was unable to determine whether the monies held were state funds.

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

The Foundation general accounting manager stated that a majority of the trust accounts were established prior to her arrival and documentation concerning their establishment and source of deposits were insufficient.

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

Recommendation 13

We recommend that the Foundation review the custodial trust accounts reflected as "agency liabilities" on its financial statements, determine which accounts contain state funds, and take appropriate action to move any identified state funds to campus accounts.

Campus Response

We concur. This process will be completed by June 30, 2009.

AUXILIARY PROGRAMS

The Foundation's administration of sponsored programs required improvement.

We reviewed ten contracts and grants files and found that:

- ▶ One file did not include an official agreement with the sponsoring agency documenting the award, scope, and project deliverables.
- ▶ Three files did not contain evidence that the final report/deliverable had been submitted to the contracting agency.
- ▶ Two files did not contain evidence that effort certification was completed for three faculty members.

The Foundation's *Post-Award Project Administrative Guide* states that receipt of a sponsored program award document is necessary to complete appropriate routing and approval procedures as well as establish a budget in the accounting system. The sponsor's award document states project terms and conditions as well as reporting requirements.

Office of Management and Budget (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.

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.

The Foundation grants and contracts manager stated that an e-mail between the project director and the sponsoring agency served as the official award document. She further stated that the lack of evidence for the final report/deliverable was due to the State of California being the sponsoring agency and the program pending renewal upon approval of the state annual budget. She added that the lack of evidence for effort certification was due to oversight.

Inadequate sponsored program administration 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 14

We recommend that the Foundation ensure that:

- a. Official agreements with sponsoring agencies are obtained and maintained on file for all projects.
- b. Evidence of final report/deliverable submission is included in all contracts and grants files.
- c. Evidence of effort certification for all faculty members is included in all contracts and grants files.

Campus Response

- a. We concur and will ensure this is done. The Foundation grants and contracts manager has been assigned this task to ensure all agreements are on file. Her review and execution will be completed by April 28, 2009.
- b. We concur and will ensure this is done. The Foundation grants and contracts manager has been directed to ensure all final reports/deliverable submissions are included in the contract files. The files will be brought up to date no later than April 28, 2009.
- c. We concur and will ensure this is done. The Foundation grants and contracts manager has been directed to ensure this is always done. The files will be brought up to date no later than April 28, 2009.

CAL STATE EAST BAY EDUCATIONAL FOUNDATION

OPERATING AND ADMINISTRATIVE AGREEMENTS

The operating agreement between the Cal State East Bay Educational Foundation (Ed Foundation) and the Trustees expired on November 18, 2007, and had not been renewed.

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 campus vice president of university advancement stated that the agreement was not renewed because the Ed Foundation did not maintain a reminder system to track the expiration of multi-year agreements.

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

Recommendation 15

We recommend that the Ed Foundation renew its operating agreement with the Trustees and implement a process to ensure that future agreements with the Trustees are timely renewed.

Campus Response

The operating agreement with the Trustees has been renewed. A reminder has been set in a calendar to prompt for timely renewal in the future.

OPERATIONAL COMPLIANCE

The Ed Foundation had neither implemented a conflict-of-interest policy nor obtained annual conflict-of-interest statements from all board members for fiscal years 2005/06, 2006/07, and 2007/08.

Although the Ed Foundation recently began requesting that its board members complete California Form 700 – Statement of Economic Interests, the Ed Foundation had not implemented a conflict-of-interest policy.

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 Ed Foundation director of advancement services stated his belief that California Form 700 disclosure was sufficient documentation of conflict of interest and was unaware that a separate policy was necessary.

Failure to establish a conflict-of-interest policy and obtain annual conflict-of-interest statements from all auxiliary board members increases liability for acts contrary to the code.

Recommendation 16

We recommend that the Ed Foundation implement a conflict-of-interest policy and ensure that annual conflict-of-interest statements are obtained from all board members.

Campus Response

We concur. The Ed Foundation officially adopted California Education Code Sections 89906 through 89908 as its conflict-of-interest policy at the December 3, 2008, board meeting.

SEGREGATION OF DUTIES

Duties and responsibilities over certain donation processing functions were not adequately segregated at the Ed Foundation.

We found that one employee:

- ▶ Opened mail containing donations in the form of cash, checks, and credit cards.
- ▶ Counted the cash, endorsed the checks, and processed the credit cards.
- ▶ Completed a cash proof sheet and ran a calculator tape of all receipts.
- ▶ Prepared an accounting ledger in Excel and posted receipts to the donor database.
- ▶ Prepared the deposit and delivered it to the Foundation office.
- ▶ Prepared and mailed gift receipt letters less than \$1,000.
- ▶ Created a monthly donor receipt export file for the Foundation general ledger accounting system.

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

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

The campus vice president of university advancement stated that a witness was present during the opening and recording of gifts, and the Ed Foundation administration believed that this was sufficient.

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

Recommendation 17

We recommend that the Ed Foundation appropriately segregate certain donation processing functions or institute mitigating procedures approved by the campus chief financial officer.

Campus Response

We concur. Donation processing functions are being segregated. Effective immediately, the receptionist will now open mail and log the individual donations before passing the batch on to the gift processing technician.

FEES, REVENUES, AND RECEIVABLES

GIFT PROCESSING AND VALUATION

The Ed Foundation did not perform independent reconciliations between its donor database and the general ledger accounting system maintained by the Foundation.

We found that the Ed Foundation gift processing technician entered gift receipt information into its donor database and created a custom export file from the database with itemized gift information for the month. The gift processing technician also compared and reconciled the export file with the corresponding individual deposit batches before transmitting the export file to the Foundation. Foundation staff would then reconcile the export file with the corresponding individual deposit batches before importing the details of the export file into a cash sub-ledger.

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 campus vice president of university advancement stated his belief that the reconciliation of total gifts recorded in the database with total gifts recorded in the general ledger accounting system that was routinely performed by Foundation staff as part of its monthly closing procedure was sufficient.

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

Recommendation 18

We recommend that the Ed Foundation perform independent reconciliations of its donor database to the Foundation's general ledger accounting system.

Campus Response

We concur. Effective immediately, an independent reconciliation of donor database to general ledger will be performed on a monthly basis by the director of advancement services.

MATCHING GIFTS

The Ed Foundation had not fully implemented its matching gift policies and procedures.

We found that the Ed Foundation did not immediately enter matching gift expectancy forms into the fund-raising database upon receipt of the corporate matching gift application.

The Ed Foundation *Matching Gift Policies and Procedures* state, in part, a matching gift expectancy is entered into the fund-raising database. Upon receipt of the matching gift, it is applied to the expectancy as a payment, which in turn, converts the expectancy into a matching pledge.

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 campus vice president of university advancement stated that the matching gift policies and procedures were new and promulgated just prior to this audit; therefore, the Ed Foundation was currently in the implementation process.

Insufficient control over matching gifts reduces the likelihood of collection and negatively impacts cash flow.

Recommendation 19

We recommend that the Ed Foundation fully implement its matching gift policies and procedures to ensure that matching gift expectancies are timely recorded into the fund-raising database.

Campus Response

We concur. Effective immediately, matching gift expectancies will be recorded in the donor database at the time of application submission to the corporate matching gift program.

ENDOWMENT ADMINISTRATION

Certain Ed Foundation endowment files lacked documentation delineating the investment and distribution of funds.

We found that five of the 20 endowment files reviewed lacked either a memorandum of understanding or fund agreement stating how the endowed funds would be invested and distributed. As of April 30, 2008, the five endowments had balances totaling \$348,114.

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 of endowments.

The campus vice president of university advancement stated that the establishment of endowments was not properly documented due to oversight of previous staff who created the endowment files.

The absence of sufficient documentation to delineate the investment and distribution of endowed funds increases the risk that donor expectations will not be met and inappropriate expenditures will occur.

Recommendation 20

We recommend that the Ed Foundation establish agreements to delineate the investment and distribution of endowed funds for the five noted endowment files and review all other endowment files to ensure that each file contains sufficient supporting documentation.

Campus Response

We concur. We will review the documentation for the five endowed funds. For those endowments established by donors who are living and available, we will create and execute memorandums of understanding, and for those endowments whose donors are deceased or unavailable, we will create and execute fund agreements to govern the administration of these funds. We will also review all other endowment files to be certain that similar documentation is available for each. We expect to complete these tasks by June 30, 2009.

INFORMATION TECHNOLOGY

USER ACCESS GROUPS

Administration of user access to the donor database system was not adequately controlled by the Ed Foundation.

We found that:

- ▶ Although several user groups were utilized for granting access to specific user accounts, the privileges granted by each user group were largely unknown and it could not be determined what specific fields each group could read/write/edit/delete.
- ▶ The user groups were established by the Millennium Consultants in 2005, and the groups had not been reviewed to ensure that appropriate separation of duties was in place.

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 group and user account administration.

The Ed Foundation director of advancement services stated that only he and another manager had the ability to make changes to the user accounts assigned to user groups, but he had not made any changes to the permissions granted by each user group. He added that a review of permissions had not been conducted because the Ed Foundation was unaware of how this could be done.

Failure to adequately control user access to systems containing protected data increases the risk of compromised production systems and potential disclosure of confidential data.

Recommendation 21

We recommend that the Ed Foundation:

- a. Review user access groups to determine the specific permissions granted to users within each group.
- b. Ensure that permissions are granted to users based upon the principle of least privilege required for job requirements.

- c. Periodically review the access granted to user groups and the respective user accounts assigned to each group to ensure proper segregation of duties.

Campus Response

We concur. We recently implemented The Raiser's Edge, a new fund-raising database application, which necessitated the creation of new access groups and the granting of new permissions to users based on the principle of least privilege. We will periodically review the user group access and the users assigned to each group to ensure proper segregation of duties.

PASSWORD STANDARDS

Password controls for user access to the donor database system at the Ed Foundation did not always ensure adequate security.

The following password parameters were set outside of leading security standards:

- ▶ Minimum password length: 5 characters
- ▶ Minimum password age: 0 days (not enabled)
- ▶ Enforce password history: 0 passwords remembered (not enabled)

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 password parameters.

The Ed Foundation director of advancement services stated that the password controls had been considered adequate and he was unaware that stronger password controls were required.

Less than optimal password security settings increase the risk of unauthorized access to auxiliary systems and confidential data.

Recommendation 22

We recommend that the Ed Foundation define its security requirements and work with campus information security personnel to set effective password security controls for its computer systems.

Campus Response

We concur. The Raiser's Edge software is hosted by the vendor, Blackbaud. Information security personnel will review Blackbaud's password security controls to be certain they are effective. This review will be completed by March 31, 2009.

PATCH MANAGEMENT

Administration of patches and updates to the donor database system was not adequately controlled by the Ed Foundation.

New patches and updates were not tested in a separate test environment prior to application to the production environment. Further, there was no rollback possible in the event that any problems were encountered with the patches and updates.

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 adequate separation of test and production environments.

The Ed Foundation director of advancement services stated that the application of patches and updates to the production system was not first tested in a test environment because of a lack of resources available to support such testing. He further stated that the rollback functionality had not been considered.

Failure to adequately test new system patches and updates in an environment separate from the production environment, and the lack of any rollback functionality increases the risk of damages to auxiliary systems and the loss of production data not yet backed up.

Recommendation 23

We recommend that the Ed Foundation implement a separate test environment for the testing of new patches and updates prior to the application of such patches and updates to the production environment and consider the feasibility of incorporating rollback functionality into the production environment.

Campus Response

We concur as to the prior alumni/donor database. However, we recently migrated to The Raiser's Edge software. This new software does not require any updates or patching by university or auxiliary personnel because the application is hosted off-site by Blackbaud. We will rely on the vendor to test new patches and updates prior to their application.

ASSOCIATED STUDENTS, CALIFORNIA STATE UNIVERSITY, EAST BAY

OPERATING AND ADMINISTRATIVE AGREEMENTS

OPERATING AGREEMENT

The operating agreement between the Associated Students, California State University, East Bay (AS) and the Trustees had not been amended to reflect the new functions taken over from the University Union, Inc. California State University, East Bay (Union), which was dissolved in 2007.

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 AS executive director stated that it had taken longer than expected to draft a new or amended operating agreement due to the dissolution of the Union and administrative staff turnover.

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

Recommendation 24

We recommend that the AS promptly establish a new or amended operating agreement with the Trustees to reflect all functions performed by the auxiliary.

Campus Response

We concur. The operating agreement and ground lease are being rewritten through the office of contracts and purchasing to reflect all the functions now the responsibility of the AS. This will be completed by April 28, 2009.

ADMINISTRATIVE SERVICE AGREEMENTS

The arrangement between AS and the campus regarding the provision of administrative and accounting services was not supported by a written agreement.

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

The AS executive director stated that the lack of an administrative service agreement was due to administrative staff turnover.

The absence of a written agreement regarding the provision of administrative and accounting services increases the risk of misunderstandings and miscommunications regarding rights and responsibilities.

Recommendation 25

We recommend that AS promptly establish a written agreement with the campus regarding the provision of administrative and accounting services.

Campus Response

We concur. An agreement/memorandum of understanding was established for accounting services. The university has a process for establishing “indirect costs” (EO 1000) which the AS follows.

FACILITIES AGREEMENTS

Certain facilities agreements between AS, the campus, and a third party were not executed or had expired.

We found that:

- ▶ The lease agreement between AS and the credit union had not been executed.
- ▶ The ground lease agreement between AS and the campus had expired. The last amendment to the agreement had expired on June 9, 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 facility lease arrangements be supported by current, written agreements.

The AS executive director stated that signed leases were in effect; however, they had not been able to locate certain documents due to administrative turnover.

The absence of current, written facilities lease agreements increases the risk of misunderstandings and miscommunications regarding rights and responsibilities.

Recommendation 26

We recommend that AS execute current facilities lease agreements with the credit union and the campus.

Campus Response

We concur. A lease agreement is now on file in AS.

PROGRAM COMPLIANCE

AS did not report student board members' stipends to the campus financial aid office.

AS provided its student board members with a stipend of \$400 to \$800 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 executive director stated that AS management was unaware of the university's policy regarding stipends and had been operating with the belief that stipends were exempt from financial aid reporting.

Failure to report student board member stipends to the campus financial aid office may result in an overpayment of financial aid funds and increases the risk of fines and penalties.

Recommendation 27

We recommend that AS report all student board member stipends to the campus financial aid office.

Campus Response

We concur. All student board member stipends are now reported both electronically and in writing to the financial aid office.

PURCHASING AND ACCOUNTS PAYABLE

DISBURSEMENTS

Certain AS cash disbursements were not supported by sufficient and appropriate documentation.

Our review of 60 cash disbursements disclosed the following:

- ▶ In four instances, supporting purchase orders were missing.
- ▶ In two instances, purchase orders were dated after the invoice date.
- ▶ In three instances, travel approval was not obtained prior to traveling.
- ▶ In two instances, supporting invoices were missing.

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.

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

The AS executive director stated that AS had experienced several personnel changes and it appeared that the current staff did not have the appropriate training.

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

Recommendation 28

We recommend that AS reiterate to staff existing cash disbursement policies and procedures regarding sufficient and appropriate supporting documentation, including the need for travel pre-approval.

Campus Response

We concur. Staff has received instruction and training regarding disbursement policies and procedures. In addition, such policies and procedures have been reviewed with our controller, the office of student life, and judicial affairs (club accounts).

TRAVEL AUTHORIZATION

AS had not developed policies and procedures for staff and board member business travel.

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

The AS executive director stated that AS was using the travel policy from the dissolved Union; however, the policy had not been officially adopted by the AS board.

The absence of written policies and procedures increases the risk that errors, inconsistencies, and misunderstandings will occur.

Recommendation 29

We recommend that AS develop written travel policies and procedures for its staff and board members.

Campus Response

We concur. Policy will be developed and presented for approval by the full board during winter quarter 2009 and thus will be completed by March 31, 2009.

PROPERTY AND EQUIPMENT

AS was unable to provide evidence of physical inventories of property and equipment and reconciliations of its property sub ledger to the campus property accounting system for fiscal years 2005/06 and 2006/07.

The *Compilation of Policies and Procedures for California State University Auxiliary Organizations* sets sound business practice guidelines for auxiliary organizations operating within the CSU system. Section 8.9.7, *Property and Equipment*, states that the auxiliary should establish a written system that ensures physical inspection of property and equipment on a service life schedule and 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 AS executive director stated that some of the institutional memory had been lost due to the high turnover of AS and Union staff, and many of the organization's documents could not be located.

Insufficient administration of property and equipment increases the risk of misstated property records, misrepresentation in the financial statements, and/or loss of assets.

Recommendation 30

We recommend that AS promptly perform a physical inventory of its property and equipment and reconcile its property sub ledger to the campus property accounting system.

Campus Response

We concur. The AS is working with the campus to resolve this issue. This should be completed by April 28, 2009.

APPENDIX A: PERSONNEL CONTACTED

<u>Name</u>	<u>Title</u>
CAMPUS	
Mohammad Qayoumi	President
Shawn Bibb	Vice President, Administration and Finance and Chief Financial Officer
Christopher Brown	Associate Vice President, Enterprise Activities
Bob Burt	Vice President, University Advancement
Raechelle Clemmons	Director, Specialized Technology Services
Darrell Haydon	University Controller
Nyassa Love	Associate Vice President, Business and Financial Services
Lee Thompson	Deputy Chief Information Officer

CALIFORNIA STATE UNIVERSITY, EAST BAY FOUNDATION, INC.

Hermela Hagos	Accounting Technician
Anne Hoy	Accounting Technician
Yashmeen Imroz	Grant Analyst I
Nitin Lalka	Accounting Technician
Derrick Lobo	Bookstore Director
Danielle Ortuno	Human Resources Coordinator/Executive Assistant
Phu Tran	Accounting Technician
Jayne Truong	General Accounting Manager
Cynthia Vinson	Grants and Contracts Manager

CAL STATE EAST BAY EDUCATIONAL FOUNDATION

Tom Froelich	Director, Advancement Services
Jayne Truong	General Accounting Manager
Harry Wong	Gift Processing Technician

ASSOCIATED STUDENTS, CALIFORNIA STATE UNIVERSITY, EAST BAY

Lil Brown-Parker	Board of Directors, Administrative Assistant
Margaret Daniel	Office Manager
Fe Inocencio	Temporary Accounting Representative
Robert Lara	Associate Executive Director
Sneh Sharma	Executive Assistant
Bob Williams	Executive Director

STATEMENT OF INTERNAL CONTROLS

A. INTRODUCTION

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

B. INTERNAL CONTROL DEFINITION

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

1. Internal Accounting Controls

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

2. Operational Controls

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

C. INTERNAL CONTROL OBJECTIVES

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

D. INTERNAL CONTROL SYSTEMS LIMITATIONS

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



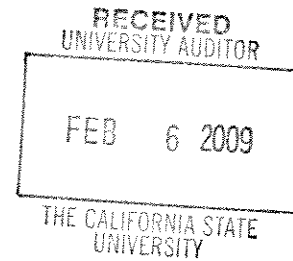
CALIFORNIA STATE
UNIVERSITY
E A S T B A Y

Office of the Vice President, Administration
and Finance & Chief Financial Officer

CALIFORNIA STATE UNIVERSITY, EAST BAY
25800 Carlos Bee Boulevard, Hayward, CA 94542-3002
510.885.3803 • 510.885.4745 (fax) • www.csueastbay.edu

January 30, 2009

Mr. Larry Mandel
University Auditor
The California State University
401 Golden Shore
Long Beach, CA 90802



**RE: Revised Campus Responses to Recommendations:
Audit Report Number 08-50
Auxiliary Organizations, California State University, East Bay**

Dear Mr. Mandel,

Enclosed is our revised response to the recommendations in Audit Report Number 08-50, Auxiliary Organizations Audit, at California State University, East Bay. Upon acceptance of our response, we will follow up with your office in providing supporting documentation for each recommendation by the anticipated completion dates.

Please let us know if you have any questions or need additional information.

Sincerely,

Shawn Bibb
Vice President for Administration & Finance, CFO

SB/krb

c: Dr. Mohammad H. Qayoumi, President
Mr. Bob Burt, VP, University Advancement
Mr. Christopher Brown, AVP, Enterprise Operations & Foundation
Mr. Bob Williams, Executive Director, Associated Students, Inc.

AUXILIARY ORGANIZATIONS
CALIFORNIA STATE UNIVERSITY,
EAST BAY

Audit Report 08-50

CAMPUS

CAMPUS OVERSIGHT AND CONTROL

Recommendation 1

We recommend that the campus:

- a. Work in conjunction with AS to ensure that approval of the merger of Union activities into AS and the distribution of Union net assets and liabilities to and acceptance by AS is appropriately documented in an AS board action.
- b. Ensure that appropriate action is taken to pay the retained Union employees under the AS tax ID.
- c. Ensure that future actions concerning auxiliary organizations be completed in accordance with related statutes, regulations, policies, and procedures.

Campus Response

- a. We concur. We will ensure that the AS Board accepts the merger of the and the distribution by April 31, 2009.
- b. We concur. We will ensure all retained University Union employees are paid appropriately as ASI employees using the ASI tax ID. This will be done by March 31, 2009.
- c. We will issue a memorandum to management involved in auxiliary organization actions reminding them to be cognizant of statutes, regulations, policies and procedures related to said organizations by February 27, 2009.

CALIFORNIA STATE UNIVERSITY, EAST BAY FOUNDATION, INC.

OPERATING AND ADMINISTRATIVE AGREEMENTS

OPERATING AGREEMENT

Recommendation 2

We recommend that the Foundation ensure that future agreements with the Trustees are executed prior to inceptions.

Campus Response

We concur. We will implement a practice that ensures Trustee agreements are executed prior to inception. This will be done by March 31, 2009.

ADMINISTRATIVE SERVICE AGREEMENTS

Recommendation 3

We recommend that the Foundation:

- a. Establish a written agreement with the alumni program.
- b. Ensure that future agreements are executed prior to inception.
- c. Ensure that future agreements include appropriate indemnification provisions.

Campus Response

- a. We concur. An agreement will be executed no later than March 31, 2009.
- b. We concur. All agreements will be reviewed by March 31, 2009, to ensure they are up to date. A reminder will be placed on the AVP's calendar 90 days prior to the expiration of all agreements to ensure they are executed in a timely manner.
- c. We concur and will ensure this is done. All agreements will be reviewed by March 31, 2009, to ensure proper indemnification provisions are included. Additionally, we will implement a practice to include appropriate indemnification on all agreements effective March 31, 2009.

CORPORATE GOVERNANCE

Recommendation 4

We recommend that the Foundation update its Articles of Incorporation to reflect a proper dissolution clause.

Campus Response

We concur and will ensure this is done by March 31, 2009.

FISCAL COMPLIANCE

Recommendation 5

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

Campus Response

We concur. We will ensure all reserves are appropriately accounted for by March 31, 2009.

OPERATIONAL COMPLIANCE

POLICIES AND PROCEDURES

Recommendation 6

We recommend that the Foundation develop written policies and procedures to address the accounting and processing of accounts receivable and accounts payable, and the establishment of trust and agency accounts.

Campus Response

We concur. We will ensure this is done by June 30, 2009.

CONFLICT OF INTEREST

Recommendation 7

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

Campus Response

We concur. This has been fully complete for the 08/09 year and will be done timely in the future.

CASH RECEIPTS AND HANDLING

Recommendation 8

We recommend that the Foundation:

- a. Record cash transactions to the general ledger in a timely manner.
- b. Promptly identify and investigate cash shortages and/or overages.

Campus Response

- a. We concur. The Foundation General Accounting Manager will put in place a practice whereby all deposits are done daily and all transactions are processed daily. This will be done by January 31, 2009.
- b. We concur. The Foundation General Accounting Manager will put in place a practice whereby cash discrepancies are identified and investigated no later than the following business day. This will be done by January 31, 2009.

FEEES, REVENUES, AND RECEIVABLES

BANK ACCOUNT RECONCILIATION

Recommendation 9

We recommend that the Foundation ensure that bank account reconciliations are prepared in a timely manner.

Campus Response

We concur and will ensure bank accounts are reconciled no later than thirty days after the statement end date, effective March 1, 2009 for the February bank statement.

ACCOUNTS RECEIVABLE

Recommendation 10

We recommend that the Foundation generate accounts receivable aging reports on a regular basis and perform a documented management review.

Campus Response

We concur. The Foundation General Accounting Manager will assign the staff to this project with an expected completion date of March 31, 2009. Once caught up, this aging report will be kept current in the future. We also expect to implement the PeopleSoft A/R module by June 30, 2009. Additionally, beginning March 31, 2009, appropriate management review will be completed quarterly.

PURCHASING AND ACCOUNTS PAYABLE

DISBURSEMENTS

Recommendation 11

We recommend that the Foundation reiterate to staff existing cash disbursement policies and procedures regarding sufficient and appropriate supporting documentation, the need for travel pre-approval, and timeliness of payment.

Campus Response

We concur. Staff have been retrained in this area and our travel form and procedure has been revised to facilitate the requirement for pre-approval.

SIGNATURE AUTHORITY

Recommendation 12

We recommend that the Foundation maintain signature authorization cards for individuals designated to approve bookstore expenditures.

Campus Response

The bookstore operations were outsourced to a vendor on August 2008, therefore this process is no longer necessary.

TRUSTS AND OTHER LIABILITIES

Recommendation 13

We recommend that the Foundation review the custodial trust accounts reflected as “agency liabilities” on its financial statements, determine which accounts contain state funds, and take appropriate action to move any identified state funds to campus accounts.

Campus Response

We concur. This process will be complete by June 30, 2009.

AUXILIARY PROGRAMS

Recommendation 14

We recommend that the Foundation ensure that:

- a. Official agreements with sponsoring agencies are obtained and maintained on file for all projects.
- b. Evidence of final report/deliverable submission is included in all contracts and grants files.

- c. Evidence of effort certification for all faculty members is included in all contracts and grants files.

Campus Response

- a. We concur and will ensure this is done. The Foundation Grants and Contracts manager has been assigned this task to ensure all agreements are on file. Her review and execution will be complete by April 28, 2009.
- b. We concur and will ensure this is done. The Grants and Contracts manager has been directed to ensure all final reports/deliverable submissions are included in the contract files. The files will be brought up to date no later than April 28, 2009.
- c. We concur and will ensure this is done. The Grants and Contracts manager has been directed to ensure this is always done. The files will be brought up to date no later than April 28, 2009.

CAL STATE EAST BAY EDUCATIONAL FOUNDATION

OPERATING AND ADMINISTRATIVE AGREEMENTS

Recommendation 15

We recommend that the Ed Foundation renew its operating agreement with the Trustees and implement a process to ensure that future agreements with the Trustees are timely renewed.

Campus Response

The operating agreement with the Trustees has been renewed. A reminder has been set in a calendar to prompt for timely renewal in the future.

OPERATIONAL COMPLIANCE

Recommendation 16

We recommend that the Ed Foundation implement a conflict-of-interest policy and ensure that annual conflict-of-interest statements are obtained from all board members.

Campus Response

We concur. The Educational Foundation officially adopted California Education Code Sections 89906 through 89908 as its conflict of interest policy at the December 3, 2008 Board meeting.

SEGREGATION OF DUTIES

Recommendation 17

We recommend that the Ed Foundation appropriately segregate certain donation processing functions or institute mitigating procedures approved by the campus chief financial officer.

Campus Response

We concur. Donation processing functions are being segregated. Effective immediately, the receptionist will now open mail and log the individual donations before passing the batch on to the gift processing technician.

FEES, REVENUES, AND RECEIVABLES

GIFT PROCESSING AND VALUATION

Recommendation 18

We recommend that the Ed Foundation perform independent reconciliations of its donor database to the Foundation's general ledger accounting system.

Campus Response

We concur. Effective immediately, an independent reconciliation of donor database to general ledger will be performed on a monthly basis by the Director of Advancement Services.

MATCHING GIFTS

Recommendation 19

We recommend that the Ed Foundation fully implement its matching gift policies and procedures to ensure that matching gift expectancies are timely recorded into the fund-raising database.

Campus Response

We concur. Effective immediately, matching gift expectancies will be recorded in the donor database at the time of application submission to the corporate matching gift program.

ENDOWMENT ADMINISTRATION

Recommendation 20

We recommend that the Ed Foundation establish agreements to delineate the investment and distribution of endowed funds for the five noted endowment files and review all other endowment files to ensure that each file contains sufficient supporting documentation.

Campus Response

We concur. We will review the documentation for the five endowed funds. For those endowments established by donors who are living and available, we will create and execute Memorandums of Understanding, and for those endowments whose donors are deceased or unavailable, we will create and execute Fund Agreements to govern the administration of these funds. We will also review all other endowment files to be certain that similar documentation is available for each. We expect to complete these tasks by June 30, 2009.

INFORMATION TECHNOLOGY

USER ACCESS GROUPS

Recommendation 21

We recommend that the Ed Foundation:

- a. Review user access groups to determine the specific permissions granted to users within each group.
- b. Ensure that permissions are granted to users based upon the principle of least privilege required for job requirements.
- c. Periodically review the access granted to user groups and the respective user accounts assigned to each group to ensure proper segregation of duties.

Campus Response

We concur. We recently implemented the Raiser's Edge, a new fundraising database application, which necessitated the creation of new access groups and the granting of new permissions to users based on the principle of least privilege. We will periodically review the user group access and the users assigned to each group to ensure proper segregation of duties.

PASSWORD STANDARDS

Recommendation 22

We recommend that the Ed Foundation define its security requirements and work with campus information security personnel to set effective password security controls for its computer systems.

Campus Response

We concur. The Raiser's Edge software is hosted by the vendor, Blackbaud. Information security personnel will review Blackbaud's password security controls to be certain they are effective. This review will be completed by March 31, 2009.

PATCH MANAGEMENT

Recommendation 23

We recommend that the Ed Foundation implement a separate test environment for the testing of new patches and updates prior to the application of such patches and updates to the production environment and consider the feasibility of incorporating rollback functionality into the production environment.

Campus Response

We concur as to the prior alumni/donor database. However, we recently migrated to The Raiser's Edge software. This new software does not require any updates or patching by university or auxiliary personnel because the application is hosted offsite by Blackbaud. We will rely on the vendor to test new patches and updates prior to their application.

ASSOCIATED STUDENTS, CALIFORNIA STATE UNIVERSITY, EAST BAY

OPERATING AND ADMINISTRATIVE AGREEMENTS

OPERATING AGREEMENT

Recommendation 24

We recommend that the AS promptly establish a new or amended operating agreement with the Trustees to reflect all functions performed by the auxiliary.

Campus Response

We concur. The operating agreement and ground lease are being re-written through the office of Contracts & Purchasing to reflect all the functions now the responsibility of the ASI. This will be completed by April 28, 2009.

ADMINISTRATIVE SERVICE AGREEMENTS

Recommendation 25

We recommend that AS promptly establish a written agreement with the campus regarding the provision of administrative and accounting services.

Campus Response

We concur. An agreement/MOU was established for Accounting Services. The University has a process for establishing "Indirect Costs" (EO1000) which the ASI follows.

FACILITIES AGREEMENTS

Recommendation 26

We recommend that AS execute current facilities lease agreements with the credit union and the campus.

Campus Response

We concur. A lease agreement is now on file in ASI.

PROGRAM COMPLIANCE

Recommendation 27

We recommend that AS report all student board member stipends to the campus financial aid office.

Campus Response

We concur. All student board member stipends are now reported both electronically and in writing to the Financial Aid office.

PURCHASING AND ACCOUNTS PAYABLE

DISBURSEMENTS

Recommendation 28

We recommend that AS reiterate to staff existing cash disbursement policies and procedures regarding sufficient and appropriate supporting documentation, including the need for travel pre-approval.

Campus Response

We concur. Staff has received instruction and training regarding disbursement policies and procedures. In addition such policies and procedures have been reviewed with our Controller, the Office of Student Life, and Judicial Affairs (club accounts).

TRAVEL AUTHORIZATION

Recommendation 29

We recommend that AS develop written travel policies and procedures for its staff and board members.

Campus Response

We concur. Policy will be developed and presented for approval by the full board during Winter Quarter 2009 and thus will be completed by March 31, 2009.

PROPERTY AND EQUIPMENT

Recommendation 30

We recommend that AS promptly perform a physical inventory of its property and equipment and reconcile its property sub ledger to the campus property accounting system.

Campus Response

We concur. The ASI is working with the campus to resolve this issue. This should be complete by April 28, 2009.

THE CALIFORNIA STATE UNIVERSITY
OFFICE OF THE CHANCELLOR



BAKERSFIELD

February 27, 2009

CHANNEL ISLANDS

CHICO

MEMORANDUM

DOMINGUEZ HILLS

TO: Mr. Larry Mandel
University Auditor

EAST BAY

FROM: Charles B. Reed
Chancellor

FRESNO

SUBJECT: Draft Final Audit Report 08-50 on *Auxiliary Organizations*,
California State University, East Bay

FULLERTON

HUMBOLDT

LONG BEACH

In response to your memorandum of February 27, 2009, I accept the response as submitted with the draft final report on *Auxiliary Organizations*, California State University, East Bay.

LOS ANGELES

MARITIME ACADEMY

MONTEREY BAY

NORTHRIDGE

POMONA

SACRAMENTO

CBR/amd

SAN BERNARDINO

SAN DIEGO

Enclosure

SAN FRANCISCO

cc: Dr. Mohammad Qayoumi, President
Mr. Shawn Bibb, Vice President, Administration and Finance/
Chief Financial Officer

SAN JOSÉ

SAN LUIS OBISPO

SAN MARCOS

SONOMA

STANISLAUS