AUXILIARY ORGANIZATIONS

CALIFORNIA STATE UNIVERSITY,
MONTEREY BAY

Audit Report 11-09
March 26, 2012

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BOARD OF TRUSTEES
THE CALIFORNIA STATE UNIVERSITY
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ABBREVIATIONS

AORMA  Auxiliary Organization Risk Management Authority
CEHI   CSUMB Employee Housing, Inc.
CFS    Common Financial System
Corporation University Corporation at Monterey Bay
CSU    California State University
CSUMB  California State University, Monterey Bay
CSURMA California State University Risk Management Authority
EO     Executive Order
Foundation Foundation of California State University, Monterey Bay
ICSUAM Integrated California State University Administrative Manual
KAZU   KAZU Radio Station
OMB    Office of Management and Budget
PI     Principal Investigator
RFIN   Resolution of the Committee on Finance
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, Monterey Bay (CSUMB) 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 CSUMB campus and its auxiliary organizations from November 14, 2011, through December 8, 2011, and made a study and evaluation of the system of internal compliance/internal control in effect as of December 8, 2011. This report represents our triennial review.

Our study and evaluation at the CSUMB campus 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 December 8, 2011, taken as a whole, was sufficient to meet the objectives stated above.

Our study and evaluation at Foundation of California State University, Monterey Bay did not reveal any significant internal control problems or weaknesses that would be considered pervasive in their effects on the accounting and administrative controls. However, we did identify other reportable weaknesses that are described in the executive summary and in the body of the report. In our opinion, the accounting and administrative control in effect as of December 8, 2011, taken as a whole, was sufficient to meet the objectives stated above.
Our study and evaluation at University Corporation at Monterey Bay 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 the following areas: trusts and other liabilities and auxiliary programs. 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 December 8, 2011, 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**

**FISCAL COMPLIANCE [9]**

The campus had not developed a cost allocation or reimbursement plan to allocate costs to the Foundation of California State University, Monterey Bay (Foundation), nor had it required reimbursement or documentation of offsetting costs for the direct and indirect costs incurred by the campus on behalf of the Foundation.

**FOUNDATION OF CALIFORNIA STATE UNIVERSITY, MONTEREY BAY**

**OPERATING AND ADMINISTRATIVE AGREEMENTS [11]**

The operating agreement between the Foundation and the California State University (CSU) Trustees had not been executed in a timely manner. Specifically, the Foundation began operations on July 1, 2010, but the operating agreement was not executed until June 6, 2011.

**FISCAL COMPLIANCE [11]**

The Foundation had not developed written policies and procedures for reserves, and planning and analysis of reserves was not adequately documented, communicated, or reviewed.
OPERATIONAL COMPLIANCE [12]

The Foundation had not developed a comprehensive written risk management policy. In addition, the Foundation had not obtained annual conflict-of-interest statements from any of its board members for fiscal year 2010/11.

CAMPUS OVERSIGHT AND CONTROL [14]

The Foundation budgets for fiscal years 2010/11 and 2011/12 had not been approved by the campus president.

FEES, REVENUES, AND RECEIVABLES [15]

The Foundation did not perform a documented dual review during the matching gift acceptance process to ensure that funds were administered in accordance with corporate donor requirements.

ENDOWMENT ADMINISTRATION [16]

Foundation endowments were not always supported by fully executed agreements.

UNIVERSITY CORPORATION AT MONTEREY BAY

OPERATING AND ADMINISTRATIVE AGREEMENTS [18]

Agreements between the University Corporation at Monterey Bay (Corporation) and third parties and other auxiliaries did not always include appropriate provisions for indemnification and were not always supported by a written agreement. This is a repeat finding from the prior Auxiliary Organizations audit.

CORPORATE GOVERNANCE [19]

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

CASH RECEIPTS AND HANDLING [20]

Administration of Corporation checks returned by the bank required improvement. For example, the Corporation did not always keep documentation on file indicating that the returned items were being reviewed, investigated, or pursued for recovery.

FEES, REVENUES, AND RECEIVABLES [21]

Administration of corporate matching gifts at the Corporation’s KAZU Radio Station (KAZU) needed improvement, as matching gifts were not evaluated for matching eligibility and corporate matching gift procedures did not require that a documented dual review be performed to ensure that funds were administered in accordance with corporate donor requirements.
TRUSTS AND OTHER LIABILITIES [23]

The Corporation’s administration of campus activities and program funds needed improvement. Specifically, the Corporation had not obtained written authorization for the funds from the campus president or his or her designee, nor had it documented specific determination of the entity to be held accountable and responsible for the funds. Moreover, it had not documented a clear understanding of rights and responsibilities for the funds with the campus, including advantages for accepting the campus activities and programs, and in some instances, closed campus program funds remained active in the Common Financial System.

AUXILIARY PROGRAMS [24]

Administration of Corporation sponsored programs needed improvement. Specifically, written policies and procedures to address the administration of intellectual property had not been developed, effort certifications were not completed accurately, and grant closeout checklists were not completed. Additionally, Corporation volunteers at KAZU were not required to complete data confidentiality agreements that addressed the requirements for protecting confidential information obtained during pledge drives prior to gaining access to protected data. Finally, administration of underwriting agreements for Corporation radio station KAZU required improvement; specifically, underwriting agreements were not always signed and dated by KAZU management and the underwriter, and written policies and procedures had not been developed to address the recording and administration of underwriting contracts and the management of outstanding agreements.
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.

Foundation of California State University, Monterey Bay

The Foundation of California State University, Monterey Bay (Foundation) was established as a non-profit corporation in 2010 to develop the private funding needed to achieve the goals of the university. The Foundation aims to provide financial assistance to scientific, literary, educational, and charitable purposes through gifts, grants, loans, and allocations to the university and its controlled affiliates. The Foundation is governed by a board of directors composed of community members, faculty, students, alumni, and the campus president. The Foundation does not have employees and relies on the University
Corporation at Monterey Bay and university advancement personnel for administrative and accounting support services.

**University Corporation at Monterey Bay**

The University Corporation at Monterey Bay (Corporation) is the entity responsible for post-award administration of sponsored programs, student housing, conference and event services, the Otter Student Union, and KAZU radio station. The Corporation oversees a number of other commercial operations and outsources management/operating services. The bookstore is operated by Barnes and Noble, and campus dining and the child development center are managed by Sodexho and Children’s Services, Inc., respectively. The Corporation, in cooperation with campus administrative offices, provides fiscal administrative and support services for grants and contracts for research, instruction, and public service; instructionally related programs, conferences, workshops, and institutes; private gifts and other support sources to the university; and agency activities as requested by the university. The Corporation is governed by a board of directors composed of representatives from the university administration and faculty, as well as one student and one community member.

**CSUMB Employee Housing, Inc.**

The CSUMB Employee Housing, Inc. (CEHI) was a non-profit public benefit corporation responsible for the development, provision, and maintenance of affordable housing and other related facilities and activities for the use and convenience of faculty and staff of the university, in order to foster an academic community and environment on or near the campus and to attract and retain the highest quality faculty and staff at the university. CEHI was dissolved in April 2010. The transfer of all assets and the assumption of liabilities of CEHI by the Corporation was approved in April 2009 and carried out in 2010.

**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 2009/10 and 2010/11 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 December 8, 2011. 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:

Foundation of California State University, Monterey Bay
- Operating and Administrative Agreements
- Facilities Agreements
- Corporate Governance
- Fiscal Compliance
- Operational Compliance
- Program Compliance
INTRODUCTION

Foundation of California State University, Monterey Bay (cont.)

- Campus Oversight and Control
- Segregation of Duties
- Cash Receipts and Handling
- Cash Disbursement
- Petty Cash and Change Funds
- Investments
- Fees, Revenues, and Receivables
- Purchasing and Accounts Payable
- Trusts and Other Liabilities
- Endowment Administration
- Information Technology

University Corporation at Monterey Bay

- Operating and Administrative Agreements
- Facilities Agreements
- Corporate Governance
- Fiscal Compliance
- Operational Compliance
- Program Compliance
- Campus Oversight and Control
- Segregation of Duties
- Cash Receipts and Handling
- Cash Disbursement
- Petty Cash and Change Funds
- Investments
- Fees, Revenues, and Receivables
- Retail Inventory
- Trusts and Other Liabilities
- Auxiliary Programs
- Contracts and Grants
- Information Technology

We have not performed any auditing procedures beyond December 8, 2011. 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

FISCAL COMPLIANCE

The campus had not developed a cost allocation or reimbursement plan to allocate costs to the Foundation of California State University, Monterey Bay (Foundation), nor had it required reimbursement or documentation of offsetting costs for the direct and indirect costs incurred by the campus on behalf of the Foundation.

Integrated California State University Administrative Manual (ICSUAM) §3552.01, Cost Allocation/Reimbursement Plans for the California State University Operating Fund, dated April 6, 2011, states that the campus president ensures that costs incurred by the California State University (CSU) Operating Fund for services, products, and facilities provided to CSU enterprise programs/activities/funds, auxiliary organizations, and entities external to the university 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 recovered based on actual costs incurred. Allowable and allocable indirect costs shall be recovered according to a cost allocation/reimbursement plan that utilizes a documented methodology for identification of indirect costs and a basis for allocation. Allocation/reimbursement of joint use costs to the CSU Operating Fund from an auxiliary organization or enterprise program/activity/fund is independent of whatever indirect costs (i.e. federal facilities and administrative costs) may be recovered from external grants and contracts. The university chief financial officer, or designee, shall annually approve and ensure implementation of a documented cost allocation/reimbursement plan.

Executive Order (EO) 1000, Delegation of Fiscal Authority and Responsibility, dated July 1, 2007, states that the campus president shall 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 campus vice president of administration and finance stated his belief that the campus did not need a cost allocation or reimbursement plan to account for direct or indirect costs incurred by the campus on behalf of the Foundation because the Foundation had only recently been created and did not have any costs to pay back yet. Additionally, he stated that the expectation for newly created philanthropic auxiliaries is that until the auxiliary becomes mature, the long-term benefits of building and sustaining a robust fund-raising program for the university justify some level of support from the campus for the program.
The absence of a cost allocation or reimbursement plan and the failure to require auxiliary reimbursement of direct and indirect costs incurred by the campus increases the risk that the campus operating fund will not be fully compensated for support provided to auxiliary enterprises.

**Recommendation 1**

We recommend that the campus develop a written cost allocation or reimbursement plan to allocate costs to the Foundation and require reimbursement or documentation of offsetting costs for the direct and indirect costs incurred by the campus on behalf of the Foundation.

**Campus Response**

We concur. The campus will develop a written cost allocation plan. This will be completed by July 31, 2012.
FOUNDATION OF CALIFORNIA STATE UNIVERSITY, MONTEREY BAY

OPERATING AND ADMINISTRATIVE AGREEMENTS

The operating agreement between the Foundation of California State University, Monterey Bay (Foundation) and the CSU Trustees had not been executed in a timely manner.

Specifically, the Foundation began operations on July 1, 2010, but the operating agreement was not executed until June 6, 2011.

Title 5 §42501 indicates that a written operating agreement on behalf of the state of California by the chancellor of the CSU and the auxiliary organization is required for the performance by such auxiliary organization of any functions listed in §42500.

The Foundation director of operations stated that the operating agreement was not executed in a timely manner due to turnover in key management personnel.

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

Recommendation 2

We recommend that the Foundation implement a process to ensure that future agreements are executed in a timely manner.

Campus Response

We concur. The Foundation will develop a process to ensure that future agreements will be executed in a timely manner. This will be completed by August 31, 2012.

FISCAL COMPLIANCE

The Foundation had not developed written policies and procedures for reserves, and planning and analysis of reserves was not adequately documented, communicated, or reviewed.

Education Code §89904(b), §89904.5, and §89905 indicate that reserve planning is necessary.

The Compilation of Policies and Procedures for California State University Auxiliary Organizations sets sound business practice guidelines for auxiliary organizations operating within the CSU system. Section 8.1.1.2 A-2, Basis for Financial Standards and Fiscal Viability – Financial Statements, states that annually each auxiliary governing board shall review the fiscal viability of the auxiliary organization to include an evaluation of the need for reserves in the following areas: a) working capital, b) current operations, c) capital replacement, and d) planned future operations.
Title 5 §42401 and §42402 indicate that the campus president shall require that auxiliary organizations operate in conformity with policy of the Board of Trustees and the campus. One of the objectives of the auxiliary organizations is to provide fiscal procedures and management systems that allow effective coordination of the auxiliary activities with the campus in accordance with sound business practices. Sound business practice mandates that designated reserves be maintained.

The campus vice president of administration and finance stated his belief that the Foundation did not need to develop written policies and procedures for documenting, monitoring, and reporting reserves because it had not generated any revenue and the University Corporation at Monterey Bay was covering all of its expenses.

Failure to develop written policies and procedures and adequately document, communicate, or review planning and analysis of reserves increases the risk of misunderstandings and miscommunication regarding available reserves, as well as the risk that the auxiliary will be unable to fund future needs.

**Recommendation 3**

We recommend that the Foundation develop written policies and procedures for reserves and adequately document, communicate, and review the planning and analysis of reserves.

**Campus Response**

We concur. The Foundation will develop a written policy for reserves. This policy will be presented to the board for approval by June 30, 2012. In the future, the Foundation will document, communicate, and review the planning and analysis of reserves.

**OPERATIONAL COMPLIANCE**

**RISK MANAGEMENT**

The Foundation had not developed a comprehensive written risk management policy.

We found that the Foundation did not have a comprehensive written risk management policy that addressed an ongoing process to proactively identify risks, analyze the frequency and severity of identified risks, and implement a risk mitigation program that coordinates with the campus’ risk assessment and mitigation plan.

EO 715, *California State University Risk Management Policy*, dated October 27, 1999, delegated authority and responsibility to the campus president to implement campus risk management policies consistent with the CSU Risk Management Policy guidelines. This includes an ongoing process to identify risks, analyze the frequency and severity of the potential risks, and select the best management techniques to manage the risks.
The *Compilation of Policies and Procedures for California State University Auxiliary Organizations* sets sound business practice guidelines for auxiliary organizations operating within the CSU system. Section 8.7, *Risk Management*, states that auxiliary organizations should develop programs to manage risk related to activities in which the organizations are engaged.

The Foundation director of operations stated that a comprehensive written risk management policy had not been developed because the Foundation only recently began its operations, during fiscal year 2010/11.

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

**Recommendation 4**

We recommend that the Foundation develop and adopt a comprehensive written risk management policy that includes procedures to actively identify, analyze, quantify, and manage risk.

**Campus Response**

We concur. The Foundation will develop a comprehensive written risk management policy. The policy will be presented to the board for approval by June 30, 2012.

**CONFLICT OF INTEREST**

The Foundation had not obtained annual conflict-of-interest statements from any of its board members for fiscal year 2010/11.

The Foundation’s *Conflicts of Interest Policy* states that each director, principal officer, and member of a committee with board-delegated powers shall annually sign a statement.

CSU *Conflict of Interest Handbook*, §3B, dated August 2009, states that the Political Reform Act requires CSU to adopt a formal conflict-of-interest code. The CSU’s code requires certain employees, who are most likely to be involved in university decision-making where potential conflicts may be present, to file an annual disclosure form.

The Internal Revenue Service, *Governance and Related Topics 501(c)(3)*, dated February 4, 2008, and *Return of Organization Exempt from Income Tax*, Form 900, encourages a charity’s board of directors to adopt and regularly evaluate a written conflict of interest policy that requires directors and staff to act solely in the interests of the charity without regard for personal interests; includes written procedures for determining whether a relationship, financial interest, or business affiliation results in a conflict of interest; and prescribes a course of action in the event a conflict of interest is identified.

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

The Foundation director of operations stated that the annual conflict-of-interest statements were not obtained from board members due to oversight.

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

**Recommendation 5**

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

**Campus Response**

We concur. The Foundation will obtain conflict-of-interest statements from all existing board members by June 30, 2012. The Foundation will obtain annual conflict-of-interest statements from all board members at the first meeting of each fiscal year. This will be completed by August 31, 2012.

**CAMPUS OVERSIGHT AND CONTROL**

The Foundation budgets for fiscal years 2010/11 and 2011/12 had not been approved by the campus president.

Title 5 §42402 states that the campus president shall require that each auxiliary organization submit its programs and budgets for review at a time and in a manner specified by the president. Should the president determine that any program or appropriation planned by an auxiliary organization is not consistent with policy of the Board of Trustees and the campus, the program or appropriation shall not be implemented. Further, should a program or appropriation which had received approval, upon review, be determined by the president to be operating outside the acceptable policy of the Board of Trustees and the campus, then that program or appropriation shall be discontinued by direction of the president until further review is accomplished and an appropriate adjustment is made.

The campus vice president of administration and finance stated his belief that the Foundation’s budget was approved as a part of the University Corporation at Monterey Bay’s (Corporation) budget because the Corporation was subsidizing the Foundation’s expenses.

Lack of adequate budget review and approval by the campus president increases the risk that auxiliary programs and appropriations planned by the auxiliary will be inconsistent with Board of Trustees and campus policy.
Recommendation 6

We recommend that the Foundation ensure its annual budgets are reviewed and approved by the campus president.

Campus Response

We concur. The Foundation will ensure that its annual budgets are reviewed and approved by the campus president. This will be completed by May 31, 2012.

FEES, REVENUES, AND RECEIVABLES

The Foundation did not perform a documented dual review during the matching gift acceptance process to ensure that funds were administered in accordance with corporate donor requirements.

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 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 director of operations stated that she was unaware of the requirement to perform a documented dual review of corporate matching gifts.

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

Recommendation 7

We recommend that the Foundation perform a documented dual review during the matching gift acceptance process to ensure that funds are administered in accordance with corporate donor requirements.
Campus Response

We concur. The Foundation will update its matching gift form to include a second signature for a second reviewer to ensure that funds are administered in accordance with corporate donor requirements. This will be completed by May 31, 2012.

ENDOWMENT ADMINISTRATION

Foundation endowments were not always supported by fully executed agreements.

Specifically, we reviewed ten endowment files and found that five did not contain a fully executed endowment agreement.

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

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

The campus vice president for university advancement stated that the lack of fully executed endowment agreements was due to oversight.

The absence of an endowment agreement increases the risk of misunderstandings and miscommunication regarding rights and responsibilities and subjects the auxiliary and CSU to potential liability.

Recommendation 8

We recommend that the Foundation ensure that all endowments are supported by fully executed agreements.

Campus Response

We concur. The Foundation will review all endowments to determine which do not have fully executed agreements and will attempt to secure written agreements for those endowments. In cases where it is not possible to obtain an executed agreement, the Foundation will document the known
endowment terms for the file. University advancement staff will be reminded of the existing procedure regarding endowments. The outreach to donors and university advancement staff will be completed by August 31, 2012.
OPERATING AND ADMINISTRATIVE AGREEMENTS

Agreements between the University Corporation at Monterey Bay (Corporation) and third parties or other auxiliaries did not always include appropriate provisions for indemnification and were not always supported by a written agreement. This is a repeat finding from the prior Auxiliary Organizations audit.

We reviewed 12 agreements and found that:

- One lease agreement with a third party did not specifically indemnify the state of California, the Trustees of the CSU, the campus, and its officers, employees, volunteers, and agents.
- There was no written agreement documenting the accounting services the Corporation was providing for the Foundation.

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.

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

The Corporation director of operations stated that the inadequate indemnification provision was due to management oversight, and the missing agreement between the Corporation and the Foundation was due to turnover in key management personnel.
The absence of appropriate indemnification provisions and written agreements increases the risk of misunderstandings and miscommunication regarding rights and responsibilities and subjects the auxiliaries and the CSU to potential liability.

**Recommendation 9**

We recommend that the Corporation:

a. Include appropriate indemnification provisions in all future agreements.

b. Promptly establish a written agreement documenting the accounting services it is providing for the Foundation.

**Campus Response**

We concur.

a. Future agreements will include the appropriate indemnification clause. The Corporation obtained an amendment to the referenced lease agreement that includes the appropriate indemnification clause. This was completed on March 1, 2012.

b. An administrative services agreement between the Corporation and the Foundation was executed on October 1, 2011.

**CORPORATE GOVERNANCE**

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

We found amendments to the Bylaws made on December 11, 2008, and March 11, 2010, 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 and Bylaws*, states that when an auxiliary organization makes changes to its Articles of Incorporation or Bylaws, a complete amended copy is to be submitted to Contracts Services and Procurement 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 Corporation director of operations stated that the auxiliary had sent the amended Bylaws via the U.S. Postal Service and had not kept evidence of submission.

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 the Corporation promptly file the cited amendments to the Bylaws with the Contracts Services and Procurement department at the chancellor’s office and ensure that all future changes/amendments to Bylaws are filed within 30 calendar days.

Campus Response

We concur. The Corporation filed the cited amendments to the Bylaws with the Contracts Services and Procurement department at the chancellor’s office in April 2012 via email. All future changes/amendments will be filed with the Contracts Services and Procurement department at the chancellor’s office within 30 calendar days.

CASH RECEIPTS AND HANDLING

Administration of Corporation checks returned by the bank required improvement.

We reviewed 11 checks totaling $6,256 that had been returned by the bank from July 26, 2010, to July 7, 2011, due to insufficient funds, stop payment, and/or closed accounts, and we found that:

› For six of the returned checks, there was no documentation on file indicating that the returned items were being reviewed, investigated, or pursued for recovery.

› Accounts receivable were not established for the six unrecovered checks, and the checks were outstanding from 335 to 511 days.

› The Corporation did not have a cash-handling policy defining roles and responsibilities for the handling of checks returned by the bank.

ICSUAM §13680.00, Returned Items, dated September 29, 2011, states that it is the policy of the CSU that all returned items be processed and resolved in a controlled and timely manner. Each campus must prepare written procedures to implement this policy.

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

Title 5 §42401 and §42402 indicate that the campus president shall require that auxiliary organizations operate in conformity with policy of the Board of Trustees and the campus. One of the objectives of the auxiliary organizations is to provide fiscal procedures and management systems that allow effective coordination of the auxiliary activities with the campus in accordance with sound business practices. Sound business practice mandates adequate administration of returned checks.
The Corporation controller stated that checks returned by the bank were handled at the department level, and the lack of written policies and procedures defining roles and responsibilities for the handling of checks returned by the bank was due to management oversight.

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

**Recommendation 11**

We recommend that the Corporation:

a. Maintain documentation indicating that returned checks that are being reviewed, investigated, or pursued for recovery.

b. Establish accounts receivable for unrecovered checks, if deemed appropriate.

c. Provide documentation showing that a cash-handling policy defining roles and responsibilities for the handling of checks returned by the bank has been established.

**Campus Response**

We concur. The Corporation:

a. The Corporation will maintain documentation indicating that returned checks are being reviewed, investigated, or pursued for recovery. This will be completed by September 26, 2012.

b. The Corporation will establish accounts receivable for unrecovered checks as appropriate. This will be completed by September 26, 2012.

c. During fieldwork, the Corporation provided documentation showing that a cash-handling policy defining roles and responsibilities for the handling of checks returned by the bank has been established.

**FEES, REVENUES AND RECEIVABLES**

Administration of corporate matching gifts at the Corporation’s KAZU Radio Station (KAZU) needed improvement.

Specifically, we found that:

- Corporate matching gifts were not evaluated for matching eligibility.

- Corporate matching gift procedures did not require that a documented dual review be performed to ensure that funds were administered in accordance with corporate donor requirements.
EO 676, *Delegation of Gift Evaluation and Acceptance to Campuses*, dated February 1, 1998, delegated authority to campus presidents to evaluate and accept gifts, bequests, and donations of personal property to campuses. Campus presidents may further delegate this authority in whole or in part to campus officers and employees. Henceforth, campuses will evaluate potential campus gifts, bequests, and donations and accept and receipt campus gifts, bequests, and donations in accordance with the requirements of the California Education Code Sections 89720 and 66010.4(b).

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

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

The KAZU business manager stated that corporate matching gifts were neither evaluated for matching eligibility nor subjected to a dual review because the auxiliary was unaware that both things were required.

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

**Recommendation 12**

We recommend that the Corporation:

a. Ensure that KAZU’s corporate matching gifts are evaluated for matching eligibility.

b. 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.

**Campus Response**

We concur. The Corporation will update its matching gift form to include a second signature for a second reviewer to ensure that matching gifts are evaluated for matching eligibility and that funds are administered in accordance with corporate donor requirements. This will be completed by May 31, 2012.
TRUSTS AND OTHER LIABILITIES

The Corporation’s administration of campus activities and program funds needed improvement.

We reviewed 11 campus activity and program funds and found that:

- The Corporation had not obtained written authorization for the funds from the campus president or his or her designee.
- The Corporation had not documented specific determination of the entity to be held accountable and responsible for the funds.
- The Corporation had not documented a clear understanding of rights and responsibilities for the funds with the campus, including advantages for accepting the campus activities and programs.
- In three instances, closed campus program funds remained active in the Common Financial System (CFS).

ICSUAM §13680.00, *Placement and Control of Receipts for Campus Activities and Programs*, dated September 29, 2011, states that only campus presidents or their designees may authorize a campus activity or program. When authorized, a specific determination should be made in writing defining the entity that is accountable and responsible.

EO 1059, *Utilization of Campus Auxiliary Organizations*, dated June 6, 2011, states that auxiliary organizations may accept or administer campus funds as an agent of the university when specifically authorized in writing by the campus president or his/her designee. Said authorizations shall be granted judiciously and only when it is advantageous to the university and supportive of the university mission. The authorization should include the rationale for making this choice and clearly articulate the advantages to the university.

The Corporation director of operations stated that the new standard, ICSUAM §13680.00, was recently issued and the auxiliary had not had an adequate opportunity to review and apply the standard.

Inadequate administration of campus activities and program funds increases the risk of non-compliance with relevant requirements and misunderstandings and miscommunication regarding rights and responsibilities.

**Recommendation 13**

We recommend that the Corporation:

a. Obtain written authorization for campus activity and program funds from the campus president or his or her designee.
b. Document specific determination of the entity to be held accountable and responsible for campus activity and funds.

c. Document a clear understanding of rights and responsibilities for campus activity and program funds with the campus, including advantages for accepting the campus activities and programs.

d. Ensure that closed campus program funds are inactive in CFS.

Campus Response

We concur.

a. The Corporation will obtain written authorization for campus activity and program funds from the campus president or her designee. This will be completed by May 31, 2012.

b. The Corporation will develop a chartfield form that will document the specific determination of the entity to be held accountable and responsible for campus activity and funds. This will be completed by May 31, 2012.

c. The chartfield form referenced above will also document a clear understanding of the rights and responsibilities for campus activity and program funds with the campus. This will be completed by May 31, 2012.

d. The Corporation will ensure that closed campus program funds are inactive in CFS. Of the three instances cited during fieldwork, one fund was inactivated in February 2012 and the other two funds will be inactivated by May 31, 2012.

AUXILIARY PROGRAMS

CONTRACTS AND GRANTS

Administration of Corporation-sponsored programs needed improvement.

We reviewed ten current and five closed sponsored programs and found that:

- The Corporation had not developed written policies and procedures to address the administration of intellectual property.
- In four instances, effort certifications were not completed accurately.
- Grant closeout checklists had not been completed for the closed programs.
- The grant closeout checklist did not address administration of intellectual property.
Title 5 §42401 and §42402 indicate that the campus president shall require that auxiliary organizations operate in conformity with policy of the Board of Trustees and the campus. One of the objectives of the auxiliary organizations is to provide fiscal procedures and management systems that allow effective coordination of the auxiliary activities with the campus in accordance with sound business practices. Sound business practice mandates the development of policies and procedures to address the administration of intellectual property.

The University Corporation at Monterey Bay 561-002-C: Effort Reporting Policy states that total effort includes an individual’s efforts on California State University, Monterey Bay (CSUMB), University Corporation at Monterey Bay, and cost-shared activities. The distribution of effort across categories reasonably reflects effort devoted to each area and shall be expressed as a percentage of total effort. The sum of total effort on university, Corporation, and cost-shared activities shall equal 100 percent.

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

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

The University Corporation at Monterey Bay Programmatic Closeout Procedures state that the principal investigator (PI) is to use the PI checklist, award notification, and other relevant resources to itemize required closeout items on the Programmatic Closeout Checklist. Once all the items on the Programmatic Closeout Checklist are complete, the status of the project is set to “programmatic closed.”

The Corporation controller stated that the inaccurate certifications were due to an incorrect Excel formula. She further stated that the lack of intellectual property policies and procedures and the issues with the closed sponsored programs were due to management oversight.

Inadequate administration of sponsored programs increases the risk of non-compliance with relevant requirements and exposes the auxiliary organization to penalties and disallowances for non-compliance with contracts and grants terms.
Recommendation 14

We recommend that the Corporation:

a. Develop written policies and procedures to address the administration of intellectual property.
b. Ensure effort certifications are completed accurately.
c. Ensure that grant closeout checklists are completed for closed grants.
d. Include administration of intellectual property in the grant closeout checklist.

Campus Response

We concur.

a. The Corporation will develop an intellectual property policy. This will be presented to the board for approval by August 31, 2012.

b. The Corporation will ensure that effort certifications are completed accurately. The formula in the Excel spreadsheet was corrected in January 2012. Employees will be reminded of the importance of verifying the data prior to approving. This will be completed by May 31, 2012.

c. The grants accountant is responsible for ensuring that grant closeout checklists are completed for closed grants. Grants accounting staff will be reminded of the grant closeout checklist process. This will be completed by May 31, 2012.

d. The Corporation will include administration of intellectual property in the grant closeout checklist. This was completed in March 2012.

CONFIDENTIALITY AGREEMENT

Corporation volunteers at KAZU were not required to complete data confidentiality agreements that addressed the requirements for protecting confidential information obtained during pledge drives prior to being granted access to protected data.

ICSUAM 8025.0, Privacy of Personal Information, dated April 19, 2010, states that to comply with state and federal laws and regulations, campuses may not collect personally identifiable information unless the need for it has been clearly established. It further states that where such information is collected, the campus will use reasonable efforts to ensure that personally identifiable information is adequately protected from unauthorized disclosure.

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 that volunteers complete a data confidentiality agreement prior to being granted access to protected data.

The KAZU business manager stated that pledge drive volunteers were not required to complete data confidentiality agreements due to management oversight.

Failure to obtain data confidentiality agreements from volunteers with access to protected data increases the risk of inappropriate disclosure of data and the auxiliary’s exposure to liability.

**Recommendation 15**

We recommend that the Corporation obtain data confidentiality forms for protecting confidential information obtained during pledge drives from all KAZU volunteers prior to granting them access to protected data.

**Campus Response**

We concur. The Corporation has updated its volunteer form to include a data confidentiality agreement. This was completed in March 2012 and the forms were used for KAZU’s spring pledge drive.

**UNDERWRITING**

Administration of underwriting agreements for Corporation radio station KAZU required improvement.

We reviewed five underwriting agreements transacted between April 2010 and November 2011 and found that:

- In all five instances, underwriting agreements were not signed and dated by KAZU management and the underwriter.
- Written policies and procedures had not been developed to address the recording and administration of underwriting contracts and the management of outstanding agreements.

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 fully executed written agreements and policies and procedures be developed to address the operation and administration of underwriting.
The KAZU general manager stated that the nature of the underwriting business did not always permit fully executed agreements and that the lack of written policies and procedures was due to management oversight.

The absence of current, written agreements and procedures increases the risk of misunderstandings and miscommunication regarding rights and responsibilities and subjects the auxiliaries and CSU to potential liability.

Recommendation 16

We recommend that the Corporation:

a. Ensure KAZU management and underwriters sign and date all future agreements.

b. Develop written policies and procedures to address the recording and administration of underwriting contracts and the management of outstanding agreements.

Campus Response

We concur. The Corporation will develop a written procedure that addresses the signing and dating, the recording, and the administration of underwriting contracts and the management of outstanding agreements. This will be completed by May 31, 2012.
## 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>Dianne F. Harrison</td>
<td>President</td>
</tr>
<tr>
<td>Patti Hiramoto</td>
<td>Vice President for University Advancement</td>
</tr>
<tr>
<td>Kevin Saunders</td>
<td>Vice President of Administration and Finance</td>
</tr>
<tr>
<td><strong>FOUNDATION OF CALIFORNIA STATE UNIVERSITY, MONTEREY BAY</strong></td>
<td></td>
</tr>
<tr>
<td>Sherry Baggett</td>
<td>Controller</td>
</tr>
<tr>
<td>Maria Garcia</td>
<td>Director of Operations</td>
</tr>
<tr>
<td>Patti Hiramoto</td>
<td>Chief Executive Officer</td>
</tr>
<tr>
<td>Richard Westing</td>
<td>Advancement Services Manager</td>
</tr>
<tr>
<td><strong>UNIVERSITY CORPORATION AT MONTEREY BAY</strong></td>
<td></td>
</tr>
<tr>
<td>Warda Alhadi</td>
<td>Business Manager, KAZU</td>
</tr>
<tr>
<td>Sherry Baggett</td>
<td>Controller</td>
</tr>
<tr>
<td>Mik Benedek</td>
<td>General Manager, KAZU</td>
</tr>
<tr>
<td>Maria Garcia</td>
<td>Director of Operations</td>
</tr>
<tr>
<td>Rebecca Little</td>
<td>Director of Underwriting, KAZU</td>
</tr>
<tr>
<td>Bella Morgenstern</td>
<td>Accounts Payable Technician</td>
</tr>
<tr>
<td>Monica Rodriguez</td>
<td>Accounting Manager</td>
</tr>
<tr>
<td>Kevin Saunders</td>
<td>Executive Director</td>
</tr>
<tr>
<td>Lorena Villalobos</td>
<td>Junior Accountant</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.
30 April 2012

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

RE: Response to Auxiliary Organizations Audit Report
California State University, Monterey Bay – Report Number 11-09

In accordance with the policies and procedures for the Office of the University Auditor, enclosed please find the response to recommendations one through sixteen of audit number 11-09, Auxiliary Organizations of California State University, Monterey Bay.

Your audit has provided the campus and the auxiliary organizations with valuable management information that we will use to institute changes and improvements in our campus operations. We appreciate the effort you and your staff have made to indicate areas where our procedures or internal controls could be strengthened. The campus and the auxiliary organizations are committed to addressing and resolving the issues identified in the audit report.

Questions regarding the responses may be directed to Maria A.Y. Garcia at (831) 582-5027 or margarcia@csumb.edu.

Sincerely,

[Signature]

Kevin R. Saunders
Vice President for Administration and Finance

Enclosure

Cc (with encl.): Dianne F. Harrison, Ph.D., CSUMB President
Kevin R. Saunders, University Corporation Executive Director
Patti M. Hiramoto, Ed.D., Foundation Chief Executive Officer
Maria A.Y. Garcia, Director of Operations for Auxiliary Corporations
Sherry Baggett, University Corporation Controller
AUXILIARY ORGANIZATIONS

CALIFORNIA STATE UNIVERSITY,
MONTEREY BAY

Audit Report 11-09

CAMPUS

FISCAL COMPLIANCE

Recommendation 1

We recommend that the campus develop a written cost allocation or reimbursement plan to allocate costs to the Foundation and require reimbursement or documentation of offsetting costs for the direct and indirect costs incurred by the campus on behalf of the Foundation.

Campus Response

We concur. The campus will develop a written cost allocation plan. This will be completed by July 31, 2012.
FOUNDATION OF CALIFORNIA STATE UNIVERSITY, MONTEREY BAY

OPERATING AND ADMINISTRATIVE AGREEMENTS

Recommendation 2

We recommend that the Foundation implement a process to ensure that future agreements are executed in a timely manner.

Campus Response

We concur. The Foundation will develop a process to ensure that future agreements will be executed in a timely manner. This will be completed by August 31, 2012.

FISCAL COMPLIANCE

Recommendation 3

We recommend that the Foundation develop written policies and procedures for reserves and adequately document, communicate, and review the planning and analysis of reserves.

Campus Response

We concur. The Foundation will develop a written policy for reserves. This policy will be presented to the Board for approval by June 30, 2012. In the future, the Foundation will document, communicate, and review the planning and analysis of reserves.

OPERATIONAL COMPLIANCE

RISK MANAGEMENT

Recommendation 4

We recommend that the Foundation develop and adopt a comprehensive written risk management policy that includes procedures to actively identify, analyze, quantify, and manage risk.

Campus Response

We concur. The Foundation will develop a comprehensive written risk management policy. The policy will be presented to the Board for approval by June 30, 2012.
CONFLICT OF INTEREST

Recommendation 5

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

Campus Response

We concur. The Foundation will obtain conflict-of-interest statements from all existing board members by June 30, 2012. The Foundation will obtain annual conflict-of-interest statements from all board members at the first meeting of each fiscal year. This will be completed by August 31, 2012.

CAMPUS OVERSIGHT AND CONTROL

Recommendation 6

We recommend that the Foundation ensure its annual budgets are reviewed and approved by the campus president.

Campus Response

We concur. The Foundation will ensure that its annual budgets are reviewed and approved by the campus president. This will be completed by May 31, 2012.

FEES, REVENUES, AND RECEIVABLES

Recommendation 7

We recommend that the Foundation perform a documented dual review during the matching gift acceptance process to ensure that funds are administered in accordance with corporate donor requirements.

Campus Response

We concur. The Foundation will update its matching gift form to include a second signature for a second reviewer to ensure that funds are administered in accordance with corporate donor requirements. This will be completed by May 31, 2012.
ENDOWMENT ADMINISTRATION

Recommendation 8

We recommend that the Foundation ensure that all endowments are supported by fully executed agreements.

Campus Response

We concur. The Foundation will review all endowments to determine which do not have fully executed agreements and will attempt to secure written agreements for those endowments. In cases where it is not possible to obtain an executed agreement, the Foundation will document the known endowment terms for the file. University Advancement staff will be reminded of the existing procedure regarding endowments. The outreach to donors and University Advancement staff will be completed by August 31, 2012.
UNIVERSITY CORPORATION AT MONTEREY BAY

OPERATING AND ADMINISTRATIVE AGREEMENTS

Recommendation 9

We recommend that the Corporation:

a. Include appropriate indemnification provisions in all future agreements.

b. Promptly establish a written agreement documenting the accounting services it is providing for the Foundation.

Campus Response

We concur.

a. Future agreements will include the appropriate indemnification clause.

   - The Corporation obtained an amendment to the referenced lease agreement that includes the appropriate indemnification clause. This was completed on March 1, 2012.

b. An Administrative Services Agreement between the Corporation and the Foundation was executed on October 1, 2011.

CORPORATE GOVERNANCE

Recommendation 10

We recommend that the Corporation promptly file the cited amendments to the Bylaws with the Contracts Services and Procurement department at the chancellor’s office and ensure that all future changes/amendments to Bylaws are filed within 30 calendar days.

Campus Response

We concur. The Corporation filed the cited amendments to the Bylaws with the Contracts Services and Procurement department at the chancellor’s office in April 2012 via email. All future changes/amendments will be filed with the Contracts Services and Procurement department at the chancellor’s office within 30 calendar days.
CASH RECEIPTS AND HANDLING

Recommendation 11

We recommend that the Corporation:

a. Maintain documentation indicating that returned checks that are being reviewed, investigated, or pursued for recovery.

b. Establish accounts receivable for unrecovered checks, if deemed appropriate.

c. Provide documentation showing that a cash-handling policy defining roles and responsibilities for the handling of checks returned by the bank has been established.

Campus Response

We concur.

a. The Corporation will maintain documentation indicating that returned checks are being reviewed, investigated, or pursued for recovery. This will be completed by September 26, 2012.

b. The Corporation will establish accounts receivable for unrecovered checks as appropriate. This will be completed by September 26, 2012.

c. During fieldwork, the Corporation provided documentation showing that a cash-handling policy defining roles and responsibilities for the handling of checks returned by the bank had been established.

FEES, REVENUES AND RECEIVABLES

Recommendation 12

We recommend that the Corporation:

a. Ensure that KAZU’s corporate matching gifts are evaluated for matching eligibility.

b. 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.

Campus Response

We concur. The Corporation will update its matching gift form to include a second signature for a second reviewer to ensure that matching gifts are evaluated for matching eligibility and that funds are administered in accordance with corporate donor requirements. This will be completed by May 31, 2012.
TRUSTS AND OTHER LIABILITIES

Recommendation 13

We recommend that the Corporation:

a. Obtain written authorization for campus activity and program funds from the campus president or his or her designee.

b. Document specific determination of the entity to be held accountable and responsible for campus activity and funds.

c. Document a clear understanding of rights and responsibilities for campus activity and program funds with the campus, including advantages for accepting the campus activities and programs.

d. Ensure that closed campus program funds are inactive in CFS.

Campus Response

We concur.

a. The Corporation will obtain written authorization for campus activity and program funds from the campus president or her designee. This will be completed by May 31, 2012.

b. The Corporation will develop a Chartfield Form that will document the specific determination of the entity to be held accountable and responsible for campus activity and funds. This will be completed by May 31, 2012.

c. The Chartfield Form referenced above will also document a clear understanding of the rights and responsibilities for campus activity and program funds with the campus. This will be completed by May 31, 2012.

d. The Corporation will ensure that closed campus program funds are inactive in CFS. Of the three instances cited during fieldwork, one fund was inactivated in February 2012 and the other two funds will be inactivated by May 31, 2012.

AUXILIARY PROGRAMS

CONTRACTS AND GRANTS

Recommendation 14

We recommend that the Corporation:

a. Develop written policies and procedures to address the administration of intellectual property.

b. Ensure effort certifications are completed accurately.

c. Ensure that grant closeout checklists are completed for closed grants.
d. Include administration of intellectual property in the grant closeout checklist.

Campus Response

We concur.

a. The Corporation will develop an Intellectual Property Policy. This will be presented to the Board for approval by August 31, 2012.

b. The Corporation will ensure that effort certifications are completed accurately. The formula in the Excel spreadsheet was corrected in January 2012. Employees will be reminded of the importance of verifying the data prior to approving. This will be completed by May 31, 2012.

c. The Grants Accountant is responsible for ensuring that grant closeout checklists are completed for closed grants. Grants accounting staff will be reminded of the grant closeout checklist process. This will be completed by May 31, 2012.

d. The Corporation will include administration of intellectual property in the grant closeout checklist. This was completed in March 2012.

CONFIDENTIALITY AGREEMENT

Recommendation 15

We recommend that the Corporation obtain data confidentiality forms for protecting confidential information obtained during pledge drives from all KAZU volunteers prior to granting them access to protected data.

Campus Response

We concur. The Corporation has updated its volunteer form to include a data confidentiality agreement. This was completed in March 2012 and the forms were used for KAZU’s spring pledge drive.

UNDERWRITING

Recommendation 16

We recommend that the Corporation:

a. Ensure KAZU management and underwriters sign and date all future agreements.

b. Develop written policies and procedures to address the recording and administration of underwriting contracts and the management of outstanding agreements.
Campus Response

We concur. The Corporation will develop a written procedure that addresses the signing and dating, the recording, and the administration of underwriting contracts and the management of outstanding agreements. This will be completed by May 31, 2012.
June 6, 2012

MEMORANDUM

TO: Mr. Larry Mandel  
University Auditor

FROM: Charles B. Reed  
Chancellor

SUBJECT: Draft Final Report 11-09 on Auxiliary Organizations,  
California State University, Monterey Bay

In response to your memorandum of June 6, 2012, I accept the response as submitted with the draft final report on Auxiliary Organizations, California State University, Monterey Bay.

CBR/amd