

AUXILIARY ORGANIZATIONS

**CALIFORNIA STATE POLYTECHNIC UNIVERSITY,
POMONA**

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ABBREVIATIONS

ASI	Associated Students, Inc.
BA	Business Affairs – Office of the Chancellor
CSU	California State University
EO	Executive Order
Foundation	Cal Poly Pomona Foundation, Inc.
IRA	Instructionally Related Activities
UET	University Educational Trust

INTRODUCTION

PURPOSE

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

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

In addition, we reviewed internal controls to assure that:

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

SCOPE AND METHODOLOGY

Our management review emphasized, but was not limited to, compliance with state and federal laws and regulations, Board of Trustee policies, and Office of the Chancellor policies, letters, and directives as they relate to California State University (CSU) auxiliaries. For those audit tests that required annualized data, fiscal year 1998-1999 was the primary period reviewed. In certain instances, we were concerned with representations of the most current data—in such cases, the test period was extended to December 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. Individual codes and regulations included within the scope of our review were identified through an assessment of risk. Similarly, internal controls were included within our scope based upon risk. Therefore, the scope of our review varied from auxiliary to auxiliary.

A preliminary survey of CSU auxiliaries at each campus was used to identify risks. Risk was defined as the probability that an event or action would adversely affect the auxiliary and/or the campus.

Our assessment of risk was based upon a systematic process, using professional judgments on probable adverse conditions and/or events that became the basis for development of our final scope. We sought to assign higher review priorities to activities with higher risks. As a result, not all risks identified were included within the scope of our review.

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

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

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

BACKGROUND

Education Code §89900 states, in part, that the operation of auxiliary organizations shall be conducted in conformity with regulations established by the Trustees.

Education Code §89904 states, in part, that the Trustees of the California State University and the governing boards of the various auxiliary organizations shall:

- ▶ Institute a standard systemwide accounting and reporting system for businesslike management of the operation of such auxiliary organizations.
- ▶ Implement financial standards which will assure the fiscal viability of such various auxiliary organizations. Such standards shall include proper provision for professional management, adequate working capital, adequate reserve funds for current operations and capital replacements, and adequate provisions for new business requirements.
- ▶ Institute procedures to assure that transactions of the auxiliary organizations are within the educational mission of the state colleges.
- ▶ Develop policies for the appropriation of funds derived from indirect cost payments.

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

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

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

The Office of the University Auditor will perform an internal compliance/internal control review of auxiliary organizations. The review will be used to determine compliance with law, including statutes in the Education Code and rules and regulations of Title 5, and compliance with policy of the Board of Trustees and of the campus, including appropriate separation of duties, safeguarding of assets and reliability and integrity of information. This review of each auxiliary organization shall be completed on a triennial basis pursuant to procedures established by the Chancellor.

This report represents our triennial review.

OPINION

We visited the California State Polytechnic University, Pomona campus from February 6, 2001, through March 16, 2001, and reviewed the internal compliance and internal control structures in effect at that time. Our study and evaluation were conducted in accordance with the *Standards for the Professional Practice of Internal Auditing*, issued by the Institute of Internal Auditors, and included the audit tests we considered necessary in determining that accounting and administrative controls are in place and operative.

The campus and management at each auxiliary are responsible for establishing and maintaining adequate internal controls. This responsibility includes documenting internal controls, communicating requirements to employees, and assuring that internal controls are functioning as prescribed. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures.

The objectives of accounting and administrative controls are to provide management with reasonable, but not absolute, assurance that:

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

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

As a result of changing conditions and the degree of compliance with procedures, the effectiveness of controls change over time. Specific limitations that may hinder the effectiveness of an otherwise adequate system of controls include, but are not limited to: resource constraints, faulty judgments, unintentional errors, circumvention by collusion, and management overrides. Establishing controls to prevent these limitations would not be cost-effective; moreover, an audit may not always detect these limitations. (See Appendix C.)

EXECUTIVE SUMMARY

The purpose of this section is to provide management with an overview of conditions requiring their attention. Areas of review not mentioned in this section were found to be satisfactory. Numbers in brackets [] refer to page numbers in the report.

CAMPUS OVERSIGHT

LEGAL AND REGULATORY COMPLIANCE [11]

CAMPUS SUPPORT ORGANIZATIONS [11]

The campus had not developed a procedure to identify, and a strategy to coordinate and oversee, ancillary organizations that operate in support of academic and nonacademic programs. Increased campus and presidential oversight of this area reduces exposure to regulatory and legal consequences.

COST ALLOCATION PLAN [12]

A formal cost allocation plan for the reimbursement of facilities, goods, and services provided by the campus to the auxiliary organizations had not been developed. Defining cost methodology would allow the General Fund to be properly reimbursed for facilities, goods, or services provided to auxiliary organizations.

HOSPITALITY POLICY [13]

The campus had not developed a hospitality policy in accordance with Executive Order (EO) No. 761. Establishing policies and procedures for the payment of hospitality expenses reduces the risk of expenditures not being consistent with the mission and fiduciary responsibility of the university.

CONFLICT OF INTEREST [13]

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

CASH RECEIPTS AND DISBURSEMENTS [14]

A written agreement was not in place between the campus and the Cal Poly Pomona Foundation, Inc. (Foundation) with respect to the financial arrangement relating to the rideshare scrip program. A written agreement reduces the risk of misunderstanding, which could result in disagreements and operational inefficiencies.

UNCLAIMED MONIES [15]

The campus auxiliaries had not established policies and procedures to escheat unclaimed monies to the state. Reporting or performing the duties specified in the unclaimed property law reduces the likelihood of fines for noncompliance.

CAL POLY POMONA FOUNDATION, INC.

LEGAL AND REGULATORY COMPLIANCE [17]

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

CASH RECEIPTS AND DISBURSEMENTS [18]

TIMELY DEPOSITS [18]

Cash receipts were not always delivered to the Foundation for deposit in a timely manner. Transferring cash/gift receipts to the cashiering office in a timely manner decreases the risk that misappropriation of funds will not be detected.

LOCAL ACCOUNTABILITY [18]

Accountability was not localized when two or more persons had access to the same cash register in the Bronco Bookstore. Localizing accountability reduces the risk of misappropriations or errors.

DISBURSEMENT POLICIES AND PROCEDURES [19]

Written disbursement policies and procedures did not contain provisions to ensure that expenditures and fund appropriations were properly approved and that funds used for purposes inconsistent with normal operations were properly authorized. Properly developed, documented, and communicated disbursement policies and procedures reduce the risk that internal controls can be compromised and inappropriate expenditures made.

CONSULTING AGREEMENTS [20]

Written agreements between campus departments and consultants were not always executed in a timely manner. Misunderstandings and disputes are reduced when written agreements are executed prior to the commencement of services.

EXCLUSIVE BEVERAGE AND VENDING AGREEMENTS [20]

Rights to sell, lease, or license campus/state-owned personal property were not clearly defined. Clearly defining the rights on campus to sell, lease, or license campus/state personal property decreases the potential of unnecessary financial loss and/or an unenforceable agreement.

PETTY CASH AND CHANGE FUNDS [21]

Petty cash and change fund policies and procedures were not complete. Internal controls are strengthened when policies and procedures are complete and fully documented.

FEES, REVENUES, AND RECEIVABLES [22]

Internal controls over nonreceipted advances required improvement. Internal controls are strengthened when advances are tracked and restricted.

PURCHASING AND ACCOUNTS PAYABLE [23]

SEGREGATION OF DUTIES [23]

Segregation of duties over the vendor master files and the accounts payable function was inadequate. Maintaining adequate segregation of duties decreases the risk that errors or irregularities will not be detected in a timely manner.

CHECK-SIGNING MACHINE [24]

The check-signing machine located in the accounts payable area was not adequately secured. In addition, dual custody was not maintained over the log used to track check machine usage. Maintaining adequate controls over the security and usage of the check-signing machine reduces the potential for misuse.

PERSONNEL AND PAYROLL [25]

Certain members of the Foundation payroll staff were capable of performing noncompatible functions. Adequate segregation of duties decreases the risk that errors or irregularities will not be detected in a timely manner.

FIXED ASSETS [26]

Internal controls over fixed assets required improvement. Maintaining adequate internal controls over fixed assets decreases the risk that errors or irregularities will not be detected in a timely manner.

TRUSTS AND OTHER LIABILITIES [27]

The Foundation's controls over trust/project agreements required improvement. Maintaining adequate control over trust accounts reduces the risk of inappropriate expenditures and misunderstandings about account operations.

INFORMATION TECHNOLOGY [29]

The Foundation disaster recovery plan was incomplete. A plan can, in the event of a disaster, ensure continuity of computing operations for support of critical applications or ensure the campus achieves an orderly migration toward the resumption of computing.

UNIVERSITY EDUCATIONAL TRUST

BOOK AND RECORDS [30]

The University Educational Trust (UET) did not maintain an accounting general ledger or formal policies and procedures for handling day-to-day accounting operations. Maintaining adequate accounting books and records and operating policies and procedures decrease the potential for errors or misappropriation.

INDEMNITY BOND [30]

The UET did not maintain indemnity bonds or crime coverage for officers and employees handling funds. Maintaining appropriate insurance coverage reduces the auxiliary organization's exposure to potential liability.

ASSOCIATED STUDENTS, INC.

LEGAL AND REGULATORY COMPLIANCE [32]

STUDENT BODY FEES [32]

The chief financial officer of the campus was not acting as the custodian of student body organization fees. Maintaining funds within the custody of the chief financial officer enhances campus oversight of student fees.

SCHOLARSHIPS [33]

Scholarships from Instructionally Related Activities (IRA) accounts were not reported on the students' 1098T forms. Reporting all scholarship payments reduces the potential for federal tax penalties.

CASH RECEIPTS AND DISBURSEMENTS [33]

Both internal controls and written policy and procedures were deficient in the area of disbursements. Adequate policy and procedures reduce the risk of errors, irregularities, and misappropriation of funds.

PETTY CASH AND CHANGE FUNDS [35]

Associated Students, Inc. (ASI) did not have documentation of independent cash counts; and frequent, independent cash counts were not performed. Performing and documenting frequent, independent counts of petty cash and change funds reduce the risk of misappropriation.

ACCOUNTS RECEIVABLE [35]

SEGREGATION OF DUTIES [35]

Duties were not segregated in the facilities and operations area. Adequate segregation of duties over room reservations and invoicing reduces the risk of errors and misappropriation of funds.

POLICY AND PROCEDURES [36]

Written policy and procedures were not established to determine allowance for doubtful accounts and to write off bad debts. Establishing internal procedures or policies reduces the risk of errors when processing or determining the allowance for doubtful accounts and bad debt write-offs.

PURCHASING [37]

MASTER VENDOR FILES [37]

The process of cleaning up the vendor master file to remove extraneous entries was incomplete. Maintaining accurate master vendor files decreases the risk of errors and misappropriation of funds.

POLICIES AND PROCEDURES [38]

Purchasing policies and procedures need to be enhanced to better address the ordering and receiving functions. Internal controls cannot be compromised when policies and procedures are properly documented and communicated to employees.

PERSONNEL AND PAYROLL PROCEDURES [38]

SEGREGATION OF DUTIES [38]

The human resources assistant was responsible for entering employees' salaries, reviewing timecards, and issuing payroll checks. In addition, no file is maintained of departmental staff appointed and designated to submit payroll and personnel transaction forms. Adequate controls over personnel and payroll procedures decrease the risk of errors, irregularities, and misappropriation of funds.

EMPLOYEE CLEARANCE FORMS [39]

Clearance forms were not consistently used when an employee separated. Adequate personnel procedures reduce the risk of property loss and may reduce liability when resolving personnel issues.

FIXED ASSETS [40]

Policies and procedures related to fixed assets were either not established or not followed. Adequate controls over fixed assets reduce the risk of lost or stolen property.

TRUST ACCOUNTS [41]

Funds held in trust for campus organizations were not sufficiently controlled. Sufficient control over funds held in trust in accordance with CSU and related standards lessen the risk of inappropriate expenditures.

MEMORANDUMS OF UNDERSTANDING [42]

Written agreements had not been established for certain business arrangements between ASI and the campus. Maintaining a written agreement reduces the risk of misunderstanding between the two parties, which may result in disagreements and operational inefficiencies.

INFORMATION TECHNOLOGY [43]

The ASI disaster recovery plan was incomplete. A plan can, in the event of a disaster, ensure continuity of computing operations for support of critical applications or ensure the campus achieves an orderly migration toward the resumption of computing.

OBSERVATIONS, RECOMMENDATIONS, AND CAMPUS RESPONSES

CAMPUS OVERSIGHT

LEGAL AND REGULATORY COMPLIANCE

CAMPUS SUPPORT ORGANIZATIONS

The campus had not developed a procedure to identify, and a strategy to coordinate and oversee, ancillary organizations that operate in support of academic and nonacademic programs.

Organizations ranging from alumni groups to an athletic booster club interact with campus departments and auxiliary organizations. They present opportunities and liabilities to the campus and its auxiliary organizations. Opportunities include greater community involvement in the form of financial and nonfinancial support. Liabilities accrue as a result of actions by the operators of these organizations and, therefore, become the legal responsibility of the campus or its auxiliaries.

Due to the perceived value to the California State University (CSU) mission, services have been provided by campus and auxiliary personnel to these unofficially recognized organizations. However, the use of campus and auxiliary time and materials and the actions and activities supervised and performed by these officials expose the CSU to legal and regulatory actions.

Title 5 §42402 and Education Code §89900 indicate that the president of each campus is responsible for the educational effectiveness, academic excellence, and general welfare of the campus over which he presides.

The associate vice president of finance and administrative services indicated that further information was needed from the CSU as to what procedures the campus needed for identifying and managing nonprofit organizations.

A lack of sufficient campus and presidential oversight over ancillary organizations operating on the campus in support of academic and nonacademic programs exposes the campus and the CSU system to regulatory and legal consequences, thus negatively impacting the educational missions of both.

Recommendation 1

We recommend that the campus develop a procedure to identify, and a strategy to coordinate and oversee, the various ancillary organizations that operate on the campus in support of academic and nonacademic programs.

Campus Response

We concur with the recommendation. The campus will perform a survey to verify all ancillary units. We will review the charters of these organizations. For organizations that are separate corporations, we will reevaluate the reasons why they are constituted as such.

Oversight will be in the form of membership in the governing body of the ancillary organization by at least one University employee. This University representative will report significant actions taken by the ancillary unit to the University chief financial officer once a year.

Timeline: December 2001

COST ALLOCATION PLAN

A formal cost allocation plan for the reimbursement of facilities, goods, and services provided by the campus to the auxiliary organizations had not been developed.

CSU coded memo Business Affairs – Office of the Chancellor (BA) 83-30 requires auxiliaries to pay for services provided by the campus. Further, Executive Order (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 associate vice president of finance and administrative services indicated that the campus is currently developing a plan to address EO No. 753.

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

Recommendation 2

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

Campus Response

We concur with the recommendation. The University has completed cost studies in Facilities Management, Public Safety, University Financial Services, Budget Services, and Procurement and Support Services. Use of facilities rental rates and the University's indirect cost plan are currently being updated with the assistance of consultants. We expect to integrate all these cost analyses into a campus-wide cost allocation plan.

Timeline: February 2002

HOSPITALITY POLICY

The campus had not developed a hospitality policy in accordance with EO No. 761.

EO No. 761 requires each campus to develop written policies and procedures regarding the payment of hospitality expenses.

The associate vice president of finance and administrative services indicated copies of the executive order were distributed to all managers on November 3, 2000. He further indicated that the executive order serves as the campus policy.

Not establishing policies and procedures for the payment of hospitality expenses could result in expenditures which are not consistent with the mission and fiduciary responsibility of the university.

Recommendation 3

We recommend that the campus develop written hospitality policies and procedures specific to its operations, in accordance with EO No. 761.

Campus Response

We concur with the recommendation. The University is in the process of completing a document on hospitality policies.

Timeline: October 2001

CONFLICT OF INTEREST

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

Each auxiliary on campus addressed, in some manner, conflict-of-interest requirements placed upon auxiliaries by the Education Code and Title 5. Policies and procedures might address the following areas:

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

- ▶ Actions to be taken when violations of conflict-of-interest policy are discovered.

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

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

The associate vice president of finance and administrative services indicated that annual conflict-of-interest reporting is in place and that legal briefings are provided to board members on a regular basis.

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

Recommendation 4

We recommend that the campus provide guidance for its auxiliaries with regards to strengthening and further documenting conflict-of-interest policies and procedures.

Campus Response

We concur with the recommendation. The University will issue a memorandum to its auxiliaries, outlining the elements that are expected in conflict-of-interest policies and procedures.

Timeline: October 2001

CASH RECEIPTS AND DISBURSEMENTS

A written agreement was not in place between the campus and the Cal Poly Pomona Foundation, Inc. (Foundation) with respect to the financial arrangement relating to the rideshare scrip program.

Our review indicated that \$60,000 was transferred on an annual basis from the campus fines and forfeiture trust account to a trust account held at the Foundation. The funds were used to reimburse the Foundation for scrip spent at its various commercial operations on campus. To release funds, the campus executed a purchase order, and funds were disbursed upon receipt of an invoice from the Foundation. The arrangement was not supported by a written agreement, and services owed to the campus were not appropriately recorded as a liability.

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 financial arrangements be supported by a written agreement.

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 CSU *Policy Manual for Contracting and Procurement* §210.09 states that payment in arrears is the prescribed method of remitting payments for state acquisitions. Documentation is required to be rendered by the disbursing officer that the CSU has received appropriate return and/or in-kind value in order for consideration to be paid. Advance payments by the state are permitted, however, whenever specifically authorized in law and determined to be in the state's best interest.

The associate vice president for finance and administrative services indicated that the arrangement was made in the best interest of the state and in accordance with CSU guidelines. He also indicated that these funds were invested in the Foundation's fixed investment portfolio and receive interest earnings net of investment and administrative fees.

Failure to execute a written agreement increases the risk of misunderstanding between the two parties, which may result in disagreements and operational inefficiencies.

Recommendation 5

We recommend that the campus and the Foundation enter into a written agreement which clearly defines the terms of their financial arrangement relative to the rideshare scrip program.

Campus Response

We concur with the recommendation. Working with the Foundation and the Rideshare department, we will prepare an agreement that enunciates the procedures for issuing scrip, the guaranteeing of the scrip issued, and the invoicing and reimbursement of services and goods provided by the Foundation.

Timeline: February 2002

UNCLAIMED MONIES

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

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 associate vice president for finance and administrative services indicated that the auxiliary organizations believed that they were not subject to the escheatment law.

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

Recommendation 6

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

Campus Response

We concur with the recommendation. The University will issue a memorandum to its auxiliary organizations, outlining the Code of Civil Procedures guidelines on unclaimed property. In addition, we will ask the auxiliaries to provide a report annually of all unclaimed property recorded in their respective financial records.

Timeline: January 2002

CAL POLY POMONA FOUNDATION, INC.

LEGAL AND REGULATORY COMPLIANCE

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

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

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

The Foundation's chief financial officer indicated that the Foundation was specifically instructed by the chancellor's office to use boilerplate facility lease agreements, which were approved and signed by the chancellor's office director of contract services and procurement.

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

Recommendation 7

We recommend that the Foundation facility lease agreements with the campus be amended to include clearly articulated and sufficient consideration when a nominal exchange provision is included.

Campus Response

We concur with the recommendation. The Foundation will work with the campus and the chancellor's office to amend the facility lease agreements to include specific considerations.

Timeline: February 2002

CASH RECEIPTS AND DISBURSEMENTS

TIMELY DEPOSITS

Cash receipts were not always delivered to the Foundation for deposit in a timely manner.

Various departments throughout the campus solicit and receive donations as well as other funds, mainly in the form of checks. Our review of deposits indicated that checks received by these departments were not consistently forwarded to the Foundation's cashiering office for deposit in a timely manner.

Title 5 §42401 and §42402 indicate that the campus president shall require that auxiliary organizations operate in conformity with the policy of the Board of Trustees and the campus. One of the objectives of the auxiliary organizations is to provide fiscal procedures and management systems that allow effective coordination of the auxiliary activities with the campus in accordance with sound business practices. Sound business practice mandates that all cash receipts be forwarded to the Foundation's cashiering office for deposit in a timely manner.

The Foundation's chief financial officer agreed and indicated that corrective action would be taken.

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

Recommendation 8

We recommend that the campus implement additional procedures to ensure that all funds are deposited in a timely manner.

Campus Response

We concur with the recommendation. The Foundation will develop additional procedures and work with the campus administration and project directors in an effort to ensure that all funds are delivered to the Foundation for deposit in a timely manner.

Timeline: October 2001

LOCAL ACCOUNTABILITY

Accountability was not localized when two or more persons had access to the same cash register in the Bronco Bookstore.

Our review disclosed that several individuals had access to the cash registers at the Bronco Bookstore at any one time. In addition, cash registers were not closed out following each shift change.

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 local accountability be maintained over cash registers and registers be closed out following each shift.

The Foundation's chief financial officer indicated that he believed proper controls were in place to mitigate the risk. He also stated that maintaining separate tills for each cashier would be inefficient and too costly based on the number of cashiers and the total annual cash variance, which was less than \$200 each of the past two years.

When accountability is not localized, the risk of misappropriations or errors is increased.

Recommendation 9

We recommend that the Foundation do a cost-benefit analysis to determine whether the cash registers should be closed out on a more frequent basis, especially during peak periods.

Campus Response

We concur with the recommendation. The Foundation will prepare a cost-benefit analysis on the appropriate frequency of cash register closings.

Timeline: October 2001

DISBURSEMENT POLICIES AND PROCEDURES

Written disbursement policies and procedures did not contain provisions to ensure that expenditures and fund appropriations were properly approved and that funds used for purposes inconsistent with normal operations were properly authorized.

Title 5 §42403(c) states that funds of an auxiliary organization shall be used for purposes consistent with Board of Trustees and campus policy.

Education Code §89904 states that all expenditures and fund appropriations of auxiliary organizations described in §89903 shall be approved by the governing board of the auxiliary organization. Appropriations of funds for use outside of the normal business operations of the auxiliary organization shall be approved in accordance with Trustee policy and regulations by an officer designated by the Trustees.

If policies and procedures are not properly developed, documented, and communicated to employees, internal controls can be compromised and inappropriate expenditures can be made.

Prior to the completion of the fieldwork, the board approved revisions to the Foundation's budget process, which addressed proper approval of expenditures and fund appropriations, and funds used for purposes inconsistent with normal operations.

CONSULTING AGREEMENTS

Written agreements between campus departments and consultants were not always executed in a timely manner.

Our review disclosed instances where campus departments entered into written agreements with consultants subsequent to the commencement of services.

Title 5 §42401 and §42402 indicate that the campus president shall require that auxiliary organizations operate in conformity with the policy of the Board of Trustees and the campus. One of the objectives of the auxiliary organizations is to provide fiscal procedures and management systems that allow effective coordination of the auxiliary activities with the campus in accordance with sound business practices. Sound business practice mandates that agreements for consulting services be executed prior to the commencement of such services.

The Foundation's chief financial officer agreed and indicated that, effective immediately, the Foundation will work with the campus program project directors to obtain agreements prior to the commencement of services.

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

Recommendation 10

We recommend that written agreements be executed in a timely manner.

Campus Response

We concur. The Foundation will develop additional procedures and work with the campus administration and project directors in an effort to ensure agreements are obtained prior to the commencement of services.

Timeline: December 2001

EXCLUSIVE BEVERAGE AND VENDING AGREEMENTS

Rights to sell, lease, or license campus/state-owned personal property were not clearly defined.

We found that agreements were entered into between the Foundation and certain vendors for exclusive beverage and vending rights on campus. However, the rights of the Foundation, rather than the campus, to enter into such agreements had not been clearly defined.

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 rights associated with the sale, lease or license of campus/state-owned property be clearly defined.

EO No. 409 indicates that all sales, leases, and licenses exceeding \$25,000 of state-owned personal property be reviewed and approved by the chancellor's office. Both the beverage and vending agreements were in excess of \$25,000 and subject to the review and approval of the chancellor's office.

The Foundation's chief financial officer indicated that he believed the executive order did not apply to the Foundation. He also indicated that the Foundation is the entity designated with the exclusive rights to food service on the campus.

Failure to clearly define the rights on campus to sell, lease, or license campus/state personal property could result in unnecessary financial loss and/or an unenforceable agreement.

Recommendation 11

We recommend that the relationship between the campus and the Foundation regarding the rights to sell, lease, or license state-owned personal property be clearly defined through a memorandum of understanding.

Campus Response

We concur with the recommendation. The Foundation will develop a memorandum of understanding between the campus and the Foundation.

Timeline: February 2002

PETTY CASH AND CHANGE FUNDS

Petty cash and change fund policies and procedures were not complete.

The Foundation's written policies and procedures for the administration of petty cash did not call for periodic, unannounced, independent cash counts. In addition, periodic, unannounced independent counts of change funds had not been done regularly.

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 and that petty cash and change funds be periodically and independently counted.

The Foundation's chief financial officer indicated that independent counts of change and safe funds are performed at the end of each business day. He further indicated that it is the Foundation's business practice and the petty cash policy that require the project director be responsible for independent counts and approving the replenishment of petty cash funds.

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

Recommendation 12

We recommend that the Foundation fully document petty cash and change funds procedures, including provisions for performing and documenting periodic and independent, unannounced cash counts.

Campus Response

We concur with the recommendation. The Foundation will update the petty cash and change funds procedures and document periodic and independent, unannounced cash counts.

Timeline: February 2002

FEES, REVENUES, AND RECEIVABLES

Internal controls over nonreceipted advances required improvement.

The Foundation advances funds based vendor written quotes in situations where a check is needed and a receipt or invoice cannot be provided at the time of the check request. Advances, which were found to be used for a variety of expenditures, including restaurants, loans, hotels, computer equipment, food purchases, and supplies, are required to be cleared by the requester within five working days of the completion of the purchase.

Our review disclosed the following:

- ▶ Advances were not always cleared in a timely manner, as numerous items were found to be well in excess of five days past due.
- ▶ The Foundation had not developed formal policies and procedures for handling past-due/uncleared advances.

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 advances, which includes

formal, written policies and procedures over the use of advanced funds and prompt clearance of past-due accounts.

The Foundation's chief financial officer indicated that collection procedures will be reviewed to ensure timely collection and handling of past-due/uncleared advances.

Internal controls are compromised when advances are not tracked and restricted.

Recommendation 13

We recommend that the Foundation establish and enforce controls over nonreceipted advances.

Campus Response

We concur with the recommendation. The Foundation will establish additional procedures for the collection of past-due/uncleared advances and work with the campus administration and project directors.

Timeline: October 2001

PURCHASING AND ACCOUNTS PAYABLE

SEGREGATION OF DUTIES

Segregation of duties over the vendor master files and the accounts payable function was inadequate.

We found that:

- ▶ Through the accounting system, 11 members of the accounting staff had the ability to create and update vendor files.
- ▶ At the time of our review, the function of inputting batches was not segregated from the accounting distribution function. By policy, these duties are segregated; however, the configuration of the accounts payable system did not separate these functions. Essentially, the system did not prevent accounts payable staff from inputting and distributing their own work within the accounting general ledger.

EO No. 698 states that the review of auxiliary organizations will be used to determine appropriate separation of duties, safeguarding of assets, and reliability and integrity of information.

The Foundation's chief financial officer indicated that new vendors are added to the database only after the project holder approves the payment and accounts payable reviews the purchase request, invoice, and approval. He also indicated that a report is generated each month of changes to the vendor master file database, which is reviewed by a manager or designee. He further indicated that

the accounts payable function is segregated by having separate individuals input, edit, and post the batches.

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

Recommendation 14

We recommend that the campus:

- a. Limit the ability to update or modify the vendor master files.
- b. Segregate accounts payable and general ledger duties or develop mitigating procedures.

Campus Response

We concur with the recommendation. The Foundation will reengineer the purchasing and accounts payable functions or develop mitigating procedures to limit the ability to update or modify the vendor's master files.

The Foundation will segregate accounts payable and general ledger duties or develop mitigating procedures.

Timeline: February 2002

CHECK-SIGNING MACHINE

The check-signing machine located in the accounts payable area was not adequately secured. In addition, dual custody was not maintained over the log used to track check machine usage.

Title 5 §42401 and §42402 indicate that the campus president shall require that auxiliary organizations operate in conformity with the policy of the Board of Trustees and the campus. One of the objectives of the auxiliary organizations is to provide fiscal procedures and management systems that allow effective coordination of the auxiliary activities with the campus in accordance with sound business practices. Sound business practice mandates that adequate controls be in place over the security and usage of the check-signing machine.

The Foundation's chief financial officer concurred and indicated that the check-signing machine would be replaced by a laser check system in which checks would be signed, as part of check printing process.

Not maintaining adequate controls over the security and usage of the check-signing machine could result in misuse.

Recommendation 15

We recommend that the Foundation:

- a. Adequately secure the check-signing machine.
- b. Ensure that dual custody exists over the log used for check machine usage.

Campus Response

We concur with the recommendation. The Foundation has adequately secured the check-signing machine. The Foundation has developed procedures to ensure that dual custody exists over the log used for check machine usage.

Timeline: Completed

PERSONNEL AND PAYROLL

Certain members of the Foundation payroll staff were capable of performing noncompatible functions.

We found that these staff members:

- ▶ Reviewed timecards.
- ▶ Had access to blank check stock.
- ▶ Generated check runs.
- ▶ Posted leave and time credits.
- ▶ Reviewed payroll warrants for irregularities.

EO No. 698 states that the review of auxiliary organizations will be used to determine appropriate separation of duties, safeguarding of assets, and reliability and integrity of information.

The Foundation's chief financial officer indicated that he believed appropriate controls were in place to mitigate the risk associated with the payroll department's lack of segregation of duties.

Inadequate internal controls over the payroll function increase the risk that errors or irregularities will not be detected in a timely manner.

Recommendation 16

We recommend that the Foundation segregate payroll functions or implement mitigating procedures.

Campus Response

We concur with the recommendation. The Foundation will reengineer the payroll department to segregate payroll functions or develop mitigating procedures.

Timeline: February 2002

FIXED ASSETS

Internal controls over fixed assets required improvement.

We found that:

- ▶ Fixed assets acquired for Foundation operations (excluding campus programs and grants and contracts) had never been tagged or independently, physically inventoried.
- ▶ Fixed asset policies and procedures did not formally address property taken off-site, accountability and responsibility for equipment, controls over additions and deletions of inventory, procedures for tagging equipment, property sales and dispositions, and property inventory reconciliations to financial records.

EO No. 698 states that the review of auxiliary organizations will be used to determine appropriate separation of duties, safeguarding of assets, and reliability and integrity of information.

The Foundation's chief financial officer indicated that fixed asset reports are periodically distributed to the project directors, and are included as part of the annual budget package. He also indicated that it is the Foundation's business practice that the project director be responsible for the fixed assets of their project as the project is charged depreciation.

Inadequate internal controls over fixed assets increase the risk that errors or irregularities will not be detected in a timely manner.

Recommendation 17

We recommend that the Foundation:

- a. Improve procedures for properly tagging and inventorying fixed assets.
- b. Establish procedures to address property taken off-site, accountability and responsibility for equipment, controls over additions and deletions of inventory, procedures for tagging equipment, property sales and dispositions, and property inventory reconciliations to financial records.

Campus Response

We concur with the recommendation. The Foundation will update procedures for property tagging and inventorying fixed assets.

The Foundation will update the fixed asset procedures to address property taken off-site, accountability and responsibility for equipment, controls over additions and deletions of inventory, procedures for tagging equipment, property sales and dispositions, and property inventory reconciliations to financial records.

Timeline: February 2002

TRUSTS AND OTHER LIABILITIES

The Foundation's controls over trust/project agreements required improvement.

We found that:

- ▶ Trust/project agreements did not sufficiently address how the accounts would earn interest (net of administrative charges) or describe monthly reporting requirements.
- ▶ Trust/project agreements were incomplete where pertinent information was missing, such as authorized or current signatures, descriptions of allowable expenditures, account purpose, and disposition for unexpended funds.
- ▶ Trust/project agreements were subject to campus administrative approval; however, oversight of such programs by campus administration was, at times, limited. For example, agreements for consulting as well as other services were entered into by campus departments without the advice or oversight of campus risk management or administration.
- ▶ Some trust/project accounts had negative balances.
- ▶ Trust/project agreements were outdated and expenditures were not in compliance with trust/project restrictions.

Probate Code §16000 indicates that upon acceptance of a trust, the trustee has a duty to administer the trust according to the trust instrument. A sufficiently documented trust arrangement is needed to meet the intent of these regulations.

Title 5 §42401 and §42402 indicate that the campus president shall require that auxiliary organizations operate in conformity with the policy of the Board of Trustees and the campus. One of the objectives of the auxiliary organizations is to provide fiscal procedures and management systems that allow effective coordination of the auxiliary activities with the campus in accordance with sound business practices. Sound business practice mandates that the campus exercise appropriate oversight over trust accounts maintained at the Foundation by campus departments/personnel and that trust account balances not be overdrawn.

The Foundation's chief financial officer indicated that the Foundation would be updating and revising trust agreements as well as obtaining all required signatures. He also indicated that trust account balances are reviewed monthly and any negative balances are brought to the attention of the project

director. He further indicated that availability of funds is verified for any expenditure request in excess of \$1,000.

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

Recommendation 18

We recommend that the Foundation, in coordination with the campus, ensure that:

- a. Trust/project agreements clearly address (within the body of the agreement) how accounts earn interest (net of administrative charges) and describe monthly reporting requirements.
- b. Trust/project agreements are complete and contain authorized or current signatures, descriptions of allowable expenditures, account purpose, and disposition for unexpended funds.
- c. Appropriate campus administrative oversight is in place over trust accounts held at the Foundation by campus departments/personnel.
- d. Trust accounts do not have negative balances.

Campus Response

We concur with the recommendation. The Foundation will modify the project agreements to include within the body of the agreement how accounts earn interest, the administrative fee charged, and a description of monthly reporting requirements.

The Foundation will establish procedures to ensure trust/project agreements are complete and update the trust/project agreements.

The Foundation will establish procedures and work with campus administration to ensure appropriate campus administrative oversight is in place over trust accounts held at the Foundation by campus departments/personnel.

The Foundation will establish procedures and work with campus program project directors to ensure trust accounts do not have negative balances.

Timeline: February 2002

INFORMATION TECHNOLOGY

The Foundation disaster recovery plan was incomplete.

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

The manager of information systems indicated that procedures had not been completed.

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

Recommendation 19

We recommend that the Foundation complete a disaster recovery plan.

Campus Response

We concur with the recommendation. The Foundation will update its disaster recovery plan.

Timeline: February 2002

UNIVERSITY EDUCATIONAL TRUST

BOOK AND RECORDS

The University Educational Trust (UET) did not maintain an accounting general ledger or formal policies and procedures for handling day-to-day accounting operations.

The UET, whose principal function is the management and oversight of the campus endowment funds, was approved by the chancellor's office as a recognized auxiliary organization in December 1999. In July 2000, the Foundation transferred the campus endowment accounts to the UET.

Title 5 §42404 states that an auxiliary organization must maintain adequate records and shall prepare such periodic reports showing its operations and financial status as required by the Board of Trustees.

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 an auxiliary organization maintain adequate books and records and operating policies and procedures.

The executive director indicated that the UET would enter into an accounting services agreement with the Foundation, which would address the issues of books and records and operating procedures.

Not maintaining adequate accounting books and records and operating policies and procedures increases the potential for error or misappropriation.

Prior to the completion of fieldwork, an accounting services agreement was executed between the UET and the Foundation.

INDEMNITY BOND

The UET did not maintain indemnity bonds or crime coverage for officers and employees handling funds.

Title 5 §42403(d) states that indemnity bonds (or similar protection) shall be obtained by an auxiliary organization for officers and employees handling funds of the auxiliary organization.

The executive director disagreed that such coverage was needed, but indicated that a crime policy would be obtained to cover UET officers.

Not maintaining appropriate insurance coverage exposes the auxiliary organization to potential liability.

Recommendation 20

We recommend that the UET obtain indemnity bonds or similar coverage for its officers and employees.

Campus Response

We concur with the recommendation. The UET has obtained a Crime Plus Policy from Travelers Insurance effective May 7, 2001.

Timeline: Completed

ASSOCIATED STUDENTS, INC.

LEGAL AND REGULATORY COMPLIANCE

STUDENT BODY FEES

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

The campus collects Associated Students, Inc. (ASI) student body fees and immediately transmits these monies to ASI. Funds are then invested and disbursed by ASI, acting as the custodian of the funds. Regulations prescribe that the chief financial officer of the campus act as custodian of all student fees.

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

The executive director indicated that student fees were maintained based on approved and documented campus procedures, which included formal oversight from the chief financial officer through chief financial officer/designee review of and signature on the ASI checks and chief financial officer/designee review of and signature on bank reconciliations.

Maintaining funds outside the custody of the chief financial officer limits campus oversight of student fees.

Recommendation 21

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

Campus Response

We concur with the recommendation. Discussions are underway as to how to comply with this recommendation. We are evaluating a claim procedure for the ASI to request and to receive reimbursement from the University.

Timeline: February 2002

SCHOLARSHIPS

Scholarships from Instructionally Related Activities (IRA) accounts were not reported on the students' 1098T forms.

On five of five IRA scholarships reviewed, 1098T forms had not been completed.

Internal Revenue Code §6050S requires entities to report specified information returns (1098T) with the Internal Revenue Service and provide a corresponding statement to individuals on the information return, indicating that the information has been reported.

The director of business services stated that a regular report on scholarships was provided by ASI to the university's financial aid office. However, the information submitted by ASI was not transmitted to the University student accounting department, resulting in unreported scholarships.

Failure to report scholarships may subject ASI to federal tax penalties.

Recommendation 22

We recommend that ASI and the student accounting department strengthen procedures for reporting scholarships.

Campus Response

We concur with the recommendation. ASI has regularly provided information on student scholarships to the University's Financial Aid department. However, information was not subsequently transmitted to the University Financial Services department, resulting in unreported scholarships. This will be corrected when procedures are established for the Financial Aid department to send scholarship information to University Financial Services.

Timeline: October 2001

CASH RECEIPTS AND DISBURSEMENTS

Both internal controls and written policy and procedures were deficient in the area of disbursements.

Our review of 50 cash disbursements disclosed the following exceptions:

- ▶ Invoices submitted for campus club accounts were over one year old from the date on the checks due to changes in club officers.
- ▶ Supporting documentation was not always submitted for disbursements made for nonsubsidized campus clubs.

- ▶ Written policy and procedures on stale-dated payroll and accounts payable checks were not documented.

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

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

The executive director indicated that campus club accounts are owned by that particular organization. Thus, purchase orders are encouraged but not required, and invoices over one year from campus clubs are accepted. In addition, supporting documentation including disbursement requests with authorized signatures is always required.

The director of business services indicated that the procedures on stale-dated payroll and accounts payable have not been formally documented due to staff turnover and the limited number of staff, preventing business services from fully documenting these procedures.

Inadequate policy and procedures increase the risk of errors, irregularities, and misappropriation of funds.

Recommendation 23

We recommend that ASI ensure that internal controls over disbursements and written policy and procedures over stale-dated checks be developed/strengthened.

Campus Response

We concur with the recommendation. ASI will develop policy that requires agency or campus club accounts to comply with purchase order requirements for ASI funded organizations. In addition, ASI will actively encourage prompt payment of bills by student clubs through workshops and close coordination with the University Office of Student Life.

ASI will also formally document the current procedures on stale-dated payroll and accounts payable checks.

Timeline: February 2002

PETTY CASH AND CHANGE FUNDS

Associated Students, Inc. (ASI) did not have documentation of independent cash counts; and frequent, independent cash counts were not performed.

Title 5 §42401 and §42402 indicate that the campus president shall require that auxiliary organizations operate in conformity with the policy of the Board of Trustees and the campus. One of the objectives of the auxiliary organizations is to provide fiscal procedures and management systems that allow effective coordination of the auxiliary activities with the campus in accordance with sound business practices. Sound business practice mandates that periodic and independent, unannounced counts be performed to ensure that assets are sufficiently safeguarded.

The director of business services indicated that frequent counts and documentation were not established due to staff turnover and the limited number of staff, preventing business services from fully documenting and performing these procedures.

Failure to document and perform frequent, independent counts of petty cash and change funds increases the risk of misappropriation.

Recommendation 24

We recommend that ASI implement procedures to document and perform periodic, independent, and unannounced petty cash and change/vault counts.

Campus Response

We concur with the recommendation. ASI has already written procedures for petty cash/vault counts which will be implemented during the 2001 fall quarter.

Timeline: October 2001

ACCOUNTS RECEIVABLE

SEGREGATION OF DUTIES

Duties were not segregated in the facilities and operations area.

The same individual, who makes reservations for meeting room rentals, also creates and sends invoices to on-campus and external organizations. In addition, no one other than this individual reviews sales invoices to ensure accuracy and completeness.

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.

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 would include a review of sales invoices.

The director of business services stated that this was a temporary condition while the accounts receivable staff person was on extended sick leave. Currently, the accounts receivable staff person is working and normal procedures of having separate individuals mail and review invoices are being implemented.

Inadequate segregation of duties over room reservations and invoicing increases the risk of errors and misappropriation of funds.

Recommendation 25

We recommend that ASI strengthen procedures to include a contingency plan to maintain adequate segregate duties in the facilities and operations area in the event of absences.

Campus Response

We concur with the recommendation. Procedures will be strengthened to provide for “one-up” review of charges for the use and rental of facilities. In addition, adequate segregation of duties will be maintained to separate the function of generating invoices through the Event Management System (EMS) from the function of mailing out the invoices.

Timeline: February 2002

POLICY AND PROCEDURES

Written policy and procedures were not established to determine allowance for doubtful accounts and to write off bad debts.

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 written policy or procedures on allowance for doubtful accounts and write-offs of bad debt.

The director of business services indicated that external auditors established allowance for doubtful accounts and write offs of bad debt. As a result, written internal policy and procedures were not established.

Failure to establish internal policies and procedures increases the risk of errors when processing or determining the allowance for doubtful accounts and bad debt write-offs.

Recommendation 26

We recommend that ASI establish policies and procedures on allowance for doubtful accounts and write-offs of bad debt.

Campus Response

We concur with the recommendation. ASI is writing a policy and procedures covering Allowance for Doubtful Accounts and Bad Debt Expense. This will be reviewed by ASI's independent CPA auditors before submission to the ASI Senate for approval.

Timeline: February 2002

PURCHASING

MASTER VENDOR FILES

The process of cleaning up the vendor master file to remove extraneous entries was incomplete.

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 organizations to maintain accurate and complete vendor files.

The director of business services stated that several upgrades to the vendor system have removed the capability of deleting vendors on the exceptions report. With a recent purchase of utility software, this feature has been added to the computerized vendor system.

Inaccurate master vendor files increase the risk of errors and misappropriation of funds.

Recommendation 27

We recommend that ASI strengthen the vendor system to maintain accurate and complete master vendor files.

Campus Response

We concur with the recommendation. The vendor list will be completely reviewed and unused, old, and duplication vendors will be analyzed and removed or retained in accordance with business necessity.

Timeline: February 2002

POLICIES AND PROCEDURES

Purchasing policies and procedures need to be enhanced to better address the ordering and receiving functions.

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 purchasing policies and procedures appropriately address the ordering and receiving functions.

The director of business services indicated that a centralized procurement process was not established due to staffing constraints and locations of offices. In addition, all disbursement requests are pre-approved by their immediate supervisors.

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

Recommendation 28

We recommend that ASI establish procedures to address the ordering and receiving functions.

Campus Response

We concur with the recommendation. The ordering and receiving functions are planned to remain decentralized. Procedures are in place to ensure “one-up” review and authorization of orders placed. Procedures will be established to address the receiving functions and provide for a system wherein the receipt of goods and services is confirmed and signed for by someone other than the staff member who placed the order.

Timeline: February 2002

PERSONNEL AND PAYROLL PROCEDURES

SEGREGATION OF DUTIES

The human resources assistant was responsible for entering employees’ salaries, reviewing timecards, and issuing payroll checks. In addition, no file is maintained of departmental staff appointed and designated to submit payroll and personnel transaction forms.

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.

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 would include proper payroll reporting.

The director of business services stated that the vacancy of one full-time human resources position has made it difficult to segregate duties. In addition, the executive director indicated that a file of departmental staff appointed and designated to submit payroll and personnel transaction forms was not established because the formal organizational chart clearly illustrates the authorized supervisors to submit payroll and personnel transaction forms.

Inadequate controls over personnel and payroll procedures increase the risk of errors, irregularities, and misappropriation of funds.

Recommendation 29

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

Campus Response

We concur with the recommendation. In order to provide for adequate segregation of duties, discussions are in progress regarding the creation of an additional half-time staff position to separate the input of payroll information from the generation of payroll checks. In addition, a file will be established to formally designate authorized staff to submit payroll information and personnel transaction forms.

Timeline: February 2002

EMPLOYEE CLEARANCE FORMS

Clearance forms were not consistently used when an employee separated.

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 clearance/separation forms be utilized.

The director of business services stated that clearance forms were not consistently implemented because of the elimination of the full-time human resources director position and reduction of personnel to one human resource assistant.

Inadequate personnel procedures increase the risk of property loss and may increase liability when resolving personnel issues due to insufficient records.

Recommendation 30

We recommend that clearance forms be utilized for all separating employees.

Campus Response

We concur with the recommendation. Clearance forms will be consistently used for all separating employees. Supervisors will coordinate with the HR Office to ensure that these clearance forms are initiated and completed for each separating employee. The clearance forms will be signed by the supervisor and the HR Assistant.

Timeline: February 2002

FIXED ASSETS

Policies and procedures related to fixed assets were either not established or not followed.

We found that:

- ▶ Inventory counts of fixed assets were not consistently performed and fixed assets were not consistently tagged.
- ▶ Fixed asset reconciliations were not signed by the preparer and reviewer.
- ▶ Fixed assets were not timely recorded in the general ledger account.
- ▶ A fixed asset was not recorded in the appropriate account.
- ▶ No policy or agreements were noted for issuing equipment to student government officers.

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

The director of business services indicated that the lack of resources, staff turnover, and manual tracking system contributed to nonperformance of inventory counts and tagging on a consistent basis. He also indicated that fixed asset reconciliation reports were not formally signed since source documents were reviewed and signed by the preparer and reviewer. Fixed assets are initially expensed to provide management comparative information as to budget and actual amounts. An adjusting entry is then made at the end of the fiscal year.

A fixed asset transaction was not recorded in the appropriate account and overlooked during year-end closing due to staffing and time constraints. The issuance of equipment to student government officers was not supported by approved policy and signed agreements because there was only one occasion, which occurred last year, wherein equipment was issued to a student government officer.

Failure to maintain adequate controls over fixed assets increases the risk of lost or stolen property.

Recommendation 31

We recommend that ASI establish/strengthen fixed asset policies and procedures to include, at a minimum:

- a. Accountability and responsibility for equipment.
- b. Procedures for tagging equipment.
- c. Inventory counts of fixed assets.
- d. Review of property inventory reconciliations to financial records.

Campus Response

We concur with the recommendation.

- a. For equipment listed on the fixed asset list, there will be a person in each department designated as responsible for equipment.
- b. ASI is currently planning to purchase a bar code fixed asset inventory system. Upon purchase of a system, assets will be tagged and inventoried by department.
- c. ASI has developed and is using a form for the checkout of sensitive equipment. Adding language to the form and related policy for penalties regarding lost or damaged equipment will strengthen accountability and responsibility. This revision will be submitted to the ASI Senate for approval.
- d. While reconciliations of a detailed fixed asset list to fixed assets on the general ledger was prepared, the reviewer did not sign it. ASI will develop a reconciliation of Fixed Asset form that will be signed by both the preparer and the reviewer.

Timeline: February 2002

TRUST ACCOUNTS

Funds held in trust for campus organizations were not sufficiently controlled.

We found that:

- ▶ Trust agreements, which contain the purpose of the account, source of funds, reporting requirements, or other restrictions, were not executed between ASI and campus clubs.
- ▶ Trust accounts were established based solely on the approval of the office of student life and the completion of a signature card.
- ▶ A memorial trust account was maintained without a documented trust agreement.

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. We believe that the duties described by these sections would require that ASI question the validity of expenditures and obtain adequate supporting documents to justify payment. Further, Probate Code §16000 indicates that on acceptance of a trust, the trustee had 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.

The executive director indicated that the use of trust agreements was not previously established and signature cards were established in lieu of trust agreements. In addition, a trust agreement was not located for the memorial fund because the account was established in 1966. A policy to utilize trust agreements is already underway. Starting July 2001, ASI will implement the approved policy and procedures on the use of trust agreements.

Insufficient control over funds held in trust in accordance with CSU and related standards increases the risk of inappropriate expenditures.

Recommendation 32

We recommend that ASI take those steps necessary to control funds held in trust for campus organizations.

Campus Response

We concur with the recommendation. ASI has been using a new Agreement Form with campus clubs since July 1st on which the club does indicate the purpose of the account and source of funds. This form is currently being reviewed to see how it can be strengthened. A revision should be completed by the end of fall 2001 quarter.

Timeline: February 2002

MEMORANDUMS OF UNDERSTANDING

Written agreements had not been established for certain business arrangements between ASI and the campus.

For example, agreements or memorandums of understanding had not been established:

- ▶ To define the responsibilities of ASI and the campus, regarding the operation and administration of the children's center. In addition, there was no formal agreement between the campus and ASI for the director's salary, which is paid by the state.
- ▶ For payroll services provided by ASI to various campus organizations.

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

The director of business services stated that the children's center has always been a partnership between the campus and ASI. A current, written agreement was initially established; however, the agreement was not formally renewed on a continuing basis. He also indicated that the provision of payroll services to campus organizations has been acknowledged in the ASI policies and procedures manual. Thus, the need for a formal, written agreement was not previously established.

Failure to execute a written agreement increases the risk of misunderstanding between the two parties, which may result in disagreements and operational inefficiencies.

Recommendation 33

We recommend that ASI strengthen procedures to ensure current, written, and formal agreements are maintained.

Campus Response

We concur with the recommendation. Discussions are underway to formally document the partnership between ASI and the University's Student Affairs division regarding the operations of the Children's Center via a Memorandum of Understanding. In addition, discussions are also in progress regarding the payroll services being provided by ASI. Any present and future business arrangements between ASI and the campus will be documented accordingly in a formal written agreement.

Timeline: February 2002

INFORMATION TECHNOLOGY

The ASI disaster recovery plan was incomplete.

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

The manager of information systems indicated that procedures had not been completed.

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

Recommendation 34

We recommend that ASI complete a disaster recovery plan.

Campus Response

We concur with the recommendation. A disaster recovery plan will be completed for the information technology systems being used by ASI. At the present time, the systems in use are comprised of the Sungard/Bi-Tech Interactive Fund Accounting System (IFAS) and the ASI Local Area Network (LAN), which includes EMS for the facilities and operations department.

Timeline: February 2002

APPENDIX A: PERSONNEL CONTACTED

Name

Title

CAMPUS OVERSIGHT

Bob Suzuki	President
Anita Aguirre	Administrative Analyst/Specialist, Procurement and Support Services
Patricia Farris	Vice President, Administrative Affairs
Donald Green	Director, Procurement and Support Services
Darwin Labordo	Associate Vice President, Finance and Administrative Affairs
Francine Ramirez	Executive Assistant, University Advancement
Sandra Richmond-Morton	Gift Administrator, University Advancement Services
Ronald Simons	Associate Vice President, University Advancement
Esteban Soriano	Vice President, University Advancement
Joyce Wagar	Financial Reporting Accountant, University Financial Services

CAL POLY POMONA FOUNDATION, INC.

Robert Suzuki	Board Member
Genie Apodaca	Director, Human Resources
Patricia Farris	Board Member
Sharon Fradella	Payroll Manager
Debbie Greer	Accounting Specialist
Anh Nita Hoang	Foundation Systems Manager, Foundation Financial Services
Ernest Kawai	Associate Board Member, Foundation Auxiliary Operations
Tariq Marji	General Financial Manager
Haleh Minakary	General Business Manager
Suzanne Montoya	Administrative Assistant
Shirley Niethold	Operations Supervisor, Campus Books
Annette Pettit	Board Operations Manager, Foundation Dining Services
David Prenovost	Chief Financial Officer
Anna Raynor	Accounting Specialist
Mary Rodriguez	Office Manager, Los Olivos
Debbie Schroeder	Manager, Contracts and Grants Administration
Esteban Soriano	Board Member
G. Paul Storey	Executive Director
Sam Tokatly	MIS Manager
Karen Ward	Board Member, Bronco Bookstore
Theresia Wolf	Operations Supervisor, Los Olivos Commons

UNIVERSITY EDUCATIONAL TRUST

Robert Suzuki	Board Member
David Prenovost	Board Member
Francine Ramirez	Support Staff
Ronald Simons	Support Staff
Esteban Soriano	Executive Director

ASSOCIATED STUDENTS, INC.

Naomi Abesamis	Commercial Services Coordinator
Arturo Carmona	President
Kim Combs	Director, Business Services
Cora Culla	Executive Director
Linda DaVeiga	Accounting Coordinator
Lupe Flores	Executive Assistant
Ginny Mansfield	Human Resources Assistant
Dorothy Moore	Administrative Assistant
Connie Rodriguez	Director, Children's School
Pat Smith	Vault Cashier, Accounts Receivable Specialist
Eliane Townsend	Fund Specialist
Powell Velasco	Associate Executive Director
Sue Wise	Reservations Coordinator

SCOPE

INTERNAL COMPLIANCE SCOPE

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

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

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

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

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

INTERNAL CONTROL SCOPE

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

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

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

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

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

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

STATEMENT OF INTERNAL CONTROLS

A. INTRODUCTION

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

B. INTERNAL CONTROL DEFINITION

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

1. Internal Accounting Controls

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

2. Operational Controls

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

C. INTERNAL CONTROL OBJECTIVES

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

D. INTERNAL CONTROL SYSTEMS LIMITATIONS

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



Office of the President

August 29, 2001

RECEIVED
 University Auditor

SEP 04 2001

 The California State
 University

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

Dear Mr. Mandel:

**Subject: Campus Response to Recommendations of
 Auxiliary Organizations Audit Report 01-45**

Enclosed is the California State Polytechnic University, Pomona response to the Auxiliary Organizations Audit Report Number 01-45. We appreciate the effort you and your staff have made to indicate areas where our procedures or internal controls could be strengthened. We will take the necessary actions to address the report's recommendations.

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

Sincerely,

Bob H. Suzuki
 President

cc: Patricia L. Farris, Vice President, Administrative Affairs
 Esteban Soriano, Vice President, Advancement
 Paul Storey, Executive Director, Cal Poly Foundation, Inc.
 Cora Culla, Executive Director, ASI
 Darwin Labordo, Associate Vice President, Finance & Administrative Services
 David Prenovost, CFO, Cal Poly Foundation, Inc.
 Ronald R. Simons, Associate Vice President, University Development

Enclosure

Campus Documentation to Support
Response to Recommendations of Audit Report Number 01-45
Auxiliary Organizations at California State Polytechnic University, Pomona
August 29, 2001

CALIFORNIA STATE POLYTECHNIC UNIVERSITY, POMONA

LEGAL AND REGULATORY COMPLIANCE - CAMPUS SUPPORT ORGANIZATIONS

Recommendation 1: We recommend that the campus develop a procedure to identify, and a strategy to coordinate and oversee, the various ancillary organizations that operate on the campus in support of academic and non-academic programs.

Campus Response

We concur with the recommendation. The campus will perform a survey to verify all ancillary units. We will review the charters of these organizations. For organizations that are separate corporations, we will reevaluate the reasons why they are constituted as such.

Oversight will be in the form of membership in the governing body of the ancillary organization by at least one University employee. This University representative will report significant actions taken by the ancillary unit to the University CFO once a year.

Timeline: December 2001

COST ALLOCATION PLAN

Recommendation 2: We recommend that the campus develop a cost allocation plan in accordance with EO No. 753.

Campus Response

We concur with the recommendation. The University has completed cost studies in Facilities Management, Public Safety, University Financial Services, Budget Services, and Procurement and Support Services. Use of facilities rental rates and the University's indirect cost plan are currently being updated with the assistance of consultants. We expect to integrate all these cost analyses into a campus-wide cost allocation plan.

Timeline: February 2002

HOSPITALITY POLICY

Recommendation 3: We recommend that the campus develop written hospitality policies and procedures specific to its operations, in accordance with EO No. 761.

Campus Response

We concur with the recommendation. The University is in the process of completing a document on hospitality policies.

Timeline: October 2001

CONFLICT OF INTEREST

Recommendation 4: We recommend that the campus provide guidance for its auxiliaries with regards to strengthening and further documenting conflict of interest policies and procedures.

Campus Response

We concur with the recommendation. The University will issue a memorandum to its auxiliaries, outlining the elements that are expected in conflict of interest policies and procedures.

Timeline: October 2001

CASH RECEIPTS AND DISBURSEMENTS

Recommendation 5: We recommend that the campus and the Foundation enter into a written agreement which clearly defines the terms of their financial arrangement relative to the rideshare scrip program.

Campus Response

We concur with the recommendation. Working with the Foundation and the Rideshare department, we will prepare an agreement that enunciates the procedures for issuing scrip, the guaranteeing of the scrip issued, and the invoicing and reimbursement of services and goods provided by the Foundation.

Timeline: February 2002

UNCLAIMED MONIES

Recommendation 6: We recommend that the campus work with each auxiliary organization to develop operating procedures which implement the requirements of the Code of Civil Procedures with respect to unclaimed property.

Campus Response

We concur with the recommendation. The University will issue a memorandum to its auxiliary organizations, outlining the Code of Civil Procedures guidelines on unclaimed property. In addition, we will ask the auxiliaries to provide a report annually of all unclaimed property recorded in their respective financial records.

Timeline: January 2002

CAL POLY FOUNDATION, INC.**LEGAL AND REGULATORY COMPLIANCE**

Recommendation 7: We recommend that the Foundation facility lease agreements with the campus be amended to include clearly articulated and sufficient consideration when a nominal exchange provision is included.

Campus Response:

We concur with the recommendation. The Foundation will work with the campus and the Chancellor's Office to amend the facility lease agreements to include specific considerations.

Timeline: February 2002

CASH RECEIPTS AND DISBURSEMENTS

TIMELY DEPOSITS

Recommendation 8: We recommend that the campus implement additional procedures to ensure that all funds are deposited in a timely manner.

Campus Response:

We concur with the recommendation. The Foundation will develop additional procedures and work with the campus administration and project directors in an effort to ensure that all funds are delivered to the Foundation for deposit in a timely manner.

Timeline: October 2001

LOCAL ACCOUNTABILITY

Recommendation 9: We recommend that the Foundation do a cost benefit analysis to determine whether the cash registers should be closed out on a more frequent basis, especially during peak periods.

Campus Response:

We concur with the recommendation. The Foundation will prepare a cost benefit analysis on the appropriate frequency of cash register closings.

Timeline: October 2001

CONSULTING AGREEMENTS

Recommendation 10: We recommend that agreements be executed in a timely manner.

Campus Response:

We concur. The Foundation will develop additional procedures and work with the campus administration and project directors in an effort to ensure agreements are obtained prior to the commencement of services.

Timeline: December 2001

EXCLUSIVE BEVERAGE AND VENDING AGREEMENTS

Recommendation 11: We recommend that the relationship between the campus and the Foundation regarding the rights to sell, lease or license state owned personal property be clearly defined through a memorandum of understanding.

Campus Response:

We concur with the recommendation. The Foundation will develop a memorandum of understanding between the campus and the Foundation.

Timeline: February 2002

PETTY CASH AND CHANGE FUNDS

Recommendation 12: We recommend that the Foundation fully document petty cash and change funds' procedures, including provisions for performing and documenting periodic and independent unannounced cash counts.

Campus Response:

We concur with the recommendation. The Foundation will update the petty cash and change funds procedures and document periodic and independent unannounced cash counts.

Timeline: February 2002

FEES, REVENUES, AND RECEIVABLES

Recommendation 13: We recommend that the Foundation establish and enforce controls over non-receipted advances.

Campus Response:

We concur with the recommendation. The Foundation will establish additional procedures for the collection of past due/uncleared advances and work with the campus administration and project directors.

Timeline: October 2001

PURCHASING AND ACCOUNTS PAYABLE**SEGREGATION OF DUTIES**

Recommendation 14: We recommend that the Foundation:

- a. Limit the ability to update or modify the vendor's master files.
- b. Segregates accounts payable and general ledger duties or develop mitigating procedures.

Campus Response:

We concur with the recommendation. The Foundation will reengineer the purchasing and accounts payable functions or develop mitigating procedures to limit the ability to update or modify the vendor's master files.

The Foundation will segregate accounts payable and general ledger duties or develop mitigating procedures.

Timeline: February 2002

CHECK-SIGNING MACHINE

Recommendation 15: We recommend that the Foundation:

- a. Adequately secure the check-signing machine.
- b. Ensure that dual custody exists over the log used for check machine usage.

Campus Response:

We concur with the recommendation. The Foundation has adequately secured the check-signing machine. The Foundation has developed procedures to ensure that dual custody exists over the log used for check machine usage.

Timeline: Completed

PERSONNEL AND PAYROLL

Recommendation 16: We recommend that the Foundation segregate payroll functions or implement mitigating procedures.

Campus Response:

We concur with the recommendation. The Foundation will re-engineer the payroll department to segregate payroll functions or develop mitigating procedures.

Timeline: February 2002

FIXED ASSETS

Recommendation 17: We recommend that the Foundation:

- a. Improve procedures for properly tagging and inventorying fixed assets.
- b. Establish procedures to address property taken off-site, accountability and responsibility for equipment, controls over a additions and deletions of inventory, procedures for tagging equipment, property sales and dispositions and property inventory reconciliation's to financial records.

Campus Response:

We concur with the recommendation. The Foundation will update procedures for property tagging and inventorying fixed assets.

The Foundation will update the fixed asset procedures to address property taken off-site, accountability and responsibility for equipment, controls over a additions and deletions of inventory, procedures for tagging equipment, property sales and dispositions and property inventory reconciliations to financial records.

Timeline: February 2002

TRUSTS AND OTHER LIABILITIES

Recommendation 18: We recommend that the Foundation, in coordination with the campus, ensure that:

- a. Trust/project agreements clearly address (within the body of the agreement) how accounts earn interest (net of administrative charges) and describe monthly reporting requirements.
- b. Trust/project agreements are complete and contain authorized or current signatures, description or allowable expenditures, account purpose, and disposition for unexpended funds.
- c. Appropriate campus administrative oversight is in place over trust accounts held at the Foundation by campus departments/personnel.
- d. Trust accounts do not have negative balances.

Campus Response:

We concur with the recommendation. The Foundation will modify the project agreements to include within the body of the agreement how accounts earn interest, the administrative fee charged, and a description of monthly reporting requirements.

The Foundation will establish procedures to ensure trust/project agreements are complete and update the trust/project agreements.

The Foundation will establish procedures and work with campus administration to ensure appropriate campus administrative oversight is in place over trust accounts held at the Foundation by campus departments/personnel.

The Foundation will establish procedures and work with campus program project directors to ensure trust accounts do not have negative balances.

Timeline: February 2002

INFORMATION TECHNOLOGY

Recommendation 19: We recommend that the Foundation complete a disaster recovery plan.

Campus Response:

We concur with the recommendation. The Foundation will update its disaster recovery plan.

Timeline: February 2002

UNIVERSITY EDUCATIONAL TRUST**INDEMNITY BOND**

Recommendation 20: We recommend that the UET obtain indemnity bonds or similar coverage for its officers and employees.

Campus Response:

We concur with the recommendation. The UET has obtained a Crime Plus Policy from Travelers Insurance effective May 7, 2001.

Timeline: Completed

ASSOCIATED STUDENTS, INC.**STUDENT BODY FEES**

Recommendation 21: We recommend that the campus chief financial officer act as custodian of student body organization fees.

Campus Response:

We concur with the recommendation. Discussions are underway as to how to comply with this recommendation. We are evaluating a claim procedure for the ASI to request and to receive reimbursement from the University.

Timeline: February 2002

SCHOLARSHIPS

Recommendation 22: We recommend that ASI and the student accounting department strengthen procedures for reporting scholarships.

Campus Response:

We concur with the recommendation. ASI has regularly provided information on student scholarships to the University's Financial Aid department. However, information was not subsequently transmitted to the University Financial Services department, resulting in unreported scholarships. This will be corrected when procedures are established for the Financial Aid department to send scholarship information to University Financial Services.

Timeline: October 2001

CASH RECEIPTS AND DISBURSEMENTS

Recommendation 23: We recommend that ASI ensures that internal controls over disbursements and written policy and procedures over stale dated checks be developed/strengthened.

Campus Response:

We concur with the recommendation. ASI will develop policy that requires agency or campus club accounts to comply with purchase order requirements for ASI funded organizations. In addition, ASI will actively encourage prompt payment of bills by student clubs through workshops and close coordination with the University Office of Student Life.

ASI will also formally document the current procedures on stale dated payroll and accounts payable checks

Timeline: February 2002

PETTY CASH AND CHANGE FUNDS

Recommendation 24: We recommend that ASI implement procedures to document and perform periodic, independent, and unannounced petty cash and change/vault counts.

Campus Response:

We concur with the recommendation. ASI has already written procedures for petty cash/vault counts which will be implemented during the 2001 Fall Quarter.

Timeline: October 2001

ACCOUNTS RECEIVABLE**SEGREGATION OF DUTIES**

Recommendation 25: We recommend that ASI strengthen procedures to include a contingency plan to maintain adequate segregation of duties in the facilities and operations area in the event of absences.

Campus Response:

We concur with the recommendation. Procedures will be strengthened to provide for “one-up” review of charges for the use and rental of facilities. In addition, adequate segregation of duties will be maintained to separate the function of generating invoices through the Event Management System (EMS) from the function of mailing out the invoices.

Timeline: February 2002

POLICY AND PROCEDURES

Recommendation 26: We recommend that ASI establish policies and procedures on allowance for doubtful accounts and write offs of bad debt.

Campus Response:

We concur with the recommendation. ASI is writing a policy and procedures covering Allowance for Doubtful Accounts and Bad Debt Expense. This will be reviewed by ASI’s independent CPA auditors before submission for approval to the ASI Senate.

Timeline: February 2002

PURCHASING**MASTER VENDOR FILES**

Recommendation 27: We recommend that ASI strengthen the vendor system to maintain accurate and complete master vendor files.

Campus Response:

We concur with the recommendation. The vendor list will be completely reviewed and unused, old, and duplicate vendors will be analyzed and removed or retained in accordance with business necessity.

Timeline: February 2002

POLICIES AND PROCEDURES

Recommendation 28: We recommend that ASI establish procedures to address the ordering and receiving functions.

Campus Response:

We concur with the recommendation. The ordering and receiving functions are planned to remain decentralized. Procedures are in place to ensure “one-up” review and authorization” of orders placed. Procedures will be established to address the receiving functions and provide for a system wherein the receipt of goods and services is confirmed and signed for by someone other than the staff member who placed the order.

Timeline: February 2002

PERSONNEL AND PAYROLL PROCEDURES

SEGREGATION OF DUTIES

Recommendation 29: We recommend that the ASI coordinate with the campus and segregate payroll duties or develop mitigating procedures.

Campus Response:

We concur with the recommendation. In order to provide for adequate segregation of duties, discussions are in progress regarding the creation of an additional half-time staff position to separate the input of payroll information from the generation of payroll checks. In addition, a file will be established to formally designate authorized staff to submit payroll information and personnel transaction forms.

Timeline: February 2002

EMPLOYEE CLEARANCE FORMS

Recommendation 30: We recommend that clearance forms be utilized for all separating employees.

Campus Response:

We concur with the recommendation. Clearance forms will be consistently used for all separating employees. Supervisors will coordinate with the HR Office to ensure that these clearance forms are initiated and completed for each separating employee. The clearance forms will be signed by the supervisor and the HR Assistant.

Timeline: February 2002

FIXED ASSETS

Recommendation 31: We recommend that the ASI establish/strengthen fixed assets policies and procedures to include, at a minimum:

- a. Accountability and responsibility for equipment.
- b. Procedures for tagging equipment.
- c. Inventory counts of fixed assets.
- d. Review of property inventory reconciliations to financial records.

Campus Response:

We concur with the recommendation.

- a. In the fixed asset list, there will be a department person designated as responsible for each asset.
- b. ASI is currently planning to purchase a bar code fixed asset inventory system. Upon purchase of a system, assets will be tagged and inventoried by department.
- c. ASI has developed and is using a form for the checkout of sensitive equipment. This form will be strengthened by adding language providing for penalties for lost or damaged equipment.
- d. While reconciliations of a detailed fixed asset list to fixed assets on the general ledger was prepared, the reviewer did not sign it. ASI will develop a reconciliation of Fixed Asset form that will be signed by both the preparer and the reviewer.

Timeline: February 2002

TRUST ACCOUNTS

Recommendation 32: We recommend that ASI take those steps necessary to control funds held in trust for campus organizations.

Campus Response:

We concur with the recommendation. ASI has been using a new Agreement Form with campus clubs since July 1st on which the club does indicate the purpose of the account and source of funds. This form is currently being reviewed to see how it can be strengthened. A revision should be completed by the end of Fall 2001 quarter. ASI will work closely with the University Office of Student Life to encourage campus clubs to properly document and pay all bills.

Timeline: February 2002

MEMORANDUMS OF UNDERSTANDING

Recommendation 33: We recommend that the ASI strengthens procedures to ensure current, written and formal agreements are maintained.

Campus Response:

We concur with the recommendation. Discussions are underway to formally document the partnership between ASI and the University's Student Affairs division regarding the operations of the Children's Center via a Memorandum of Understanding. In addition, discussions are also in progress regarding the payroll services being provided by ASI. Any present and future business arrangements between ASI and the campus will be documented accordingly in a formal written agreement.

Timeline: February 2002

INFORMATION TECHNOLOGY

Recommendation 34: We recommend that the ASI complete a disaster recovery plan.

Campus Response:

We concur with the recommendation. A disaster recovery plan will be completed for the information technology systems being used by ASI. At the present time, the systems in use are comprised of the Sungard/Bi-Tech Interactive Fund Accounting System (IFAS) and the ASI Local Area Network (LAN) which includes EMS for the facilities and operations department.

Timeline: February 2002

THE CALIFORNIA STATE UNIVERSITY
OFFICE OF THE CHANCELLOR

FAKERSFIELD

CHANNEL ISLANDS

October 24, 2001

CHICO

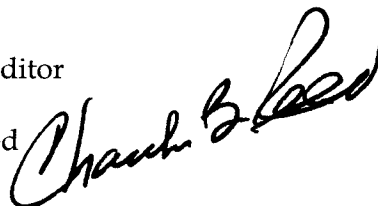
MEMORANDUM

DOMINGUEZ HILLS

FRESNO

TO: Larry Mandel
University Auditor

FULLERTON

FROM: Charles B. Reed
Chancellor


HAYWARD

HUMBOLDT

SUBJECT: Draft Final Report Number 01-45 on *Auxiliary Organizations*,
California State Polytechnic University, Pomona

LONG BEACH

LOS ANGELES

MARITIME ACADEMY

In response to your memorandum of October 24, 2001, I accept the response as submitted with the draft final report on *Auxiliary Organizations*, California State Polytechnic University, Pomona.

MONTEREY BAY

NORTHRIDGE

POMONA

CBR:amd

SACRAMENTO

Enclosure

SAN BERNARDINO

cc: Dr. Bob H. Suzuki, President

SAN DIEGO

SAN FRANCISCO

SAN JOSE

SAN LUIS OBISPO

SAN MARCOS

SONOMA

STANISLAUS