AUXILIARY ORGANIZATIONS

CALIFORNIA POLYTECHNIC STATE UNIVERSITY,
SAN LUIS OBISPO

Audit Report 14-06
December 22, 2014

Members, Committee on Audit
Lupe C. Garcia, Chair
Adam Day, Vice Chair
Rebecca D. Eisen   Steven M. Glazer
Hugo N. Morales

Staff
Vice Chancellor and Chief Audit Officer: Larry Mandel
Senior Director: Janice Mirza
IT Audit Manager: Greg Dove
Audit Manager: Caroline Lee
Senior Auditors: Jennifer Leake, Sean Lee, Dominick Owens, and Gina Yi
Internal Auditor: May Flores

BOARD OF TRUSTEES
THE CALIFORNIA STATE UNIVERSITY
CONTENTS

Executive Summary................................................................................................................................. 1

Introduction........................................................................................................................................... 5
  Background ........................................................................................................................................ 5
  Purpose ............................................................................................................................................ 7
  Scope and Methodology .................................................................................................................... 7

OBSERVATIONS, RECOMMENDATIONS, AND CAMPUS RESPONSES

CAMPUS

Fees, Revenues, and Receivables ........................................................................................................... 10

CALIFORNIA POLYTECHNIC STATE UNIVERSITY FOUNDATION

Corporate Governance ............................................................................................................................ 12

Purchasing and Accounts Payable ......................................................................................................... 12

CAL POLY CORPORATION

Operating and Administrative Agreements ............................................................................................. 14

Corporate Governance .......................................................................................................................... 15

Fiscal Compliance .................................................................................................................................. 16

Cash Receipts and Handling .................................................................................................................. 17

Property and Equipment ......................................................................................................................... 19

Commercial Operations ......................................................................................................................... 20

ASSOCIATED STUDENTS, INC.

Fiscal Compliance ................................................................................................................................. 22

Purchasing and Accounts Payable ........................................................................................................... 23
APPENDICES

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

ABBREVIATIONS

ASI  Associated Students, Inc.
Corporation  Cal Poly Corporation
CSU  California State University
EO  Executive Order
Foundation  California Polytechnic State University Foundation
MOU  Memorandum of Understanding
RFIN  Resolution of the Committee on Finance
EXECUTIVE SUMMARY

In July 1981, the Board of Trustee policy concerning auxiliary organizations was adopted in the Resolution of the Committee on Finance (RFIN) 7-81-4. Executive Order 698, *Board of Trustees Policy for The California State University Auxiliary Organizations*, dated March 3, 1999, required that the Office of Audit and Advisory Services 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 Polytechnic State University, San Luis Obispo 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 Polytechnic State University, San Luis Obispo campus and its auxiliary organizations from September 22, 2014, through October 23, 2014, and made a study and evaluation of the system of internal compliance/internal control in effect as of October 23, 2014. This report represents our triennial review.

In our opinion, the fiscal, operational, and administrative controls in effect at the California Polytechnic State University, San Luis Obispo campus as of October 23, 2014, taken as a whole, were sufficient to meet the objectives stated above and in the “Purpose” section of this report.

In our opinion, the fiscal, operational, and administrative controls in effect at California Polytechnic State University Foundation as of October 23, 2014, 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 Corporation as of October 23, 2014, 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, fiscal compliance, cash receipts and handling, and property and equipment.

In our opinion, the fiscal, operational, and administrative controls in effect at Associated Students, Inc. as of October 23, 2014, 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**

**FEES, REVENUES, AND RECEIVABLES [10]**

Campus university advancement administration of California Polytechnic State University Foundation (Foundation) and Cal Poly Corporation (Corporation) gift receipts needed improvement. Specifically, written delegations of authority from the campus vice president for university advancement giving the Foundation and Corporation management the responsibility to accept gifts had not been established, and Corporation gift evaluation and acceptance forms were not always on file.

**CALIFORNIA POLYTECHNIC STATE UNIVERSITY FOUNDATION**

**CORPORATE GOVERNANCE [12]**

The Foundation had not filed amended Articles of Incorporation and Bylaws with the chancellor’s office.

**PURCHASING AND ACCOUNTS PAYABLE [12]**

Foundation travel request or travel pre-authorization forms documenting advance approval of all travel and related expenditures were not always approved in a timely manner.
EXECUTIVE SUMMARY

CAL POLY CORPORATION

OPERATING AND ADMINISTRATIVE AGREEMENTS [14]

Agreements between the Corporation and third parties, the Trustees, and Associate Students, Inc. (ASI) were not always fully executed and renewed in a timely manner.

CORPORATE GOVERNANCE [15]

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

FISCAL COMPLIANCE [16]

The Corporation did not maintain board-designated reserves in accordance with its reserve policy. Specifically, the debt service reserve equal to 115 percent of the succeeding year’s debt service payment was not funded and the Net Asset Funding Guidelines detailing reserve goals had not been updated to remove the requirement for a health and fitness reserve.

CASH RECEIPTS AND HANDLING [17]

Administration of cash receipts at the Corporation dairy science creamery unit needed improvement. Specifically, certain duties and responsibilities related to cash receipts were not adequately segregated, cash receipts were not adequately secured, cash receipts were not always forwarded to the central cashiering office for deposit in a timely manner, and checks received were not restrictively endorsed immediately upon receipt.

PROPERTY AND EQUIPMENT [19]

Administration of Corporation property and equipment needed improvement. For example, approvals were not always documented prior to disposal of assets, missing or disposed assets were not always reported to the accounting office in a timely manner, the campus lacked sufficient documentation to demonstrate that it conducted an investigation and took appropriate action (e.g., completion of a disposal form or police report) when certain disposed assets were identified as lost or not found by the asset custodian, and the Corporation had not performed an independent physical inventory of all property and equipment.

COMMERCIAL OPERATIONS [20]

Corporation administration of campus express accounts, which allow students, faculty, and staff to add value to their campus identification card to purchase food, clothing, printing, and supplies, needed improvement. Specifically, the Corporation did not have a process in place to refund or close campus express accounts with long outstanding balances.
EXECUTIVE SUMMARY

ASSOCIATED STUDENTS, INC.

FISCAL COMPLIANCE [22]

ASI reserves for fiscal years 2011/12, 2012/13, and 2013/14 had not been approved by the campus president.

PURCHASING AND ACCOUNTS PAYABLE [23]

ASI did not require travel authorization forms documenting advance approval of all travel and related expenditures for Rose Float volunteers.
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 Audit and Advisory Services 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 Polytechnic State University Foundation
The California Polytechnic State University Foundation (Foundation) acts as the philanthropic auxiliary
for the campus. The sole function of the Foundation is to collect, invest, and administer all gifts,
bequests, endowments, trusts, and similar funds received by the campus. Fund-raising activities of the
Foundation are carried out by board members and other volunteers under the general direction of the
board development committee and with support from university advancement staff. The Foundation is
governed by a board of directors composed of representatives from the alumni, faculty, and community,
and the vice president of university advancement provides campus oversight. The Cal Poly Corporation
(Corporation) performs all accounting and business administration support services.

Cal Poly Corporation
The Corporation was established in 1940 as a non-profit public benefit corporation to assist and promote
the educational mission of the California Polytechnic State University, San Luis Obispo. The
Corporation acts as the primary entity responsible for commercial operations, which include the Cal Poly
University Store, campus dining, university graphics systems, sponsored programs, and a host of other
programs. Additionally, the Corporation, in cooperation with the appropriate campus administrative
offices, provides fiscal services to instructionally related programs, conferences, workshops, and
institutes to supplement the instructional programs and agency activities as requested by the university.
The Corporation is governed by a board of directors composed of representatives from the faculty, staff,
community, and student body. The Corporation also provides accounting and business administration
services for the Foundation and Associated Students, Inc. (ASI).

Associated Students, Inc.
ASI was established in 1964 as a non-profit public benefit corporation to administer and provide
oversight of the University Union and ASI-funded programs and services. The mission of ASI is to
enrich the quality of student life and complement the educational mission of California Polytechnic State
University, San Luis Obispo through shared governance, student employment, student advocacy, and a
INTRODUCTION

variety of diverse programs and services. ASI administers the Julian A. McPhee University Union, Orfalea Family and ASI Children’s Center, Cal Poly Recreation Center, and Cal Poly Sports Complex. ASI is governed by a board of directors composed of representatives from the student body, and the president of ASI is the chief executive of the auxiliary. ASI also employs an executive director to manage day-to-day operations and provide consistency between student administrations. ASI is responsible for the fiscal administration of California Polytechnic State University, San Luis Obispo student organizations and relies on the Corporation for certain accounting and business administration support services.

PURPOSE

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

- Legal and regulatory requirements are complied with.
- Accounting data is provided in an accurate, timely, complete, or otherwise reliable manner.
- Assets are adequately safeguarded from loss, damage, or misappropriation.
- Duties are appropriately segregated consistent with appropriate control objectives.
- Transactions, accounting entries, or systems output is reviewed and approved.
- Management does not intentionally override internal controls to the detriment of control objectives.
- Accounting and fiscal tasks, such as reconciliations, are prepared properly and completed timely.
- Deficiencies in internal controls previously identified were corrected satisfactorily and timely.
- 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 2012/13 and 2013/14 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, 2013, to October 23, 2014. 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.
INTRODUCTION

- 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 Polytechnic State University Foundation
- Operating and Administrative Agreements
- Facilities Agreements
- Corporate Governance
- Fiscal Compliance
- Operational Compliance
- Program Compliance
- Segregation of Duties
- Cash Receipts and Handling
- Petty Cash and Change Funds
- Investments
- Fees, Revenues, and Receivables
- Purchasing and Accounts Payable
- Trusts and Other Liabilities
- Endowment Administration
- Auxiliary Programs
- Information Technology

Cal Poly Corporation
- Operating and Administrative Agreements
- Facilities Agreements
- Corporate Governance
- Fiscal Compliance
- Operational Compliance
- Program Compliance
- Segregation of Duties
- Cash Receipts and Handling
We have not performed any auditing procedures beyond October 23, 2014. 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

FEES, REVENUES, AND RECEIVABLES

Campus university advancement administration of California Polytechnic State University Foundation (Foundation) and Cal Poly Corporation (Corporation) gift receipts needed improvement.

We reviewed ten Foundation and 20 Corporation gifts, and we found that:

- Written delegations of authority from the campus vice president for university advancement giving the Foundation and Corporation management the responsibility to accept gifts had not been established.

- In two instances, Corporation gift evaluation and acceptance forms were not on file.

Cal Poly Campus Administration Policy Section 711, Gift Acceptance, states that except for those gifts that are required to be authorized for acceptance by the gift acceptance committee, the vice president for university advancement or a designee has the authority to authorize the acceptance of gifts or related funds and instruments and can authorize whether the university or an auxiliary will manage the gift.

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

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

The campus associate vice president for advancement operations/Foundation chief financial officer stated that a formal document listing each individual at the auxiliaries who can receive gifts had not been developed, and Corporation gift acceptance forms were not on file in the two instances noted due to oversight.

The absence of documented delegation of authority for gift evaluation and acceptance increases the risk that donations will be mishandled or misused and gifts will be handled contrary to the expectations of the donors.
Recommendation 1

We recommend that the campus:

a. Obtain written delegations of authority from the campus vice president for university advancement giving the Foundation and Corporation management the responsibility to accept gifts.

b. Complete gift evaluation and acceptance forms for all gifts and retain them on file.

Campus Response

We concur. The campus will prepare written delegations of authority from the campus vice president for university advancement giving Foundation and Corporation management the responsibility to accept gifts on behalf of the university, Foundation, and Corporation. We will also provide training to the appropriate Corporation staff about the requirement to have gift acceptance forms completed and retained.

Anticipated implementation date: March 31, 2015
CORPORATE GOVERNANCE

The California Polytechnic State University Foundation (Foundation) had not filed amended Articles of Incorporation and Bylaws with the chancellor’s office.

We found that an amendment made to the Articles of Incorporation on December 15, 2012, and amendments made to the Bylaws on August 3, 2013, 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 campus associate vice president for advancement operations/Foundation chief financial officer stated that the Articles of Incorporation and Bylaws had not been submitted to the chancellor’s office due to staff turnover.

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

Recommendation 2

We recommend that the Foundation promptly file the Articles of Incorporation and Bylaws with the Contract Services and Procurement department at the chancellor’s office.

Campus Response

We concur. The Foundation filed its amended Articles of Incorporation and Bylaws with the Contract Services and Procurement department at the chancellor’s office during the audit.

Anticipated implementation date: Completed

PURCHASING AND ACCOUNTS PAYABLE

Foundation travel request or travel pre-authorization forms documenting advance approval of all travel and related expenditures were not always approved in a timely manner.
We reviewed ten travel-related transactions between August 2011 and August 2014, and we found that in four instances, a travel request form or a travel pre-authorization form documenting advance approval of travel and related expenditures was approved seven to 20 days after the travel start date.

Foundation Travel Guidelines state that all travel must be approved in advance via a travel request form or a State Form 1A (travel pre-authorization form).

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

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 9.7.1, Travel, states that because auxiliary organizations have a special relationship with the CSU, their travel reimbursement policies should generally parallel policies applicable to the CSU.

The campus associate vice president of advancement operations/Foundation chief financial officer stated that the four instances noted may have been due to lack of training on travel approval procedures.

Untimely completion of travel request forms or travel pre-authorization forms increases the risk of errors, irregularities and misappropriation of funds.

**Recommendation 3**

We recommend that the Foundation approve travel request and travel pre-authorization forms in a timely manner.

**Campus Response**

We concur. The Foundation will provide additional training to staff who sign travel requests (State Form 1A) that, per policy, the form is to be approved prior to the commencement of travel.

Anticipated implementation date: March 31, 2015
CAL POLY CORPORATION

OPERATING AND ADMINISTRATIVE AGREEMENTS

Agreements between the Cal Poly Corporation (Corporation) and third parties, the Trustees, and Associated Students, Inc. (ASI) were not always fully executed and renewed in a timely manner.

We reviewed 17 agreements, and we found that:

- Six agreements between the Corporation and third parties, three agreements between the Corporation and the Trustees, and one agreement between the Corporation and ASI were executed after the effective date. Execution delays ranged from 13 to 355 days.
- The memorandum of understanding (MOU) between the Corporation and a third party expired on June 30, 2013, and had not been renewed.

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 Corporation associate executive director stated that a combination of extended negotiations and the addressing of various Corporation and university requirements occasionally added time to the execution of agreements already agreed upon in general terms. She further stated that the MOU with a third party was pending renewal because the MOU was still being revised and reviewed by the third party.

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

Recommendation 4

We recommend that the Corporation:

a. Fully execute all agreements in a timely manner.
b. Promptly renew the MOU with the third party.
Campus Response

We concur. The Corporation will develop a master document of all agreements that will be maintained and reviewed monthly to ensure that the agreements are executed prior to the effective date. The Corporation will also renew the MOU with the third party.

Anticipated implementation date: March 31, 2015

CORPORATE GOVERNANCE

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

We found that:

- Amendments made to the Articles of Incorporation on November 19, 2012, had not been filed with the chancellor’s office until January 9, 2013.

- Amendments made to the Bylaws on June 13, 2014, had not been filed with the chancellor’s office until August 12, 2014.

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

The Corporation associate executive director stated that changes to the Articles of Incorporation or Bylaws were infrequent and, therefore, the Corporation was unfamiliar with the requirement. She further stated that the filing of the amended Articles of Incorporation was delayed due to holidays and staff vacations. She also stated that the amended Bylaws were not sent within 30 days because the Corporation did not realize that the changes to the Bylaws needed to be sent to the chancellor’s office.

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

Recommendation 5

We recommend that the Corporation file all future changes and amendments to Articles of Incorporation and Bylaws with the Contract Services and Procurement department at the chancellor’s office within 30 calendar days.
Campus Response

We concur. The Corporation will add documentation to our permanent Articles of Incorporation and Bylaws files noting that changes or amendments to the documents must be filed with the Contract Services and Procurement department at the chancellor’s office within 30 calendar days.

Anticipated implementation date: March 31, 2015

FISCAL COMPLIANCE

The Corporation did not maintain board-designated reserves in accordance with its reserve policy.

We found that:

- The debt service reserve equal to 115 percent of the succeeding year’s debt service payment was not funded.

- The Net Asset Funding Guidelines detailing reserve goals had not been updated to remove the requirement for a health and fitness reserve. The health and fitness program ceased in June 2006.

The Corporation Net Asset Reserve Policy states that net assets are split into three categories: unrestricted, temporarily restricted, or permanently restricted. Unrestricted net assets consist of operating, contingency, debt service, capital development for new projects, major maintenance and repairs/capital renovation and upgrade, and investment in operating assets. It further states that debt service, a reserve equal to 115 percent of the succeeding year’s debt service payment, is required. Additionally, specific reserve goals are detailed in the Net Asset Funding Guidelines, which is a supplement to this policy and the annual fiscal viability report.

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 Corporation senior accounting manager stated that although a designated debt service reserve was not initially established, other reserves accounts were available to cover the debt service reserve. She further stated that the ceased program could be brought back in the future, so the reserve goals were not removed from the guidelines.

Inadequate reserve funding increases the risk of misunderstandings and miscommunication regarding available reserves, as well as the risk that the auxiliary will be unable to fund future needs; and the absence of current policies and procedures increases the risk that errors, inconsistencies, and misunderstandings will occur.

**Recommendation 6**

We recommend that the Corporation:

a. Maintain reserves as outlined in the reserves policy.
b. Update the reserve goals detailed in the Net Asset Funding Guidelines.

**Campus Response**

We concur. The Corporation will update reserve goals detailed in the Net Asset Funding Guidelines and maintain the reserve balances as outlined in the reserves policy.

Anticipated implementation date: May 31, 2015

**CASH RECEIPTS AND HANDLING**

Administration of cash receipts at the Corporation dairy science creamery unit needed improvement.

We found that:

- Certain duties and responsibilities related to cash receipts were not adequately segregated. Specifically, the unit manager sold products, created sales receipts, and received payments. Additionally, an independent reconciliation of cash receipts was not performed.

- Cash receipts were not adequately secured. Payments were left on the unit manager’s desk during business hours.
- Cash receipts were not always forwarded to the central cashiering office for deposit in a timely manner.

- Checks received were not restrictively endorsed immediately upon receipt.

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

The *Compilation of Policies and Procedures for California State University Auxiliary Organizations* sets sound business practice guidelines for auxiliary organizations operating within the CSU system. Section 8.9.1, *Cash*, states that the auxiliary should establish a written internal control system that ensures cash receipts are conducted with appropriate segregation of duties.

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 Corporation senior manager of business and finance stated that the creamery unit was a small operation and sparsely staffed, which created challenges related to segregation of duties and processing of payments. He further stated that the other issues noted above were due to lack of training.

Inadequate segregation of duties and administration of cash receipts increase the risk of loss or misappropriation of funds.

**Recommendation 7**

We recommend that the Corporation:

a. Adequately segregate duties and responsibilities related to cash receipts and perform an independent reconciliation of cash receipts.

b. Adequately secure cash receipts during business hours.

c. Forward cash receipts to the central cashiering office for deposit in a timely manner.

d. Restrictively endorse checks immediately upon receipt.

**Campus Response**

We concur. The Corporation has updated its cash handling procedures document, provided training, and has reallocated duties in order to address all of the recommendations above.
Anticipated implementation date: March 31, 2015

PROPERTY AND EQUIPMENT

Administration of Corporation property and equipment needed improvement.

We reviewed ten asset disposals and selected ten assets for physical verification, and we found that:

› In three instances, approvals were not documented prior to disposal of assets.

› In three instances, missing or disposed assets were not reported to the accounting office in a timely manner. Specifically, two of the three assets were missing or disposed of for several years before they were reported to the accounting office by the asset custodian, and one asset had been disposed of but remained in the fixed asset system.

› In five instances, the campus lacked sufficient documentation to demonstrate that it conducted an investigation and took appropriate action (e.g., completion of a disposal form or police report) when disposed assets were identified as lost or not found by the asset custodian.

› The Corporation had not performed an independent physical inventory of all property and equipment. Inventory custodians were asked to annually confirm the property and equipment in their custody, but there was no independent verification of the confirmations provided by the custodians.

Corporation Fixed Asset Guidelines state that fixed asset survey forms must be approved by the department and Corporation management.

The Compilation of Policies and Procedures for California State University Auxiliary Organizations sets sound business practice guidelines for auxiliary organizations operating within the CSU system. Section 8.9.7, Property and Equipment, states that the auxiliary should establish a written system that ensures physical inspection of property and equipment on a service life schedule.

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 over property and equipment.

The Corporation senior accounting manager stated that required approvals for asset disposals were not always documented due to oversight caused by inconsistent adherence to documented procedures. She further stated that assets were not always promptly removed from accounting records due to untimely notification of the disposal by the asset custodian. Additionally, she stated that insufficient documentation related to the investigation of assets that could not be located was
due to lack of a consistent follow-up process. Also, she stated that although independent verification was performed for assets newly acquired during the year, there was no process in place to include existing assets in the independent verification.

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

**Recommendation 8**

We recommend that the Corporation:

a. Document proper approval before disposing of fixed assets.

b. Report all missing or disposed assets to the accounting office in a timely manner.

c. Document the investigation and corrective action taken for assets identified as lost or not found by the asset custodian.

d. Perform a periodic independent physical inventory of property and equipment.

**Campus Response**

We concur. The Corporation has provided training to reinforce guidelines to personnel and departments regarding reporting and approval of disposed property. The Fixed Asset Property Disposal form has been updated to require appropriate investigation and corrective action in the instances of lost or not-found assets. The Corporation will schedule periodic, random fixed asset audits.

Anticipated implementation date: March 31, 2015

**COMMERCIAL OPERATIONS**

Corporation administration of campus express accounts, which allow students, faculty, and staff to add value to their campus identification card to purchase food, clothing, printing, and supplies, needed improvement.

We reviewed the campus express accounts balance report dated October 15, 2014, and we found that 1,442 accounts had long outstanding balances, for a total of $48,276, and the Corporation did not have a process in place to refund or close the 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 proper administration of campus express accounts.

The Corporation associate executive director stated that campus express account balances were not refunded or closed in a timely manner due to oversight.

Inadequate administration of campus express accounts increases the risk of noncompliance with relevant requirements.

**Recommendation 9**

We recommend that the Corporation develop a process to refund or close campus express accounts with long outstanding balances.

**Campus Response**

We concur. The Corporation will implement a process to annually refund or close outstanding accounts.

Anticipated implementation date: March 31, 2015
FISCAL COMPLIANCE

Associated Students, Inc. (ASI) reserves for fiscal years 2011/12, 2012/13, and 2013/14 had not been approved by the campus president.

The Compilation of Policies and Procedures for California State University Auxiliary Organizations sets sound business practice guidelines for auxiliary organizations operating within the CSU system. Section 8.1.1.2 A-4, Basis for Financial Standards and Fiscal Viability – Financial Standards, states that annually each auxiliary governing board shall review the fiscal viability of the auxiliary organization to include the submission of a report annually to the president, which includes a plan to build and maintain appropriate reserves. Such a report may be a part of the annual budget submission.

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 15.11.3, Reserve Guidelines, states that annually, in conjunction with its budget development process, each student body organization governing board shall review its reserve policy, categories, definitions, and funding levels for adequacy. The review is to be documented and forwarded to the university president for review and approval at the same time the budget is submitted.

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

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

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

Recommendation 10

We recommend that ASI obtain presidential approval of its reserves on an annual basis.

Campus Response

We concur. ASI will include reserve balances as part of the annual budget submittal and presidential approval process.
ANTICIPATED IMPLEMENTATION DATE:  JUNE 30, 2015

PURCHASING AND ACCOUNTS PAYABLE

ASI did not require travel authorization forms documenting advance approval of all travel and related expenditures for Rose Float volunteers.

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 9.7.1, Travel, states that because auxiliary organizations have a special relationship with the CSU, their travel reimbursement policies should generally parallel policies applicable to the 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 all requested travel be approved in advance of incurring travel expenditures.

The ASI associate executive director stated that the current ASI travel policy did not require advance travel authorization documenting the approval of Rose Float volunteer travel and related expenditures.

The absence of documented approval of all travel and related expenditures increases the risk of errors, irregularities, and misappropriation of funds.

Recommendation 11

We recommend that ASI require travel authorization forms documenting advance approval of all travel and related expenditures for Rose Float volunteers.

Campus Response

We concur. ASI will implement travel policies and procedures that will require advance approval for travel and related expenditures for Rose Float volunteers.

Anticipated implementation date:  June 30, 2015
## 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>Jeffrey D. Armstrong</td>
<td>President</td>
</tr>
<tr>
<td>Brett Holman</td>
<td>Interim Director of Fiscal Services/University Controller</td>
</tr>
<tr>
<td>Deborah Read</td>
<td>Vice President, University Advancement</td>
</tr>
<tr>
<td>Grant Trexler</td>
<td>Associate Vice President, Advancement Operations</td>
</tr>
<tr>
<td>Karen Webb</td>
<td>Interim Vice President, Administration and Finance</td>
</tr>
<tr>
<td><strong>CALIFORNIA POLYTECHNIC STATE UNIVERSITY FOUNDATION</strong></td>
<td></td>
</tr>
<tr>
<td>Deborah Read</td>
<td>Chief Executive Officer</td>
</tr>
<tr>
<td>Grant Trexler</td>
<td>Chief Financial Officer</td>
</tr>
<tr>
<td><strong>CAL POLY CORPORATION</strong></td>
<td></td>
</tr>
<tr>
<td>Joe Alves</td>
<td>Senior Accountant/Analyst</td>
</tr>
<tr>
<td>Cindy Boone</td>
<td>Payroll and Accounts Receivable Supervisor</td>
</tr>
<tr>
<td>Karen Brown</td>
<td>Senior Accounting Manager</td>
</tr>
<tr>
<td>Michele Bullock</td>
<td>Administrative Support Assistant</td>
</tr>
<tr>
<td>Kacey Chun</td>
<td>Director, Human Resources</td>
</tr>
<tr>
<td>Natalia Kaliski Draude</td>
<td>Senior Accountant/Analyst</td>
</tr>
<tr>
<td>Taffy Duran</td>
<td>Distribution Manager, Cal Poly University Store</td>
</tr>
<tr>
<td>Tammy Farrell</td>
<td>Senior Retail Analyst</td>
</tr>
<tr>
<td>Wendy Forrester</td>
<td>Controller</td>
</tr>
<tr>
<td>Lynnette Held</td>
<td>Operations Manager, Cal Poly University Store</td>
</tr>
<tr>
<td>Maurnie Higginbotham</td>
<td>Accounting Specialist</td>
</tr>
<tr>
<td>William Hockensmith</td>
<td>Director, Cal Poly University Store</td>
</tr>
<tr>
<td>Starr Lee</td>
<td>Associate Executive Director</td>
</tr>
<tr>
<td>Lorlie Leetham</td>
<td>Interim Executive Director /Associate Vice President of Commercial Services</td>
</tr>
<tr>
<td>Jennifer Lutdke</td>
<td>Human Resources Specialist</td>
</tr>
<tr>
<td>Kenneth Manning</td>
<td>Accountant/Analyst for Investments and Treasury</td>
</tr>
<tr>
<td>Julia Perez</td>
<td>Accounts Receivable Specialist</td>
</tr>
<tr>
<td>Brandon Stieler</td>
<td>Accounting Analyst, Campus Dining</td>
</tr>
<tr>
<td>Linda Teeple</td>
<td>Accounts Payable Supervisor</td>
</tr>
<tr>
<td>Mike Thorton</td>
<td>Director, Campus Dining</td>
</tr>
<tr>
<td>Mariann Van Pelt</td>
<td>Accounting Manager</td>
</tr>
<tr>
<td>Ron Weaver</td>
<td>Senior Manager of Business and Finance</td>
</tr>
<tr>
<td><strong>ASSOCIATED STUDENTS, INC.</strong></td>
<td></td>
</tr>
<tr>
<td>Dwayne Brummett</td>
<td>Associate Executive Director</td>
</tr>
<tr>
<td>Tonya Iversen</td>
<td>Director, Children’s Programs</td>
</tr>
<tr>
<td>Lindsey Lee</td>
<td>Coordinator, Business Services</td>
</tr>
<tr>
<td>Marcy Maloney</td>
<td>Executive Director</td>
</tr>
<tr>
<td>Gina Murtha</td>
<td>Accounting Coordinator</td>
</tr>
<tr>
<td>Nancy Owens</td>
<td>Accounting Technician I</td>
</tr>
<tr>
<td>Roxie Phillips</td>
<td>Accounting Assistant</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 Vice Chancellor and Chief Audit Officer, 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.
February 10, 2015

Mr. Larry Mandel
Vice Chancellor and Chief Audit Officer
Office of Audit and Advisory Services
The California State University
401 Golden Shore Road
Long Beach, CA 90805-4275

Subject: Campus Responses to Recommendations of Incomplete Draft Audit Report Number 14-06, Auxiliary Organizations, California Polytechnic State University, San Luis Obispo

Dear Larry:

Enclosed are responses to the recommendations in the Incomplete Draft of the Auxiliary Organizations audit report (Audit Report 14-06). The responses are submitted to you for review and acceptance by the Chancellor. The responses include a corrective action plan and time frame for completion.

Please direct questions to Brett Holman, Interim Director of Fiscal Services/University Controller, at (805)756-7417 (bholman@calpoly.edu).

Sincerely,

Karen Webb
Interim Vice President for Administration and Finance

cc: J. Armstrong, B. Holman
FEES, REVENUES, AND RECEIVABLES

Recommendation 1

We recommend that the campus:

a. Obtain written delegations of authority from the campus vice president for university advancement giving the Foundation and Corporation management the responsibility to accept gifts.

b. Complete gift evaluation and acceptance forms for all gifts and retain them on file.

Campus Response

We concur. The campus will prepare written delegations of authority from the campus vice president for university advancement giving Foundation and Corporation management the responsibility to accept gifts on behalf of the University, Foundation and Corporation. We will also provide training to the appropriate Corporation staff about the requirement to have gift acceptance forms completed and retained.

Anticipated implementation date: 3/31/15
CORPORATE GOVERNANCE

Recommendation 2

We recommend that the Foundation promptly file the Articles of Incorporation and Bylaws with the Contract Services and Procurement department at the chancellor's office.

Campus Response

We concur. The Foundation filed its amended Articles of Incorporation and Bylaws with the Contract Services and Procurement department at the chancellor's office during the audit.

Anticipated implementation date: Completed

PURCHASING AND ACCOUNTS PAYABLE

Recommendation 3

We recommend that the Foundation approve travel request and travel pre-authorization forms in a timely manner.

Campus Response

We concur. The Foundation will provide additional training to staff who sign travel requests (State Form 1A) that, per policy, the form is to be approved prior to the commencement of travel.

Anticipated implementation date: 3/31/15
CAL POLY CORPORATION

OPERATING AND ADMINISTRATIVE AGREEMENTS

Recommendation 4

We recommend that the Corporation:

a. Fully execute all agreements in a timely manner.
b. Promptly renew the MOU with the third party.

Campus Response

We concur. The Corporation will develop a master document of all agreements that will be maintained and reviewed monthly to ensure that the agreements are executed prior to the effective date. The Corporation will also renew the MOU with the third party.

Anticipated implementation date: 3/31/15

CORPORATE GOVERNANCE

Recommendation 5

We recommend that the Corporation file all future changes and amendments to Articles of Incorporation and Bylaws with the Contract Services and Procurement department at the chancellor’s office within 30 calendar days.

Campus Response

We concur. The Corporation will add documentation to our permanent Articles of Incorporation and Bylaws files noting that changes or amendments to the documents must be filed with the Contract Services and Procurement department at the chancellor’s office within 30 calendar days.

Anticipated implementation date: 3/31/15

FISCAL COMPLIANCE

Recommendation 6

We recommend that the Corporation:

a. Maintain reserves as outlined in the reserves policy.
b. Update the reserve goals detailed in the Net Asset Funding Guidelines.
Campus Response

We concur. The Corporation will update reserve goals detailed in the Net Asset Funding Guidelines and maintain the reserve balances as outlined in the reserves policy.

Anticipated implementation date: 5/31/15

CASH RECEIPTS AND HANDLING

Recommendation 7

We recommend that the Corporation:

a. Adequately segregate duties and responsibilities related to cash receipts and perform an independent reconciliation of cash receipts.

b. Adequately secure cash receipts during business hours.

c. Forward cash receipts to the central cashiering office for deposit in a timely manner.

d. Restrictively endorse checks immediately upon receipt.

Campus Response

We concur. The Corporation has updated its cash handling procedures document, provided training, and has reallocated duties in order to address all of the recommendations above.

Anticipated implementation date: 3/31/15

PROPERTY AND EQUIPMENT

Recommendation 8

We recommend that the Corporation:

a. Document proper approval before disposing of fixed assets.

b. Report all missing or disposed assets to the accounting office in a timely manner.

c. Document the investigation and corrective action taken for assets identified as lost or not found by the asset custodian.

d. Perform a periodic independent physical inventory of property and equipment.

Campus Response

We concur. The Corporation has provided training to reinforce guidelines to personnel and departments regarding reporting and approval of disposed property. The Fixed Asset Property
Disposal form has been updated to require appropriate investigation and corrective action in the instances of lost or not found assets. The Corporation will schedule periodic, random fixed asset audits.

Anticipated implementation date: 3/31/15

COMMERCIAL OPERATIONS

Recommendation 9

We recommend that the Corporation develop a process to refund or close campus express accounts with long outstanding balances.

Campus Response

We concur. The Corporation will implement a process to annually refund or close outstanding accounts.

Anticipated implementation date: 3/31/15
ASSOCIATED STUDENTS, INC.

FISCAL COMPLIANCE

Recommendation 10

We recommend that ASI obtain presidential approval of its reserves on an annual basis.

Campus Response

We concur. ASI will include reserve balances as part of the annual budget submittal and presidential approval process.

Anticipated implementation date: 6/30/15

PURCHASING AND ACCOUNTS PAYABLE

Recommendation 11

We recommend that ASI require travel authorization forms documenting advance approval of all travel and related expenditures for Rose Float volunteers.

Campus Response

We concur. ASI will implement travel policies and procedures which will require advance approval for travel and related expenditures for Rose Float volunteers.

Anticipated implementation date: 6/30/15
March 10, 2015

MEMORANDUM

TO: Mr. Larry Mandel
    Vice Chancellor and Chief Audit Officer

FROM: Timothy P. White
       Chancellor

SUBJECT: Draft Final Report 14-06 on Auxiliary Organizations, California Polytechnic State University, San Luis Obispo

In response to your memorandum of March 10, 2015, I accept the response as submitted with the draft final report on Auxiliary Organizations, California Polytechnic State University, San Luis Obispo.

TPW/amd