AUXILIARY ORGANIZATIONS

CALIFORNIA STATE UNIVERSITY,
SAN BERNARDINO

Audit Report 12-03
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ABBREVIATIONS

AORMA  Auxiliary Organization Risk Management Authority
AFS    Auxiliary Financial Services
AS     Associated Students, Incorporated
CFO    Chief Financial Officer
Corporation University Enterprises Corporation at CSUSB
CSU    California State University
CSURMA California State University Risk Management Authority
CSUSB  California State University, San Bernardino
EO     Executive Order
Foundation CSUSB Philanthropic Foundation
ICSUAM Integrated California State University Administrative Manual
RFIN   Resolution of the Committee on Finance
RRF-1  Annual Registration Renewal Fee Report
Union  Santos Manuel Student Union of California State University, San Bernardino
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, San Bernardino (CSUSB) 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 CSUSB campus and its auxiliary organizations from May 14, 2012, through June 15, 2012, and made a study and evaluation of the system of internal compliance/internal control in effect as of June 15, 2012. This report represents our triennial review.

Our study and evaluation at the CSUSB 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 May 14, 2012, taken as a whole, was sufficient to meet the objectives stated above.

Our study and evaluation at CSUSB Philanthropic 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 the following areas: fees, revenues, and receivables and property and equipment. 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 May 14, 2012, taken as a whole, was sufficient to meet the objectives stated above.

Our study and evaluation at University Enterprises Corporation at CSUSB did not reveal any significant internal control problems or weaknesses that would be considered pervasive in their effects on the accounting and administrative controls. However, we did identify other reportable weaknesses that are described in the executive summary and in the body of the report. In our opinion, the accounting and administrative control in effect as of June 15, 2012, taken as a whole, was sufficient to meet the objectives stated above.

Our study and evaluation at Associated Students, Incorporated did not reveal any significant internal control problems or weaknesses that would be considered pervasive in their effects on the accounting and administrative controls. However, we did identify other reportable weaknesses that are described in the executive summary and in the body of the report. In our opinion, the accounting and administrative control in effect as of June 15, 2012, taken as a whole, was sufficient to meet the objectives stated above.

Our study and evaluation at Santos Manuel Student Union of California State University, San Bernardino did not reveal any significant internal control problems or weaknesses that would be considered pervasive in their effects on the accounting and administrative controls. However, we did identify other reportable weaknesses that are described in the executive summary and in the body of the report. In our opinion, the accounting and administrative control in effect as of June 15, 2012, 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**

**OPERATING AND ADMINISTRATIVE AGREEMENTS [13]**

The campus did not perform a review of auxiliary organizations at least once every five years to ensure that written operating agreements were current and functions were in compliance with the agreements.
FISCAL COMPLIANCE [14]

The annual campus cost allocation plan to recover direct and indirect costs incurred by the California State University (CSU) Operating Fund for services, products, and facilities provided to auxiliary organizations needed improvement. Specifically, the plan did not identify and document organizations, programs, activities or entities, the practices and methodologies utilized in determining the basis for allocating costs, and in-kinds, exchanges of value, or reimbursements included in the plan.

FEES, REVENUES, AND RECEIVABLES [15]

Campus administration of student fees receivable collections needed improvement. Specifically, delinquent student fees receivables were not written off in a timely manner and receivables were written off without proper approvals.

PROPERTY AND EQUIPMENT [17]

Campus administration of auxiliary property and equipment needed improvement. For example, property and equipment disposals were recorded to the fixed asset records once annually, instead of at the time of disposition or at least quarterly, for Associated Students, Incorporated (AS) and the Santos Manuel Student Union of California State University, San Bernardino (Union), and capitalization policies and procedures for the Union were not followed by the campus.

CSUSB PHILANTHROPIC FOUNDATION

OPERATING AND ADMINISTRATIVE AGREEMENTS [19]

An agreement between the CSUSB Philanthropic Foundation (Foundation) and a fund-raising council did not contain certain required provisions. For example, the agreement did not include an indemnification clause indemnifying 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.

CORPORATE GOVERNANCE [20]

The Foundation board minutes were not signed and approved in a timely manner.

OPERATIONAL COMPLIANCE [21]

The Foundation had not developed policies and procedures for the accounting and processing of property and equipment, matching gifts, pledges receivables, and purchasing and accounts payable. Additionally, the Foundation had not obtained annual conflict-of-interest statements from all board members.
FEES, REVENUES, AND RECEIVABLES [23]

Administration of Foundation matching gifts needed improvements. For example, a documented dual review was not performed, gift acknowledgement letters were not sent to donors, and matching gifts were not recorded as pledges receivable. Additionally, administration and accounting of Foundation pledges receivable needed improvement. Specifically, an aging report of pledges receivable was not prepared, and collection activity and follow-up on delinquent pledges receivable was not documented.

PROPERTY AND EQUIPMENT [26]

Works of art donated to the Foundation were not recorded in the fixed asset system.

ENDOWMENT ADMINISTRATION [27]

Administration of Foundation endowments needed improvement. Specifically, account set-up forms were not used, and funds transferred from other accounts were not always recorded in the donor database accounts or in the general ledger.

UNIVERSITY ENTERPRISES CORPORATION AT CSUSB

OPERATING AND ADMINISTRATIVE AGREEMENTS [29]

University Enterprises Corporation at CSUSB (Corporation) performed a function not authorized by its operating agreement with the CSU Trustees.

CORPORATE GOVERNANCE [29]

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

PERSONNEL AND PAYROLL [30]

Administration of Corporation employee hiring needed improvement. Specifically, human resources authorization was not always obtained prior to employment, and I-9 forms were not always certified within three business days of the date employment began.

PROPERTY AND EQUIPMENT [32]

Administration of the Corporation property and equipment needed improvement. For example, the Corporation had not performed an independent annual physical inventory for fiscal years 2008/09, 2009/10, and 2010/11, and assets selected for physical verification were not always assigned fixed asset tags or ID numbers.
ASSOCIATED STUDENTS, INCORPORATED

CORPORATE GOVERNANCE [34]

AS had not filed amended Articles of Incorporation and Bylaws with the chancellor’s office in a timely manner.

OPERATIONAL COMPLIANCE [35]

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

PROGRAM COMPLIANCE [36]

Administration of AS stipends needed improvement. Specifically, stipends paid to student executive officers were processed through payroll without time records and were not reported to the financial aid office before funds were expended.

PURCHASING AND ACCOUNTS PAYABLE [37]

AS did not require students to complete a travel request form prior to travel to document approval of travel and related expenditures to be incurred. This is a repeat finding from the prior Auxiliary Organizations audit.

PERSONNEL AND PAYROLL [38]

AS did not complete separation documentation for student employees.

SANTOS MANUEL STUDENT UNION OF CALIFORNIA STATE UNIVERSITY, SAN BERNARDINO

OPERATING AND ADMINISTRATIVE AGREEMENTS [39]

The Union performed a function not authorized by its operating agreement with the CSU Trustees.

CORPORATE GOVERNANCE [39]

The Union had not filed amended Bylaws with the chancellor’s office in a timely manner. Additionally, the Union had not filed the Annual Registration Renewal Fee Report (RRF-1).

FISCAL COMPLIANCE [41]

Union reserves for fiscal year 2010/11 had not been approved by the campus president.
EXECUTIVE SUMMARY

PROGRAM COMPLIANCE [42]
Administration of Union stipends needed improvement. Specifically, stipends paid to student executive officers were processed through payroll without time records and were not reported to the financial aid office before funds were expended.

FEES, REVENUES, AND RECEIVABLES [43]
Administration of Union accounts receivable needed improvement. For example, policies and procedures did not adequately address the write-off of uncollectible accounts receivable, collection and follow-up activities on delinquent accounts receivable were not performed in accordance with the Union’s policy, accounts receivable aging was not reviewed by management on a monthly basis, and long outstanding accounts receivables were not written off in a timely manner.

PERSONNEL AND PAYROLL [44]
Administration of Union employee hiring needed improvement. Specifically, human resources authorization was not always obtained prior to employment, and I-9 forms were not always certified within three business days of the date employment began.

PROPERTY AND EQUIPMENT [46]
Administration of Union property and equipment needed improvement. For example, written policies and procedures for an independent physical count of inventory had not been developed; an independent annual physical inventory for fiscal years 2008/09, 2009/10, and 2010/11 had not been performed; and property disposals were not always approved by the board of directors before disposal.
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.

CSUSB Philanthropic Foundation

CSUSB Philanthropic Foundation (Foundation) was established on July 1, 2011, as a non-profit public benefit corporation when the Foundation for the California State University, San Bernardino, established in 1962, was split into two auxiliaries, the Foundation and University Enterprises Corporation at CSUSB (Corporation), to better reflect a focus on the philanthropic and business enterprise functions. The Foundation encourages gifts and financial support while creating learning opportunities for students, alumni, and the community that compliment the university’s teaching, research, and public service goals.
INTRODUCTION

The Foundation supports California State University, San Bernardino (CSUSB) through fund-raising, acceptance of donor gifts, and management of endowments. It relies on the university’s auxiliary financial services (AFS) unit and university advancement personnel for accounting and administrative support services. The Foundation is governed by a board of directors composed of community members, faculty, students, alumni, and the campus president.

University Enterprises Corporation at CSUSB

The Corporation was established on July 1, 2011, when the Foundation for the California State University, San Bernardino, established in 1962, was split into two auxiliaries to better reflect the focus on the philanthropic and business enterprise functions. The Corporation is responsible for business enterprises on campus, including, but not limited to, the dining services, bookstore, convenience store, and vending services. It also serves as the grantee for federal, state, and local funding for research and sponsored projects. The Corporation relies on the university’s AFS unit for accounting and administrative support services and is governed by a board of directors composed of students, faculty, staff, and alumni.

Associated Students, Incorporated

Associated Students, Incorporated (AS) was established in 1988 as a non-profit public benefit corporation for the specific and primary purpose of operating a charitable and educational organization. AS operates the student body government, the ticket box office, and the college legal clinic and provides grants to support the campus mission. AS also provides the campus community with social, cultural, educational, and entertainment opportunities. In addition, AS offers graphic design services to chartered student organizations. AS relies on the university’s AFS unit for accounting and administrative support services and is governed by a board of directors composed of representatives from the student body.

Santos Manuel Student Union of California State University, San Bernardino

Santos Manuel Student Union of California State University, San Bernardino (Union) was established in 1977 as a non-profit corporation with the specific and primary purpose of financing, constructing, and operating a campus union facility in order to promote and assist CSUSB in furthering its educational programs. The Union provides student resources through various programs and centers, including the Adult Re-entry Program, Cross Cultural Center, Women’s Resource Center, Pride Center, and Program Board. The Union also provides various services, including graphic design, notary services, and the Recreation Center. In addition, the Union leases space to the Foundation for dining and vending operations. The Union relies on the university’s AFS unit for accounting and administrative support services and is governed by a board of directors composed of students, faculty, staff, and alumni.
INTRODUCTION

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, 2011, to June 15, 2012. 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:

**CSUSB Philanthropic Foundation**
- Operating and Administrative Agreements
- Facilities Agreements
- Corporate Governance
- Fiscal Compliance
- Operational Compliance
- Program Compliance
- Campus Oversight and Control
- Segregation of Duties
- Cash Receipts and Handling
- Cash Disbursement
- Investments
- Fees, Revenues, and Receivables
- Purchasing and Accounts Payable
- Property and Equipment
- Trusts and Other Liabilities
- Endowment Administration
- Information Technology

**University Enterprises Corporation at CSUSB**
- 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
- Purchasing and Accounts Payable
- Personnel and Payroll
University Enterprises Corporation at CSUSB (cont.)
- Property and Equipment
- Trusts and Other Liabilities
- Auxiliary Programs
- Information Technology

Associated Students, Incorporated
- 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
- Purchasing and Accounts Payable
- Personnel and Payroll
- Property and Equipment
- Auxiliary Programs
- Information Technology

Santos Manuel Student Union of California State University, San Bernardino
- 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
- Purchasing and Accounts Payable
- Personnel and Payroll
- Property and Equipment
- Trusts and Other Liabilities
- Auxiliary Programs
Santos Manuel Student Union of California State University, San Bernardino (cont.)

- Information Technology

Campus

- Operating and Administrative Agreements
- Fiscal Compliance
- Fees, Revenues, and Receivables
- Property and Equipment
- Information Technology

We have not performed any auditing procedures beyond June 15, 2012. 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

OPERATING AND ADMINISTRATIVE AGREEMENTS

The campus did not perform a review of auxiliary organizations at least once every five years to ensure that written operating agreements were current and functions were in compliance with the agreements.

Executive Order (EO) 1059, *Utilization of Campus Auxiliary Organizations*, dated June 6, 2011, states that auxiliary organizations shall not perform any of the functions listed in Title 5 §42500 unless the function has been specifically assigned in the operating agreement with the campus. The campus shall review, at least every five years, the auxiliary organizations to ensure that written operating agreements are current and that auxiliary organization activities are in compliance with those agreements. Confirmation that this review has been conducted will consist of either an updated operating agreement or a letter from the campus president to the executive vice chancellor/chief financial officer certifying that the review has been conducted. As part of these periodic reviews, the president should examine the need for each auxiliary and look at the efficiency of the auxiliary operations and administration.

The campus vice president of administration and finance stated that the review of auxiliary organizations was not completed because campus staff was not fully aware of the requirements of EO 1059.

Failure to review auxiliaries’ written operating agreements and functions increases the risk of misunderstandings and miscommunication regarding rights and responsibilities.

**Recommendation 1**

We recommend that the campus perform a review of auxiliary organizations at least once every five years to ensure that written operating agreements are current and functions are in compliance with the agreements.

**Campus Response**

We concur. The campus will perform a review of auxiliary organizations to ensure the written operating agreements are current and functions are in compliance with the agreements. Confirmation that our review has been conducted will consist of either an updated operating agreement or a letter from the campus president to the executive vice chancellor/chief financial officer (CFO) certifying that the review has been conducted.

Implementation date: June 30, 2013
FISCAL COMPLIANCE

The annual campus cost allocation plan to recover direct and indirect costs incurred by the California State University (CSU) Operating Fund for services, products, and facilities provided to auxiliary organizations needed improvement.

We reviewed auxiliary cost allocation plan documentation for fiscal years 2008/09, 2009/10, and 2010/11 and found that the plan did not identify and document:

- The alumni association, auxiliary organizations, enterprise programs/activities, fund sources or entities external to the university included in the plan.
- The practices and methodologies utilized in determining the basis for allocating costs.
- In-kinds, exchanges of value, or reimbursements included in the plan.

Integrated California State University Administrative Manual (ICSUAM) §3552.01, Cost Allocation/Reimbursement Plans for the CSU Operating Fund, dated April 1, 2011, states that a university’s cost allocation/reimbursement plan must articulate the practices and methodologies utilized in determining the basis for allocating costs. Due consideration must be given to the relative benefits received, the materiality of costs, and the amount of time and effort necessary to make such an allocation/reimbursement. The plan will also specifically identify direct and indirect costs requiring reimbursement. And, while there are different methodologies available for allocating costs that a university might use, the methodology used should result in a justifiable distribution of costs as determined by the campus CFO. Detailed documentation that demonstrates the factors that were taken into consideration in determining cost recovery are to be included as part of the plan.

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 CFO, or designee, shall annually approve and implement the cost allocation plan.

The campus budget officer stated that the campus cost allocation plan did not identify and document the noted areas because the staff involved in developing the cost allocation plan were unaware of the requirements of ICSUAM §3552.01.

Inadequate documentation of practices, methodologies, and factors for direct and indirect costs increases the risk of non-compliance with relevant requirements and misunderstandings and miscommunication regarding direct and indirect costs.
Recommendation 2

We recommend that the campus update its cost allocation plan to identify and document:

a. The alumni association, auxiliary organizations, enterprise programs/activities, fund sources or entities external to the university included in the plan.

b. The practices and methodologies utilized in determining the basis for allocating costs.

c. In-kinds, exchanges of value, or reimbursements included in the plan.

Campus Response

We concur. The campus has initiated a cost allocation study to comply with CSU policy for cost allocation plans and to resolve this recommendation. As a result of the study, the campus will update its cost allocation plan to identify and document:

a. The alumni association, auxiliary organizations, enterprise programs/activities, fund sources or entities external to the university included in the plan.

b. The practices and methodologies utilized in determining the basis for allocating costs.

c. In-kinds, exchanges of value, or reimbursements included in the plan.

Implementation date: May 31, 2013

FEES, REVENUES, AND RECEIVABLES

Campus administration of student fees receivable collections needed improvement.

We reviewed 11 delinquent student fees receivables and found that:

- In seven instances, delinquent student fees receivables were not written off after two years.
- In nine instances, receivables were written off without proper approvals.

The California State University, San Bernardino Student Accounts Office Policies and Procedures states that prior to year-end close, during the month of April or May, a review and analysis of outstanding balances greater than two years old will be done. Account balances up to $75 are not eligible for collection agency placement. The student accounts collections representative will prepare the write-off approval form to be signed and reviewed by the manager/supervisor and approved by the director of accounting.

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 delinquent student fees receivable.

The campus director of accounting stated that the seven receivables were not written off in a timely manner because student accounts receivable experienced accessibility problems with the write-off function in the PeopleSoft system, as well as other technical issues related to the PeopleSoft implementation. She further stated that nine receivables were written off without proper approval because staff members mistakenly thought that legal documents obtained for bankruptcies of the subject accounts were sufficient documentation to proceed with the write-offs.

Inadequate administration of student fees receivables increases the risk that receivables will not be properly controlled and accurately reflected in auxiliary financial statements, and failure to obtain proper authorization to write off student fees receivables limits the auxiliary’s ability to detect errors and irregularities, increases the likelihood of loss of funds, and compromises accountability.

**Recommendation 3**

We recommend that the campus ensure that:

a. Delinquent student fees receivables are written off after two years.

b. Write-offs of student fees receivables are properly authorized.

**Campus Response**

We concur. The campus will ensure that:

a. Delinquent student fees receivable are written off after two years and have completed the collection process as described in campus write-off procedures. The current written procedure for this process has been revised to reflect the actual, compliant practices.

   Implementation date: December 31, 2012

b. Write-offs of student fees receivable are promptly authorized. The campus has changed its procedure to include obtaining written authorizations for writing off delinquent student accounts receivable that have gone into bankruptcy.
PROPERTY AND EQUIPMENT

Campus administration of auxiliary property and equipment needed improvement.

We found that:

- Property and equipment disposals were recorded to the fixed asset records once annually, instead of at the time of disposition or at least quarterly for Associated Students, Incorporated (AS) and the Santos Manuel Student Union of California State University, San Bernardino (Union).

- Capitalization policies and procedures for the Union were not followed by the campus. Specifically, only assets over $5,000 were capitalized, although the Union’s policies and procedures required assets over $1,500 to be capitalized.

The Union Financial Policies Manual states that in order to be classified as equipment, the item must cost more than $1,500 with a life expectancy greater than three years.

The Compilation of Policies and Procedures for California State University Auxiliary Organizations sets sound business practice guidelines for auxiliary organizations operating within the CSU system. Section 8.9.7, Property and Equipment, states that the auxiliary should establish a written system that ensures proper recording of property and equipment when received and labeling of equipment, establish a written system that ensures physical inspection of property and equipment on a service life schedule, and reconcile physical inventories to the general ledger on a timely basis with review by management.

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

The campus director of auxiliary financial services (AFS) stated that AS and Union practices had been to ask an external auditor to calculate depreciation and any gain/loss on disposition of assets and provide that information to AFS at year-end for posting. She further stated her belief that the Union had changed the capitalization policy to agree with the campus threshold of $5,000.

Insufficient administration of property and equipment increases the risk that property may be lost or stolen or misrepresented in the financial statements.
Recommendation 4

We recommend that the campus:

a. Record property and equipment disposals to the fixed asset records at the time of disposal, or at least quarterly, for AS and the Union.

b. Ensure that auxiliaries’ capitalization policies and procedures are followed.

Campus Response

We concur. The following procedures are now in place:

a. AFS will record AS and Union fixed asset disposals upon notification from AS and Union staff. Subsequent to the audit, AFS has utilized the CMS Asset Module System to track and record property for both AS and the Union on a monthly basis.

b. Capitalization policies have been reviewed by AFS management and established procedures have been reemphasized to staff to ensure compliance.
CSUSB PHILANTHROPIC FOUNDATION

OPERATING AND ADMINISTRATIVE AGREEMENTS

An agreement between the CSUSB Philanthropic Foundation (Foundation) and a fund-raising council did not contain certain required provisions.

Specifically, the agreement did not include:

- An indemnification clause indemnifying 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 fund-raising council’s right to cancel the contract without cost, penalty, or liability for ten days following the contract’s execution date.

- The fund-raising council’s right to cancel the contract after the initial period by giving 30-day notice and payment for services provided by the fund-raising council up to the effective date of the notice.

- The fund-raising council’s right to control and approve the content and frequency of solicitation.

The California State University Risk Management Authority (CSURMA)/Auxiliary Organizations 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.

Government Code §12599(i) states that for every solicitation campaign or event produced by a commercial fundraiser for a charitable organization, there must be a written contract between the fund-raiser and the charitable organization. The written contract must contain or state certain provisions.

The Foundation executive director stated that the agreement did not include an appropriate indemnification clause and other required provisions because he was unaware of the requirements.
Recommendation 5

We recommend that the Foundation ensure that all agreements with fund-raising councils include the required provisions.

Campus Response

We concur and will ensure that all agreements with fundraising councils include the following required provisions:

a. Identification clause indemnifying 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.

b. Provision specifying the charitable organization’s right to cancel the contract without liability for 10 days following the date the contract is executed and right to cancel the contract after the initial period by giving 30-day notice and payment for services provided by the fundraising counsel up to the effective date of the notice.

c. A statement that the charitable organization exercises control and approval over the content and frequency of solicitation.

Implementation date: January 31, 2013

CORPORATE GOVERNANCE

The Foundation board minutes were not signed and approved in a timely manner.

Specifically, we found that the minutes were all signed and approved on April 26, 2012.

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

The Foundation executive director stated that the minutes were not certified in a timely manner due to oversight.

Failure to sign and approve minutes in a timely manner increases the risk of misunderstandings and may increase legal liability.
Recommendation 6

We recommend that the Foundation sign and approve board minutes in a timely manner.

Campus Response

We concur and will ensure that all Foundation board minutes are signed in a timely manner. Staff will now bring minutes that need to be certified to each meeting in order to obtain the required signature from the secretary on the same day they are approved.

Implementation date: January 31, 2013

OPERATIONAL COMPLIANCE

POLICIES AND PROCEDURES

The Foundation had not developed policies and procedures for the accounting and processing of property and equipment, matching gifts, pledges receivables, and purchasing and accounts payable.

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 accounting and processing of property and equipment, gifts, and purchasing and accounts payable.

The Foundation executive director stated that the Foundation had developed a number of critical policies and procedures during the first ten months of operation, but it had not yet completed the development of policies and procedures for the areas noted.

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

Recommendation 7

We recommend that the Foundation develop written policies and procedures for the accounting and processing of property and equipment, matching gifts, pledges receivable, and purchasing and accounts payable.
Campus Response

We concur and will develop written policies and procedures for the accounting and processing of property and equipment, matching gifts, pledges receivable, and purchasing and accounts payable. The procedures are in their final stage of edit and review and will be completed by January 31, 2013.

CONFLICT OF INTEREST

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

We found that 20 of the 95 board members had not signed a conflict-of-interest statement for fiscal year 2011/12.

CSU Conflict of Interest Handbook §2B, 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 executive director stated that the Foundation had experienced difficulty with obtaining all conflict-of-interest statements due to the large number of board members. Failure to obtain conflict-of-interest statements from all auxiliary board members annually increases liability for acts contrary to the code.

Recommendation 8

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

We concur and will vigilantly work with board members throughout the year in order to obtain their conflict-of-interest statements. Emailed reminders will be sent out quarterly to all members who have not turned in their signed statement.

Implementation date: January 31, 2013

FEES, REVENUES, AND RECEIVABLES

MATCHING GIFTS

Administration of Foundation matching gifts needed improvement.

We found that:

- A documented dual review was not performed during the matching gift acceptance process to ensure that funds were administered in accordance with corporate donor requirements.

- Gift acknowledgement letters for donations subject to a matching gift were not sent to donors.

- Matching gifts were not recorded as pledges receivable.

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 adequate administration of matching gifts.

The campus director of advancement services stated that a dual review was conducted but was not documented. She also stated that gift acknowledgement letters for matching gifts were not sent due to oversight. Further, she stated that matching gift pledges were recorded in the development database as matching gift claims; however, advancement services failed to send material matching gift claims to the Foundation so that they could be recorded by AFS.

Insufficient administration of matching gifts increases the risk of likelihood that funds will be misdirected and the campus will be exposed to liabilities from non-compliance with corporate donor policies.
Recommendation 9

We recommend that the Foundation:

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

b. Send gift acknowledgement letters to donors for donations subject to a matching gift.

c. Record matching gifts as pledges receivables.

Campus Response

We concur.

a. The Foundation has implemented documented dual review during the matching gift acceptance process. All documented dual review documents are available in the advancement services office.

   Implementation date: January 31, 2013

b. The Foundation will send out acknowledgement letters to donors for donations that are subject to a matching gift. This process will notify the donor that it has come to our attention that they are employed at an organization which has a matching gift program and will ask the donor to update us if this is no longer the case.

   Implementation date: January 31, 2013

c. The Foundation will record matching gifts as pledges receivables. There is an automated piece in the advancement database by which a “claim” is automatically generated when a matching gift form is authorized or confirmed electronically on an organization’s website.

   Implementation date: January 31, 2013

PLEDGES RECEIVABLE

Administration and accounting of Foundation pledges receivable needed improvement.

We found that:

- An aging report of pledges receivable was not prepared.
- Collection activity and follow-up on delinquent pledges receivable was not documented.

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

The Compilation of Policies and Procedures for California State University Auxiliary Organizations sets sound business practice guidelines for auxiliary organizations operating within the CSU system. Section 8.9.4, Receivables, states that the auxiliary should establish a written system to invoice customers promptly, in a consistent manner, while exercising due diligence in the follow-up and collection of past-due accounts.

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 pledges receivable.

The campus director of advancement services stated that the outstanding pledges listing was provided to AFS. She also stated her belief that the aging of outstanding gift pledges was prepared by AFS. Further, she stated that overdue pledges were consistently reviewed but were not documented, and write-offs were not consistently performed and documented due to oversight.

Inadequate administration over pledges receivable increases the risk that receivables will not be properly controlled and accurately reflected in auxiliary financial statements, reduces the likelihood of collection, and negatively impacts cash flow.

**Recommendation 10**

We recommend that the Foundation:

a. Prepare an aging report of pledges receivable.

b. Document collection activity and follow-up on delinquent pledges receivable.

**Campus Response**

We concur.

a. The Foundation will prepare an aging report of pledges receivable and has done so for the recent fiscal year 2011/12.

   Implementation date: January 31, 2013

b. The Foundation will document collection activity and follow-up on delinquent pledges receivable. There is a process in place now for the writing off of delinquent pledges.

   Implementation date: January 31, 2013
PROPERTY AND EQUIPMENT

Works of art donated to the Foundation were not recorded in the fixed asset system.

The *Compilation of Policies and Procedures for California State University Auxiliary Organizations* sets sound business practice guidelines for auxiliary organizations operating within the CSU system. Section 8.9.7, *Property and Equipment*, states that the auxiliary should establish a written system that ensures proper recording of property and equipment when received and labeling of equipment, establish a written system that ensures physical inspection of property and equipment on a service life schedule, and reconcile physical inventories to the general ledger on a timely basis with review by management.

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

The Foundation executive director stated that the works of art were not recorded in the fixed asset system because the Foundation had failed to communicate their donation to AFS.

Failure to record property and equipment increases the risk that property may be lost or stolen or misrepresented in the financial statements.

**Recommendation 11**

We recommend that the Foundation:

a. Record the works of art donated to the Foundation in the fixed asset system.
b. Ensure that all future donations are recorded in the fixed asset system.

**Campus Response**

We concur.

a. A prior period adjustment was recorded to recognize the full amount of gifts-in-kind to the Foundation’s art collection.

b. Although University Advancement personnel have been advised that all works of art donated to the Foundation must be recorded, AFS will check periodically (at least quarterly) with the University Advancement office to ensure that all art gifts are recorded in a timely manner.
ENDOWMENT ADMINISTRATION

Administration of Foundation endowments needed improvement.

We reviewed ten endowments and found that:

- Account set-up forms were not used to document the account number, corresponding spending account (if applicable), donor restrictions, department/individual(s) responsible for the account, and all authorized signers for any of the ten endowments.
- In three instances, funds transferred from other accounts were not recorded in the transferred donor database accounts.
- In two instances, funds transferred from holding accounts were not recorded to the transferred accounts in the general ledger.

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 director of advancement services stated her belief that the endowment agreements were sufficient to communicate information and that account set-up forms were not necessary. She further stated that transfers were not recorded in the donor database due to inadequate communication and/or documentation between the Foundation and AFS. The campus director of AFS stated that two transfers were not posted successfully to the general ledger due to oversight, but that they would have been identified when the year-end reconciliation was completed.

Insufficient administration of endowments increases the likelihood that funds will be misdirected and the campus will be exposed to liabilities resulting from noncompliance with a donor’s intent.

**Recommendation 12**

We recommend that the Foundation ensure that:

a. Account set-up forms are used for all endowments to document the account number, corresponding spending account (if applicable), donor restrictions, department/individual(s) responsible for the account, and all authorized signers.
b. Funds transferred from other accounts are properly recorded in the donor database accounts.

c. Funds transferred from holding accounts are properly recorded in the general ledger.

**Campus Response**

We concur.

a. Account set-up forms have been created for use for all endowments to document the account number, corresponding spending account (if applicable), donor restrictions, department/individual(s) responsible for the account, and all authorized signors.

b. A process has been put in place to ensure that funds transferred from other accounts are properly recorded in the donor database accounts.

c. A process has been put in place to ensure that the funds transferred from holding accounts are properly recorded in the general ledger.
University Enterprises Corporation at CSUSB

Operating and Administrative Agreements

University Enterprises Corporation at CSUSB (Corporation) performed a function not authorized by its operating agreement with the CSU Trustees.

Specifically, we found that the Corporation was involved in the administration of loans, scholarships, grants-in-aid, and related financial assistance.

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

Title 5 §42502 states that the operating agreement should specify the function or functions that the organization is to manage, operate, or administer.

The Corporation executive director stated that the function was mistakenly removed from the operating agreement when the Foundation for the California State University, San Bernardino was separated into two auxiliaries.

Failure to include all functions administered by the auxiliary in the operating agreement increases the risk of misunderstandings and miscommunication regarding rights and responsibilities.

Recommendation 13

We recommend that the Corporation amend its operating agreement to include as an authorized function the administration of loans, scholarships, grants-in-aid, and related financial assistance.

Campus Response

We concur. In June 2012, the Corporation’s operating agreement was amended and submitted to the chancellor’s office for signature. It has already been signed by the director of Contract Services and Procurement and returned to our office.

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 September 24, 2009, January 4, 2010, and March 10, 2011, that had not been filed with the chancellor’s office.
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 11.6.1, Reporting Changes in Articles of Incorporation (or Constitution) 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 Contract 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 executive director stated that the Bylaws were not submitted in a timely manner due to oversight.

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

**Recommendation 14**

We recommend that the Corporation promptly file the cited amendments to the Bylaws with Contract Services and Procurement at the Office of the Chancellor and ensure that all future changes or amendments to Bylaws are filed within 30 calendar days.

**Campus Response**

We concur. The amendments to Bylaws not previously filed with the chancellor’s office will be sent to Contract Services and Procurement immediately. The Corporation will ensure that all future changes or amendments to Bylaws will be filed within 30 calendar days.

Implementation date: November 15, 2012

**PERSONNEL AND PAYROLL**

Administration of Corporation employee hiring needed improvement.

We reviewed new-hire documentation for ten employees and found that:

- Authorization was not obtained from human resources prior to the start of employment for any of the ten employees.
- In four instances, I-9 forms were not certified within three business days of the date employment began.

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.

Department of Homeland Security, U.S. Citizenship and Immigration Services, *Form I-9, Employment Eligibility Verification*, states that employers must complete Section 2 by examining evidence of identity and employment authorization within three business days of the date employment begins.

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

The Corporation executive director stated that the failure to obtain human resources authorization prior to the start of employment and the failure to certify I-9 forms within three business days of the date employment began was due to project directors not submitting documents to the human resources department in a timely manner.

Failure to sufficiently document employee hiring increases the risk of loss of auxiliary funds and inappropriate use of auxiliary resources.

**Recommendation 15**

We recommend that the Corporation:

a. Obtain human resources authorization for employee hiring prior to the start of employment.

b. Ensure that I-9 forms for new employees are certified within three business days of the date employment begins.

**Campus Response**

We concur and will ensure that:

a. The Corporation’s human resources department will communicate to the campus community the requirement that human resources approval must be obtained prior to the start of employment.

   Implementation date: November 30, 2012

b. Via written management directive, the Corporation’s human resources department will confirm that I-9 forms for new employees will be certified within three business days of employment.

   Implementation date: November 30, 2012
PROPERTY AND EQUIPMENT

Administration of Corporation property and equipment needed improvement.

We found that:

- The Corporation had not performed an independent annual physical inventory for fiscal years 2008/09, 2009/10, and 2010/11.

- Ten of 25 assets selected for physical verification were not assigned fixed asset tags or ID numbers.

The Compilation of Policies and Procedures for California State University Auxiliary Organizations sets sound business practice guidelines for auxiliary organizations operating within the CSU system. Section 8.9.7, Property and Equipment, states that the auxiliary should establish a written system that ensures proper recording of property and equipment when received and labeling of equipment, establish a written system that ensures physical inspection of property and equipment on a service life schedule, and reconcile physical inventories to the general ledger on a timely basis with review by management.

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

The Corporation executive director stated that campus property management had performed the physical inventory and tagging in the past under an agreement with the Corporation, and she was unaware that the agreement had expired.

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

Recommendation 16

We recommend that the Corporation:

- Perform an independent physical inventory of property and equipment.
- Assign fixed asset tags or ID numbers to all property and equipment.
Campus Response

We concur and will ensure that:

a. An independent physical inventory will be conducted of Corporation capitalized property and equipment.
   Implementation date: May 31, 2013

b. Asset tags or ID numbers will be affixed to all Corporation capitalized property and equipment.
   Implementation date: May 31, 2013
ASSOCIATED STUDENTS, INCORPORATED

CORPORATE GOVERNANCE

Associated Students, Incorporated (AS) had not filed amended Articles of Incorporation and Bylaws with the chancellor’s office in a timely manner.

We found that amendments made to the Articles of Incorporation on June 24, 2010, had not been filed with the chancellor’s office until December 3, 2010, and amendments made to the Bylaws on February 14, 2012, had not been filed with the chancellor’s office until they were noted during fieldwork.

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 11.6.1, Reporting Changes in Articles of Incorporation (or Constitution) 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 Contract 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 AS executive director stated that amended Articles of Incorporation and Bylaws were not submitted to the chancellor’s office in a timely manner due to oversight.

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

Recommendation 17

We recommend that AS ensure that all future changes or amendments to Articles of Incorporation and Bylaws are filed with Contract Services and Procurement at the Office of the Chancellor within 30 calendar days.

Campus Response

We concur. To ensure that AS’s governing documents (Articles of Incorporation/Bylaws) are filed within the 30-day limit, AS will note on any transmission of these documents to the chancellor’s office the date they were transmitted on the last page of each copy of the document(s). The revised Bylaws, which are available online, will have this confirmation that they were transmitted to the chancellor’s office. This procedure will be included in a written directive to the AS staff.

Implementation date: October 31, 2012
OPERATIONAL COMPLIANCE

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

We found that two of the 21 board members had not signed a conflict-of-interest statement for fiscal year 2011/12.

CSU Conflict of Interest Handbook §2B, dated April 2012, 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, §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 AS executive director stated that the board members had not signed conflict-of-interest statements 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 18

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

Campus Response

We concur. To ensure that AS is in compliance, a conflict-of-interest statement will be required at the first meeting of the AS board of directors. When students leave the board of directors for whatever reason, the replacement appointee will be required to sign a conflict-of-interest statement at the time of appointment. This procedure will be included in a written directive to AS staff.

Implementation date: October 31, 2012
PROGRAM COMPLIANCE

Administration of AS stipends needed improvement.

We found that:

- Stipends paid to student executive officers were processed through payroll without time records, which are required by the Fair Labor Standards Act of 1938.

- Stipends were not reported to the financial aid office before funds were expended.

The Fair Labor Standards Act of 1938 requires that employees must receive at least the minimum wage and may not be employed for more than 40 hours in a week without receiving at least one-and-one-half times their regular rates of pay for the overtime hours. The Act requires no particular form for the records but does require that the records include certain identifying information about the employee and data about the hours worked and the wages earned. The law requires this information to be accurate.

Title 5 §42500(d) states that a record of financial assistance, such as student loans, scholarships, stipends, and grants-in-aid, shall be forwarded on a timely basis to the campus financial aid office and shall be documented on student financial aid recipient records in that office. All such financial assistance provided from student body organization funds shall be approved by the campus financial aid office before such funds are expended and shall not exceed amounts to be provided under regulations of federal and state financial aid programs, except as provided under §42403(b).

The AS executive director stated that the requirements for stipend payments were not clear to him. He further stated his belief that because stipends were reported to the campus student accounts office and a 1098-T form was issued, stipends did not need to be reported to the financial aid office.

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

**Recommendation 19**

We recommend that AS:

a. Obtain guidance from the chancellor’s office about how to process stipends paid to student executive officers.

b. Report stipends to the financial aid office before funds are expended.
Campus Response

We concur.

a. AS will obtain guidance from the chancellor’s office about how to process stipends paid to student executive officers.

   Implementation date: November 30, 2012

b. Since AS is no longer paying stipends, AS considers this issue to be resolved; however, in the future, should AS choose the option of paying stipends, AS will comply with this finding.

PURCHASING AND ACCOUNTS PAYABLE

AS did not require students to complete a travel request form prior to travel to document approval of travel and related expenditures to be incurred. This is a repeat finding from the prior Auxiliary Organizations audit.

The AS Financial Policy and Procedures state that prior to commencing travel on AS business, all officers, employees, or students must complete a Travel Approval Form for review and approval by the executive director/AS president/vice president of finance.

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

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

The AS executive director stated that AS did not require travel approval forms for routine monthly student conferences because these travel expenditures had already been approved through the budget.

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

Recommendation 20

We recommend that AS require students to complete a travel request form prior to travel to document approval of travel and related expenditures to be incurred.
Campus Response

We concur. Student travel will be authorized after a travel request form is completed and signed by the AS executive director or, in his/her absence, the AS assistant director. This procedure will be included in a written directive to AS staff.

Implementation date: October 31, 2012

PERSONNEL AND PAYROLL

AS did not complete separation documentation for student employees.

We reviewed ten recent student employee separations and found that separation documentation was not on file for any of the ten employees.

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.

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

The AS executive director stated that separations were not documented for student employees because many students were reappointed to work the following quarter.

Failure to sufficiently document employee separations increases the risk of loss of auxiliary funds and inappropriate use of auxiliary resources.

Recommendation 21

We recommend that AS complete separation documentation for student employees.

Campus Response

We concur. AS created a separation document subsequent to this finding and is now using it to formally inform the auxiliary accounting office when a student separates from AS. This procedure will be included in a written directive to AS staff.

Implementation date: October 31, 2012
OPPERATING AND ADMINISTRATIVE AGREEMENTS

The Santos Manuel Student Union of California State University, San Bernardino (Union) performed a function not authorized by its operating agreement with the CSU Trustees.

Specifically, we found that the Union was involved in the administration of loans, scholarships, grants-in-aid, and related financial assistance.

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

Title 5 §42502 states that the operating agreement should specify the function or functions that the organization is to manage, operate, or administer.

The Union executive director stated that he was unaware that the administration of stipends was required to be listed as a function in the operating agreement.

Failure to include all functions administered by the auxiliary in the operating agreement increases the risk of misunderstandings and miscommunication regarding rights and responsibilities.

Recommendation 22

We recommend that the Union amend its operating agreement to include as an authorized function the administration of loans, scholarships, grants-in-aid, and related financial assistance.

Campus Response

We concur. The Union has amended its current operating agreement to provide for administration of loans, scholarships, grants-in-aid, and related financial assistance, as recommended. An updated agreement is on file with the campus and the chancellor’s office.

CORPORATE GOVERNANCE

BYLAWS

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

We found an amendment to the Bylaws made on October 8, 2009, that had not been filed with the chancellor’s office.
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 11.6.1, *Reporting Changes in Articles of Incorporation (or Constitution) 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 Contract 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 Union executive director stated that the Bylaws were not submitted in a timely manner due to oversight.

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

**Recommendation 23**

We recommend that the Union promptly file the cited amendments to the Bylaws with Contract Services and Procurement at the Office of the Chancellor and ensure that all future changes or amendments to Bylaws are filed within 30 calendar days.

**Campus Response**

We concur. The Union had filed an updated and amended set of Bylaws with the chancellor’s office, as recommended. Union management will conduct an annual meeting to review any Bylaws changes and ensure that appropriate notice has been provided.

**ANNUAL REGISTRATION FEE REPORT**

The Union had not filed the Annual Registration Renewal Fee Report (RRF-1).

Title 11 §303 and §305 indicate that all periodic written reports required to be filed under the provisions of §12586 of the Government Code and §301 of these regulations shall be filed with the Registry of Charitable Trusts, and include: (1) the Annual Registration Renewal Fee Report (RRF-1 3/05); and (2) Internal Revenue Service Form 990, 990-EZ or 990-PF, as applicable. After the first periodic report is filed as required by §304 of these regulations, periodic written reports shall thereafter be filed on an annual basis unless specifically required or permitted to be filed on other than an annual basis as set forth in these regulations, or when filing has been suspended by the Attorney General pursuant to Government Code §12586. The time for filing any periodic report subsequent to the first periodic report shall be not later than four months and 15 days following the close of each calendar or fiscal year subsequent to the filing of the first report, but in no event less than once annually, unless for good cause extension of such annual filing has been granted by the Attorney General, or otherwise excused. If the Internal Revenue Service grants an extension to file the Form 990, 990-PF or 990-EZ, that extension will be honored by the Registry of Charitable Trusts for purposes of filing the Form 990, 990-PF or 990-EZ and the Annual Registration Renewal Fee.
Report (RRF-1) with the Registry of Charitable Trusts. The RRF-1 and the Form 990, 990-PF or 990-EZ shall be filed simultaneously with the Registry of Charitable Trusts.

The Union executive director stated that he misinterpreted the requirement, and therefore, did not file the RRF-1 forms.

Failure to file RRF-1 forms increases the risk of fines and penalties.

During our fieldwork, the Union provided documentation showing evidence that the RRF-1 forms were filed for the past ten years, as allowed by the Office of the Attorney General.

FISCAL COMPLIANCE

Union reserves for fiscal year 2010/11 had not been approved by the campus president.

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-4, Basis for Financial Standards and Fiscal Viability – Financial Standards, states that annually each auxiliary governing board shall review the fiscal viability of the auxiliary organization to include the submission of a report annually to the president, which includes a plan to build and maintain appropriate reserves. Such a report may be a part of the annual budget submission.

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 the campus president approve reserves.

The Union executive director stated that reserves were not approved by the campus president due to oversight.

Lack of approval of reserves 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 24

We recommend that the Union ensure that its annual reserves are approved by the campus president.
Campus Response

We concur. The Union has provided current reserve information to the campus vice president and the president, as recommended. Future reserve reports will be included with the Annual Operating Budget submittal and will receive presidential signature approval.

PROGRAM COMPLIANCE

Administration of Union stipends needed improvement.

We found that:

- Stipends paid to student executive officers were processed through payroll without time records, which are required by the Fair Labor Standards Act of 1938.
- Stipends were not reported to the financial aid office before funds were expended.

The Fair Labor Standards Act of 1938 requires that employees must receive at least the minimum wage and may not be employed for more than 40 hours in a week without receiving at least one-and-one-half times their regular rates of pay for the overtime hours. The Act requires no particular form for the records, but does require that the records include certain identifying information about the employee and data about the hours worked and the wages earned. The law requires this information to be accurate.

Title 5 §42500(d) states that a record of financial assistance, such as student loans, scholarships, stipends, and grants-in-aid, shall be forwarded on a timely basis to the campus financial aid office and shall be documented on student financial aid recipient records in that office. All such financial assistance provided from student body organization funds shall be approved by the campus financial aid office before such funds are expended and shall not exceed amounts to be provided under regulations of federal and state financial aid programs, except as provided under §42403(b).

The Union executive director stated that the requirements for the payment and reporting of stipends were unclear to him.

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

Recommendation 25

We recommend that the Union:

a. Obtain guidance from the chancellor’s office about how to process stipends paid to student executive officers.
b. Report stipends to the financial aid office before funds are expended.

**Campus Response**

We concur.

a. The Union has obtained guidance from the chancellor’s office about how to process stipends paid to students.

b. The Union will report stipends to the financial aid office before funds are expended.

### FEES, REVENUES, AND RECEIVABLES

Administration of Union accounts receivable needed improvement.

We found that:

- Policies and procedures did not adequately address the write-off of uncollectible accounts receivable.

- Collection and follow-up activities on delinquent accounts receivable were not performed in accordance with the Union’s policy.

- Accounts receivable aging was not reviewed by management on a monthly basis.

- Long outstanding accounts receivable were not written off in a timely manner.

The Union *Accounts Receivable Policy* states that with the assistance of the office manager, the budget analyst will be responsible for the collection of receivables. Statements will be sent monthly, as well as 30-day past-due notices, 60-day past-due notices, and 90-day past-due notices. Receivables must be collected as expeditiously as possible, but the cost of collection must not exceed the expected revenue. All efforts for collection will be documented and maintained for audit purposes with the primary responsibility falling upon the budget analyst and office manager. Notes and conversations with customers will be documented.

The *Compilation of Policies and Procedures for California State University Auxiliary Organizations* sets sound business practice guidelines for auxiliary organizations operating within the CSU system. Section 8.9.4, *Receivables*, states that the auxiliary should establish a written controls system that ensures billing, cash collection, customer inquiries, and subsidiary ledger reconciliations are conducted separately and with due regard for the receivable duties; establish a written system to record receivables in a timely manner with proper documentation as to terms and conditions; establish a written system to invoice customers promptly, in a consistent manner, while exercising due diligence in the follow-up and collection of past-due accounts; and reconcile subsidiary receivables ledgers.
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 delinquent accounts receivable.

The Union executive director stated his belief that the accounts receivable policy and annual review of the accounts receivables aging were sufficient. He further stated that collection efforts were not in accordance with the policy due to oversight, and that he was unaware of the suggested time frame for writing off long outstanding accounts receivable.

The absence of sufficient written policies and procedures increases the risk that errors, inconsistencies, misunderstandings, or misappropriation will occur, while inadequate control over accounts receivable increases the risk that receivables will not be controlled and reflected in auxiliary financial statements, reduces the likelihood of collection, and negatively impacts cash flow.

**Recommendation 26**

We recommend that the Union:

a. Update policies and procedures to address write-off of uncollectible accounts receivable.

b. Ensure that collection and follow-up activities on delinquent accounts receivable are performed in accordance with Union policy.

c. Ensure that accounts receivable aging is reviewed by management on a monthly basis.

d. Write-off long outstanding accounts receivable in a timely manner.

**Campus Response**

We concur. The Union has adjusted policies and procedures and begun reviewing accounts receivable aging, as recommended. Future write-offs will be reviewed in an annual report to the Union’s finance committee.

**PERSONNEL AND PAYROLL**

Administration of Union employee hiring needed improvement.

We reviewed new-hire documentation for ten employees and found that:

- In two instances, human resources authorization was not obtained prior to the start of employment.
In four instances, I-9 forms were not certified within three business days of the date employment began.

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 Department of Homeland Security, U.S. Citizenship and Immigration Services, *Form I-9, Employment Eligibility Verification*, states that employers must complete Section 2 by examining evidence of identity and employment authorization within three business days of the date employment begins.

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

The Union executive director stated that the failure to obtain human resources authorization prior to employment and the failure to certify I-9 forms within three business days of the date employment began was due to hiring managers failing to submit documents in a timely manner.

Failure to sufficiently document employee hiring increases the risk of loss of auxiliary funds and inappropriate use of auxiliary resources.

**Recommendation 27**

We recommend that the Union:

a. Obtain human resources authorization for employee hiring prior to the start of employment.

b. Ensure that I-9 forms for new employees are certified within three business days of the date employment begins.

**Campus Response**

We concur. Union management has notified all supervisors of the importance of following proper hiring procedures, specifically the completion of all necessary paperwork prior to starting employment, as recommended. The Union staff responsible for human resources will reinforce this message regularly, at the beginning of each quarter.
PROPERTY AND EQUIPMENT

Administration of Union property and equipment needed improvement.

We found that:

- Written policies and procedures for an independent physical count of inventory had not been developed.

- An independent annual physical inventory for fiscal years 2008/09, 2009/10, and 2010/11 had not been performed.

- One property disposal was not approved by the board of directors before disposal.

The *Compilation of Policies and Procedures for California State University Auxiliary Organizations* sets sound business practice guidelines for auxiliary organizations operating within the CSU system. Section 8.9.7, *Property and Equipment*, states that the auxiliary should establish a written system that ensures proper recording of property and equipment when received and labeling of equipment, establish a written system that ensures physical inspection of property and equipment on a service life schedule, and reconcile physical inventories to the general ledger on a timely basis with review by management.

The Union *Financial Policies Manual* states that all capital equipment must receive board of directors' approval before disposal. Disposal methods may include public sale or auction, donation to a charitable organization, and scrapping.

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

The Union executive director stated his belief that the physical inventory policy and execution was covered as part of the accounting agreement with AFS. He further stated that the disposal was not approved by the board of directors due to oversight.

Insufficient administration of property and equipment increases the risk that property may be lost or stolen or misrepresented in the financial statements.
**Recommendation 28**

We recommend that the Union:

a. Develop written policies and procedures for independent physical inventory counts of property and equipment.

b. Perform an independent physical inventory of property and equipment.

c. Obtain approval from the board of directors for all disposed assets.

**Campus Response**

We concur.

a. Written policies and procedures for independent physical inventory counts for the Union are in place, as recommended.

b. Plans are being solidified with the campus for the Union to engage in a campuswide inventory reporting system and process, under the direction of the campus administration and finance division.

   Implementation date: May 31, 2013

c. Board approval for appropriate disposal of assets will appear as an annual Union agenda item.

   Implementation date: November 29, 2012
APPENDIX A:
PERSONNEL CONTACTED

<table>
<thead>
<tr>
<th>Name</th>
<th>Title</th>
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<tbody>
<tr>
<td><strong>CAMPUS</strong></td>
<td></td>
</tr>
<tr>
<td>Tomás D. Morales</td>
<td>President (Currently)</td>
</tr>
<tr>
<td>Albert K. Karnig</td>
<td>President (At time of review)</td>
</tr>
<tr>
<td>Deletta Anderson</td>
<td>Director of Accounting</td>
</tr>
<tr>
<td>Cathy Bates</td>
<td>Payroll Technician</td>
</tr>
<tr>
<td>Vicki Bevard</td>
<td>Director of Advancement Services</td>
</tr>
<tr>
<td>Dena Chester</td>
<td>Budget Officer</td>
</tr>
<tr>
<td>Robert Gardner</td>
<td>Vice President, Administration and Finance</td>
</tr>
<tr>
<td>Crystal Henderson</td>
<td>Accounting Technician</td>
</tr>
<tr>
<td>Lisa Iannolo</td>
<td>Director of Auxiliary Financial Services</td>
</tr>
<tr>
<td>Melinda Jensen</td>
<td>Accounting Supervisor for Accounts Payable and Accounts Receivable</td>
</tr>
<tr>
<td>Holly Konecny</td>
<td>Accountant</td>
</tr>
<tr>
<td>Marilyn Lymuel</td>
<td>Bursar Manager</td>
</tr>
<tr>
<td>Siska Purnawan</td>
<td>Payroll Supervisor</td>
</tr>
<tr>
<td>Larry Sharp</td>
<td>Vice President, University Advancement</td>
</tr>
<tr>
<td>Jeff Thompson</td>
<td>Associate Provost for Research</td>
</tr>
<tr>
<td>Lynn Williams</td>
<td>Accounting Technician for Accounts Receivable</td>
</tr>
<tr>
<td><strong>CSUSB PHILANTHROPIC FOUNDATION</strong></td>
<td></td>
</tr>
<tr>
<td>Larry Sharp</td>
<td>Executive Director</td>
</tr>
<tr>
<td>Crystal Vickery</td>
<td>Executive Assistant to the Vice President</td>
</tr>
<tr>
<td><strong>UNIVERSITY ENTERPRISES CORPORATION AT CSUSB</strong></td>
<td></td>
</tr>
<tr>
<td>Deborah Burns</td>
<td>Executive Director</td>
</tr>
<tr>
<td>Cara Marie Pham</td>
<td>Administrative Support Coordinator</td>
</tr>
<tr>
<td>Diane Trujillo</td>
<td>Director of Sponsored Programs Administration</td>
</tr>
<tr>
<td>Christia Williams</td>
<td>Human Resources Supervisor</td>
</tr>
<tr>
<td><strong>ASSOCIATED STUDENTS, INCORPORATED</strong></td>
<td></td>
</tr>
<tr>
<td>Patrick Areffi</td>
<td>Executive Director</td>
</tr>
<tr>
<td>Shannon Stratton</td>
<td>Assistant Executive Director</td>
</tr>
<tr>
<td>Dacia Woods</td>
<td>Administration Support Coordinator</td>
</tr>
<tr>
<td><strong>SANTOS MANUEL STUDENT UNION OF CALIFORNIA STATE UNIVERSITY, SAN BERNARDINO</strong></td>
<td></td>
</tr>
<tr>
<td>Susan Avery</td>
<td>Administrative Office Manager</td>
</tr>
<tr>
<td>Aaron Burgess</td>
<td>Associate Director of Operations</td>
</tr>
<tr>
<td>Rick Craig</td>
<td>Director of Recreational Sports</td>
</tr>
<tr>
<td>Mark Day</td>
<td>Executive Director</td>
</tr>
<tr>
<td>Maria Najera-Neri</td>
<td>Budget Analyst</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.
MEMORANDUM

DATE: October 30, 2012

TO: Larry Mandel
   University Auditor
   The California State University

FROM: Bob Gardner, Vice President
   for Administration and Finance

SUBJECT: Campus Response to
Auxiliary Organizations Audit – Report No. 12-03
California State University, San Bernardino

Enclosed is the campus response to CSUSB’s *Auxiliary Organizations Audit – Report No. 12-03*.

Please contact me with any questions you may have. Thank you.

c: Tomás Morales

Enclosure
AUXILIARY ORGANIZATIONS
CALIFORNIA STATE UNIVERSITY,
SAN BERNARDINO
Audit Report 12-03

CAMPUS

OPERATING AND ADMINISTRATIVE AGREEMENTS

Recommendation 1

We recommend that the campus perform a review of auxiliary organizations at least once every five years to ensure that written operating agreements are current and functions are in compliance with the agreements.

Campus Response

The campus concurs with the recommendation. The campus will perform a review of auxiliary organizations to ensure the written operating agreements are current and functions are in compliance with the agreements. Confirmation that our review has been conducted will consist of either an updated operating agreement or a letter from the campus President to the executive vice chancellor/CFO certifying that the review has been conducted.

Implementation Date: June 30, 2013

FISCAL COMPLIANCE

Recommendation 2

We recommend that the campus update its cost allocation plan to identify and document:

a. The alumni association, auxiliary organizations, enterprise programs/activities, fund sources or entities external to the university included in the plan.

b. The practices and methodologies utilized in determining the basis for allocating costs.

c. In-kinds, exchanges of value, or reimbursements included in the plan.
Campus Response

The campus concurs with the recommendation. The campus has initiated a cost allocation study to comply with CSU policy for cost allocation plans, and to resolve this recommendation. As a result of the study, the campus will update its cost allocation plan to identify and document:

a. The alumni association, auxiliary organizations, enterprise programs/activities, fund sources or entities external to the university included in the plan.

b. The practices and methodologies utilized in determining the basis for allocating costs.

c. In-kinds, exchanges of value, or reimbursements included in the plan.

Implementation Date: May 31, 2013

FEES, REVENUES, AND RECEIVABLES

Recommendation 3

We recommend that the campus ensure that:

a. Delinquent student fees receivables are written off after two years.
b. Write-offs of student fees receivables are properly authorized.

Campus Response

The campus concurs with the recommendation. The campus will ensure that:

a. Delinquent student fees receivable are written off after two years and have completed the collection process as described in campus write-off procedures. The current written procedure for this process has been revised to reflect the actual, compliant practices.

Implementation Date: December 31, 2012

b. Write-offs of student fees receivable are promptly authorized. The campus has changed its procedure to include obtaining written authorizations for writing-off delinquent student accounts receivable that have gone into bankruptcy.

Implemented.
PROPERTY AND EQUIPMENT

Recommendation 4

We recommend that the campus:

a. Record property and equipment disposals to the fixed asset records at the time of disposal, or at least quarterly, for AS and the Union.

b. Ensure that auxiliaries’ capitalization policies and procedures are followed.

Campus Response

The campus concurs with the recommendation. The following procedures are now in place:

a. Auxiliary Accounting will record ASI and Student Union fixed asset disposals upon notification from AS and SU staff. Subsequent to the audit, Auxiliary Accounting has utilized the CMS Asset Module System to track and record property for both AS and the Student Union on a monthly basis.

Implemented.

b. Capitalization policies have been reviewed by Auxiliary Accounting management and established procedures have been reemphasized to staff to ensure compliance.

Implemented.
CSUSB PHILANTHROPIC FOUNDATION

OPERATING AND ADMINISTRATIVE AGREEMENTS

Recommendation 5

We recommend that the Foundation ensure that all agreements with fund-raising councils include the required provisions.

Campus Response

The campus concurs with the recommendation and will ensure that all agreements with fundraising councils include the following required provisions:

a. Identification clause identifying 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.

b. Provision specifying the charitable organization’s right to cancel the contract without liability for 10 days following the date the contract is executed and right to cancel the contract after the initial period by giving 30-day notice and payment for services provided by the fundraising counsel up to the effective date of the notice.

c. A statement that the charitable organization exercises control and approval over the content and frequency of solicitation.

Implementation Date: January 31, 2013

CORPORATE GOVERNANCE

Recommendation 6

We recommend that the Foundation sign and approve board minutes in a timely manner.

Campus Response

The campus concurs with the recommendation and will ensure that all board minutes are signed in a timely manner. Staff will now bring minutes that need to be certified to each meeting in order to obtain the required signature from the Secretary on the same day they are approved.

Implementation Date: January 31, 2013
OPERATIONAL COMPLIANCE

POLICIES AND PROCEDURES

Recommendation 7

We recommend that the Foundation develop written policies and procedures for the accounting and processing of property and equipment, matching gifts, pledges receivable, and purchasing and accounts payable.

Campus Response

The campus concurs with the recommendation to develop written policies and procedures for the accounting and processing of property and equipment, matching gifts, pledges receivable and purchasing and accounts payable. The procedures are in their final stage of edit and review and will be completed by January 31, 2013.

Implementation date: January 31, 2013

CONFLICT OF INTEREST

Recommendation 8

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

Campus Response

The campus concurs with the recommendation and will vigilantly work with board members throughout the year in order to obtain their conflict of interest statements. Emailed reminders will be sent out quarterly to all members who have not turned in their signed statement.

Implementation Date: January 31, 2013

FEES, REVENUES, AND RECEIVABLES

MATCHING GIFTS

Recommendation 9

We recommend that the Foundation:

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

b. Send gift acknowledgement letters to donors for donations subject to a matching gift.
c. Record matching gifts as pledges receivables.

**Campus Response**

a. The campus concurs with the recommendation and has implemented documented dual review and during the matching gift acceptance process. All documented dual review documents are available in the Advancement Services Office.

Implementation Date: January 31, 2013

b. The campus concurs with the recommendation to send out acknowledgement letters to donors for donations that are subject to a matching gift. This process will notify the donor that it has come to our attention that they are employed at an organization which has a matching gift program. And, our letter will ask to update us if this is no longer the case.

Implementation Date: January 31, 2013

c. The campus concurs with the recommendation to record matching gifts as pledges receivables. There is an automated piece in the Advancement database by which a ‘claim’ is automatically generated when we authorize a matching gift form or confirm electronically on an organization’s website.

Implementation Date: January 31, 2013

**PLEDGES RECEIVABLE**

**Recommendation 10**

We recommend that the Foundation:

a. Prepare an aging report of pledges receivable.
b. Document collection activity and follow-up on delinquent pledges receivable.

**Campus Response**

a. The campus concurs with the recommendation to prepare an aging report of pledges receivable and have done so for the recent fiscal year 2011-12.

Implementation Date: January 31, 2013

b. The campus concurs with the recommendation to document collection activity and follow-up on delinquent pledges receivable. There is a process in place now for the writing off of delinquent pledges.

Implementation Date: January 31, 2013
PROPERTY AND EQUIPMENT

Recommendation 11

We recommend that the Foundation:

a. Record the works of art donated to the Foundation in the fixed asset system.
b. Ensure that all future donations are recorded in the fixed asset system.

Campus Response

a. The campus concurs with the recommendation. A prior period adjustment was recorded to recognize the full amount of gifts-in-kind to the Foundation’s art collection.

Implemented.

b. Although University Advancement personnel have been advised that all works of art donated to the Foundation must be recorded, Auxiliary Accounting will check periodically (at least quarterly) with the campus University Advancement office to ensure that all art gifts are recorded in a timely manner.

Implemented.
ENDOWMENT ADMINISTRATION

Recommendation 12

We recommend that the Foundation ensure that:

a. Account set-up forms are used for all endowments to document the account number, corresponding spending account (if applicable), donor restrictions, department/individual(s) responsible for the account, and all authorized signers.

b. Funds transferred from other accounts are properly recorded in the donor database accounts.

c. Funds transferred from holding accounts are properly recorded in the general ledger.

Campus Response

The campus concurs with the recommendation to:

a. Create Account Set-up Forms for use for all endowments to document the account number, corresponding spending account (if applicable), donor restrictions, department/individual(s) responsible for the account, and all authorized signors. This has been completed and is in use currently.

b. That funds transferred from other accounts are properly recorded in the donor database accounts. This process is in place and is in use currently.

c. The funds transferred from holding accounts are properly recorded in the general ledger. This process is in place and is in use currently.

Implemented.
OPERATING AND ADMINISTRATIVE AGREEMENTS

Recommendation 13

We recommend that the Corporation amend its operating agreement to include as an authorized function the administration of loans, scholarships, grants-in-aid, and related financial assistance.

Campus Response

The campus concurs with the recommendation. In June 2012 UEC’s Operating Agreement was amended, submitted to the Chancellor’s Office for signature. It has already been signed by Tom Roberts and returned to our office.

Implemented.

CORPORATE GOVERNANCE

Recommendation 14

We recommend that the Corporation promptly file the cited amendments to the Bylaws with Contract Services and Procurement at the Office of the Chancellor and ensure that all future changes or amendments to Bylaws are filed within 30 calendar days.

Campus Response

The campus concurs with the recommendation. The amendments to Bylaws not previously filed with the Chancellor’s Office will be sent to Contract Services and Procurement immediately. We will ensure that all future changes or amendments to Bylaws will be filed within 30 calendar days.

Implementation Date: November 15, 2012

PERSONNEL AND PAYROLL

Recommendation 15

We recommend that the Corporation:

a. Obtain human resources authorization for employee hiring prior to the start of employment.

b. Ensure that I-9 forms for new employees are certified within three business days of the date employment begins.
Campus Response

The campus concurs with the recommendation. UEC will ensure that:

a. UEC’s HR Department will communicate to the campus community the requirement that HR approval must be obtained prior to the start of employment.

Implementation Date: November 30, 2012

b. Via written management directive, UEC’s HR Department will confirm that I-9 forms for new employees will be certified within 3 business days of employment.

Implementation Date: November 30, 2012

PROPERTY AND EQUIPMENT

Recommendation 16

We recommend that the Corporation:

a. Perform an independent physical inventory of property and equipment.
b. Assign fixed asset tags or ID numbers to all property and equipment.

Campus Response

The campus concurs with the recommendation: UEC will ensure that:

a. An independent physical inventory will be conducted of capitalized property and equipment.

Implementation Date: May 31, 2013

b. Asset tags or ID numbers will be affixed to all capitalized property and equipment.

Implementation Date: May 31, 2013
ASSOCIATED STUDENTS, INCORPORATED

CORPORATE GOVERNANCE

Recommendation 17

We recommend that AS ensure that all future changes or amendments to Articles of Incorporation and Bylaws are filed with Contract Services and Procurement at the Office of the Chancellor within 30 calendar days.

Campus Response

The campus concurs with the recommendation. To ensure that ASI’s governing documents (Articles of Incorporation/Bylaws) are filed within the thirty day limit, ASI will note on any transmission of these documents to the Chancellor’s Office the date they were transmitted on the last page of each copy of the document(s). The revised bylaws, which are available online, will have this confirmation that they were transmitted to the Chancellor’s Office. We will include this procedure in a written directive to the ASI staff.

Implementation Date: October 31, 2012

OPERATIONAL COMPLIANCE

Recommendation 18

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

Campus Response

The campus concurs with the recommendation. To ensure that ASI is in compliance, a Conflict of Interest (COI) statement will be required at the first meeting of the ASI Board of Directors (BoD). When students leave the BoD for whatever reason, the replacement appointee will be required to sign a COI at the time of appointment. We will include this procedure in a written directive to ASI staff.

Implementation Date: October 31, 2012

PROGRAM COMPLIANCE

Recommendation 19

We recommend that AS:

a. Obtain guidance from the chancellor’s office about how to process stipends paid to student executive officers.

b. Report stipends to the financial aid office before funds are expended.
Campus Response

a. The campus concurs with the recommendation. We will obtain guidance from the chancellor’s office about how to process stipends paid to student executive officers.

Implementation Date: November 30, 2012

b. The campus concurs with the recommendation. Since ASI is no longer paying stipends, we consider this issue to be resolved; however, in the future, should ASI choose the option of paying stipends, we will comply with this finding.

Implemented.

PURCHASING AND ACCOUNTS PAYABLE

Recommendation 20

We recommend that AS require students to complete a travel request form prior to travel to document approval of travel and related expenditures to be incurred.

Campus Response

The campus concurs with the recommendation. Student travel will be authorized after a travel request form is completed and signed by the ASI Executive Director or in his/her absence, the ASI Assistant Director. This procedure will be included in a written directive to ASI staff.

Implementation date: October 31, 2012

PERSONNEL AND PAYROLL

Recommendation 21

We recommend that AS complete separation documentation for student employees.

Campus Response

The campus concurs with the recommendation. ASI created a separation document subsequent to this finding, and is now using it to formally inform the auxiliary accounting office when a student separates from ASI. This procedure will be included in a written directive to ASI staff.

Implementation date: October 31, 2012
OPERATING AND ADMINISTRATIVE AGREEMENTS

Recommendation 22

We recommend that the Union amend its operating agreement to include as an authorized function the administration of loans, scholarships, grants-in-aid, and related financial assistance.

Campus Response

The campus concurs with the recommendation. The SMSU has amended its current operating agreement to provide for administration of loans, scholarships, grants-in-aid, and related financial assistance, as recommended. An updated agreement is on file with the campus and the Chancellor’s Office.

Implemented.

CORPORATE GOVERNANCE

BYLAWS

Recommendation 23

We recommend that the Union promptly file the cited amendments to the Bylaws with Contract Services and Procurement at the Office of the Chancellor and ensure that all future changes or amendments to Bylaws are filed within 30 calendar days.

Campus Response

The campus concurs with the recommendation. The SMSU, prior to the audit, had filed an updated and amended set of Bylaws with the Chancellor’s Office, as recommended. SMSU management will conduct an annual meeting to review any Bylaws changes and insure that appropriate notice has been provided.

Implemented.

FISCAL COMPLIANCE

Recommendation 24

We recommend that the Union ensure that its annual reserves are approved by the campus president.
Campus Response

The campus concurs with the recommendation. The SMSU has provided current reserve information to the campus Vice President and the President, as recommended. Future reserve reports will be included with the Annual Operating Budget submittal, and will receive Presidential signature approval.

Implemented.

PROGRAM COMPLIANCE

Recommendation 25

We recommend that the Union:

a. Obtain guidance from the chancellor’s office about how to process stipends paid to student executive officers.

b. Report stipends to the financial aid office before funds are expended.

Campus Response

a. The campus concurs with the recommendation. The SMSU has obtained guidance from the chancellor’s office about how to process stipends paid to students.

Implemented.

b. The campus concurs with the recommendation. We will report stipends to the financial aid office before funds are expended.

Implemented.

FEES, REVENUES, AND RECEIVABLES

Recommendation 26

We recommend that the Union:

a. Update policies and procedures to address write-off of uncollectible accounts receivable.

b. Ensure that collection and follow-up activities on delinquent accounts receivable are performed in accordance with Union policy.

c. Ensure that accounts receivable aging is reviewed by management on a monthly basis.

d. Write-off long outstanding accounts receivable in a timely manner.
Campus Response

The campus concurs with the recommendation. The SMSU has adjusted policies and begun reviewing accounts receivable aging, as recommended. Future write-offs will be reviewed in an annual report to the SMSU Finance Committee.

Implemented.

PERSONNEL AND PAYROLL

Recommendation 27

We recommend that the Union:

a. Obtain human resources authorization for employee hiring prior to the start of employment.

b. Ensure that I-9 forms for new employees are certified within three business days of the date employment begins.

Campus Response

The campus concurs with the recommendation. SMSU management has notified all supervisors of the importance of following proper hiring procedures, specifically the completion of all necessary paperwork prior to starting employment, as recommended. The SMSU staff responsible for HR will reinforce this message regularly, at the beginning of each quarter.

Implemented.

PROPERTY AND EQUIPMENT

Recommendation 28

We recommend that the Union:

a. Develop written policies and procedures for independent physical inventory counts of property and equipment.

b. Perform an independent physical inventory of property and equipment.

c. Obtain approval from the board of directors for all disposed assets.
Campus Response

The campus concurs with the recommendation.

a. Written policies providing for independent physical inventory counts are in place, as recommended.

Implemented.

b. Plans are being solidified with the campus to engage in a campus-wide inventory reporting system and process, under the direction of the campus Administration and Finance Division.

Implementation Date: May 31, 2013

c. Board approval for appropriate disposal of assets will appear as an annual agenda item.

Implementation Date: November 29, 2012
November 14, 2012

MEMORANDUM

TO: Mr. Larry Mandel  
    University Auditor

FROM: Charles B. Reed  
      Chancellor

SUBJECT: Draft Final Report 12-03 on Auxiliary Organizations,  
         California State University, San Bernardino

In response to your memorandum of November 14, 2012, I accept the response  
as submitted with the draft final report on Auxiliary Organizations, California  
State University, San Bernardino.

CBR/amd