

AUXILIARY ORGANIZATIONS
CALIFORNIA STATE POLYTECHNIC UNIVERSITY,
POMONA

Audit Report 10-03
November 29, 2010

Members, Committee on Audit

Henry Mendoza, Chair
Raymond W. Holdsworth, Vice Chair
Nicole M. Anderson Margaret Fortune
George G. Gowgani Melinda Guzman
William Hauck

Staff

University Auditor: Larry Mandel
Senior Director: Janice Mirza
Audit Manager: Gary Miller
IT Audit Manager: Greg Dove
Senior Auditors: Caroline Lee, Ken Tsui and Salesian Yuen

BOARD OF TRUSTEES
THE CALIFORNIA STATE UNIVERSITY

CONTENTS

Executive Summary	1
Introduction.....	5
Background	5
Purpose.....	7
Scope and Methodology	7

OBSERVATIONS, RECOMMENDATIONS, AND CAMPUS RESPONSES

CAMPUS

Fees, Revenues, and Receivables	10
---------------------------------------	----

THE CAL POLY POMONA FOUNDATION, INC.

Operating and Administrative Agreements	12
Operational Compliance	12
Trusts and Other Liabilities	13
Information Technology	16
Equipment Tracking and Security	16
Disaster Recovery Plan	17

CAL POLY POMONA UNIVERSITY EDUCATIONAL TRUST

Fiscal Compliance.....	18
Endowment Administration.....	19

ASSOCIATED STUDENTS, INCORPORATED, CALIFORNIA STATE POLYTECHNIC UNIVERSITY, POMONA

Facilities Agreements	20
Cash Receipts and Handling.....	21
Fees, Revenues, and Receivables	21
Personnel and Payroll	22

APPENDICES

APPENDIX A:	Personnel Contacted
APPENDIX B:	Statement of Internal Controls
APPENDIX C:	Campus Response
APPENDIX D:	Chancellor's Acceptance

ABBREVIATIONS

AORMA	Auxiliary Organization Risk Management Authority
ASI	Associated Students, Incorporated, California State Polytechnic University, Pomona
CFO	Chief Financial Officer
CSU	California State University
CSURMA	California State University Risk Management Authority
DRP	Disaster Recovery Plan
EO	Executive Order
Foundation	The Cal Poly Pomona Foundation, Inc.
IT	Information Technology
MIS	Management Information Systems
RFIN	Resolution of the Committee on Finance
UET	Cal Poly Pomona University Educational Trust

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 Polytechnic University, Pomona 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 Polytechnic University, Pomona campus and its auxiliary organizations from June 7, 2010, through July 2, 2010, and made a study and evaluation of the system of internal compliance/internal control in effect as of July 2, 2010. This report represents our triennial review.

Our study and evaluation at *The Cal Poly Pomona Foundation, Inc.* revealed certain conditions that, in our opinion, could result in errors and irregularities if not corrected. Specifically, the auxiliary did not maintain adequate control over information technology. These conditions, along with other weaknesses, are described in the executive summary and in the body of the report. In our opinion, except for the effect of the weaknesses described above, accounting and administrative control in effect as of July 2, 2010, taken as a whole, was sufficient to meet the objectives stated above.

Our study and evaluation at *Cal Poly Pomona University Educational Trust* 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 July 2, 2010, taken as a whole, was sufficient to meet the objectives stated above.

Our study and evaluation at *Associated Students, Incorporated, California State Polytechnic University, Pomona* 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 July 2, 2010, 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

FEES, REVENUES, AND RECEIVABLES [10]

Campus administration of matching gifts for The Cal Poly Pomona Foundation, Inc. (Foundation) and Cal Poly Pomona University Education Trust (UET) required improvement, as campus matching gift procedures did not require that a documented dual review be performed to ensure that matching funds are appropriately directed and administered, corporate donation matching policies were not kept on file to show evidence of review and enforcement of applicable policies, and gift acknowledgement letters were not always sent to donors.

THE CAL POLY POMONA FOUNDATION, INC.

OPERATING AND ADMINISTRATIVE AGREEMENTS [12]

Certain business arrangements between The Cal Poly Pomona Foundation, Inc. (Foundation) and customers were not supported by fully executed agreements.

OPERATIONAL COMPLIANCE [12]

Foundation merchandise perpetual inventory records did not always agree with stock on hand.

TRUSTS AND OTHER LIABILITIES [13]

The Foundation had not completed a review of its Foundation/campus program accounts to determine the source of deposits, and therefore, certain campus program revenues may have been inappropriately deposited to, and held in custody by, the Foundation.

INFORMATION TECHNOLOGY [16]

The Foundation did not ensure adequate tracking and security over computing equipment (computers, servers, etc.) obtained from grant funding that may have contained protected information. In addition, the Foundation IT disaster recovery plan did not reference an alternate processing facility nor an escalation/notification process.

CAL POLY POMONA UNIVERSITY EDUCATIONAL TRUST

FISCAL COMPLIANCE [18]

The Cal Poly Pomona University Education Trust (UET) could not provide documented evidence of full reimbursement to the California State University Operating Fund for direct and indirect costs incurred by the university for services provided by certain campus staff. This is a repeat finding from a prior Auxiliary Organizations audit.

ENDOWMENT ADMINISTRATION [19]

UET endowment agreements did not delineate management fees.

ASSOCIATED STUDENTS, INCORPORATED, CALIFORNIA STATE POLYTECHNIC UNIVERSITY, POMONA

FACILITIES AGREEMENTS [20]

Certain sublease agreements between Associated Students, Incorporated, California State Polytechnic University, Pomona (ASI) and third-party lessees did not include appropriate indemnification provisions.

CASH RECEIPTS AND HANDLING [21]

ASI had not completed bank account reconciliations since March 2010.

FEES, REVENUES, AND RECEIVABLES [21]

ASI had not generated an accounts receivable aging report for management review since March 2010.

PERSONNEL AND PAYROLL [22]

Employee separation documentation was not always completed at ASI.

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 Cal Poly Pomona Foundation, Inc.

The Cal Poly Pomona Foundation, Inc. (Foundation) was established in 1966 as a non-profit public benefit corporation responsible for operation of commercial services in support of the university's educational mission. The Foundation operates the Bronco Bookstore; Kellogg West Conference Center and Hotel; Kellogg House, a venue used for weddings, corporate meetings, and other events; Innovation Village, a research and development environment for public-private partnerships; and dining services, including restaurants, convenience stores, and vending. The Foundation also operates and/or

administers sponsored programs, gifts and endowments, farm and agriculture operations, student and faculty housing, non-credit continuing education classes, and various campus programs. Further, the Foundation performs accounting and business administration services for all of its operations, as well as for certain University Educational Trust operations. The Foundation is governed by a board of directors comprised of representatives from university and auxiliary administration, faculty, the student body and the community.

Cal Poly Pomona University Educational Trust

The Cal Poly Pomona University Educational Trust (UET) was established in 1994 as a non-profit public benefit corporation to be the university's primary external fund-raising, funds-management and revenue-distribution arm. The UET oversees endowments and partners with public and private organizations to generate resources that help provide students with an exceptional education. The UET does not have employees and relies on Foundation and campus personnel for accounting and administrative support services. The UET is governed by a board of directors comprised of representatives from the university administration, faculty, student body and community.

Associated Students, Incorporated, California State Polytechnic University, Pomona

Associated Students, Incorporated, California State Polytechnic University, Pomona (ASI) was established in 1963 as a non-profit public benefit corporation to create, promote, and fund social, cultural, and recreational programs and facilities both on campus and in the community; advocate for student interests; and participate in shared governance. ASI owns and operates the Bronco Student Center, which includes the Bronco Fitness Center, a food court, study lounges, meeting rooms, business services, and a games room. ASI also operates the Children's Center and provides other programs such as the Bronco Events and Activities Team, which brings live entertainment to campus and co-sponsors intramural sports, outdoor adventures, and other events with various campus organizations. ASI is governed by a student board of directors, which is assisted by an advisory council comprised of representatives from campus and ASI administration.

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 2007/08 and 2008/09 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, 2009, to July 2, 2010. 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.

INTRODUCTION

A preliminary survey of CSU auxiliaries at each campus was used to identify risks. Risk was defined as the probability that an event or action would adversely affect the auxiliary and/or the campus. Our assessment of risk was based upon a systematic process, using professional judgments on probable adverse conditions and/or events that became the basis for development of our final scope. We sought to assign higher review priorities to activities with higher risks. As a result, not all risks identified were included within the scope of our review.

Based upon this assessment of risks, we specifically included within the scope of our review the following:

The Cal Poly Pomona Foundation, Inc.

- ▶ Fiscal Compliance
- ▶ Operational Compliance
- ▶ Campus Oversight and Control
- ▶ Segregation of Duties
- ▶ Cash Receipts and Handling
- ▶ Petty Cash and Change Funds
- ▶ Investments
- ▶ Fees, Revenues, and Receivables
- ▶ Purchasing and Accounts Payable
- ▶ Personnel and Payroll
- ▶ Property and Equipment
- ▶ Trusts and Other Liabilities
- ▶ Auxiliary Programs
- ▶ Information Technology

Cal Poly Pomona University Educational Trust

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

Associated Students, Incorporated, California State Polytechnic University, Pomona

- ▶ Operating and Administrative Agreements
- ▶ Facilities Agreements
- ▶ Corporate Governance
- ▶ Fiscal Compliance

Associated Students, Incorporated, California State Polytechnic University, Pomona (cont.)

- ▶ Operational Compliance
- ▶ Program Compliance
- ▶ Campus Oversight and Control
- ▶ Segregation of Duties
- ▶ Cash Receipts and Handling
- ▶ Petty Cash and Change Funds
- ▶ Investments
- ▶ Fees, Revenues, and Receivables
- ▶ Purchasing and Accounts Payable
- ▶ Personnel and Payroll
- ▶ Property and Equipment
- ▶ Trusts and Other Liabilities
- ▶ Information Technology

Campus

- ▶ Campus Oversight and Control
- ▶ Information Technology

We have not performed any auditing procedures beyond July 2, 2010. 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

FEES, REVENUES, AND RECEIVABLES

Campus administration of matching gifts for The Cal Poly Pomona Foundation, Inc. (Foundation) and Cal Poly Pomona University Education Trust (UET) required improvement.

We reviewed ten Foundation and five UET matching gifts processed by the campus and found that:

- ▶ Campus matching gift procedures did not require that a documented dual review be performed to ensure that matching funds are directed to the appropriate university recipient and administered in accordance with corporate donor requirements.
- ▶ Corporate donation matching policies were not kept on file with the matching gift transaction documentation to show evidence of review and enforcement of applicable policies.
- ▶ Gift acknowledgement letters for donations subject to a matching gift were not sent to donors in eight instances.

The *Compilation of Policies and Procedures for California State University Auxiliary Organizations* sets sound business practice guidelines for auxiliary organizations operating within the California State University (CSU) system. Section 8.9.3, *Donations, Program Service Fees, Other Income*, states that the auxiliary should establish a written recordkeeping system that enables gifts to be properly received, recorded, and acknowledged in accordance with donor restrictions and other requirements.

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 matching gifts undergo a documented dual review process to ensure that funds are appropriately deposited to an eligible recipient in accordance with corporate donor requirements.

The Foundation and UET *Matching Gift Procedures* state that the office of gift processing is responsible for ensuring that all matching gift forms received are processed in a timely and accurate fashion. Donor participation in the matching gift process is reinforced by thank you letters.

The associate vice president of finance and administrative affairs and associate chief financial officer (CFO) stated that electronic resources were utilized to ensure that matching funds were directed to the appropriate campus recipient and administered in accordance with corporate donor requirements but the corresponding procedures had not been documented. He further stated that failure to send gift acknowledgement letters to donors was due to oversight.

Insufficient administration of matching gifts increases the risk of misdirected funds, campus exposure to liabilities from non-compliance with corporate donor policies, and reduced participation in the matching gifts program.

Recommendation 1

We recommend that the campus:

- a. Update matching gift procedures to require that a documented dual review be performed to ensure that funds are administered in accordance with corporate donor requirements.
- b. Maintain corporate donation matching policies on file with the matching gift transaction documentation to show evidence of review and enforcement of applicable policies.
- c. Ensure gift acknowledgement letters are sent to donors who participate in the matching gifts program.

Campus Response

We concur.

- a. University advancement will update its procedures to ensure a dual review is performed and funds are designated based on the donor's intent.
- b. The office of gift processing will review its corporate matching gift policies on file and update its files accordingly.
- c. University advancement will ensure that gift acknowledgement letters are sent to donors.

Timeline: January 31, 2011

THE CAL POLY POMONA FOUNDATION, INC.

OPERATING AND ADMINISTRATIVE AGREEMENTS

Certain business arrangements between The Cal Poly Pomona Foundation, Inc. (Foundation) and customers were not supported by fully executed agreements.

We reviewed three catering agreements with customers and found that none of the three agreements were signed by all appropriate parties.

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 agreements that are signed by all appropriate parties.

The Foundation senior managing director and CFO stated that the unsigned agreements were due to management oversight.

The absence of fully executed agreements increases the risk of misunderstanding and miscommunication regarding rights and responsibilities and subjects the auxiliary and CSU to potential liability.

Recommendation 2

We recommend that the Foundation promptly obtain the missing signatures and ensure that all future agreements are fully executed.

Campus Response

We concur. We have obtained the missing signatures, and in the future, we will ensure that all catering agreements are fully executed.

Timeline: February 28, 2011

OPERATIONAL COMPLIANCE

Foundation merchandise perpetual inventory records did not always agree with stock on hand.

We found that discrepancies existed between merchandise perpetual inventory records and stock on hand. Three of eight inventory classes we reviewed disclosed inventory shortages totaling \$709 between perpetual inventory records and stock on hand.

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 merchandise perpetual inventory records.

The Foundation assistant director of the book division stated that one inventory discrepancy was not located during the semi-annual physical inventory and the other was due to two SKUs assigned to the inventory item: one if the item was sold as a textbook and one if the item was sold as a general book. She added that inventory discrepancies such as these are corrected during the semi-annual physical inventory process.

Insufficient administration of merchandise perpetual inventory records increases the risk of loss or misappropriation of merchandise.

Recommendation 3

We recommend that the Foundation review and revise its inventory management controls to ensure the accuracy of merchandise perpetual inventory records.

Campus Response

We concur. We will review and revise our inventory management controls to ensure the accuracy of merchandise perpetual inventory records.

Timeline: February 28, 2011

TRUSTS AND OTHER LIABILITIES

The Foundation had not completed a review of its Foundation/campus program accounts to determine the source of deposits, and therefore, certain campus program revenues may be inappropriately deposited to, and held in custody by, the Foundation.

The Foundation financial statements as of June 30, 2009, indicated that the Foundation administered and maintained 586 Foundation/campus program accounts totaling \$20,428,997. We reviewed 50 of these accounts and found that state/campus operating funds totaling \$1,129,750 may be inappropriately held by the Foundation in 18 of the 50 accounts reviewed.

Each CSU campus shall administer its General and non-General Fund receipts to ensure that the funds are held in proper accounts. Auxiliaries may not accept state funds with the intent of administering them as an agent of the university. Payment for services is the only instance where state funds may be accepted into an auxiliary organization's account.

The Foundation senior managing director and CFO stated that the Foundation program accounts are renewed every three years, and the renewal process requires a review of the program's purpose/goal(s), benefit(s), and source(s) and use(s) of funds to ensure compliance with Executive Order (EO) 919, *Policy Governing Non-General Fund Receipts*, dated October 15, 2004. He further stated that the Foundation program accounts were believed to be appropriately held and administered by the Foundation in accordance with the *Compilation of Policies and Procedures for the California State University Auxiliary Organizations*, but he acknowledged that full reimbursement to the university of all related indirect costs, including salary expenses, was not always performed.

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

Recommendation 4

We recommend that the Foundation:

- a. Complete a review of all campus programs and projects accounts and determine, within 60 days, which accounts contain state/campus operating funds.
- b. Certify that none of the following specific and similar monies reside in Foundation accounts:
 - Contracts and grants awarded to the university.
 - Foundation net operating surplus designated for use by the campus.
 - Fees for continuing education courses provided by the university.
 - Fees for university events, workshops, conferences, institutes, special projects, and programs.
 - Athletics funds/fees/revenues other than gifts/donations.
 - Investment income from state funds/fees/revenues.
 - Reimbursements for services and products provided to auxiliary enterprises and organizations paid from General Fund and/or CSU operating fund monies.
 - Rental fees for university facilities, except those facilities that have been leased to the auxiliary by the campus.
 - Student fees and other general fees pursuant to the CSU student fee policy.
 - Monies held by the Foundation via contract with the campus.

- c. Submit to the Office of the University Auditor, within 60 days, a list of those accounts that have been deemed appropriate to remain in the custody of the Foundation and comprehensive documentation to support the sources of funds for those accounts.
- d. Move those state funds identified in “a” above to campus accounts within six months.

Campus Response

We have conducted a review of all the campus programs and projects accounts and received an approval for an extension of time pending the results and recommendations of the Auxiliary Task Force on Executive Order 1052 and policy regarding auxiliary organizations.

Timeline: June 30, 2011

INFORMATION TECHNOLOGY

EQUIPMENT TRACKING AND SECURITY

The Foundation did not ensure adequate tracking and security over computing equipment (computers, servers, etc.) obtained from grant funding that may have contained protected information.

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 security assessment of auxiliary systems and inventory of protected information residing on systems.

The Foundation management information systems (MIS) manager stated that the Foundation uses an asset management tracking system (Numara Track-it) to secure all information technology (IT) assets, except for IT assets obtained from grant funding. The Foundation senior managing director and CFO stated that IT assets obtained from grants and contracts funding are under the purview of the campus IT support groups where the systems are used.

Inadequate security and accountability of computing equipment, especially equipment that contains personal confidential information or that has accessibility to such protected information, increases the risk of loss and inappropriate use of auxiliary resources and increases exposure to information security breaches.

Recommendation 5

We recommend that the Foundation ensure the tracking and security of all computing equipment purchased from grant funding that may contain protected data.

Campus Response

We concur. A procedure will be developed to ensure information residing on computer equipment obtained from grant funding is tracked and secured by an asset management tracking process.

Timeline: June 30, 2011

DISASTER RECOVERY PLAN

The Foundation IT disaster recovery plan (DRP) did not reference an alternate processing facility nor an escalation/notification process.

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 8.10, *Computer Controls*, states that auxiliary organizations should establish written policies and practices that ensure secure computer system operations, including backup and recovery mechanisms and disaster recovery programs.

The Foundation MIS manager stated that it was generally understood that existing facilities in other Foundation buildings would accommodate their needs in a recovery mode and that escalation/notification procedures were not currently in the IT DRP, but that such information was available in separate documents.

The absence of a comprehensive IT DRP increases the risk that business and data processing operations may not be restored within a reasonable time frame in the event of an emergency or disaster.

Recommendation 6

We recommend that the Foundation update its IT DRP to include an alternate processing facility/facilities and escalation/notification process.

Campus Response

We concur. The Foundation will update its IT DRP to include information on alternate processing facilities and the escalation/notification process.

Timeline: June 30, 2011

CAL POLY POMONA UNIVERSITY EDUCATIONAL TRUST

FISCAL COMPLIANCE

The Cal Poly Pomona University Education Trust (UET) could not provide documented evidence of full reimbursement to the CSU Operating Fund for direct and indirect costs incurred by the university for services provided by certain campus staff. This is a repeat finding from a prior Auxiliary Organizations audit.

EO 1000, *Delegation of Fiscal Authority and Responsibility*, dated July 1, 2007, requires the campus president to ensure that costs incurred by the CSU Operating Fund for services, products, and facilities provided to other CSU funds and to auxiliary organizations are properly and consistently recovered with cash and/or a documented exchange of value. Allowable direct costs incurred by the CSU Operating Fund shall be allocated and recovered based on actual costs incurred. Allowable and allocable indirect costs shall be allocated and recovered according to a cost allocation plan that utilizes a documented and consistent methodology including identification of indirect costs and a basis for allocation. The campus chief financial officer, or designee, shall annually approve and implement the cost allocation plan.

The UET executive director stated that UET had annually contributed capital campaign funds to the campus but had not formally documented the reimbursement of direct and indirect costs associated with the utilization of certain campus staff.

Failure to document full reimbursement for all costs associated with services provided by certain campus staff could result in the CSU Operating Fund not being properly reimbursed for services provided to the auxiliary organization.

Recommendation 7

We recommend that UET document its reimbursements to the CSU Operating Fund to demonstrate full reimbursement for direct and indirect costs incurred by the university for services provided by certain campus staff.

Campus Response

We concur. Each fiscal year, the UET will fully reimburse the CSU Operating Fund for direct and indirect costs associated with services provided by campus staff.

Timeline: January 31, 2011

ENDOWMENT ADMINISTRATION

UET endowment agreements did not delineate management fees.

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 UET executive director stated that management was unaware that management fees needed to be included in endowment agreements.

Failure to delineate management fees within endowment agreements increases auxiliary exposure to liability.

Recommendation 8

We recommend that UET revise its endowment agreements to specifically address UET management fees.

Campus Response

We concur. The UET will revise its endowment agreements to specifically address UET management fees.

Timeline: January 31, 2011

ASSOCIATED STUDENTS, INCORPORATED,
CALIFORNIA STATE POLYTECHNIC UNIVERSITY, POMONA

FACILITIES AGREEMENTS

Certain sublease agreements between Associated Students, Incorporated, California State Polytechnic University, Pomona (ASI) and third-party lessees did not include appropriate indemnification provisions.

We found that the indemnification provisions in the sublease agreements with third-party lessees did not specifically indemnify the campus and the State of California.

The California State University Risk Management Authority (CSURMA) Auxiliary Organization Risk Management Authority (AORMA) *Policy & Procedure L-5* states that it is the policy of the CSURMA AORMA Self-Insured Liability Program that member organizations will protect CSURMA program assets by fully implementing the guidelines found in the Insurance Requirements in the Contracts Manual prepared by CSURMA's program administrator. This means that auxiliary organizations will require third-party contractors and vendors to provide appropriate indemnification, insurance, and documentation of coverage.

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

The ASI executive director stated that the auxiliary had used the model sublease agreements available on the chancellor's office website as its template for all sublease agreements entered into with third parties but did not realize that this model agreement does not apply to third parties.

The absence of appropriate indemnification provisions increases the risk of misunderstanding and miscommunication regarding rights and responsibilities and subjects the auxiliary and CSU to potential liability.

Recommendation 9

We recommend that ASI:

- a. Amend the cited agreements with appropriate indemnification provisions.
- b. Ensure that all future agreements include appropriate indemnification provisions.

Campus Response

We concur.

- a. ASI will amend the cited agreements with appropriate indemnification provisions.
- b. ASI will ensure that all future agreements include appropriate indemnification provisions.

Timeline: January 31, 2011

CASH RECEIPTS AND HANDLING

ASI had not completed bank account reconciliations since March 2010.

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 ASI director of business services stated that bank account reconciliations had not been completed due to a transition to a new accounting system during March 2010.

Untimely bank account reconciliations limit the auxiliary's ability to detect errors and irregularities and compromise accountability.

Recommendation 10

We recommend that ASI prepare bank account reconciliations in a timely manner.

Campus Response

We concur. ASI will prepare the bank account reconciliations in a timely manner.

Timeline: January 31, 2011

FEES, REVENUES, AND RECEIVABLES

ASI had not generated an accounts receivable aging report for management review since March 2010.

The *Compilation of Policies and Procedures for California State University Auxiliary Organizations* sets sound business practice guidelines for auxiliary organizations operating within the CSU system. Section 8.9.4, *Receivables*, states that the auxiliary should establish a written system to invoice

customers promptly, in a consistent manner, while exercising due diligence in the follow-up and collection of past due accounts. The compilation further states that the auxiliary should reconcile subsidiary receivables ledgers to the general ledger on a timely basis with independent management review.

The ASI director of business services stated that an accounts receivable aging report had not been completed due to a transition to a new accounting system during March 2010.

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, and compromises accountability.

Recommendation 11

We recommend that ASI generate accounts receivable aging reports for management review in a timely manner.

Campus Response

We concur. ASI will generate accounts receivable aging reports for management review in a timely manner.

Timeline: January 31, 2011

PERSONNEL AND PAYROLL

Employee separation documentation was not always completed at ASI.

We reviewed five recent employee separations and found that required separation documentation was not on file in two instances.

The *ASI Personnel Manual* states that the supervisor of the terminating employee is responsible for initiating the exit checklist and notifying the employee that the checkout procedures shall be completed before the final paycheck will be released. The exit checklist shall be forwarded to the human resources office as soon as possible to facilitate the completion of the checkout procedures.

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

The ASI director of business services stated that the lack of sufficient documentation for employee separations was due to oversight.

Insufficient control over employee separations increases the risk of loss of auxiliary funds and inappropriate use of auxiliary resources.

Recommendation 12

We recommend that ASI ensure the completion of all required employee separation documentation.

Campus Response

We concur. The required employee separation documentation will be completed by ASI.

Timeline: January 31, 2011

APPENDIX A: PERSONNEL CONTACTED

<u>Name</u>	<u>Title</u>
CAMPUS	
J. Michael Ortiz	President
Edwin Barnes, III	Vice President, Administrative Affairs and Chief Financial Officer (CFO)
Darwin Labordo	Associate Vice President, Finance and Administrative Affairs and Associate CFO
Scott Warrington	Vice President, University Advancement

THE CAL POLY POMONA FOUNDATION, INC.

Clint Aase	Assistant Director, General Merchandise
Michael Au-Yeung	General Financial Manager
Debra Chavez	Financial Systems Accountant
Anh Nita Chen	Financial Systems Manager
Sue Chiazza	Business Manager of Commercial Operations
Suzanne Donnelly	Assistant Director, Book Division
Cameron Edmonds	Director, Kellogg West Conference Center and Hotel
U.J. Fan	Dean, College of the Extended University
Ken Fisher	Director of Housing
Sharon Fradella	Associate Director of Employment Services
Dennis Miller	Director of Employment Services
Haleh Minakary	General Business Manager
Michael Nunez	General Accountant
Debra Poe	Executive Administrative Assistant
David Prenovost	Senior Managing Director and CFO
Lavena Reyes	Accounts Specialist
Brett Roth	Director of Dining Services
Debbie Schroeder-Linthicum	Manager of Contracts and Grants
Paul Storey	Executive Director
Randy Townsend	Management Information Systems Manager
Sandra Vaughan-Acton	Director, Real Estate Development
Karen Ward	Director of Bookstore Operations

CAL POLY POMONA UNIVERSITY EDUCATIONAL TRUST

Francine Ramirez	Executive Assistant
Scott Warrington	Executive Director

ASSOCIATED STUDENTS, INCORPORATED, CALIFORNIA STATE POLYTECHNIC UNIVERSITY, POMONA

Yvonne Bailey	Director, Children's Center
Ivonne Cabezas	Accounting Analyst
Cora Culla	Executive Director
Clarence Fong	Director of Business Services
Melvin Galang	Accounting Technician

**ASSOCIATED STUDENTS, INCORPORATED,
CALIFORNIA STATE POLYTECHNIC UNIVERSITY, POMONA (CONT.)**

Julie Gonzales	Fund Specialist
Ginny Mansfield	Human Resources Assistant
Jocelle Marucut	Accounts Payable Coordinator
Harry Nguyen	Local Area Network Coordinator
Pat Smith	Accounts Receivable Vault Cashier
Eliane Townsend	Fund Specialist
Powell Velasco	Associate 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.



Associate Vice President
Finance and Administrative Services

December 15, 2010

RECEIVED
UNIVERSITY AUDITOR

DEC 17 2010

THE CALIFORNIA STATE
UNIVERSITY

Mr. Larry Mandel, University Auditor
Office of the Auditor
The California State University
400 Golden Shore, Suite 210
Long Beach, CA 90802

Dear Mr. Mandel:

Subject: Campus Response to Recommendations of Auxiliary Organizations 10-03

Enclosed is California State Polytechnic's campus response to the Auxiliary Organizations Audit 10-03. We appreciate the effort you and your staff have made to indicate areas where our procedures or internal controls could be strengthened. We will take the necessary actions to address the report's recommendations.

Please direct questions concerning the response to Darwin Labordo, Associate Vice President of Finance and Administrative Services and Associate Chief Financial Officer at 909-869-2008 or dlabordo@csupomona.edu.

Sincerely,

Edwin A. Barnes, III, Vice President
Administrative Affairs

Cc: J. Michael Ortiz, President
Cora Culla, Executive Director, ASI
Darwin Labordo, Associate Vice President, Finance & Administrative Services
David Prenovost, CFO, Financial Services, Cal Poly Foundation
G. Paul Storey, Executive Director, Cal Poly Foundation
Scott Warrington, Vice President, University Advancement
Joice Xiong, University Auditor

Enclosure

AUXILIARY ORGANIZATIONS

**CALIFORNIA STATE POLYTECHNIC UNIVERSITY,
POMONA**

Audit Report 10-03

CAMPUS

FEES, REVENUES, AND RECEIVABLES

Recommendation 1

We recommend that the campus:

- a. Update matching gift procedures to require that a documented dual review be performed to ensure that funds are administered in accordance with corporate donor requirements.
- b. Maintain corporate donation matching policies on file with the matching gift transaction documentation to show evidence of review and enforcement of applicable policies.
- c. Ensure gift acknowledgement letters are sent to donors who participate in the matching gifts program.

Campus Response

We concur.

- a. University Advancement will update its procedures to ensure a dual review is performed and funds are designated based on the donor's intent.
- b. The Office of Gift Processing will review its corporate matching gift policies on file and update its files accordingly.
- c. University Advancement will ensure that gift acknowledgement letters are sent to donors.

Timeline: January 31, 2011

THE CAL POLY POMONA FOUNDATION, INC.

OPERATING AND ADMINISTRATIVE AGREEMENTS

Recommendation 2

We recommend that the Foundation promptly obtain the missing signatures and ensure that all future agreements are fully executed.

Campus Response

We concur. We have obtained the missing signatures and in the future we will ensure that all catering agreements are fully executed.

Timeline: February 28, 2011

OPERATIONAL COMPLIANCE

Recommendation 3

We recommend that the Foundation review and revise its inventory management controls to ensure the accuracy of merchandise perpetual inventory records.

Campus Response

We concur. We will review and revise our inventory management controls to ensure the accuracy of merchandise perpetual inventory records.

Timeline: February 28, 2011

TRUSTS AND OTHER LIABILITIES

Recommendation 4

We recommend that the Foundation:

- a. Complete a review of all campus programs and projects accounts and determine, within 60 days, which accounts contain state/campus operating funds.
- b. Certify that none of the following specific and similar monies reside in Foundation accounts:
 - Contracts and grants awarded to the university.
 - Foundation net operating surplus designated for use by the campus.
 - Fees for continuing education courses provided by the university.

- Fees for university events, workshops, conferences, institutes, special projects, and programs.
 - Athletics funds/fees/revenues other than gifts/donations.
 - Investment income from state funds/fees/revenues.
 - Reimbursements for services and products provided to auxiliary enterprises and organizations paid from General Fund and/or CSU operating fund monies.
 - Rental fees for university facilities, except those facilities that have been leased to the auxiliary by the campus.
 - Student fees and other general fees pursuant to the CSU student fee policy.
 - Monies held by the Foundation via contract with the campus.
- c. Submit to the Office of the University Auditor, within 60 days, a list of those accounts that have been deemed appropriate to remain in the custody of the Foundation and comprehensive documentation to support the sources of funds for those accounts.
- d. Move those state funds identified in “a” above to campus accounts within six months.

Campus Response

We have conducted a review of all the campus programs and projects accounts and received an approval for an extension of time pending the results and recommendations of the Auxiliary Task Force on Executive Order 1052 and policy regarding auxiliary organizations.

Timeline: June 30, 2011

INFORMATION TECHNOLOGY

EQUIPMENT TRACKING AND SECURITY

Recommendation 5

We recommend that the Foundation ensure the tracking and security of all computing equipment purchased from grant funding that may contain protected data.

Campus Response

We concur. A procedure will be developed to insure information residing on computer equipment obtained from grant funding is tracked and secured by an asset management tracking process.

Timeline: June 30, 2011

DISASTER RECOVERY PLAN

Recommendation 6

We recommend that the Foundation update its IT DRP to include an alternate processing facility/facilities and escalation/notification process.

Campus Response

We concur. The Foundation will update its IT DRP to include information on alternate processing facilities and the escalation/notification process.

Timeline: June 30, 2011

CAL POLY POMONA UNIVERSITY EDUCATIONAL TRUST

FISCAL COMPLIANCE

Recommendation 7

We recommend that UET document its reimbursements to the CSU Operating Fund to demonstrate full reimbursement for direct and indirect costs incurred by the university for services provided by certain campus staff.

Campus Response

We concur. Each fiscal year, the UET will fully reimburse the CSU Operating Fund for direct and indirect costs associated with services provided by campus staff.

Timeline: January 31, 2011

ENDOWMENT ADMINISTRATION

Recommendation 8

We recommend that UET revise its endowment agreements to specifically address UET management fees.

Campus Response

We concur. The UET will revise its endowment agreements to specifically address UET management fees.

Timeline: January 31, 2011

ASSOCIATED STUDENTS, INCORPORATED,
CALIFORNIA STATE POLYTECHNIC UNIVERSITY, POMONA

FACILITIES AGREEMENTS

Recommendation 9

We recommend that ASI:

- a. Amend the cited agreements with appropriate indemnification provisions.
- b. Ensure that all future agreements include appropriate indemnification provisions.

Campus Response

We concur.

- a. ASI will amend the cited agreements with appropriate indemnification provisions.
- b. ASI will ensure that all future agreements include appropriate indemnification provisions.

Timeline: January 31, 2011

CASH RECEIPTS AND HANDLING

Recommendation 10

We recommend that ASI prepare bank account reconciliations in a timely manner.

Campus Response

We concur. ASI will prepare the bank account reconciliations in a timely manner.

Timeline: January 31, 2011

FEES, REVENUES, AND RECEIVABLES

Recommendation 11

We recommend that ASI generate accounts receivable aging reports for management review in a timely manner.

Campus Response

We concur. ASI will generate accounts receivable aging reports for management review in a timely manner.

Timeline: January 31, 2011

PERSONNEL AND PAYROLL

Recommendation 12

We recommend that ASI ensure the completion of all required employee separation documentation.

Campus Response

We concur. The required employee separation documentation will be completed by ASI.

Timeline: January 31, 2011

THE CALIFORNIA STATE UNIVERSITY
OFFICE OF THE CHANCELLOR

BAKERSFIELD

CHANNEL ISLANDS

January 14, 2011

CHICO

MEMORANDUM

DOMINGUEZ HILLS

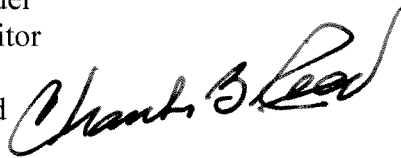
EAST BAY

TO: Mr. Larry Mandel
University Auditor

FRESNO

FULLERTON

FROM: Charles B. Reed
Chancellor



HUMBOLDT

SUBJECT: Draft Final Report 10-03 on *Auxiliary Organizations*,
California State Polytechnic University, Pomona

LONG BEACH

LOS ANGELES

In response to your memorandum of January 14, 2011, I accept the response as submitted with the draft final report on *Auxiliary Organizations*, California State Polytechnic University, Pomona.

MARITIME ACADEMY

MONTEREY BAY

NORTHRIDGE

POMONA

CBR/amd

SACRAMENTO

SAN BERNARDINO

SAN DIEGO

SAN FRANCISCO

SAN JOSÉ

SAN LUIS OBISPO

SAN MARCOS

SONOMA

STANISLAUS