AUXILIARY ORGANIZATIONS

CALIFORNIA STATE UNIVERSITY,
NORTH RIDGE

Audit Report 12-05
November 21, 2012

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BOARD OF TRUSTEES
THE CALIFORNIA STATE UNIVERSITY
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**UNIVERSITY STUDENT UNION, INC.,**
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ABBREVIATIONS

AS  Associated Students, California State University, Northridge, Incorporated
CFO  Chief Financial Officer
Corporation  The University Corporation
CSU  California State University
CSUN  California State University, Northridge
IT DRP  Information Technology Disaster Recovery Plan
EMS  Event Management System
EO  Executive Order
Foundation  California State University, Northridge Foundation
ICSUAM  Integrated California State University Administrative Manual
North Campus  North Campus – University Park Development Corporation
MOU  Memorandum of Understanding
RFIN  Resolution of the Committee on Finance
Student Union  University Student Union, Inc., California State University, Northridge
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, Northridge (CSUN) 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 CSUN campus and its auxiliary organizations from July 9, 2012, through August 9, 2012, and made a study and evaluation of the system of internal compliance/internal control in effect as of August 9, 2012. This report represents our triennial review.

Our study and evaluation at the CSUN 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 August 9, 2012, taken as a whole, was sufficient to meet the objectives stated above.

Our study and evaluation at California State University, Northridge Foundation did not reveal any significant internal control problems or weaknesses that would be considered pervasive in their effects on the accounting and administrative controls. However, we did identify other reportable weaknesses that are described in the executive summary and in the body of the report. In our opinion, the accounting and administrative control in effect as of August 9, 2012, taken as a whole, was sufficient to meet the objectives stated above.
EXECUTIVE SUMMARY

Our study and evaluation at The University Corporation did not reveal any significant internal control problems or weaknesses that would be considered pervasive in their effects on the accounting and administrative controls. However, we did identify other reportable weaknesses that are described in the executive summary and in the body of the report. In our opinion, the accounting and administrative control in effect as of August 9, 2012, taken as a whole, was sufficient to meet the objectives stated above.

Our study and evaluation at Associated Students, California State University, Northridge, 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 August 9, 2012, taken as a whole, was sufficient to meet the objectives stated above.

Our study and evaluation at University Student Union, Inc., California State University, Northridge did not reveal any significant internal control problems or weaknesses that would be considered pervasive in their effects on the accounting and administrative controls. However, we did identify other reportable weaknesses that are described in the executive summary and in the body of the report. In our opinion, the accounting and administrative control in effect as of August 9, 2012, taken as a whole, was sufficient to meet the objectives stated above.

Our study and evaluation at the North Campus – University Park Development Corporation did not reveal any significant internal control problems or weaknesses that would be considered pervasive in their effects on the accounting and administrative controls. There were no major findings revealed during our review. In our opinion, the accounting and administrative control in effect as of August 9, 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]

A written agreement between the campus and Associated Students, California State University, Northridge, Incorporated (AS) had not been established for the payment from student body organization fees managed by the campus of three state employees working for AS.
FISCAL COMPLIANCE [13]

Campus recovery of direct costs incurred by the California State University (CSU) Operating Fund needed improvement. Specifically, the University Corporation (Corporation) and the North Campus – University Park Development Corporation (North Campus) executive director’s salary reimbursements had not been billed in a timely manner and his retirement benefit had been incorrectly calculated for September of 2011.

OPERATIONAL COMPLIANCE [15]

The campus had not always obtained annual statement of economic interest forms from principal investigators involved with contracts and grants in a timely manner.

CALIFORNIA STATE UNIVERSITY, NORTHRIDGE FOUNDATION

OPERATIONAL COMPLIANCE [16]

The delegation of authority for the evaluation and acceptance of gifts at the California State University, Northridge Foundation (Foundation) was not documented.

FEES, REVENUES, AND RECEIVABLES [16]

The Foundation did not perform a documented dual review of all matching gifts during the acceptance process to ensure that funds were designated in accordance with donor intent. Additionally, administration and accounting of Foundation pledges receivable needed improvement. For example, collection and follow-up activity on delinquent pledges receivable was not always documented, and written authorization from the vice president of university advancement was not obtained prior to write-off of pledges receivable.

THE UNIVERSITY CORPORATION

FEES, REVENUES, AND RECEIVABLES [19]

Administration of University Corporation (Corporation) accounts receivable needed improvement. Specifically, collection and follow-up activity was not always performed and documented to facilitate collection or support account write-off.

PURCHASING AND ACCOUNTS PAYABLE [20]

Corporation procurement card agreements did not state the agreed-upon monthly spending limits for cardholders.
EXECUTIVE SUMMARY

PROPERTY AND EQUIPMENT [21]

Administration of Corporation property and equipment needed improvement. Specifically, review of monthly reconciliations of the fixed assets sub-ledger to the general ledger and required approvals for the disposal of fixed assets were not documented.

CONTRACTS AND GRANTS [22]

Effort certification reports were not always submitted to the Corporation in a timely manner.

INFORMATION TECHNOLOGY [23]

The Corporation information technology disaster recovery plan (IT DRP) was inadequate to ensure the timely recovery of critical systems.

ASSOCIATED STUDENTS,
CALIFORNIA STATE UNIVERSITY, NORTHRIDGE, INCORPORATED

OPERATING AND ADMINISTRATIVE AGREEMENTS [24]

The operating agreement between Associated Students, California State University, Northridge, Incorporated (AS) and the CSU Trustees was not renewed in a timely manner.

CORPORATE GOVERNANCE [24]

Agendas were not consistently posted in a location that was freely accessible to the public at least 72 hours before regular AS board meetings.

OPERATIONAL COMPLIANCE [25]

AS had not developed written policies and procedures to address the accounting and processing of children’s center contracts and grants.

PROGRAM COMPLIANCE [26]

Administration of AS stipends needed improvement. Specifically, wages paid to student leadership staff were processed through payroll without time records, which are required by the Fair Labor Standards Act of 1938, and stipends paid to elected student executive officers processed through accounts payable were reported to the financial aid office after funds were expended and not before as required.

CASH RECEIPTS AND HANDLING [27]

Checks received at the AS ticket office were not restrictively endorsed by the close of the business day.
EXECUTIVE SUMMARY

PERSONNEL AND PAYROLL [28]

AS neither monitored nor documented approvals for student employees working more than 20 hours per week.

INFORMATION TECHNOLOGY [29]

AS did not have an IT DRP.

UNIVERSITY STUDENT UNION, INC.,
CALIFORNIA STATE UNIVERSITY, NORTHRIDGE

OPERATIONAL COMPLIANCE [30]

The University Student Union, Inc., California State University, Northridge (Student Union) payroll policies and procedures and employee handbook had not been updated to reflect current operations in certain areas.

CASH RECEIPTS AND HANDLING [31]

Cashiering operations at the Student Union’s reservation and event services and commercial services departments required improvement. Specifically, daily sales receipts were not independently reconciled before cash was dropped in the safe for deposit and daily cash receipts were not reconciled to end-of-day totals within the event management system at reservation and event services. Additionally, payments received at the commercial services department were not always forwarded to the business office for deposit in a timely manner.

PERSONNEL AND PAYROLL [32]

A pay rate edit listing was not generated in each payroll cycle for management review at the Student Union. In addition, supervisory pre-approval of Student Union overtime was not documented.
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 (EO) 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.

EO 1059, Utilization of Campus Auxiliary Organizations, dated June 6, 2011, also represents policy of the Trustees addressing appropriate use of CSU auxiliary organizations. CSU auxiliary organizations are required to comply with Board of Trustee policy (California Code of Regulations, Title 5, §42401 and §42500 and Education Code §89720, §89756, and §89900).

This executive order requires CSU auxiliary organizations to operate within the regulations and oversight of the campus. The campus president is responsible for ensuring the fiscal viability of auxiliary
organizations and compliance with applicable CSU policies. The campus chief financial officer is responsible for administrative compliance and fiscal oversight of auxiliary organizations. The campus, with the approval of the chancellor (or designees), may assign certain functions to auxiliary organizations pursuant to the California Code of Regulations, Title 5, §42500. A written operating agreement is established detailing the functions that auxiliary organizations can perform. The campus may assign responsibility for an activity or program to auxiliary organizations, and the acceptance of the responsibility requires the assumption of the associated legal obligation and liabilities, fiscal liabilities, and fiduciary responsibilities by auxiliary organizations. Auxiliary organizations shall ensure that fiscal procedures and management systems are in place, consistent with California Code of Regulations, Title 5, §42401.

The California State University Administrative Manual §13680.00, Placement and Control of Receipts for Campus Activities and Programs, dated September 29, 2011, states that accountability and responsibility for campus activities and programs should be clearly established, and that related receipts are appropriately placed and controlled in university or auxiliary organization accounts. This policy guides campuses as to the administration of such receipts and instructs as to their proper placement in accordance with legal and regulatory requirements.

California State University, Northridge Foundation

The California State University, Northridge Foundation (Foundation) was established in 1995 as a non-profit public benefit corporation. It is responsible for helping California State University, Northridge (CSUN) raise private, philanthropic contributions from individuals, businesses, and other charitable organizations in support of the university’s mission of helping students realize their educational goals. The Foundation is also authorized to accept, manage, and invest all private funds and endowments raised for the university. It does not have employees and relies on university advancement for accounting and administrative support services. The Foundation is governed by a board of directors composed of representatives from the CSUN administration, faculty and student body and the community.

The University Corporation

The University Corporation (Corporation) was established in 1958 as a non-profit public benefit corporation. It engages in commercial operations, including the Matador Bookstore, campus and residential dining services, convenience stores, and catering and vending/ATM operations. It also provides post-award administration of sponsored programs, endowment administration, staff and faculty housing, licensing of university facilities for use by off-campus groups, and fiscal administration of campus programs, such as centers and institutes. Although the bookstore is operated by Follett, and staff and faculty housing is managed by a property management firm, the Corporation performs all accounting in-house. The Corporation is governed by a 17-member board of directors composed of representatives from the CSUN administration, faculty, and student body and the community.

Associated Students, California State University, Northridge, Incorporated

Associated Students, California State University, Northridge, Incorporated (AS) was established in 1961 as a non-profit public benefit corporation with the specific and primary purpose of operating a charitable
and educational organization. AS is charged with operating student body organization programs, the Children’s Center, the ticket and box office, the recycling center, transportation services, and instructionally related programs and activities. AS also provides the campus community with social, cultural, educational, and entertainment opportunities. AS is governed by a student board of directors and employs a general manager and numerous management and staff personnel to manage daily operations.

University Student Union, Inc., California State University, Northridge

University Student Union, Inc., California State University, Northridge (Student Union) was established in 1975 as a non-profit public benefit corporation to provide a variety of programs and services at the CSUN campus. The Student Union has two locations: the University Student Union and the Satellite Student Union. The Student Union operates these buildings, while also sponsoring various campus activities that complement the instructional programs and initiatives of the university, such as conference and meeting room rentals, commercial leases to retailers, and study and recreation locations and activities. The Student Union is governed by a board of directors composed of students, faculty, staff, and alumni.

North Campus – University Park Development Corporation

The North Campus – University Park Development Corporation (North Campus) was established in 1981 as a non-profit public benefit corporation and became an auxiliary organization of the CSU in 1988. It is responsible for the leasing, subleasing, and development of approximately 65 acres of CSUN land. However, as a result of real estate market conditions, the faculty and staff housing project has been suspended until the project becomes financially viable. Additionally, pre-construction expenses of faculty staff housing, totaling $3.3 million, were expensed in fiscal year 2010/11. The North Campus is governed by an eight-member board of directors composed of representatives from the CSUN administration, faculty, and students and the community. The North Campus does not have employees and relies on the Corporation for accounting and administrative support services.

PURPOSE

The principal audit objectives were to determine compliance with the Education Code, Title 5, and directives of the Board of Trustees and the Office of the Chancellor and to assess the adequacy of controls and systems. Specifically, we sought assurances that:

- Legal and regulatory requirements are complied with.
- Accounting data is provided in an accurate, timely, complete, or otherwise reliable manner.
- Assets are adequately safeguarded from loss, damage, or misappropriation.
- Duties are appropriately segregated consistent with appropriate control objectives.
- Transactions, accounting entries, or systems output is reviewed and approved.
- Management does not intentionally override internal controls to the detriment of control objectives.
- Accounting and fiscal tasks, such as reconciliations, are prepared properly and completed timely.
- Deficiencies in internal controls previously identified were corrected satisfactorily and timely.
INTRODUCTION

- 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 2010/11 and 2011/12 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 August 9, 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:

**California State University, Northridge Foundation**

- Operating and Administrative Agreements
- Facilities Agreements
- Corporate Governance
California State University, Northridge Foundation (cont.)
- Fiscal Compliance
- Operational Compliance
- Program Compliance
- Segregation of Duties
- Cash Receipts and Handling
- Cash Disbursement
- Investments
- Fees, Revenues, and Receivables
- Purchasing and Accounts Payable
- Trusts and Other Liabilities
- Endowment Administration
- Auxiliary Programs
- Information Technology

The University Corporation
- Operating and Administrative Agreements
- Facilities Agreements
- Corporate Governance
- Fiscal Compliance
- Operational Compliance
- Program Compliance
- 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
- Information Technology

Associated Students, California State University, Northridge, Incorporated
- Operating and Administrative Agreements
- Facilities Agreements
- Corporate Governance
- Fiscal Compliance
- Operational Compliance
- Program Compliance
- Segregation of Duties
- Cash Receipts and Handling
- Cash Disbursement
INTRODUCTION

Associated Students, California State University, Northridge, Incorporated (cont.)
- Petty Cash and Change Funds
- Investments
- Fees, Revenues, and Receivables
- Purchasing and Accounts Payable
- Personnel and Payroll
- Property and Equipment
- Trusts and Other Liabilities
- Auxiliary Programs
- Information Technology

University Student Union, Inc. California State University, Northridge
- Operating and Administrative Agreements
- Facilities Agreements
- Corporate Governance
- Fiscal Compliance
- Operational Compliance
- Program Compliance
- Segregation of Duties
- Cash Receipts and Handling
- Cash Disbursement
- Petty Cash and Change Funds
- Fees, Revenues, and Receivables
- Purchasing and Accounts Payable
- Personnel and Payroll
- Property and Equipment
- Auxiliary Programs
- Information Technology

North Campus – University Park Development Corporation
- Operating and Administrative Agreements
- Facilities Agreements
- Corporate Governance
- Fiscal Compliance
- Operational Compliance
- Program Compliance
- Segregation of Duties
- Cash Receipts and Handling
- Cash Disbursement
- Investments
- Auxiliary Programs
- Information Technology

Campus
- Campus Oversight and Control
We have not performed any auditing procedures beyond August 9, 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

A written agreement between the campus and Associated Students, California State University, Northridge, Incorporated (AS) had not been established for the payment from student body organization fees managed by the campus of three state employees working for AS.

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

The campus associate vice president of financial services stated her belief that because AS employees were paid from state trust funds belonging to AS, a written agreement was not needed.

The absence of a current, written agreement for the payment from student body organization fees managed by the campus increases the risk of misunderstandings and miscommunication regarding rights and responsibilities.

Recommendation 1

We recommend that the campus establish a written agreement with AS for the payment from student body organization fees managed by the campus of state employees working for AS.

Campus Response

We concur. The campus has executed a memorandum of agreement with AS for the payment from campus-managed student body organization fees for state employees working for AS.

FISCAL COMPLIANCE

Campus recovery of direct costs incurred by the California State University (CSU) Operating Fund needed improvement.

We reviewed salary reimbursements for the executive director of the University Corporation and the North Campus – University Park Development Corporation (North Campus) from June 30, 2010, to March 31, 2012, and found that:
The executive director’s salary reimbursements had not been billed in a timely manner. Specifically, invoices were sent to the Corporation and the North Campus between 60 and 180 days after the month had ended for seven of the 22 months reviewed.

The executive director’s retirement benefit had been incorrectly calculated for September of 2011, which resulted in an under-billing of $2,043.

Executive Order (EO) 1000, *Delegation of Fiscal Authority and Responsibility*, dated July 1, 2007, states that the campus president shall ensure that costs incurred by the CSU Operating Fund for services, products, and facilities provided to other CSU funds and to auxiliary organizations are properly and consistently recovered with cash and/or a documented exchange of value. Allowable direct costs incurred by the CSU Operating Fund shall be allocated and recovered based on actual costs incurred.

The campus associate vice president of financial services stated that the executive director’s salary reimbursements had not been billed in a timely manner and the retirement benefit had been incorrectly calculated due to a staffing transition in the accounts receivable area.

Failure to fully recover direct costs incurred by the campus in a timely manner increases the risk that the campus operating fund will not be fully compensated for support provided to auxiliary enterprises.

**Recommendation 2**

We recommend that the campus ensure that:

a. Salary reimbursements for the Corporation/North Campus executive director are billed in a timely manner.

b. Retirement benefits included in the Corporation/North Campus executive director’s salary reimbursements are correctly calculated.

**Campus Response**

We concur.

a. The accounts receivable area hired an accounting technician III in July 2012. This position will ensure that university accounts receivable is billed in a timely manner. The employee has been thoroughly trained on the existing policy and procedures that govern timely billing of accounts receivable.

b. The accounting technician III hired in July 2012 has been trained by the supervisor on how to calculate benefits properly. The technician utilizes a monthly report that is generated from the imported payroll data from the State Controller’s Office. An invoice is generated, and all supporting documents for the calculations are submitted to the Corporation for payment.
OPERATIONAL COMPLIANCE

The campus had not always obtained annual statement of economic interest forms from principal investigators (PI) involved with contracts and grants in a timely manner.

We reviewed 22 statement of economic interest forms for fiscal year 2011/12 and noted that four forms had expired and had not been renewed.

California State University, Northridge, Conflict of Interest Policy for Grants and Contracts, states that PIs must disclose significant financial interests at the time of proposal submission and update this information annually, or more frequently as new financial interests are obtained during the life of the award.

California State University (CSU) Conflict of Interest Handbook, §2B, 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.

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

The campus director of research and sponsored projects stated that the new component of the proposal/award tracking database, designed to provide automatic reminders for expired forms, had a programming error that resulted in some forms not being flagged. He further stated that the increase in proposal/award activity and the loss of a temporary employee who tracked submission of economic interest forms had resulted in the forms not being renewed in a timely manner.

Failure to obtain statement of economic interest forms from all PIs increases the risk of non-compliance with federal and state regulations and jeopardizes the future of grant programs.

Recommendation 3

We recommend that the campus obtain statement of economic interest forms from all PIs involved with contracts and grants in a timely manner.

Campus Response

We concur. The campus office of research and sponsored projects implemented a procedure to address timely submittal of statement of economic interest forms.
CALIFORNIA STATE UNIVERSITY, NORTHRIDGE FOUNDATION

OPERATIONAL COMPLIANCE

The delegation of authority for the evaluation and acceptance of gifts at the California State University, Northridge Foundation (Foundation) was not documented.

We found that the Foundation president did not have a written delegation from the campus president to accept monetary gifts and sign gift acknowledgement agreements and letters.

EO 676, Delegation of Gift Evaluation and Acceptance to Campuses, dated February 1, 1998, states that authority is delegated to campus presidents to evaluate and accept gifts, bequests, and donations to campuses. Campus presidents may further delegate this authority in whole or in part to campus officers and employees to ensure that all gifts accepted by the campus will aid in carrying out the primary functions of the campus and the CSU system.

The Foundation chief financial officer (CFO) stated that she was unaware that a specific delegation of authority was required.

Failure to obtain a documented delegation of authority for gift evaluation and acceptance responsibilities increases the risk that donations will be mishandled or misused.

Recommendation 4

We recommend that the Foundation obtain a documented delegation of authority for the evaluation and acceptance of gifts.

Campus Response

We concur. The Foundation obtained a letter from the president delegating the authority to the vice president of advancement for the evaluation and acceptance of gifts.

FEES, REVENUES, AND RECEIVABLES

MATCHING GIFTS

The Foundation did not perform a documented dual review of all matching gifts during the acceptance process to ensure that funds were designated in accordance with donor intent.

Integrated California State University Administrative Manual (ICSUAM) §15401.00, Fundraising-Matching Gifts, dated March 1, 2012, states that the purpose of this policy is to establish proper internal controls for the acceptance of matching gifts, which includes a dual review process. Approving authority responsibilities shall be segregated from the recordkeeping function and
include, among other duties, the review and verification of all donor contributions for which matching gifts are requested. Recordkeeping responsibilities may be assigned to one or more staff members and should include 1) maintaining records of donor contributions and matching gifts in such a manner that there is a clear record of the individual contribution, the related matching gift claim, and compliance with the matching gift program, and 2) maintaining a record documenting that the matching gift purpose mirrors the purpose of the original donor gift and is consistent with representations to the matching gift program. To substantiate the dual review process, 1) the recordkeeper may countersign the claim certification, 2) the approving authority and recordkeeper may both sign an affirmation, or 3) the process may be automated in a secure database that tracks the actions of both the approving authority and recordkeeper.

The Foundation CFO stated her belief that a dual review of all matching gifts was not needed because management performed a review of matching gifts related to athletics, the area that was under the most restriction. She further stated that the system is set up in such a way that the matching gift purpose mirrors the purpose of the original donor gift designation and any exceptions are reviewed and authorized.

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

**Recommendation 5**

We recommend that the Foundation perform a documented dual review of all matching gifts during the acceptance process to ensure that funds are designated in accordance with donor intent.

**Campus Response**

We concur. A documented dual review will be conducted during the matching gift acceptance process to ensure the funds are administered in accordance with corporate donor requirements.

Expected completion date: January 31, 2013

**PLEDGES RECEIVABLE**

Administration and accounting of Foundation pledges receivable needed improvement.

We reviewed the pledges aging report as of July 16, 2012, and found that:

- In two of five instances reviewed, collection and follow-up activity on delinquent pledges receivable was not always documented.
- Written authorization from the vice president of university advancement was not obtained prior to write-off of 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 8.9.4, *Receivables*, states that the auxiliary should establish a written system to invoice customers promptly, in a consistent manner, while exercising due diligence in the follow-up and collection of past-due accounts.

The Foundation *Pledge Procedures* state that pledge receivables are reviewed on an annual basis in conjunction with the audited financial statements. Pledges may be deactivated and written off as uncollectable by written authorization from the vice president of university advancement.

The Foundation CFO stated that collection correspondence was not documented and written authorization for write-off from the vice president of university advancement was not obtained due to oversight.

Inadequate administration of 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 6**

We recommend that the Foundation:

a. Document collection and follow-up activity of delinquent pledges receivable.

b. Obtain written authorization from the vice president of advancement prior to write-off of pledges receivable.

**Campus Response**

We concur.

a. Development officers were reminded in August to document their verbal conversations and follow-up activities with the donor on Raiser’s Edge under contact reports.

b. The policy was revised to read that the vice president or vice president’s designee is authorized to write off pledges. A signature of the authorized designee is required on the overdue pledge report prior to write-off.
FEES, REVENUES, AND RECEIVABLES

Administration of University Corporation (Corporation) accounts receivable needed improvement.

We reviewed five delinquent accounts receivable and found that in two instances, collection and follow-up activity was not performed and documented to facilitate collection or support account write-off.

The Corporation Billing and Accounts Receivable Policy states that for invoices 60 days past due, the accounting technicians will write a formal collection letter to the client indicating that the account must be made current. For invoices 90 days past due, a copy of the invoice and collection efforts to date is forwarded to the associate director of accounting for follow-up. The associate director of accounting will call, email, or write a letter in an effort to collect the past due amount.

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 adequate administration of delinquent accounts receivable.

The Corporation CFO stated that the failure to perform and document collection and follow-up activity on delinquent accounts receivables was due to oversight.

Inadequate control over accounts 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 7

We recommend that the Corporation perform and document collection and follow-up activity for delinquent accounts receivable to facilitate collection or support account write-off.
Campus Response

We concur. Corporation Procedure Number AC023 – Procedure for Accounts Receivable Billing and Collection was revised to provide improved directions for collection efforts. New sections were added to the procedure for handling non-campus customers and to identify the reconciliation and approval procedure.

PURCHASING AND ACCOUNTS PAYABLE

Corporation procurement card agreements did not state the agreed-upon monthly spending limits for cardholders.

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

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 procurement cards agreements state the agreed-upon spending limits.

The Corporation CFO stated that the procurement card agreement did not include monthly spending limits because the limits were verbally communicated to cardholders at the time of issuance.

The absence of documented spending limits to address the use of credit cards increases the risk that errors, inconsistencies, misunderstandings, or misappropriation of funds will occur.

Recommendation 8

We recommend that the Corporation state the agreed-upon monthly spending limits in procurement card agreements.

Campus Response

We concur. The Corporation has implemented a modified version of the campus Procurement Card Account Request Form that includes a monthly transaction limit field. The new form is included as part of the purchase card agreement process.
PROPERTY AND EQUIPMENT

Administration of Corporation property and equipment needed improvement.

We found that the Corporation did not document:

- Review of monthly reconciliations of the fixed assets sub-ledger to the general ledger.
- Required approvals for the disposal of fixed assets.

The Corporation *Fixed Assets Policy* states that a director or authorized signer must approve sales and/or disposition of fixed assets. The sale and/or disposition of a fixed asset with a remaining net book value of $10,000 to $50,000 must be approved by the CFO or the executive director. The Corporation board of directors’ approval is required for the sale and/or disposition of a fixed asset with a remaining net book value of greater than $50,000.

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. It further states that the auxiliary should 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 CFO stated that the absence of documented reviews for monthly reconciliations and lack of documented approvals for disposed fixed assets were 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 9**

We recommend that the Corporation document:

a. Review of monthly reconciliations of the fixed assets sub-ledger to the general ledger.

b. Required approvals for the disposal of fixed assets.
Campus Response

We concur. Corporation Procedure Number AC008 – Fixed Assets Policy and Procedure was revised to include a new section on how fixed asset information will be reconciled with the general ledger. The new section establishes the frequency and approval procedure, including date and signature. The Corporation has also implemented a new fixed asset disposal form to facilitate documentation of approval for fixed asset disposals.

CONTRACTS AND GRANTS

Effort certification reports were not always submitted to the Corporation in a timely manner.

We reviewed nine effort certification reports and noted that five were submitted from 19 to 117 days after the deadlines specified on the reports.

Office of Management and Budget (OMB) Circular A-21, Cost Principles for Educational Institutions, Section J.8 §c(1)(e), requires that for professional and professional staff, the reports will be prepared each academic term, but no less frequently than every six months. For other employees, unless alternate arrangements are agreed to, the reports will be prepared no less frequently than monthly and will coincide with one or more pay periods.

The Corporation director of sponsored programs stated that effort certification reports were not being submitted by the faculty members in a timely manner despite follow-up efforts by the Corporation.

Failure to complete effort certification reports in a timely manner increases the risk of reduced reimbursements, non-compliance with Office of Management and Budget requirements, and increased regulatory scrutiny.

Recommendation 10

We recommend that the Corporation ensure that effort certification reports are submitted in a timely manner.

Campus Response

We concur. The Corporation formalized a new procedure regarding the late submittal of effort reports by faculty working on sponsored programs. The new procedure establishes the action to be taken at predetermined intervals based on the number of days the report is late. The responsible person to initiate the action is also identified. The new procedure was effective October 1, 2012.
INFORMATION TECHNOLOGY

The Corporation information technology disaster recovery plan (IT DRP) was inadequate to ensure the timely recovery of critical systems.

We found that the IT DRP did not include an alternate processing facility/locations, equipment replacement requirements, contact lists, and an escalation/notification process.

ICSUAM §8085, Business Continuity and Disaster Recovery, dated April 19, 2010, states that an information security program needs to support the maintenance and potential restoration of operations through and after both minor and catastrophic disruptions. Campuses must ensure that their information assets can, in the case of a catastrophic event, continue to operate and be appropriately accessible to users. Each campus must maintain an ongoing program that ensures the continuity of essential functions and operations following a catastrophic event.

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

The Compilation of Policies and Procedures for California State University Auxiliary Organizations sets sound business practice guidelines for auxiliary organizations operating within the CSU system. Section 8.10, Computer Controls, states that auxiliary organizations should establish written policies and practices that ensure secure computer system operations, including backup and recovery mechanisms and disaster recovery programs.

The Corporation associate director of facilities and operations stated that the existing plan highlighted food services as a recovery priority, and that it was generally understood that existing facilities in other buildings would accommodate their needs in a recovery mode.

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

Recommendation 11

We recommend that the Corporation update its IT DRP to include an alternate processing facility/locations, equipment replacement requirements, contact lists, and an escalation/notification process.

Campus Response

We concur. The Corporation’s IT DRP has been updated to reflect the existing arrangement with campus IT to provide alternative processing facility/locations, equipment replacement requirements, contact lists, and an escalation/notification process. The IT DRP was effective October 1, 2012.
ASSOCIATED STUDENTS, CALIFORNIA STATE UNIVERSITY, NORTH RIDGE, INCORPORATED

OPERATING AND ADMINISTRATIVE AGREEMENTS

The operating agreement between Associated Students, California State University, Northridge, Incorporated (AS) and the CSU Trustees was not renewed in a timely manner.

Specifically, we found that the operating agreement expired on June 30, 2010, and was not renewed until September 24, 2010.

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

The AS general manager stated that the operating agreement had not been renewed in a timely manner due to oversight.

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

Recommendation 12

We recommend that AS ensure that operating agreements are renewed in a timely manner.

Campus Response

We concur. AS will send a draft of the 2013-2016 agreement to the campus in March 2013 in order to secure their signatures on or before June 1, 2013.

CORPORATE GOVERNANCE

Agendas were not consistently posted in a location that was freely accessible to the public at least 72 hours before regular AS board meetings.

Education Code §89305.5(b) states that, at least 72 hours before a regular meeting, the legislative body, or its designee, shall post an agenda containing a brief general description of each item of business to be transacted or discussed at the meeting, including items to be discussed in closed session. A brief general description of an item generally need not exceed 20 words. The agenda shall specify the time and location of the regular meeting and shall be posted in a location that is freely accessible to members of the public.
The AS general manager stated that board meeting agendas were normally posted on the AS website, but due to changes made to the website, the agendas were not posted for three meetings in April and May of 2012.

Failure to post agendas in a location that is freely accessible to the public at least 72 hours before a regular meeting may increase legal liability for acts contrary to the code.

**Recommendation 13**

We recommend that AS post agendas in a location that is freely accessible to members of the public at least 72 hours before regular board meetings.

**Campus Response**

We concur. AS will continue to post agendas online and will, in addition, post them on a display case outside the office door. We made the adjustment to our process as of September 2012. Agendas have been posted in this manner since the start of the fall 2012 semester.

**OPERATIONAL COMPLIANCE**

AS had not developed written policies and procedures to address the accounting and processing of children’s center contracts and grants.

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 contracts and grants.

The AS general manager stated that AS had followed campus and grantor-generated policies and procedures and did not see the need to develop its own policies and procedures to address the accounting and processing of children’s center contracts and grants.

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

**Recommendation 14**

We recommend that AS develop written policies and procedures for the accounting and processing of children’s center contracts and grants.
Campus Response

We concur. AS will develop written policies and procedures for the accounting and processing of children’s center contracts and grants.

Expected completion date: March 1, 2013

PROGRAM COMPLIANCE

Administration of AS stipends needed improvement.

We found that:

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

- Stipends paid to elected student executive officers processed through accounts payable were reported to the financial aid office after funds were expended and not before as required by Title 5 §42500(d).

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 aids 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 director of accounting and financial services stated that the student leadership staff total compensation amount was paid out in installments over each pay period covered by the employment agreement. She further stated that because the compensation was being paid out in increments, hours worked were not tracked, and it was believed that time records did not have to be filled out. The AS general manager stated that AS informed the financial aid office of the stipends after the funds were paid and was unaware that stipends had to be reported before funds were expended.

Failure to appropriately process wages and report student stipends to the campus financial aid office as required increases the risk of fines and penalties and may result in an overpayment of financial aid funds.
Recommendation 15

We recommend that AS:

a. Ensure that student leadership staff completes time records.

b. Report stipends paid to elected student executive officers to the financial aid office before funds are expended.

Campus Response

We concur. Student employees serving on the cabinet will be paid in hourly wages by the start of the 2013 spring semester. Stipends to senators and student executive officers have been reported to the office of financial aid prior to the issuance of any such stipend since the start of the fall 2012 semester.

CASH RECEIPTS AND HANDLING

Checks received at the AS ticket office were not restrictively endorsed by the close of the business day.

Integrated California State University Administrative Manual (ICSUAM) §3102.03, Acceptance of Cash and Cash Equivalents, dated April 1, 2011, states that checks, including mailed remittances, must be restrictively endorsed (endorsement stamp or its mechanical equivalent) by the close of business on the day of receipt.

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

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

The AS ticket office supervisor stated his belief that endorsing checks before deposit was sufficient.

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

Recommendation 16

We recommend that the AS ticket office restrictively endorse checks by the close of the business day.


Campus Response

We concur. Checks are restrictively endorsed by the ticket office at or before the close of each business day on which the check is received. The ticket office operations/procedures manual was revised to include this process.

PERSONNEL AND PAYROLL

AS neither monitored nor documented approvals for student employees working more than 20 hours per week.

We reviewed the pay period ending May 11, 2011, and noted that two graduate students worked 30 hours per week in a two-week period.

The CSU 2012 Coded Memoranda Human Resources Letter, 2012-06, Revised Student Assistant Classification Standard (non-represented) and Guidelines for Student Assistants, states that student assistants may work up to, but not in excess of, 20 hours per week during academic periods and may work up to 40 hours per week during academic break periods.

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 monitoring and documenting proper approvals for student employees working more than 20 hours per week.

The AS general manager stated that AS had been informed by the campus that graduate students could work up to 30 hours per week during the academic period under exceptional circumstances.

Failure to monitor and document approvals for student employee work hours increases the risk of non-compliance with CSU, local, state, and federal employment regulations.

Recommendation 17

We recommend that AS monitor and document approvals for student employees working more than 20 hours per week.

Campus Response

We concur. AS has reiterated to all employees the requirements of Coded memorandum Human Resources 2012-06 regarding the allowable maximum hours for student assistants. AS has implemented a procedure that requires the general manager or her/his designee to pre-approve overtime necessitated by extraordinary circumstances.
INFORMATION TECHNOLOGY

AS did not have an IT DRP.

ICSUAM §8085, Business Continuity and Disaster Recovery, dated April 19, 2010, states that an information security program needs to support the maintenance and potential restoration of operations through and after both minor and catastrophic disruptions. Campuses must ensure that their information assets can, in the case of a catastrophic event, continue to operate and be appropriately accessible to users. Each campus must maintain an ongoing program that ensures the continuity of essential functions and operations following a catastrophic event.

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

The Compilation of Policies and Procedures for California State University Auxiliary Organizations sets sound business practice guidelines for auxiliary organizations operating within the CSU system. Section 8.10, Computer Controls, states that auxiliary organizations should establish written policies and practices that ensure secure computer system operations, including backup and recovery mechanisms and disaster recovery programs.

The AS manager of support services stated AS was changing its backup process and had planned to develop an IT DRP once the new process was implemented.

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

Recommendation 18

We recommend that AS create an IT DRP.

Campus Response

We concur. AS will develop and publish an IT DRP on or before January 31, 2013.
OPERATIONAL COMPLIANCE

The University Student Union, Inc., California State University, Northridge (Student Union) payroll policies and procedures and employee handbook needed improvement.

Specifically, the policies and procedures and employee handbook had not been updated to reflect current operations in the following areas:

- Terminating inactive employees.
- Voluntary terminations.
- Involuntary terminations.
- Overtime approvals.

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 policies and procedures be kept current.

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 Student Union associate director of finance and business services stated that the Student Union had hired a new payroll processing service provider in the fall of 2010, and the payroll procedures had not been updated to take into account the improvements that the new payroll system had provided.

Failure to update written policies and procedures increases the risk that errors, inconsistencies, and misunderstandings will occur.

**Recommendation 19**

We recommend that the Student Union update its payroll policies and procedures and employee handbook to address current operations with regard to terminating inactive employees, voluntary/involuntary terminations, and overtime approvals.
Campus Response

We concur. The Student Union will convert its payroll policy and procedure into a comprehensive human resources management system policy and procedure to incorporate current operations with regard to terminating inactive employees, voluntary/involuntary terminations, and overtime approvals by February 28, 2013.

CASH RECEIPTS AND HANDLING

Cashiering operations at the Student Union’s reservation and event services and commercial services departments required improvement.

We found that:

- Daily sales receipts were not independently reconciled before cash was dropped in the safe for deposit at reservations and event services. Instead, the cashier counted cash, prepared a closing worksheet, and dropped the cash in the safe for deposit.

- Daily cash receipts were not reconciled to end-of-day totals within the event management system (EMS) at reservation and event services. Instead, cash receipts were tied to the actual receipts.

- Payments received at the commercial services department were not forwarded to the business office for deposit in a timely manner. We reviewed two filming events, and payments were deposited from 8 to 117 days after the receipt date.

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

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

ICSUAM §3102.03, Acceptance of Cash and Cash Equivalents, dated April 1, 2011, state that all cash registers and point-of-sale equipment must produce session closeout audit totals for verification to receipts.

ICSUAM §3102.11, Deposits and Transfers to the Bank, dated July 1, 2011, requires collections at other cashiering locations and departments to be deposited at the designated main cashiering station at least weekly or whenever collections exceed $500.
The Student Union associate director of finance and business services stated that cash receipts were not adequately administered due to oversight.

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

**Recommendation 20**

We recommend that the Student Union ensure that:

a. Daily sales receipts are independently reconciled before cash is dropped in the safe for deposit at reservations and event services.

b. Daily cash receipts are reconciled to the end-of-day totals within EMS at reservations and event services.

c. Payments received at the commercial services department are forwarded to the business office for deposit in a timely manner.

**Campus Response**

We concur.

a. Daily sales receipts are now independently reconciled before cash is dropped in the safe for deposit at the Student Union reservations and events department.

b. Daily cash receipts are now reconciled to the end-of-day totals with totals from the Event Management System.

c. Student Union management reiterated to Student Union managers the importance of forwarding payments to the business office in a timely manner.

**PERSONNEL AND PAYROLL**

**EMPLOYEE SALARY CHANGES**

A pay rate edit listing was not generated in each payroll cycle for management review at the Student Union.

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 salary changes.

The Student Union associate director of finance and business services stated that the Student Union had hired a new payroll processing service in the fall of 2010, and the new payroll system did not provide a pay rate edit listing.

Failure to generate a pay rate edit listing report to monitor pay rate changes increases the risk of inappropriate modifications to salary and wage rates.

**Recommendation 21**

We recommend that the Student Union generate a pay rate edit listing report in each payroll cycle for management review.

**Campus Response**

We concur. The Student Union has implemented a pay rate edit listing report. The report, generated from the payroll system, includes salary changes for management review prior to transmitting the pay file to the payroll processing company.

**EMPLOYEE OVERTIME**

Supervisory pre-approval of Student Union overtime was not documented.

The Student Union *Employee Handbook §2: Employment Practices and Procedures for Overtime* states that all overtime work must be previously authorized in writing by a supervisor.

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 overtime payments.
The Student Union associate director of finance and business services stated that supervisory electronic approval of employee time cards was being used to show evidence that overtime hours were approved. He further stated his belief that the migration from a manual-based time and attendance system to an Internet-based system made manual pre-approval of overtime obsolete.

Failure to document pre-approval of overtime increases the risk of errors, irregularities, and misappropriation of funds.

Recommendation 22

We recommend that the Student Union document supervisory pre-approval of overtime.

Campus Response

We concur. The Student Union will incorporate in its human resources management system policy and procedure the requirement to document supervisory pre-approval of overtime.

Expected completion date: February 28, 2013
# APPENDIX A:
PERSONNEL CONTACTED

<table>
<thead>
<tr>
<th>Name</th>
<th>Title</th>
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</thead>
<tbody>
<tr>
<td><strong>CAMPUS</strong></td>
<td></td>
</tr>
<tr>
<td>Dianne F. Harrison</td>
<td>President</td>
</tr>
<tr>
<td>Eugene Garcia</td>
<td>Desktop Architect</td>
</tr>
<tr>
<td>Christopher Ice</td>
<td>Interim Director User Support Services</td>
</tr>
<tr>
<td>Leigh Lopez</td>
<td>Information Security Lead</td>
</tr>
<tr>
<td>Howard Lutwak</td>
<td>Director of Internal Audit</td>
</tr>
<tr>
<td>Tom McCarron</td>
<td>Vice President, Administration and Finance/Chief Financial Officer</td>
</tr>
<tr>
<td>Chris Olsen</td>
<td>Information Security Officer</td>
</tr>
<tr>
<td>Scott Perez</td>
<td>Director, Research and Sponsored Projects</td>
</tr>
<tr>
<td>Vance T. Peterson</td>
<td>Vice President, University Advancement</td>
</tr>
<tr>
<td>Deborah Wallace</td>
<td>Associate Vice President, Financial Services</td>
</tr>
<tr>
<td><strong>THE CALIFORNIA STATE UNIVERSITY, NORTHRIDGE FOUNDATION</strong></td>
<td></td>
</tr>
<tr>
<td>Desiree Dodd</td>
<td>Gift Processing Coordinator</td>
</tr>
<tr>
<td>Darlene Goldberger</td>
<td>Accounts Payable Technician</td>
</tr>
<tr>
<td>Aline Koseyan</td>
<td>Senior Accountant</td>
</tr>
<tr>
<td>Judith Landy</td>
<td>Alternate Secretary for Foundation</td>
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<tr>
<td>Vance T. Peterson</td>
<td>President</td>
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<tr>
<td>Ali Sadri</td>
<td>Manager of University Resources</td>
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<tr>
<td>Aracely Salas</td>
<td>Accounts Receivable Technician</td>
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<td>Geetha Thomas</td>
<td>Chief Financial Officer</td>
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<td><strong>THE UNIVERSITY CORPORATION</strong></td>
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<tr>
<td>Lisette Bautista</td>
<td>Accountant</td>
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<tr>
<td>Heather Cairns</td>
<td>Associate Director, Administrative Services</td>
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<tr>
<td>Betsy Corrigan</td>
<td>Associate Director, Dining Services</td>
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<td>Rick Evans</td>
<td>Executive Director</td>
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<td>John Griffin</td>
<td>Chief Financial Officer</td>
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<td>Georg Jahn</td>
<td>Director, Sponsored Programs</td>
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<td>Mary Jumamil</td>
<td>Grants and Contracts Administrative Coordinator</td>
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<tr>
<td>Tim Killops</td>
<td>Associate Director, Facilities and Operations</td>
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<tr>
<td>Richard King</td>
<td>Accounting Technician</td>
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<td>Mike Lennon</td>
<td>Associate Director, Retail Services</td>
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<td>Krizel Leynes</td>
<td>Grants and Contracts Administrative Coordinator</td>
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<td>Teresa Loren</td>
<td>Associate Director, Accounting</td>
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<td>Pablo Maple</td>
<td>Cash Room Lead</td>
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<tr>
<td>Philia Militante</td>
<td>Licensing Coordinator</td>
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<td>Nasir Monem</td>
<td>Grants and Contracts Administrative Coordinator</td>
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<td>Crisca Robles</td>
<td>Grants and Contracts Administrative Coordinator</td>
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<td>Mahyar Sadri</td>
<td>Accounting Technician</td>
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<td>Joan Spruill</td>
<td>Payroll Coordinator</td>
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<tr>
<td>Linda Turner</td>
<td>Associate Director, Real Estate</td>
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<tr>
<td>Kathryn Weeks</td>
<td>Human Resources Manager</td>
</tr>
</tbody>
</table>
ASSOCIATED STUDENTS,
CALIFORNIA STATE UNIVERSITY, NORTHRIDGE, INCORPORATED

Sandra Abrams  Children Center Director
David Crandall  General Manager
Daniela Cross  Assistant to the General Manager
Jennifer De La Torre  Assistant Director, Children Center
Steven De Luca  Coordinator of Technology Support
Ken Etter  Manager of Support Services
Diane Hartjen  Director, Accounting and Financial Services
Jessica Kemmerer  Accounting Technician II
Brenda Lacy  Government Secretary
Danisha Lawrence  Coordinator of Administrative and Human Resources
Lionel Lawrence  Assistant Director, Accounting and Financial Services
Margaret Markarian  Accounting Technician I
Yvonne Monreal  Payroll Specialist
Kenneth Premo  Manager of Support Services
Robert Richards  Financial Analyst
John Valadez  Ticket Office Supervisor

UNIVERSITY STUDENT UNION, INC.,
CALIFORNIA STATE UNIVERSITY, NORTHRIDGE

Tamika Braud  Accounts Receivable Technician
Lusine Dayan  Accounting Coordinator
Kristie Godfrey  Assistant Director, Reservation and Event Services and Computer Labs
Alexander Gonzales  Technology Support Services Manager
Jeremy Hamlett  Commercial Services Manager
Debra Hammond  Executive Director
Joe Illuminate  Associate Director, Finance and Business Services
Anita Kapil  Accounting Coordinator
Sharon Kinard  Manager, Administration and Communications
Kaila Lavin  Membership Services Coordinator
Jonathan Navarro  Accounting Supervisor
Brent Nelson  Technical Support Services Coordinator
Kristen Pichler  Human Resources Office

NORTH CAMPUS – UNIVERSITY PARK DEVELOPMENT CORPORATION

Rick Evans  Executive Director
John Griffin  Chief Financial Officer
Teresa Loren  Associate Director, Accounting
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.
December 19, 2012

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

Subject: Campus Response to Recommendations of Audit Report Number 12-05.
Auxiliary Audit at California State University, Northridge

Dear Larry:

Enclosed please find the California State University, Northridge (CSUN) response to the recommendations of the audit, as requested in your email on December 3, 2012.

We have read the report including the observations and recommendations, and agree with them. Corrective action to implement all of the recommendations has been taken. By separate correspondence, the applicable documents evidencing completion of our implementation process and corrective action for each recommendation will be provided.

Should there be questions regarding the contents of the response, they may be addressed to Howard Lutwak, CSUN Internal Audit Director at (818) 677-2333.

We appreciate the recommendations to improve CSUN's systems of internal control.

Sincerely,

Tom McCarron
Vice President Administration and Finance and CFO

TM: mh

Enclosures

CC: Dr. Dianne F. Harrison, President
     Howard Lutwak, Director, Internal Audit
AUXILIARY ORGANIZATIONS
CALIFORNIA STATE UNIVERSITY,
NORTHRIDGE
Audit Report 12-05

CAMPUS

OPERATING AND ADMINISTRATIVE AGREEMENTS

Recommendation 1

We recommend that the campus establish a written agreement with AS for the payment from student body organization fees managed by the campus of state employees working for AS.

Campus Response

We concur. The campus has executed a memorandum of agreement with AS for the payment from campus-managed student body organization fees for state employees working for AS.

FISCAL COMPLIANCE

Recommendation 2

We recommend that the campus ensure that:

a. Salary reimbursements for the Corporation/North Campus executive director are billed in a timely manner.

b. Retirement benefits included in the Corporation/North Campus executive director’s salary reimbursements are correctly calculated.

Campus Response

We concur.

a. The accounts receivable area hired an accounting technician III in July 2012. This position will ensure that university accounts receivable is billed in a timely manner. The employee has been thoroughly trained on the existing policy and procedures that govern timely billing of accounts receivable.

b. The accounting technician III hired in July 2012 has been trained by the supervisor on how to calculate benefits properly. The technician utilizes a monthly report that is generated from the
imported payroll data from the State Controller’s Office. An invoice is generated and all supporting documents for the calculations are submitted to the Corporation for payment.

OPERATIONAL COMPLIANCE

Recommendation 3

We recommend that the campus obtain statement of economic interest forms from all PIs involved with contracts and grants in a timely manner.

Campus Response

We concur. The campus office of research and sponsored projects implemented a procedure to address timely submittal of statement of economic interest forms.
OPERATIONAL COMPLIANCE

Recommendation 4

We recommend that the Foundation obtain a documented delegation of authority for the evaluation and acceptance of gifts.

Campus Response

We concur. The Foundation obtained a letter from the president delegating the authority to the vice president of advancement for the evaluation and acceptance of gifts.

FEES, REVENUES, AND RECEIVABLES

MATCHING GIFTS

Recommendation 5

We recommend that the Foundation perform a documented dual review of all matching gifts during the acceptance process to ensure that funds are designated in accordance with donor intent.

Campus Response

We concur. A documented dual review will be conducted during the matching gift acceptance process to ensure the funds are administered in accordance with corporate donor requirements.

Expected completion date: January 31, 2013

PLEDGES RECEIVABLE

Recommendation 6

We recommend that the Foundation:

a. Document collection and follow-up activity of delinquent pledges receivable.

b. Obtain written authorization from the vice president of advancement prior to write-off of pledges receivable.

Campus Response

We concur.

a. Development officers were reminded in August to document their verbal conversations and follow up activities with the donor on Raiser’s Edge under contact reports.
b. The policy was revised to read the vice president or the vice president’s designee is authorized to write off pledges. A signature of the authorized designee is required on the overdue pledge report prior to write-off.
THE UNIVERSITY CORPORATION

FEES, REVENUES, AND RECEIVABLES

Recommendation 7

We recommend that the Corporation perform and document collection and follow-up activity for delinquent accounts receivable to facilitate collection or support account write-off.

Campus Response

We concur. Corporation Procedure Number AC023 – Procedure for Accounts Receivable Billing and Collection was revised to provide improved directions for collection efforts. New sections were added to the procedure for handling non-campus customers and to identify the reconciliation and approval procedure.

PURCHASING AND ACCOUNTS PAYABLE

Recommendation 8

We recommend that the Corporation state the agreed-upon monthly spending limits in procurement card agreements.

Campus Response

We concur. The Corporation has implemented a modified version of the campus Procurement Card Account Request Form that includes a monthly transaction limit field. The new form is included as part of the purchase card agreement process.

PROPERTY AND EQUIPMENT

Recommendation 9

We recommend that the Corporation document:

a. Review of monthly reconciliations of the fixed assets sub-ledger to the general ledger.
b. Required approvals for the disposal of fixed assets.

Campus Response

We concur. Corporation Procedure Number AC008 – Fixed Assets Policy and Procedure was revised to include a new section on how fixed asset information will be reconciled with the general ledger. The new section establishes the frequency and approval procedure including date and signature. The Corporation has also implemented a new fixed asset disposal form to facilitate documentation of approval for fixed asset disposals.
CONTRACTS AND GRANTS

Recommendation 10

We recommend that the Corporation ensure that effort certification reports are submitted in a timely manner.

Campus Response

We concur. The Corporation formalized a new procedure regarding the late submittal of effort reports by faculty working on sponsored programs. The new procedure establishes the action to be taken at predetermined intervals based on the number of days the report is late. The responsible person to initiate the action is also identified. The new procedure was effective October 1, 2012.

INFORMATION TECHNOLOGY

Recommendation 11

We recommend that the Corporation update its IT DRP to include an alternate processing facility/locations, equipment replacement requirements, contact lists, and an escalation/notification process.

Campus Response

We concur. The Corporation’s IT DRP has been updated to reflect the existing arrangement with campus IT to provide alternative processing facility/locations, equipment replacement requirements, contact lists, and an escalation/notification process. The IT DRP was effective October 1, 2012.
OPERATING AND ADMINISTRATIVE AGREEMENTS

Recommendation 12

We recommend that AS ensure that operating agreements are renewed in a timely manner.

Campus Response

We concur. AS will send a draft of the 2013-2016 agreement to the campus in March 2013 in order to secure their signatures on or before June 1, 2013.

CORPORATE GOVERNANCE

Recommendation 13

We recommend that AS post agendas in a location that is freely accessible to members of the public at least 72 hours before regular board meetings.

Campus Response

We concur. AS will continue to post our agendas online and will, in addition, post them on a display case outside the office door. We made the adjustment to our process as of September 2012. Agendas have been posted in this manner since the start of the fall 2012 semester.
OPERATIONAL COMPLIANCE

Recommendation 14

We recommend that AS develop written policies and procedures for the accounting and processing of children’s center contracts and grants.

Campus Response

We concur. The AS will develop written policies and procedures for the accounting and processing of children’s center contracts and grants.

Expected completion date: March 1, 2013.

PROGRAM COMPLIANCE

Recommendation 15

We recommend that AS:

a. Ensure that student leadership staff completes time records.

b. Report stipends paid to elected student executive officers to the financial aid office before funds are expended.

Campus Response

We concur. Student employees serving on the cabinet will be paid in hourly wages by the start of the 2013 spring semester. Stipends to senators and student executive officers have been reported to the office of financial aid prior to the issuance of any such stipend since the start of the fall 2012 semester.

CASH RECEIPTS AND HANDLING

Recommendation 16

We recommend that the AS ticket office restrictively endorse checks by the close of the business day.

Campus Response

We concur. Checks are restrictively endorsed by the ticket office at or before the close of each business day on which the check is received. The ticket office operations/procedures manual was revised to include this process.
PERSONNEL AND PAYROLL

Recommendation 17

We recommend that AS monitor and document approvals for student employees working more than 20 hours per week.

Campus Response

We concur. AS has reiterated to all employees the requirements of Coded memorandum Human Resources 2012-06 regarding the allowable maximum hours for student assistants. AS has implemented a procedure that requires the general manager or her/his designee to pre-approve overtime necessitated by extraordinary circumstances.

INFORMATION TECHNOLOGY

Recommendation 18

We recommend that AS create an IT DRP.

Campus Response

We concur. AS will develop and publish an IT DRP on or before January 31, 2013.
UNIVERSITY STUDENT UNION, INC.,
CALIFORNIA STATE UNIVERSITY, NORTH RIDGE

OPERATIONAL COMPLIANCE

Recommendation 19

We recommend that the Student Union update its payroll policies and procedures and employee handbook to address current operations with regard to terminating inactive employees, voluntary/involuntary terminations, and overtime approvals.

Campus Response

We concur. The Student Union will convert its payroll policy and procedure into a comprehensive human resources management system policy and procedure to incorporate current operations with regard to terminating inactive employees; voluntary/involuntary terminations; and overtime approvals by February 28, 2013.

CASH RECEIPTS AND HANDLING

Recommendation 20

We recommend that the Student Union ensure that:

a. Daily sales receipts are independently reconciled before cash is dropped in the safe for deposit at reservations and event services.

b. Daily cash receipts are reconciled to the end-of-day totals within EMS at reservations and event services.

c. Payments received at the commercial services department are forwarded to the business office for deposit in a timely manner.

Campus Response

We concur.

a. Daily sales receipts are now independently reconciled before cash is dropped in the safe for deposit at the Student Union reservations and events department.

b. Daily cash receipts are now reconciled to the end-of-day totals with totals from the Event Management System.

c. Student Union management reiterated to Student Union managers the importance of forwarding payments to the business office in a timely manner.
PERSONNEL AND PAYROLL

EMPLOYEE SALARY CHANGES

Recommendation 21

We recommend that the Student Union generate a pay rate edit listing report in each payroll cycle for management review.

Campus Response

We concur. The Student Union has implemented a pay rate edit listing report. The report, generated from the payroll system, includes salary changes for management review prior to transmitting the pay file to the payroll processing company.

EMPLOYEE OVERTIME

Recommendation 22

We recommend that the Student Union document supervisory pre-approval of overtime.

Campus Response

We concur. The Student Union will incorporate in its human resources management system policy and procedure the requirement to document supervisory pre-approval of overtime.

Expected completion date: February 28, 2013
January 16, 2013

MEMORANDUM

TO: Mr. Larry Mandel  
    University Auditor

FROM: Timothy P. White  
       Chancellor

SUBJECT: Draft Final Report 12-05 on Auxiliary Organizations,  
         California State University, Northridge

In response to your memorandum of January 16, 2013, I accept the response as submitted with the draft final report on Auxiliary Organizations, California State University, Northridge.

TPW/amd