AUXILIARY ORGANIZATIONS

CALIFORNIA STATE UNIVERSITY,
STANISLAUS

Audit Report 10-05
January 26, 2011

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ABBREVIATIONS

ABS California State University, Stanislaus Auxiliary and Business Services
AORMA Auxiliary Organization Risk Management Authority
ASI Associated Students Incorporated of California State University Stanislaus
CD Certificate of Deposit
CFO Chief Financial Officer
CSU California State University
CSURMA California State University Risk Management Authority
CSUS California State University, Stanislaus
EO Executive Order
Foundation California State University, Stanislaus Foundation
IRS Internal Revenue Service
RFIN Resolution of the Committee on Finance
UBI Unrelated Business Income
USU University Student Union of California State University, Stanislaus
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, Stanislaus (CSUS) 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 CSUS campus and its auxiliary organizations from July 26, 2010, through August 27, 2010, and made a study and evaluation of the system of internal compliance/internal control in effect as of August 27, 2010. This report represents our triennial review.

Our study and evaluation at California State University, Stanislaus Foundation 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 pledge accounts receivable and matching gifts. 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 August 27, 2010, taken as a whole, was sufficient to meet the objectives stated above.

Our study and evaluation at California State University, Stanislaus Auxiliary and Business Services 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 27, 2010, taken as a whole, was sufficient to meet the objectives stated above.

Our study and evaluation at Associated Students Incorporated of California State University Stanislaus 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 27, 2010, taken as a whole, was sufficient to meet the objectives stated above.

Our study and evaluation at the University Student Union of California State University, Stanislaus 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 27, 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.

**CALIFORNIA STATE UNIVERSITY, STANISLAUS FOUNDATION**

**OPERATING AND ADMINISTRATIVE AGREEMENTS [10]**

The operating agreement between the California State University, Stanislaus Foundation (Foundation) and the California State University Trustees expired on June 30, 2008, and had not been renewed.

**CORPORATE GOVERNANCE [10]**

The Foundation had not filed amended Bylaws with the chancellor’s office in a timely manner.
FISCAL COMPLIANCE [11]

The Foundation had not calculated sales tax collected from fund-raising events nor remitted the sales tax to the California Board of Equalization. This is a repeat finding from the prior Auxiliary Organizations audit.

FEES, REVENUES, AND RECEIVABLES [12]

Write-offs of pledge accounts receivable were not always properly authorized at the Foundation. In addition, administration of matching gifts at the Foundation needed 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, and reviews of corporate donor matching gift policies were not always adequately documented.

TRUSTS AND OTHER LIABILITIES [14]

Certain campus program revenues may be inappropriately deposited to, and held in custody by, the Foundation.

CALIFORNIA STATE UNIVERSITY, STANISLAUS
AUXILIARY AND BUSINESS SERVICES

OPERATING AND ADMINISTRATIVE AGREEMENTS [16]

Certain agreements between California State University, Stanislaus Auxiliary and Business Services (ABS) and third parties did not include appropriate indemnification provisions. This is a repeat finding from the prior Auxiliary Organizations audit.

OPERATIONAL COMPLIANCE [17]

ABS had not developed written policies and procedures to address the accounting and processing of investments.

ASSOCIATED STUDENTS INCORPORATED OF
CALIFORNIA STATE UNIVERSITY STANISLAUS

CORPORATE GOVERNANCE [18]

The dissolution clause in the Associated Students California State University Stanislaus (ASI) Articles of Incorporation was not in compliance with Title 5, as it did not state that a successor must be approved by the president of the campus and by the Board of Trustees. In addition, ASI had not filed amended Bylaws with the chancellor’s office in a timely manner. This is a repeat finding from the prior Auxiliary Organizations audit.
EXECUTIVE SUMMARY

SEGREGATION OF DUTIES [19]

Certain duties and responsibilities related to student payroll and personnel processing were not appropriately segregated at ASI.

PURCHASING AND ACCOUNTS PAYABLE [20]

Certain ASI student club account disbursements were not supported by sufficient and adequate documentation. This is a repeat finding from the prior Auxiliary Organizations audit.

PERSONNEL AND PAYROLL [22]

ASI did not perform a detailed, documented reconciliation of student employee timesheets and pay-rate adjustment records against ADP payroll records.

UNIVERSITY STUDENT UNION OF CALIFORNIA STATE UNIVERSITY, STANISLAUS

OPERATING AND ADMINISTRATIVE AGREEMENTS [23]

Certain business arrangements between the University Student Union of California State University, Stanislaus (USU) and ASI were not supported by a written agreement.

FACILITIES AGREEMENTS [24]

Certain sublease agreements between the USU and ASI and between the USU and the campus had expired and had not been renewed.

FISCAL COMPLIANCE [25]

Unrelated business income for services provided in conjunction with facilities rentals to community members was not properly accounted for or reported by the USU.

SEGREGATION OF DUTIES [26]

Certain duties and responsibilities related to student payroll and personnel processing were not appropriately segregated at the USU.

CASH RECEIPTS AND HANDLING [26]

The USU cash receipts were not always deposited in a timely manner, and safes were not adequately controlled.
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.

California State University, Stanislaus Foundation

The California State University, Stanislaus Foundation (Foundation) was established in 1998 as a non-profit public benefit corporation responsible for the receipt, acknowledgment, and oversight of private gifts to the university. The original Foundation was established in 1960 as the Stanislaus State College Foundation, and it retained that name until 1985, when it became the California State University Stanislaus Foundation. The name was changed again in 1998 to California State University, Stanislaus Auxiliary and Business Services, at which time the current-day Foundation was established. The
INTRODUCTION

Foundation conducts fundraising activities, identifies and cultivates prospective donors, and supports the faculty and administration in the development of new and innovative programs. It is governed by a board of directors composed of university administration, faculty, alumni, community members, and one student representative. The Foundation does not have employees and relies on campus personnel from university advancement and financial services for administrative and accounting support services.

California State University, Stanislaus Auxiliary and Business Services

California State University, Stanislaus Auxiliary and Business Services (ABS) was established in 1960 as a non-profit public benefit corporation and operated under the name Stanislaus State College Foundation until 1985, at which point its name was changed to California State University Stanislaus Foundation. In 1998, the name was changed to its current designation when the present-day Foundation was established. ABS is charged with enhancing the mission of the university by actively managing and developing commercial enterprises that benefit the campus community and by prudently managing and investing auxiliary assets. It is also responsible for administering bookstore operations, dining and vendor services, the Warrior Card, the residential life village, and property management, as well as providing accounting services. ABS has outsourced bookstore operations, dining services, and administration of the Warrior Card to third-party vendors and recently outsourced its accounting services to the campus. ABS is governed by a board of directors composed of student, faculty, alumni, university administration, and community members. ABS does not have employees and relies on campus personnel for administrative and accounting support services.

Associated Students Incorporated of California State University Stanislaus

Associated Students Incorporated of California State University Stanislaus (ASI) was established in 1991 as a non-profit public benefit corporation to provide student leadership, self-governance, civic and cultural development opportunities, and student activities that promote university pride and spirit, as well as to encourage students to get involved on campus. ASI programs include recreational sports and wellness activities, maintenance of a student lounge at the Stockton Center, numerous special events, and administration of student club accounts. ASI is governed by the student senate, which is composed of elected/appointed students who are advised by non-voting faculty and administration members. ASI employs an executive director (who also serves as the University Student Union executive director), an assistant director, a recreation and wellness coordinator, and an administrative assistant to manage daily operations. It relies on campus personnel for accounting services.

University Student Union of California State University, Stanislaus

The University Student Union of California State University, Stanislaus (USU) was established in 1994 as a non-profit public benefit corporation and operated under the name University Union of California State University, Stanislaus until 1999. The USU operates the student union facility as a student body center for the benefit of the students, faculty, staff, and alumni, in order to promote and assist the educational programs of the university. It is governed by a board of directors composed of representatives from the student body, university administration, faculty, and community. The USU employs an executive director who also serves as the ASI executive director, an administrative services
manager, and a facilities and reservations coordinator. It relies on campus personnel for accounting services.

**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 2008/09 and 2009/10 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, 2010, to August 27, 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.

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, Stanislaus Foundation**
- Operating and Administrative Agreements
- Facilities Agreements
- Corporate Governance
- Fiscal Compliance
- Operational Compliance
- Program Compliance
- Campus Oversight and Control
- Cash Receipts and Handling
- Investments
- Fees, Revenues, and Receivables
- Purchasing and Accounts Payable
- Trusts and Other Liabilities
- Endowment Administration

**California State University, Stanislaus Auxiliary and Business Services**
- Operating and Administrative Agreements
- Facilities Agreements
- Corporate Governance
- Fiscal Compliance
- Operational Compliance
- Program Compliance
- Campus Oversight and Control
- Segregation of Duties
- Cash Receipts and Handling
- Petty Cash and Change Funds
- Investments
- Fees, Revenues, and Receivables
- Purchasing and Accounts Payable
- Property and Equipment
INTRODUCTION

Associated Students Incorporated of California State University Stanislaus
- Operating and Administrative Agreements
- Facilities Agreements
- Corporate Governance
- Fiscal Compliance
- Operational Compliance
- Program Compliance
- Campus Oversight and Control
- Segregation of Duties
- Cash Receipts and Handling
- Petty Cash and Change Funds
- Investments
- Fees, Revenues, and Receivables
- Purchasing and Accounts Payable
- Personnel and Payroll
- Property and Equipment
- Trusts and Other Liabilities

University Student Union of California State University, Stanislaus
- Operating and Administrative Agreements
- Facilities Agreements
- Corporate Governance
- Fiscal Compliance
- Operational Compliance
- Program Compliance
- Campus Oversight and Control
- Segregation of Duties
- Cash Receipts and Handling
- Petty Cash and Change Funds
- Investments
- Fees, Revenues, and Receivables
- Purchasing and Accounts Payable
- Personnel and Payroll
- Property and Equipment

Campus
- Campus Oversight and Control
- Information Technology

We have not performed any auditing procedures beyond August 27, 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

CALIFORNIA STATE UNIVERSITY, STANISLAUS FOUNDATION

OPERATING AND ADMINISTRATIVE AGREEMENTS

The operating agreement between the California State University, Stanislaus Foundation (Foundation) and the California State University (CSU) Trustees expired on June 30, 2008, and had not been renewed.

Title 5 §42501 states 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 Foundation executive director stated that the agreement was not renewed due to oversight and that a newly drafted agreement is currently being reviewed by the chancellor’s office.

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

Recommendation 1

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

Campus Response

We concur. The Foundation renewed the operating agreement cited in September 2010. The Foundation has also implemented a process to ensure that future agreements are renewed in a timely fashion.

CORPORATE GOVERNANCE

The Foundation had not filed amended Bylaws with the chancellor’s office in a timely manner.

We found amendments to the Bylaws made on June 5, 2008, that had not been filed with the chancellor’s office.

The Compilation of Policies and Procedures for California State University Auxiliary Organizations Section 11.6.1, Reporting Changes in Articles of Incorporation (or Constitutions) and Bylaws, states that when an auxiliary organization makes changes to its Articles of Incorporation (or Constitution) or Bylaws, a complete amended copy is to be submitted to Financing and Treasury at the Office of the Chancellor within 30 calendar days. The submission should indicate the date the changes were approved by the governing board and/or members.
The Foundation executive director stated that the amended Bylaws had not been filed with the chancellor’s office due to oversight. Failure to file amendments to Bylaws in a timely manner increases the risk of misunderstandings and may increase legal liability.

**Recommendation 2**

We recommend that the Foundation promptly file the cited amendments with the chancellor’s office and develop a procedure to ensure that all future changes or amendments to Bylaws are filed within 30 calendar days.

**Campus Response**

We concur. The cited amendments were filed with the chancellor’s office in February 2011. The Foundation has also developed procedures to ensure that all future changes or amendments to Bylaws are filed with the chancellor’s office within 30 calendar days.

**FISCAL COMPLIANCE**

The Foundation had not calculated sales tax collected from fund-raising events nor remitted the sales tax to the California Board of Equalization. This is a repeat finding from the prior Auxiliary Organizations audit.

California Board of Equalization Publication 18, *Tax Tips for Nonprofit Organizations*, states, in part, that taxable activities commonly engaged in by non-profit and volunteer organizations include sales of items at rummage sales, bazaars, carnival booths, auctions, silent auctions, community events, and other fund-raisers. Tax applies to the sale of homemade items, commercially produced goods, and donated merchandise.

The Foundation executive director stated that the calculation and remittance of sales tax had been outsourced to the California State University, Stanislaus Auxiliary and Business Services and that the Foundation had not properly communicated such sales-tax liability to them.

Failure to calculate and remit sales tax for taxable activities increases the risk of tax penalties and interest.

**Recommendation 3**

We recommend that the Foundation ensure that sales tax from fund-raising events is calculated and remitted to the taxing authority.
Campus Response

We concur. The Foundation implemented a procedure to ensure that sales tax from fund-raising events is calculated and remitted to the taxing authority in January 2011.

FEES, REVENUES, AND RECEIVABLES

PLEDGE ACCOUNTS RECEIVABLE

Write-offs of pledge accounts receivable were not always properly authorized at the Foundation.

We reviewed five pledge receivable write-offs and found that in three instances, written approval of the vice president of university advancement was not obtained.

The Foundation’s Gift Processing Manual on written pledges, paragraph 7, states that pledges more than 180 days overdue must be reviewed by the appropriate director of development and/or the vice president of university advancement to determine whether or not to write off the pledges. It further states that Advancement Services will dishonor/inactivate delinquent pledges upon written approval of the vice president of university advancement.

The Foundation executive director stated that the documentation of donor intent to cancel a pledge was used as supporting documentation for a write-off.

The lack of proper authorization to write off pledge accounts receivable limits the auxiliary’s ability to detect errors and irregularities, increases the likelihood of loss of funds, and compromises accountability.

Recommendation 4

We recommend that the Foundation ensure that write-offs of pledge accounts receivable are properly authorized by the vice president of university advancement.

Campus Response

We concur. The Foundation implemented a procedure to ensure that write-offs to pledge accounts receivable are properly authorized by the vice president of university advancement and the executive director of the Foundation in November 2010.
MATCHING GIFTS

Administration of matching gifts at the Foundation needed improvement.

We reviewed ten matching gifts and found that:

- 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.

- A review of corporate donor matching gift policies had not been adequately documented in five instances.

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 state 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 executive director stated that a documented dual review process for corporate matching gifts had not been implemented because she was unaware of such requirements. She further stated that all corporate donor matching gift policies are kept on file and reviewed when filling out the corporate matching gift forms, and the failure to document such review was due to oversight.

Insufficient administration of matching gifts increases the likelihood of misdirected funds and campus exposure to liabilities from non-compliance with corporate donor policies.

Recommendation 5

We recommend that the Foundation:

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. Ensure that reviews of corporate donor matching gift policies are adequately documented to show evidence of review and to ensure compliance with corporate donor requirements.
Campus Response

We concur. The Foundation has updated matching gift procedures to require that a documented dual review be performed to ensure that funds are administered in accordance with corporate donor requirements. Additional reviews of corporate donor matching gift policies are adequately documented to show evidence of review and compliance with corporate donor requirements. Corrective actions for these recommendations were completed in February 2011.

TRUSTS AND OTHER LIABILITIES

Certain campus program revenues may be inappropriately deposited to, and held in custody by, the Foundation.

The Foundation financial statements as of June 30, 2010, indicated that the Foundation administered and maintained 202 campus program accounts totaling $2,947,524. We reviewed all 202 accounts and found that state/campus operating funds totaling $658,303 may be inappropriately held by the Foundation in 52 accounts of the 202 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 campus director of auxiliary business and financial services stated that a review/analysis of custodial trust accounts had been initiated to determine whether any state funds were being inappropriately held, but it had not yet been completed due to resource constraints. The campus’ required oversight of state/campus operating funds is limited when funds are deposited outside the custody of the chief financial officer (CFO).

Recommendation 6

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 trust 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, along with 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 concur. The Foundation has completed a comprehensive review of all campus program accounts and has identified which accounts contain state/campus operating funds. As a result, the Foundation transferred a total of 32 accounts in the amount of $554,882.84 to campus trust accounts in February 2011. The Foundation has also identified six accounts during the review in the amount of $5,405.21 that need additional research to determine appropriate treatment.

Expected date of completion: March 31, 2011
CALIFORNIA STATE UNIVERSITY, STANISLAUS
AUXILIARY AND BUSINESS SERVICES

OPERATING AND ADMINISTRATIVE AGREEMENTS

Certain agreements between California State University, Stanislaus Auxiliary and Business Services (ABS) and third parties did not include appropriate indemnification provisions. This is a repeat finding from the prior Auxiliary Organization audit.

We found that the indemnification provisions in the agreements with a bookstore management firm and an identification card management firm did not specifically indemnify the CSU Trustees, 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.

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, arriving out of, or in any way connected with the operations of the auxiliary.

The ABS director of university business services stated that during the negotiations of these two contracts, the specific wording required by the chancellor’s office in the indemnification clauses was overlooked.

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

Recommendation 7

We recommend that ABS:

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

We concur. ABS amended the two agreements cited to include the appropriate indemnification provisions in September 2010. ABS will also ensure that all future agreements include the appropriate indemnification clause.

OPERATIONAL COMPLIANCE

ABS had not developed written policies and procedures to address the accounting and processing of investments.

Title 5 §42401 and §42402 state 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 the accounting and processing of investments.

The ABS director of university business services stated that ABS has liquid cash reserves primarily invested in the Local Agency Investment Fund or short-term certificates of deposit (CD) for use as needed. She further stated that the ABS board of directors has participated in decision-making when CD investments were considered prudent. She added that the board indicated interest in the development of an appropriate investment policy, which was planned for development during fiscal year 2009/10; however, staff time was unavailable for development of such a policy.

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

Recommendation 8

We recommend that ABS develop written policies and procedures to address the accounting and processing of investments.

Campus Response

We concur. ABS is in the process of developing a policy addressing the accounting and processing of investments.

Expected date of completion: May 31, 2011
ASSOCIATED STUDENTS INCORPORATED OF CALIFORNIA STATE UNIVERSITY STANISLAUS

CORPORATE GOVERNANCE

DISSOLUTION OF AUXILIARY

The dissolution clause in the Associated Students California State University Stanislaus (ASI) Articles of Incorporation was not in compliance with Title 5, as it did not state that a successor must be approved by the president of the campus and the Board of Trustees.

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 the Board of Trustees.

The ASI executive director stated that he was unaware that the dissolution clause was not in compliance with Title 5.

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 that the corporation is dissolved.

Recommendation 9

We recommend that ASI revise its Articles of Incorporation so that the dissolution clause is in compliance with Title 5.

Campus Response

We agree that ASI should revise its Articles of Incorporation so that the dissolution clause is in compliance with Title 5. The revised ASI Articles of Incorporation including the appropriate dissolution clause cited above were sent to the Secretary of State and were returned from that office stamped ENDORSED-FILED in the office of the Secretary of State of the State of California. Confirmation from the Secretary of State was dated September 24, 2010, and stamped with the number A0709777. Corrective action for this recommendation was completed in September 2010.

BYLAWS

ASI had not filed amended Bylaws with the chancellor’s office in a timely manner. This is a repeat finding from the prior Auxiliary Organizations audit.

We found that:

- Amendments to the Bylaws made on May 25, 2010, and June 1, 2010, had not been filed with the chancellor’s office until they were noted during our review.
Amendments to the Bylaws made on December 1, 2009, and March 9, 2010, had been filed with the chancellor’s office on May 18, 2010.

The *Compilation of Policies and Procedures for California State University Auxiliary Organizations* Section 11.6.1, *Reporting Changes in Articles of Incorporation (or Constitutions) and Bylaws*, states that when an auxiliary organization makes changes to its Articles of Incorporation (or Constitution) or Bylaws, a complete amended copy is to be submitted to Financing and Treasury at the Office of the Chancellor within 30 calendar days. The submission should indicate the date the changes were approved by the governing board and/or members.

The ASI executive director stated that the auxiliary had failed to submit the amended copy of its Bylaws to the chancellor’s office within 30 days because it thought it was required to submit them within six months.

Failure to file amendments to Bylaws in a timely manner increases the risk of misunderstandings and may increase legal liability.

**Recommendation 10**

We recommend that ASI promptly file the cited amendments with the chancellor’s office and develop a procedure to ensure that all future changes or amendments to Bylaws are filed within 30 calendar days.

**Campus Response**

We concur that changes to ASI Bylaws should be filed with the chancellor’s office within 30 calendar days of any changes. The changes to the ASI Bylaws, approved by the ASI Senate on May 25, 2010, effective June 30, 2010, were reported to the chancellor’s office in February 2011. ASI Policy and Procedures state that any changes to the ASI Bylaws must be reported within 30 days of Senate approval of the change to the chancellor’s office.

**SEGREGATION OF DUTIES**

Certain duties and responsibilities related to student payroll and personnel processing were not appropriately segregated at ASI.

We found that one employee:

- Entered the number of hours worked.
- Added, deleted, and changed personnel records.
- Posted payroll entries to the ADP payroll system.
- Received payroll checks prior to the disbursement of those checks.
EO 698, *Board of Trustees Policy for The California State University Auxiliary Organizations*, dated March 3, 1999, states that the review of auxiliary organizations will be used to determine appropriate separation of duties, safeguarding of assets, and reliability and integrity of information.

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

The ASI executive director stated that duties and responsibilities related to student payroll and personnel processing were not properly segregated due to oversight.

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

**Recommendation 11**

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

**Campus Response**

We agree that segregation of duties for payroll and personnel processing functions is necessary to maintain internal control over the payroll function. Segregation of duties for certain student payroll and personnel processing functions have been in place since January 3, 2011.

**PURCHASING AND ACCOUNTS PAYABLE**

Certain ASI student club account cash disbursements were not supported by sufficient and appropriate documentation. This is a repeat finding from the prior Auxiliary Organizations audit.

We reviewed 15 student club cash disbursements and found that in two instances, student clubs did not provide adequate supporting documentation for travel-related expenses:

- One disbursement for the reimbursement of hotel and mileage/parking expenses, totaling $240 and $110, respectively, was not supported by receipts.

- One disbursement for the reimbursement of officer travel, totaling $349, was not supported by a travel expense claim.

The *ASI Student Organization Fund Disbursement Policy and Procedures* adopted on August 31, 2010, states that all original invoices and original receipts must be returned to the ASI vice president of finance within five business days after the completion of purchase.
The ASI Finance Policy Code states that receipts for all travel expenses must be submitted to the ASI director within seven days of return. In cases where receipts are not available, a written explanation will be submitted to the ASI vice president of finance.

The California State University, Stanislaus (CSUS) Travel Expense Claim Form instructions state that the traveler must submit to the travel office the Travel Expense Claim form and all the original receipts within 30 days of trip completion or reimbursement will not be paid.

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

The ASI executive director stated that student club accounts had not been controlled because of the assumption that fiduciary responsibility remained with the student clubs. He further stated that ASI had recently developed new policies and procedures requiring submission of sufficient supporting documentation.

The lack of sufficient and appropriate supporting documentation for travel-related expenses increases the risk of errors, irregularities, and misappropriation of funds.

Recommendation 12

We recommend that ASI:

a. Communicate to student club members the new cash disbursement policies and procedures regarding sufficient and appropriate supporting documentation.

b. Enforce accounts payable procedures to ensure that student club accounts are processed in accordance with campus and ASI accounts payable procedures.

Campus Response

We concur. ASI has taken action to communicate the new cash disbursement policies and procedures and enforce accounts payable procedures to ensure that student club accounts are processed in accordance with campus and ASI accounts payable procedures. The new Student Organization Trust Agreement Policy was approved by the senators at the August 31, 2010, ASI meeting, and subsequently several training sessions were conducted by the ASI vice president for finance with the student clubs. Each club officer also signed an agreement that they would adhere to established policy. Corrective actions for these recommendations were completed by November 2010.
PERSONNEL AND PAYROLL

ASI did not perform a detailed, documented reconciliation of student employee payroll timesheets and pay-rate adjustment records against ADP payroll records.

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

The *Compilation of Policies and Procedures for California State University Auxiliary Organizations* sets sound business practice guidelines for auxiliary organizations operating within the CSU system. Section 8.9.6, *Payroll*, states that the auxiliary should establish a written system that ensures proper authorization, approval, and documentation of new hires, changes in employment, salary and wage rates, and payroll deductions.

The ASI executive director stated that the insufficient reconciliation of student employee payroll records against ADP payroll records was due to oversight.

Insufficient reconciliation of timesheets and pay-rate adjustment records against ADP payroll records limits the auxiliary’s ability to detect errors and irregularities, increases the likelihood of loss of funds, and compromises accountability.

**Recommendation 13**

We recommend that ASI perform detailed, documented reconciliations of student employee payroll timesheets and pay-rate adjustment records against ADP payroll records.

**Campus Response**

We concur that a detailed reconciliation of payroll timesheets and pay-rate adjustment records should be performed against payroll records. ASI has implemented procedures in which the USU office manager reviews the data entry to confirm data was entered correctly and reviews biweekly and semimonthly payroll to confirm accuracy. These procedures were effective on January 3, 2011.
UNIVERSITY STUDENT UNION OF CALIFORNIA STATE UNIVERSITY, STANISLAUS

OPERATING AND ADMINISTRATIVE AGREEMENTS

Certain business arrangements between the University Student Union of California State University, Stanislaus (USU) and ASI were not supported by a written agreement.

We found that the following accounting services were provided without a written agreement:

- The USU funded ASI’s payroll with the expectation of subsequent reimbursement from ASI for their portion of the payroll.
- In certain instances, the USU processed expenses related to services provided to both the USU and ASI with the expectation of reimbursement from ASI for their portion of the expenses.

Title 5 §42401 and §42402 state 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 USU executive director stated that the lack of a written agreement between the USU and ASI was due to oversight.

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

Recommendation 14

We recommend that the USU promptly establish a written agreement with ASI for the cited accounting services.

Campus Response

We concur that USU should establish a written agreement with ASI for accounting services. Given the current organizational structure of ASI and USU, there are many shared expenses. It has become practice, depending upon the circumstances of the expense, to have one or the other organization pay for the expense and recharge the other organization. The written agreement (memorandum of understanding) between ASI and USU to codify this arrangement is being drafted.

Expected date of completion: March 31, 2011
FACILITIES AGREEMENTS

Certain sublease agreements between the USU and ASI and between the USU and the campus had expired and had not been renewed.

We found that:

- The sublease agreement between the USU and ASI for space occupied at the Student Union expired on June 30, 2009.
- The sublease agreement between the USU and the CSUS student affairs department for space occupied at the Student Union expired June 30, 2009.

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

The USU executive director stated that the delay in renewing these subleases was due to a disagreement in the terminology used to describe the charge per square foot of space leased.

The absence of current sublease agreements increases the risk of misunderstandings and miscommunication regarding rights and responsibilities.

**Recommendation 15**

We recommend that the USU promptly renew the sublease agreements with ASI and the campus and implement a process to ensure that future sublease agreements are renewed in a timely fashion.

**Campus Response**

We concur that sublease agreements with ASI and the campus should be renewed in a timely fashion. USU renewed the cited subleases in August 2010. A tracking system listing expiration dates of all leases, subleases, memorandums of understanding, and contracts has been developed and implemented to ensure these documents are executed according to schedule and signed on time by all parties. The responsibility for keeping the tracking system up-to-date belongs to the USU administrative manager. The responsibility to ensure these documents are executed according to schedule falls to the executive director.
FISCAL COMPLIANCE

Unrelated business income (UBI) for services provided in conjunction with facilities rentals to community members was not properly accounted for/reported by the USU. We found that the USU had not accounted for or tracked UBI for services provided in conjunction with facilities rentals to community members. Further, such service revenues specifically attributed to community members were not included in the Internal Revenue Service (IRS) Form 990T for 2008, 2009, and 2010.

Internal Revenue Code §512 through §514 defines an unrelated trade or business of an exempt organization as any trade of business, the conduct of which is not substantially related to the exercise or performance of its tax-exempt purpose. UBI in excess of $1,000 must be reported to the IRS, whether or not a tax liability is incurred. In addition, the organization’s tax-exempt status may be jeopardized if too large a portion of its revenue is derived from UBI.

Title 5 §42401 and §42402 state 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 establishment of a system to track and account for UBI.

The USU executive director stated that the failure to account for and track UBI was due to oversight.

Failure to properly account for, document, and report UBI increases the auxiliary’s exposure to potential penalties and actions by the IRS.

Recommendation 16

We recommend that the USU account for and track UBI earned from services provided in conjunction with facilities rentals to community members and file federal income tax returns as appropriate.

Campus Response

We agree that USU should account for and track UBI earned from services provided in conjunction with facilities rentals to community members and file federal income tax returns as appropriate. USU will implement a procedure to account for and track UBI.

Expected date of completion: March 31, 2011
SEGREGATION OF DUTIES

Certain duties and responsibilities related to student payroll and personnel processing were not appropriately segregated at the USU.

We found that one employee:

- Entered the number of hours worked.
- Added, deleted, and changed personnel records.
- Posted payroll entries to the ADP payroll 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 8.9.6, *Payroll*, states that the auxiliary should establish a written controls system that ensures payroll preparation is segregated from the general ledger function and other payroll functions such as hiring authorization, timekeeping, and distribution of checks.

The USU executive director stated that duties and responsibilities related to student payroll and personnel processing were not properly segregated due to oversight.

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 USU appropriately segregate certain student payroll and personnel processing functions or institute mitigating procedures approved by the campus CFO.

**Campus Response**

We agree that segregation of duties for payroll and personnel processing functions is necessary to maintain internal control over the payroll function. Segregation of duties for certain student payroll and personnel processing functions have been in place since January 3, 2011.

CASH RECEIPTS AND HANDLING

The USU cash receipts were not always deposited in a timely manner, and safes were not adequately controlled.
We found that:

- Cash and checks received by the USU were not transferred to university cashiering for deposit in a timely manner. The USU transferred cash receipts for deposit only twice a month. Monthly collections averaged $4,259 between January 2010 and June 2010.

- The USU did not maintain a log that listed the people who had access to its two safes and the dates on which the safe combinations were changed.

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

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

The USU executive director stated that both cash-handling weaknesses were due to oversight.

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

**Recommendation 18**

We recommend that the USU:

- Deposit cash receipts on a more frequent basis.

- Establish and maintain a log that lists the people who have access to the two safes and the dates on which the safe combinations are changed.

**Campus Response**

We concur. USU is developing and implementing a cash handling policy which addresses all aspects related to handling, depositing, and storing cash and checks on site.

Expected date of completion: March 31, 2011
APPENDIX A:
PERSONNEL CONTACTED

<table>
<thead>
<tr>
<th>Name</th>
<th>Title</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>CAMPUS</strong></td>
<td></td>
</tr>
<tr>
<td>Hamid Shirvani</td>
<td>President</td>
</tr>
<tr>
<td>Julie Benevedes</td>
<td>Controller</td>
</tr>
<tr>
<td>Susana Gajic-Bruyea</td>
<td>Vice President, University Advancement</td>
</tr>
<tr>
<td>Russell Giambelluca</td>
<td>Vice President, Business and Finance</td>
</tr>
<tr>
<td>Briquel Hutton</td>
<td>Director, Auxiliary Business and Financial Services</td>
</tr>
<tr>
<td>Regan Linderman</td>
<td>Assistant Director, Financial Reporting</td>
</tr>
<tr>
<td>Dale Texter</td>
<td>Assistant Vice President, Auxiliary Services</td>
</tr>
<tr>
<td>Claire Tyson</td>
<td>Associate Vice President, Financial Services</td>
</tr>
<tr>
<td>Nancy Bendickson</td>
<td>Accounting Technician I</td>
</tr>
<tr>
<td>Susana Gajic-Bruyea</td>
<td>Executive Director</td>
</tr>
<tr>
<td>Patrick Hunt</td>
<td>Manager, Advancement Services</td>
</tr>
<tr>
<td><strong>CALIFORNIA STATE UNIVERSITY, STANISLAUS FOUNDATION</strong></td>
<td></td>
</tr>
<tr>
<td>Kathy Holloway</td>
<td>Administrative Assistant</td>
</tr>
<tr>
<td>Byron Kamp</td>
<td>Executive Director</td>
</tr>
<tr>
<td>Mehran Khodabandeh</td>
<td>Vice President, Finance</td>
</tr>
<tr>
<td>Sean Newland</td>
<td>Recreation and Wellness Coordinator</td>
</tr>
<tr>
<td>Inner Pahal</td>
<td>President</td>
</tr>
<tr>
<td>Cesar Rumayor</td>
<td>Assistant Director</td>
</tr>
<tr>
<td><strong>ASSOCIATED STUDENTS INCORPORATED OF CALIFORNIA STATE UNIVERSITY STANISLAUS</strong></td>
<td></td>
</tr>
<tr>
<td>Tawn Gillihan</td>
<td>Executive Director</td>
</tr>
<tr>
<td>Inner Pahal</td>
<td>President</td>
</tr>
<tr>
<td>Claire Tyson</td>
<td>Associate Vice President, Financial Services</td>
</tr>
<tr>
<td><strong>UNIVERSITY STUDENT UNION OF CALIFORNIA STATE UNIVERSITY, STANISLAUS</strong></td>
<td></td>
</tr>
<tr>
<td>Melissa Goodman</td>
<td>Facilities and Reservations Coordinator</td>
</tr>
<tr>
<td>Byron Kamp</td>
<td>Executive Director</td>
</tr>
<tr>
<td>Melanie Lourenco</td>
<td>Administrative Services Manager</td>
</tr>
</tbody>
</table>
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.
March 1, 2011

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

RE: Auxiliary Organizations – Responses to Incomplete Draft Audit Report 10-05

Dear Larry,

Please find enclosed hard copy final responses to the Incomplete Draft Audit Report 10-05 for CSU Stanislaus’ Auxiliary Organizations.

If you have any questions, please do not hesitate to contact me.

Sincerely,

Russell Giambelluca
Chief Financial Officer
Auxiliary Business Services
AUXILIARY ORGANIZATIONS

CALIFORNIA STATE UNIVERSITY,
STANISLAUS

Audit Report 10-05

CALIFORNIA STATE UNIVERSITY, STANISLAUS FOUNDATION, INC.

OPERATING AND ADMINISTRATIVE AGREEMENTS

Recommendation 1

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

Campus Response

We concur. The Foundation renewed the operating agreement cited in September 2010. The Foundation has also implemented a process to ensure that future agreements are renewed in a timely fashion.

CORPORATE GOVERNANCE

Recommendation 2

We recommend that the Foundation promptly file the cited amendments with the chancellor’s office and develop a procedure to ensure that all future changes or amendments to Bylaws are filed within 30 calendar days.

Campus Response

We concur. The cited amendments were filed with the Chancellor’s Office in February 2011. The Foundation has also developed procedures to ensure that all future changes or amendments to Bylaws are filed with the Chancellor’s Office within 30 calendar days.

FISCAL COMPLIANCE

Recommendation 3

We recommend that the Foundation ensure that sales tax from fund-raising events is calculated and remitted to the taxing authority.
Campus Response

We concur. The Foundation implemented a procedure to ensure that sales tax from fund-raising events is calculated and remitted to the taxing authority in January 2011.

FEES, REVENUES, AND RECEIVABLES

PLEDGE ACCOUNTS RECEIVABLE

Recommendation 4

We recommend that the Foundation ensure that write-offs of pledge accounts receivable are properly authorized by the vice president of university advancement.

Campus Response

We concur. The Foundation implemented a procedure to ensure that write-offs to pledge accounts receivable are properly authorized by the Vice President of University Advancement and the Executive Director of the Foundation in November 2010.

MATCHING GIFTS

Recommendation 5

We recommend that the Foundation:

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. Ensure that reviews of corporate donor matching gift policies are adequately documented to show evidence of review and to ensure compliance with corporate donor requirements.

Campus Response

We concur. The Foundation has updated matching gift procedures to require that a documented dual review be performed to ensure that funds are administered in accordance with corporate donor requirements. Additional reviews of corporate donor matching gift policies are adequately documented to show evidence of review and compliance with corporate donor requirements. Corrective actions for these recommendations were completed in February 2011.
TRUSTS AND OTHER LIABILITIES

Recommendation 6

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 trust 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, along with 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 concur. The Foundation has completed a comprehensive review of all campus program accounts and has identified which accounts contain state/campus operating funds. As a result the Foundation transferred a total of thirty-two (32) accounts in the amount $554,882.84 to Campus Trust Accounts in February 2011. The Foundation has also identified six (6) accounts during their review in the amount of $5,405.21 that need additional research to determine appropriate treatment.

Expected date of completion: March 31, 2011.
OPERATING AND ADMINISTRATIVE AGREEMENTS

Recommendation 7

We recommend that ABS:

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

Campus Response

We concur. ABS amended the two agreements cited to include the appropriate indemnification provisions in September 2010. ABS will also ensure that all future agreements include the appropriate indemnification clause.

OPERATIONAL COMPLIANCE

Recommendation 8

We recommend that ABS develop written policies and procedures to address the accounting and processing of investments.

Campus Response

We concur. ABS is in the process of developing a policy addressing the accounting and processing of investments.

Expected date of completion: May 31, 2011
ASSOCIATED STUDENTS INCORPORATED OF CALIFORNIA STATE UNIVERSITY STANISLAUS

CORPORATE GOVERNANCE

DISSOLUTION OF AUXILIARY

Recommendation 9

We recommend that ASI revise its Articles of Incorporation so that the dissolution clause is in compliance with Title 5.

Campus Response

We agree that ASI should revise its Articles of Incorporation so that the dissolution clause is in compliance with Title 5. The revised ASI Articles of Incorporation including the appropriate dissolution clause cited above were sent to the Secretary of State and were returned from that office stamped ENDORSED-FILED in the office of the Secretary of State of the State of California. Confirmation from the Secretary of State was dated September 24, 2010 and stamped with the number A0709777. Corrective action for this recommendation was completed in September 2010.

BYLAWS

Recommendation 10

We recommend that ASI promptly file the cited amendments with the chancellor’s office and develop a procedure to ensure that all future changes or amendments to Bylaws are filed within 30 calendar days.

Campus Response

We concur that changes to ASI Bylaws be filed with the Chancellor’s Office within 30 calendar days of any changes. The changes to the ASI Bylaws, approved by the ASI Senate on May 25, 2010 effective June 30, 2010 were reported to the Chancellor’s Office in February 2011. ASI Policy and Procedures state that any changes to the ASI Bylaws must be reported within thirty (30) days of Senate approval of the change to the Chancellor’s Office.

SEGREGATION OF DUTIES

Recommendation 11

We recommend that ASI appropriately segregate certain student payroll and personnel processing functions or institute mitigating procedures approved by the campus CFO.
Campus Response

We agree that segregation of duties for payroll and personnel processing functions is necessary to maintain internal control over the payroll function. Segregation of duties for certain student payroll and personnel processing functions have been in place since January 3, 2011.

PURCHASING AND ACCOUNTS PAYABLE

Recommendation 12

We recommend that ASI:

a. Communicate to student club members the new cash disbursement policies and procedures regarding sufficient and appropriate supporting documentation.

b. Enforce accounts payable procedures to ensure that student club accounts are processed in accordance with campus and ASI accounts payable procedures.

Campus Response

We concur. ASI has taken action to communicate the new cash disbursement policies and procedures and enforce accounts payable procedures to ensure that student club accounts are processed in accordance with campus and ASI accounts payable procedures. The new Student Organization Trust Agreement Policy was approved by the Senators at the August 31, 2010, ASI Meeting and subsequently several training sessions were conducted by the ASI Vice President for Finance with the Student Clubs. Each club officer also signed an agreement that they would adhere to established policy. Corrective actions for these recommendations were completed by November 2010.

PERSONNEL AND PAYROLL

Recommendation 13

We recommend that ASI perform detailed, documented reconciliations of student employee payroll timesheets and pay-rate adjustment records against ADP payroll records.

Campus Response

We concur that a detailed reconciliation of payroll timesheets and pay-rate adjustment records be performed against payroll records. ASI has implemented procedures in which the USU Office Manager reviews the data entry to confirm data was entered correctly, reviews bi-weekly and semi-monthly payroll to confirm accuracy. These procedures were effective on January 3, 2011.
OPERATING AND ADMINISTRATIVE AGREEMENTS

Recommendation 14

We recommend that the USU promptly establish a written agreement with ASI for the cited accounting services.

Campus Response

We concur that USU establish a written agreement with ASI for accounting services. Given the current organizational structure of the Associated Students Inc. and University Student Union there are many shared expenses. It has become practice, depending upon the circumstances of the expense, to have one or the other organization pay for the expense and recharge the other organization. The written agreement (memorandum of understanding) between the Associated Students Inc. and University Student Union codify this arrangement is being drafted.

Expected date of completion: March 31, 2011.

FACILITIES AGREEMENTS

Recommendation 15

We recommend that the USU promptly renew the sublease agreements with ASI and the campus and implement a process to ensure that future sublease agreements are renewed in a timely fashion.

Campus Response

We concur that sublease agreements with ASI and the Campus be renewed in a timely fashion. USU renewed the cited subleases in August 2010. A tracking system, listing expiration dates, of all leases subleases, MOU’s and contracts has been developed and implemented to ensure these documents are executed according to schedule and signed on time by all parties. The responsibility for keeping the tracking system up-to-date belongs to the USU Administrative Manager. The responsibility to ensure these documents are executed according to schedule falls to the Executive Director.

FISCAL COMPLIANCE

Recommendation 16

We recommend that the USU account for and track UBI earned from services provided in conjunction with facilities rentals to community members and file federal income tax returns as appropriate.
Campus Response

We agree that USU account for and track UBI earned from services provided in conjunction with facilities rentals to community members and file federal income tax returns as appropriate. USU will implement a procedure to account for and track UBI.

Expected date of completion: March 31, 2011.

SEGREGATION OF DUTIES

Recommendation 17

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

Campus Response

We agree that segregation of duties for payroll and personnel processing functions is necessary to maintain internal control over the payroll function. Segregation of duties for certain student payroll and personnel processing functions have been in place since January 3, 2011.

CASH RECEIPTS AND HANDLING

Recommendation 18

We recommend that the USU:

a. Deposit cash receipts on a more frequent basis.

b. Establish and maintain a log that lists the people who have access to the two safes and the dates on which the safe combinations are changed.

Campus Response

We concur. USU is developing and implementing a cash handling policy which addresses all aspects related to handling, depositing and storing cash and checks on site.

Expected date of completion: March 31, 2011.
March 22, 2011

MEMORANDUM

TO: Mr. Larry Mandel
     University Auditor

FROM: Charles B. Reed
      Chancellor

SUBJECT: Draft Final Report 10-05 on Auxiliary Organizations, California State University, Stanislaus

In response to your memorandum of March 22, 2011, I accept the response as submitted with the draft final report on Auxiliary Organizations, California State University, Stanislaus.

CBR/amd