

AUXILIARY ORGANIZATIONS
CALIFORNIA STATE UNIVERSITY,
LOS ANGELES

Report Number 01-48
December 6, 2001

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Stanley T. Wang, Vice Chair
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ABBREVIATIONS

AICPA	American Institute of Certified Public Accountants
ASI	Associated Students, Inc.
BA	Business Affairs – Office of the Chancellor
CSU	California State University
EO	Executive Order
FASB	Financial Accounting Standards Board
Foundation	CSU Los Angeles Foundation, Inc.
IRC	Internal Revenue Code
IRM	Institute of Retail Management
IRS	Internal Revenue Service
PI	Project/Principal Investigators
UAS	University Auxiliary Services, Inc.
UBI	Unrelated Business Income
U-SU	University-Student Union
VPAF	Vice President for Administration and Finance

INTRODUCTION

PURPOSE

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

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

In addition, we reviewed internal controls to assure that:

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

SCOPE AND METHODOLOGY

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

Specifically, for the period reviewed, we examined compliance of the campus and each auxiliary with the Education Code and Title 5 as they relate to the operation of CSU auxiliary organizations. Individual codes and regulations included within the scope of our review were identified through an assessment of risk. Similarly, internal controls were included within our scope based upon risk. Therefore, the scope of our review varied from auxiliary to auxiliary.

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

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

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

The scope of our internal control review focused on separation of duties, safeguarding of assets, and reliability and integrity of information. Within these, we considered areas of risk identified during a preliminary survey of the campus' 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.

O P I N I O N

We visited the California State University, Los Angeles campus from June 23, 2001, through August 3, 2001, and reviewed the internal compliance and internal control structures in effect at that time. Our study and evaluation were conducted in accordance with the *Standards for the Professional Practice of Internal Auditing*, issued by the Institute of Internal Auditors, and included the audit tests we considered necessary in determining that accounting and administrative controls are in place and operative.

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

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

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

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

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

EXECUTIVE SUMMARY

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

CAMPUS

LEGAL AND REGULATORY COMPLIANCE [15]

CAMPUS SUPPORT ORGANIZATIONS [15]

The campus had not developed written policies and procedures to identify, coordinate, and oversee ancillary organizations that operate in support of academic and nonacademic programs. Written policies and procedures increase campus and presidential oversight of this area and reduce exposure to regulatory and legal consequences.

ALUMNI ASSOCIATION FUNDS [16]

Formal agreements had not been established concerning the campus' fiduciary responsibility for alumni association funds. Maintaining formal agreements, which delineate the fiduciary responsibilities over the operation of the alumni association, reduces the campus' exposure to potential liability.

CONFLICT OF INTEREST [17]

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

COST ALLOCATION PLAN [18]

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.

PUBLIC RELATIONS POLICY [18]

A public relations policy had either not been developed and/or filed with the chancellor's office by each of the four auxiliary organizations. Maintaining and filing required information with the chancellor's office ensure compliance with state and California State University (CSU) policy.

VENDOR MASTER FILE [19]

A separate vendor master file was not maintained for the campus and its auxiliary organizations. In addition, the accounts payable staff of University Auxiliary Services, Inc. (UAS) was capable of both creating and updating the vendor master file. Properly maintaining and updating the vendor master file decrease the risk of fraudulently misdirected payments.

COMPUTER ACCESS [20]

Campus auxiliary accounting system user profiles did not provide for proper segregation of duties. Proper secure access to system screens decreases the risk of unauthorized and inappropriate acts.

UNCLAIMED MONIES [21]

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.

TRUSTS AND OTHER LIABILITIES [21]

The campus did not exercise sufficient control over funds held in trust and agency accounts by its auxiliaries. Increased campus and presidential oversight decreases exposure to regulatory and legal actions.

CSU LOS ANGELES FOUNDATION, INC.

LEGAL AND REGULATORY COMPLIANCE [23]

OPERATING AGREEMENT [23]

The CSU Los Angeles Foundation, Inc. (Foundation) operating agreement with the CSU and the campus was not signed and submitted for chancellor's office approval in a timely manner. A current and approved written agreement decreases the risk of misunderstandings and miscommunications regarding rights and responsibilities.

INSURANCE REQUIREMENTS [23]

The Foundation did not maintain insurance coverage according to its operating agreement with the CSU and the campus. Maintaining appropriate insurance coverage reduces the exposure of the auxiliary organization and the campus to potential liability.

BOARD COMPOSITION [24]

The Foundation's governing board does not include a student representative. Complying with board composition statutory requirements decreases the risk of inadequate representation from students.

RESERVES [25]

The Foundation had not established a surplus funds/reserve policy. Sufficient planning and policy over surplus funds and reserves decrease the risk that an auxiliary will operate in a manner inconsistent with the educational mission of the campus.

EDUCATIONAL SUPPORT [25]

Scholarships administered by the Foundation for the Institute of Retail Management (IRM) were awarded by campus representatives to individuals who were not currently admitted to the campus. Offering or administering programs consistent with those statutorily allowed ensures that the CSU is presented only with risks and liabilities it has officially accepted.

CASH RECEIPTS AND DISBURSEMENTS [26]

GIFT ACKNOWLEDGEMENTS [26]

Gift acknowledgements were not adequately controlled or reconciled to gift receipts. Controlling gift acknowledgements and reconciling them to collections reduce the risk of errors or misappropriation of gifts or acknowledgements not being detected.

GIFT RECEIPTS [27]

Gift receipts received by campus departments were not always forwarded to the Foundation for deposit in a timely manner. Transferring gift receipts to the Foundation in a timely manner reduces the risk that misappropriation of funds will not be detected.

DONATION CLEARING ACCOUNT [28]

Criteria or purpose for donations was not always established in a timely manner. Establishing purpose or criteria for a donation timely decreases the risk that funds may not be used for the donor's intended purpose.

PURCHASING AND ACCOUNTS PAYABLE [29]

INDEPENDENT CONTRACTORS [29]

Policies and procedures over the hiring of independent contractors required improvement. Maintaining adequate controls over independent contractor arrangements decreases the risk of misunderstandings and disputes regarding the terms and conditions of such arrangements and reduces the exposure of the auxiliary and the campus to potential liability.

EXPENDITURE REVIEW [30]

Procurement card purchases by the executive director were not subject to one-up authorization. Controls cannot be compromised when policies and procedures require one-up authorization.

CAMPUS SERVICE CONTRACTS [30]

Service contracts between the Foundation and the campus were not always adequately documented and supported, completely detailed regarding content, and/or executed in a timely manner. Defining cost methodology would allow the General Fund to be properly reimbursed for facilities, goods, or services provided to the auxiliary organization. In addition, executing or updating contracts in a timely manner reduces the risk of misunderstandings and miscommunication regarding rights and responsibilities.

INVESTMENTS [32]

Accounting for investments required improvement. Maintaining sufficient accounting for investments decreases the risk that funds will be handled inappropriately and contrary to the expectations of the campus and donors.

UNIVERSITY AUXILIARY SERVICES, INC.

LEGAL AND REGULATORY REQUIREMENTS [34]

AUTHORIZED FUNCTIONS [34]

Functions performed by the UAS were not done so in accordance with its operating agreement with the campus. Performing only functions authorized by the CSU Trustees to be appropriate decreases the risk that the auxiliary will participate in transactions inconsistent with the educational mission of the campus.



LEASING OF FACILITIES [35]

Uses of campus space by the UAS were not always supported by lease agreements. A properly developed written lease agreement between the campus and the UAS, which delineates promises and considerations from both parties, decreases the potential for misunderstandings.

GROUND LEASE [35]

Consideration (money or otherwise) was not sufficiently articulated in the ground lease between the campus and the UAS. Sufficiently documenting consideration in such agreements reduces the risk that a “gift of public funds” claim will be asserted.

PUBLIC MEETINGS [36]

The UAS has not established, by resolution or bylaws, the time and locations for holding regular meetings. Compliance with regulations decreases the risk of misunderstandings and legal liability.

RESERVES [37]

The UAS did not maintain a formal, written reserve policy. Sufficient reserve planning and analysis minimize the auxiliary’s risk to fund future deficits.

ACCEPTANCE OF FUNDS [37]

The UAS had not established written policies and procedures regarding the acceptance of funds. Maintaining written procedures decreases the risk of accepting funds that are not consistent with the policies of the Trustees and the campus or the functions of the auxiliary.

INSURANCE [38]

Certain UAS insurance coverages were not adequate. Maintaining appropriate insurance coverage minimizes the exposure of the auxiliary organization to potential liability.

CASH RECEIPTS AND DISBURSEMENTS [39]

CASH RECEIPTS [39]

Internal controls over cash receipts required improvement. Timely transferring of cash/gift receipts to the cashiering office and maintaining a suspense account for unidentified deposits decrease the risk of loss or misappropriation of funds.

GENERAL DISBURSEMENTS [40]

Certain general disbursements were not supported by appropriate documentation. Sufficient controls over expenditures decrease the risk of errors, irregularities, and misappropriation of funds.

GRANT AND CONTRACT DISBURSEMENTS [41]

Certain grant and contract disbursements lacked appropriate authorization and/or documentation. Sufficient controls over expenditures decrease the risk of errors, irregularities, and misappropriation of funds.

FEES, REVENUES, AND RECEIVABLES [43]

UNRELATED BUSINESS INCOME [43]

The UAS has neither filed a Form 990T nor identified unrelated business income (UBI) for either the childcare services it provides to community members or for the sublease of office space to the county of Los Angeles. Reporting taxable income prevents the Foundation from receiving financial penalties from the Internal Revenue Service (IRS).

CHILD CARE CENTER [43]

Internal controls over accounting functions performed at the childcare center required improvement. Sufficient internal controls decrease the risk of inappropriate expenditures.

PURCHASING AND ACCOUNTS PAYABLE [45]

OPEN PURCHASE ORDERS [45]

The grants and contracts open purchase order database was not current. An adequate review of the opened purchase order database decreases the risk that errors and irregularities will not be detected timely.

CHILD CARE CENTER CONTRACT [45]

The contract agreement for the childcare center did not fully define necessary requirements. A detailed agreement prevents misunderstandings and disputes regarding the terms of the arrangement.

VENDOR DONATIONS [46]

Donations made to the campus in accordance with vendor contract provisions may not have been reportable for fundraising purposes. Including only appropriate amounts in fundraising figures ensures proper reporting to the chancellor's office.

EXCLUSIVE CONTRACTS [47]

The exclusive soft drink agreement (pouring rights) between the UAS and the national brand was not submitted to the chancellor's office for formal approval. The presence of required formal approval and specifics regarding rights and obligations decreases the risks to the campus and the system and the potential for misunderstandings.

PRO FIT-BASED CONTRACTS [47]

UAS's profit-based contracts did not include right-to-audit clauses. Periodic reviews of the gross receipts of food vendors reduce the risk of inaccurate reporting and loss of lease revenue to the UAS.

CAMPUS VENDING [48]

There was no written agreement in place between the UAS and the campus for various vending machines located throughout the campus. A written agreement reduces the risk of misunderstanding, which could result in disagreements and operational inefficiencies.

SPECIAL COMMITTEES [49]

Special committees were not formed as stipulated in the UAS contract with the University-Student Union (U-SU). Proper maintenance of contract provisions decreases the risk of misunderstanding between the two parties, which may result in disagreements and operational inefficiencies.

PERSONNEL [50]

The UAS personnel clearance form did not include revocation of computer access. Adequate internal controls decrease the risk of unauthorized access to organization computer systems.

PETTY CASH [50]

The UAS had not developed procedures to perform periodic and independent counts of its petty cash funds on an unannounced basis. Performing periodic and independent counts of petty cash funds decreases the risk that missing funds will not be detected.

FIXED ASSETS [51]

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

TRUST/AGENCY ACCOUNTS [52]

Certain trust/agency account disbursements lacked sufficient authorization and/or documentation to ensure the proper use of funds. In addition, we noted that some trust/project accounts had negative balances. Sufficient controls over trust accounts decrease the risk of both inappropriate expenditures and misunderstandings about account operations.

INFORMATION TECHNOLOGY [54]

BACKUP DATA [54]

Backup data for the childcare center stand-alone accounting system was not periodically stored at an off-site location. Storing backup data at an off-site location decreases the risk of data loss and discontinuity of operations should a disaster occur.

UNIVERSITY-STUDENT UNION

LEGAL AND REGULATORY COMPLIANCE [56]

RESERVES [56]

A separate reserve account with cash or cash-equivalent balances was not established. Sufficient reserves protect the auxiliary from future funding deficits.

LEASE AND RESERVATION AGREEMENTS [57]

Policies and procedures over the use of space in and around the U-SU building needed to be reviewed and strengthened. Adequate policy and procedures related to vendors and tenants who utilize U-SU facilities reduce the risk of legal liability and misunderstandings between parties.

CASH RECEIPTS AND DISBURSEMENTS [58]

CASH OVER AND SHORT [58]

Cash overages and shortages were noted in the U-SU café, game room, and information counter. Adequate internal controls over cash and cash registers reduce the risk of errors, irregularities, and misappropriation.

DISBURSEMENTS [59]

Certain disbursements lacked appropriate and/or timely documentation. Adequate controls over cash disbursement reduce the risk of errors, irregularities, and misappropriation of funds.

FEES, REVENUES, AND RECEIVABLES [59]

COMMERCIAL SERVICE [59]

Losses of \$70,557 and \$33,923, in fiscal years 1999 and 2000 respectively, were noted in the café operated by the U-SU. When commercial services are self-sufficient, the financial viability of the auxiliary organization is enhanced.

ACCOUNTS RECEIVABLE POLICIES AND PROCEDURES [60]

The U-SU policies and procedures over accounts receivable were in need of improvement. Strengthening written policies and procedures over accounts receivable reduces the risk of loss, errors, and irregularities.

PERSO NNELAND PAYRO LL[61]

EMPLOYEE CLEARANCE [61]

Employee clearance forms were not established to address return of credit cards, clearance of outstanding advances, or termination of information systems access. Establishing written policy and procedures over employee separations reduces the risk of loss, errors, and misappropriation.

FIXED ASSETS [62]

The U-SU policies and procedures concerning fixed assets were inadequate. Adequate property inventory control procedures reduce the risk of financial misstatement, loss, and theft.

ASSOCIATED STUDENTS, INC.

LEGALAND REGULATORY COMPLIANCE [64]

RESERVES [64]

A separate reserve account with cash or cash-equivalent balances was not established. Sufficient reserves protect the auxiliary from future funding deficits.

GRANTS-IN-AID [65]

A review of ten grants-in-aid disclosed that Associated Students, Inc. (ASI) failed to issue tuition payment statements (Form 1098T) in each instance. Reporting all grants-in-aid payments reduces the potential for federal tax penalties.

D ISBURSEMENTS [65]

Certain disbursements lacked appropriate and/or timely documentation. Adequate controls over cash disbursements reduce the risk of errors, irregularities, and misappropriation of funds.

FEES AND REVENUES [66]

NET ASSETS [66]

Expenditures exceeded revenues in the amount of \$247,689 and \$140,188, resulting in a decrease in net assets for fiscal years 2000 and 1999, respectively. Adequate financial and operational controls, resulting in revenues exceeding expenditures, enhance the financial viability of the ASI.

OBSERVATIONS, RECOMMENDATIONS, AND CAMPUS RESPONSES

CAMPUS

LEGAL AND REGULATORY COMPLIANCE

CAMPUS SUPPORT ORGANIZATIONS

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

We noted organizations ranging from the bilingual center, which produces and distributes curriculum materials and texts, using the name of the university; the alumni association; and campus-chartered clubs such as the Hispanic Business Society, which is funded in part through outside donors, but maintains funds off-campus. These and similar entities interact with, and present opportunities and liabilities to, campus departments and auxiliary organizations. Opportunities include greater community involvement in the form of financial and nonfinancial support. Liabilities accrue as actions by the operators of these organizations 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 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.

The vice president of administration and finance indicated that the campus has no direct regulatory authority to maintain fiscal oversight for organizations excluded from auxiliary status or for chartered campus clubs.

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

Recommendation 1

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

Campus Response

The University, in accordance with the provisions of Title 5, Section 42400, has initiated a program to identify, coordinate, and organize campus ancillary organizations. The anticipated completion date is June 2002.

ALUMNI ASSOCIATION FUNDS

Formal agreements had not been established concerning the campus' fiduciary responsibility for alumni association funds.

Based on observations and inquiries of the vice president of institutional advancement/CSU Los Angeles Foundation, Inc. (Foundation) executive director, an agreement is needed which addresses, at the minimum, the following issues:

- ▶ The executive director of the campus alumni relations office (a state employee) served in the same capacity for the alumni association.
- ▶ The executive director of the alumni association (a state employee) supervised nonstate employees.
- ▶ In some cases, employees of the alumni association were also employees of the state. In such cases, the alumni association did provide reimbursement.
- ▶ Adequate segregation of duties was not in place over several accounting functions within the alumni association, including cash handling, cash disbursements, accounts receivable, and purchasing.
- ▶ Internal controls over fixed assets did not include procedures for tagging, inventory, and reconciliation. Such duties were primarily the responsibility of the office manager and the executive director.

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 established which clearly delineate the campus' fiduciary responsibilities over the operations of the alumni association.

The vice president of institutional advancement/Foundation executive director indicated that a lack of policies and procedures in this area is a function of alumni associations not being formally recognized as auxiliary organizations as well as a lack of statewide standards for very different types of organizations.

Not maintaining formal agreements, which delineate the campus' fiduciary responsibilities over the operation of the alumni association, exposes the campus to potential liability.

Recommendation 2

We recommend that the campus develop formal agreements concerning the fiduciary responsibility for alumni association funds.

Campus Response

The University will seek guidance from the chancellor's office regarding components for formal agreements regarding fiduciary responsibility for alumni association funds. The anticipated completion date is June 2002.

CONFLICT OF INTEREST

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

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

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

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

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

The vice president of administration and finance indicated that policies and procedures exist on the campus side; however, consistent policies and procedures have not been developed among the auxiliary organizations.

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 3

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

Campus Response

The University will develop unified procedural guidelines to document and coordinate conflict-of-interest policies and procedures for all campus auxiliaries. The anticipated completion date is June 2002.

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. 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 vice president of administration and finance indicated that the campus is currently in the process of developing a cost allocation plan.

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

Recommendation 4

We recommend that the campus complete its cost allocation plan in accordance with EO No. 753.

Campus Response

The University is in the process of finalizing its cost allocation plan in accordance with EO 753, and the anticipated completion date is June 2002.

PUBLIC RELATIONS POLICY

A public relations policy had either not been developed and/or filed with the chancellor's office by each of the four auxiliary organizations.

Title 5 §42502 requires the campus president to file, with the chancellor, a policy on the accumulation and use of public relations funds for all auxiliary organizations. The statement will include the policy and procedure on solicitation of funds, source of funds, amounts, purpose for which the funds will be used, allowable expenditures, and procedures of control.

The vice president of administration and finance indicated that campus auxiliaries had unintentionally overlooked this requirement, but have been directed to develop policies for filing with the chancellor's office.

Not submitting a public relations policy may result in expenditures that are not consistent with the mission and fiduciary responsibility of the university.

Recommendation 5

We recommend that the campus coordinate with the auxiliary organizations to develop a public relations policy and that the policy be filed with the Office of the Chancellor.

Campus Response

The University will develop unified procedural guidelines to ensure that all campus auxiliaries develop public relations policies that are filed with the Office of the Chancellor. The anticipated completion date is June 2002.

VENDOR MASTER FILE

A separate vendor master file was not maintained for the campus and its auxiliary organizations. In addition, the accounts payable staff of University Auxiliary Services, Inc. (UAS) was capable of both creating and updating the vendor master file.

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

The vice president of administration and finance indicated that the current version of PeopleSoft did not allow for restricted access to the vendor master file.

Improperly maintaining and updating the vendor master file increase the risk of fraudulently misdirected payments.

Recommendation 6

We recommend that the campus take appropriate measures to ensure the proper administration and control over the vendor master file.

Campus Response

The University will review its current PeopleSoft implementation to determine if security access levels may be utilized to adequately control vendor master file access. The anticipated completion date is June 2002.

COMPUTER ACCESS

Campus auxiliary accounting system user profiles did not provide for proper segregation of duties.

We found that some auxiliary organization accounting personnel had full access to data screens for which they had no direct responsibility/functional need.

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 that the elements of a satisfactory system of internal accounting and administrative control include a system of authorization and record-keeping procedures adequate to provide effective accounting control over assets, liabilities, revenues, and expenditures. It requires, in part, that access to state agency assets be limited to authorized personnel who require these assets in the performance of their assigned duties.

The director of reports and systems indicated that access had been subsequently limited so that only appropriate staff can access the various functions on the system.

Failure to secure access to system screens increases the risk of unauthorized and inappropriate acts.

Recommendation 7

We recommend that the campus review its current user profiles for campus auxiliary accounting systems to ensure the appropriate level of user access.

Campus Response

The University is coordinating with the auxiliaries to review and update user profiles to current, with a required report to the vice president for administration and finance (campus CFO) by June 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 vice president of administration and finance indicated that on March 15, 2001, all auxiliaries were notified to update their annual reporting of unclaimed money for the current year.

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

Recommendation 8

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

The University will develop unified operational guidelines for all campus auxiliaries to document procedures ensuring compliance with state escheat requirements. The anticipated completion date is June 2002.

TRUSTS AND OTHER LIABILITIES

The campus did not exercise sufficient control over funds held in trust and agency accounts by its auxiliaries.

Funds were held in trust by two of four campus auxiliary organizations. These accounts were held for campus programs, certain discretionary funds, and grants and contracts.

We found that:

- ▶ Campus programs, centers, and institutes maintained custodial accounts at auxiliaries where revenues were deposited and expenditures were made with only limited campus administrative oversight and knowledge.
- ▶ Revenues associated with campus program funds (i.e., program-related revenues, donations, endowments, etc.) were not recorded in either campus or auxiliary organization accounting records. Similarly, assets and liabilities were not recorded (e.g., bilingual studies center).

- ▶ Campus departments entered into contractual arrangements for consulting as well as other services without the advice and oversight of campus risk management and campus administration.
- ▶ State funds held in trust by auxiliaries were done so in violation of CSU policy.

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. Education Code §89721 and various chancellor's office mandates establish standards for such operations and related funds management.

Education Code §89036, Public Contract Code §10295, §10430(c), §12100.5, §12120, and EO No. 667 state that campus presidents have received delegated authority from the chancellor to purchase, sell, lease, or license personal property in accordance with Trustee policy and law. Responsibility for the preparation of campus internal policies and procedures consistent with the provision of the *CSU Policy Manual for Contracting and Procurement* remains with the campus presidents. Generally, only campus executive management and purchasing are legally able to sign such agreements.

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

The vice president of administration and finance indicated that the campus established oversight of auxiliary agency and discretionary funds through the campus auditor's office and that a related internal project is currently in progress.

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

Recommendation 9

We recommend that the campus increase its oversight of auxiliary management, especially in the area of funds held in trust and agency accounts.

Campus Response

The University will implement a review to identify the source of revenues on deposit with auxiliaries and to ensure that state funds are held only in state accounts. The anticipated completion date is June 2002.

CSU LOS ANGELES FOUNDATION, INC.

LEGAL AND REGULATORY COMPLIANCE

OPERATING AGREEMENT

The CSU Los Angeles Foundation, Inc. (Foundation) operating agreement with the CSU and the campus was not signed and submitted for chancellor's office approval in a timely manner.

The operating agreement dated July 1, 1998, was not signed by the campus and the Foundation until May 7, 2001. Further, the Foundation still awaits chancellor's office approval of the operating agreement.

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

The Foundation's executive director indicated that the operating agreement was not updated in a timely manner due to oversight.

Operating in the absence of a current and approved written agreement increases the risk of misunderstandings and miscommunications regarding rights and responsibilities.

Recommendation 10

We recommend that the Foundation and the campus implement procedures to ensure the timely updating and approval of its operating agreement in accordance with CSU policy.

Campus Response

The Foundation is included in a process initiated by the campus to ensure timely updates and adequate renewal lead-times for all operating agreements and service contracts. The anticipated completion date is June 2002.

INSURANCE REQUIREMENTS

The Foundation did not maintain insurance coverage according to its operating agreement with the CSU and the campus.

The operating agreement states that "The auxiliary shall maintain, in force, during the term of this agreement and extensions thereof, liability insurance against claims for injuries to persons or damages to property which may arise from or in connection with the performance of the work hereunder by the

auxiliary, its agents, representatives, employees or subcontractors.” EO No. 743 and the operating agreement specify required minimum insurance limits in the absence of risk identification and evaluation.

The Foundation’s executive director indicated that the insurance requirements contained in the operating agreement did not seem to be applicable to philanthropic foundations.

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

Recommendation 11

We recommend that the Foundation, in coordination with the campus, perform a risk identification and evaluation to determine its risk exposure and the appropriate level of insurance coverage.

Campus Response

The Foundation will perform a risk identification and evaluation study, and coordinate its efforts with the campus to recommend appropriate coverage as part of the fiscal year 2002/2003 Operating Budget proposal. The anticipated completion date is June 2002.

BOARD COMPOSITION

The Foundation’s governing board does not include a student representative.

Title 5 §42602 (a)(b)(c) and Education Code §89903 specifically require student participation on auxiliary organization boards. In addition, this is also a requirement of the Foundation’s bylaws.

The Foundation’s executive director indicated that Associated Students, Inc. (ASI) has not provided the Foundation with any candidates to fill the vacant student representative seat.

Failure to include a student member violates statutory requirements and increases the risk that student views will be inadequately represented.

Recommendation 12

We recommend that the Foundation coordinate with the ASI to ensure that student board representation is maintained in accordance with CSU policy.

Campus Response

The Foundation and ASI have coordinated efforts on student board representation, and the vacancy was satisfactorily filled effective January 2002. This recommendation has been implemented by the campus.

RESERVES

The Foundation had not established a surplus funds/reserve policy.

Such a policy should address or consider the following areas:

- ▶ Minimum reserve requirements.
- ▶ The inclusion of reserves in the budget submitted to the campus president.
- ▶ Board review of reserve levels.
- ▶ Reserves for working capital and capital replacement.
- ▶ The methodology used for the calculation of reserves.

Education Code §89904(b), §89904.5, and §89905 indicate that reserve planning is necessary.

The Foundation's executive director indicated that the Foundation has not had a reserve; therefore, no reserve policy was established. He further indicated that a reserve has been established for fiscal year 2001/2002 for unanticipated expenses or opportunities and that the Foundation will develop a reserve policy for the administration of this fund.

A lack of sufficient planning and policy over surplus funds and reserves increases the risk that an auxiliary will operate in a manner inconsistent with the educational mission of the campus.

Recommendation 13

We recommend that the Foundation coordinate with the campus to establish a formal policy for the allocation of surplus funds/reserves.

Campus Response

The Foundation will adopt a Reserve Policy that includes a provision for surplus funds/reserves and a requirement that the Foundation continue its practice of including the amount of surplus funds/reserves a part of each budget presentation to the president. The anticipated completion date is June 2002.

EDUCATIONAL SUPPORT

Scholarships administered by the Foundation for the Institute of Retail Management (IRM) were awarded by campus representatives to individuals who were not currently admitted to the campus.

Title 5 §42500(d) states that student loans, scholarships, stipends, and grants-in-aid shall only be given to currently admitted students.

The Foundation's executive director indicated that the IRM program is a recruitment pipeline program of the college of business and economics and that students enrolled in this program are offered scholarship funds if they go on to enroll in college. He further indicated that he believes the program operates within the spirit of Title 5.

Offering or administrating programs outside those statutorily allowed presents risks and liabilities beyond those acceptable to the CSU.

Recommendation 14

We recommend that the campus seek guidance from the Office of the Chancellor legal counsel in determining whether pipeline programs are subject to the provisions of Title 5 §42500(d).

Campus Response

The campus is seeking guidance from the chancellor's office legal counsel with respect to pipeline programs. The anticipated completion date is June 2002.

CASH RECEIPTS AND DISBURSEMENTS

GIFT ACKNOWLEDGEMENTS

Gift acknowledgements were not adequately controlled or reconciled to gift receipts.

Due to the conversion to PeopleSoft advancement software, the Foundation has not been able to numerically track gift acknowledgements or perform a complete, independent reconciliation of gift acknowledgements to gift receipts during the past fiscal year.

Title 5 §42401 and §42402 indicate that the campus president shall require that auxiliary organizations operate in conformity with the policy of the Board of Trustees and the campus. One of the objectives of the auxiliary organizations is to provide fiscal procedures and management systems that allow effective coordination of the auxiliary activities with the campus in accordance with sound business practices. This would involve an effective system of internal controls, which includes regular reconciliations of control account totals to subsidiary accounting record totals.

The Foundation's executive director indicated that the above controls were employed with the prior administrative software package, but they could not be used effectively during the conversion to PeopleSoft advancement software. He further indicated that the Foundation would return to these controls when the conversion is completed later this year.

Failure to adequately control gift acknowledgements and reconcile them to collections may result in errors or misappropriation of gifts or acknowledgements not being detected.

Recommendation 15

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

Campus Response

The campus PeopleSoft implementation, currently in progress, will permit an online and independent reconciliation of the gift acknowledgement system to gift receipts. The Foundation will continue to reconcile the information via spreadsheet application until the implementation's anticipated completed date of June 2002.

GIFT RECEIPTS

Gift receipts received by campus departments were not always forwarded to the Foundation 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 deposits received be deposited in a timely manner.

The Foundation's executive director indicated that the Foundation does not have any ability to effect the timeliness of deposits of donations directed to campus offices.

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

Recommendation 16

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

Campus Response

The Foundation and the campus will coordinate efforts to develop an agreement with account holders regarding proper procedures, oversight, and controls to ensure timely deposit of gifts to proper accounts. Anticipated completion date is June 2002.

DONATION CLEARING ACCOUNT

Criteria or purpose for donations was not always established in a timely manner.

Donations received without established criteria or purpose are recorded to a donation clearing account until the required donor information can be obtained and an appropriate account can be established. A review of the clearing account reconciliation as of June 30, 2001, disclosed 40 items dated between August 4, 2000, and March 23, 2001.

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 criteria or purpose for donations be established in a timely manner.

The Foundation's internal policy states that every effort shall be made to transfer balances into appropriate accounts within 60 days.

The Foundation's executive director indicated that every effort is made to transfer funds from the donation clearing account in a timely manner. He added that the Foundation avoids transferring funds into accounts for which criteria have not been established.

When the criteria or purpose for a donation is not established timely, there is an increased risk of misappropriation and/or funds may not be used for the donor's intended purpose.

Recommendation 17

We recommend that the Foundation coordinate with the campus to establish procedures to ensure that funds are credited to the proper account in a timely manner.

Campus Response

The Foundation and its Board are mindful of their joint fiduciary responsibility to ensure that no funds are spent without established criteria from donors. In compliance with its internal policy, the Foundation will continue to make every effort to ensure timely transfers from its Donation Clearing Account into proper accounts. A quarterly report of items exceeding the 90-day policy will be provided to the Board's treasurer, and the anticipated completion date for this item is March 2002.

PURCHASING AND ACCOUNTS PAYABLE

INDEPENDENT CONTRACTORS

Policies and procedures over the hiring of independent contractors required improvement.

We found that:

- ▶ The Foundation did not consistently enter into formal, written agreements with independent contractors hired to provide consulting services.
- ▶ The Foundation entered into a consulting arrangement with an individual employed by the UAS, a campus auxiliary organization. This individual worked for the alumni association, but was paid through an agency account maintained at the UAS. This arrangement, prohibited by UAS policy, has the appearance of a conflict of interest.
- ▶ The Foundation does not maintain formal, written policies and procedures regarding arrangements involving independent contractors.

Title 5 §42401 and §42402 indicate that the campus president shall require that auxiliary organizations operate in conformity with the policy of the Board of Trustees and the campus. One of the objectives of the auxiliary organizations is to provide fiscal procedures and management systems that allow effective coordination of the auxiliary activities with the campus in accordance with sound business practices, which include strong controls over arrangements involving independent contractors.

The Foundation's executive director concurred and indicated that corrective measures would be taken.

Inadequate controls over independent contractor arrangements increase the risk of misunderstandings and disputes regarding the terms and conditions of such arrangements and expose the auxiliary and the campus to potential liability.

Recommendation 18

We recommend that the Foundation take appropriate measures to ensure that arrangements with independent contractors are entered into in accordance with sound policies and procedures, which, at the minimum:

- a. Require that all arrangements with independent contractors be supported by formal, written agreements, which clearly define the responsibilities, terms, and conditions for the arrangement.
- b. Define prohibited arrangements.

- c. Clearly define the process for hiring independent contractors and take into consideration applicable Internal Revenue Code (IRC).

Campus Response

The Foundation will develop appropriate procedures to ensure that arrangements with independent contractors are documented in formal, written agreements that define responsibilities, include terms and conditions, applicable Internal Revenue Code, and address prohibited arrangements. The anticipated completion date is June 2002.

EXPEND ITURE REVIEW

Procurement card purchases by the executive director were not subject to one-up authorization.

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 and properly authorized.

The Foundation's executive director indicated that all procurement card reimbursements would be co-signed by the campus vice president of administration and finance.

Controls are compromised when procurement card policies and procedures do not require one-up authorization.

Recommendation 19

We recommend that the Foundation implement procedures which require one-up authorization for procurement cards.

Campus Response

Implemented procedures were approved at the January 2002 Board meeting. This recommendation has been implemented by the campus.

CAMPUS SERVICE CONTRACTS

Service contracts between the Foundation and the campus were not always adequately documented and supported, completely detailed regarding content, and/or executed in a timely manner.

The Foundation contracts with campus for various services, including accounting, human resources, payroll, administrative support, and gift processing and acknowledgements. The provision of these

services is documented into two service contracts between the campus and Foundation. We noted the following:

- ▶ The basis for reimbursement to the campus under the service contract for accounting, payroll, and human resources, dated July 1, 1999, was a 1996 study which was not documented.
- ▶ The service contract for administrative support and gift processing and acknowledgements, dated July 1, 1999, was not executed by the campus and Foundation until June 14, 2001.
- ▶ Reimbursement to the campus for administrative support was based on budget allocations rather than actual expenditures.
- ▶ Reimbursement for administrative support did not include charges for the use of campus facilities, services (i.e., information technology, scholarship processing, etc.), and equipment.

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

The Foundation's executive director concurred and indicated that the Foundation would revisit the methodology for reimbursing the campus.

Not fully defining cost methodology could result in the General Fund not being properly reimbursed for facilities, goods, or services provided to the auxiliary organization. In addition, not executing or updating contracts in a timely manner increases the risk of misunderstandings and miscommunication regarding rights and responsibilities.

Recommendation 20

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

- a. Analyze for appropriateness the reimbursement methodology under both service contracts noted above.
- b. Implement procedures to ensure timely updating/execution of current/future contracts.

Campus Response

Reimbursement methodology for the service agreements negotiated with the Foundation will be updated and incorporated for fiscal year 2002-2003, and so noted in the Board's minutes for January 2002. The anticipated completion date is June 2002. These agreements will be covered by procedures for timely update and execution discussed in our response for Recommendation 10.

INVESTMENTS

Accounting for investments required improvement.

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

We identified the following during our review:

- ▶ An unidentified audit adjustment of \$166,000 was recorded in June 1999 to balance the endowment fund to the audited financial statements.
- ▶ Unrealized gains and losses were not individually recorded in endowment general ledger accounts.

Title 5 §42401 and §42402 indicate that the campus president shall require that auxiliary organizations operate in conformity with the policy of the Board of Trustees and the campus. One of the objectives of the auxiliary organizations is to provide fiscal procedures and management systems that allow effective coordination of the auxiliary activities with the campus in accordance with sound business practices. Sound business practice mandates recording changes in endowments to general ledgers and the proper identification of audit adjustments.

Section 5.34 of the American Institute of Certified Public Accountants (AICPA) Industry Guide, *Audits of Universities and Colleges*, states that each endowment and similar fund is accounted for in a separate fund. Each fund will include its own account for cash and investments unless the investments are pooled with the investments of other funds.

The campus controller indicated that the audit adjustment was the result of the implementation of Financial Accounting Standards Board (FASB) Nos. 116 and 117. He also indicated that all endowment earnings are recorded to the Temporary Restricted Designated fund.

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

Recommendation 21

We recommend that the Foundation ensure that:

- a. Unrealized gains and losses are properly reflected in endowment general ledger balances.
- b. Appropriate measures are taken to identify and correct the unidentified adjusting item.

Campus Response

Foundation general ledger accounting currently incorporates this methodology; the adjusting item has been identified and corrected on our books. This recommendation has been implemented by the campus.

UNIVERSITY AUXILIARY SERVICES, INC.

LEGAL AND REGULATORY REQUIREMENTS

AUTHORIZED FUNCTIONS

Functions performed by the UAS were not done so in accordance with its operating agreement with the campus.

We noted that the operating agreement between the UAS, the CSU, and the campus did not indicate all functions performed by the UAS, including food services, childcare services, copy center, real estate, payroll services, and administration of contracts and grants.

The operating agreement states that “UAS agrees to perform the following functions: establish mechanisms which will permit a substantially more creative capacity to shape the future; foster, encourage, and promote efficient and effective auxiliary program management in The California State University; promote improved use of information management resources, intelligently and diligently seek out the very best opportunities for investment; improve organizational versatility to take advantage of appropriate opportunities as they arise; exercise ongoing review of the composite administrative structure; and do any other act or thing and engage in and carry on any other activity in any manner connected with or incidental to or designed to promote, assist, aid, or accomplish any of the aforesaid purposes.”

Title 5 §42501 states that a written agreement on behalf of the state of California by the chancellor of The California State University and Colleges and the auxiliary organization is required for the performance by such auxiliary organization of any of the functions listed in §42500, except student body organization activities. If any auxiliary organization performs more than a single function, then the written agreement may cover any number of the functions it performs on the campus, or a separate agreement may cover each function performed. Authority for agreements between the auxiliary organization and a student for student projects involving agricultural, vocational, or other instructional activities is to be incorporated in the written agreement between the auxiliary and the state.

The UAS executive director indicated that the operating agreement is currently being amended and that the food service and the childcare center functions will be included in the amended agreement.

Performing functions that are not authorized in the operating agreement and CSU policy increases the risk that such functions may not meet the educational mission of the university.

Recommendation 22

We recommend that the operating agreement be revised to include all functions currently performed by the UAS as authorized by campus policy and in accordance with Title 5.

Campus Response

The revised operating agreement has been submitted to the University for final review by the University's vice president for administration and finance (VPAF) and University counsel's office. The anticipated completion date is June 2002.

LEASING OF FACILITIES

Uses of campus space by the UAS were not always supported by lease agreements.

The UAS utilized space in Salazar Hall and King Hall for food service operations and allowed the county of Los Angeles to use parking spaces in the campus parking lot. However, written agreements had not been executed between the campus and the UAS for these arrangements.

Title 5 §42401, §42402, and §42500 and Education Code §89900 establish a responsibility to operate in accordance with sound business practices in the interest of the campus. Sound business practice mandates that agreements, involving real property, such as the leasing of office space, be in writing.

The executive director of the UAS indicated that rent is paid to the campus for the use of these facilities; however, these arrangements had not been formalized in writing.

The absence of a properly developed written lease agreement defining rights and responsibilities increases the potential for misunderstandings.

Recommendation 23

We recommend that the UAS reduce to writing all lease agreements for space.

Campus Response

UAS is working to formalize lease agreements with the University for all use of campus space by the auxiliary, including food service operations and office space. The anticipated completion date is June 2002.

GROUND LEASE

Consideration (money or otherwise) was not sufficiently articulated in the ground lease between the campus and the UAS.

The ground lease identified the cafeteria, administration offices, the childcare center, and portions of unpaved land as premises leased by the campus to the UAS. However, specific consideration for such was not clearly established in the agreement. The ground lease does not appear to identify all the benefits the campus will receive in return.

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

EO No. 753 states that auxiliary enterprises shall be charged the allowable direct costs plus an allocable portion of indirect costs associated with facilities, goods, and services provided by the university funded from the General Fund.

The executive director of the UAS indicated that she believed that the consideration for the lease was in accordance with the operating agreement.

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 24

We recommend that the ground lease agreement between the UAS and the campus be amended to include more specific language with respect to consideration.

Campus Response

UAS and the University recently revised the auxiliary’s ground lease, including language to address consideration. This recommendation has been implemented by the campus.

PUBLIC MEETINGS

The UAS has not established, by resolution or bylaws, the time and locations for holding regular meetings.

Education Code §89921 states that each governing board shall establish by resolution, bylaws, or whatever rule is required for the conduct of business by that body, the time and locations for holding regular meeting.

The executive director of the UAS indicated that the notice of public meetings is posted on the website.

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

Recommendation 25

We recommend that the UAS take appropriate measures to comply with Education Code §89921.

Campus Response

The UAS Board of Directors amended the auxiliary’s bylaws on September 28, 2001, regarding notice of meetings to conform to the Education Code. The bylaws now reflect UAS practice on

posting the meeting notices on its website and on a bulletin board located outside the main office of the auxiliary. This recommendation has been implemented by the campus.

RESERVES

The UAS did not maintain a formal, written reserve policy.

The UAS annually allocates surplus funds for various operational purposes. However, a formal policy had not been established which describes the process for such allocations. Such a policy should address or consider the following areas:

- ▶ Minimum reserve requirements.
- ▶ The inclusion of reserves in the budget submitted to the campus president.
- ▶ Board review of reserve levels.
- ▶ Reserves for working capital and capital replacement.
- ▶ The methodology used for the calculation of reserves.

Education Code §89904(b), §89904.5, and §89905 indicate that reserve planning is necessary.

The executive director stated that the board approves the annual surplus allocation. However, a formal policy for handling the surplus allocation had not been established.

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

Recommendation 26

We recommend the UAS coordinate with the campus to establish a formal policy for the allocation of surplus funds/reserves.

Campus Response

UAS is coordinating with the University to establish a formal written policy to reflect its process for allocation of surplus funds/reserves. The anticipated completion date is June 2002.

ACCEPTANCE OF FUNDS

The UAS had not established written policies and procedures regarding the acceptance of funds.

The UAS accepts donations and gifts. However, it does not have written policies and procedures to address the acceptance of funds.

Education Code §89903 states that no auxiliary organization shall accept any grant, contract, bequest, trust, or gift unless it is so conditioned that it may be used only for purposes consistent with policies of the Trustees.

The executive director of the UAS indicated that the current operating agreement with the campus includes appropriate language regarding acceptance of funds.

Failure to maintain written procedures increases the risk of accepting funds that are not consistent with the policies of the Trustees and the campus or the functions of the auxiliary.

Recommendation 27

We recommend that written policies and procedures be developed to ensure that the UAS accepts only those funds whose purposes are consistent with CSU policy.

Campus Response

Written policy and procedures will be developed in conjunction with the University to ensure that all funds accepted by UAS are in accordance with CSU policy. The anticipated completion date is June 2002.

INSURANCE

Certain UAS insurance coverages were not adequate.

We noted that:

- ▶ The UAS contracts with a vendor to operate a cellular communications tower. The contract with this party requires only a minimum liability policy of \$500,000. However, the UAS is required to carry a minimum liability policy of \$1 million in its operating agreement.
- ▶ UAS's general liability insurance policy did not include an additional insured endorsement.

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. Education Code §89905.5(c) indicates that an auxiliary needs to take measures to protect the campus from all possible liability associated with its service operations. Also, the operating agreement with the campus requires coverage of commercial liability of \$1 million and that the state of California, Trustees, and all of its other departments, boards, and commissions, and its officers, employees, and agents are to be identified as additional insured parties.

The executive director of the UAS indicated that the general liability policy included an additional insured endorsement; however, a current copy of such could not be located. She also agreed that the coverage with the vendor should be increased to \$1 million.

Not maintaining appropriate insurance coverage increases the risk of the UAS to potential liability.

Recommendation 28

We recommend that the UAS obtain an additional insured clause for its general liability insurance policy and review its contract with the vendor to determine the adequacy of coverage.

Campus Response

UAS did obtain an amended insurance certificate as required, effective August 10, 2001. This recommendation has been implemented by the campus.

CASH RECEIPTS AND DISBURSEMENTS

CASH RECEIPTS

Internal controls over cash receipts required improvement.

We noted that:

- ▶ Cash receipts were not always deposited in a timely manner. Our review of deposits indicated that checks received by campus departments were not consistently forwarded to the UAS for deposit in a timely manner.
- ▶ The UAS does not utilize a suspense account for cash receipts which cannot be readily matched to a receivable or otherwise coded to a specific project or object code.

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 cash receipts be forwarded for deposit in a timely manner and that a suspense account be used to record unidentified cash receipts.

The executive director of the UAS indicated that the UAS rarely receives cash receipts that cannot be immediately posted to the correct account. The vice president of administration and finance indicated that the campus departments have been reminded that all cash/checks should be deposited in a timely manner.

Not transferring cash/gift receipts to the cashiering office in a timely manner or maintaining a suspense account for unidentified deposits increase the risk of loss or misappropriation of funds.

Recommendation 29

We recommend that the UAS:

- a. Coordinate with the campus to implement additional procedures to ensure that all funds are deposited in a timely manner.
- b. Establish a suspense account for unidentified cash receipts and establish written procedures for handling such.

Campus Response

- a. UAS is coordinating with the campus to develop an agreement for account holders/fiduciaries that will stipulate agency account control procedures, including timely deposit requirements. Agency accounts may not be opened without a properly executed agreement.
- b. UAS has avoided utilizing a suspense account to deter “dumping” of accounting items and/or not properly recording receipts or expenses. However, the auxiliary will confer with the campus regarding its practice and procedures, and the addition of a suspense account will be given appropriate consideration.

Anticipated completion date is April 2002.

GENERAL DISBURSEMENTS

Certain general disbursements were not supported by appropriate documentation.

Our review of 56 cash disbursements disclosed the following:

- ▶ Signature cards were not established for the UAS corporate account.
- ▶ In three instances, faxes were accepted as original documentation with no certification that the invoice had been researched to prevent a duplicate payment.
- ▶ There were no agreements with artists who were hired to perform on campus.
- ▶ In one instance, an employee traveled by first-class overseas. However, there was no reference in the travel policy regarding such.
- ▶ Documentation for the UAS sponsorship of a golf tournament was incomplete.
- ▶ A summary or reconciliation of cash receipts and expenses was not performed for the BJK event banquet.

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

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

The director of financial management indicated that the staff is well aware of the authorized signers on the corporate accounts. She also indicated that she believes that the supporting documentation for expenditures was adequate.

Insufficient controls over expenditures increase the risk of errors, irregularities, and misappropriation of funds.

Recommendation 30

We recommend that the UAS enforce the need to provide adequate supporting documentation for general disbursements.

Campus Response

UAS will continue to work with its agency account holders to obtain adequate disbursement documentation. The agency account holder agreement discussed in Response 29 should aid in this effort. The anticipated completion date is April 2002.

GRANT AND CONTRACT DISBURSEMENTS

Certain grant and contract disbursements lacked appropriate authorization and/or documentation.

Our review of 73 grant and contract disbursements disclosed the following exceptions:

- ▶ The UAS does not review contracts/agreements, if any, entered into between campus employees (i.e., project director, principal investigator, etc.) and consultant/independent contractors. Instead, these arrangements are approved for payment based on executed services rendered and check requisition forms.
- ▶ Under current UAS policy, advances for student travel (i.e., lodging, per diem, etc.) did not require subsequent filing of a travel claim to clear the advance.
- ▶ Four instances were noted where lists of attendees were not provided as support for the use of rental cars and bus transportation.

- ▶ No supporting documentation was available for a payment to the California State University, Los Angeles library for services in research and related activities. In addition, the payment was deposited to an agency account at the UAS.
- ▶ Under current UAS policy, purchases, other than for travel, do not require one-up authorization.
- ▶ Four instances were noted where faxes and copies were accepted in place of original invoices without certification that the invoice had been researched to prevent a duplicate payment.
- ▶ Two instances were noted where payments made to credit card companies were not supported by credit card statements.
- ▶ Forms authorizing the off-site use of equipment were not utilized in three instances.
- ▶ No documentation could be provided by the UAS to support four disbursements.
- ▶ Signature cards were not appropriately updated to reflect current authorized signers.

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

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

The acting director of grants and contracts indicated that service contracts are the project/principal investigators' (PI) responsibility and should be established and maintained by the PI. She also indicated that the purchases by the PI are established in the budget when the grant is set up and, hence, do not need one-up approval at the time of purchase and that advances for student travel were authorized when they were issued, and hence, the subsequent claims were not needed. In addition, she stated that staff no longer working in the grants and contracts office processed some of the expenditures, and therefore, explanations were not available and that some of the documentation requested was in storage and not available for review. She also stated that for the off-site equipment, the off-campus fixed asset authorization form is maintained by the individual department and not coordinated through the grants and contracts office.

Insufficient controls over expenditures increase the risk of errors, irregularities, and misappropriation of funds.

Recommendation 31

We recommend that the UAS enforce the need for proper authorization and supporting documentation for grant and contract disbursements.

Campus Response

UAS has notified principal investigators regarding the implementation of new procedures and controls over grant and contract disbursements. This recommendation has been implemented by the campus.

FEES, REVENUES, AND RECEIVABLES

UNRELATED BUSINESS INCOME

The UAS has neither filed a Form 990T nor identified unrelated business income (UBI) for either the childcare services it provides to community members or for the sublease of office space to the county of Los Angeles.

IRC §512 through §514 describe UBI. The IRC defines an unrelated trade or business of an exempt organization as any trade or business, the conduct of which is not substantially related to the exercise or performance of its tax-exempt purpose. The organization's tax-exempt status may be jeopardized if too large a proportion of an organization's revenue comes from UBI.

The UAS director of financial management indicated she believed that the UAS currently had no UBI, but that the director of financial services would research this issue.

Failure to report taxable income subjects the UAS to potential financial penalties from the Internal Revenue Service (IRS).

Recommendation 32

We recommend that the UAS reexamine its business operations for UBI and file UBI tax returns as appropriate.

Campus Response

UAS will review its business operations and work with its CPA firm to identify any UBI issues and to ensure appropriate compliance. The anticipated completion date is June 2002.

CHILD CARE CENTER

Internal controls over accounting functions performed at the childcare center required improvement.

We noted that:

- ▶ Accounts receivables were only reported by the childcare center to the UAS on an annual basis.

- ▶ Documentation was not maintained to evidence that collection/follow-up was performed on past-due accounts receivables.
- ▶ An accounts receivable aging report was not reviewed for adequacy.
- ▶ Duties over enrollment, cash receipts, accounts receivables, and external agency reporting were not adequately segregated. All such duties were performed by one individual.

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

The executive director of the UAS indicated that the UAS is in the process of developing policies and procedures to document proper oversight and controls over its childcare center activities, including accounts receivable, fiscal reporting, and segregation of duties.

Insufficient internal controls increase the risk of inappropriate expenditures.

Recommendation 33

We recommend that the UAS:

- a. Separate the enrollment, cash receipts, and accounts receivable functions or institute and document mitigating controls approved by the campus.
- b. Take appropriate measures to improve the procedures for reporting, collecting, and reviewing past-due accounts receivable.

Campus Response

- a. UAS has separated Center responsibilities over enrollment, cash receipts, and accounts receivable functions with consideration for limited staffing and is in the process of documenting controls with campus input and approval.
- b. Procedures for receivables have been modified to include monthly reporting and review by UAS accounting to ensure accounts are current. A further review of the cash receipt function and development of new procedures will be conducted with input from the University's internal auditor.

The anticipated completion date is June 2002.

PURCHASING AND ACCOUNTS PAYABLE

OPEN PURCHASE ORDERS

The grants and contracts open purchase order database was not current.

We sampled 11 grants and contracts purchase orders that were identified as open in the purchase order database. All 11 items should have been cleared, as the purchase orders were either paid, completed, or the projects closed.

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 of the UAS indicated that the open purchase orders relate to a recent PeopleSoft data clean-up project for UAS contracts and grants in which several completed grant projects remain open while application problems are being resolved. These purchase orders are entered on a control list maintained by the contracts and grants acting director and the director of administrative technology, and activity is appropriately monitored.

Inadequate review of open purchase orders increases the risk that errors and irregularities will not be detected timely.

Recommendation 34

We recommend that the UAS bring current its open purchase order database.

Campus Response

UAS and the campus are reviewing the new PeopleSoft implementation to ensure an effective update of the auxiliary's open purchase order database. The anticipated completion date is June 2002.

CHILD CARE CENTER CONTRACT

The contract agreement for the childcare center did not fully define necessary requirements.

We noted that the contract agreement between the campus and the UAS calls for the UAS "to provide administrative services for the accountability of funds associated with the childcare services program" not to exceed \$47,650. The agreement does not define such items as services to be provided, attendance eligibility, academic credit awards, and insurance levels required.

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

business practices. Sound business practice mandates that agreements be executed which fully define the expectations, rights, and responsibilities of the parties involved.

The vice president of administration and finance indicated that he believed that the current contract was sufficient, but that any identified deficiencies would be addressed and corrected.

Not fully defining rights, responsibilities, and expectations could result in misunderstandings and disputes as to the terms of the arrangement.

Recommendation 35

We recommend that the UAS revise its childcare center contract with the campus to include the services to be provided, attendance eligibility, academic credit awards, and insurance levels required.

Campus Response

UAS revised its childcare center contract with the campus to include a description of services provided, enrollment eligibility, academic credit awards, and required insurance levels. University counsel and office of the VPAF are currently reviewing the contract. The anticipated completion date is June 2002.

VENDOR DONATIONS

Donations made to the campus in accordance with vendor contract provisions may not have been reportable for fundraising purposes.

We noted that contracts between the UAS and various vendors contained provisions wherein the vendors were contractually obligated to annually contribute specified amounts to the campus scholarship fund and/or the president's discretionary fund.

Title 5 §42401 and §42402 indicate that the campus president shall require that auxiliary organizations operate in conformity with the policy of the Board of Trustees and the campus. One of the objectives of the auxiliary organizations is to provide fiscal procedures and management systems that allow effective coordination of the auxiliary activities with the campus in accordance with sound business practices. Sound business practice mandates that IRS publication 526 be observed.

IRS publication 526 states that a gift or contribution is voluntarily given and is for the use of a qualified organization and not set aside for use by a specific person.

The director of financial management indicated that the IRS publications provide background, but were not law. The executive director of the UAS indicated that she believed the funds were reportable for fundraising purposes.

Fundraising figures reported to the chancellor's office would be misstated if improper amounts were included.

Recommendation 36

We recommend that the UAS coordinate with the campus and CSU system legal counsel to determine whether contributions made in accordance with the provisions of a vendor contract should be reported for fundraising purposes.

Campus Response

UAS is coordinating with the campus and CSU legal counsel to obtain a final determination regarding proper reporting of corporate sponsorships included in vendor contracts. The anticipated completion date is June 2002.

EXCLUSIVE CONTRACTS

The exclusive soft drink agreement (pouring rights) between the UAS and the national brand was not submitted to the chancellor's office for formal approval.

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. The soft drink agreement was in excess of \$25,000 and subject to the review and approval of the chancellor's office.

The executive director of the UAS indicated that there is no statutory requirement for chancellor's office review of auxiliary contracts with third parties.

The absence of required formal approval and specifics regarding rights and obligations increases the risks to the campus and the system and the potential for misunderstandings.

Recommendation 37

We recommend that the campus coordinate with the UAS to ensure compliance with EO No. 409.

Campus Response

UAS will coordinate with the campus to ensure compliance with EO 409, as applicable. This recommendation has been implemented by the campus.

PROFIT-BASED CONTRACTS

UAS's profit-based contracts did not include right-to-audit clauses.

The UAS has profit-based contracts with various food vendors where amounts paid to the UAS by the operators are based upon a variable factor such as percentage of sales. Contracts with these operators do not include a right to access records or contain the audit clause which allows the UAS to review gross receipts and verify and investigate the accuracy of financial statements provided by the tenants/food vendors.

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

The executive director of the UAS indicated that the contracts currently comply with both open records and audit requirements. She further indicated that there is no statutory requirement for contracted third parties to have such record or audit clauses. However, she added that the UAS would review and consider amending these contracts to include such clauses.

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

Recommendation 38

We recommend that the UAS modify its profit-based contracts to include the right to review and/or audit the records of the vendors/tenants.

Campus Response

Right-to-audit clauses have been inserted in all vendor contracts, which have been submitted for review by University legal counsel and office of the VPAF. The anticipated completion date is June 2002.

CAMPUS VENDING

There was no written agreement in place between the UAS and the campus for the various vending machines located throughout the campus.

The UAS contracts with a third party to operate food vending machines in various areas of the campus. For the machines placed in the University-Student Union (U-SU) building, there is an agreement between the UAS and the U-SU. However, there is no similar agreement with the campus for the vending machines placed at various campus locations.

Title 5 §42401 and §42402 indicate that the campus president shall require that auxiliary organizations operate in conformity with the policy of the Board of Trustees and the campus. One of the objectives of the auxiliary organizations is to provide fiscal procedures and management systems that allow effective coordination of the auxiliary activities with the campus in accordance with sound business practices. Sound business practice mandates that a written agreement be executed for the vending machines located throughout the campus.

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

The executive director of the UAS indicated that the campus authorized the UAS to operate food service through the operating agreement and that the vending machines are part of the food service function.

Not entering into a written agreement could result in misunderstandings and disputes as to the terms of the arrangement. In addition, 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 39

We recommend that the UAS enter into a written agreement with the campus for the placement of vending machines.

Campus Response

UAS has prepared agreements that address the placement of vending machines and submitted them to the University legal counsel and office of the VPAF for review. The anticipated completion date is June 2002.

SPECIAL COMMITTEES

Special committees were not formed as stipulated in the UAS contract with the University-Student Union (U-SU).

The contract between the UAS and the U-SU for the leasing of space for food services and the bookstore required the formation of a dining services committee and a university bookstore advisory committee, respectively. Currently, no such committees are in place.

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 contractual provisions be met.

The deputy executive director of commercial operations indicated that the committees were established years ago but were no longer in effect. The executive director of the UAS indicated that both committees would be reinstated in fall quarter 2001.

Failure to follow contract provisions increases the risk of misunderstanding between the two parties, which may result in disagreements and operational inefficiencies.

Recommendation 40

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

Campus Response

UAS is coordinating efforts to maintain current, written and formal agreements from faculty and student advisory committee representatives. The anticipated completion date is April 2002.

PERSO NNEL

The UAS personnel clearance form did not include revocation of computer access.

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 computer access be revoked when an employee separates.

The executive director of the UAS indicated that the practice has been to terminate access for employees who separate from the UAS, but this was not indicated on the form.

When adequate internal controls are not maintained, there is an increased risk of unauthorized access to organization computer systems.

Recommendation 41

We recommend that the UAS revise its personnel clearance form to include revocation of computer access.

Campus Response

UAS will revise the personnel clearance form to include revocation of computer access. The anticipated completion date is February 2002.

PETTY CASH

The UAS had not developed procedures to perform periodic and independent counts of petty cash funds on an unannounced basis.

Title 5 §42401 and §42402 indicate that the campus president shall require that auxiliary organizations operate in conformity with the policy of the Board of Trustees and the campus. One of

the objectives of the auxiliary organizations is to provide fiscal procedures and management systems that allow effective coordination of the auxiliary activities with the campus in accordance with sound business practices. Sound business practice mandates that periodic and independent, unannounced counts be performed to ensure that assets are sufficiently safeguarded.

The UAS director of financial management indicated that the petty cash funds are counted at fiscal year end as part of the financial statement audit.

Not performing periodic and independent counts of petty cash funds increases the risk that missing funds will not be detected.

Recommendation 42

We recommend that the UAS establish and implement petty cash and change fund procedures, which require periodic and independent, unannounced cash counts.

Campus Response

UAS will establish and implement petty cash fund procedures that include required periodic, independent, and unannounced cash counts. The anticipated completion date is June 2002.

FIXED ASSETS

Internal controls over fixed assets were not adequate.

We found that:



- ▶ The subledger (fixed asset schedule) did not list individual fixed asset items. Instead, several like items were assigned the same asset number and listed in the subledger.
- ▶ The reconciliation of the fixed asset ledger to the general ledger was only done annually in preparation for the financial statement audit.
- ▶ With the exception of food services, there was no documentation to evidence when the last physical inventory was performed. A physical inventory of food services was performed prior to the demolition of the cafeteria building; however, the inventory performed was not traced back to the general ledger or fixed asset ledger.
- ▶ Based on a sample of purchases, one computer had not been tagged while other fixed assets had not been recorded to the fixed asset ledger.

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 practices include strong controls over fixed assets.

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

The executive director of the UAS indicated that fixed assets are reviewed in conjunction with the annual audit.

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

Recommendation 43

We recommend that UAS:

- a. Perform a physical inventory of fixed assets and reconcile the results to the fixed asset and general ledgers.
- b. Perform routine reconciliations of the fixed asset ledger to the general ledger.
- c. Maintain records of physical inventories performed.
- d. Consistently tag fixed asset acquisitions and record such to the fixed asset ledgers.
- e. Review the adequacy of the fixed asset ledger to separately identify and tag individual fixed assets.

Campus Response

UAS will implement procedures to strengthen controls regarding proper management of its fixed assets, including:

- a. Performance and reconciliation of physical inventories to the fixed asset and general ledgers.
- b. Routine reconciliations of fixed assets to the general ledger.
- c. Records maintenance of physical inventories performed.
- d. Consistent tagging and recording of fixed asset acquisitions to the fixed asset ledgers.
- e. Reviewing the adequacy of the fixed asset ledger to separately identify and tag individual assets.

The anticipated completion date is June 2002.

TRUST/AGENCY ACCOUNTS

Certain trust/agency account disbursements lacked sufficient authorization and/or documentation to ensure the proper use of funds. In addition, we noted that some trust/project accounts had negative balances.

The agency trial balance as of June 30, 2001, showed nine accounts with negative balances. In addition, a review of 15 trust/agency account disbursements disclosed the following:

- ▶ Contracted services provided to campus departments/agency accounts are paid by the UAS based on executed services rendered and check requisition forms. The UAS does not review the contracts/agreements, if any, entered into between the campus employee and the consultant/independent contractor.
- ▶ In seven instances, 1099 forms were not issued to independent contractors.
- ▶ In four instances, faxes and copies were accepted in place of original invoices.
- ▶ In two instances, signature cards were not updated to reflect current authorized signers.
- ▶ In four instances, disbursements did not appear to be in accordance with the allowable or appropriate expenditures as defined in the trust/agency agreement.
- ▶ Three instances were noted where the center for technology entered into contractual services with an individual related to the authorized signer.
- ▶ In three instances, documentation, such as a purchase order, was not obtained to support the expenditure.

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

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 of the UAS indicated that occasionally, the UAS will allow a temporary overdraft for student orientation upon request of the authorized agency account holders. She also indicated that the UAS accepts deposits from campus departments and processes their expenditures in accordance with authorized signatures and acceptable supporting documentation. It is not appropriate for the UAS to question agency account holders regarding how their funds are being spent. In addition, she stated that if original invoices cannot be obtained, the UAS will have copies or faxes validated by the agency account holder. With regard to the technology center, she indicated that the authorized signer for the center for technology was related to the individual hired by the center to provide consulting/independent contractor services.

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

Recommendation 44

We recommend that the UAS further develop/strengthen internal controls over trust accounts in the following areas:

- a. Review of accounts for negative balances.
- b. Review of contracts entered into between campus employees and consultants/independent contractors (i.e., appropriateness, liability issues, related party transactions, etc.).
- c. Issuance of 1099 forms to independent contractors.
- d. Maintenance of updated and current signature cards.
- e. Maintenance of proper and original documentation to ensure the appropriateness of expenditures.

Campus Response

The agency account holder agreement discussed in Response 29 will include control procedures to ensure:

- a. Review of negative balance accounts and timely reimbursement to UAS.
- b. Evidence of appropriate review of contracts between campus employees and consultants/independent contractors to address arms-length and liability issues.
- c. Issuance of 1099 forms as applicable.
- d. Update and maintenance of current signature cards.
- e. Maintenance of proper and original documentation to ensure appropriateness of expenditures.

The anticipated completion date is June 2002.

INFORMATION TECHNOLOGY

BACKUP DATA

Backup data for the childcare center stand-alone accounting system was not periodically stored at an off-site location.

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 that backup tapes be stored off-site.

The director of the childcare center indicated that she is currently reviewing the situation.

Failure to store backup data at an off-site location increases the risk of data loss and discontinuity of operations should a disaster occur.

Recommendation 45

We recommend that the UAS establish procedures to store backup tapes for the childcare center accounting system at an off-site location.

Campus Response

Procedures have been revised and the childcare center's backup tapes are being stored in the UAS corporate accounting safe, a secure off-site location. This recommendation has been implemented by the campus.

UNIVERSITY-STUDENT UNION

LEGAL AND REGULATORY COMPLIANCE

RESERVES

A separate reserve account with cash or cash-equivalent balances was not established.

Unrestricted net assets, which include depreciation and fluctuate depending on an increase or decrease in net assets, are used as the reserve account.

Education Code §89904(b) states, in part, the Trustees in consultation with the Department of Finance and the governing boards of the various auxiliary organizations shall implement financial standards which will assure the fiscal viability of such various auxiliary organizations. Such standards shall include proper provisions for professional management, adequate working capital, adequate reserve funds for current operations and capital replacements, and adequate provisions for new business requirements.

The executive director of the U-SU indicated that due diligence procedures regarding its reserves and its current practice to utilize unrestricted net assets as the reserve met the requirements of Education Code §89904(b).

Insufficient reserve planning places the auxiliary at risk to fund future deficits.

Recommendation 46

We recommend that the U-SU enhance its policy for the allocation of surplus funds/reserves, to address or consider the following:

- a. Minimum reserve requirements.
- b. The inclusion of reserves in the budget submitted to the campus president.
- c. Board review of reserve levels.
- d. Reserves for working capital and capital replacement.
- e. The methodology used for the calculation of reserves.

Campus Response

The University-Student Union Board of Directors will review its current reserve policy with consideration given to enhancements over the areas of minimum reserve requirements, inclusion of reserves in the budget presentation, Board review of reserve levels, working capital and capital replacement reserves, and reserve calculation methodology. The anticipated completion date is March 2002.

LEASE AND RESERVATION AGREEMENTS

Policies and procedures over the use of space in or around the U-SU building needed to be reviewed and strengthened.

Our review indicated that:

- ▶ The appropriate use of the reservation and lease processes was not clearly defined to distinguish between long-term U-SU building tenant leases and short-term reservations for commercial vendors, both inside and outside the U-SU. For example, in one instance, the reservation process has been used for one tenant who has occupied space in the U-SU building for over a year. Typically, tenants in the U-SU are required to sign a lease agreement rather than a reservation agreement, which is usually used for the short-term lease of space to outside vendors. Furthermore, arrangements between the U-SU and various vendors were not reviewed and approved by the UAS, which has been designated by the campus as the auxiliary organization with sole and comprehensive responsibility for the management of commercial services.
- ▶ Reservation agreements entered into with outside vendors did not include a hold harmless clause indemnifying the U-SU and the campus against potential 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 appropriate agreements be maintained for tenants utilizing U-SU facilities.

The executive director of the U-SU indicated that one indoor vendor was processed through reservations because the availability of the space was temporary due to construction. In addition, rental of the temporary space was approved by the space allocation building utilization committee and the U-SU board of directors.

Inadequate policy and procedures related to vendors and tenants who utilize U-SU facilities increase the risk of legal liability and misunderstandings between parties.

Recommendation 47

We recommend that the U-SU, in coordination with the campus, strengthen policy and procedures to further define the appropriate use of the lease and reservation processes regarding building tenants and commercial vendors, both inside and outside the U-SU, and to include indemnification clauses in its reservation agreements.

Campus Response

The University-Student Union will work with the campus to strengthen and define the appropriate use of lease and reservation processes with regard to building tenants and commercial vendors, both inside and outside the U-SU, and to include indemnification clauses in reservation agreements. The anticipated completion date is April 2002.

CASH RECEIPTS AND DISBURSEMENTS

CASH OVER AND SHORT

Cash overages and shortages were noted in the U-SU café, game room, and information counter.

The following net overages and shortages were noted in fiscal years 1999 and 2000:

	<u>Fiscal Year 1999</u>	<u>Fiscal Year 2000</u>
Café	(\$46)	\$1,420
Game Room	(\$28)	\$123
Information Counter	\$429	\$546

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 sufficient internal controls be maintained over cash funds, which include establishing localized accountability over cash registers.

The former assistant director of the U-SU indicated that overages and shortages were due to more than one individual having access to the cash register.

Inadequate internal controls over cash and cash registers increase the risk of errors, irregularities, and misappropriation.

Recommendation 48

We recommend that the U-SU strengthen internal controls over all cash funds.

Campus Response

The University-Student Union has developed cash register handling training for employees, including controls awareness, and will strengthen the cash short/over policy. The anticipated completion date is May 2002.

DISBURSEMENTS

Certain disbursements lacked appropriate and/or timely documentation.

A review conducted by the campus internal auditor in May 2000 also disclosed similar findings.

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 and properly authorized.

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 of the U-SU indicated that exceptions were due to oversight and that the campus audit report addressed many of the same exceptions noted above. He further indicated that the U-SU has strengthened its policy and procedures over expenditures.

Inadequate controls over cash disbursements increase the risk of errors, irregularities, and misappropriation of funds.

During the fieldwork, it was noted that the U-SU had taken appropriate measures to ensure the proper documentation and authorization of disbursements.

FEES, REVENUES, AND RECEIVABLES

COMMERCIAL SERVICE

Losses of \$70,557 and \$33,923, in fiscal years 1999 and 2000 respectively, were noted in the café operated by the U-SU.

Education Code §89905 states that operations of commercial services on a campus of the California State University, such as a food service or bookstore, or any commercial services that may be provided in a state university union, shall, when operated by an auxiliary organization, be self-supporting.

The executive director of the U-SU indicated that the café is not a commercial service. Instead, the café is a program operated by students and established through a referendum by the students. In addition, students may receive cooperative education academic credits through the career center.

When commercial services are not self-sufficient, there is an increased financial burden placed upon the operations of the auxiliary organization.

Recommendation 49

We recommend that the U-SU perform an analysis to determine what measures can be taken to improve café operations.

Campus Response

The University-Student Union has analyzed the operating loss of the café operations and initiated a plan of operational measures to enhance fiscal performance. The University-Student Union Board of Directors will review the analysis and operational plan and define the programmatic aspects of Café LA as a student development experience. The anticipated completion date is June 2002.

ACCOUNTS RECEIVABLE POLICIES AND PROCEDURES

The U-SU policies and procedures over accounts receivable were in need of improvement.

We found that:

- ▶ Written policy and procedures over the collection process, reconciliation of the aging report to invoices, allowance for bad debts, write-offs, and providing information to the reservations office for organizations that have not paid its fees to ensure future reservations are not made were not documented.
- ▶ Two customers were erroneously recorded to two separate accounts receivable subsidiary accounts.
- ▶ Accounts receivable from a campus department for the sale of bus tickets were mislabeled as contracts and grants.
- ▶ A formal reconciliation of the accounts receivable subsidiary ledgers to the general ledger was 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 policy and procedures be current and reflect the actual practice of the organization.

The executive director of the U-SU indicated that the outdated, written policy and procedures over the accounts receivable process were an unintentional oversight.

Failure to maintain current, written policy and procedures increases the risk of loss, errors, and irregularities.

Recommendation 50

We recommend that the U-SU strengthen policy and procedures to ensure that the accounts receivable process is documented and reflects the current practice of the organization.

Campus Response

The University-Student Union is in the process of contracting with the campus for accounting services, effective July 1, 2002. In conjunction with this transfer of services, the U-SU is reviewing and updating its policy and procedures over the accounts receivable process to ensure that current practices are properly documented. The anticipated completion date is June 2002.

PERSO NNELAND PAYRO LL

EM PLOYEE CLEARANCE

Employee clearance forms were not established to address return of credit cards, clearance of outstanding advances, or termination of information systems access.

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 employee separation procedures be maintained.

The executive director of the U-SU indicated that the lack of a written employee separation policy was an unintentional oversight which was corrected by contracting with the UAS for human resource services effective July 1, 2001.

Failure to establish written policy and procedures increases the risk of loss, errors, and misappropriation.

Recommendation 51

We recommend that the U-SU establish written policy and procedures addressing return of credit cards, clearance of outstanding advances, and termination of information systems access to ensure employees are properly separated.

Campus Response

The University-Student Union will establish a written employee separation policy addressing return of credit cards, clearance of outstanding advances, and termination of information systems access. The anticipated completion date is April 2002. In addition, the U-SU is negotiating for human resource services with UAS, with an anticipated effective date of July 1, 2002.

FIXED ASSETS

The U-SU policies and procedures concerning fixed assets were inadequate.

We found that:

- ▶ Fixed asset policies and procedures did not address controls over additions and deletions of inventory; property sales and dispositions; and property reconciliation to financial records.
- ▶ Inappropriate items, including sanitary and plumbing supplies totaling \$2,820, were noted in the fixed assets report.
- ▶ Items under \$1,000, contrary to U-SU policy and procedures, were noted in the fixed assets report as of May 31, 2001.
- ▶ Reconciliations of fixed assets to accounting records were not documented.
- ▶ Two of five fixed assets reviewed for existence could not be located by the U-SU.

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

U-SU's fixed asset policies and procedures indicate, in part, that items with unit acquisition costing below \$1,000 will not be capitalized. However, they will be inventoried at zero value.

The executive director of the U-SU indicated that the lack of controls over fixed assets was due to oversight.

Inadequate property inventory control procedures increase the risk of financial misstatement, loss, and theft.

Recommendation 52

We recommend that the U-SU:

- a. Strengthen fixed asset policies and procedures by including comprehensive and effective controls addressing additions and deletions, property sales and disposition, and periodic reconciliations.
- b. Submit its revised policies and procedures to the board of directors for approval.
- c. Review current fixed assets to ensure that only appropriate items are recorded.
- d. Perform and document reconciliations of fixed assets to its accounting records on a periodic basis.

Campus Response

In conjunction with the transfer of U-SU accounting services to the University, the U-SU will review and update its fixed asset records to current, perform and document the reconciliation of its fixed assets to its accounting records, and the U-SU Board of Directors will review and revise the fixed asset policies. The anticipated completion date is June 2002.

ASSOCIATED STUDENTS, INC.

LEGAL AND REGULATORY COMPLIANCE

RESERVES

A separate reserve account with cash or cash-equivalent balances was not established.

Instead, unrestricted net assets, which include depreciation and fluctuate depending on an increase or decrease in net assets, are used as the reserve account.

Education Code §89904(b) states, in part, the Trustees in consultation with the Department of Finance and the governing boards of the various auxiliary organizations shall implement financial standards which will assure the fiscal viability of such various auxiliary organizations. Such standards shall include proper provisions for professional management, adequate working capital, adequate reserve funds for current operations and capital replacements, and adequate provisions for new business requirements.

The executive director of the ASI indicated that the current practice to utilize unrestricted net assets as the reserve met the requirements of Education Code §89904(b) since specific criteria to create an account with cash or cash-equivalent balances are not noted in the Education Code.

Insufficient reserve planning places the auxiliary at risk to fund future deficits.

Recommendation 53

We recommend that the ASI enhance its policy for the allocation of surplus funds/reserves to address, among other things:

- a. Minimum reserve requirements.
- b. The inclusion of reserves in the budget submitted to the campus president.
- c. Board review of reserve levels.
- d. Reserves for working capital and capital replacement.
- e. The methodology used for the calculation of reserves.

Campus Response

To ensure compliance with Education Code Section 89904(b), ASI will perform a due diligence review of its reserve procedures, including consideration of reserve levels, budgetary and Board review, and calculation methodology. The anticipated completion date is June 2002.

GRANTS-IN-AID

A review of ten grants-in-aid disclosed that Associated Students, Inc. (ASI) failed to issue tuition payment statements (Form 1098T) in each instance.

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

The executive director of the ASI indicated that not submitting 1098T forms was due to oversight, and currently, the ASI is working with the university to ensure forms are completed for each grant-in-aid.

Failure to report grants-in-aid may subject the ASI to federal tax penalties.

Recommendation 54

We recommend that the ASI and campus accounting services strengthen procedures for reporting scholarships.

Campus Response

ASI has brought all 1098T reporting to current. For the 2002 calendar year, ASI is coordinating with the University business office to provide appropriate scholarship reporting. This recommendation has been implemented by the campus.

DISBURSEMENTS

Certain disbursements lacked appropriate and/or timely documentation.

A review conducted by the campus internal auditor in May 2000 also disclosed similar findings.

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 and properly authorized.

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 of the ASI indicated that exceptions were due to oversight. Currently, the ASI in coordination with the campus accounting services, has addressed these issues as a result of a prior campus internal audit report which revealed similar findings.

Inadequate controls over cash disbursements increase the risk of errors, irregularities, and misappropriation of funds.

During the fieldwork, it was noted that the ASI had taken appropriate measures to ensure the proper documentation and authorization of disbursements.

FEES AND REVENUES

NET ASSETS

Expenditures exceeded revenues in the amount of \$247,689 and \$140,188, resulting in a decrease in net assets for fiscal years 2000 and 1999, respectively.

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 controls be in place to ensure revenues exceed or equal expenditures.

The executive director of the ASI indicated that lack of budgetary controls with prior ASI administration contributed to the decrease in net assets. Additionally, he indicated that as of June 5, 2001, revenues exceeded expenditures by \$146,727.

Inadequate financial and operational controls, resulting in expenditures exceeding revenue, increase the risk of financial viability/stability of the ASI.

During the fieldwork, the ASI provided documentation evidencing an increase in net assets for fiscal year end June 30, 2001.

APPENDIX A: PERSONNEL CONTACTED

Name

Title

CAMPUS

James M. Rosser	President
Kyle Button	Vice President, Institutional Advancement
Benjamin Figueroa	Assistant to the Vice President, Administration and Finance
Steven Garcia	Vice President, Administration and Finance
Yuet Lee	Acting Associate Vice President, Administration and Finance
Thomas Leung	Controller, Business Financial Services
Randi Moore	Executive Director, Alumni Relations
Traci Mullison	Budget Secretary, Institutional Advancement
Linda Shaffer	University Internal Auditor
Paula Tcheng	Auxiliary Accounting/Reporting Supervisor
Vu Tran	Director, Student Financial Aid

CSU LOS ANGELES FOUNDATION, INC.

Kyle Button	Executive Director
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UNIVERSITY AUXILIARY SERVICES, INC.

Hilda Alcalá	Accounts Receivable Technician
Angela Chan	Accounting Manager
Joan Gomez	Director of Financial Management
Cheryl Jose	Accounting Technician, Financial Services
Julie Martinez	Human Resources Technician
Phi Ramli	Accountant
Alma Sahagun	Acting Director of Contracts and Grants
Monica Salinas	Accounts Payable Technician
Johnathan See	Deputy Executive Director of Commercial Services
Raquel Soriano	Executive Director
Philip Valdez	Accounting Technician
Dorothy Wu	Payroll Manager

ASSOCIATED STUDENTS, INC.

Joseph Aguirre	Executive Director, Associated Students, Inc.
Rainee Redmond	Assistant Director, Associated Students, Inc.

UNIVERSITY-STUDENT UNION

Patrick Bailey	Executive Director, University-Student Union
Kevin Bolling	Director, Center for Student Development and Programs
Jenny Lex	Assistant to Directors, University-Student Union
John Ortiz	Director, Operations
David Quezada	Unit Services Coordinator, University-Student Union
Mae Santos	Former Assistant Director, Financial Services
Lena Zeng	Accounting Technician, Payroll

SCOPE

INTERNAL COMPLIANCE SCOPE

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

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

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

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

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

INTERNAL CONTROL SCOPE

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

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

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

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

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

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

STATEMENT OF INTERNAL CONTROLS

A. INTRODUCTION

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

B. INTERNAL CONTROL DEFINITION

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

1. Internal Accounting Controls

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

2. Operational Controls

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

C. INTERNAL CONTROL OBJECTIVES

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

D. INTERNAL CONTROL SYSTEMS LIMITATIONS

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

CALIFORNIA STATE UNIVERSITY, LOS ANGELES



5151 STATE UNIVERSITY DRIVE, LOS ANGELES, CA 90032-8500

OFFICE OF THE PRESIDENT

(323) 343-3030 FAX: (323) 343-3039 <http://www.calstatela.edu>

February 12, 2002

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

RECEIVED
University Auditor
FEB 13 2002
The California State
University

Re: University's Response to Report 01-48 Recommendations
Auxiliary Organizations

Dear Mr. Mandel:

The electronic copy of our response to recommendations contained in Report 01-48, Auxiliary Organizations, was forwarded to your office on Friday, February 8. Enclosed is a hard copy of that response, and documentation to support implementing actions for recommendations #12, 19, 21, 24, 25, 28, 31, 41, 45, and 54 as contained in the Incomplete Report. We would also like to take this opportunity to thank you for the extension of time to respond.

If you wish to discuss any matter contained herein, please contact Ms. Linda Shaffer - University Internal Auditor, at (323) 343-5102.

Sincerely,

James M. Rosser
President

Attachments

cc: Steven N. Garcia, Vice President for Administration and Finance
Joseph Aguirre, General Manager – Associated Students Inc.
Patrick Bailey, Executive Director – University Student Union
Kyle C. Button, Vice President for Institutional Advancement
Raquel Soriano, Executive Director – University Auxiliary Services
Patricia Higuchi, Director of Administrative Technology
Yuet K. Lee, Assistant Vice President for Administration & Finance
Linda Shaffer, University Internal Auditor

The California State University

**CALIFORNIA STATE UNIVERSITY,
LOS ANGELES**

**AUXILIARY ORGANIZATIONS
AUDIT REPORT NO. 01-48**

CAMPUS

LEGAL AND REGULATORY COMPLIANCE

CAMPUS SUPPORT ORGANIZATIONS

Recommendation 1

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

Campus Response

The University, in accordance with the provisions of Title 5, Section 42400, has initiated a program to identify, coordinate and organize campus ancillary organizations. The anticipated completion date is June 2002.

ALUMNI ASSOCIATION FUNDS

Recommendation 2

We recommend that the campus develop formal agreements concerning the fiduciary responsibility for alumni association funds.

Campus Response

The University will seek guidance from the Chancellor's Office regarding components for formal agreements regarding fiduciary responsibility for alumni association funds. The anticipated completion date is June 2002.

CONFLICT OF INTEREST

Recommendation 3

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

Campus Response

The University will develop unified procedural guidelines to document and coordinate conflict of interest policies and procedures for all campus auxiliaries. The anticipated completion date is June 2002.

COST ALLOCATION PLAN

Recommendation 4

We recommend that the campus complete its cost allocation plan in accordance with EO No. 753.

Campus Response

The University is in the process of finalizing its cost allocation plan in accordance with EO 753, and the anticipated completion date is June 2002.

PUBLIC RELATIONS POLICY

Recommendation 5

We recommend that the campus coordinate with the auxiliary organizations to develop a public relations policy and that the policy be filed with the Office of the Chancellor.

Campus Response

The University will develop unified procedural guidelines to ensure that all campus auxiliaries develop public relations policies that are filed with the Office of the Chancellor. The anticipated completion date is June 2002.

VENDOR MASTER FILE

Recommendation 6

We recommend that the campus take appropriate measures to ensure the proper administration and control over the vendor master file.

Campus Response

The University will review its current PeopleSoft implementation to determine if security access levels may be utilized to adequately control vendor master file access. The anticipated completion date is June 2002.

COMPUTER ACCESS

Recommendation 7

We recommend that the campus review its current user profiles for campus auxiliary accounting systems to ensure the appropriate level of user access.

Campus Response

The University is coordinating with the auxiliaries to review and update user profiles to current, with a required report to the Vice President for Administration & Finance (campus CFO) by June 2002.

UNCLAIMED MONIES

Recommendation 8

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

The University will develop unified operational guidelines for all campus auxiliaries to document procedures ensuring compliance with state escheat requirements. The anticipated completion date is June 2002.

TRUSTS AND OTHER LIABILITIES

Recommendation 9

We recommend that the campus increase its oversight of auxiliary management, especially in the area of funds held in trust and agency accounts.

Campus Response

The University will implement a review to identify the source of revenues on deposit with auxiliaries and to ensure that state funds are held only in state accounts. The anticipated completion date is June 2002.

CSU LOS ANGELES FOUNDATION, INC.

LEGAL AND REGULATORY COMPLIANCE

OPERATING AGREEMENT

Recommendation 10

We recommend that the Foundation and the campus implement procedures to ensure the timely updating and approval of its operating agreement in accordance with CSU policy.

Campus Response

The Foundation is included in a process initiated by the Campus to ensure timely updates and adequate renewal lead-times for all operating agreements and service contracts. The anticipated completion date is June 2002.

INSURANCE REQUIREMENTS

Recommendation 11

We recommend that the Foundation, in coordination with the campus, perform a risk identification and evaluation to determine its risk exposure and the appropriate level of insurance coverage.

Campus Response

The Foundation will perform a risk identification and evaluation study, and coordinate its efforts with the Campus to recommend appropriate coverage as part of the FY 2002/2003 Operating Budget proposal. The anticipated completion date is June 2002.

BOARD COMPOSITION

Recommendation 12

We recommend that the Foundation coordinate with the ASI to ensure that student board representation is maintained in accordance with CSU policy.

Campus Response

The Foundation and ASI have coordinated efforts on student board representation and the vacancy was satisfactorily filled effective January 2002. This recommendation has been implemented by the campus.

RESERVES

Recommendation 13

We recommend that the Foundation coordinate with the campus to establish a formal policy for the allocation of surplus funds/reserves.

Campus Response

The Foundation will adopt a Reserve Policy that includes a provision for surplus funds/reserves and a requirement that The Foundation continue its practice of including the amount of surplus funds/reserves a part of each budget presentation to the President. The anticipated completion date is June 2002.

EDUCATIONAL SUPPORT

Recommendation 14

We recommend that the campus seek guidance from the Office of the Chancellor legal counsel in determining whether pipeline programs are subject to the provisions of Title 5 §42500(d).

Campus Response

The Campus is seeking guidance from the Chancellor's office Legal Counsel with respect to pipeline programs. The anticipated completion date is June 2002.

CASH RECEIPTS AND DISBURSEMENTS

GIFT ACKNOWLEDGEMENTS

Recommendation 15

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

Campus Response

The Campus PeopleSoft implementation, currently in progress, will permit an online and independent reconciliation of the gift acknowledgement system to gift receipts. The Foundation will continue to reconcile the information via spreadsheet application until the implementation's anticipated completed date of June 2002.

GIFT RECEIPTS

Recommendation 16

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

Campus Response

The Foundation and the Campus will coordinate efforts to develop an agreement with account holders regarding proper procedures, oversight and controls to ensure timely deposit of gifts to proper accounts. Anticipated completion date is June 2002.

DONATION CLEARING ACCOUNT

Recommendation 17

We recommend that the Foundation coordinate with the campus to establish procedures to ensure that funds are credited to the proper account in a timely manner.

Campus Response

The Foundation and its Board are mindful of their joint fiduciary responsibility to ensure that no funds are spent without established criteria from donors. In compliance with its internal policy, the Foundation will continue to make every effort to ensure timely transfers from its Donation Clearing Account into proper accounts. A quarterly report of items exceeding the 90-day policy will be provided to the Board's Treasurer, and the anticipated completion date for this item is March 2002.

PURCHASING AND ACCOUNTS PAYABLE

INDEPENDENT CONTRACTORS

Recommendation 18

We recommend that the Foundation take appropriate measures to ensure that arrangements with independent contractors are entered into in accordance with sound policies and procedures, which, at the minimum:

- a. Require that all arrangements with independent contractors be supported by formal, written agreements, which clearly define the responsibilities, terms, and conditions for the arrangement.
- b. Define prohibited arrangements.
- c. Clearly define the process for hiring independent contractors and take into consideration applicable Internal Revenue Code (IRC).

Campus Response

The Foundation will develop appropriate procedures to ensure that arrangements with independent contractors are documented in formal written agreements that define responsibilities, include terms and conditions, applicable Internal Revenue Code, and address prohibited arrangements. The anticipated completion date is June 2002.

EXPENDITURE REVIEW

Recommendation 19

We recommend that the Foundation implement procedures which require one-up authorization for procurement cards.

Campus Response

Implemented procedures were approved at the January 2002 Board Meeting. This recommendation has been implemented by the campus.

CAMPUS SERVICE CONTRACTS

Recommendation 20

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

- a. Analyze for appropriateness the reimbursement methodology under both service contracts noted above.
- b. Implement procedures to ensure timely updating/execution of current/future contracts.

Campus Response

Reimbursement methodology for the service agreements negotiated with the Foundation will be updated and incorporated for Fiscal year 2002-2003, and so noted in the Board's minutes for January 2002. The anticipated completion date is June 2002. These agreements will be covered by procedures for timely update and execution discussed in our response for Recommendation 10.

INVESTMENTS

Recommendation 21

We recommend that the Foundation ensure that:

- a. Unrealized gains and losses are properly reflected in endowment general ledger balances.
- b. Appropriate measures are taken to identify and correct the unidentified adjusting item.

Campus Response

Foundation G/L accounting currently incorporates this methodology; the adjusting item has been identified and corrected on our books. This recommendation has been implemented by the campus.

UNIVERSITY AUXILIARY SERVICES, INC.

LEGALAND REGULATORY REQUIREMENTS

AUTHORIZED FUNCTIONS

Recommendation 22

We recommend that the operating agreement be revised to include all functions currently performed by the UAS as authorized by campus policy and in accordance with Title 5.

Campus Response

The revised Operating Agreement has been submitted to the University for final review by the University's Vice President for Administration & Finance (VPAF) and University Counsel's Office. The anticipated completion date is June 2002.

LEASING OF FACILITIES

Recommendation 23

We recommend that the UAS reduce to writing all lease agreements for space.

Campus Response

UAS is working to formalize lease agreements with the University for all use of campus space by the auxiliary, including food service operations and office space. The anticipated completion date is June 2002.

GROUND LEASE

Recommendation 24

We recommend that the ground lease agreement between the UAS and the campus be amended to include more specific language with respect to consideration.

Campus Response

UAS and the University recently revised the auxiliary's ground lease, including language to address consideration. This recommendation has been implemented by the campus.

PUBLIC MEETINGS

Recommendation 25

We recommend that the UAS take appropriate measures to comply with Education Code §89921.

Campus Response

The UAS Board of Directors amended the auxiliary's bylaws on 9-28-01 regarding notice of meetings to conform to the Education Code. The bylaws now reflect UAS practice on posting the meeting notices on its website and on a bulletin board located outside the main office of the Auxiliary. This recommendation has been implemented by the campus.

RESERVES

Recommendation 26

We recommend the UAS coordinate with the campus to establish a formal policy for the allocation of surplus funds/reserves.

Campus Response

UAS is coordinating with the University to establish a formal written policy to reflect its process for allocation of surplus funds/reserves. The anticipated completion date is June 2002.

ACCEPTANCE OF FUNDS

Recommendation 27

We recommend that written policies and procedures be developed to ensure that the UAS accepts only those funds whose purposes are consistent with CSU policy.

Campus Response

Written policy and procedures will be developed in conjunction with the University to ensure that all funds accepted by UAS are in accordance with CSU policy. The anticipated completion date is June 2002.

INSURANCE

Recommendation 28

We recommend that the UAS obtain an additional insured clause for its general liability insurance policy and review its contract with the vendor to determine the adequacy of coverage.

Campus Response

UAS did obtain an amended insurance certificate as required, effective August 10, 2001. This recommendation has been implemented by the campus.

CASH RECEIPTS AND DISBURSEMENTS

CASH RECEIPTS

Recommendation 29

We recommend that the UAS:

- a. Coordinate with the campus to implement additional procedures to ensure that all funds are deposited in a timely manner.
- b. Establish a suspense account for unidentified cash receipts and establish written procedures for handling such.

Campus Response

- a. UAS is coordinating with the campus to develop an agreement for account holders/fiduciaries that will stipulate agency account control procedures, including timely deposit requirements. Agency accounts may not be opened without a properly executed agreement.
- b. UAS has avoided utilizing a suspense account to deter “dumping” of accounting items and/or not properly recording receipts or expenses. However, the auxiliary will confer with the campus regarding its practice and procedures, and the addition of a suspense account will be given appropriate consideration.

Anticipated completion date is April 2002.

GENERAL DISBURSEMENTS

Recommendation 30

We recommend that the UAS enforce the need to provide adequate supporting documentation for general disbursements.

Campus Response

UAS will continue to work with its agency account holders to obtain adequate disbursement documentation. The agency account holder agreement discussed in Response 29 should aid in this effort. The anticipated completion date is April 2002.

GRANT AND CONTRACT DISBURSEMENTS

Recommendation 31

We recommend that the UAS enforce the need for proper authorization and supporting documentation for grant and contract disbursements.

Campus Response

UAS has notified principal investigators regarding the implementation of new procedures and controls over grant and contract disbursements. This recommendation has been implemented by the campus.

FEES, REVENUES, AND RECEIVABLES

UNRELATED BUSINESS INCOME

Recommendation 32

We recommend that the UAS reexamine its business operations for UBI and file UBI tax returns as appropriate.

Campus Response

UAS will review its business operations and work with its CPA firm to identify any UBI issues and to ensure appropriate compliance. The anticipated completion date is June 2002.

CHILD CARE CENTER

Recommendation 33

We recommend that the UAS:

- a. Separate the enrollment, cash receipts, and accounts receivable functions or institute and document mitigating controls approved by the campus.
- b. Take appropriate measures to improve the procedures for reporting, collecting, and reviewing past-due accounts receivable.

Campus Response

- a. UAS has separated Center responsibilities over enrollment, cash receipts, and accounts receivable functions with consideration for limited staffing, and is in the process of documenting controls with campus input and approval.

- b. Procedures for receivables have been modified to include monthly reporting and review by UAS Accounting to ensure accounts are current. A further review of the cash receipt function and development of new procedures will be conducted with input from the University's Internal Auditor.

The anticipated completion date is June 2002.

PURCHASING AND ACCOUNTS PAYABLE

OPEN PURCHASE ORDERS

Recommendation 34

We recommend that the UAS bring current its open purchase order database.

Campus Response

UAS and the campus are reviewing the new PeopleSoft implementation to ensure an effective update of the auxiliary's open purchase order database. The anticipated completion date is June 2002.

CHILD CARE CENTER CONTRACT

Recommendation 35

We recommend that the UAS revise its childcare center contract with the campus to include the services to be provided, attendance eligibility, academic credit awards, and insurance levels required.

Campus Response

UAS revised its ChildCare Center contract with the campus to include a description of services provided, enrollment eligibility, academic credit awards, and required insurance levels. University Counsel and office of the VPAF are currently reviewing the contract. The anticipated completion date is June 2002.

VENDOR DONATIONS

Recommendation 36

We recommend that the UAS coordinate with the campus and system legal counsel to determine whether contributions made in accordance with the provisions of a vendor contract should be reported for fundraising purposes.

Campus Response

UAS is coordinating with the campus and CSU legal counsel to obtain a final determination regarding proper reporting of corporate sponsorships included in vendor contracts. The anticipated completion date is June 2002.

EXCLUSIVE CONTRACTS

Recommendation 37

We recommend that the campus coordinate with the UAS to ensure compliance with Executive Order No. 409.

Campus Response

UAS will coordinate with the campus to ensure compliance with EO 409, as applicable. This recommendation has been implemented by the campus.

PROFIT-BASED CONTRACTS

Recommendation 38

We recommend that the UAS modify its profit-based contracts to include the right to review and/or audit the records of the vendors/tenants.

Campus Response

Right-to-audit clauses have been inserted in all vendor contracts, which have been submitted for review by University legal counsel and office of the VPAF. The anticipated completion date is June 2002.

CAMPUS VENDING

Recommendation 39

We recommend that the UAS enter into a written agreement with the campus for the placement of vending machines.

Campus Response

UAS has prepared agreements that address the placement of vending machines and submitted them to the University legal counsel and office of the VPAF for review. The anticipated completion date is June 2002.

SPECIAL COMMITTEES

Recommendation 40

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

Campus Response

UAS is coordinating efforts to maintain current, written and formal agreements from faculty and student advisory committee representatives. The anticipated completion date is April 2002.

PERSO NNEL

Recommendation 41

We recommend that the UAS revise its personnel clearance form to include revocation of computer access.

Campus Response

UAS will revise the personnel clearance form to include revocation of computer access. The anticipated completion date is February 2002.

PETTY CASH

Recommendation 42

We recommend that the UAS establish and implement petty cash and change fund procedures, which require periodic and independent, unannounced cash counts.

Campus Response

UAS will establish and implement petty cash fund procedures that include required periodic, independent, and unannounced cash counts. The anticipated completion date is June 2002.

FIXED ASSETS

Recommendation 43

We recommend that the UAS:

- a. Perform a physical inventory of fixed assets and reconcile the results to the fixed asset and general ledgers.
- b. Perform routine reconciliations of the fixed asset ledger to the general ledger.
- c. Maintain records of physical inventories performed.
- d. Consistently tag fixed asset acquisitions and record such to the fixed asset ledgers.
- e. Review the adequacy of the fixed asset ledger to separately identify and tag individual fixed assets.

Campus Response

UAS will implement procedures to strengthen controls regarding proper management of its fixed assets, including:

- a. Performance and reconciliation of physical inventories to the fixed asset and general ledgers.
- b. Routine reconciliations of fixed assets to the general ledger.
- c. Records maintenance of physical inventories performed.
- d. Consistent tagging and recording of fixed asset acquisitions to the fixed asset ledgers.
- e. Reviewing the adequacy of the fixed asset ledger to separately identify and tag individual assets.

The anticipated completion date is June 2002.

TRUST/AGENCY ACCOUNTS

Recommendation 44

We recommend that the UAS further develop/strengthen internal controls over trust accounts in the following areas:

- a. Review of accounts for negative balances.
- b. Review of contracts entered into between campus employees and consultants/independent contractors (i.e., appropriateness, liability issues, related party transactions, etc.).
- c. Issuance of 1099 forms to independent contractors.
- d. Maintenance of updated and current signature cards.
- e. Maintenance of proper and original documentation to ensure the appropriateness of expenditures.

Campus Response

The agency account holder agreement discussed in Response 29 will include control procedures to ensure:

- a. Review of negative balance accounts and timely reimbursement to UAS.
- b. Evidence of appropriate review of contracts between campus employees and consultants/independent contractors to address arms-length and liability issues.
- c. Issuance of 1099 forms as applicable.
- d. Update and maintenance of current signature cards.
- e. Maintenance of proper and original documentation to ensure appropriateness of expenditures.

The anticipated completion date is June 2002.

INFORMATION TECHNOLOGY

BACKUP DATA

Recommendation 45

We recommend that the UAS establish procedures to store backup tapes for the childcare center accounting system at an off-site location.

Campus Response

Procedures have been revised and the Child Care Center's backup tapes are being stored in the UAS Corporate Accounting safe, a secure off-site location. This recommendation has been implemented by the campus.

UNIVERSITY-STUDENT UNION

LEGALAND REGULATORY COMPLIANCE

RESERVES

Recommendation 46

We recommend that the U-SU enhance its policy for the allocation of surplus funds/reserves, to address, or consider the following:

- a. Minimum reserve requirements.
- b. The inclusion of reserves in the budget submitted to the campus president.
- c. Board review of reserve levels.
- d. Reserves for working capital and capital replacement.
- e. The methodology used for the calculation of reserves.

Campus Response

The University-Student Union Board of Directors will review its current reserve policy with consideration given to enhancements over the areas of minimum reserve requirements, inclusion of reserves in the budget presentation, Board review of reserve levels, working capital and capital replacement reserves, and reserve calculation methodology. The anticipated completion date is March 2002.

LEASE AND RESERVATION AGREEMENTS

Recommendation 47

We recommend that the U-SU, in coordination with the campus, strengthen policy and procedures to further define the appropriate use of the lease and reservation processes regarding building tenants and commercial vendors, both inside and outside the U-SU, and to include indemnification clauses in its reservation agreements.

Campus Response

The University-Student Union will work with the Campus to strengthen and define the appropriate use of lease and reservation processes with regard to building tenants and commercial vendors, both inside and outside the U-SU, and to include indemnification clauses in reservation agreements. The anticipated completion date is April 2002.

CASH RECEIPTS AND DISBURSEMENTS

CASH OVER AND SHORT

Recommendation 48

We recommend that the U-SU strengthen internal controls over all cash funds.

Campus Response

The University-Student Union has developed cash register handling training for employees, including controls awareness, and will strengthen the cash short/over policy. The anticipated completion date is May 2002.

FEES, REVENUES, AND RECEIVABLES

COMMERCIAL SERVICE

Recommendation 49

We recommend that the U-SU perform an analysis to determine what measures can be taken to improve café operations.

Campus Response

The University-Student Union has analyzed the operating loss of the café operations, and initiated a plan of operational measures to enhance fiscal performance. The University-Student Union Board of Directors will review the analysis and operational plan, and define the programmatic aspects of Café LA as a Student Development experience. The anticipated completion date is June 2002.

ACCOUNTS RECEIVABLE POLICIES AND PROCEDURES

Recommendation 50

We recommend that the U-SU strengthen policy and procedures to ensure that the accounts receivable process is documented and reflects the current practice of the organization.

Campus Response

The University-Student Union is in the process of contracting with the Campus for accounting services, effective July 1, 2002. In conjunction with this transfer of services, the U-SU is reviewing and updating its policy and procedures over the accounts receivable process to ensure that current practices are properly documented. The anticipated completion date is June 2002.

PERSO NNELAND PAYRO LL

EM PLOYEE CLEARANCE

Recommendation 51

We recommend that the U-SU establish written policy and procedures addressing return of credit cards, clearance of outstanding advances, and termination of information systems access to ensure employees are properly separated.

Campus Response

The University-Student Union will establish a written employee separation policy addressing return of credit cards, clearance of outstanding advances, and termination of information systems access. The anticipated completion date is April 2002. In addition, the U-SU is negotiating for human resource services with UAS, with an anticipated effective date of July 1, 2002.

FIXED ASSETS

Recommendation 52

We recommend that the U-SU:

- a. Strengthen fixed asset policies and procedures by including comprehensive and effective controls addressing additions and deletions, property sales and disposition, and periodic reconciliations.
- b. Submit its revised policies and procedures to the board of directors for approval.
- c. Review current fixed assets to ensure that only appropriate items are recorded.
- d. Perform and document reconciliations of fixed assets to its accounting records on a periodic basis.

Campus Response

In conjunction with the transfer of U-SU accounting services to the University, the U-SU will review and update its fixed asset records to current, perform and document the reconciliation of its fixed assets to its accounting records, and the U-SU Board of Directors will review and revise the fixed asset policies. The anticipated completion date is June 2002.

ASSOCIATED STUDENTS, INC.

LEGALAND REGULATORY COMPLIANCE

RESERVES

Recommendation 53

We recommend that the ASI enhance its policy for the allocation of surplus funds/reserves, to address, among other things:

- a. Minimum reserve requirements.
- b. The inclusion of reserves in the budget submitted to the campus president.
- c. Board review of reserve levels.
- d. Reserves for working capital and capital replacement.
- e. The methodology used for the calculation of reserves.

Campus Response

To ensure compliance with Education Code Section 89904(b), ASI will perform a due diligence review of its reserve procedures, including consideration of reserve levels, budgetary and Board review, and calculation methodology. The anticipated completion date is June 2002.

GRANTS-IN-AID

Recommendation 54

We recommend that the ASI and campus accounting services strengthen procedures for reporting scholarships.

Campus Response

ASI has brought all 1098T reporting to current. For the 2002 calendar year, ASI is coordinating with the University Business Office to provide appropriate scholarship reporting. This recommendation has been implemented by the campus.

THE CALIFORNIA STATE UNIVERSITY
OFFICE OF THE CHANCELLOR

BAKERSFIELD

CHANNEL ISLANDS

CHICO

DOMINGUEZ HILLS

FRESNO

FULLERTON

HAYWARD

HUMBOLDT

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POMONA

SACRAMENTO

SAN BERNARDINO

SAN DIEGO

SAN FRANCISCO

SAN JOSE

SAN LUIS OBISPO

SAN MARCOS

SONOMA

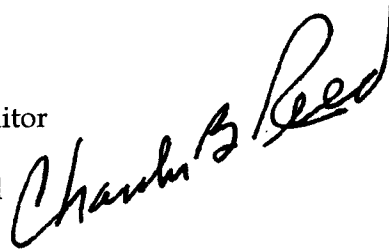
STANISLAUS

March 8, 2002

MEMORANDUM

TO: Larry Mandel
University Auditor

FROM: Charles B. Reed
Chancellor



SUBJECT: Draft Final Report Number 01-48 on *Auxiliary Organizations* at California State University, Los Angeles

In response to your memorandum of March 8, 2002, I accept the response as submitted with the draft final report on *Auxiliary Organizations* at California State University, Los Angeles.

LM:amd

Enclosure

cc: Dr. James M. Rosser, President