AUXILIARY ORGANIZATIONS

CALIFORNIA STATE UNIVERSITY,
STANISLAUS

Audit Report 13-05
October 18, 2013

Members, Committee on Audit

Lupe C. Garcia, Chair
Rebecca D. Eisen   Steven M. Glazer
William Hauck   Hugo N. Morales

Staff

University Auditor:  Larry Mandel
Senior Director:  Janice Mirza
IT Audit Manager:  Greg Dove
Audit Manager:  Caroline Lee
Senior Auditors:  Jamarr Johnson, Sean Lee, and Dominick Owens
Internal Auditor:  Gina Yi

BOARD OF TRUSTEES
THE CALIFORNIA STATE UNIVERSITY
CONTENTS

Executive Summary ......................................................................................................................... 1
Introduction ........................................................................................................................................ 5
  Background ................................................................................................................................. 5
  Purpose ....................................................................................................................................... 7
  Scope and Methodology .............................................................................................................. 8

OBSERVATIONS, RECOMMENDATIONS, AND CAMPUS RESPONSES

CAMPUS

Personnel and Payroll .................................................................................................................... 11
Information Technology .................................................................................................................. 12

CALIFORNIA STATE UNIVERSITY, STANISLAUS FOUNDATION

Fiscal Compliance ......................................................................................................................... 14
Operational Compliance ............................................................................................................... 15

CALIFORNIA STATE UNIVERSITY, STANISLAUS
AUXILIARY AND BUSINESS SERVICES

Operating and Administrative Agreements .................................................................................... 17
Corporate Governance .................................................................................................................. 18
Operational Compliance ................................................................................................................. 19
Commercial Operations ................................................................................................................ 20

ASSOCIATED STUDENTS INCORPORATED OF CALIFORNIA STATE UNIVERSITY, STANISLAUS

Operating and Administrative Agreements ..................................................................................... 22
Facilities Agreements .................................................................................................................... 23
Corporate Governance .................................................................................................................. 23
Fiscal Compliance ........................................................................................................................... 24
CONTENTS

Operational Compliance ............................................................................................................................. 25

CALIFORNIA STATE UNIVERSITY, STANISLAUS UNIVERSITY STUDENT UNION

Operating and Administrative Agreements .................................................................................................. 27
APPENDICES

APPENDIX A: Personnel Contacted
APPENDIX B: Statement of Internal Controls
APPENDIX C: Campus Response
APPENDIX D: Chancellor’s Acceptance

ABBREVIATIONS

ABS  California State University, Stanislaus Auxiliary and Business Services
AORMA  Auxiliary Organization Risk Management Authority
ASI  Associated Students Incorporated of California State University, Stanislaus
CSU  California State University
CSURMA  California State University Risk Management Authority
CSUS  California State University, Stanislaus
EO  Executive Order
Foundation  California State University, Stanislaus Foundation
FY  Fiscal Year
ICSUAM  Integrated California State University Administrative Manual
IRS  Internal Revenue Service
RFIN  Resolution of the Committee on Finance
RM  Risk Management
USU  California State University, Stanislaus University Student Union
EXECUTIVE SUMMARY

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

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

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

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

We visited the CSUS campus and its auxiliary organizations from July 15, 2013, through August 16, 2013, and made a study and evaluation of the system of internal compliance/internal control in effect as of August 16, 2013. This report represents our triennial review.

In our opinion, except for the effect of the weaknesses described below, the fiscal, operational, and administrative controls at CSUS campus as of August 16, 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: personnel and payroll and information technology.

In our opinion, the fiscal, operational, and administrative controls in effect at California State University, Stanislaus Foundation as of August 16, 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 California State University, Stanislaus Auxiliary and Business Services as of August 16, 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: operating and administrative agreements and commercial operations.

In our opinion, except for the effect of the weaknesses described below, the fiscal, operational, and administrative controls at Associated Students Incorporated of California State University, Stanislaus as of August 16, 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: operating and administrative agreements and operational compliance.

In our opinion, the fiscal, operational, and administrative controls in effect at California State University, Stanislaus University Student Union as of August 16, 2013, taken as a whole, were sufficient to meet the objectives stated above and in the “Purpose” section of this report.

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**

**PERSONNEL AND PAYROLL [11]**

The campus did not always certify I-9 forms within three business days of a new employee’s first day of work, nor did it always re-verify employment authorization on or before the expiration date provided.

**INFORMATION AND TECHNOLOGY [12]**

Campus procedures did not require all computers be placed in a secure container and wiped of any sensitive data before being removed from the inventory system and sent for disposal.

**CALIFORNIA STATE UNIVERSITY, STANISLAUS FOUNDATION**

**FISCAL COMPLIANCE [14]**

The California State University, Stanislaus Foundation (Foundation) reserve policy had not been updated to remove the requirement for a grant disallowance reserve, although the Foundation no longer administered contracts and grants.
OPERATIONAL COMPLIANCE [15]

Foundation fundraising events with gross receipts greater than $5,000 were not always properly approved and reviewed.

CALIFORNIA STATE UNIVERSITY, STANISLAUS AUXILIARY AND BUSINESS SERVICES

OPERATING AND ADMINISTRATIVE AGREEMENTS [17]

Agreements between California State University, Stanislaus Auxiliary and Business Services (ABS) and third parties did not always include appropriate provisions for insurance and indemnification, nor were they always supported by a current written agreement.

CORPORATE GOVERNANCE [18]

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

OPERATIONAL COMPLIANCE [19]

ABS did not have a process to ensure that board members who were appointed mid-term completed and signed annual conflict-of-interest statements.

COMMERCIAL OPERATIONS [20]

Administration of third-party sales commission receipts and sales revenues at ABS needed improvement. Specifically, ABS did not have written policies and procedures to periodically audit third-party sales commissions to ensure that commission receipts were in accordance with contractual requirements and had not established a system to perform periodic documented reviews of commission receipts.

ASSOCIATED STUDENTS INCORPORATED OF CALIFORNIA STATE UNIVERSITY, STANISLAUS

OPERATING AND ADMINISTRATIVE AGREEMENTS [22]

Agreements between the Associated Students Incorporated of California State University, Stanislaus (ASI) and the campus and third parties were not always fully executed in a timely manner.

FACILITIES AGREEMENTS [23]

The lease agreement between the ASI and the California State University, Stanislaus University Student Union (USU) had not been executed in a timely manner.
EXECUTIVE SUMMARY

CORPORATE GOVERNANCE [23]

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

FISCAL COMPLIANCE [24]

The ASI reserve policy did not reflect current ASI operations. Specifically, the combined reserve policy was established for both ASI and USU for operational efficiency but failed to address specific operations of ASI.

OPERATIONAL COMPLIANCE [25]

ASI did not have a process in place to ensure that board members who were appointed mid-term completed and signed annual conflict-of-interest statements.

CALIFORNIA STATE UNIVERSITY, STANISLAUS
UNIVERSITY STUDENT UNION

OPERATING AND ADMINISTRATIVE AGREEMENTS [27]

Agreements between the USU and the campus, other auxiliaries, and third parties were not always fully executed in a timely manner.
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.

California State University, Stanislaus Foundation

The California State University, Stanislaus Foundation (Foundation) was established in 1998 as a non-profit public benefit corporation responsible for the receipt, acknowledgment, and oversight of private gifts to the university. The original Foundation was established in 1960 as the Stanislaus State College Foundation, and it retained that name until 1985, when it became the California State University Stanislaus Foundation. The name was changed again in 1998 to California State University, Stanislaus Auxiliary and Business Services, at which time the current-day Foundation was established. The Foundation conducts fundraising activities, identifies and cultivates prospective donors, and supports the faculty and administration in the development of new and innovative programs. It is governed by a board of directors composed of representatives from the community, university administration, faculty, alumni, and student body. The Foundation does not have employees and relies on campus personnel from university advancement and financial services for administrative and accounting support services.

California State University, Stanislaus Auxiliary and Business Services

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

Associated Students Incorporated of California State University, Stanislaus

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

California State University, Stanislaus University Student Union

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

PURPOSE

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

- Legal and regulatory requirements are complied with.
- Accounting data is provided in an accurate, timely, complete, or otherwise reliable manner.
- Assets are adequately safeguarded from loss, damage, or misappropriation.
- Duties are appropriately segregated consistent with appropriate control objectives.
- Transactions, accounting entries, or systems output is reviewed and approved.
- Management does not intentionally override internal controls to the detriment of control objectives.
- Accounting and fiscal tasks, such as reconciliations, are prepared properly and completed timely.
- Deficiencies in internal controls previously identified were corrected satisfactorily and timely.
- Management seeks to prevent or detect erroneous recordkeeping, inappropriate accounting, fraudulent financial reporting, financial loss, and exposure.
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 August 16, 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:

California State University, Stanislaus Foundation
- Operating and Administrative Agreements
- Facilities Agreements
- Corporate Governance
- Fiscal Compliance
- Operational Compliance
INTRODUCTION

California State University, Stanislaus Foundation (cont.)
- 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
- Trusts and Other Liabilities
- Auxiliary Programs
- Information Technology

California State University, Stanislaus Auxiliary and Business Services
- 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 Incorporated of California State University, Stanislaus
- 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
Associated Students Incorporated of California State University, Stanislaus (cont.)

- Investments
- Fees, Revenues, and Receivables
- Purchasing and Accounts Payable
- Personnel and Payroll
- Property and Equipment
- Auxiliary Programs
- Information Technology

California State University, Stanislaus University Student Union

- 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
- Auxiliary Programs
- Information Technology

Campus

- Campus Oversight
- Auxiliary Support Services
- Information Technology

We have not performed any auditing procedures beyond August 16, 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

CAMPUS

PERSONNEL AND PAYROLL

The campus did not always certify I-9 forms within three business days of a new employee’s first day of work, nor did it always re-verify employment authorization on or before the expiration date provided.

We reviewed five new hires from March 2011 to June 2012, and we found that:

- In two instances, I-9 forms were reviewed and approved 19 and 20 days after the employees’ effective date of employment.
- In one instance, employment authorization had not been re-verified on or before the expiration date provided.

Department of Homeland Security, U.S. Citizenship and Immigration Services, Form I-9, Employment Eligibility Verification, states that employers must complete section two by examining evidence of identity and employment authorization within three business days of the date employment begins. It also states that for employees who provide an employment authorization expiration date in section one, employers must re-verify employment authorization on or before the date provided.

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 8.9.6, 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 campus senior manager of human resources stated that I-9 forms were not always certified and re-verified in a timely manner due to oversight. She further stated that the re-verification of employment eligibility recorded in PeopleSoft was believed to be sufficient.

Untimely certification or re-verification of employment eligibility increases the risk of fines and penalties.

Recommendation 1

We recommend that the campus certify I-9 forms for new employees within three business days of a new employee’s first day of work and re-verify employment authorization on or before the expiration date provided.
**Campus Response**

We concur. The campus will improve existing policies and procedures to ensure compliance with I-9 form requirements for new employees and ensure employment authorizations are re-verified on or before the expiration date provided.

Expected completion date: February 28, 2014

**INFORMATION TECHNOLOGY**

Campus procedures did not require that all computers be placed in a secure container and wiped of any sensitive data before being removed from the inventory system and sent for disposal.

Integrated California State University Administrative Manual (ICSUAM) §8065.0, *Information Asset Management*, dated April 19, 2010, states that campuses must maintain an inventory of information assets containing level 1 or level 2 data as defined in the CSU Data Classification Standard. These assets must be categorized and protected throughout their entire life cycle, from origination to destruction.

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

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

The campus support services manager stated that the survey process had been revised to include placement of sensitive equipment into a secure location for wiping, but the campus had not considered the implications of removing the equipment from inventory before wiping and disposal.

Inadequate administration over the disposal of computing equipment, especially equipment containing sensitive information, increases the risk of loss and inappropriate use and exposure to information security breaches.

**Recommendation 2**

We recommend that the campus develop and implement procedures requiring that all computers be placed in a secure container and wiped of any sensitive data before being removed from the inventory system and sent for disposal.
Campus Response

We concur. The campus will develop and implement procedures requiring that all computers be placed in a secure container and wiped of any sensitive data before being removed from the inventory system and sent for disposal.

Expected completion date: February 28, 2014
FISCAL COMPLIANCE

The California State University, Stanislaus Foundation (Foundation) reserve policy had not been updated to remove the requirement for a grant disallowance reserve, although the Foundation no longer administered contracts and grants.

The Foundation Reserve Policy states that until October 2006, the Foundation will be the official administrator of a single grant on behalf of the campus. As such, the Foundation will hold in reserve the following funds for operations: general fund and grant disallowance.

The Compilation of Policies and Procedures for California State University Auxiliary Organizations sets sound business practice guidelines for auxiliary organizations operating within the CSU system. Section 8.1.1.2 A-2, Basis for Financial Standards and Fiscal Viability – Financial Statements, states that annually each auxiliary governing board shall review the fiscal viability of the auxiliary organization to include an evaluation of the need for reserves in the following areas: a) working capital, b) current operations, c) capital replacement, and d) planned future operations.

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 8.9.9, Reserves and Net Assets, states, in part, that an auxiliary must implement financial standards, which will assure fiscal viability, including proper provision for professional management, adequate working capital, adequate reserve funds for current operations and capital replacements, and adequate provisions for new business requirements.

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

The Foundation interim executive director stated that the requirement for a grant disallowance reserve was not removed from the reserve policy due to oversight. She further stated that no reserve was made for grant disallowance by the Foundation.

Written policies and procedures that are not up-to-date increase the risk that errors, inconsistencies, and misunderstandings will occur.

Recommendation 3

We recommend that the Foundation update its reserve policy to remove the requirement for a grant disallowance reserve.
Campus Response

We concur. The Foundation will update its reserve policy to reflect current operations.

Expected completion date: February 28, 2014

OPERATIONAL COMPLIANCE

Foundation fundraising events with gross receipts greater than $5,000 were not always properly approved and reviewed.

We reviewed ten fundraising events, and we found that:

- One raffle and one fundraising event, each with gross receipts greater than $5,000, were not approved in writing by a delegated authority.

- Event budgets, drafts of solicitation materials, and action plans for compliance with federal, state, and local regulations for the abovementioned raffle and fundraising event were not reviewed by a delegated authority prior to execution.

California State University, Stanislaus, Gift Processing Manual, states that prior to launching a capital campaign, a written campaign plan will be prepared by the division of university advancement for review and approval by all appropriate parties (i.e., CSU Stanislaus Foundation Board, president, academic affairs, student affairs, business and finance, etc.).

ICSUAM §15701.00, Fundraising Events, dated July 2012, states that fundraising events with gross receipts greater than $5,000 must be approved in writing by a delegated authority when the fundraising event utilizes the university name, logo, or trademarks and represents that the university will benefit from the proceeds. Prior to the event, the delegated authority shall review the fundraising event’s budget, drafts of solicitation materials, and action plan to comply with federal, state, and local regulations.

The Foundation interim executive director stated that management was unaware that the raffle and fundraising event, which were held off-campus, were within the scope of ICSUAM §15701.00.

Insufficient administration of fundraising events increases the risk of misunderstanding and miscommunication regarding fundraising events and increases the risk of non-compliance with relevant regulations.
Recommendation 4

We recommend that the Foundation:

a. Obtain written approval from a delegated authority for all fundraising events with gross receipts greater than $5,000.

b. Review event budgets, drafts of solicitation materials, and action plans for compliance with federal, state, and local regulations prior to all fundraising events.

Campus Response

We concur. The Foundation will improve existing procedures requiring approval for fundraising events and review event budgets, materials, and compliance requirements prior to the fundraising event.

Expected completion date: February 28, 2014
OPERATING AND ADMINISTRATIVE AGREEMENTS

Agreements between California State University, Stanislaus Auxiliary and Business Services (ABS) and third parties did not always include appropriate provisions for insurance and indemnification, nor were they always supported by a current written agreement.

We reviewed ten agreements, and we found that:

- Two agreements, one for the maintenance of kitchen equipment and another for pest control services, did not include appropriate provisions for insurance and indemnification. This is a repeat finding from the prior two Auxiliary Organization audits.

- The agreement for the maintenance of kitchen equipment had expired on April 29, 2012, but ABS continued to work with the company.

The California State University Risk Management Authority (CSURMA)/Auxiliary Organizations Risk Management Authority (AORMA) Policy & Procedure L-5 states that it is the policy of the CSURMA AORMA Self-Insured Liability Program that member organizations will protect CSURMA program assets by fully implementing the guidelines found in the insurance requirements in the Contracts Manual prepared by CSURMA’s program administrator. This means that auxiliary organizations will require third-party contractors and vendors to provide appropriate indemnification, insurance, and documentation of coverage.

EO 849, California State University Insurance Requirements, dated February 5, 2003, states that auxiliary organizations shall agree to indemnify, defend, and save harmless the state of California, the Trustees of the CSU, the campus, and the officers, employees, volunteers, and agents of each of them from any and all loss, damage, or liability that may be suffered or incurred by state, caused by, arriving out of, or in any way connected with the operations of the auxiliary. Coded memorandum Risk Management (RM) 2012-01, California State University Insurance Requirements, dated June 1, 2012, replaced EO 849 and continues to require appropriate provisions for indemnification.

Coded memorandum RM 2012-01, California State University Insurance Requirements, dated June 1, 2012, states that many alternative hold harmless provisions are possible, with each alternative having a different purpose and potential risk transfer variant. Modification to hold harmless language in contract negotiation is a crucial part of the risk transfer process and should only be undertaken with appropriate review and counsel. In some instances, a no hold harmless clause approach may be appropriate for low liability activity and for activities critical to CSU.

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

The ABS interim executive director stated that the lack of insurance and indemnification provisions and the expired kitchen maintenance agreement were due to oversight.

The absence of current, written agreements with appropriate insurance and indemnification provisions increases the risk of misunderstandings and miscommunication regarding rights and responsibilities and subjects the auxiliary and CSU to potential liability.

**Recommendation 5**

We recommend that ABS:

a. Amend the cited agreements with appropriate insurance and indemnification provisions.

b. Review the terms of the kitchen equipment maintenance agreement, and renew the agreement if the relationship is to be maintained.

**Campus Response**

We concur. ABS will amend the cited agreements with appropriate insurance and indemnification provisions. Additionally, ABS will review the terms of the kitchen equipment maintenance agreement and renew the agreement if the relationship is to be maintained.

Expected completion date: February 28, 2014

**CORPORATE GOVERNANCE**

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

We found that amendments to the Articles of Incorporation made on September 23, 2011, and November 6, 2012, had not been filed with the chancellor’s office.

The *Compilation of Policies and Procedures for California State University Auxiliary Organizations* sets sound business practice guidelines for auxiliary organizations operating within the CSU system. Section 11.6.1, *Reporting Changes in Articles of Incorporation (or Constitution) and Bylaws*, states that when an auxiliary organization makes changes to its Articles of Incorporation (or Constitution) or Bylaws, a complete amended copy is to be submitted to Contract Services and Procurement at the Office of the Chancellor within 30 calendar days. The submission should indicate the date the changes were approved by the governing board and/or members.
The ABS interim executive director stated that the amended Articles of Incorporation were not submitted to the chancellor’s office in a timely manner due to oversight.

Untimely filing of amendments to Articles of Incorporation increases the risk of misunderstandings and may increase legal liability.

**Recommendation 6**

We recommend that ABS promptly file the amended Articles of Incorporation and reiterate to staff that all future changes and amendments to the Articles of Incorporation should be filed with the Contract Services and Procurement department at the Office of the Chancellor within 30 calendar days.

**Campus Response**

We concur. ABS will file the amended Articles of Incorporation in a timely manner with the Office of the Chancellor for future changes and amendments.

Expected completion date: February 28, 2014

**OPERATIONAL COMPLIANCE**

ABS did not have a process to ensure that board members who were appointed mid-term completed and signed annual conflict-of-interest statements.

CSU Conflict of Interest Handbook, §2B, states that the Political Reform Act requires the CSU to adopt a formal conflict-of-interest code. The CSU’s code requires certain employees, who are most likely to be involved in university decision-making where potential conflicts may be present, to file an annual disclosure form.

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

Title 5 §42401 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 a process to ensure all board members complete and sign annual conflict-of-interest statements.
The ABS interim executive director stated that the current process required board members to certify and disclose potential conflicts of interest only during the June board meeting; therefore, board members appointed after June did not complete conflict-of-interest statements.

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

**Recommendation 7**

We recommend that ABS develop a process to ensure that board members who are appointed mid-term complete and sign annual conflict-of-interest statements.

**Campus Response**

We concur. ABS will develop a process to ensure that board members who are appointed mid-term complete and sign annual conflict-of-interest statements.

Expected completion date: February 28, 2014

**COMMERCIAL OPERATIONS**

Administration of third-party sales commission receipts and sales revenues at ABS needed improvement.

Specifically, we found that ABS:

- Did not have written policies and procedures to periodically audit third-party sales commissions to ensure that commission receipts were in accordance with contractual requirements.
- Had not established a system to perform periodic documented reviews of commission receipts.

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 provides for purchases and service contracts to be made within governing board policies, source restrictions, funds availability, and other applicable requirements.

Title 5 §42401 and §42402 state that the campus president shall require that auxiliary organizations operate in conformity with policy of the Board of Trustees and the campus. One of the objectives of the auxiliary organizations is to provide fiscal procedures and management systems that allow effective coordination of the auxiliary activities with the campus in accordance with sound business practices. Sound business practice mandates that sales revenues be periodically reviewed and sales commissions from outsourced operations be verified.
The ABS interim executive director stated that ABS had neither documented procedures to audit sales activities associated with commission receipts nor established a system to perform periodic reviews of commission receipts due to the faith and comfort gained in the working relationships with its third-party vendors.

The absence of written policies and procedures for oversight of sales activities of outsourced operations and periodic review of sales revenues increases the risk that errors, inconsistencies, misunderstandings, or misappropriation of funds will occur.

Recommendation 8

We recommend that ABS:

a. Develop and implement written policies and procedures to periodically audit third-party sales commissions to ensure that commission receipts are in accordance with contractual requirements.

b. Establish a system to perform periodic documented reviews of commission receipts.

Campus Response

We concur. ABS will develop and implement written policies and procedures to periodically audit third-party sales commissions to ensure that commission receipts are in accordance with contractual requirements. Additionally, ABS will establish a system to perform periodic documented reviews of commission receipts.

Expected completion date: February 28, 2014
ASSOCIATED STUDENTS INCORPORATED OF CALIFORNIA STATE UNIVERSITY, STANISLAUS

OPERATING AND ADMINISTRATIVE AGREEMENTS

Agreements between the Associated Students Incorporated of California State University, Stanislaus (ASI) and the campus and third parties were not always fully executed in a timely manner.

We reviewed ten agreements, and we found that:

- Two agreements between the ASI and third parties and one agreement between the ASI and the campus were executed after their effective dates. Execution delays ranged from 30 to 60 days.

- One agreement between the ASI and a third party was not signed and dated by the third party.

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

The ASI executive director stated that agreements were not always fully executed in a timely manner due to oversight.

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

Recommendation 9

We recommend that ASI execute all agreements in a timely manner and enforce the requirement that they be signed and dated by all parties.

Campus Response

We concur. ASI has discussed and is working on written procedures to execute agreements in a timely manner.

Expected completion date: February 28, 2014
FACILITIES AGREEMENTS

The lease agreement between the ASI and California State University, Stanislaus University Student Union (USU) had not been executed in a timely manner.

Specifically, we found that the lease agreement commenced on July 1, 2009, but was not executed until August 27, 2010.

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

The ASI executive director stated that the lease agreement was not executed in a timely manner due to oversight.

The absence of fully executed lease agreements increases the risk of misunderstandings and miscommunication regarding rights and responsibilities and subjects the auxiliaries and CSU to potential liability.

Recommendation 10

We recommend that ASI execute lease agreements in a timely manner.

Campus Response

We concur. ASI has discussed and is working on written procedures and a schedule to execute lease agreements in a timely manner.

Expected completion date: February 28, 2014

CORPORATE GOVERNANCE

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

We found that an amendment to the Articles of Incorporation made on September 1, 2010, had not been filed with the chancellor’s office until February 22, 2011.

The Compilation of Policies and Procedures for California State University Auxiliary Organizations sets sound business practice guidelines for auxiliary organizations operating within the CSU system. Section 11.6.1, Reporting Changes in Articles of Incorporation (or Constitution) and Bylaws, states that when an auxiliary organization makes changes to its Articles of Incorporation (or Constitution)
or Bylaws, a complete amended copy is to be submitted to Contract Services and Procurement at the Office of the Chancellor within 30 calendar days. The submission should indicate the date the changes were approved by the governing board and/or members.

The ASI executive director stated that the amendment to the Articles of Incorporation was not submitted to the chancellor’s office in a timely manner due to management oversight.

Untimely filing of amendments to Articles of Incorporation increases the risk of misunderstandings and may increase legal liability.

**Recommendation 11**

We recommend that ASI reiterate to staff that all future changes/amendments to Articles of Incorporation should be filed with the Contract Services and Procurement department at the Office of the Chancellor within 30 calendar days.

**Campus Response**

We concur. ASI has discussed and is working on written procedures to file future changes/amendments in a timely manner.

Expected completion date: February 28, 2014

**FISCAL COMPLIANCE**

The ASI reserve policy did not reflect current ASI operations.

Specifically, the combined reserve policy was established for both ASI and USU for operational efficiency but failed to address specific operations of ASI.

The *Compilation of Policies and Procedures for California State University Auxiliary Organizations* sets sound business practice guidelines for auxiliary organizations operating within the CSU system. Section 8.1.1.2 A-2, *Basis for Financial Standards and Fiscal Viability – Financial Statements*, states that annually each auxiliary governing board shall review the fiscal viability of the auxiliary organization to include an evaluation of the need for reserves in the following areas: a) working capital, b) current operations, c) capital replacement, and d) planned future operations.

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 8.9.9, *Reserves and Net Assets*, states, in part, that an auxiliary must implement financial standards, which will assure fiscal viability, including proper provision for professional management, adequate working capital, adequate reserve funds for current operations and capital replacements, and adequate provisions for new business requirements.
Title 5 §42401 and §42402 indicate that the campus president shall require that auxiliary organizations operate in conformity with policy of the Board of Trustees and the campus. One of the objectives of the auxiliary organizations is to provide fiscal procedures and management systems that allow effective coordination of the auxiliary activities with the campus in accordance with sound business practices. Sound business practice mandates that policies and procedures be kept current.

The ASI executive director stated that the reserve policy was established for both ASI and USU for operational efficiency purposes and did not reflect current ASI operations due to oversight.

Written policies and procedures that are not up-to-date increase the risk that errors, inconsistencies, and misunderstandings will occur.

**Recommendation 12**

We recommend that ASI update its reserve policy to reflect current operations.

**Campus Response**

We concur with this recommendation. Management will redraft the ASI reserve policy to reflect current operations.

Expected completion date: February 28, 2014

**OPERATIONAL COMPLIANCE**

ASI did not have a process in place to ensure that board members who were appointed mid-term completed and signed annual conflict-of-interest statements.

We found that:

- Two of the 22 board members elected mid-term for fiscal year (FY) 2010/11 had not signed a conflict-of-interest statement.
- Three of the 17 board members elected mid-term for FY 2011/12 had not signed a conflict-of-interest statement.
- Three of the 18 board members elected mid-term for FY 2012/13 had not signed a conflict-of-interest statement.

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

Title 5 §42401 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 a process to ensure all board members complete and sign annual conflict-of-interest statements.

The ASI executive director stated that a process had not been developed to obtain conflict-of-interest statements for board members elected mid-term due to oversight.

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

**Recommendation 13**

We recommend that ASI develop a process to ensure that board members who are appointed mid-term complete and sign annual conflict-of-interest statements.

**Campus Response**

We concur. ASI has discussed and is working on written procedures to ensure board members complete and sign conflict-of-interest statements in a timely manner.

Expected completion date: February 28, 2014
OPERATING AND ADMINISTRATIVE AGREEMENTS

Agreements between the California State University, Stanislaus University Student Union (USU) and the campus, other auxiliaries, and third parties were not always fully executed in a timely manner.

We reviewed 15 agreements and found that one agreement between the USU and the campus, one agreement between the USU and ASI, and one agreement between the USU and a third party were signed after their effective dates. Execution delays ranged from 11 to 16 days.

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

The USU executive director stated that the agreement with the campus was executed after the effective date because it was received late via intercampus mail and that the other two agreements were not executed in a timely manner due to oversight.

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

Recommendation 14

We recommend that USU execute all future agreements in a timely manner.

Campus Response

We concur. USU has discussed and is working on written procedures to execute agreements in a timely manner.

Expected completion date: February 28, 2014
## 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>Joseph F. Sheley</td>
<td>President</td>
</tr>
<tr>
<td>Nancy Bendickson</td>
<td>Gift and Records Processor</td>
</tr>
<tr>
<td>Julie Benevedes</td>
<td>Interim Associate Vice President</td>
</tr>
<tr>
<td>Frank Borrelli</td>
<td>Support Services Manager</td>
</tr>
<tr>
<td>Russell Giambelluca</td>
<td>Vice President of Business and Finance</td>
</tr>
<tr>
<td>Briquel Hutton</td>
<td>Director of Audit Services</td>
</tr>
<tr>
<td>Michele Lahti</td>
<td>Interim Assistant Vice President</td>
</tr>
<tr>
<td>Gina Leguria</td>
<td>Senior Manager, Human Resources</td>
</tr>
<tr>
<td>Regan Linderman</td>
<td>Controller</td>
</tr>
<tr>
<td>Shannon Nichols</td>
<td>Interim Director of Alumni Relations and Annual Giving</td>
</tr>
<tr>
<td>Shirley Pok</td>
<td>Vice President for University Advancement</td>
</tr>
<tr>
<td>Carl Whitman</td>
<td>Chief Information Officer</td>
</tr>
<tr>
<td>Michael Wojciechowski</td>
<td>Property Clerk</td>
</tr>
<tr>
<td><strong>CALIFORNIA STATE UNIVERSITY, STANISLAUS FOUNDATION</strong></td>
<td></td>
</tr>
<tr>
<td>Briquel Hutton</td>
<td>Interim Executive Director</td>
</tr>
<tr>
<td><strong>CALIFORNIA STATE UNIVERSITY, STANISLAUS AUXILIARY AND BUSINESS SERVICES</strong></td>
<td></td>
</tr>
<tr>
<td>Briquel Hutton</td>
<td>Interim Executive Director</td>
</tr>
<tr>
<td><strong>ASSOCIATED STUDENTS INCORPORATED OF CALIFORNIA STATE UNIVERSITY, STANISLAUS</strong></td>
<td></td>
</tr>
<tr>
<td>Taylor Buhler-Scott</td>
<td>Interim Programs Coordinator</td>
</tr>
<tr>
<td>Kathy Holloway</td>
<td>Administrative Assistant</td>
</tr>
<tr>
<td>Ammie Mundello</td>
<td>Human Resources Specialist</td>
</tr>
<tr>
<td>Jake Regal</td>
<td>Recreation Coordinator</td>
</tr>
<tr>
<td>Cesar Rumayor</td>
<td>Executive Director</td>
</tr>
<tr>
<td>Katie Wall</td>
<td>Interim Marketing Services Coordinator</td>
</tr>
<tr>
<td>Alma Zaragoza</td>
<td>Warrior Activity Center Programs Assistant</td>
</tr>
<tr>
<td><strong>CALIFORNIA STATE UNIVERSITY, STANISLAUS UNIVERSITY STUDENT UNION</strong></td>
<td></td>
</tr>
<tr>
<td>Melanie Lourenco</td>
<td>Office Administrator</td>
</tr>
<tr>
<td>Ammie Mundello</td>
<td>Human Resource Specialist</td>
</tr>
<tr>
<td>Cesar Rumayor</td>
<td>Executive Director</td>
</tr>
</tbody>
</table>
STATEMENT OF INTERNAL CONTROLS

A. INTRODUCTION

Internal accounting and related operational controls established by the State of California, the California State University Board of Trustees, and the Office of the Chancellor are evaluated by the University Auditor, in compliance with professional standards for the conduct of internal audits, to determine if an adequate system of internal control exists and is effective for the purposes intended. Any deficiencies observed are brought to the attention of appropriate management for corrective action.

B. INTERNAL CONTROL DEFINITION

Internal control, in the broad sense, includes controls that may be characterized as either accounting or operational as follows:

1. Internal Accounting Controls

   Internal accounting controls comprise the plan of organization and all methods and procedures that are concerned mainly with, and relate directly to, the safeguarding of assets and the reliability of financial records. They generally include such controls as the systems of authorization and approval, separation of duties concerned with recordkeeping and accounting reports from those concerned with operations or asset custody, physical controls over assets, and personnel of a quality commensurate with responsibilities.

2. Operational Controls

   Operational controls comprise the plan of organization and all methods and procedures that are concerned mainly with operational efficiency and adherence to managerial policies and usually relate only indirectly to the financial records.

C. INTERNAL CONTROL OBJECTIVES

The objective of internal accounting and related operational control is to provide reasonable, but not absolute, assurance as to the safeguarding of assets against loss from unauthorized use or disposition, and the reliability of financial records for preparing financial statements and maintaining accountability for assets. The concept of reasonable assurance recognizes that the cost of a system of internal accounting and operational control should not exceed the benefits derived and also recognizes that the evaluation of these factors necessarily requires estimates and judgment by management.
D. INTERNAL CONTROL SYSTEMS LIMITATIONS

There are inherent limitations that should be recognized in considering the potential effectiveness of any system of internal accounting and related operational control. In the performance of most control procedures, errors can result from misunderstanding of instruction, mistakes of judgment, carelessness, or other personal factors. Control procedures whose effectiveness depends upon segregation of duties can be circumvented by collusion. Similarly, control procedures can be circumvented intentionally by management with respect to the executing and recording of transactions. Moreover, projection of any evaluation of internal accounting and operational control to future periods is subject to the risk that the procedures may become inadequate because of changes in conditions and that the degree of compliance with the procedures may deteriorate. It is with these understandings that internal audit reports are presented to management for review and use.
November 20, 2013

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

RE: Auxiliary Audit Responses to Incomplete Draft Audit Report 13-05

Dear Mr. Mandel,

Enclosed please find the campus responses to the Auxiliary Organizations Incomplete Draft Audit Report 13-05 for California State University, Stanislaus.

If you have any questions please do not hesitate to contact myself or Briquel Hutton, Director of Audit Services at (209) 664-6783.

Sincerely,

[Signature]
Russell Giambellua
Vice President, Business and Finance

RG/bh
Enclosures: 1

cc: Joseph F. Sheley, President
AUXILIARY ORGANIZATIONS

CALIFORNIA STATE UNIVERSITY,
STANISLAUS

Audit Report 13-05

CAMPUS

PERSONNEL AND PAYROLL

Recommendation 1

We recommend that the campus certify I-9 forms for new employees within three business days of a new employee’s first day of work and reverify employment authorization on or before the expiration date provided.

Campus Response

We concur. The campus will improve existing policies and procedures to ensure compliance with I-9 form requirements for new employees and ensure employment authorizations are re-verified on or before the expiration date provided.

Expected completion date: February 28, 2014

INFORMATION TECHNOLOGY

Recommendation 2

We recommend that the campus develop and implement procedures requiring that all computers be placed in a secure container and wiped of any sensitive data before being removed from the inventory system and sent for disposal.

Campus Response

We concur. The campus will develop and implement procedures requiring that all computers be placed in a secure container and wiped of any sensitive data before being removed from the inventory system and sent for disposal.

Expected completion date: February 28, 2014
CALIFORNIA STATE UNIVERSITY, STANISLAUS FOUNDATION

FISCAL COMPLIANCE

Recommendation 3

We recommend that the Foundation update its reserve policy to remove the requirement for a grant disallowance reserve.

Campus Response

We concur. The Foundation will update its reserve policy to reflect current operations.

Expected completion date: February 28, 2014

OPERATIONAL COMPLIANCE

Recommendation 4

We recommend that the Foundation:

a. Obtain written approval from a delegated authority for all fundraising events with gross receipts greater than $5,000.

b. Review event budgets, drafts of solicitation materials, and action plans for compliance with federal, state, and local regulations prior to all fundraising events.

Campus Response

We concur. The Foundation will improve existing procedures requiring approval for fundraising events and review event budgets, materials and compliance requirements prior to the fundraising event.

Expected completion date: February 28, 2014
OPERATING AND ADMINISTRATIVE AGREEMENTS

Recommendation 5

We recommend that ABS:

a. Amend the cited agreements with appropriate insurance and indemnification provisions.

b. Review the terms of the kitchen equipment maintenance agreement, and renew the agreement if the relationship is to be maintained.

Campus Response

We concur. ABS will amend the cited agreements with appropriate insurance and indemnification provisions. Additionally, ABS will review the terms of the kitchen equipment maintenance agreement, and renew the agreement if the relationship is to be maintained.

Expected completion date: February 28, 2014

CORPORATE GOVERNANCE

Recommendation 6

We recommend that ABS promptly file the amended Articles of Incorporation and reiterate to staff that all future changes and amendments to the Articles of Incorporation should be filed with the Contract Services and Procurement department at the Office of the Chancellor within 30 calendar days.

Campus Response

We concur. ABS will file the amended Articles of Incorporation timely with the Office of the Chancellor for future changes and amendments.

Expected completion date: February 28, 2014

OPERATIONAL COMPLIANCE

Recommendation 7

We recommend that ABS develop a process to ensure that board members who are appointed mid-term complete and sign annual conflict-of-interest statements.
Commercial Operations

Recommendation 8

We recommend that ABS:

a. Develop and implement written policies and procedures to periodically audit third-party sales commissions to ensure that commission receipts are in accordance with contractual requirements.

b. Establish a system to perform periodic documented reviews of commission receipts.

Campus Response

We concur. ABS will develop and implement written policies and procedures to periodically audit third-party sales commissions to ensure that commission receipts are in accordance with contractual requirements. Additionally, ABS will establish a system to perform periodic documented reviews of commission receipts.

Expected completion date: February 28, 2014
OPERATING AND ADMINISTRATIVE AGREEMENTS

Recommendation 9

We recommend that ASI execute all agreements in a timely manner and enforce the requirement that they be signed and dated by all parties.

Campus Response

We concur with this recommendation. ASI has discussed and is working on written procedures to execute agreements in a timely manner.

Expected completion date: February 28, 2014

FACILITIES AGREEMENTS

Recommendation 10

We recommend that ASI execute lease agreements in a timely manner.

Campus Response

We concur with this recommendation. ASI has discussed and is working on written procedures and schedule to execute lease agreements in a timely manner.

Expected completion date: February 28, 2014

CORPORATE GOVERNANCE

Recommendation 11

We recommend that ASI reiterate to staff that all future changes/amendments to Articles of Incorporation should be filed with the Contract Services and Procurement department at the Office of the Chancellor within 30 calendar days.

Campus Response

We concur with this recommendation. ASI has discussed and is working on written procedures to execute in a timely manner.

Expected completion date: February 28, 2014
FISCAL COMPLIANCE

Recommendation 12

We recommend that ASI update its reserve policy to reflect current operations.

Campus Response

We concur with this recommendation. Management will redraft the ASI reserve policy to reflect current operations.

Expected completion date: February 28, 2014

OPERATIONAL COMPLIANCE

Recommendation 13

We recommend that ASI develop a process to ensure that board members who are appointed mid-term complete and sign annual conflict-of-interest statements.

Campus Response

We concur with this recommendation. ASI has discussed and is working on written procedures to execute in a timely manner.

Expected completion date: February 28, 2014
OPERATING AND ADMINISTRATIVE AGREEMENTS

Recommendation 14

We recommend that USU execute all future agreements in a timely manner.

Campus Response

We concur with this recommendation. USU has discussed and is working on written procedures to execute agreements in a timely manner.

Expected completion date: February 28, 2014
December 2, 2013

MEMORANDUM

TO: Mr. Larry Mandel
   University Auditor

FROM: Timothy P. White
       Chancellor

SUBJECT: Draft Final Report 13-05 on Auxiliary Organizations,
         California State University, Stanislaus

In response to your memorandum of December 2, 2013, I accept the response
as submitted with the draft final report on Auxiliary Organizations, California
State University, Stanislaus.

TPW/amd