AUXILIARY ORGANIZATIONS

CALIFORNIA STATE POLYTECHNIC UNIVERSITY,
POMONA

Audit Report 13-02
June 13, 2013

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ABBREVIATIONS

ASI   Associated Students, Incorporated
CFO   Chief Financial Officer
CSU   California State University
EO    Executive Order
Foundation Cal Poly Pomona Foundation, Inc.
ICSUAM Integrated California State University Administrative Manual
IRS   Internal Revenue Service
POS   Point of Sale
RFIN  Resolution of the Committee on Finance
SCO   California State Controller’s Office
UBI   Unrelated Business Income
UET   Cal Poly Pomona University Educational Trust
EXECUTIVE SUMMARY

In July 1981, the Board of Trustee policy concerning auxiliary organizations was adopted in the Resolution of the Committee on Finance (RFIN) 7-81-4. Executive Order 698, Board of Trustees Policy for The California State University Auxiliary Organizations, dated March 3, 1999, required that the Office of the University Auditor conduct internal compliance/internal control reviews of auxiliary organizations, and the Board of Trustees instructed that such reviews be conducted on a triennial basis pursuant to procedures established by the chancellor.

California State Polytechnic University, Pomona management is responsible for establishing and maintaining an adequate system of internal compliance/internal control and assuring that each of its auxiliary organizations similarly establishes such a system. This responsibility, in accordance with California Code of Regulations, Title 5, Section 42402 et seq. and Executive Order 698, Board of Trustees Policy for The California State University Auxiliary Organizations et seq., includes requiring the documentation of internal control, communicating requirements to employees, and assuring that its system of internal compliance/internal control is functioning as prescribed. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures.

The objectives of a system of internal compliance/internal control are to provide management with reasonable, but not absolute, assurance that:

- Auxiliary operations are conducted in accordance with policies and procedures established in the State Administrative Manual, Education Code, Title 5, and Trustee policy.
- Assets are adequately safeguarded against loss from unauthorized use or disposition.
- Transactions are executed in accordance with management’s authorization and recorded properly to permit the timely preparation of reliable financial statements.

We visited the California State Polytechnic University, Pomona campus and its auxiliary organizations from March 25, 2013, through April 26, 2013, and made a study and evaluation of the system of internal compliance/internal control in effect as of April 26, 2013. This report represents our triennial review.

In our opinion, the fiscal, operational, and administrative controls in effect at the California State Polytechnic University, Pomona campus as of April 26, 2013, taken as a whole, were sufficient to meet the objectives stated above and in the “Purpose” section of this report.

In our opinion, except for the effect of the weaknesses described below, the fiscal, operational, and administrative controls at Cal Poly Pomona Foundation, Inc. as of April 26, 2013, taken as a whole, were sufficient to meet the objectives stated above and in the “Purpose” section of this report. Areas of concern include: fees, revenues, and receivables, and purchasing and accounts payable.

In our opinion, the fiscal, operational, and administrative controls in effect at the Cal Poly Pomona University Educational Trust (dissolved January 31, 2012), taken as a whole, were sufficient to meet the objectives stated above and in the “Purpose” section of this report.
In our opinion, except for the effect of the weaknesses described below, the fiscal, operational, and administrative controls at Associated Students, Incorporated, as of April 26, 2013, taken as a whole, were sufficient to meet the objectives stated above and in the “Purpose” section of this report. Areas of concern include: cash receipts and handling, and fees, revenues, and receivables.

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.

CAL POLY POMONA FOUNDATION, INC.

PETTY CASH AND CHANGE FUNDS [9]

Administration of Cal Poly Pomona Foundation, Inc. (Foundation) petty cash funds was inadequate. Specifically, one of five petty cash funds we reviewed had no activity since fiscal year 2002/03, the fund’s custodian had retired about five years ago, and the money in the fund could not be located.

FEES, REVENUES, AND RECEIVABLES [10]

Administration of Foundation accounts receivable collections needed improvement. For example, collection and follow-up activity was not always performed and documented to facilitate collection or support account write-off, and supporting documentation for long-outstanding accounts receivable was not always periodically reviewed and validated. Additionally, Foundation uncollectible accounts receivable were not always written off in a timely manner.

PURCHASING AND ACCOUNTS PAYABLE [12]

The Foundation did not always investigate and resolve open purchase orders in a timely manner. Additionally, the Foundation did not always escheat unclaimed payroll checks to the state and did not always obtain properly completed release forms or waivers from students traveling by air.

PERSONNEL AND PAYROLL [15]

The Foundation neither monitored nor documented approvals for student employees working more than 20 hours per week during the academic period.
AUXILIARY PROGRAMS [16]

The Foundation did not document periodic management review of bookstore system monitoring reports.

ASSOCIATED STUDENTS, INCORPORATED

FISCAL COMPLIANCE [17]

Associated Students, Incorporated (ASI) had not properly accounted for or tracked unrelated business income earned from the games room, conference and event services, and the children’s center.

CASH RECEIPTS AND HANDLING [17]

Cashiering operations at the ASI fitness center needed improvement. Specifically, cash handling procedures were not updated to reflect current operations, daily cash register opening procedures did not include an independent cash count of each cashier’s opening bank, daily cash register close-out procedures did not include an independent count of each cash bag by a supervisor or other staff member, and daily sales receipts for the last shift of the day were not independently reconciled before cash was dropped in the safe for deposit.

FEES, REVENUES, AND RECEIVABLES [19]

ASI accounts receivable collection and follow-up activity was not always performed and documented to facilitate collection or support timely account write-off.
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 Integrated 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.

Cal Poly Pomona Foundation, Inc.

The Cal Poly Pomona Foundation, Inc. (Foundation) was established in 1966 as a non-profit public benefit corporation responsible for operation of commercial services in support of the university’s educational mission. The Foundation operates the Bronco Bookstore; Kellogg West Conference Center and Hotel; Kellogg House, a venue used for weddings, corporate meetings, and other events; Innovation Village, a research and development environment for public-private partnerships; and dining services, including restaurants, convenience stores, and vending. The Foundation also operates and/or administers sponsored programs, gifts and endowments, farm and agriculture operations, student and faculty housing, non-credit continuing education classes, and various Foundation programs. Further, the Foundation performs accounting and business administration services for all of its operations. The Foundation is governed by a board of directors composed of representatives from the university administration, staff, faculty, student body, and community.

Cal Poly Pomona University Educational Trust

The Cal Poly Pomona University Educational Trust (UET) was established in 1994 as a non-profit public benefit corporation to serve as the university’s primary external fund-raising, funds-management, and revenue-distribution arm. In 2010, the UET was awarded a significant grant from the W.K. Kellogg Foundation (Kellogg Foundation). Due to the disproportionately large size of the grant, as compared to other grants received by the UET, it was determined that the grant would cause the UET to involuntarily be converted from a public charity to a private foundation, which could result in adverse tax consequences for the Kellogg Foundation, the UET, and other current and potential donors. In December 2010, the UET submitted an application to the Internal Revenue Service (IRS) to change its status; if approved, the UET would be able to receive any size contribution from charities, without adverse tax consequences. However, based on additional information requested by the IRS, it appeared unlikely that the application would be approved. The inability to change the status of the UET to accept large gifts
without adverse tax consequences to potential donors would have a detrimental effect on the capital campaign for the university. In September 2011, the board of directors of the UET and the Foundation decided to dissolve the UET and distribute its assets to the Foundation. The Foundation had managed university endowments until they were transferred to the UET in July 2000. The UET had no employees, and all administrative services were provided through an agreement with the Foundation. The dissolution was approved by the Trustees of the California State University in November 2011, and the UET was dissolved on January 31, 2012.

Associated Students, Incorporated

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

PurposE

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

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

Scope and Methodology

Our study and evaluation were conducted in accordance with the International Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors and included the audit tests we considered necessary in determining whether fiscal, operational, 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, 2012, to April 26, 2013. 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:

**Cal Poly Pomona Foundation, Inc.**
- 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
INTRODUCTION

Cal Poly Pomona Foundation, Inc. (cont.)
- Personnel and Payroll
- Property and Equipment
- Trusts and Other Liabilities
- Auxiliary Programs
- Information Technology

Cal Poly Pomona University Educational Trust
- Corporate Governance
- Trusts and Other Liabilities

Associated Students, Incorporated
- 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

Campus
- Campus Oversight and Control
- Information Technology

We have not performed any auditing procedures beyond April 26, 2013. 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

CAL POLY POMONA FOUNDATION, INC.

PETTY CASH AND CHANGE FUNDS

Administration of Cal Poly Pomona Foundation, Inc. (Foundation) petty cash funds was inadequate.

We found that one of five petty cash funds we reviewed had no activity since fiscal year 2002/03. In addition, the fund’s custodian had retired about five years ago, and the money in the fund could not be located.

Foundation Petty Cash Fund Procedures state that the Foundation may establish a petty cash fund for a maximum of $500; exceptions are allowed per the approval from the chief financial officer (CFO) or his/her designee. The Foundation will close an authorized petty cash fund that is not operated in accordance with these procedures. The Foundation will conduct random audits of selected funds once per year and will hold the petty cash custodian liable for misuse or mismanagement of funds. It further states that the petty cash fund is to be reconciled monthly.

Integrated California State University Administrative Manual (ICSUAM) 3103.11, Petty Cash, dated July 1, 2011, states that the petty cash fund will be closed out when a given petty cash fund is no longer needed, or upon termination or departmental transfer of the custodian. Transfer of funds to a successor is not authorized. If a successor is to be furnished a petty cash fund, a new request is required. An unannounced cash count and reconciliation of petty cash funds must be performed on a periodic basis by someone other than the fund custodian.

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

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 petty cash funds.

The Foundation senior managing director/CFO stated that management was unaware that the fund custodian had retired.

Inadequate administration of petty cash funds increases the risk of loss or misappropriation of funds.
Recommendation 1

We recommend that the Foundation write off the cited petty cash account.

Campus Response

We concur. The petty cash fund was written off and the account closed during fieldwork.

FEES, REVENUES, AND RECEIVABLES

COLLECTIONS

Administration of Foundation accounts receivable collections needed improvement.

We reviewed ten delinquent accounts receivable from the accounts receivable aging report as of February 28, 2013, and we found that:

- Collection and follow-up activity was not always performed and documented to facilitate collection or support account write-off. Five delinquent accounts receivable totaling $7,799 were outstanding from 913 to 1,611 days.

- Supporting documentation for long-outstanding accounts receivable was not always periodically reviewed and validated. In one instance, a duplicate invoice in the amount of $8,945 was outstanding for 705 days.

The Foundation Accounts Receivable Policy and Procedures states that all accounts receivable invoices greater than one year old will be recorded in an allowance for doubtful accounts and written off after two years with the prior written approval of the project manager, CFO, and executive director.

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 Foundation’s senior managing director/CFO stated that although management had met with the respective project directors, collection and follow-up activity was not adequate 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 2**

We recommend that the Foundation:

a. Perform and document collection and follow-up activity for delinquent accounts receivable to facilitate collection or support account write-off.

b. Periodically review and validate supporting documentation for long-outstanding accounts receivable.

**Campus Response**

We concur. We have developed procedures to perform and document collection and follow-up activities and periodically review and validate long-outstanding accounts receivable. As a result, we have written off the appropriate accounts receivables.

**WRITE-OFFS**

Foundation uncollectible accounts receivable were not always written off in a timely manner.

We reviewed ten accounts receivable write-offs and found that in three instances, the uncollectible receivables were not written off in a timely manner. The receivables, totaling $3,488, were outstanding from 1,976 to 2,823 days.

The Foundation Accounts Receivable Policy and Procedures states that all accounts receivable invoices greater than one year old will be recorded in an allowance for doubtful accounts and written off after two years with the prior written approval of the project manager, CFO, and executive director.

ICSUAM §3132.01, Write Off of Uncollectible Accounts Receivable, dated April 1, 2011, states that procedures must provide that debt and accounts receivable balances determined to be uncollectible must be written off by the close of the fiscal year. Reserves for doubtful accounts should be established based on type of outstanding debt and expectations of repayment. In general, any receivables that remain outstanding after one year should be written off the books.

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 uncollectible accounts receivable.

The Foundation senior managing director/CFO stated that the uncollectible accounts receivable were not written off in a timely manner because the Foundation did not receive approval from the project managers.

Untimely write-off of uncollectible accounts receivable increases the risk that receivables will not be accurately reflected in auxiliary financial statements.

**Recommendation 3**

We recommend that the Foundation reiterate to project managers that uncollectible receivables must be written off in a timely manner.

**Campus Response**

We concur. We have reiterated to project managers that uncollectible receivables must be written off in a timely manner. We have written off the affected accounts receivables.

**PURCHASING AND ACCOUNTS PAYABLE**

**PURCHASE ORDERS**

The Foundation did not always investigate and resolve open purchase orders in a timely manner.

We reviewed ten open purchase orders outstanding for more than 365 days, and we found that:

- Two purchase orders related to contracts and grants totaling $940 and outstanding from 478 to 562 days had not been disencumbered and removed from the purchase order system, even though they had been paid. These purchase orders were removed from the purchase order system during audit fieldwork.

- One purchase order in the amount of $9,894 that was outstanding for 1,892 days had not been disencumbered and removed from the purchase order system, even though it had been paid. This purchase order was removed from the purchase order system during audit fieldwork.

The *Compilation of Policies and Procedures for California State University Auxiliary Organizations* sets sound business practice guidelines for auxiliary organizations operating within the CSU system. Section 8.9.5, *Procurement*, states, in part, that the auxiliary should establish a written system that ensures purchases and service contracts coding, classification, recording, and competitive bidding requirements are applied in a consistent manner.
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 long-outstanding purchase orders.

The Foundation senior managing director/CFO stated that the long-outstanding purchase orders were not disencumbered and removed from the purchase order system due to oversight.

Insufficient administration of long-outstanding purchase orders could impair budget analysis and planning and could adversely affect decision-making.

**Recommendation 4**

We recommend that the Foundation investigate and resolve open purchase orders in a timely manner.

**Campus Response**

We concur. We have developed procedures to investigate and resolve open purchase orders. We have cleared the affected open purchase orders.

**UNCLAIMED CHECKS**

The Foundation did not always escheat unclaimed payroll checks to the state.

We found 27 unclaimed payroll checks dated from November 2007 to December 2011 that had not been escheated to the state.

The Foundation *Unclaimed Property Procedure* indicates that any unclaimed funds (i.e. accounts payable and payroll checks) issued by the Foundation for which the payees have been sent correspondence (payroll one year and accounts payable three years dormancy) will be reported and escheated to the California State Controller’s Office (SCO). To avoid a late reporting penalty, reports will be submitted to the SCO before November 1, and the funds will be submitted to SCO in June of each year.

Code of Civil Procedure Title 10, *Unclaimed Property*, Chapter 7, *Unclaimed Property Law*, Article 2, §1510 and §1511 state that property held by a business association escheats to the state, subject to various requirements and limitations.

The Foundation senior managing director/CFO stated that the unclaimed payroll checks were inadvertently excluded from the escheatment process in fiscal year 2011/12 due to oversight.

Failure to escheat unclaimed property to the state or perform the duties specified in the unclaimed property law could result in fines.
Recommendation 5

We recommend that the Foundation promptly escheat the cited unclaimed checks to the state.

Campus Response

We concur. We have escheated the unclaimed checks.

TRAVEL

The Foundation did not always obtain properly completed release forms or waivers from students traveling by air.

We reviewed four student travel disbursements and found that in two instances, students traveling by air did not complete and sign release forms or waivers. In another instance, the release form or waiver was signed but not dated.

Executive Order 1041, California State University Student Travel Policy, dated July 1, 2009, states that all students participating in CSU-affiliated programs that require air travel shall be required to acknowledge that they have been informed of the risks of air travel required by such programs and to sign a statement certifying that they have been informed of and undertake such air travel voluntarily with full knowledge of such risks, and release and hold harmless the state of California, the CSU, the campus affiliated with the program requiring air travel, and each and every officer, agent, and employee of each of them, from any and all claims and causes of action that the student, or any person(s) claiming through the student, may have against any of the above institutions or persons, by reason of any accident, illness or injuries, death, or other consequences resulting directly or indirectly from or in any manner arising out of, or in connection with, the student being a passenger on a flight.

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 release forms or signed waivers be obtained from each student traveling by air.

The Foundation senior managing director/CFO stated that the missing release forms or waivers and the undated waiver were due to oversight.

The absence of properly completed release forms or waivers from students traveling by air increases the risk of legal liability.
Recommendation 6

We recommend that the Foundation reiterate to project managers that properly completed release forms or waivers are to be obtained from all students traveling by air.

Campus Response

We concur. We have reiterated to project managers to complete release forms and waivers.

PERSONNEL AND PAYROLL

The Foundation neither monitored nor documented approvals for student employees working more than 20 hours per week during the academic period.

We reviewed the pay period ending October 13, 2012, and noted that ten students worked from 23 to 36 hours per week.

The Foundation Employee Handbook states that student employees are allowed to work a maximum of 20 hours per week while school is in session. If the student has more than one job, the 20-hour rule applies to total hours worked in combination with all jobs on campus.

The CSU 2012 Coded Memoranda Human Resources Letter, 2012-08, 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 approval of student employees working more than 20 hours per week.

The Foundation senior managing director/CFO stated that due to enterprise-related operational requirements at the beginning of the school year, student employees exceeded the 20-hours-per-week limit. He further stated that students did not work more than 20 hours per week on average over the course of an academic year.

Inadequate monitoring and documentation of approvals for student employee work hours increases the risk of non-compliance with CSU, local, state, and federal employment regulations.
Recommendation 7

We recommend that the Foundation monitor and document approval for student employees working more than 20 hours per week.

Campus Response

We concur. We have developed procedures to monitor and document approval for student employees working more than 20 hours per week.

AUXILIARY PROGRAMS

The Foundation did not document periodic management review of bookstore system monitoring reports.

Specifically, we found that management review of reports from the point-of-sale (POS) and inventory systems at the bookstore was not documented.

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 documented and timely management review of monitoring reports.

The Foundation’s senior managing director/CFO stated that although bookstore records of reviews were not kept, management regularly reviewed relevant POS and inventory reports, as evidenced by the fact that budget obligations were met and yearly average shrink levels were low.

The absence of documented periodic management review of bookstore system monitoring reports increases the risk of errors, loss, or misappropriation.

Recommendation 8

We recommend that the Foundation document periodic management review of bookstore system monitoring reports.

Campus Response

We concur. We have developed procedures to document periodic review of bookstore system monitoring reports.
ASSOCIATED STUDENTS, INCORPORATED

FISCAL COMPLIANCE

Associated Students, Incorporated (ASI) had not properly accounted for or tracked unrelated business income (UBI) earned from the games room, conference and event services, and the children’s center.

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

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

The ASI director of business services stated that system limitations prevented the tracking of UBI.

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

Recommendation 9

We recommend that ASI properly account for or track UBI earned from the games room, conference and event services, and children’s center, and file federal income tax returns as appropriate.

Campus Response

We concur. ASI has started accounting for UBI earned from conference and events services effective June 30, 2013, so it will be properly reflected in income. ASI will account for UBI earned from the games room and children’s center to properly reflect the income on the federal tax return by October 31, 2013.

Timeline: October 31, 2013

CASH RECEIPTS AND HANDLING

Cashiering operations at the ASI fitness center needed improvement.
We found that:

- Cash handling procedures were not updated to reflect current operations.
- Daily cash register opening procedures did not include an independent cash count of each cashier’s opening bank.
- Daily cash register close-out procedures did not include an independent count of each cash bag by a supervisor or other staff member.
- Daily sales receipts for the last shift of the day were not independently reconciled before cash was dropped in the safe for deposit. Instead, the cashier counted cash, prepared a closing worksheet, and dropped the cash in the safe for deposit.

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 8.9.1, *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.

The ASI director of business services stated that limited staff at the open and close of operations at the fitness center prevented proper cash handling procedures.

Lack of updated written policies and procedures increases the risk that errors, inconsistencies, and misunderstandings will occur, and inadequate administration of cash receipts increases the risk of loss or misappropriation of funds.

**Recommendation 10**

We recommend that ASI:

- Update cash handling procedures to reflect current operations.
b. Include an independent cash count of each cashier’s opening bank in daily cash register opening procedures.

c. Include an independent count of each cash bag in daily cash register close-out procedures.

d. Independently reconcile daily sales receipts for the last shift of the day before cash is dropped in the safe for deposit.

Campus Response

We concur.

a. ASI will update the cash handling procedures in the Bronco Fitness Center by August 31, 2013.

b. ASI will include an independent cash count of each cashier’s opening bank in the daily cash register opening procedures by October 31, 2013.

c. ASI will include an independent count of each cash bag in daily cash register close-out procedures by October 31, 2013.

d. ASI will independently reconcile daily sales receipts for the last shift of the day before cash is dropped in the safe for deposit by October 31, 2013.

Timeline: October 31, 2013

FEES, REVENUES, AND RECEIVABLES

ASI accounts receivable collection and follow-up activity was not always performed and documented to facilitate collection or support timely account write-off.

We reviewed five delinquent accounts receivable from the accounts receivable aging report as of March 14, 2013, and five write-offs from the write-off report as of June 30, 2012, and we found that:

- Collection and follow-up activity was not performed and documented to facilitate collection or support account write-off. The receivables, totaling $3,850, were outstanding from 143 to 651 days.

- Write-offs were not supported by documented collection procedures to support timely write-off. The write-offs, totaling $1,639, were outstanding from 759 to 908 days.

The ASI Accounts Receivable Policy states that if an invoice has not been paid within 30 days, a second notice will be sent to the customer. Consequently, if after 60 days, payment has not been made, a letter will be sent to the advisor of the club. Finally, the reservations coordinator and the
director of business services are notified to follow up on operation typed invoices and lessees respectively.

The ASI Invoice Write-off Policy states that all invoices shall be reviewed at 180 days in order to ascertain the possibility of collection, at which time they shall be classified as doubtful and reviewed again at 360 days, at which time they will be classified as written off. The approval of the director of business services is required for amounts written off less than $500 and the executive director for amounts written off greater than $500.

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

Title 5 §42401 and §42402 indicate that the campus president shall require that auxiliary organizations operate in conformity with policy of the Board of Trustees and the campus. One of the objectives of the auxiliary organizations is to provide fiscal procedures and management systems that allow effective coordination of the auxiliary activities with the campus in accordance with sound business practices. Sound business practice mandates sufficient documentation of accounts receivable collection efforts and write-off of uncollectible accounts in a timely manner.

The ASI director of business services stated that turnover in the accounts receivable position contributed to the lack of collection and follow-up activity and timely write-off of uncollectible accounts.

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 11**

We recommend that ASI reiterate to staff that collection and follow-up activity for delinquent accounts receivable must be performed and documented to facilitate collection or support timely account write-off.

**Campus Response**

We concur. ASI began performing and documenting the collection and follow-up activity for delinquent accounts receivable to support the timely account write-off effective April 30, 2013.
APPENDIX A:
PERSONNEL CONTACTED

<table>
<thead>
<tr>
<th>Name</th>
<th>Title</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>CAMPUS</strong></td>
<td></td>
</tr>
<tr>
<td>J. Michael Ortiz</td>
<td>President</td>
</tr>
<tr>
<td>Anita Aguirre</td>
<td>Property Officer</td>
</tr>
<tr>
<td>Edwin Barnes, III</td>
<td>Vice President, Administrative Affairs and Chief Financial Officer (CFO)</td>
</tr>
<tr>
<td>Darwin Labordo</td>
<td>Associate Vice President, Finance and Administrative Affairs and Associate CFO</td>
</tr>
<tr>
<td>Kathy Odenwald</td>
<td>Gifts Processing Specialist</td>
</tr>
<tr>
<td>Melissa L. Riordan</td>
<td>Executive Director, Advancement Services, Alumni and Annual Giving</td>
</tr>
<tr>
<td>Michelle Stoddard</td>
<td>Associate Vice President for University Development</td>
</tr>
<tr>
<td><strong>CAL POLY POMONA FOUNDATION, INC.</strong></td>
<td></td>
</tr>
<tr>
<td>Clint Aase</td>
<td>Director of Bookstore</td>
</tr>
<tr>
<td>Pauline Anongdeth</td>
<td>Accounts Specialist</td>
</tr>
<tr>
<td>Debra Chavez</td>
<td>Financial Analyst</td>
</tr>
<tr>
<td>Sue Chiazza</td>
<td>Director of Enterprise Accounting and Financial Reporting</td>
</tr>
<tr>
<td>Jason DeBellis</td>
<td>General Accountant</td>
</tr>
<tr>
<td>Jennifer DeJolie</td>
<td>Senior Payroll Specialist</td>
</tr>
<tr>
<td>Suzanne Donnelly</td>
<td>Bookstore Senior Associate Director</td>
</tr>
<tr>
<td>Cameron Edmonds</td>
<td>Director of Kellogg West Conference Center and Lodge</td>
</tr>
<tr>
<td>Howard Evans</td>
<td>Dean, College of the Extended University</td>
</tr>
<tr>
<td>Ken Fisher</td>
<td>Director of Foundation Housing Services</td>
</tr>
<tr>
<td>Christine He</td>
<td>Accountant</td>
</tr>
<tr>
<td>Dan Hostetler</td>
<td>Farm Store Faculty Director</td>
</tr>
<tr>
<td>Leslie Jones-Reed</td>
<td>Vault Cashier</td>
</tr>
<tr>
<td>Debbie Linthicum</td>
<td>Grants/Contracts Manager</td>
</tr>
<tr>
<td>Patrick McCoy</td>
<td>General Manager, Residential Dining</td>
</tr>
<tr>
<td>Dennis Miller</td>
<td>Director of Employment Services</td>
</tr>
<tr>
<td>Haleh Minakary</td>
<td>General Business Manager/Safety Officer</td>
</tr>
<tr>
<td>Aaron Neilson</td>
<td>Interim Director of Dining Services</td>
</tr>
<tr>
<td>Nancy T. O’Brien</td>
<td>Account Specialist, Housing Services</td>
</tr>
<tr>
<td>Jeanette Paredez</td>
<td>Accountant, Kellogg West Conference Center &amp; Lodge</td>
</tr>
<tr>
<td>David Prenovost</td>
<td>Senior Managing Director and CFO</td>
</tr>
<tr>
<td>Karen Sandoval</td>
<td>Financial Analyst</td>
</tr>
<tr>
<td>G. Paul Storey</td>
<td>Executive Director</td>
</tr>
<tr>
<td>Terrie Taylor</td>
<td>Financial Manager, College of the Extended University</td>
</tr>
<tr>
<td>Randall Townsend</td>
<td>Director of Information Technology</td>
</tr>
<tr>
<td>Sandra Vaughan-Acton</td>
<td>Director of Real Estate Development</td>
</tr>
<tr>
<td>Oscar Villanueva</td>
<td>Senior Food and Beverage Manager</td>
</tr>
<tr>
<td>Randy Wallace, Jr.</td>
<td>Real Estate Manager</td>
</tr>
</tbody>
</table>
ASSOCIATED STUDENTS, INCORPORATED

Yvonne Bailey  Director of Children’s Center
Terri Bell  Director of Business Services
Ivonne Cabezas  Accounting Analyst
Cora Culla  Executive Director
Melvin Galang  Accounting Technician
Nancy Hwang  Associate Director
Louisa Keyes  Accounts Receivable Vault Cashier
Shelbi Long  Recreation Coordinator
Ginny Mansfield  Human Resource Assistant
Jessica Martinez  Fund Specialist
Sandy Mihiar  Commercial Services Coordinator
Harry Nguyen  Information Technology Coordinator
Eliane Townsend  Fund Specialist
Powell Velasco  Associate Executive Director
Sue Wise  Reservations Coordinator
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.
July 15, 2013

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

Dear Mr. Mandel:

**Subject: Campus Response to Recommendations of Auxiliary Organizations 13-02**

Enclosed is California State Polytechnic’s campus response to the Auxiliary Organizations Audit 13-02. We appreciate the effort you and your staff have made to indicate areas where our procedures or internal controls could be strengthened. We will take the necessary actions to address the report's recommendations.

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

Sincerely,

Edwin A. Barnes, III, Vice President  
Administrative Affairs

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

Enclosure
AUDIALLY ORGANIZATIONS
CALIFORNIA STATE POLYTECHNIC UNIVERSITY, POMONA

Audit Report 13-02

CAL POLY POMONA FOUNDATION, INC.

PETTY CASH AND CHANGE FUNDS

Recommendation 1

We recommend that the Foundation write off the cited petty cash account.

Campus Response

We concur. The petty cash fund was written off and the account closed during fieldwork.

FEES, REVENUES, AND RECEIVABLES

COLLECTIONS

Recommendation 2

We recommend that the Foundation:

a. Perform and document collection and follow-up activity for delinquent accounts receivable to facilitate collection or support account write-off.

b. Periodically review and validate supporting documentation for long-outstanding accounts receivable.

Campus Response

We concur. We have developed procedures to perform and document collection and follow-up activities and periodically review and validate long-outstanding accounts receivable. As a result, we have written off the appropriate accounts receivables.

WRITE-OFFS

Recommendation 3

We recommend that the Foundation reiterate to project managers that uncollectible receivables must be written off in a timely manner.
Campus Response

We concur. We have reiterated to project managers that uncollectible receivables must be written off in a timely manner. We have written off the affected accounts receivables.

PURCHASING AND ACCOUNTS PAYABLE

PURCHASE ORDERS

Recommendation 4

We recommend that the Foundation investigate and resolve open purchase orders in a timely manner.

Campus Response

We concur. We have developed procedures to investigate and resolve open purchase orders. We have cleared the affected open purchase orders.

UNCLAIMED CHECKS

Recommendation 5

We recommend that the Foundation promptly escheat the cited unclaimed checks to the state.

Campus Response

We concur. We have escheated the unclaimed checks.

TRAVEL

Recommendation 6

We recommend that the Foundation reiterate to project managers that properly completed release forms or waivers are to be obtained from all students traveling by air.

Campus Response

We concur. We have reiterated to project managers to complete release forms and waivers.

PERSONNEL AND PAYROLL

Recommendation 7

We recommend that the Foundation monitor and document approval for student employees working more than 20 hours per week.
Campus Response

We concur. We have developed procedures to monitor and document approval for student employees working more than 20 hours per week.

AUXILIARY PROGRAMS

Recommendation 8

We recommend that the Foundation document periodic management review of bookstore system monitoring reports.

Campus Response

We concur. We have developed procedures to document periodic review of bookstore system monitoring reports.
ASSOCIATED STUDENTS, INCORPORATED

FISCAL COMPLIANCE

Recommendation 9

We recommend that ASI properly account for or track UBI earned from the games room, conference and event services, and children’s center, and file federal income tax returns as appropriate.

Campus Response

We concur. ASI has started accounting for UBI earned from conference and events services effective June 30, 2013, so it will be properly reflected in income. ASI will account for UBI earned from the games room and children’s center to properly reflect the income on the federal tax return by October 31, 2013.

Timeline: October 31, 2013

CASH RECEIPTS AND HANDLING

Recommendation 10

We recommend that ASI:

a. Update cash handling procedures to reflect current operations.

b. Include an independent cash count of each cashier’s opening bank in daily cash register opening procedures.

c. Include an independent count of each cash bag in daily cash register close-out procedures.

d. Independently reconcile daily sales receipts for the last shift of the day before cash is dropped in the safe for deposit.

Campus Response

We concur.

a. ASI will update the cash handling procedures in the Bronco Fitness Center by August 31, 2013.

b. ASI will include an independent cash count of each cashier’s opening bank in the daily cash register opening procedures by October 31, 2013.

c. ASI will include an independent count of each cash bag in daily cash register close-out procedures by October 31, 2013.

d. ASI will independently reconcile daily sales receipts for the last shift of the day before cash is dropped in the safe for deposit by October 31, 2013.
Timeline: October 31, 2013

FEES, REVENUES, AND RECEIVABLES

Recommendation 11

We recommend that ASI reiterate to staff that collection and follow-up activity for delinquent accounts receivable must be performed and documented to facilitate collection or support timely account write-off.

Campus Response

We concur. ASI began performing and documenting the collection and follow-up activity for delinquent accounts receivable to support the timely account write-off effective April 30, 2013.
July 22, 2013

MEMORANDUM

TO: Mr. Larry Mandel
    University Auditor

FROM: Timothy P. White
      Chancellor

SUBJECT: Draft Final Report 13-02 on Auxiliary Organizations,
         California State Polytechnic University, Pomona

In response to your memorandum of July 22, 2013, I accept the response as submitted with the draft final report on Auxiliary Organizations, California State Polytechnic University, Pomona.

TPW/amd