

AUXILIARY ORGANIZATIONS
CALIFORNIA STATE UNIVERSITY,
LONG BEACH

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CONTENTS

INTRODUCTION

Purpose	1
Scope and Methodology	1
Background	2
Opinion	3
Executive Summary	5

OBSERVATIONS, RECOMMENDATIONS, AND CAMPUS RESPONSES

CAMPUS

Legal and Regulatory Compliance	13
Unofficially Recognized Campus Support Organizations	13
Conflict of Interest	13
Fees, Revenues, and Receivables	14
Programs	15

FOUNDATION

Legal and Regulatory Compliance	17
Auxiliary Functions	17
Leasing Facilities	18
Reporting of Unauthorized Acts	19
Reserves	19
Cash Receipts	20
Fees, Revenues, and Receivables	21
Gift Reconciliation	21
Purchasing and Accounts Payable	22
Procurement	22
Vendor Master File	23
Segregation of Duties - Accounts Payable	24
Cash Disbursements	24
Independent Contractors	25
Travel Authorizations	26

CONTENTS

Petty Cash and Change Funds 26

Fixed Assets 27

Trusts and Other Liabilities..... 29

Programs 30

Information Technology 31

 Program Change Control 31

 Disaster Recovery Planning..... 31

ASSOCIATED STUDENTS, INC.

Legal and Regulatory Compliance 33

 Student Body Fees..... 33

 Dissolution Clause..... 34

Cash Receipts 34

 Segregation of Duties 34

 Collection of Past-Due Accounts 35

Purchasing and Accounts Payable 36

 Procurement Process 36

 Disbursements..... 37

Petty Cash and Change Funds 38

Personnel and Payroll 39

Fixed Assets 40

 Fixed Asset Accounting..... 40

 Segregation of Duties 40

Trusts and Other Liabilities..... 41

 Funds Held in Trust for Student Organizations and Others..... 41

Programs 42

 Child Development Center 42

 Food Vendor Audits 43

FORTY-NINER SHOPS, INC.

Legal and Regulatory Compliance 45

 Facilities Lease..... 45

 Retirement Plan..... 45

 Pyramid Agreement..... 46

CONTENTS

Purchasing and Accounts Payable	47
Commodity Purchases	47
Outdoor Vendors	48
Petty Cash and Change Funds	49
Personnel and Payroll	50
Payroll.....	50
Fixed Assets	50
Programs	51
Art Store	51
Operating Policies and Procedures.....	52
Food Vendor Agreements.....	52
Information Technology	53

APPENDICES

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

ABBREVIATIONS

ASI	Associated Students, Inc.
BA	Business Affairs – Office of the Chancellor
CDC	Child Development Center
CSU	California State University
EO	Executive Order
ERISA	Employee Retirement Income Security Act
Foundation	California State University, Long Beach Foundation
PPR	Pacific Public Radio
Shops	Forty-Niner Shops, Inc.

INTRODUCTION

PURPOSE

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

- ▶ Formation of the auxiliary.
- ▶ Functions the auxiliary performs on the campus.
- ▶ Creation and operation of the auxiliary's board of directors.
- ▶ Establishment of policies and procedures based upon sound business practices.
- ▶ Observance of mandates to maintain an "arms-length" in business transactions between the auxiliary and the campus.
- ▶ Campus oversight of auxiliary operations.

In addition, we reviewed internal controls to assure that:

- ▶ 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 the overall internal 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 record keeping, inappropriate accounting, fraudulent financial reporting, financial loss, and exposure.

SCOPE AND METHODOLOGY

Our management review emphasized, but was not limited to, compliance with state and federal laws and regulations, Board of Trustee policies, and Office of the Chancellor policies, letters, and directives as they relate to California State University (CSU) auxiliaries. For those audit tests that required annualized data, fiscal year 1998-1999 was the primary period reviewed. In certain instances, we were concerned with representations of the most current data—in such cases, the test period was extended to December 1999. Our primary focus was on internal compliance and controls.

Specifically, for the period reviewed, we examined 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 included within 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.

The scope of our review, regarding internal compliance considerations, focused on areas which were identified during our preliminary assessment of risks related to the CSU and its requirements to exercise oversight of auxiliaries. (See Appendix B.)

The scope of our internal control review focused on separation of duties, safeguarding of assets, and reliability and integrity of information. Within these, we considered areas of risk identified during a preliminary survey of the campus's auxiliary operations in addition to risks related to the CSU and its oversight of auxiliaries. (See Appendix B.)

We have not performed reviews or analyses beyond the date of our report. Accordingly, our comments are based on our knowledge as of that date and should be read with that understanding. Since the purpose of our comments is to suggest areas for improvement, comments on favorable matters are not discussed.

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 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 which 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.

Executive Order No. 698, superseding Executive Order No. 682, was issued on March 3, 1999. In that directive, the president of each campus was instructed, in part, as follows:

Section 2. Authority and Responsibility of the Campus President. Title 5, Section 42402 establishes the authority of campus presidents to require auxiliary organizations to operate in conformity with policy of the Board of Trustees and the campus. The president is required to review auxiliary programs and budgets and to require discontinuance of activities not in conformity with policies of the Board of Trustees and campus.

The following Trustee policy supplements the existing policy of Section 42402 and provides an additional mechanism for the president to administer his or her responsibilities concerning auxiliary organizations. Action taken by the Trustees' Committee on Audit at the January 1999 meeting of the Board requires an internal compliance/internal control review to be performed by the University Auditor.

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. This review of each auxiliary organization shall be completed on a triennial basis pursuant to procedures established by the chancellor.

This report represents our triennial review.

OPINION

We visited the California State University, Long Beach campus from October 2000 through February 2001 and reviewed the internal compliance and internal control structures in effect at that time. Our study and evaluation were conducted in accordance with the *Standards for the Professional Practice of Internal Auditing*, issued by the Institute of Internal Auditors, and included the audit tests we considered necessary in determining that accounting and administrative controls are in place and operative.

The campus and management at each auxiliary are responsible for establishing and maintaining adequate internal controls. This responsibility includes documenting internal controls, communicating requirements to employees, and assuring that internal controls are 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 accounting and administrative controls are to provide management with reasonable, but not absolute, assurance that:

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

Our audit disclosed conditions which, in our opinion, would result in significant errors and irregularities if not corrected. These conditions, along with other weaknesses, are described in the executive summary and in the body of the report.

As a result of changing conditions and the degree of compliance with procedures, the effectiveness of controls change 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 to prevent these limitations would not be cost-effective; moreover, an audit may not always detect these limitations. (See Appendix C.)

EXECUTIVE SUMMARY

The purpose of this section is to provide 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

LEGAL AND REGULATORY COMPLIANCE [13]

UNOFFICIALLY RECOGNIZED CAMPUS SUPPORT ORGANIZATIONS [13]

The campus had not developed written policies and procedures to identify, coordinate, and oversee ancillary organizations that operate in support of academic and nonacademic programs. Written policies and procedures increase campus and presidential oversight over ancillary organizations and reduce the exposure of the campus and the California State University (CSU) system to regulatory and legal consequences.

CONFLICT OF INTEREST [13]

The campus had not provided guidance for its auxiliaries regarding the implementation of conflict-of-interest policies and procedures, including statements and disclosures from board members and management. Specifically addressing implementation of conflict-of-interest code policies and procedures for auxiliary boards and management decreases liability for acts contrary to the code.

FEES, REVENUES, AND RECEIVABLES [14]

The campus had not developed a cost allocation plan in accordance with Executive Order (EO) No. 753. In addition, the campus had not recently examined its direct and indirect cost reimbursement requirements for externally funded programs. Defining cost methodology would allow the General Fund to be properly reimbursed for facilities, goods, or services provided to auxiliary organizations.

PROGRAMS [15]

Agreements between the California State University, Long Beach Foundation (Foundation), Pacific Public Radio (PPR), and the campus do not sufficiently define each entity's responsibility towards the operation of the campus radio station. A written agreement, which defines each party's responsibilities and expectations, decreases the potential for misunderstanding or miscommunication.

FOUNDATION

LEGAL AND REGULATORY COMPLIANCE [17]

AUXILIARY FUNCTIONS [17]

Certain functions performed by the Foundation were not consistent with CSU policy or were not specifically described in its operating agreement with the campus. Performing only functions authorized by the CSU Trustees to be appropriate decreases the risk that the auxiliary will participate in transactions inconsistent with Title 5. Further, operating in the presence of an up-to-date written agreement decreases the risk of misunderstandings and miscommunications regarding rights and responsibilities.

LEASING FACILITIES [18]

Consideration was not sufficiently articulated in the lease agreements between the campus and the Foundation. Sufficiently documenting consideration in such agreements reduces the risk that a “gift of public funds” claim will be asserted.

REPORTING OF UNAUTHORIZED ACTS [19]

The Foundation did not appropriately report an instance of fraud. Timely reporting of thefts and irregularities is in accordance with CSU policy and reduces the possibility of future losses and embarrassment to the campus and central administration.

RESERVES [19]

The Foundation had not implemented an adequate reserve policy, nor was the reserve subject to regular board/presidential consideration. Sufficient reserves protect the campus from future funding deficits.

CASH RECEIPTS [20]

Cash receipts were not always deposited in a timely manner or adequately identified. Transferring cash/gift receipts to the cashiering office in a timely manner and adequately identifying the source of funds decrease the risk that misappropriation of funds will not be detected.

FEES, REVENUES, AND RECEIVABLES [21]

GIFT RECONCILIATION [21]

The reconciliation of cash gift receipts to gift acknowledgements was not complete. Reconciling gift receipts to collections reduces the risk of errors or misappropriation of gifts or receipts not being detected.

PURCHASING AND ACCOUNTS PAYABLE [22]

PROCUREMENT [22]

Fully documented, written purchasing policies and procedures were not in place during the audit review period. When policies and procedures are fully documented and communicated to auxiliary and campus personnel, the risk of internal controls being compromised is reduced.

VENDOR MASTER FILE [23]

Administration and control over the Foundation's vendor master file was inadequate. Properly maintaining and updating the vendor master file decrease the risk of fraudulently misdirected payments.

SEGREGATION OF DUTIES - ACCOUNTS PAYABLE [24]

The Foundation's accounts payable duties were inadequately segregated. Adequate separation of duties decreases the risk that errors and irregularities will not be detected in a timely manner.

CASH DISBURSEMENTS [24]

Our review disclosed instances where expenditures lacked sufficient documentation and/or authorization to ensure proper use of funds. Sufficient supporting documentation and authorization decrease the risk that a misappropriation of funds will not be detected.

INDEPENDENT CONTRACTORS [25]

Written agreements with independent contractors were not always entered into prior to the commencement of services. Misunderstandings and disputes are reduced when written agreements are executed prior to the commencement of services.

TRAVEL AUTHORIZATIONS [26]

Travel authorizations, though required by the Foundation's travel policy, were not always used. Proper internal controls over the travel authorization process decrease the risk that errors and irregularities will not be detected in a timely manner.

PETTY CASH AND CHANGE FUNDS [26]

Internal controls over petty cash required improvement. When petty cash funds are properly controlled, the risk of errors or misappropriation decreases.

FIXED ASSETS [27]

Internal controls over fixed assets were not adequate. Adequate controls over fixed assets decrease the risk that property may be lost or stolen.

TRUST AND OTHER LIABILITIES [29]

Foundation controls over trust accounts were in need of improvement. Adequate control over trust accounts decreases the risk of both inappropriate expenditures and misunderstandings regarding account operations.

PROGRAMS [30]

Matching funds for grants and contracts received by the Foundation, both cash and in-kind, were not always properly identified and recorded. Properly identifying, documenting, and recording matching funds decrease the risk of errors and misappropriations as well as noncompliance to requirements imposed by external funding agencies.

INFORMATION TECHNOLOGY [31]

PROGRAM CHANGE CONTROL [31]

Foundation policies and procedures over program change management were formally documented; however, existing practices did not prevent all persons with programming responsibilities from making unauthorized changes to production. Maintaining adequate internal controls decreases the risk of unauthorized changes to production.

DISASTER RECOVERY PLANNING [31]

The Foundation's disaster recovery and business continuity planning required improvement. An adequate disaster recovery plan may restore data processing operations within a reasonable time frame and reduces the risk of financial and legal liabilities.

ASSOCIATED STUDENTS, INC.

LEGAL AND REGULATORY COMPLIANCE [33]

STUDENT BODY FEES [33]

The chief fiscal officer of the campus was not acting as custodian of student body organization fees. Depositing such fees in the custody of the campus chief fiscal officer enables the campus to meet required oversight responsibility.

DISSOLUTION CLAUSE [34]

The dissolution clause in Associated Student, Inc.'s, (ASI) articles of incorporation needed revision. A proper dissolution clause in the articles of incorporation decreases the risk of an improper distribution of net assets in the event the auxiliary organization is dissolved.

CASH RECEIPTS [34]

SEGREGATION OF DUTIES [34]

Certain cash receipting and disbursing duties were not adequately segregated. Adequate separation of duties decreases the risk that errors and irregularities will not be detected timely.

COLLECTION OF PAST-DUE ACCOUNTS [35]

Collection efforts on past-due accounts receivable required improvement. Pursuing timely collection of past-due accounts receivable decreases the possibility that accounts may become uncollectible.

PURCHASING AND ACCOUNTS PAYABLE [36]

PROCUREMENT PROCESS [36]

Procurement policies and procedures had not been fully documented. When policies and procedures concerning procurement are fully documented and communicated to auxiliary and campus personnel, internal controls cannot be compromised.

DISBURSEMENTS [37]

Procedures related to the administration of disbursements were in need of improvement. Controls over disbursements, in accordance with CSU and related standards, decrease the risk of funds being expended for inappropriate purposes.

PETTY CASH AND CHANGE FUNDS [38]

ASI had not developed procedures to perform periodic and independent counts of its change funds on an unannounced basis. Performing timely counts of change funds decreases the risk that missing funds will not be detected.

PERSONNEL AND PAYROLL [39]

Personnel and payroll policies and procedures regarding the employee termination process, authorized signatories, and payroll check distribution needed improvement. Adequate internal controls decrease the risk of unauthorized transactions.

FIXED ASSETS [40]

FIXED ASSET ACCOUNTING [40]

Fixed asset administration was in need of improvement. Adequate administration of fixed assets decreases the risk that accounting and property records will be misstated.

SEGREGATION OF DUTIES [40]

Certain fixed asset responsibilities and duties were not adequately segregated. An adequate separation of duties decreases the risk that errors and irregularities will not be detected timely.

TRUSTS AND OTHER LIABILITIES [41]

FUNDS HELD IN TRUST FOR STUDENT ORGANIZATIONS AND OTHERS [41]

Funds held in trust by ASI on behalf of student organizations and campus departments were inappropriately administered. Sufficient control over funds held in trust in accordance with CSU and related standards decreases the risk that funds will be expended for inappropriate purposes.

PROGRAMS [42]

CHILD DEVELOPMENT CENTER [42]

Current agreements between ASI and the campus do not sufficiently define each entity's responsibilities, both financially and administratively, toward the management of the child development center (CDC). A written agreement to define each party's responsibilities reduces the potential for misunderstanding.

FOOD VENDOR AUDITS [43]

ASI had not exercised the audit clause contained in its various contracts with food vendors. Periodic reviews of the gross receipts of food vendors reduce the risk of inaccurate reporting and loss of lease revenue to ASI.

FORTY-NINER SHOPS, INC.

LEGAL AND REGULATORY COMPLIANCE [45]

FACILITIES LEASE [45]

Consideration was not sufficiently articulated in the ground lease agreement between the campus and Forty-Niner Shops, Inc. (Shops). Sufficiently documented consideration reduces the exposure of the campus and the legally separate auxiliary organization to the risk that a “gift of public funds” claim could be asserted.

RETIREMENT PLAN [45]

Shops’ self-administered retirement plan, offered to hourly employees, had not recently been evaluated with respect to compliance with the Employee Retirement Income Security Act (ERISA) and risks associated with legal changes since the plan was initially implemented. Sufficient analysis reduces the risk of legally mandated fiduciary requirements not being met.

PYRAMID AGREEMENT [46]

Shops’ agreement for the sale of concessions in the Pyramid was not current. Consistency in contracts decreases the potential for misunderstandings and confusion of the intentions of the parties.

PURCHASING AND ACCOUNTS PAYABLE [47]

COMMODITY PURCHASES [47]

Shops’ purchasing controls at the central commodity commissary were in need of improvement. Adequate separation of duties and review reduces the risk that errors and irregularities will not be detected timely.

OUTDOOR VENDORS [48]

Shops’ management of the outdoor vendor process needed improvement. Proper control of outside vendors decreases the potential for liability and reduces the risk of irregularities not being detected timely.

PETTY CASH AND CHANGE FUNDS [49]

Shops’ count of change funds was neither documented nor done regularly. In addition, petty cash expenditures were paid out of the change fund. Documenting regular counts of change funds decreases the risk that missing funds will not be detected. Further, the risk of errors or misappropriation decreases when petty cash funds are properly controlled.

PERSONNEL AND PAYROLL [50]

PAYROLL [50]

Supervisors did not consistently sign timecards. In addition, clearance forms did not contain a provision for return of keys and termination of computer access. When timecards are properly approved and a sufficient employee clearance process is used, the risk of unauthorized transactions is reduced.

FIXED ASSETS [50]

Segregation of duties over fixed assets was not adequate. Adequate separation of duties decreases the risk that errors and irregularities will not be detected timely.

PROGRAMS [51]

ART STORE [51]

Shops' lease agreement with the campus art department was improperly administered. Adequately accounting for expenditures and revenues decreases the risk that missing funds will not be detected. The presence of a current agreement decreases the risk of misunderstandings.

OPERATING POLICIES AND PROCEDURES [52]

Formalized, written policies and procedures for cash receipts, accounts receivable, accounts payable, credit cards, and petty cash areas had not been developed. When policies and procedures are properly documented and communicated to employees, internal controls cannot be compromised.

FOOD VENDOR AGREEMENTS [52]

Agreements with food vendors did not have the prior written consent of the campus. Compliance with contract language decreases the risk of misunderstandings and may decrease legal liability.

INFORMATION TECHNOLOGY [53]

Access to accounts payable, accounts receivable, and general ledger modules was not adequately restricted. Restricted access to the accounting system decreases the risk that errors and irregularities will not be detected in a timely manner.

OBSERVATIONS, RECOMMENDATIONS, AND CAMPUS RESPONSES

CAMPUS

LEGAL AND REGULATORY COMPLIANCE

UNOFFICIALLY RECOGNIZED CAMPUS SUPPORT ORGANIZATIONS

The campus had not developed written policies and procedures to identify, coordinate, and oversee ancillary organizations that operate in support of academic and nonacademic programs.

The associate vice president for financial management indicated that the campus has not developed written policies and procedures for overseeing nonprofit organizations that operate on campus because it has not been a significant problem for the campus.

Education Code §89900 through §89912 indicate the need for campus control over entities offering service and/or exposing the campus to liability.

Not developing written policies and procedures can result in a lack of sufficient oversight over ancillary organizations operating on the campus in support of academic and nonacademic programs, exposing the campus and the California State University (CSU) system to regulatory and legal consequences.

Recommendation 1

We recommend that the campus document its policies and procedures to identify, coordinate, and oversee the various ancillary organizations that operate on the campus in support of academic and nonacademic programs.

Campus Response

We concur and will develop written policies and procedures to identify and oversee the ancillary organizations that operate on campus in support of campus programs. Estimated date of completion is March 20, 2002.

CONFLICT OF INTEREST

The campus had not provided guidance for its auxiliaries regarding the implementation of conflict-of-interest policies and procedures, including statements and disclosures from board members and management.

Each auxiliary on campus addressed, in some manner, conflict-of-interest requirements placed upon auxiliaries by the Education Code and Title 5. However, current policies and procedures did not fully address or consider the following areas:

- ▶ Conflict-of-interest procedures.
- ▶ Records of proceedings relating to a possible or actual conflict.
- ▶ Compensation.
- ▶ Annual statements.
- ▶ Periodic reviews.
- ▶ Use of outside experts.
- ▶ Duty to disclose.
- ▶ Determination whether a conflict of interest exists.
- ▶ Actions required in association with a conflict.
- ▶ Actions to be taken when violations of conflict-of-interest policy are discovered.

Education Code §89906 states that no member of the governing board of an auxiliary organization shall be financially interested in any contract or other transaction entered into by the board of which he is a member and any contract or transaction entered into in violation of this section is void.

Title 5 §42401, §42402, §42500 and Education Code §89900 establish a responsibility to operate in accordance with sound business practices in the interest of the campus. Good business practices would include establishing conflict-of-interest policies and procedures to implement Education Code §89906 and other similar provisions to prevent imprudent or improper decisions by auxiliary board and management members.

The vice president for administration and finance indicated his understanding was that each campus auxiliary has appropriate conflict-of-interest policies and procedures in place.

Failure to specifically address the implementation of conflict-of-interest code policies and procedures for auxiliary boards and management increases liability for acts contrary to the code.

Recommendation 2

We recommend that the campus provide guidance for its auxiliaries regarding the implementation of conflict-of-interest policies and procedures, including statements and disclosures from board members and management.

Campus Response

We concur. Management will provide written guidance to its auxiliaries regarding the implementation of conflict-of-interest policies and procedures. Estimated date of completion is March 20, 2002.

FEES, REVENUES, AND RECEIVABLES

The campus had not developed a cost allocation plan in accordance with Executive Order (EO) No. 753. In addition, the campus had not recently examined its direct and indirect cost reimbursement requirements for externally funded programs.

CSU coded memo, Business Affairs – Office of the Chancellor (BA) 83-30, requires auxiliaries to pay for services provided by the campus. EO No. 753, *Allocation of Costs to Auxiliary Enterprises*, established the responsibility for auxiliaries to pay allowable direct costs plus an allocable portion of indirect costs associated with facilities, goods, and services provided by the campus and funded by the General Fund.

The vice president for administration and finance indicated that the campus, with many employees engaged in the common management systems implementation, has not had the time to undertake this major project. He also indicated that once the new financial system was up and running smoothly, the development of a cost allocation plan would be made a priority. He further indicated that the campus intends to reexamine its cost reimbursement requirements for externally funded programs in conjunction with the development of the cost allocation plan.

Failure to develop and follow a cost methodology plan could result in the General Fund not being properly reimbursed for facilities, goods, or services provided to auxiliary organizations.

Recommendation 3

We recommend that the campus develop a cost allocation plan in accordance with EO No. 753.

Campus Response

We concur. The campus will develop a written cost allocation plan in accordance with EO No. 753 by September 1, 2002.

PROGRAMS

Agreements between the California State University, Long Beach Foundation (Foundation), Pacific Public Radio (PPR), and the campus do not sufficiently define each entity's responsibility towards the operation of the campus radio station.

We found that the Foundation holds the broadcasting license for the radio station and has contracted with PPR, a nonprofit corporation, for its operation. The radio station is housed in campus facilities under the direction and management of a campus employee. The radio station is considered an integral part of the curriculum of students majoring in this area.

Title 5 §42401 and §42402 indicate that the campus president shall require that auxiliary organizations operate in conformity with the 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 agreements be in writing.

The associate vice president of administration and finance indicated that an agreement which defines each of the three entities' responsibilities in the on-campus operation of the radio station needed to be established.

Without a written agreement to define each party's responsibilities and expectations, the potential for misunderstanding or miscommunication is increased.

Recommendation 4

We recommend that a written agreement be executed between the campus, the Foundation, and PPR with respect to the operations of the radio station, which defines the administrative and financial commitment of each party towards the operation and management of the station.

Campus Response

We concur. The campus will execute a written agreement with the Foundation and PPR (Pacific Public Radio) which defines the individual responsibilities of each party. Estimated date of completion is May 1, 2002.

FOUNDATION

LEGAL AND REGULATORY COMPLIANCE

AUXILIARY FUNCTIONS

Certain functions performed by the Foundation were not consistent with CSU policy or were not specifically described in its operating agreement with the campus.

We found that the Foundation entered into contracts to provide payroll, human resource management, and related services to the City of Long Beach. These services are not listed as appropriate functions of an auxiliary organization under Title 5.

The Foundation's operating agreement did not reflect current minimum insurance requirements or operational activities such as real estate and commercial operations.

Title 5 §42500(a) indicates various functions that may be performed by an auxiliary organization. Title 5 §42500(e) indicates that an auxiliary organization shall not engage in a function not listed in subdivision (a) of this section unless an appropriate amendment is made to subdivision (a) by the Board of Trustees, adding said function to the list of approved functions of auxiliary organizations, or unless such function is essential to satisfy the corporation laws of the state of California.

Title 5 §42501 states that a written agreement on behalf of the state of California by the chancellor of the CSU and the auxiliary organization is required for the performance by such auxiliary organization of any of the functions listed in §42500. Title 5 §42502 states that the operating agreement should specify the function or functions which the organization is to manage, operate, or administer.

The associate vice president of administration and finance indicated that such services represented campus outreach to the community.

Performing unauthorized functions increases the risk that the auxiliary will participate in transactions inconsistent with Title 5 and subject the system to unwarranted liability. Further, operating in the absence of an up-to-date written agreement increases the risk of misunderstandings and miscommunications regarding rights and responsibilities.

Recommendation 5

We recommend that the Foundation:

- a. Perform only those functions listed in Title 5 or seek approval for variances from such from the Office of the Chancellor.
- b. Update its operating agreement in accordance with CSU policy, reflecting at a minimum, real estate and commercial operations.

Campus Response

We concur. The Foundation will revise its Operating Agreement to specifically state that it can provide various services to other nonprofit organizations. Approval from the Office of the Chancellor will be sought. Included in the update will be specific identification of the Foundation's right to perform real estate and commercial operations. Estimated date of completion is March 20, 2002.

LEASING FACILITIES

Consideration was not sufficiently articulated in the lease agreements between the campus and the Foundation.

Several agreements between the campus and Foundation were entered into where facilities and other state real estate holdings were leased, and the specific consideration for such was not clearly established in those agreements. Agreements should describe all the benefits the campus will receive in return (consideration) for leasing facilities to the Foundation. These agreements do not appear to identify all the benefits the campus will receive in return. Agreements need to be amended so they clearly demonstrate that the consideration received by the campus meets or exceeds the value of the campus facilities leased.

For example, the consideration for the campus lease of building rooftops to the Foundation was described as follows: "Campus will benefit from having the Auxiliary generate revenue by utilizing the rooftops." This agreement needs to be amended so that it clearly demonstrates that the consideration received meets or exceeds the value of the facilities leased.

The Foundation's executive director indicated that she believed that the agreements sufficiently defined what the Foundation does in return for having the site license agreement.

Education Code §89046 and Title 5 §42601 and §42502 mandate that auxiliaries appropriately pay rent on space in tax-supported buildings.

Failure to sufficiently document consideration exposes the campus and the legally separate auxiliary organization to the risk that a "gift of public funds" claim could be asserted.

Recommendation 6

We recommend that lease agreements between the campus and the Foundation be amended to clearly articulate the consideration received by the campus to show that in the opinion of the campus, it meets or exceeds the value of facilities leased.

Campus Response

We concur. The lease agreements between the campus and the Foundation that do not clearly state the specific consideration will be amended to more clearly articulate that the consideration received by the campus, in its opinion, meets or exceeds the value of facilities leased. Anticipated date of completion is March 20, 2002.

REPORTING OF UNAUTHORIZED ACTS

The Foundation did not appropriately report an instance of fraud.

A fraud, apparently involving a campus principal investigator on a grant, was identified by the Foundation. However, prescribed procedures for reporting such acts were not immediately followed.

Campuses are required to notify the chancellor within 24 hours of all cases of actual or suspected theft, defalcation, or fraud. Notifying the chancellor applies equally to state and nonstate (including auxiliary organization) funds. Such notification shall also be made to both the executive vice chancellor/chief financial officer and the university auditor.

The vice president for administration and finance indicated that the situation noted was due to a breakdown in communications.

Untimely reporting of thefts and irregularities is contrary to CSU policy and could result in future losses and embarrassment to the campus and central administration.

Recommendation 7

We recommend that the Foundation:

- a. Notify the campus president and the vice president for administration and finance in writing immediately when an unauthorized act is suspected or detected and describe in detail the measures to be taken to prevent similar instances from occurring in the future.
- b. Develop written policies and procedures for reporting unauthorized acts in a timely manner.

Campus Response

We concur. The University will ensure that the Foundation develops appropriate policies and procedures on reporting unauthorized acts to the campus in a timely manner. Estimated date of completion is March 20, 2002.

RESERVES

The Foundation had not implemented an adequate reserve policy, nor was the reserve subject to regular board/presidential consideration.

We found that the Foundation's:

- ▶ Board of directors did not approve the reserve policy. Further, the board did not review the annual reserve calculations for adequacy.

- ▶ Reserve policy, which was not in place during the entire review period, did not establish minimum reserve requirements; require board review; address reserves for working capital and capital replacement; or describe the methodology utilized for the reserve calculation.

The amount of reserves was not indicated in budget presentations to the campus president. Education Code §89904(b), §89904.5 and §89905 indicate that reserve planning is necessary.

The Foundation's executive director indicated that the campus has advised the Foundation that the fund balance should be considered its operating reserve. She also indicated that the Foundation does have a reserve for depreciation and bad debt (disallowances) and that the reserve policy should not require the approval of the board.

Insufficient reserve planning and analysis place the auxiliary at risk to fund future deficits.

Recommendation 8

We recommend that the Foundation:

- a. Submit its reserve policy to its board of directors for approval.
- b. Submit annual reserve calculations to the board of directors to be reviewed for adequacy.
- c. Establish a reasonable provision for reserves and include it in its reserve policy and address reserves for working capital and capital replacement.
- d. Describe the methodology utilized for the reserve calculation.
- e. Indicate the amount of reserves in each budget presentation to the campus president.

Campus Response

We concur. The Foundation will develop and implement an adequate reserve policy consistent with the audit recommendations and submit it along with annual related reserve calculations and methodology to the Board of Directors for approval and adequacy. The Foundation will indicate the amount of reserves in each budget presentation to the campus president. Estimated date of completion is March 20, 2002.

CASH RECEIPTS

Cash receipts were not always deposited in a timely manner or adequately identified.

Various departments on campus receive cash receipts, such as donations, mainly in the form of checks. Our review of deposits indicated that checks received by such departments were not consistently forwarded to the Foundation's cashiering office for deposit in a timely manner. In addition, funds received at the Foundation from campus personnel did not always identify the specific source of funds or revenues, and documentation evidencing the source of funds (gift instrument) was not provided on a routine basis.

Title 5 §42401 and §42402 indicate that the campus president shall require that auxiliary organizations operate in conformity with the 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 cash receipts be forwarded to the Foundation's cashiering office for deposit in a timely manner. In addition, all deposits should be clearly identified as to the source of funds with supporting documentation provided.

The Foundation's executive director indicated that all checks received at the Foundation central office were deposited immediately. She further indicated that a section in the deposit transmittal form requests project directors to check off the type of deposit (i.e., fees, donations, others) and that it is the responsibility of the depositor to provide all supporting documentation evidencing the source of funds.

Not transferring cash/gift receipts to the cashiering office in a timely manner or adequately identifying the source of funds increases the risk that misappropriation of funds will not be detected.

Recommendation 9

We recommend that the Foundation coordinate with the campus to implement additional procedures to ensure that all funds are deposited in a timely manner and properly identify and document the source of funds.

Campus Response

We concur. Foundation policy requires that all deposits by campus personnel be deposited at the Foundation Cashier's office in a timely manner. Effective March 2001, the Foundation implemented periodic internal audits of the campus cash receipts with a follow-up notification letter to the depositor and Project Director. The Foundation will implement additional training for the campus community to ensure timely deposit and adequate identification of funds deposited. Estimated completion date is March 20, 2002.

FEES, REVENUES, AND RECEIVABLES

GIFT RECONCILIATION

The reconciliation of cash gift receipts to gift acknowledgements was not complete.

Title 5 §42401 and §42402 indicate that the campus president shall require that auxiliary organizations operate in conformity with the 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. This would involve an effective system of internal control, which includes regular reconciliations of control account totals to subsidiary accounting record totals.

The Foundation's executive director indicated that the current general ledger and development systems are not linked and, therefore, do not allow for an automated reconciliation process. Due to the heavy volume of cash gifts, systems incompatibility, and limited staff available, complete reconciliations have not been performed.

Failure to reconcile gift receipts to collections may result in errors or misappropriation of gifts or receipts not being detected.

Recommendation 10

We recommend that the Foundation coordinate with the campus to ensure a complete and independent process of reconciling the cash gift acknowledgement system to cash gift receipts.

Campus Response

We concur. The current Foundation general ledger and development systems are not linked and, therefore, do not allow for an automated reconciliation process. The Foundation will work with the University to develop a procedure for reconciling cash gift acknowledgments to cash gift receipts. Estimated date of completion is June 30, 2002.

PURCHASING AND ACCOUNTS PAYABLE

PROCUREMENT

Fully documented, written purchasing policies and procedures were not in place during the audit review period.

Our review disclosed that purchasing policies and procedures did not consider the variety of procurement situations, which would involve, for example:

- ▶ Vendor selection processes including services bid from within the Foundation.
- ▶ Verification of legal and contract provisions.
- ▶ Definition of prohibited purchases/purchasing practices.
- ▶ Controls over purchases under \$1,000, which do not require the use of purchase orders.

Title 5 §42401 and §42402 indicate that the campus president shall require that auxiliary organizations operate in conformity with the 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 fully documented procurement policies and procedures.

The Foundation's executive director indicated that a final draft of the revised purchasing policy incorporates all the items listed. She also indicated that even though this version of the policy was not in place during the review period, the Foundation consistently practiced the procedure identified in the revised policy, including the items cited.

Internal controls are compromised when policies and procedures concerning procurement are not fully documented and communicated to auxiliary and campus personnel.

Recommendation 11

We recommend that the Foundation continue its efforts to bring documented policies and procedures in line with current practice at the Foundation.

Campus Response

We concur. The Foundation will continue its efforts to bring documented policies and procedures in line with current practice at the Foundation. Estimated date of completion is March 20, 2002.

VENDOR MASTER FILE

Administration and control over the Foundation's vendor master file was inadequate.

We found that the vendor master file contained several duplicate entries including vendor names and vendor identifications.

Title 5 §42401 and §42402 indicate that the campus president shall require that auxiliary organizations operate in conformity with the 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 vendor data be appropriately controlled.

The Foundation's executive director indicated that the vendor database has several instances of duplicate vendors due to a need that existed in the Foundation's prior accounting software package. She further indicated that in order to remove any duplicate vendor identifications, thorough research needs to be completed as well as a manual vendor-by-vendor edit process.

Improperly maintaining and updating the vendor master file and allowing extraneous entries to exist increase the risk of fraudulently misdirected payments.

Recommendation 12

We recommend that the Foundation take appropriate measures to ensure that administration and control over the Foundation's vendor master file are adequate and eliminate unnecessary/duplicate entries.

Campus Response

We concur. Foundation staff have reviewed and identified duplicate vendor records. Duplicate records will be removed from the current master file. Duplicate records required to access historical data will be held separately in a historical file. Estimated date of completion is March 20, 2002.

SEGREGATION OF DUTIES - ACCOUNTS PAYABLE

The Foundation's accounts payable duties were inadequately segregated.

At the time of our review, the function of inputting batches was not segregated from the accounting distribution function. By policy, these duties are segregated; however, the configuration of the accounts payable computer system did not separate these functions. Essentially, the system did not prevent accounts payable technicians from inputting and distributing their own work within the accounting general ledger.

EO No. 698 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 Foundation's executive director indicated that she believed that sufficient controls over the input and release of accounts payable batches were in place.

Inadequate separation of duties increases the risk that errors and irregularities will not be detected in a timely manner.

Recommendation 13

We recommend that the Foundation segregate accounts payable duties or institute and document mitigating controls approved by the campus.

Campus Response

We concur. The Foundation is in the process of implementing corrective measures to ensure adequate separation of duties in the accounts payable area. Estimated date of completion is March 20, 2002.

CASH DISBURSEMENTS

Our review disclosed instances where expenditures lacked sufficient documentation and/or authorization to ensure proper use of funds.

These included:

- ▶ Payments to credit card companies on employee personal accounts.
- ▶ Auto purchase and lease payments.
- ▶ Verification of allowability for expenditures for noncampus programs.

Education Code §89900(b) states that the president of that state university shall be responsible for ascertaining that all expenditures are in accordance with policies of the Trustees, the propriety of all expenditures, and the integrity of the financial reporting made by auxiliary organizations.

Title 5 §42401 and §42402 indicate that the campus president shall require that auxiliary organizations operate in conformity with the 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 disbursements be fully supported.

The Foundation's executive director indicated that she believed the disbursements in question were sufficiently authorized and documented.

Inadequate supporting documentation and authorization increase the risk that misappropriation of funds will not be detected.

Recommendation 14

We recommend that the Foundation further document procedures to ensure that appropriate support for expenditures is obtained.

Campus Response

We concur. The Foundation will review its documented procedures to ensure that appropriate support for expenditures is obtained and revise them as necessary. While we believe that most disbursements processed have sufficient documentation, i.e., invoices, receipts, check requests, and other supporting documentation, we will retrain staff to ensure that they understand and follow the Foundation's written procedures relating to supporting documentation. Estimated date of completion is March 20, 2002.

INDEPENDENT CONTRACTORS

Written agreements with independent contractors were not always entered into prior to the commencement of services.

Title 5 §42401 and §42402 indicate that the campus president shall require that auxiliary organizations operate in conformity with the 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 agreements with independent contractors be executed prior to the commencement of services.

The Foundation's executive director indicated that project directors sometimes submit independent contractor agreements after work has begun.

Not entering into a written agreement prior to the commencement of services could result in misunderstandings and disputes regarding the terms and conditions of the arrangement.

Recommendation 15

We recommend that the Foundation coordinate with the campus and implement appropriate policies and procedures to ensure that written agreements are entered into prior to the commencement of services.

Campus Response

We concur. The Foundation will modify its policies and procedures to ensure that written agreements are entered into prior to the commencement of services. The Foundation will also implement additional training for the campus community to submit paperwork in a timely manner. Estimated completion date is March 20, 2002.

TRAVEL AUTHORIZATIONS

Travel authorizations, though required by the Foundation's travel policy, were not always used.

The Foundation's travel policy states that all travelers are required to submit a completed and approved Foundation travel authorization form prior to traveling, whether or not money is advanced.

The Foundation's executive director indicated that she did not enforce this policy.

Inadequate control over the travel authorization process increases the risk that errors and irregularities will not be detected in a timely manner.

Recommendation 16

We recommend that the Foundation implement procedures to ensure proper authorization of travel.

Campus Response

We concur. The Foundation will revise its policy and procedures to ensure that travel authorizations are appropriately documented. Estimated date of completion is March 20, 2002.

PETTY CASH AND CHANGE FUNDS

Internal controls over petty cash required improvement.

Our review disclosed that:

- ▶ All funds were not counted on a regular basis.
- ▶ Controls were not in place with respect to payments made to human subjects.

- ▶ Explanations were not provided as to over/short conditions identified during petty cash counts.

Title 5 §42401 and §42402 indicate that the campus president shall require that auxiliary organizations operate in conformity with the 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 control over petty cash and change funds.

The Foundation's executive director indicated that corrective measures were needed to improve controls over petty cash funds.

The risk of errors or misappropriation increases when petty cash funds are not properly controlled.

Recommendation 17

We recommend that the Foundation establish policies and procedures requiring:

- a. Stratified counts of larger, higher risk petty cash funds.
- b. Formal policy and procedures over payments made to human subjects.
- c. Detailed explanations as to any discrepancies identified during unannounced petty cash counts.

Campus Response

We concur. The Foundation has already improved the existing required training and follow-up sessions for all petty cash custodians. As part of the current audit process, any discrepancies in the funds require a detailed explanation and signature approval of the Project Director. Additionally, effective July 1, 2001, in addition to the unannounced annual audit of all funds, the Foundation will conduct biannual unannounced audits of all funds in the amount of \$1,000 or more. The Foundation will also document a formal policy and procedures for payments made to human subjects. Estimated date of completion is March 20, 2002.

FIXED ASSETS

Internal controls over fixed assets were not adequate.

Our review noted that:

- ▶ An inventory of fixed assets had not taken place in over seven years.
- ▶ A reconciliation of fixed assets to the general ledger was not performed on a regular basis.
- ▶ Fixed asset reconciliation did not reconcile total fixed assets to the general ledger and/or expenditures to fixed asset additions/deletions.

- ▶ Fixed assets purchased with federal, state, or other external funds were expensed at the time of purchase and held in trust until the expiration of the grant or project. Hence, assets purchased for projects were not capitalized, depreciated, or otherwise tracked.
- ▶ Fixed asset policies and procedures did not include the requirement that supporting documentation be provided to evidence the disposal of assets or address the final accounting for the disposition of equipment or other fixed assets when externally funded projects are closed.

Title 5 §42401 and §42402 indicate that the campus president shall require that auxiliary organizations operate in conformity with the 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, which include strong controls over fixed assets.

EO No. 698 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 Foundation's executive director indicated that the Foundation was in the process of updating its fixed asset records, policies, and procedures at the time of our review.

Inadequate controls over fixed assets increase the risk that property may be lost or stolen.

Recommendation 18

We recommend that the Foundation take appropriate measures to ensure that fixed assets are managed and administered in accordance with fixed asset policies and procedures, which address, at a minimum:

- a. A physical inventory of fixed assets.
- b. Regular reconciliations of fixed assets.
- c. Appropriate consideration/reconciliation of total fixed assets to the general ledgers with appropriate documentation with regard to fixed asset additions/deletions.
- d. Tracking and capitalizing, as appropriate, fixed assets purchased with federal, state, or other external funds.
- e. Written policies and procedures including the requirement that supporting documentation be provided to evidence the disposal of assets or address the final accounting for the disposition of equipment or other fixed assets when externally funded projects are closed.

Campus Response

We concur. A complete inventory of all fixed assets was conducted in October-December 2000. Monthly reconciliations of the fixed assets database to the general ledger have been performed since July 2000. The Foundation currently has in place the required policy addressing the issues raised in the auditors' recommendations. Corrective action on this finding is complete.

TRUSTS AND OTHER LIABILITIES

Foundation controls over trust accounts were in need of improvement.

We found that:

- ▶ Interest earning and administrative charges were not specified within trust agreements.
- ▶ Account purpose and restrictions placed on expenditures were not always clearly identified.
- ▶ Instances were noted where state funds were erroneously held in trust by the Foundation. These included tuition fees received by the child and family center, copy machine revenue generated by the library, and annual payments received under the campus's beverage pouring rights contract.

Title 5 §42401 and §42402 indicate that the campus president shall require that auxiliary organizations operate in conformity with the 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 detailed and specific trust agreements.

The CSU *Investment Manual for California State University Trust Funds*, AD 97-08, indicates that all CSU trust fund money, pending disbursement for its intended purpose, will be managed in custodial accounts in the name of the CSU system.

The Foundation's executive director indicated that project directors typically describe the purpose for a fund and related restrictions on expenditures. With regard to interest earnings and administrative charges, the Foundation's project director's manual identifies the types of projects which receive and do not receive interest.

Insufficient control over trust accounts increases the risk of both inappropriate expenditures and misunderstandings about account operations.

Recommendation 19

We recommend that the Foundation ensure that:

- a. Interest earning and administrative charges be specified within trust agreements.
- b. Account purposes and restrictions placed on expenditures be clearly identified.

- c. All state funds on deposit at the Foundation be transferred to the campus.

Campus Response

We concur. The Foundation will revise its current agreement forms to reference specific policies on interest distribution and administrative fees. Additionally, the Foundation will implement additional training for the campus community and enforce submittal of better documentation of account purposes and restrictions to be placed on types of expenditures by campus personnel. Regarding those trust funds the auditors have identified as state funds, the campus will transfer them to appropriate state trust accounts. Estimated date of completion is March 20, 2002.

PROGRAMS

Matching funds for grants and contracts received by the Foundation, both cash and in-kind, were not always properly identified and recorded.

Title 5 §42401 and §42402 indicate that the campus president shall require that auxiliary organizations operate in conformity with the 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 matching funds received by the Foundation be properly identified, supported by appropriate documentation, and recorded in a timely manner.

The Foundation's executive director concurred and indicated that new monitoring and control systems would be implemented.

Failure to properly identify, document, and record matching funds increases the risk of errors and misappropriations as well as noncompliance to requirements imposed by external funding agencies.

Recommendation 20

We recommend that the Foundation implement appropriate controls to ensure the proper identification, documentation, and timely recording of all matching funds for grants and contracts.

Campus Response

We concur. The Foundation implemented a new Cost Matching Policy, which includes appropriate controls to ensure proper identification, documentation, and timely recording of all matching funds for grants and contracts. The policy became effective March 15, 2001. Implementation is in process. Estimated date of completion is March 20, 2002.

INFORMATION TECHNOLOGY

PROGRAM CHANGE CONTROL

Foundation policies and procedures over program change management were formally documented; however, existing practices did not prevent all persons with programming responsibilities from making unauthorized changes to production.

Title 5 §42401 and §42402 indicate that campus president shall require that auxiliary organizations operate in conformity with the policy of the Board of Trustees and the campus. One of the objectives of the auxiliary organization 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 internal controls be implemented to prevent unauthorized program changes.

The Foundation's executive director indicated that Bi-Tech, Inc., completes all program changes to the Foundation system. All other routine maintenance is performed based on authorized and documented requests.

Failure to maintain adequate internal controls increases the risk of unauthorized changes to production.

Recommendation 21

We recommend that the Foundation implement appropriate internal controls to prevent unauthorized program changes.

Campus Response

We concur. The Foundation will review current policies and procedures and make appropriate changes to ensure that internal controls are in place to prevent unauthorized program changes. Estimated date of completion is March 20, 2002.

DISASTER RECOVERY PLANNING

The Foundation's disaster recovery and business continuity planning required improvement.

Specifically, we noted that:

- ▶ The Foundation's disaster recovery plan was based on assumptions of availability of personnel and computer resources that had not been specifically provided for in the planning. In addition, an impact study had not been performed, which outlines the recovery needs of the Foundation.
- ▶ The Foundation had not developed a formal, comprehensive business continuity plan to ensure that business operations can be restored in a reasonable time frame.

Title 5 §42401 and §42402 indicate that the campus president shall require that auxiliary organizations operate in conformity with the policy of the Board of Trustees and the campus. One of the objectives of the auxiliary organization 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 complete disaster recovery plan and a business continuity plan.

The Foundation's executive director indicated her belief that an adequate disaster recovery plan was in place. She also indicated that a framework has been established for business continuity planning, which identifies team members and objectives.

Without sufficient disaster recovery and business continuity plans, the campus cannot ensure continuity of computing operations for support of critical applications, maximize the use of remaining resources, or achieve an orderly migration toward the resumption of all computing services.

Recommendation 22

We recommend that the Foundation:

- a. Revise its disaster recovery plan to address availability of resources and perform an impact study to determine its recovery needs.
- b. Develop a formalized business continuity plan.

Campus Response

We concur. The Foundation will revise its disaster recovery plan to address availability of resources and perform an impact study to determine its recovery needs and develop a formalized business continuity plan. Estimated date of completion is March 20, 2002.

ASSOCIATED STUDENTS, INC.

LEGAL AND REGULATORY COMPLIANCE

STUDENT BODY FEES

The chief fiscal officer of the campus was not acting as custodian of student body organization fees.

The campus collects Associated Students, Inc. (ASI) student body fees and immediately transmits these monies to ASI. ASI then invests and disburses these proceeds from accounts and acts as custodian of the funds. Regulations prescribe that the campus act as custodian of all student fees.

Title 5 §42403(a) requires the campus chief fiscal officer to manage and serve as custodian of student body fees.

ASI's controller indicated that beginning with the spring semester, student body organization fees would be deposited to a campus trust account maintained by the campus chief fiscal officer. He also indicated that his position would be moved to a state-reimbursed position under the immediate supervision of the campus chief fiscal officer.

The campus's required oversight of student fees is limited when such fees are deposited outside the custody of the chief fiscal officer.

Recommendation 23

We recommend that the campus chief fiscal officer or designee act as custodian of student body organization fees.

Campus Response

We concur. Effective December 2000, the ASI Controller became a university employee and his reporting line was reassigned to the campus chief fiscal officer. The chief fiscal officer has designated the ASI Controller to act as custodian of student body organization fees. Strict interpretation and implementation of Title 5 §42403(a) by the campus CFO has changed the release of funds to the ASI to an on-demand basis to cover outstanding disbursement requests submitted by ASI. In effect, this procedure removes disbursement authority from the ASI, shortens the funding chain, and provides greater control over student fees funds. Corrective action on this recommendation is complete.

DISSOLUTION CLAUSE

The dissolution clause in Associated Students, Inc.'s (ASI) articles of incorporation needed revision.

The dissolution clause in the articles of incorporation states, "Upon dissolution of this corporation, net assets, other than trust funds, shall be distributed to one or more nonprofit corporations organized and operated for the benefit of California State University, Long Beach, or the students and faculty at that campus, such corporation or corporations to be selected by the Board of Directors."

Title 5 §42600(b) requires that by July 1, 1982, the articles of incorporation or constitution of an auxiliary organization shall contain a provision that upon dissolution of the organization, net assets, other than trust funds, shall be distributed to a successor approved by the president of the campus and by the Board of Trustees.

ASI's chief administrative officer indicated that the articles of incorporation could only be amended by a majority vote of the student body. The last attempt to bring the dissolution clause into conformity with Title 5 via a student referendum was defeated. He indicated that ASI is working to correct it through the appropriate electoral process.

An incorrect dissolution clause in the articles of incorporation could result in the improper distribution of net assets in the event the auxiliary organization is dissolved.

Recommendation 24

We recommend that ASI endeavor to bring its dissolution clause into compliance with Title 5.

Campus Response

We concur. ASI will initiate the proper electoral process during the Spring 2002 General Election to modify the dissolution clause to bring it into compliance. Estimated date of completion is March 20, 2002.

CASH RECEIPTS

SEGREGATION OF DUTIES

Certain cash receipting and disbursing duties were not adequately segregated.

We noted that:

- ▶ One employee ran checks, paid invoices through the system, added new vendors, and could reprint checks.

- ▶ One employee served as backup for cash receipt duties, posted to the general ledger, tagged fixed assets, and prepared fixed asset and bank account reconciliations.

EO No. 698 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.

ASI's controller indicated that mitigating controls are in place, although not always clearly documented, which offset the segregation of duties issues noted. He further indicated that segregation of duties regarding the cash receipt and accounts receivable functions was the result of a vacancy and is not reflective of ASI's normal practices.

Inadequate separation of duties increases the risk that errors and irregularities will not be detected timely.

Recommendation 25

We recommend that ASI either separate cash receipting, disbursing, and reconciling duties or institute and document mitigating controls approved by the campus.

Campus Response

We concur. ASI has hired an additional staff member to facilitate the separation of cash receipting, disbursing, and reconciling duties and is in the process of documenting mitigating controls. Estimated date of completion is December 31, 2001.

COLLECTION OF PAST-DUE ACCOUNTS

Collection efforts on past-due accounts receivable required improvement.

We found that collection letters were only sent out for child development center accounts, and the last collection letters sent out were in August 2000.

Title 5 §42401 and §42402 indicate that the campus president shall require that auxiliary organizations operate in conformity with the 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 includes timely follow-up of past-due accounts receivable.

ASI's controller indicated that collection efforts for accounts other than the child development center needed to be strengthened.

Not pursuing timely collection of past-due accounts receivable increases the possibility that accounts may become uncollectible.

Recommendation 26

We recommend that ASI take appropriate measures to strengthen collection efforts on accounts receivable.

Campus Response

We concur. The ASI has aggressively attacked the problem. With University assistance, ASI has cut off service to delinquent offenders, which has resulted in vastly improved collections. Furthermore, ASI has revised the job description of the Accounting Technician to include responsibility for coordinating collection efforts. Corrective action on this item is complete.

PURCHASING AND ACCOUNTS PAYABLE

PROCUREMENT PROCESS

Procurement policies and procedures had not been fully documented.

ASI policy and procedures did not address the following:

- ▶ Vendor selection processes.
- ▶ Three-way matching of invoices, receiving records, and purchase orders.
- ▶ Centralized receipt of invoices by the administrative offices.
- ▶ Verification of legal and contract provisions.
- ▶ Definitions of prohibited purchases and purchasing practices.

ASI's controller indicated that certain elements of the purchasing process needed to be strengthened. He also indicated that ASI would be looking at the CSU procurement card program and Association of College Unions International's procurement process as a way of centralizing vendor selection and receipt of invoices.

Title 5 §42401 requires auxiliaries to provide fiscal procedures and management systems that allow effective coordination of the auxiliary activities with the campus in accordance with sound business practices.

Internal controls are compromised when policies and procedures concerning procurement are not fully documented and communicated to auxiliary and campus personnel.

Recommendation 27

We recommend that ASI develop written procurement policies and procedures, including the purchasing and receiving functions and responsibilities noted.

Campus Response

We concur. Although the ASI currently has procurement policies and procedures in place, they need to be updated and expanded. The procurement policies and procedures will be updated by February 28, 2002.

DISBURSEMENTS

Procedures related to the administration of disbursements were in need of improvement.

Our review disclosed instances where documentation to support cash disbursements was not sufficient to ensure the appropriateness of expenditures (e.g., invoices, attendee listing, signatures). In addition, we noted that:

- ▶ Late charges were paid on credit card purchases.
- ▶ Evidence of insurance was not requested from performers as indicated in contracts.
- ▶ A one-up review process was not consistently required.
- ▶ A travel policy, including guidelines for air travel, had not been fully documented.

Title 5 §42401 and §42402 indicate that the campus president shall require that auxiliary organizations operate in conformity with the 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 disbursement policies and procedures be fully documented.

Education Code §89900(b) states that the president of that state university shall be responsible for ascertaining that all expenditures are in accordance with Trustee policy, the propriety of all expenditures, and the integrity of the financial reporting made by auxiliary organizations.

ASI's controller indicated that certain aspects of disbursement review and authorization policies and procedures needed revision.

Insufficiently documented disbursement review and authorization policies and procedures increase the risk that errors or irregularities might not be detected and corrected timely.

Recommendation 28

We recommend that ASI revise its disbursement review and authorization policies and procedures to address, at a minimum, those issues discussed above.

Campus Response

We concur. Nonetheless, we assert that the instances cited in the findings are isolated incidents and should not be construed as characteristic of the disbursement review and authorization controls currently in place. Disbursements are currently subject to no less than four levels of review before being authorized. Disbursement review and authorization policies and procedures will be updated by December 31, 2001.

PETTY CASH AND CHANGE FUNDS

ASI had not developed procedures to perform periodic and independent counts of its change funds on an unannounced basis.

Title 5 §42401 and §42402 indicate that the campus president shall require that auxiliary organizations operate in conformity with the 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 periodic and independent, unannounced counts be performed to ensure that assets are sufficiently safeguarded.

ASI's controller indicated that he would assume the responsibility for conducting the cash counts.

Not performing timely counts of change funds increases the risk that missing funds will not be detected.

Recommendation 29

We recommend that ASI establish change fund procedures, which require periodic and independent, unannounced cash counts.

Campus Response

We concur. Responsibility for conducting periodic and independent, unannounced cash counts has now been incorporated into the ASI Controller's revised job description. Corrective action on this finding is complete.

PERSONNEL AND PAYROLL

Personnel and payroll policies and procedures regarding the employee termination process, authorized signatories, and payroll check distribution needed improvement.

We found that:

- ▶ Facsimiles of approved signatures of department personnel authorized to submit payroll transaction forms were not maintained.
- ▶ Employee separation procedures did not include preparation of an employee clearance form.
- ▶ Signed payroll checks were returned to the person who generated the checks and entered the timecards into the payroll system.

Title 5 §42401 and §42402 indicate that the campus president shall require that auxiliary organizations operate in conformity with the 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 a current and historic record of all personnel authorized to approve personnel and payroll must be maintained, separating employees prepare a clearance form, and duties over the payroll check process be adequately segregated.

ASI's controller acknowledged the deficiencies and indicated that corrective action has been taken.

When adequate internal controls are not maintained, there is an increased risk of unauthorized transactions.

Recommendation 30

We recommend that ASI revise personnel and payroll policies and procedures to ensure that:

- a. Facsimiles of approved signatures of department personnel authorized to submit payroll transaction forms be maintained.
- b. Employee separation procedures include preparation of an employee clearance form.
- c. Signed payroll checks not be returned to the person who both generated them and entered the timecards into the payroll system.

Campus Response

We concur. New personnel and payroll procedures have since been implemented to address the deficiencies indicated. Corrective action on this recommendation is complete.

FIXED ASSETS

FIXED ASSET ACCOUNTING

Fixed asset administration was in need of improvement.

We found that:

- ▶ Depreciation was not properly calculated on fixed assets of ASI and the Student Union, as items, which should have been fully depreciated, still carried a balance on the accounting records.
- ▶ Fixed assets were not written off in a timely manner.

Title 5 §42401 requires auxiliaries to provide fiscal procedures and management systems that allow effective coordination of the auxiliary activities with the campus in accordance with sound business practices. Sufficient control of fixed assets is required.

ASI's controller indicated that the bulk of the miscalculation resulted from keying and rounding errors. He also indicated that the data entry errors have since been corrected, and ASI has purchased new fixed asset accounting software. A new property transfer/disposal form has been created and is currently being implemented.

Inadequate administration of fixed assets increases the risk that accounting and property records could be misstated.

Recommendation 31

We recommend that ASI improve administrative controls to ensure proper depreciation and timely write-off of fixed assets.

Campus Response

We concur. Internal controls over the fixed asset records have been improved through the purchase and implementation of Best Software's Fixed Asset System. Estimated completion date of installation and staff training is December 31, 2001.

SEGREGATION OF DUTIES

Certain fixed asset responsibilities and duties were not adequately segregated.

We noted that one person generated inventory tags, prepared fixed asset reconciliations, and posted to the general ledger. In addition, department supervisors tagged inventory, performed inventory reviews, and verbally informed the staff accountant of the amount of fixed assets to write off.

EO No. 698 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.

ASI's controller indicated that responsibility for recording and tagging fixed asset acquisitions has been reassigned to another staff member.

Inadequate separation of duties increases the risk that errors and irregularities will not be detected timely.

Recommendation 32

We recommend that ASI either separate fixed asset responsibilities and duties or institute and document mitigating controls approved by the campus.

Campus Response

We concur. ASI has subsequently separated fixed asset responsibilities and duties among three individuals. Corrective action on this recommendation is complete.

TRUSTS AND OTHER LIABILITIES

FUNDS HELD IN TRUST FOR STUDENT ORGANIZATIONS AND OTHERS

Funds held in trust by ASI on behalf of student organizations and campus departments were inappropriately administered.

These funds were treated as checking accounts (released upon the signature of the account holder) rather than as trust funds (where ASI would be accountable for how the funds were expended). Account establishment documents used by ASI did not include limitations on the purposes and uses for which funds could be utilized. Further, campus departments should not have funds on deposit with ASI, in trust or otherwise.

Title 5 §42401, §42402, and §42500 and Education Code §89900 establish a responsibility to operate in accordance with sound business practices in the interest of the campus. Further, Probate Code §16000 indicates that on acceptance of a trust, the trustee has a duty to administer the trust according to the trust instrument. We believe that the duties described by these sections would require that a sufficiently documented trust arrangement would be essential to meeting this objective. Finally, CSU policy prohibits state trust funds from being held by auxiliary organizations.

ASI's controller indicated that current account agreements were inadequate and have been re-designed.

Insufficient control over funds held in trust increases the risk that funds will be expended for inappropriate purposes.

Recommendation 33

We recommend that ASI:

- a. Administer funds for student organizations in accordance with appropriate trust agreements.
- b. Evaluate the nature of funds held on behalf of campus departments to determine if they are appropriately held by ASI.

Campus Response

We concur. ASI has subsequently redesigned and implemented a new trust agreement form for all funds it administers on behalf of campus organizations. An evaluation of the nature of funds held on behalf of campus departments has been conducted. As a result, we have determined that all funds remaining on deposit with ASI are appropriate. Corrective action on this recommendation is complete.

PROGRAMS

CHILD DEVELOPMENT CENTER

Current agreements between ASI and the campus do not sufficiently define each entity's responsibilities, both financially and administratively, toward the management of the child development center (CDC).

The campus provides support to the CDC through the budget allocation process, which covers payroll expenses for full-time staff (state employees) and student assistants. ASI only reimburses the campus for the payroll expense related to the student assistants. Current agreements do not specifically address the exchange of consideration, evidencing appropriate reimbursement of state expenditures and legal liabilities.

Title 5 §42401 and §42402 indicate that the campus president shall require that auxiliary organizations operate in conformity with the 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 agreements be in writing.

CSU coded memo, BA 83-30, requires auxiliaries to pay for services provided by the campus. Further, recently executed EO No. 753, *Allocation of Costs to Auxiliary Enterprises*, established the responsibility for auxiliaries to pay allowable direct costs plus an allocable portion of indirect costs associated with facilities, goods, and services provided by the campus and funded by the General Fund. As such, it is critical that the campus is properly reimbursed for all expenses incurred on behalf of any auxiliary organization.

ASI's controller indicated that full-time staff, paid by the campus, are state employees and paid from a General Fund appropriation for campus childcare administered by the division of student services.

Without a written agreement to define each party's responsibilities and expectations, the potential for misunderstanding or miscommunication is increased.

Recommendation 34

We recommend that a written agreement be executed between the campus and ASI, which defines the administrative and financial commitment of each party towards the operation and management of the CDC. Such an agreement should address the terms of reimbursement for any facilities, goods, or services provided by the campus, funded from the General Fund.

Campus Response

We concur. We will develop and implement a written agreement addressing those issues identified by the auditors. Estimated date of completion is March 20, 2002.

FOOD VENDOR AUDITS

ASI had not exercised the audit clause contained in its various contracts with food vendors.

The amount of lease revenue received by ASI is increased whenever the specified percentage of gross receipts exceeds the minimum rents. The audit clause allows ASI to review gross receipts and verify and investigate the accuracy of financial statements provided by the tenants/food vendors.

Title 5 §42401 and §42402 indicate that the campus president shall require that auxiliary organizations operate in conformity with the 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 gross receipts be periodically subjected to audit to determine appropriateness.

ASI's controller indicated that it would be desirable to audit the food vendors; however, with limited staff resources, it has not been possible.

Failure to periodically review the gross receipts of food vendors could result in inaccurate reporting and loss of lease revenue to ASI.

Recommendation 35

We recommend that ASI exercise the audit clause specified in its various food vendor contracts.

Campus Response

We concur. ASI will exercise the audit clause specified in the existing food vendor contracts and will revise future contracts to eliminate the requirement. Estimated date of completion is March 20, 2002.

FORTY-NINER SHOPS, INC.

LEGAL AND REGULATORY COMPLIANCE

FACILITIES LEASE

Consideration was not sufficiently articulated in the ground lease agreement between the campus and Forty-Niner Shops, Inc. (Shops).

A ground lease between the campus and Shops was entered into where facilities were leased at zero value, and specific consideration was not clearly established. The agreement should describe all benefits the campus will receive in return (consideration) for leasing the facility to Shops.

Education Code §89046 and Title 5 §42601 and §42502 mandate that auxiliaries appropriately pay rent on space in tax-supported buildings.

The general manager of Shops indicated that he would further define the consideration within such agreements.

Failure to sufficiently document consideration exposes the campus and the legally separate auxiliary organization to the risk that a “gift of public funds” claim could be asserted.

Recommendation 36

We recommend that Shops’ lease agreement with the campus be amended to include clearly articulate sufficient consideration.

Campus Response

We concur. Management will further define the consideration clause upon renewal. Estimated date of completion is March 20, 2002.

RETIREMENT PLAN

Shops’ self-administered retirement plan, offered to hourly employees, had not recently been evaluated with respect to compliance with the Employee Retirement Income Security Act (ERISA) and risks associated with legal changes since the plan was initially implemented.

We noted that Shops maintained a second retirement plan which was self-administered. As the plan is structured, Shops’ board members could be held personally liable. In addition, since the plan’s creation, requirements have been established with respect to appropriate liability protection, in the form of bonds and insurance. We found that such protections were not in place.

ERISA's United States Code citation is 29 USC 1001 et seq. See also Title 26 of the United States Code for tax provisions and 26 Code of Federal Regulations for applicable Department of Treasury regulations; 29 CFR Chapter XXV (Parts 2509-2590) for the regulations of the Pension and Welfare Benefits Administration of the Department of Labor; and 29 CFR Chapter XL (Parts 4000-4907) for Pension Benefit Guaranty Corporation regulations.

Title 5 §42401 and §42402 indicate that the campus president shall require that auxiliary organizations operate in conformity with the 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 risks be appropriately mitigated where practicable.

The controller of Shops indicated that management agrees and will analyze the plan for compliance with ERISA and other risks.

Insufficient analysis increases the risk that legally mandated fiduciary requirements are not being met.

Recommendation 37

We recommend that Shops work with appropriate advisors and seek to ensure risks are appropriately reduced or abated and that the plan document reflects current compliance with ERISA.

Campus Response

We concur. Management will analyze the plan document for concurrence with ERISA and make changes if appropriate. Estimated date of completion is March 20, 2002.

PYRAMID AGREEMENT

Shops' agreement for the sale of concessions in the Pyramid was not current.

We found that the agreement for the sale of concessions in the Pyramid, dated July 18, 1995, was between Shops and the campus department of sports, athletics, and recreation. However, the Foundation currently holds the license to operate the Pyramid.

Title 5 §42401 and §42402 indicate that the campus president shall require that auxiliary organizations operate in conformity with the 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 agreements match current practice.

The controller of Shops indicated that the July 18, 1995, agreement predates the authorization for the Foundation to operate the Pyramid.

Without a current written agreement to define each party's responsibilities and expectations, the potential for misunderstanding and miscommunication is increased.

Recommendation 38

We recommend that an agreement for the sale of concessions in the Pyramid be executed between Shops and the Foundation.

Campus Response

We concur. The campus will ensure that the agreement between the Shops and the Foundation is executed. Estimated date of completion is December 31, 2001.

PURCHASING AND ACCOUNTS PAYABLE

COMMODITY PURCHASES

Shops' purchasing controls at the central commodity commissary were in need of improvement.

We noted:

- ▶ Extensive usage of a personal credit card for purchases, resulting in significant cash back rebates.
- ▶ Inadequate verification of charges to various centers prior to payment.
- ▶ Lack of accountability for the transfer between cost centers. (Shops tracks costs by retail locations on campus.)
- ▶ The purchase of merchandise, allocation to cost centers, and submission for reimbursement were performed by one individual with no independent review.

Title 5 §42401 and §42402 indicate that the campus president shall require that auxiliary organizations operate in conformity with the 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 adequate segregation of duties be maintained, and reviews be sufficiently documented.

Shops' controller indicated that management will review the implementation of company credit cards. He indicated his belief that the controls are in place, but that they will be refined further.

Insufficient control over procurement processes, including a separation of duties, increases the risk that errors and irregularities will not be detected timely.

Recommendation 39

We recommend that Shops implement procedures to ensure proper control over central commodity purchases.

Specifically, the:

- a. Usage of a personal credit card should be limited.
- b. Verification of charges to various centers should be established prior to payment.
- c. Transfer of costs between cost centers should be controlled.
- d. Purchases of merchandise, allocation to cost centers, and submission for reimbursement should be sufficiently segregated and subjected to appropriate independent review.

Campus Response

We concur. Management will further refine procedures to ensure proper control over central commodity purchases. Estimated date of completion is March 20, 2002.

OUTDOOR VENDORS

Shops' management of the outdoor vendor process needed improvement.

We noted that:

- ▶ The outdoor vendor agreements do not require signatures from the vendor, Shops, or the campus representative.
- ▶ There was no insurance requirement placed upon the vendors, nor was there an indemnification clause to Shops and the campus.
- ▶ The revenue reconciliation function was not independent of the vendor coordination function.

Title 5 §42401 and §42402 indicate that the campus president shall require that auxiliary organizations operate in conformity with the 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 adequate oversight of the operation and internal controls be established.

Shops' controller indicated that Shops would formalize an outdoor vendor program, which shall include updated agreements that cover indemnification and insurance requirements. He also indicated that the vendor reconciliation would be handled by accounting, which should adequately meet the requirement for the segregation of duties.

Lack of control of outside vendors increases the potential for liability and the risk of irregularities not being detected timely.

Recommendation 40

We recommend that Shops improve management of the outdoor vendor process by requiring:

- a. Appropriate signatures on all agreements.
- b. Appropriate insurance documentation including indemnification clauses.
- c. Segregation of duties with respect to outside vendor reconciliations.

Campus Response

We concur. Management will further refine procedures to ensure proper control over Outdoor Vendors, including the auditors' recommendations. Estimated date of completion is March 20, 2002.

PETTY CASH AND CHANGE FUNDS

Shops' count of change funds was neither documented nor done regularly. In addition, petty cash expenditures were paid out of the change fund.

Title 5 §42401 and §42402 indicate that the campus president shall require that auxiliary organizations operate in conformity with the 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. This includes adequate controls over change funds.

The controller of Shops indicated that as part of the annual financial statement audit, the external auditors have found no defalcation. He further indicated that the accounting manager performs undocumented, independent counts.

Not documenting regular counts of change funds increases the risk that missing funds will not be detected. Further, the risk of errors or misappropriation increases when petty cash funds are not properly controlled.

Recommendation 41

We recommend that Shops:

- a. Establish petty cash funds and designate custodians for such funds.
- b. Document its performance of periodic, unannounced, and independent counts of change funds.

Campus Response

We concur. Management has established an independent change fund and will develop written procedures that further define count procedures. Estimated date of completion is December 31, 2001.

PERSONNEL AND PAYROLL

PAYROLL

Supervisors did not consistently sign timecards. In addition, clearance forms did not contain a provision for return of keys and termination of computer access.

Education Code §89900 and Title 5 §42403 require that sufficient operating procedures have been established by the auxiliary to allow the campus president (or designee) to ascertain that all expenditures are in accordance with policies of the CSU Trustees, including the propriety of all expenditures and the integrity of financial reporting.

Shops' controller indicated that management has reiterated the timecard policy to directors and supervisors, and keys and termination of computer access will be added to the clearance form.

When authorized signers do not approve timecards and an insufficient employee clearance process is used, there is an increased risk of loss from unauthorized transactions.

Recommendation 42

We recommend that:

- a. The payroll department establish procedures to ensure that timecards submitted are properly approved.
- b. The clearance form be revised to ensure that properties are returned, and system access is terminated when an employee is separated.

Campus Response

We concur. Management has reiterated the payroll procedures to the managers. Further, the clearance form will be revised to ensure that the Shops' property is returned and that system access is terminated. Estimated date of completion is December 31, 2001.

FIXED ASSETS

Segregation of duties over fixed assets was not adequate.

We noted that that tagging, (physical) inventorying, and generating of purchase orders of fixed assets were not independently performed.

EO No. 698 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.

Shops' controller indicated that as part of the annual financial statement audit, external auditors have found no defalcation in the fixed assets. He indicated that the information technology manager periodically performs spot checks.

Inadequate separation of duties increases the risk that errors and irregularities will not be detected in a timely manner.

Recommendation 43

We recommend that Shops separate fixed asset functions or institute and document mitigating controls approved by the campus.

Campus Response

We concur. Management has further segregated job functions and further defined procedures. Corrective action on this recommendation has been completed.

PROGRAMS

ART STORE

Shops' lease agreement with the campus art department was improperly administered.

Shops entered into a standard lease agreement with the art department with a monthly rental fee. As a courtesy to the art department, Shops pays visiting artists on behalf of the department in exchange for use of art department space (for an art store) rather than paying the monthly fee. The agreement expired March 2000 and is currently being held over on a month-to-month basis. The revenue/expenditures from the lease/payments by Shops to the artists have not been recognized in campus accounting records.

Title 5 §42401 and §42402 indicate that the campus president shall require that auxiliary organizations operate in conformity with the 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 campus revenue be appropriately recognized in campus accounting records.

Shops' controller indicated that they followed the instructions of the art department.

Inadequately accounting for expenditures and revenues increases the risk that missing funds will not be detected. Further, the lack of a current agreement increases the risk of misunderstandings.

Recommendation 44

We recommend that Shops update its agreement with the campus art department to ensure proper accounting of lease expenditures and related revenues.

Campus Response

We concur. The Shops will update its agreement with the campus Art Department. Estimated date of completion is December 31, 2001.

OPERATING POLICIES AND PROCEDURES

Formalized, written policies and procedures for cash receipts, accounts receivable, accounts payable, credit cards, and petty cash areas had not been developed.

Title 5 §42401 and §42402 indicate that the campus president shall require that auxiliary organizations operate in conformity with the 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 significant processes be supported by current policies and procedures.

Shops' controller indicated that the policies and procedures of the areas noted would be formally documented in the near future.

Internal controls can be compromised if policies and procedures are not properly documented and communicated to employees.

Recommendation 45

We recommend that policies and procedures be formalized for cash receipts, accounts receivable, accounts payable, credit cards, and petty cash.

Campus Response

We concur. Management will formalize the recommended procedures. Estimated date of completion is March 20, 2002.

FOOD VENDOR AGREEMENTS

Agreements with food vendors did not have the prior written consent of the campus.

The agreements with food vendors were not signed by a campus representative as required in the ground lease between Shops and the campus. The ground lease states that Shops may not sublet the premises or assign the ground lease, or any interest therein, without the prior written consent of the campus.

Title 5 §42401 and §42402 indicate that the campus president shall require that auxiliary organizations operate in conformity with the 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 there should be consistency in various contracts entered into by the auxiliary.

The controller indicated that Shops has signed operating and licensing agreements with the food vendors, which he believes are not subleases. He further stated that, contractually, these agreements terminate upon termination of Shops' agreement with the campus.

Noncompliance with contract language increases the risk of misunderstandings and may increase legal liability.

Recommendation 46

We recommend that Shops and the campus establish procedures to ensure food vendor agreements comply with the current ground lease and receive appropriate campus approval.

Campus Response

We concur. We will establish procedures to ensure that food vendor agreements comply with the current ground lease and receive appropriate campus approval. Estimated date of completion is March 20, 2002.

INFORMATION TECHNOLOGY

Access to accounts payable, accounts receivable, and general ledger modules was not adequately restricted.

EO No. 698 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.

Shops' controller indicated that management agrees and will use the security features of the software and update passwords.

Unrestricted access to the accounting system increases the risk that errors and irregularities will not be detected in a timely manner.

Recommendation 47

We recommend that Shops institute controls over user profiles.

Campus Response

We concur. Management has updated passwords and reiterated to staff the importance of using the security features in the system. Controls over user profiles have been documented. Corrective action on this recommendation has been completed.

APPENDIX A: PERSONNEL CONTACTED

Name

Title

CAMPUS

Robert C. Maxson	President
Robert Bersi	Vice President, Development
Oliver Bohlman	Director of Division Operations, University Development
William Griffith	Vice President, Administration and Finance
Doug Harris	Director of Budget and Human Resources, Student Services
Kathleen Hext	Director of Internal Auditing
Joe Latter	Associate Vice President, Administration and Finance
Brian Lawver	Director, Development Information Systems

FOUNDATION

Lauren Ansoerge	Administrator, Grants and Contracts
Jo Anna Aubel	Cashier
Arlene Avila-Reyes	Finance Supervisor
Norman Buettner	Consultant
Gladys Crandall	Programs Supervisor
Charles Greenwood	Payroll Supervisor
Annette Harris	Accounts Payable Supervisor
Gloria Mendez	Interim Director, Grants and Contracts
Mary Ann Messing	Gift Processing Coordinator
Brian Nowlin	Director of Human Resources and Administrative Services
Cathy Purcell	Administrator, Foundation Programs
Greg Raitz	Supervisor, Information Systems
Joan Simmons	Investment Accountant
Janna Tenenbaum	Deputy Executive Director
Sandra Vanderheyden	Executive Director
Judy Vargas	Information Systems Coordinator
Jean Walker	Accounting Supervisor
Doris Williams	Purchasing/Risk Manager

ASSOCIATED STUDENTS, INC.

Marfi Barnes	Human Resources Technician
Clarence (CK) Fong	Controller
Richard Haller	Chief Administrative Officer
Robert Lara	Associate Director, University Student Union
Marcia LeBeau	Staff Accountant
Edwin Lemus	Accounts Payable Technician
Lisa Molina de la Loza	Assistant Director Services, University Student Union
Liz Post	Accounting Technician
Fred Sanchez	Director, Administrative Services

FORTY-NINER SHOPS, INC.

William Beck	Director of Purchasing
Clint Campbell	Director of Retail Food Operations
Cora Ejercito	Accounting Manager
Cynthia Farrington	Warehouse Manager
Nancy Green	Human Resources Director
Roman Gulon	General Manager/Chief Executive Officer
Fred Neely	Bookstore Director
Lawrence Pawlak	Controller
Donna Soto	Used Book Coordinator
Russell Tompkins	Director of Information Technology
Timothy Willis	Textbook Manager

SCOPE

INTERNAL COMPLIANCE SCOPE

As discussed in the body of our report, we evaluated each organization's compliance with the Education Code and Title 5 as related to the operation of CSU auxiliary organizations.

Within the scope of our review, we included the following internal compliance considerations, which were identified during our preliminary assessment of risks related to the CSU and its oversight of auxiliaries in determining whether:

- ▶ The auxiliary performed only those functions determined by the CSU Trustees to be appropriate for auxiliary organizations.
- ▶ The auxiliary performed only those functions authorized under a written agreement executed with the chancellor.
- ▶ The auxiliary board of directors established provisions in either the articles of incorporation or constitution stating that, upon dissolution, net assets other than trust funds will be distributed to a successor approved by the campus president (or designee) and the CSU trustees.
- ▶ The auxiliary board of directors adopted a constitution and, if the auxiliary is not incorporated, has filed a copy of the constitution with the chancellor (or designee).
- ▶ All leasing of campus facilities by the auxiliary was effected under provisions of Education Code §89046 or other laws governing the leasing of state facilities and whether it appropriately paid rent on space in tax-supported buildings on campus utilized by federally sponsored projects, unless the projects were excluded from space reimbursement requirements.
- ▶ All contracts or other business arrangements involving real property were entered into with prior approval of the campus president (or designee) and prior notification and consultation with the CSU chancellor (or designee).
- ▶ The auxiliary board of directors met statutory requirements in size and composition.
- ▶ Statutory requirements applicable to public meetings were adhered to as applicable to the auxiliary.
- ▶ The auxiliary board of directors held business meetings at least once a quarter.

- ▶ The auxiliary was established by constitution, statute, bylaws or resolution, and whether there were provisions for election of officers and board members.
- ▶ Sufficient operating procedures had been established by the auxiliary to allow the campus president (or designee) to ascertain the propriety of all expenditures and the integrity of financial reporting, and whether all expenditures were made in accordance with policies of the CSU Trustees.
- ▶ The auxiliary had all expenditures and fund appropriations approved by its board and whether it had fund appropriations for use outside of normal business operations of the auxiliary approved by an officer designated by the CSU Trustees.
- ▶ The auxiliary provided full-time employee salaries, working conditions, and benefits comparable to those provided by the CSU.
- ▶ The auxiliary operated commercial services on a self-supporting basis.
- ▶ The auxiliary submitted its programs and budgets for review in a timely manner as specified by the president (or designee).
- ▶ The auxiliary maintained a reasonable provision for reserves and used surplus funds from commercial operations for purposes consistent with regulations of the CSU Trustees.
- ▶ The auxiliary used indirect cost reimbursements in accordance with statutory requirements.
- ▶ The auxiliary gave loans, scholarships, stipends and grants-in-aid to currently admitted students only.
- ▶ The auxiliary accepted grants, contracts, bequests, trusts or gifts, to be used only for purposes consistent with the policies of the CSU Trustees.
- ▶ The auxiliary forwarded records of student financial assistance to the campus financial aid office on a timely basis.
- ▶ Expenditures for public relations or other purposes which would serve to augment state appropriations for operation of the campus were approved by the governing body of the auxiliary organization and that this policy was filed with the chancellor (or designee).
- ▶ The auxiliary had taken measures to protect the campus from all possible liability associated with the operation of commercial services.
- ▶ The auxiliary obtained indemnity bonds for officers and employees handling funds as statutorily mandated.

- ▶ Conflicts-of-interest statutes and regulations had been complied with, including, but not limited to, the prohibition of financial conflicts of interest or personal pecuniary gains in transactions with governing board members.
- ▶ The auxiliary adopted a nondiscrimination and affirmative action in employment policy approved by the chancellor (or designee).
- ▶ The student body organization auxiliary deposited in trust with the chief financial officer of the campus all student body organization fees or other funds and money under the programmatic control of the student body organizations, except for those collected from and used in or for major commercial services and agency funds.
- ▶ The student body organization auxiliary sufficiently enabled the chief fiscal officer of the campus to comply with legislative mandates by recommending the most appropriate institution or medium for investment of unexpended funds.
- ▶ The student body organization auxiliary submitted appropriate claim schedules to the chief fiscal officer of the campus after review and approval by an officer of the student body organization.

INTERNAL CONTROL SCOPE

As to the scope of our internal control review, our focus was on the separation of duties, safeguarding of assets, and reliability and integrity of information. The areas included were identified through a preliminary survey and risk assessment of the operation of each auxiliary on the campus. Risks were defined as the probability that an event or action may adversely affect the auxiliary and/or the campus.

We generally considered that duties were adequately segregated when no individual performed more than one of the following duties: (1) receiving and depositing remittances; (2) authorizing disbursements; (3) preparing checks; (4) operating a check-signing machine; (5) comparing signed checks with authorizations and supporting documents; (6) reconciling bank accounts and posting to the general ledger or any subsidiary ledger affected by cash transactions; and (7) initiating or preparing invoices.

Within our general internal control focus, we considered and reviewed, as deemed appropriate based upon our assessment of risk, the following:

- ▶ Procedures for receipting and storing cash, segregation of duties involving cash receipting, and recording of cash receipts.
- ▶ Establishment of receivables and adequate segregation of duties regarding billing for and payment of receivables.
- ▶ Approval of purchases, receiving procedures, and reconciliation of expenditures to general ledger balances.

- ▶ Use of petty cash funds, periodic cash counts, and reconciliation of bank accounts.
- ▶ Authorization of personnel/payroll transactions.
- ▶ Posting of the property ledger, regular reconciliation of the property to the general ledger, and physical inventories.
- ▶ Access restrictions to automated accounting systems and proper documentation of the systems.
- ▶ Procedures for initiating, overseeing, and accounting for investments.
- ▶ Establishment of trust funds, separate accounting, adequate agreements, and annual budgets.

As discussed, the areas actually included within the scope of our review were identified through a preliminary survey and risk assessment of each auxiliary's operation. They were included within the scope of our review because they were deemed to address the risks associated with each auxiliary's operation on the campus. Risk was defined as the probability that an event or action may adversely affect the auxiliary and/or the campus.

STATEMENT OF INTERNAL CONTROLS

A. INTRODUCTION

Internal accounting and related operational controls established by the state of California, the CSU 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 which 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 record keeping 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.



CALIFORNIA STATE UNIVERSITY, LONG BEACH

DIVISION OF ADMINISTRATION AND FINANCE

RECEIVED
University Auditor

NOV 13 2001

The California State
University

November 8, 2001

Mr. Larry Mandel
University Auditor
California State University
401 Golden Shore
Long Beach, California 90802

Re: Response to Auxiliary Organizations Audit Report 00-52

Dear Larry:

Please find enclosed California State University, Long Beach's response to the above report. The campus and its auxiliaries are committed to addressing and resolving the issues identified in the audit report.

Please let me know if we can provide you with any additional information.

Sincerely,

A handwritten signature in black ink, appearing to read "W. H. Griffith".

William H. Griffith
Vice President for Administration and Finance

Enclosure

cc: Robert C. Maxson, President
Joseph P. Latter, Associate Vice President, Financial Management
Robert Behm, Executive Director, CSULB Foundation
Roman Gulon, General Manager/CEO, 49er Shops, Inc.
Richard Haller, Chief Administrative Officer, CSULB Associated Students, Inc.
Kathleen Hext, Director, Internal Auditing Services

**CALIFORNIA STATE UNIVERSITY, LONG BEACH
AUXILIARY ORGANIZATIONS
AUDIT REPORT #00-52**

RECOMMENDATION 1 – CAMPUS SECTION

We recommend that the campus document its policies and procedures to identify, coordinate, and oversee the various ancillary organizations that operate on the campus in support of academic and nonacademic programs.

CAMPUS RESPONSE

We concur and will develop written policies and procedures to identify and oversee the ancillary organizations that operate on campus in support of campus programs. Estimated date of completion is March 20, 2002.

RECOMMENDATION 2 – CAMPUS SECTION

We recommend that the campus provide guidance for its auxiliaries regarding the implementation of conflict of interest policies and procedures, including statements and disclosures from board members and management.

CAMPUS RESPONSE

We concur. Management will provide written guidance to its auxiliaries regarding the implementation of conflict of interest policies and procedures. Estimated date of completion is March 20, 2002.

RECOMMENDATION 3 – CAMPUS SECTION

We recommend that the campus develop a cost allocation plan in accordance with EO No. 753.

CAMPUS RESPONSE

We concur. The campus will develop a written cost allocation plan in accordance with EO 753 by September 1, 2002.

RECOMMENDATION 4 – CAMPUS SECTION

We recommend that a written agreement be executed between the campus, the Foundation, and PPR with respect to the operations of the radio station, which defines the administrative and financial commitment of each party towards the operation and management of the station.

CAMPUS RESPONSE

We concur. The campus will execute a written agreement with the Foundation and PPR (Pacific Public Radio) which defines the individual responsibilities of each party. Estimated date of completion is May 1, 2002.

RECOMMENDATION 5 – FOUNDATION SECTION

We recommend that the Foundation:

- a. Perform only those functions listed in Title 5 or seek approval for variances from such from the Office of the Chancellor.
- b. Update its operating agreement in accordance with CSU policy, reflecting at a minimum, real estate and commercial operations.

CAMPUS RESPONSE

We concur. The Foundation will revise its Operating Agreement to specifically state that it can provide various services to other non-profit organizations. Approval from the Office of the Chancellor will be sought. Included in the update will be specific identification of the Foundation's right to perform real estate and commercial operations. Estimated date of completion is March 20, 2002.

RECOMMENDATION 6 – FOUNDATION SECTION

We recommend that lease agreements between the campus and the Foundation be amended to clearly articulate the consideration received by the campus to show that in the opinion of the campus it meets or exceeds the value of facilities leased.

CAMPUS RESPONSE

We concur. The lease agreements between the campus and the Foundation that do not clearly state the specific consideration will be amended to more clearly articulate that the consideration received by the campus, in its opinion, meets or exceeds the value of facilities leased. Anticipated date of completion is March 20, 2002.

RECOMMENDATION 7 – FOUNDATION SECTION

We recommend that the Foundation:

- a. Notify the campus president and vice president for administration and finance in writing immediately when an unauthorized act is suspected or detected and describe in detail the measures to be taken to prevent similar thefts from occurring in the future.
- b. Develop written policies and procedures for reporting unauthorized acts in a timely manner.

CAMPUS RESPONSE

We concur. The University will ensure that the Foundation develops appropriate policies and procedures on reporting unauthorized acts to the campus in a timely manner. Estimated date of completion is March 20, 2002.

RECOMMENDATION 8 – FOUNDATION SECTION

We recommend that the Foundation:

- a. Submit its reserve policy to its board of directors for approval.
- b. Submit annual reserve calculations to the board of directors to be reviewed for adequacy.
- c. Establish a reasonable provision for reserves and include it in its reserve policy, and address reserves for working capital and capital replacement.
- d. Describe the methodology utilized for the reserve calculation.
- e. Indicate the amount of reserves in each budget presentation to the campus president.

CAMPUS RESPONSE

We concur. The Foundation will develop and implement an adequate reserve policy consistent with the audit recommendations and submit it along with annual related reserve calculations and methodology to the Board of Directors for approval and adequacy. The Foundation will indicate the amount of reserves in each budget presentation to the campus president. Estimated date of completion is March 20, 2002.

RECOMMENDATION 9 – FOUNDATION SECTION

We recommend that the Foundation coordinate with the campus to implement additional procedures to ensure that all funds are deposited in a timely manner and properly identify and document the source of funds.

CAMPUS RESPONSE

We concur. Foundation policy requires that all deposits by campus personnel be deposited at the Foundation Cashier's office in a timely manner. Effective March 2001, the Foundation implemented periodic internal audits of the campus cash receipts with a follow-up notification letter to the depositor and Project Director. The Foundation will implement additional training for the campus community to ensure timely deposit and adequate identification of funds deposited. Estimated completion date is March 20, 2002.

RECOMMENDATION 10 – FOUNDATION SECTION

We recommend that the Foundation coordinate with the campus to ensure a complete and independent process of reconciling the cash gift acknowledgement system to cash gift receipts.

CAMPUS RESPONSE

We concur. The current Foundation general ledger and development systems are not linked and, therefore, do not allow for an automated reconciliation process. The Foundation will work with the University to develop a procedure for reconciling cash gift acknowledgments to cash gift receipts. Estimated date of completion is June 30, 2002.

RECOMMENDATION 11 – FOUNDATION SECTION

We recommend that the Foundation continue its efforts to bring documented policies and procedures in line with current practice at the Foundation.

CAMPUS RESPONSE

We concur. The Foundation will continue its efforts to bring documented policies and procedures in line with current practice at the Foundation. Estimated date of completion is March 20, 2002.

RECOMMENDATION 12 – FOUNDATION SECTION

We recommend that the Foundation take appropriate measures to ensure that administration and control over the Foundation's vendor master file are adequate and eliminate unnecessary/duplicate entries.

CAMPUS RESPONSE

We concur. Foundation staff have reviewed and identified duplicate vendor records. Duplicate records will be removed from the current master file. Duplicate records required to access historical data will be held separately in a historical file. Estimated date of completion is March 20, 2002.

RECOMMENDATION 13 – FOUNDATION SECTION

We recommend that the Foundation segregate accounts payable duties or institute and document mitigating controls approved by the campus.

CAMPUS RESPONSE

We concur. The Foundation is in the process of implementing corrective measures to ensure adequate separation of duties in the accounts payable area. Estimated date of completion is March 20, 2002.

RECOMMENDATION 14 – FOUNDATION SECTION

We recommend that the Foundation further document procedures to ensure that appropriate support for expenditures is obtained.

CAMPUS RESPONSE

We concur. The Foundation will review its documented procedures to ensure that appropriate support for expenditures is obtained and revise them as necessary. While we believe that most disbursements processed have sufficient documentation, i.e., invoices, receipts, check requests, and other supporting documentation, we will retrain staff to ensure that they understand and follow the Foundation's written procedures relating to supporting documentation. Estimated date of completion is March 20, 2002.

RECOMMENDATION 15 – FOUNDATION SECTION

We recommend that the Foundation coordinate with the campus and implement appropriate policies and procedures to ensure that written agreements are entered into prior to the commencement of services.

CAMPUS RESPONSE

We concur. The Foundation will modify its policies and procedures to ensure that written agreements are entered into prior to the commencement of services. The Foundation will also implement additional training for the campus community to submit paperwork in a timely manner. Estimated completion date is March 20, 2002.

RECOMMENDATION 16 – FOUNDATION SECTION

We recommend that the Foundation implement procedures to ensure proper authorization of travel.

CAMPUS RESPONSE

We concur. The Foundation will revise its policy and procedures to ensure that travel authorizations are appropriately documented. Estimated date of completion is March 20, 2002.

RECOMMENDATION 17 – FOUNDATION SECTION

We recommend that the Foundation establish policies and procedures requiring:

- a. Stratified counts of larger, higher risk petty cash funds.
- b. Formal policy and procedures over payments made to human subjects.
- c. Detailed explanations as to any discrepancies identified during unannounced petty cash counts.

CAMPUS RESPONSE

We concur. The Foundation has already improved the existing required training and follow-up sessions for all petty cash custodians. As part of the current audit process, any discrepancies in the funds require a detailed explanation and signature approval of the Project Director. Additionally, effective July 1, 2001, in addition to the unannounced annual audit of all funds, the Foundation will conduct bi-annual unannounced audits of all funds in the amount of \$1,000 or more. The Foundation will also document a formal policy and procedures for payments made to human subjects. Estimated date of completion is March 20, 2002.

RECOMMENDATION 18 – FOUNDATION SECTION

We recommend that the Foundation take appropriate measures to ensure that fixed assets are managed and administered in accordance with fixed asset policies and procedures, which address, at a minimum:

- a. A physical inventory of fixed assets.
- b. Regular reconciliations of fixed assets.
- c. Appropriate consideration/reconciliation of total fixed assets to the general ledgers with appropriate documentation with regard to fixed asset additions/deletions.
- d. Tracking and capitalizing, as appropriate, fixed assets purchased with federal, state, or other external funds.
- e. Written policies and procedures including the requirement that supporting documentation be provided to evidence the disposal of assets, or address the final accounting for the disposition of equipment or other fixed assets when externally funded projects are closed.

CAMPUS RESPONSE

We concur. A complete inventory of all fixed assets was conducted in October-December, 2000. Monthly reconciliations of the fixed assets database to the general ledger have been performed since July 2000. The Foundation currently has in place the required policy addressing the issues raised in the auditors' recommendations. Corrective action on this finding is complete.

RECOMMENDATION 19 – FOUNDATION SECTION

We recommend that the Foundation ensure that:

- a. Interest earning and administrative charges be specified within trust agreements.
- c. Account purposes and restrictions placed on expenditures be clearly identified.
- c. All state funds on deposit at the Foundation be transferred to the campus.

CAMPUS RESPONSE

We concur. The Foundation will revise its current agreement forms to reference specific policies on interest distribution and administrative fees. Additionally, the Foundation will implement additional training for the campus community and enforce submittal of better documentation of account purposes and restrictions to be placed on types of expenditures by campus personnel. Regarding those trust funds the auditors have identified as state funds, the campus will transfer them to appropriate state trust accounts. Estimated date of completion is March 20, 2002.

RECOMMENDATION 20 – FOUNDATION SECTION

We recommend that the Foundation implement appropriate controls to ensure the proper identification, documentation, and timely recording of all matching funds for grants and contracts.

CAMPUS RESPONSE

We concur. The Foundation implemented a new Cost Matching Policy, which includes appropriate controls to ensure proper identification, documentation and timely recording of all matching funds for grants and contracts. The policy became effective March 15, 2001. Implementation is in process. Estimated date of completion is March 20, 2002.

RECOMMENDATION 21 – FOUNDATION SECTION

We recommend that the Foundation implement appropriate internal controls to prevent unauthorized program changes.

CAMPUS RESPONSE

We concur. The Foundation will review current policies and procedures and make appropriate changes to ensure that internal controls are in place to prevent unauthorized program changes. Estimated date of completion is March 20, 2002.

RECOMMENDATION 22 – FOUNDATION SECTION

We recommend that the Foundation:

- a. Revise its disaster recovery plan to address availability of resources and perform an impact study to determine its recovery needs.
- b. Develop a formalized business continuity plan.

CAMPUS RESPONSE

We concur. The Foundation will revise its disaster recovery plan to address availability of resources and perform an impact study to determine its recovery needs and develop a formalized business continuity plan. Estimated date of completion is March 20, 2002.

RECOMMENDATION 23 – ASSOCIATED STUDENTS SECTION

We recommend that the campus chief fiscal officer or designee act as custodian of student body organization fees.

CAMPUS RESPONSE

We concur. Effective December 2000, the ASI Controller became a university employee and his reporting line was reassigned to the campus chief fiscal officer. The chief fiscal officer has designated the ASI Controller to act as custodian of student body organization fees. Strict interpretation and implementation of Title 5, §42403(a) by the campus CFO has changed the release of funds to the ASI to an on-demand basis to cover outstanding disbursement requests submitted by ASI. In effect, this procedure removes disbursement authority from the ASI, shortens the funding chain, and provides greater control over student fees funds. Corrective action on this recommendation is complete.

RECOMMENDATION 24 – ASSOCIATED STUDENTS SECTION

We recommend that ASI endeavor to bring its dissolution clause into compliance with Title 5.

CAMPUS RESPONSE

We concur. ASI will initiate the proper electoral process during the Spring 2002 General Election to modify the dissolution clause to bring it into compliance. Estimated date of completion is March 20, 2002.

RECOMMENDATION 25 – ASSOCIATED STUDENTS SECTION

We recommend that the ASI either separate cash receipting, disbursing, and reconciling duties or institute and document mitigating controls approved by the campus.

CAMPUS RESPONSE

We concur. ASI has hired an additional staff member to facilitate the separation of cash receipting, disbursing and reconciling duties and is in the process of documenting mitigating controls. Estimated date of completion is December 31, 2001.

RECOMMENDATION 26 – ASSOCIATED STUDENTS SECTION

We recommend that the ASI take appropriate measures to strengthen collection efforts on accounts receivable.

CAMPUS RESPONSE

We concur. The ASI has aggressively attacked the problem. With University assistance ASI has cut off service to delinquent offenders, which has resulted in vastly improved collections. Furthermore, ASI has revised the job description of the Accounting Technician to include responsibility for coordinating collection efforts. Corrective action on this item is complete.

RECOMMENDATION 27 – ASSOCIATED STUDENTS SECTION

We recommend that the ASI develop written procurement policies and procedures, including the purchasing and receiving functions and responsibilities noted.

CAMPUS RESPONSE

We concur. Although the ASI currently has procurement policies and procedures in place, they need to be updated and expanded. The procurement policies and procedures will be updated by February 28, 2002.

RECOMMENDATION 28 – ASSOCIATED STUDENTS SECTION

We recommend that ASI revise its disbursement review and authorization policies and procedures to address, at a minimum, those issues discussed above.

CAMPUS RESPONSE

We concur. Nonetheless, we assert that the instances cited in the findings are isolated incidents and should not be construed as characteristic of the disbursement review and authorization controls currently in place. Disbursements are currently subject to no less than four levels of review before being authorized. Disbursement review and authorization policies and procedures will be updated by December 31, 2001.

RECOMMENDATION 29 – ASSOCIATED STUDENTS SECTION

We recommend that the ASI establish change fund procedures which require periodic and independent unannounced cash counts.

CAMPUS RESPONSE

We concur. Responsibility for conducting periodic and independent, unannounced cash counts has now been incorporated into the ASI Controller's revised job description. Corrective action on this finding is complete.

RECOMMENDATION 30 – ASSOCIATED STUDENTS SECTION

We recommend that the ASI revise personnel and payroll policies and procedures to ensure that:

- a. Facsimiles of approved signatures of department personnel authorized to submit payroll

transaction forms be maintained.

- b. Employee separation procedures include preparation of an employee clearance form.
- c. Signed payroll checks not be returned to the person who both generated them and entered the timecards into the payroll system.

CAMPUS RESPONSE

We concur. New personnel and payroll procedures have since been implemented to address the deficiencies indicated. Corrective action on this recommendation is complete.

RECOMMENDATION 31 – ASSOCIATED STUDENTS SECTION

We recommend that the ASI improve internal controls to ensure proper depreciation and timely write-off of fixed assets.

CAMPUS RESPONSE

We concur. Internal controls over the fixed asset records have been improved through the purchase and implementation of Best Software's Fixed Asset System. Estimated completion date of installation and staff training is December 31, 2001.

RECOMMENDATION 32 – ASSOCIATED STUDENTS SECTION

We recommend that the ASI either separate fixed asset responsibilities and duties or institute and document mitigating controls approved by the campus.

CAMPUS RESPONSE

We concur. ASI has subsequently separated fixed asset responsibilities and duties among three individuals. Corrective action on this recommendation is complete.

RECOMMENDATION 33 – ASSOCIATED STUDENTS SECTION

We recommend that the ASI:

- a. Administer funds for student organizations in accordance with appropriate trust agreements.
- b. Evaluate the nature of funds held on behalf of campus departments to determine if they are appropriately held by ASI.

CAMPUS RESPONSE

We concur. ASI has subsequently re-designed and implemented a new trust agreement form for all funds it administers on behalf of campus organizations. An evaluation of the nature of funds held on behalf of campus departments has been conducted. As a result, we have determined that all funds remaining on deposit with ASI are appropriate. Corrective action on this recommendation is complete.

RECOMMENDATION 34 – ASSOCIATED STUDENTS SECTION

We recommend that a written agreement be executed between the campus and the ASI, which defines the administrative and financial commitment of each party towards the operation and management of the CDC. Such an agreement should address the terms of reimbursement for any facilities, goods, or services provided by the campus, funded from the General Fund.

CAMPUS RESPONSE

We concur. We will develop and implement a written agreement addressing those issues identified by the auditors. Estimated date of completion is March 20, 2002.

RECOMMENDATION 35 – ASSOCIATED STUDENTS SECTION

We recommend that the ASI exercise the audit clause specified in its various food vendor contracts.

CAMPUS RESPONSE

We concur. ASI will exercise the audit clause specified in the existing food vendor contracts, and will revise future contracts to eliminate the requirement. Estimated date of completion is March 20, 2002.

RECOMMENDATION 36 – FORTY-NINER SHOPS SECTION

We recommend that Shops' lease agreement with the campus be amended to include clearly articulate sufficient consideration.

CAMPUS RESPONSE

We concur. Management will further define the consideration clause upon renewal. Estimated date of completion is March 20, 2002.

RECOMMENDATION 37 – FORTY-NINER SHOPS SECTION

We recommend that Shops work with appropriate advisors and seek to ensure risks are appropriately reduced or abated, and that the plan document reflects current compliance with ERISA.

CAMPUS RESPONSE

We concur. Management will analyze the plan document for concurrence with ERISA and make changes if appropriate. Estimated date of completion is March 20, 2002.

RECOMMENDATION 38 – FORTY-NINER SHOPS SECTION

We recommend that an agreement for the sale of concessions in the Pyramid be executed between Shops and the Foundation.

CAMPUS RESPONSE

We concur. The campus will ensure that the agreement between the Shops and the Foundation is executed. Estimated date of completion is December 31, 2001.

RECOMMENDATION 39 – FORTY-NINER SHOPS SECTION

We recommend that Shops implement procedures to ensure proper control over central commodity purchases.

Specifically, the:

- a. Usage of a personal credit card should be limited.
- b. Verification of charges to various centers should be established prior to payment.
- c. Transfer of costs between cost centers should be controlled.
- d. Purchases of merchandise, allocation to cost centers, and submission for reimbursement should be sufficiently segregated and subjected to appropriate independent review.

CAMPUS RESPONSE

We concur. Management will further refine procedures to ensure proper control over central commodity purchases. Estimated date of completion is March 20, 2002.

RECOMMENDATION 40 – FORTY-NINER SHOPS SECTION

We recommend that Shops improve management of the outdoor vendor process by requiring:

- a. Appropriate signatures on all agreements.
- b. Appropriate insurance documentation including indemnification clauses.
- c. Segregation of duties with respect to outside vendor reconciliations.

CAMPUS RESPONSE

We concur. Management will further refine procedures to ensure proper control over Outdoor Vendors, including the auditors' recommendations. Estimated date of completion is March 20, 2002.

RECOMMENDATION 41 – FORTY-NINER SHOPS SECTION

We recommend that Shops:

- a. Establish petty cash funds and designate custodians for such funds.
- b. Document its performance of periodic, unannounced, and independent counts of change funds.

CAMPUS RESPONSE

We concur. Management has established an independent change fund and will develop written procedures that further define count procedures. Estimated date of completion is December 31, 2001.

RECOMMENDATION 42 – FORTY-NINER SHOPS SECTION

We recommend that:

- a. The payroll department establish procedures to ensure that time cards submitted are properly approved.
- b. The clearance form be revised to ensure that properties are returned, and system access is terminated when an employee is separated.

CAMPUS RESPONSE

We concur. Management has reiterated the payroll procedures to the managers. Further, the clearance form will be revised to ensure that the Shops' property is returned and that system access is terminated. Estimated date of completion is December 31, 2001.

RECOMMENDATION 43 – FORTY-NINER SHOPS SECTION

We recommend that Shops separate fixed asset functions or institute and document mitigating controls approved by the campus.

CAMPUS RESPONSE

We concur. Management has further segregated job functions and further defined procedures. Corrective action on this recommendation has been completed.

RECOMMENDATION 44 – FORTY-NINER SHOPS SECTION

We recommend that Shops update its agreement with the campus art department to ensure proper accounting of lease expenditures and related revenues.

CAMPUS RESPONSE

We concur. The Shops will update its agreement with the campus Art Department. Estimated date of completion is December 31, 2001.

RECOMMENDATION 45 – FORTY-NINER SHOPS SECTION

We recommend that policies and procedures be formalized for cash receipts, accounts receivable, accounts payable, credit cards, and petty cash.

CAMPUS RESPONSE

We concur. Management will formalize the recommended procedures. Estimated date of completion is March 20, 2002.

RECOMMENDATION 46 – FORTY-NINER SHOPS SECTION

We recommend that Shops and the campus establish procedures to ensure food vendor agreements comply with the current ground lease and receive appropriate campus approval.

CAMPUS RESPONSE

We concur. We will establish procedures to ensure that food vendor agreements comply with the current ground lease and receive appropriate campus approval. Estimated date of completion is March 20, 2002.

RECOMMENDATION 47 – FORTY-NINER SHOPS SECTION

We recommend that Shops institute controls over user profiles.

CAMPUS RESPONSE

We concur. Management has updated passwords and reiterated to staff the importance of using the security features in the system. Controls over user profiles have been documented. Corrective action on this recommendation has been completed.


THE CALIFORNIA STATE UNIVERSITY
OFFICE OF THE CHANCELLOR

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- STANISLAUS

November 26, 2001

MEMORANDUM

TO: Larry Mandel
University Auditor

FROM: Charles B. Reed 
Chancellor

SUBJECT: Draft Final Report Number 00-52 on *Auxiliary Organizations*
at California State University, Long Beach

In response to your memorandum of November 26, 2001, I accept the response as submitted with the draft final report on *Auxiliary Organizations* at California State University, Long Beach.

LM:amd

Enclosure

cc: Robert C. Maxson, President
William H. Griffith, Vice President for Administration and Finance