

**AUXILIARY ORGANIZATIONS**  
**CALIFORNIA STATE UNIVERSITY,**  
**DOMINGUEZ HILLS**

**Report Number 00-53**  
**June 29, 2001**

---

**Members, Committee on Audit**

Shailesh J. Mehta, Chair  
Stanley Wang, Vice Chair  
Daniel Cartwright   Murray L. Galinson  
Harold Goldwhite   Frederick W. Pierce, IV

---

**Staff**

University Auditor: Larry Mandel  
Senior Director: Michael P. Redmond  
Senior Auditors: Tanya Ho, John Stegall, and Steven Yim

---

**BOARD OF TRUSTEES**  
**THE CALIFORNIA STATE UNIVERSITY**

---

# CONTENTS

---

## INTRODUCTION

Purpose .....	1
Scope and Methodology .....	1
Background .....	2
Opinion .....	3
Executive Summary.....	4

---

## OBSERVATIONS, RECOMMENDATIONS, AND CAMPUS RESPONSES

### CAMPUS

Legal and Regulatory Compliance .....	10
Fees, Revenue, and Receivables.....	11
Personnel and Payroll .....	12
Programs .....	12
Academic Overload Policy .....	12
Risk Management.....	13
Internet Policy .....	14

### CSU DOMINGUEZ HILLS FOUNDATION

Legal and Regulatory Compliance .....	16
Investments .....	16
Fees, Revenue, and Receivables.....	18
Purchasing and Accounts Payable.....	19
Petty Cash and Change Funds.....	19
Personnel and Payroll .....	20

---

CONTENTS

Fixed Assets .....	21
Policies and Procedures .....	21
Contracts and Grants .....	22
Trusts and Other Liabilities.....	23
Programs .....	24
Faculty Release Time .....	24
Contracts and Grants Administration .....	25

**ASSOCIATED STUDENTS, INC.**

Legal and Regulatory Compliance .....	27
Student Body Fees.....	27
Operating Policies and Procedures .....	27
Board Resolutions .....	28
Fees, Revenue, and Receivables.....	29
Purchasing and Accounts Payable.....	29
Credit Card Supporting Documentation .....	29
Segregation of Duties – Receipting and Disbursing.....	30
Trusts and Other Liabilities.....	31
Programs .....	32

**CSU DOMINGUEZ HILLS LOKER UNIVERSITY STUDENT UNION, INC.**

Cash Receipts .....	33
Policies and Procedures – Cash Receipts.....	33
Segregation of Duties – Cash Receipting and Handling.....	33
Fees, Revenue, and Receivables.....	34
Fixed Assets .....	35
Fixed Assets Reconciliation.....	35
Disposal of Fixed Assets.....	35

## APPENDICES

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

---

## ABBREVIATIONS

AICPA	American Institute of Certified Public Accountants
ASI	Associated Students, Inc.
BA	Business Affairs – Office of the Chancellor
CO	Chancellor's Office
CSU	California State University
EO	Executive Order
Foundation	CSU Dominguez Hills Foundation
MOU	Memorandum of Understanding
Student Union	CSU Dominguez Hills Loker Student Union, 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 are 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 the California State University (CSU) auxiliaries. For those audit tests that required annualized data, fiscal years 1998-99 and 1999-2000 were the primary periods reviewed. In certain instances, we were concerned with representations of the most current data—in such cases, the test period was extended to December 2000.

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.

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.)

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. Risk was defined as the probability that an event or action would adversely affect the auxiliary and/or the campus. 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.

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, §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 §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 board meeting 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 review.

---

## OPINION

We visited the CSU Dominguez Hills campus from October 2000 through January 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, Statement of Internal Controls.)

*The campus response is included in its entirety in Appendix D. Excerpts from the campus response, containing action plans and times certain, are included in the body of the report.*

---

## **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 [10]**

Arrangements concerning the campus's exclusive soft drink agreement lacked required formal approval and specifics regarding campus and California State University (CSU), Dominguez Hills Foundation (Foundation) rights and obligations. The presence of required formal approval and specifics relating to rights and obligations, delineating approval, promises, and considerations from all parties decreases the potential for misunderstandings.

#### **FEES, REVENUE, AND RECEIVABLES [11]**

The payphone licensing agreement between the campus and the Foundation required additional specifics regarding consideration exchanged and the disposition of the campus's share of proceeds. Reimbursing the campus General Fund reduces the risk that a "gift of public funds" claim could be asserted.

#### **PERSONNEL AND PAYROLL [12]**

The campus had not entered into a written agreement with the Foundation for the assignment of an outstationed state employee. When agreements are adequately established and managed, greater assurance that compliance with legal and other regulatory requirements results.

## **PROGRAMS [12]**

### **ACADEMIC OVERLOAD POLICY [12]**

The campus had not established policies and procedures to track and monitor academic effort in conjunction with contract and grant requirements as well as the CSU overload policy. Providing optimal levels of oversight improves internal controls and provides assurance that projects are appropriately tracked and monitored.

### **RISK MANAGEMENT [13]**

Campus risk management policy had not been updated to include regular monitoring of auxiliary operations and activities for compliance with prudent risk management practice. Monitoring and mitigating auxiliary organization risk reduce the campus's and the system's exposure to loss from litigated disputes.

### **INTERNET POLICY [14]**

Policies and procedures concerning governance of the content of web-page offerings presented by auxiliary and other organizations on the campus website were in need of improvement. Sufficient governance of web offerings decreases the risk that inappropriate or fraudulent web-based transactions will occur.

## **CSU DOMINGUEZ HILLS FOUNDATION**

### **LEGAL AND REGULATORY COMPLIANCE [16]**

The campus auxiliaries had not established policies and procedures to escheat unclaimed monies to the state. Performing the duties specified in the unclaimed property law reduces the risk that fines will be levied.

### **INVESTMENTS [16]**

Management and accounting of investments were in need of improvement. Sufficient management and accounting of investments decrease the risk that funds will be handled inappropriately and contrary to the expectations of the campus and donors.

### **FEES, REVENUE, AND RECEIVABLES [18]**

Foundation policies and procedures did not sufficiently address account aging, timely action on uncollected accounts, and the write-off of uncollectible accounts. The risks that accounts receivable will become uncollectible are decreased when an aging report is maintained and timely collection of past-due accounts is pursued.

## **PURCHASING AND ACCOUNTS PAYABLE [19]**

There were no controls in place to account for checks removed from the inventory stock. Adequately controlling check stock decreases the risk that funds will be misappropriated.

## **PETTY CASH AND CHANGE FUNDS [19]**

Petty cash and change fund policies and procedures did not include periodic, unannounced, independent cash counts. Internal controls are improved when petty cash policies and procedures include independent counts of funds.

## **PERSONNEL AND PAYROLL [20]**

A single individual entered data into the payroll system to generate paychecks and received the checks for distribution while controlling numerous other aspects of the personnel and payroll functions. Adequate separation of duties decreases the risk that errors and irregularities will be detected in a timely manner.

## **FIXED ASSETS [21]**

### **POLICIES AND PROCEDURES [21]**

The Foundation had no written policies and procedures for fixed assets and had not conducted a physical inventory count in three years. When formal, written fixed asset policies and procedures are adequately controlled, there is a decreased potential for lost or stolen property.

### **CONTRACTS AND GRANTS [22]**

The Foundation's fixed asset controls did not clearly address transfer of accountability for assets with the campus when grants and contracts were completed. When policies and procedures sufficiently address fixed assets purchased on behalf of the campus, there is a decreased potential for lost or stolen property.

## **TRUSTS AND OTHER LIABILITIES [23]**

The Foundation's trust agreements were incomplete. Sufficiently documented trust instruments prevent misunderstandings and confusion regarding the use/allocation of funds.

## **PROGRAMS [24]**

### **FACULTY RELEASE TIME [24]**

The management and control of faculty release time accepted under the Foundation's contracts and grant program need to be strengthened. Appropriate control and management of contract and grant costs provide assurance that the true cost of programs will be known.

## **CONTRACTS AND GRANTS ADMINISTRATION [25]**

The Foundation's administration of contracts and grants needed improvement. Sufficient oversight reduces the campus's and the CSU system's exposure to regulatory and legal consequences.

## **ASSOCIATED STUDENTS, INC.**

### **LEGAL AND REGULATORY COMPLIANCE [27]**

#### **STUDENT BODY FEES [27]**

The chief fiscal officer of the campus was not acting as custodian of student body organization fees. The campus's required oversight of student fees is improved when fees are deposited in the custody of the chief financial officer.

#### **OPERATING POLICIES AND PROCEDURES [27]**

As revised in September 2000, ASI's financial policies and procedures did not always accurately reflect current practice in sufficient and accurate detail. Operating with updated written agreements decreases the risk of misunderstandings and miscommunications regarding rights and responsibilities.

#### **BOARD RESOLUTIONS [28]**

ASI board resolutions were not sufficiently controlled. Sufficiently controlled and indexed board resolutions may prevent misunderstandings and delays in implementing board actions.

### **FEES, REVENUE, AND RECEIVABLES [29]**

ASI did not reconcile cash receipts and revenues to activity reports. Internal controls are improved when reconciliations are performed.

### **PURCHASING AND ACCOUNTS PAYABLE [29]**

#### **CREDIT CARD SUPPORTING DOCUMENTATION [29]**

Certain ASI credit card disbursements lacked sufficient supporting documentation. Adequate supporting documentation and control over credit card expenditures decrease the risk that misappropriation of funds will be detected.

#### **SEGREGATION OF DUTIES – RECEIPTING AND DISBURSING [30]**

Cash receipting and disbursing duties were not adequately segregated. Adequate internal control cash receipting and disbursing duties decrease the risk that errors and irregularities will not be detected in a timely manner.

## **TRUSTS AND OTHER LIABILITIES [31]**

Funds held in trust by ASI for student organizations (campus clubs) were not sufficiently 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 [32]**

The infant toddler childcare program operated by the Foundation within the ASI childcare center was done without the benefit of a current written agreement. An up-to-date written agreement decreases the risk of misunderstandings and miscommunications regarding rights and responsibilities.

## **CSU DOMINGUEZ HILLS LOKER UNIVERSITY STUDENT UNION, INC.**

### **CASH RECEIPTS [33]**

#### **POLICIES AND PROCEDURES – CASH RECEIPTS [33]**

The Student Union did not have written policies and procedures to guide staff responsible for opening, operating, and closing procedures where cash transactions occurred. Internal controls are improved when policies and procedures are complete and fully documented.

#### **SEGREGATION OF DUTIES – CASH RECEIPTING AND HANDLING [33]**

Cash receipting and handling duties were inadequately segregated at the Student Union. Adequate internal control cash receipting and disbursing duties decrease the risk that errors and irregularities will not be detected in a timely manner.

### **FEES, REVENUE, AND RECEIVABLES [34]**

The Student Union did not maintain a written reconciliation of revenues to activity reports. Internal controls are improved when reconciliations are sufficiently documented.

### **FIXED ASSETS [35]**

#### **FIXED ASSETS RECONCILIATION [35]**

The Student Union's physical inventory accounting records were not reconciled to general ledger accounting records. Completing property reconciliations in a timely manner decreases the risk that errors and irregularities will not be detected.

## **DISPOSAL OF FIXED ASSETS [35]**

Policies and procedures concerning fixed asset disposal for the Student Union needed to be documented. Internal controls are improved when policies and procedures are complete and fully documented.

---

## **OBSERVATIONS, RECOMMENDATIONS, AND CAMPUS RESPONSES**

### **CAMPUS**

#### **LEGAL AND REGULATORY COMPLIANCE**

Arrangements concerning the campus's exclusive soft drink agreement lacked required formal approval and specifics regarding campus and California State University (CSU), Dominguez Hills Foundation (Foundation) rights and obligations.

The exclusive soft drink agreement (pouring rights) between the Foundation, the campus, the local bottler, and the national brand was not submitted to the chancellor's office (CO) for formal approval. Further, arrangements between the campus and the Foundation regarding this agreement needed clarification. The specific arrangements, including the disposition of revenues between the campus and the Foundation regarding rights and obligations, were neither addressed specifically within the agreement nor in any ancillary agreement.

Executive Order (EO) No. 409 indicates that all sales, leases, and licenses exceeding \$25,000 of state-owned personal property be reviewed and approved by the CO. Title 5 §42502 states that the operating agreement should specify the function or functions which the organization is to manage, operate, or administer.

The director of procurement, contracts and logistical services stated that the contract had been sent to and approved by the CO's Office of General Counsel. At that time, he was under the impression EO No. 667, which delegated approval authority to the campuses, had superseded EO No. 409 and EO No. 617. The executive director of the Foundation noted that the vice president of administration and finance had signed the subject agreement and that it was an oversight that a formal agreement between the Foundation and campus had not been written.

The absence of required formal approval and specifics regarding rights and obligations, promises, and considerations from all parties increases the potential for misunderstandings.

#### **Recommendation 1**

We recommend that the campus coordinate with the Foundation and the CO to ensure that rights and obligations with respect to the campus's offering of pouring rights be delineated in writing between the campus and the Foundation.

#### **Campus Response**

An agreement between the university and the Foundation is being prepared that will include appropriate consideration of the rights and obligations with respect to the Coca Cola pouring rights. The agreement between the Foundation and Coca Cola has been submitted to the Chancellor's Office.

It is anticipated that the agreement between the university and the Foundation will be completed by October 2001.

## **FEES, REVENUE, AND RECEIVABLES**

The payphone licensing agreement between the campus and the Foundation required additional specifics regarding consideration exchanged and the disposition of the campus's share of proceeds.

The right to place payphones on campus was contracted to the Foundation, which subsequently contracted such service to an off-campus vendor. The campus share of revenue was not appropriately transmitted to the state, but was deposited into a Foundation trust account having campus unit signers.

CSU coded memo, Business Affairs – Office of the Chancellor (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. 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 executive director of the Foundation and director of procurement, contracts, logistical and support services indicated that when the agreement was executed, it was believed that the Foundation's administration of the contract constituted consideration. The executive director of the Foundation also noted that he was unaware that the payphone funds could not be deposited in a Foundation trust account with university employees having signature authority.

Failure to reimburse the campus General Fund exposes the campus and the legally separate auxiliary organization to the risk that a "gift of public funds" claim could be asserted.

### **Recommendation 2**

We recommend that the licensing agreements between the campus and the Foundation contain specific provisions regarding consideration exchanged and the appropriate disposition of funds.

### **Campus Response**

The payphone contract between the Foundation and the vendor has expired. A new agreement is being written between the state and the vendor. All of the proceeds generated by this agreement will be deposited into a state account. The agreement between the state and the payphone contractor is expected to be implemented by September 2001. Existing payphone revenue funds currently in a Foundation account will be transferred to a state account by September 2001.

## PERSONNEL AND PAYROLL

The campus had not entered into a written agreement with the Foundation for the assignment of an outstationed state employee.

The campus was reimbursed for the full-time administrative position; however, specifics had not been set out in a written agreement defining the campus's and the Foundation's responsibilities for oversight of the employee.

Section 4.11 of the *CSU Manual for Contracting and Procurement* indicates that contracts should include terms and conditions necessary to convey a clear understanding of each party's expected role, its obligations, and the parameters in which the activities must be carried out under the contract.

The executive director of the Foundation noted that the vice president of administration and finance had notified the employee of the conditions and oversight responsibilities related to her assignment. However, it was an oversight that there was not a separate agreement written between the Foundation and the campus.

When agreements are not adequately established and managed, compliance with legal and other regulatory requirements can be compromised.

### **Recommendation 3**

We recommend that the campus establish a written agreement with the Foundation which clearly establishes how the campus and the Foundation will exercise responsibilities for the oversight of the state employee.

### **Campus Response**

A letter defining the terms of the reassignment had been given to the employee by the Vice President and was signed by the employee at the time the assignment was made to work in the Foundation. The campus and Foundation have now executed an MOU defining the conditions and responsibilities for oversight of this state employee. Completed July 2001.

## PROGRAMS

### **ACADEMIC OVERLOAD POLICY**

The campus had not established policies and procedures to track and monitor academic effort in conjunction with contract and grant requirements as well as the CSU overload policy.

Contracts and grants are overseen and managed by the vice president of academic affairs, deans, campus academic leadership, and oversight committees. Each principal investigator has clear responsibility over his or her projects and keeps campus academic management advised of their

activities. However, a process to formally track and monitor academic effort in accordance with the CSU 125-percent overload policy, including documentation supporting effort estimates and usage by some clear and comparable measure, had not been established.

Title 5 §42401, §42402, §42500 and Education Code §89900 establish a responsibility to operate in accordance with sound business practices in the interest of the campus. Sound business practices include clear policies and procedures with respect to tracking and monitoring compliance requirements.

The associate vice president of faculty affairs observed that, in the past, the tracking of faculty workload may not have included workload funding from all sources and that a determination should be made as to the extent to which the tracking should be strengthened.

Providing less than optimal levels of oversight results in a reduction in internal controls and an inability to assure that projects are appropriately tracked and monitored.

#### **Recommendation 4**

We recommend that the campus establish policies and procedures to track and monitor academic effort in conjunction with contract and grant requirements as well as the CSU overload policy.

#### **Campus Response**

The campus is currently working on the development of policies and procedures to identify, monitor and track academic effort and workload associated with grant activities. These policies and procedures will include processes to provide coordination and communication with the Foundation grant oversight unit. The policies and procedures and implementation thereof are expected in December 2001.

### **RISK MANAGEMENT**

Campus risk management policy had not been updated to include regular monitoring of auxiliary operations and activities for compliance with prudent risk management practice.

EO No. 715 states that each campus president shall develop campus risk management policies and procedures that include an ongoing process by which appropriate administrators identify risks, perform analyses of the frequency and severity of potential risks, select the best risk management technique to manage the risk without unduly curtailing or modifying activities necessary to the CSU mission, implement appropriate risk management techniques and staff standards, and monitor, evaluate, and document the results.

The director of environmental health and risk management stated that the risk management policies associated with auxiliaries had not received final approval.

Failure to monitor and mitigate auxiliary organization risk exposes the campus and the system to loss from litigated disputes.

### **Recommendation 5**

We recommend that the campus:

- a. Establish risk management policies and procedures that include auxiliaries.
- b. Monitor auxiliary compliance with, and sufficiency of, risk mitigation provisions within auxiliary operating procedures and within agreements entered into with the campus.

### **Campus Response**

The campus now has a written Risk Management Policy and implementation procedures for the policy are being developed. Included in the policy is the establishment of an advisory committee. The committee composition includes representatives from the auxiliaries. Procedures for the implementation of this policy will include campus review of auxiliary policies and procedures related to risk management. Procedures to implement the policy are expected to be completed by December 2001.

## **INTERNET POLICY**

Policies and procedures concerning governance of the content of web-page offerings presented by auxiliary and other organizations on the campus website were in need of improvement.

In some instances, auxiliary, campus, and student support organizations posted commercial and charitable web pages on the CSU Dominguez Hills website. We noted web advertising banner links to commercial sites, web pages for other non-CSU organizations, and advertising which solicited merchandise sales and charitable donation opportunities.

Title 5 §42401, §42402, §42500 and Education Code §89900 establish a responsibility to operate in accordance with sound business practices in the interest of the campus. Sound business practice would mandate sufficient controls over auxiliary Internet operations.

The vice president of administration and finance noted that there is an existing campus Internet policy regarding publishing on the Internet posted on the CSU Dominguez Hills website. He further indicated that while various campus policies exist which would limit risk and abuse, oversight and enforcement of auxiliary-related web presentations had not been fully considered.

The lack of sufficient governance of web offerings increases the risk that inappropriate or fraudulent web-based transactions will occur.

**Recommendation 6**

We recommend that the campus enhance the policies and provide procedures for oversight regarding governance of the campus Internet website as it relates to commercial and charitable solicitations.

**Campus Response**

The campus has re-instituted a campus information technology advisory committee. This committee has begun reviewing the existing internet/web policies. The campus recognizes there is a need to enhance policies and procedures for the use and monitoring of CSUDH internet websites, and links thereto, as they relate to commercial and charitable solicitations. The anticipated completion date for revised policies and procedures is January 2002.

## **CSU DOMINGUEZ HILLS FOUNDATION**

### **LEGAL AND REGULATORY COMPLIANCE**

The campus auxiliaries had not established policies and procedures to escheat unclaimed monies to the state.

We found that uncleared checks were not properly disposed of on a consistent basis (i.e., voided and a liability created).

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

The executive director of the Foundation acknowledged that procedural steps for the review and disposition of expired checks had not been consistently followed.

Failure to report or perform the duties specified in the unclaimed property law could result in fines.

#### **Recommendation 7**

We recommend that the campus work with the Foundation to develop operating procedures which implement the requirements of the Code of Civil Procedures with respect to unclaimed property.

#### **Campus Response**

The campus is assisting the Foundation to identify policies and procedures that need to be established and implemented to escheat unclaimed monies to the state. Foundation policies and procedures, as well as the implementation thereof, are expected to be completed by December 2001.

### **INVESTMENTS**

Management and accounting of investments were in need of improvement.

Based upon Foundation accounting records, it holds several million dollars for the benefit of the campus, including endowments, scholarships, restricted and unrestricted gifts, and other unrestricted campus funds.

We identified the following during our review:

- ▶ Investment accounting policies and procedures specific to unrealized gains and losses were not appropriately detailed.

- ▶ Funds maintained within the general operating account were not specifically identified.
- ▶ Earnings and interest accounting was insufficient regarding endowment corpus and income; endowment mirror accounts were not utilized.
- ▶ Allocation of investment earnings of Associated Students, Inc. (ASI) funds to the respective accounts was not in proportion to the amounts invested.

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.

Section 5.34 of the American Institute of Certified Public Accountants (AICPA) Industry Guide, *Audits of Universities and Colleges*, states that income from investments of endowment and similar funds does not include capital gains and losses, since such gains and losses are accounted for in the endowment and similar funds groups as additions and deductions from fund balances.

Sections 5.37 and 5.38 of the AICPA Industry Guide, *Audits of Universities and Colleges*, states that many institutions have established income stabilization accounts to spread or allocate current investment income. Two methods have been followed in establishing such reserves. Under one method, a portion of the total revenue from the investment pool is not allocated to the participating funds, but is set aside in a stabilization reserve; the balance of the investment pool revenue is distributed to participating funds. This method is not in accordance with generally accepted accounting principles.

The executive director of the Foundation noted that in 1999, policies and procedures for investments were written and implemented. After review of the implemented policies and procedures, a need for modifications was recognized. He further stated that the Foundation's practice for the distribution of investment earnings had been a carryover from previous Foundation administrations.

Insufficient management and accounting of investments increase the risk that funds will be handled inappropriately and contrary to the expectations of the campus and donors.

### **Recommendation 8**

We recommend that the Foundation ensure that:

- a. Investment accounting policies and procedures are better documented, including those specific to unrealized gains and losses.
- b. Funds maintained within the general operating account be specifically identified.
- c. Earnings and interest accounting practices be improved, including the use of endowment mirror accounts where appropriate.
- d. ASI investment earnings are appropriately distributed.

### **Campus Response**

- a. The Foundation is currently revising and enhancing its investment accounting policies and procedures, including those related to unrealized gains and losses. These policies and procedures, as well as the implementation thereof, are expected to be completed by June 2002.
- b. Funds maintained in the general operating account can be specifically identified using report queries. Completed.
- c. Accounting practices for earnings and interest are being reviewed, revised and improved. Included in the revisions will be the inclusion of mirror endowment accounts, where appropriate.
- d. ASI funds are being transferred to state accounts. State trust accounts will be established and the interest will be distributed according to the campus investment policy. An MOU is being developed between ASI and the state related to the state's custodianship of the funds. The MOU and transfer of the ASI student fee funds currently held in the Foundation are expected to be completed by October 2001.

### **FEES, REVENUE, AND RECEIVABLES**

Foundation policies and procedures did not sufficiently address account aging, timely action on uncollected accounts, and the write-off of uncollectible accounts.

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 strict control over accounts receivables, including timely follow-up of past-due accounts and maintenance of an accounts receivable aging report.

The executive director of the Foundation indicated that the current practices used to address write-offs included consistent preparation of aged receivable reports and recording dated documentation of collection attempts. However, policies and procedures had not been put in written form.

The risk that accounts receivable will become uncollectible is increased when an aging report is not maintained and timely collection of past-due accounts is not pursued.

### **Recommendation 9**

We recommend that the Foundation strengthen its administration of accounts receivable, including account aging, timely action on uncollected accounts, and the write-off of uncollectible accounts.

### **Campus Response**

The Foundation is revisiting its policies and procedures related to accounts receivable, account aging, account collection time lines, review of uncollected accounts, and write-off procedures. Procedures will be enhanced and administrative oversight will be strengthened. Policy and procedure revisions and demonstrated administrative oversight enhancement is expected to be accomplished by December 2001.

## **PURCHASING AND ACCOUNTS PAYABLE**

There were no controls in place to account for checks removed from the inventory stock.

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 check stock be accounted for adequately.

The executive director of the Foundation stated that the check stock is kept in a locked location. However, a log had not been maintained to record beginning and ending check numbers when checks were removed for use.

Failure to adequately control check stock increases the risk that funds will be misappropriated.

### **Recommendation 10**

We recommend that the Foundation strengthen check stock usage controls to include a log documenting the beginning and ending numbers of checks used.

### **Campus Response**

The Foundation has improved its procedures for using check stock. A log has been established whereby check stock numbers are recorded when checks are taken from and/or returned to the check stock location. The log indicates the beginning and ending numbers of the checks. These procedures were implemented in July 2001. Completed.

## **PETTY CASH AND CHANGE FUNDS**

Petty cash and change fund policies and procedures did not include periodic, unannounced, independent 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 that petty cash policies and procedures include periodic and independent counts.

The executive director of the Foundation noted periodic petty cash account audits had not been incorporated into the regular cash monitoring routine.

Internal controls are compromised when petty cash policies and procedures do not include independent counts of funds.

### **Recommendation 11**

We recommend that the Foundation document petty cash and change fund procedures, addressing provisions for performing periodic and independent, unannounced cash counts.

### **Campus Response**

The Foundation is writing operational procedures for documentation of petty cash and change fund usage and monitoring. These procedures will include provisions for performing unannounced cash counts. The written procedures will be completed by December 2001 and more regular periodic independent unannounced cash counts will begin again during the Fall 2001 academic semester.

## **PERSONNEL AND PAYROLL**

A single individual entered data into the payroll system to generate paychecks and received the checks for distribution while controlling numerous other aspects of the personnel and payroll functions.

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 executive director of the Foundation stated that the Foundation had limited staff and adopted what it believed were adequate compensating controls in most areas of its operation. The Foundation requires management's approval for employee additions and changes. Additionally, a separate individual reviews the monthly reconciliation reports that include employee additions and changes to employee status. However, the Foundation acknowledges that if the payroll coordinator enters hourly payroll data, modified procedures need to be developed to identify alternate controls for the distribution of checks.

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

### **Recommendation 12**

We recommend that the Foundation segregate personnel and payroll duties or develop additional mitigating procedures.

### **Campus Response**

The Foundation is currently assessing current staffing duties to identify mechanisms to segregate personnel and payroll duties and/or develop additional mitigating procedures. Currently, the Foundation has instituted a procedure to have an employee, who does not have responsibility for payroll or personnel transactions, perform a monthly random comparison of payroll check amounts to the recorded monthly approved earnings. Once this procedure and/or other mitigating processes have been tested, written procedures will be developed. Written procedures will be developed by December 2001.

## **FIXED ASSETS**

### **POLICIES AND PROCEDURES**

The Foundation had no written policies and procedures for fixed assets and had not conducted a physical inventory count in three years.

The Foundation's policies and procedures did not sufficiently address:

- ▶ Accountability and responsibility for equipment.
- ▶ Control over additions and deletions of inventory.
- ▶ Procedures for tagging equipment.
- ▶ Off-site use of equipment.
- ▶ Property sales and dispositions.
- ▶ Property inventory reconciliations to financial 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 written fixed asset policies and procedures be maintained and that regular inventories are performed.

The executive director of the Foundation indicated that due to staffing and workload issues, there had not been a comprehensive inventory conducted over the last several years and written inventory policies and procedures had not been prepared.

When formal, written fixed asset policies and procedures are not adequately controlled, there is an increased potential for lost or stolen property.

### **Recommendation 13**

We recommend that the Foundation perform a complete physical inventory and document its fixed asset policies and procedures which should address, at a minimum:

- a. Accountability and responsibility for equipment.
- b. Control over additions and deletions of inventory.
- c. Procedures for tagging equipment.
- d. Off-site use of equipment.
- e. Property sales and dispositions.
- f. Property inventory reconciliations to financial records.

### **Campus Response**

The Foundation has entered into an agreement with the campus to include the Foundation's fixed assets as part of the campus-wide physical inventory currently being conducted. Campus procedures for bar code tagging and recording the location of property items are being used. This information will be entered into a database and will be used to reconcile records. The campus is also working with the Foundation in the development of its procedures for the sale and disposition of property. It is anticipated that the physical inventory and reconciliation of financial records will be completed by December 2001. Written policies and procedures for fixed assets will be completed by June 2002.

## **CONTRACTS AND GRANTS**

The Foundation's fixed asset controls did not clearly address transfer of accountability for assets with the campus when grants and contracts were completed.

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. Sound business practice mandates that transfer accountability for assets be established when control responsibilities are exchanged.

The executive director of the Foundation stated that procedures had not yet been completed to transfer property purchased under grants and contracts to the university.

When policies and procedures do not sufficiently address fixed assets purchased on behalf of the campus, there is an increased potential for lost or stolen property.

### **Recommendation 14**

We recommend that the campus and the Foundation address the need to establish controls related to transfer accountability for fixed assets purchased under grants and contracts.

### **Campus Response**

The Foundation and the campus will collaborate to develop policies and procedures related to the transfer of fixed assets purchased under grants and contracts. The first step toward this effort is the campus-wide physical inventory currently being conducted. Items purchased under grants and contracts will then be identified. The policies and procedures being developed will incorporate the disposition of property when a grant or contract has ended. The policies and procedures guiding both the campus and Foundation are expected to be completed by June 2002.

## **TRUSTS AND OTHER LIABILITIES**

The Foundation's trust agreements were incomplete.

We found that:

- ▶ Trust account holders were not notified in writing that their investment earnings would be withheld in lieu of an administrative overhead charge.
- ▶ In one instance, the purpose/designation of an account with a balance exceeding \$230,000 had not been included in the agreement.

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 charges assessed be agreed upon and substantiated in writing and that account purposes be documented in the trust instrument.

The executive director of the Foundation stated that information pertaining to interest income earned on funds it held was written in the Foundation's account holder's handbook. However, this information was not included on the forms signed by the new account holder. Regarding the \$230,000, he further noted that the trust account holder had identified the funds to be used for a new childcare center. It was an oversight that the designation of these funds had not been put in writing.

Failure to sufficiently document trust instruments may lead to misunderstandings and confusion as to the use/allocation of such earnings.

### **Recommendation 15**

We recommend that the Foundation ensure that trust agreements are complete.

## **Campus Response**

The Foundation has now included on its account set-up form reference to the Foundation's administrative fee policies, including the retention by the Foundation of interest to cover administrative fees (form modified July 2001). Additionally, account holders are given a copy of the Foundation's administrative fee policies. As fee policies change, account holders will be notified. The one trust account holder that had not designated use of unspent funds has now identified use of these funds (fund designation instructions completed June 2001). The Foundation's trust agreement review process has been strengthened. Completed.

## **PROGRAMS**

### **FACULTY RELEASE TIME**

The management and control of faculty release time accepted under the Foundation's contracts and grants program needed to be strengthened.

We found that:

- ▶ The campus was not billing the Foundation the full cost of faculty released.
- ▶ Release time agreements were not always prepared and forwarded to the Foundation in advance of work performed.

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.

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 appropriately processed prior to work being performed.

The associate vice president of faculty affairs and associate vice president of academic planning and resources management noted that not all funding agencies allocate sufficient grant funds to cover the cost of reimbursement for the full-time faculty. It is believed that there are compensating benefits to the mission of the institution when grants are awarded. Therefore, it has been common practice to submit a grant budget indicating the amount of money it would cost to replace the faculty member, rather than the normally higher rate of the campus faculty member.

The executive director of the Foundation noted that existing campus procedures did not include a consistent process to identify, prior to the beginning of an academic term, faculty members who would be receiving release time paid from grant funds.

Without appropriate control and management of contract and grant costs, the true cost of programs will not be known.

### **Recommendation 16**

We recommend that the Foundation and the campus coordinate to ensure that:

- a. The campus is appropriately compensated for the full cost of faculty released.
- b. Release time agreements are prepared and forwarded to the Foundation before work is performed.

### **Campus Response**

The campus is working on policies and procedures related to appropriate compensation for the full cost of faculty being released to conduct work on grants. Included in these policies and procedures will be the review of each grant application, and the granting agency, to determine whether it is feasible to submit the full dollar reimbursement costs. Where full dollar reimbursement cost submittals are not feasible, a review of the grant will be conducted to determine if there are other compensating benefits to the educational mission of the institution. Additionally, the campus is developing policies and procedures for release time agreements to be prepared and forwarded to the Foundation before grant work is performed. Policies and procedures related to reimbursement and notification of release time are expected to be completed by December 2001.

## **CONTRACTS AND GRANTS ADMINISTRATION**

The Foundation's administration of contracts and grants needed improvement.

We found, during our testing, that:

- ▶ In some instances, grants and contracts were issued in the name of the university and, thus, erroneously administered by the Foundation.
- ▶ Periodic reports had not been filed timely.
- ▶ In one instance, a periodic report was found which had never been filed.

The executive director of the Foundation noted that university and Foundation policies and procedures had not clearly stated that the grants and contracts administered by the Foundation must be issued to the Foundation, not the university. It was acknowledged that the Foundation was not pursuing grant recipients as diligently as necessary to file periodic reports in a timely manner.

A lack of sufficient oversight exposes the campus and the CSU system to regulatory and legal consequences.

**Recommendation 17**

We recommend that the Foundation and the campus coordinate to ensure that:

- a. Grants and contracts are properly administrated in accordance with pre-award specifications, including recipient designation.
- b. Periodic reports are filed timely.

**Campus Response**

- a. Grants and contract administration is being strengthened including attention being given to pre-award specifications. The campus Research and Funded Projects office, who provide the pre-award guidance, has been informed by the Foundation to designate the Foundation as the grants and contracts recipient, not the University. The Research and Funded Projects office is now designating the Foundation on grants and contracts (memo of notification from the Executive Director of the Foundation dated March 29, 2001). Completed.
- b. The Foundation is strengthening its processes to more regularly provide follow-up to obtain reports in a timely manner from principal investigators, project directors and contract holders. Significant improvement in obtaining timely reports will be demonstrated by December 2001.

## **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 ASI student body fees and immediately transmits these monies to ASI. ASI then invests and disburses these proceeds from accounts at the Foundation, which 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 acting general manager stated that since the chief fiscal officer had oversight for the Foundation where the student body fees were deposited in trust, it was assumed that regulatory requirements were being met.

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

#### **Recommendation 18**

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

#### **Campus Response**

Procedures are being finalized to transfer all student body organization fees from the Foundation to state accounts, under the custodianship of the chief financial officer. Currently, all new student organization fees are being held in state accounts. The MOU between the campus and ASI regarding the custodianship will be finalized by October 2001.

### **OPERATING POLICIES AND PROCEDURES**

As revised in September 2000, ASI's financial policies and procedures did not always accurately reflect current practice in sufficient and accurate detail.

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. 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 would mandate updated and comprehensive operating policies and procedures.

ASI's acting general manager noted that the policies and procedures were being modified relating to internal accounting processes and had not been recorded in the ASI written procedures.

Operating in the absence of updated written policies and procedures increases the risk of misunderstandings and miscommunications regarding rights and responsibilities.

### **Recommendation 19**

We recommend that ASI revise its financial policies and procedures to accurately reflect current practice in sufficient and accurate detail.

### **Campus Response**

As previously mentioned, ASI funds are being transferred to state accounts, under the custodianship of the chief financial officer. In coordination with the campus, ASI will revise its financial policies and procedures to accurately reflect financial practices. Revisions to policies and procedures are expected to be completed by January 2002.

## **BOARD RESOLUTIONS**

ASI board resolutions were not sufficiently controlled.

ASI board minutes reflected actions taken by the board, but were not numerically controlled and indexed to facilitate subsequent board access to such actions. Such information was only available if prior board minutes were read sequentially back to the creation of the entity.

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 sufficiently controlled and indexed board resolutions.

ASI's acting general manager noted that ASI board minutes contain a record of board actions. He was unaware that a separate tracking system was required.

Insufficiently controlled and indexed board resolutions may result in misunderstandings and delays in implementing board actions.

### **Recommendation 20**

We recommend that ASI sufficiently control and index board resolutions.

### **Campus Response**

ASI is currently developing a database to index board resolutions. Once completed, and maintained, the database will provide indexing and sorting capability by date, resolution number and subject. The database is expected to be brought up to date by October 2001.

## **FEES, REVENUE, AND RECEIVABLES**

ASI did not reconcile cash receipts and revenues to activity reports.

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 monthly revenue reconciliations be performed.

ASI's acting general manager noted that he was not aware of the necessity to document the revenue reconciliations.

Internal controls are compromised when reconciliations are not performed.

### **Recommendation 21**

We recommend that ASI develop and implement procedures for the reconciliation of revenues to activity reports.

### **Campus Response**

In coordination with the campus, ASI will develop procedures for the reconciliation of revenues to activity reports. The procedures and implementation thereof will be completed by January 2002.

## **PURCHASING AND ACCOUNTS PAYABLE**

### **CREDIT CARD SUPPORTING DOCUMENTATION**

Certain ASI credit card disbursements lacked sufficient supporting documentation.

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. The duties described by these sections would require that the validity of expenditures be further questioned and that the adequate supporting documents, including authorizations to pay, should be obtained.

ASI's acting general manager noted that not all ASI officers consistently submitted receipts for credit card expenses.

Inadequate supporting documentation and control over credit card expenditures increase the risk that misappropriation of funds will not be detected.

**Recommendation 22**

We recommend that ASI increase its oversight of credit card expenditures by ensuring that transactions are adequately supported.

**Campus Response**

The ASI General Manager has instituted a monthly reconciliation process for all credit card expenditures. Receipts or other supporting documentation are required to be submitted each month by the credit card holder. Additionally, the campus is working with ASI to enhance procedures and processes. Completed.

**SEGREGATION OF DUTIES – RECEIPTING AND DISBURSING**

Cash receipting and disbursing duties were not adequately segregated.

We found that one person initiated invoices, received cash, prepared deposits, and requested and authorized disbursements.

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 acting general manager stated that the current staff of one has not permitted adequate segregation of duties.

Inadequate internal control cash receipting and disbursing duties increase the risk that errors and irregularities will not be detected in a timely manner.

**Recommendation 23**

We recommend that ASI coordinate with the campus and segregate cash handling and disbursing duties or develop mitigating procedures.

**Campus Response**

The ASI has approved, beginning fiscal year 2001-02, two additional staff positions. Incorporated in the duties and responsibilities of the new staff will be tasks to provide segregation of duties for cash handling and disbursement duties. Additionally, ASI will be coordinating with the campus to develop revised financial policies and procedures and ways to address the segregation of duties until such time

as the new positions have been filled. It is anticipated the additional ASI staff will be hired by December 2001 and the revised financial policies and procedures will be completed by January 2002.

## TRUSTS AND OTHER LIABILITIES

Funds held in trust by ASI for student organizations (campus clubs) were not sufficiently administered.

We found that:

- ▶ Trust agreements, which should contain the purpose of the account, the source of funds, reporting requirements, or other restrictions, were not executed between ASI and campus clubs.
- ▶ Accounts were established based solely on the completion of a signature card.

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. The duties described by these sections would require that ASI question the validity of expenditures and obtain adequate supporting documents to justify payment.

Probate Code §16000 indicates that on acceptance of a trust, the trustee has a duty to administer the trust according to the trust instrument. A sufficiently documented trust arrangement, which includes an executed trust agreement as well as other supporting documentation, would be essential to meeting this objective.

ASI's acting general manager stated that ASI maintains authorized club/organization signature forms. However, formal, written policies and procedures for opening and operating trust accounts had not been developed.

Insufficient control over funds held in trust in accordance with CSU and related standards increases the risk that funds will be expended for inappropriate purposes.

### **Recommendation 24**

We recommend that ASI establish appropriate trust agreements.

### **Campus Response**

Since ASI trust accounts will be administered by the campus accounting office, trust agreements will be revised to conform to the campus trust account policies and procedures. Revised and updated trust account agreements are expected to be completed by November 2001.

## **PROGRAMS**

The infant toddler childcare program operated by the Foundation within the ASI childcare center was done without the benefit of a current written agreement.

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 established in writing prior to work being performed.

The executive director of the Foundation indicated that an operating agreement between the Foundation and ASI had not been established. ASI's acting general manager stated that neither ASI nor the grant holder that provided the funds for the infant toddler center were aware of the need to establish a separate agreement for the infant toddler center's operation in the ASI childcare center.

Operating in the absence of an up-to-date, written agreement increases the risk of misunderstandings and miscommunications regarding rights and responsibilities.

### **Recommendation 25**

We recommend that ASI establish a current, written operating agreement for its childcare center with the Foundation regarding the infant toddler center, which is administered through the Foundation.

### **Campus Response**

The child care center and the infant toddler center are scheduled to be relocated to separate facilities. With this occurring in September or October 2001, no agreement will be necessary. Completed.

**CSU DOMINGUEZ HILLS LOKER UNIVERSITY STUDENT UNION, INC.**

**CASH RECEIPTS**

**POLICIES AND PROCEDURES – CASH RECEIPTS**

The Student Union did not have written policies and procedures to guide staff responsible for opening, operating, and closing procedures where cash transactions occurred.

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 policies and procedures be written.

The director of the Student Union stated that operating procedures, which provide checks and balances in the cash collection activities of the office, do exist although not in writing.

Internal controls are compromised when policies and procedures are incomplete and not fully documented.

**Recommendation 26**

We recommend that the Student Union document cash handling policies and procedures.

**Campus Response**

The Student Union will commit to writing its policies and procedures for the documentation of handling cash. It is anticipated that the written policies and procedures will be completed by November 2001.

**SEGREGATION OF DUTIES – CASH RECEIPTING AND HANDLING**

Cash receipting and handling duties were inadequately segregated at the Student Union.

We found that one person initiated invoices, received cash, and prepared deposits.

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 director of the Student Union stated that she believed duties were sufficiently segregated as a result of reviews performed in conjunction with their annual financial audit.

Inadequate internal control cash receipting and handling duties increase the risk that errors and irregularities will not be detected in a timely manner.

**Recommendation 27**

We recommend that the Student Union coordinate with the campus and segregate cash receipting and handling duties or develop mitigating procedures.

**Campus Response**

The campus and the Student Union will work together to determine areas and levels of exposure for cash receipting and cash handling. They will also look at segregation of duty and mitigating procedures options. Once this assessment has been completed, procedures will be implemented. It is anticipated that the assessment and implementation of procedures will be completed by December 2001.

**FEEES, REVENUE, AND RECEIVABLES**

The Student Union did not maintain a written reconciliation of revenues to activity reports.

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 monthly revenue reconciliations be maintained.

The director of the Student Union stated that the revenue reconciliations are prepared on a monthly basis; however, documentation is not sufficient.

Internal controls are compromised when reconciliations are not sufficiently documented.

**Recommendation 28**

We recommend that the Student Union maintain a written reconciliation of revenues to activity reports.

**Campus Response**

The Student Union will institute a more comprehensive documentation process of its current monthly reconciliation of revenues to activity reports. The documentation process and implementation thereof will be completed by November 2001.

## **FIXED ASSETS**

### **FIXED ASSETS RECONCILIATION**

The Student Union's physical inventory accounting records were not reconciled to general ledger 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 regular (quarterly or annual) reconciliations between property listing/location records and the general ledger.

The director of the Student Union stated that the Student Union was not aware of the need to complete this reconciliation.

Failure to complete property reconciliations in a timely manner increases the risk that errors and irregularities will not be detected.

#### **Recommendation 29**

We recommend that the Student Union develop and implement reconciliations between inventory accounting and the general ledger.

#### **Campus Response**

A complete reconciliation between the inventory accounting and general ledger is expected to be completed by December 2001. Additionally, the Student Union is participating in the campus-wide physical inventory of fixed assets currently being conducted. These inventory records will be compared with and reconciled to the Student Union inventory records.

### **DISPOSAL OF FIXED ASSETS**

Policies and procedures concerning fixed asset disposal for the Student Union needed to be 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 policies and procedures which provide for sufficient control over assets.

The director of the Student Union stated that most of the assets that have been disposed of have been group two equipment and/or furnishings (state property in the custody of the Student Union) from the original construction. The Student Union had been following the university's disposal policies, but had not established its own written policies.

Internal controls are compromised when policies and procedures are incomplete and not fully documented.

**Recommendation 30**

We recommend that the Student Union document property disposal policies and procedures.

**Campus Response**

The Student Union will commit to writing its property disposal policies and procedures. These written policies and procedures will be completed by October 2001.

---

## APPENDIX A: PERSONNEL CONTACTED

### Name

### Title

#### **CAMPUS**

James E. Lyons	President
Ron Ambrosetti	Associate Vice President, Faculty Affairs
Boice Bowman	Vice President, Student Affairs
Donald Castro	Vice President, Academic Affairs
Brian Dahm	Director, Accounting Services
Marco Guardi	Risk Manager
Jackson Henry	Associate Dean, School of Education
Kathleen Hughes	Director, Business Process Management
David Karber	Associate Vice President, Academic Planning and Resource Management
Maggie McCarthy	Director, Research and Funded Programs
David McCulloch	Assistant Director, Business Process Management
Doris Okada	Director, Infant Toddler Center
George Pardon	Vice President, Administration and Finance
Karl Ralph	Assistant to the Vice President, Student Affairs
Rowena Tran	Manager, General Accounting
Khanh Vanpetten	Fiscal Officer, Academic Planning and Resource Management
Randy Zarn	Associate Vice President, Student Affairs

#### **CSU DOMINGUEZ HILLS FOUNDATION**

Richard Chester	Director, Commercial Services
Delia Diego	Operations Manager, Commercial Services
Rita Darcy	Grants and Contracts Administrator
Jim Egan	Payroll Administrator
Kent Gibson	Executive Director
Danh Hoang	Accountant
Sue Nichols	Director, Grants and Contracts Administration
Dawn Shimizu	Director, Business and Finance

#### **ASSOCIATED STUDENTS, INC.**

Guy Witherspoon	Acting General Manager
Joanne Sato	Director, Child Development Center

#### **CSU DOMINGUEZ HILLS LOKER UNIVERSITY STUDENT UNION, INC.**

Kim Clark	Director
-----------	----------

## 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 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 that 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 employees 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.

## 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  
**Dominguez Hills**

---

Office of the Vice President of Administration and Finance  
 Carson, CA 90747 (310) 243-3750 FAX: (310) 243-3869

August 17, 2001

**RECEIVED**  
 University Auditor

AUG 17 2001

The California State  
 University

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

Dear Mr. Mandel:

Enclosed please find California State University, Dominguez Hills' response to the Auxiliary Organizations Audit 00-53. The campus is committed to addressing and resolving the issues identified in the audit report.

If you have any questions or would like additional information, please contact me.

Sincerely,

George A. Pardon  
 Vice President of Administration and Finance

- c: James E. Lyons, Sr., President  
 Boice Bowman, Vice President, Student Affairs  
 Donald Castro, Vice President Academic Affairs  
 Ronald Ambrosetti, Associate Vice President, Academic Affairs  
 David Karber, Associate Vice President, Academic Affairs  
 Kim Clark, Director, Loker Student Union  
 Kent Gibson, Executive Director, CSUDH Foundation  
 Guy Witherspoon, Acting Executive Director, Associated Students, Inc.  
 Jose Solache, President, Associated Students, Inc.  
 Kathleen Hughes, Director, Business Process Management

**CALIFORNIA STATE UNIVERSITY, DOMINGUEZ HILLS**  
**AUXILIARY ORGANIZATIONS AUDIT 00-53**  
**August 17, 2001**

**RECOMMENDATION 1 – Campus**

We recommend that the campus coordinate with the Foundation and the Chancellor's Office to ensure that rights and obligations with respect to the campus' offering of pouring rights be delineated in writing between the campus and the Foundation.

**Campus Response**

An agreement between the university and the Foundation is being prepared that will include appropriate consideration of the rights and obligations with respect to the Coca Cola pouring rights. The agreement between the Foundation and Coca Cola has been submitted to the Chancellor's Office. It is anticipated that the agreement between the university and the Foundation will be completed *by October, 2001*.

**RECOMMENDATION 2 - Campus**

We recommend that the licensing agreement between the campus and the Foundation contain specific provisions regarding consideration exchanged and the appropriate disposition of funds.

**Campus Response**

The payphone contract between the Foundation and the vendor has expired. A new agreement is being written between the state and the vendor. All of the proceeds generated by this agreement will be deposited into a state account. The agreement between the state and the payphone contractor is expected to be implemented *by September, 2001*. Existing payphone revenue funds currently in a Foundation account will be transferred to a state account *by September, 2001*.

**RECOMMENDATION 3 – Campus (COMPLETED)**

We recommend that the campus establish a written agreement with the Foundation which clearly establishes how the campus and the Foundation will exercise responsibilities for the oversight of the state employee.

**Campus Response**

A letter defining the terms of the reassignment had been given to the employee by the Vice President and was signed by the employee at the time the assignment was made to work in the Foundation. The campus and Foundation have now executed an MOU defining the conditions and responsibilities for oversight of this state employee.  
*Done/Completed July, 2001.*

**RECOMMENDATION 4 – Campus**

We recommend that the campus establish policies and procedures to track and monitor academic effort in conjunction with contract and grant requirements as well as the CSU overload policy.

**Campus Response**

The campus is currently working on the development of policies and procedures to identify, monitor and track academic effort and workload associated with grant activities. These policies and procedures will include processes to provide coordination and communication with the Foundation grant oversight unit. The policies and procedures and implementation thereof are expected in *December, 2001*.

**RECOMMENDATION 5 – Campus**

We recommend that the campus:

- a. Establish risk management policies and procedures that include auxiliaries.
- b. Monitor auxiliary compliance with, and sufficiency of, risk mitigation provisions within auxiliary operating procedures and written agreements entered into with the campus.

**Campus Response**

The campus now has a written Risk Management Policy and implementation procedures for the policy are being developed. Included in the policy is the establishment of an advisory committee. The committee composition includes representatives from the auxiliaries. Procedures for the implementation of this policy will include campus review of auxiliary policies and procedures related to risk management. Procedures to implement the policy are expected to be completed *by December, 2001*.

**RECOMMENDATION 6 – Campus**

We recommend that the campus enhance the policies and provide procedures for oversight regarding governance of the campus internet website as it relates to commercial and charitable solicitations.

**Campus Response**

The campus has re-instituted a campus information technology advisory committee. This committee has begun reviewing the existing internet/web policies. The campus recognizes there is a need to enhance policies and procedures for the use and monitoring

(Recommendation 6, continued)

of CSUDH internet websites, and links thereto, as they relate to commercial and charitable solicitations. The anticipated completion date for revised policies and procedures is *January, 2002*.

### **RECOMMENDATION 7 – Foundation**

We recommend that the campus work with the Foundation to develop operating procedures which implement the requirements of the Code of Civil Procedures with respect to unclaimed property.

#### **Campus Response**

The campus is assisting the Foundation to identify policies and procedures that need to be established and implemented to escheat unclaimed monies to the state. Foundation policies and procedures, as well as the implementation thereof, are expected to be completed *by December, 2001*.

### **RECOMMENDATION 8 – Foundation**

We recommend that the Foundation ensure that:

- a. Investment accounting policies and procedures are better documented, including those specific to unrealized gains and losses.
- b. Funds maintained within the general operating account be specifically identified.
- c. Earnings and interest accounting practices be improved, including the use of endowment mirror accounts where appropriate.
- d. ASI investment earnings are appropriately distributed.

#### **Campus Response**

- a. The Foundation is currently revising and enhancing its investment accounting policies and procedures, including those related to unrealized gains and losses. These policies and procedures, as well as the implementation thereof, are expected to be completed *by June, 2002*.
- b. Funds maintained in the general operating account can be specifically identified using report queries. ***DONE/COMPLETED***
- c. Accounting practices for earnings and interest are being reviewed, revised and improved. Included in the revisions will be the inclusion of mirror endowment accounts, where appropriate.

(Recommendation 8, continued)

- d. ASI funds are being transferred to state accounts. State trust accounts will be established and the interest will be distributed according to the campus investment policy. An MOU is being developed between ASI and the state related to the state's custodianship of the funds. The MOU and transfer of the ASI student fee funds currently held in the Foundation are expected to be completed *by October, 2001*.

### **RECOMMENDATION 9 – Foundation**

We recommend that the Foundation strengthen its administration of accounts receivables, including account aging, timely action on uncollected accounts, and the write-off of uncollected accounts.

#### **Campus Response**

The Foundation is revisiting its policies and procedures related to accounts receivable, account aging, account collection time lines, review of uncollected accounts, and write-off procedures. Procedures will be enhanced and administrative oversight will be strengthened. Policy and procedure revisions and demonstrated administrative oversight enhancement is expected to be accomplished by *December, 2001*.

### **RECOMMENDATION 10 – Foundation (COMPLETED)**

We recommend that the Foundation strengthen check stock usage controls to include a log documenting the beginning and ending numbers of checks used.

#### **Campus Response**

The Foundation has improved its procedures for using check stock. A log has been established whereby check stock numbers are recorded when checks are taken from and/or returned to the check stock location. The log indicates the beginning and ending numbers of the checks. These procedures were implemented *in July, 2001. DONE/ COMPLETED.*

### **RECOMMENDATION 11 – Foundation**

We recommend that the Foundation document petty cash and change fund procedures, addressing provisions for performing periodic and independent unannounced cash counts.

### **Campus Response**

The Foundation is writing operational procedures for documentation of petty cash and change fund usage and monitoring. These procedures will include provisions for performing unannounced cash counts. The written procedures will be completed *by December, 2001* and more regular periodic independent unannounced cash counts will begin again *during the Fall, 2001* academic semester.

### **RECOMMENDATION 12 – Foundation**

We recommend that the Foundation segregate personnel and payroll duties or develop additional mitigating procedures.

### **Campus Response**

The Foundation is currently assessing current staffing duties to identify mechanisms to segregate personnel and payroll duties and/or develop additional mitigating procedures. Currently, the Foundation has instituted a procedure to have an employee, who does not have responsibility for payroll or personnel transactions, perform a monthly random comparison of payroll check amounts to the recorded monthly approved earnings. Once this procedure and/or other mitigating processes have been tested, written procedures will be developed. Written procedures will be developed *by December, 2001*.

### **RECOMMENDATION 13 – Foundation**

We recommend that the Foundation perform a complete physical inventory and document its fixed asset policies and procedures which should address, at a minimum:

- a. Accountability and responsibility for equipment.
- b. Control over additions and deletions of inventory.
- c. Procedures for tagging equipment.
- d. Off-site use of equipment
- e. Property sales and dispositions.
- f. Property inventory reconciliation to financial records.

### **Campus Response**

The Foundation has entered into an agreement with the campus to include the Foundation's fixed assets as part of the campus-wide physical inventory currently being conducted. Campus procedures for bar code tagging and recording the location of property items are being used. This information will be entered into a database and will be used to reconcile records. The campus is also working with the Foundation in the development of its procedures for the sale and disposition of property. It is anticipated that the physical inventory and reconciliation of financial records will be completed *by December, 2001*. Written policies and procedures for fixed assets will be completed *by June, 2002*.

**RECOMMENDATION 14 - Foundation**

We recommend that the campus and the Foundation address the need to establish controls related to transferring accountability for fixed assets purchased under grants and contracts.

**Campus Response**

The Foundation and the campus will collaborate to develop policies and procedures related to the transfer of fixed assets purchased under grants and contracts. The first step toward this effort is the campus-wide physical inventory currently being conducted. Items purchased under grants and contracts will then be identified. The policies and procedures being developed will incorporate the disposition of property when a grant or contract has ended. The policies and procedures guiding both the campus and Foundation are expected to be completed *by June, 2002*.

**RECOMMENDATION 15 – Foundation (COMPLETED)**

We recommend that the Foundation ensure that the trust agreements are complete.

**Campus Response**

The Foundation has now included on its account set-up form reference to the Foundation's administrative fee policies, including the retention by the Foundation of interest to cover administrative fees (*form modified July, 2001*). Additionally, account holders are given a copy of the Foundation's administrative fee policies. As fee policies change, account holders will be notified. The one trust account holder that had not designated use of unspent funds has now identified use of these funds (*fund designation instructions completed June, 2001*). The Foundation's trust agreement review process has been strengthened. (***DONE/COMPLETED***)

**RECOMMENDATION 16 – Foundation**

We recommend that the Foundation and the campus coordinate to ensure that:

- a. The campus is appropriately compensated for the full cost of faculty released.
- b. Release time agreements are prepared and forwarded to the Foundation before work is performed.

**Campus Response**

The campus is working on policies and procedures related to appropriate compensation for the full cost of faculty being released to conduct work on grants. Included in these policies and procedures will be the review of each grant application, and the granting agency, to determine whether it is feasible to submit the full dollar reimbursement costs.

(Recommendation 16, continued)

Where full dollar reimbursement cost submittals are not feasible, a review of the grant will be conducted to determine if there are other compensating benefits to the educational mission of the institution. Additionally, the campus is developing policies and procedures for release time agreements to be prepared and forwarded to the Foundation before grant work is performed. Policies and procedures related to reimbursement and notification of release time are expected to be completed by *December, 2001*.

### **RECOMMENDATION 17 – Foundation**

We recommend that the Foundation and the campus coordinate to ensure that:

- a. Grants and contracts are properly administered in accordance with pre-award specifications, including recipient designation.
- b. Periodic reports are filed timely.

#### **Campus Response**

- a. Grants and contracts administration is being strengthened including attention being given to pre-award specifications. The campus Research and Funded Projects office, who provide the pre-award guidance, has been informed by the Foundation to designate the Foundation as the grants and contracts recipient, not the University. The Research and Funded Projects office is now designating the Foundation on grants and contracts (*memo of notification from the Executive Director of the Foundation dated March 29, 2001*). **DONE/COMPLETED.**
- b. The Foundation is strengthening its processes to more regularly provide follow-up to obtain reports in a timely manner from principal investigators, project directors and contract holders. Significant improvement in obtaining timely reports will be demonstrated by *December, 2001*.

### **RECOMMENDATION 18 – Associated Students, Inc.**

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

#### **Campus Response**

Procedures are being finalized to transfer all student body organization fees from the Foundation to state accounts, under the custodianship of the chief financial officer. Currently, all new student organization fees are being held in state accounts. The MOU between the campus and ASI regarding the custodianship will be finalized by *October, 2001*.

**RECOMMENDATION 19 – Associated Students, Inc.**

We recommend that the ASI revise its financial policies and procedures to accurately reflect current practice in sufficient and accurate detail.

**Campus Response**

As previously mentioned, ASI funds are being transferred to state accounts, under the custodianship of the chief financial officer. In coordination with the campus, ASI will revise its financial policies and procedures to accurately reflect financial practices. Revisions to policies and procedures are expected to be completed *by January, 2002*.

**RECOMMENDATION 20 – Associated Students, Inc.**

We recommend that the ASI sufficiently control and index board resolutions.

**Campus Response**

ASI is currently developing a database to index board resolutions. Once completed, and maintained, the database will provide indexing and sorting capability by date, resolution number and subject. The database is expected to be brought up to date *by October, 2001*.

**RECOMMENDATION 21 – Associated Students, Inc.**

We recommend that the ASI develop and implement procedures for the reconciliation of revenues to activity reports.

**Campus Response**

In coordination with the campus, ASI will develop procedures for the reconciliation of revenues to activity reports. The procedures and implementation thereof will be completed *by January, 2002*.

**RECOMMENDATION 22 – Associated Students, Inc. (COMPLETED)**

We recommend that the ASI increase its oversight of credit card expenditures by ensuring that transactions are adequately supported.

**Campus Response**

The ASI General Manager has instituted a monthly reconciliation process for all credit card expenditures. Receipts or other supporting documentation are required to be submitted each month by the credit card holder. Additionally, the campus is working with ASI to enhance procedures and processes. ***DONE/COMPLETED***.

**RECOMMENDATION 23 – Associated Students, Inc.**

We recommend that the ASI coordinate with the campus and segregate cash handling and disbursing duties or develop mitigating procedures.

**Campus Response**

The ASI has approved, beginning fiscal year 2001-02, two additional staff positions. Incorporated in the duties and responsibilities of the new staff will be tasks to provide segregation of duties for cash handling and disbursement duties. Additionally, ASI will be coordinating with the campus to develop revised financial policies and procedures and ways to address the segregation of duties until such time as the new positions have been filled. It is anticipated the additional ASI staff will be hired *by December, 2001* and the revised financial policies and procedures will be completed by *January, 2002*.

**RECOMMENDATION 24 – Associated Students, Inc.**

We recommend that the ASI establish appropriate trust agreements.

**Campus Response**

Since ASI trust accounts will be administered by the campus accounting office, trust agreements will be revised to conform to the campus trust account policies and procedures. Revised and updated trust account agreements are expected to be completed *by November, 2001*.

**RECOMMENDTION 25 – Associated Students, Inc. – (COMPLETED)**

We recommend that the ASI establish a current written operating agreement for its childcare center with the Foundation regarding the infant toddler center which is administered through the Foundation.

**Campus Response**

The child care center and the infant toddler center are scheduled to be relocated to separate facilities. With this occurring in September or October, 2001, no agreement will be necessary.

***DONE/COMPLETED***

**RECOMMENDATION 26 – Loker Student Union, Inc.**

We recommend that the student union document cash handling policies and procedures.

**Campus Response**

The Student Union will commit to writing its policies and procedures for the documentation of handling cash. It is anticipated that the written policies and procedures will be completed by *November, 2001*.

**RECOMMENDATION 27 – Loker Student Union, Inc.**

We recommend that the Student Union coordinate with the campus and segregate cash receipting and handling duties or develop mitigating procedures.

**Campus Response**

The campus and the Student Union will work together to determine areas and levels of exposure for cash receipting and cash handling. They will also look at segregation of duty and mitigating procedures options. Once this assessment has been completed, procedures will be implemented. It is anticipated that the assessment and implementation of procedures will be completed by *December, 2001*.

**RECOMMENDATION 28 – Loker Student Union, Inc.**

We recommend that the Union maintain a written reconciliation of revenues to activity reports.

**Campus Response**

The Student Union will institute a more comprehensive documentation process of its current monthly reconciliation of revenues to activity reports. The documentation process and implementation thereof will be completed by *November, 2001*.

**RECOMMENDATION 29 – Loker Student Union, Inc.**

We recommend that the Student Union develop and implement reconciliations between inventory accounting and general ledger.

**Campus Response**

A complete reconciliation between the inventory accounting and general ledger is expected to be completed by *December, 2001*. Additionally, the Student Union is participating in the campus-wide physical inventory of fixed assets currently being conducted. These inventory records will be compared with and reconciled to the Student Union inventory records.

**RECOMMENDATION 30 – Loker Student Union, Inc.**

We recommend that the Union document property disposal policies and procedures.

**Campus Response**

The Student Union will commit to writing its property disposal policies and procedures. These written policies and procedures will be completed *by October, 2001*.

THE CALIFORNIA STATE UNIVERSITY  
OFFICE OF THE CHANCELLOR

BAKERSFIELD

CHANNEL ISLANDS

September 21, 2001

CHICO

**MEMORANDUM**

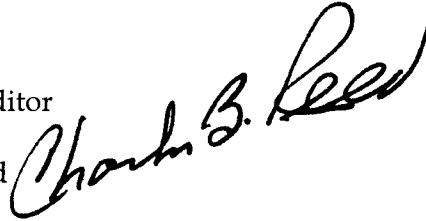
DOMINGUEZ HILLS

FRESNO

TO: Larry Mandel  
University Auditor

FULLERTON

FROM: Charles B. Reed  
Chancellor



HAYWARD

HUMBOLDT

SUBJECT: Draft Final Report Number 00-53 on *Auxiliary Organizations*  
at California State University, Dominguez Hills

LONG BEACH

LOS ANGELES

MARITIME ACADEMY

In response to your memorandum of September 21, 2001, I accept the  
response as submitted with the draft final report on *Auxiliary Organizations*  
at California State University, Dominguez Hills.

MONTEREY BAY

NORTHRIDGE

POMONA

CBR:amd

SACRAMENTO

Enclosure

SAN BERNARDINO

cc: Dr. James E. Lyons, Sr., President

SAN DIEGO

SAN FRANCISCO

SAN JOSE

SAN LUIS OBISPO

SAN MARCOS

SONOMA

STANISLAUS