

**AUXILIARY ORGANIZATIONS  
CALIFORNIA STATE UNIVERSITY,  
CHICO**

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**BOARD OF TRUSTEES  
THE CALIFORNIA STATE UNIVERSITY**

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## **ABBREVIATIONS**

AS	Associated Students of California State University, Chico
Association	Alumni Association
AVP	Associate Vice President
CAVE	Community Action Volunteers in Education Program
CFO	Chief Financial Officer
CSU	California State University
CSUC	California State University, Chico
EO	Executive Order
Foundation	The University Foundation California State University, Chico
Research Foundation	The CSU, Chico Research Foundation
RFIN	Resolution of the Committee on Finance

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## EXECUTIVE SUMMARY

In July 1981, the Board of Trustee policy concerning auxiliary organizations was adopted in the Resolution of the Committee on Finance (RFIN) 7-81-4. Executive Order 698, *Board of Trustees Policy for the California State University Auxiliary Organizations*, dated March 3, 1999, required that the Office of the University Auditor conduct internal compliance/internal control reviews of auxiliary organizations, and the Board of Trustees instructed that such reviews be conducted on a triennial basis pursuant to procedures established by the chancellor.

We visited the California State University, Chico (CSUC) campus and its auxiliary organizations from December 1, 2003, through January 9, 2004, and made a study and evaluation of the system of internal compliance/internal control in effect for the period July 2000 to January 2004. This report represents our triennial review.

CSUC management is responsible for establishing and maintaining an adequate system of internal compliance/internal control and assuring that each of its auxiliary organizations similarly establishes such a system. This responsibility, in accordance with California Code of Regulations, Title 5, Section 42402 et seq. and Executive Order 698, *Board of Trustees Policy for the California State University Auxiliary Organizations et seq.*, includes requiring the documentation of internal control, communicating requirements to employees, and assuring that its system of internal compliance/internal control is functioning as prescribed. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures.

The objectives of a system of internal compliance/internal control are to provide management with reasonable, but not absolute, assurance that:

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

Our study and evaluation at *The CSU, Chico Research Foundation* revealed certain conditions that, in our opinion, could result in errors and irregularities if not corrected. Specifically, the auxiliary did not maintain adequate control over the following areas: written agreements and segregation of duties. These conditions, along with other weaknesses, are described in the executive summary and in the body of the report. In our opinion, except for the effect of the weaknesses described above, accounting and administrative control in effect as of January 2004, taken as a whole, was sufficient to meet the objectives stated above.

Our study and evaluation at *The University Foundation California State University, Chico* disclosed certain conditions that, in our opinion, if not corrected would result in errors and irregularities. Specifically, the auxiliary did not maintain adequate internal control over the following areas: programs; segregation of duties; investments; and fees, revenues, and receivables. These conditions, along with other weaknesses, are described in the executive summary and in the body of the report. In our opinion,

due to the effect of the weaknesses described above, accounting and administrative control in effect as of January 2004, taken as a whole, was not sufficient to meet the objectives stated above.

Our study and evaluation at the *Associated Students of California State University, Chico* revealed certain conditions that, in our opinion, could result in errors and irregularities if not corrected. Specifically, the auxiliary did not maintain adequate control over the following areas: risk management; segregation of duties; fees, revenues, and receivables; and auxiliary programs. These conditions, along with other weaknesses, are described in the executive summary and in the body of the report. In our opinion, except for the effect of the weaknesses described above, accounting and administrative control in effect as of January 2004, taken as a whole, was sufficient to meet the objectives stated above.

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 that would prevent all these limitations would not be cost-effective; moreover, an audit may not always detect these limitations.

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

## **CAMPUS**

### **BUDGET [9]**

The campus did not retain documentation evidencing the campus president's approval of the Associated Students of California State University, Chico operating budgets for fiscal years ended June 30, 2001, 2002, and 2003.

## **THE CSU, CHICO RESEARCH FOUNDATION**

### **LEGAL AND REGULATORY COMPLIANCE [10]**

The CSU, Chico Research Foundation (Research Foundation) provided telecommunications services to local schools and quasi-governmental organizations, which is inconsistent with functions approved for auxiliary organizations by California State University (CSU) policy. Board meetings were not conducted as required, and procedures to ensure that conflict-of-interest statements were obtained from newly elected board members had not been developed. Certain facility lease agreements between the Research Foundation and the campus were not supported by written agreements, specifically, the Research Foundation's 25 Main Street Building. Additionally, the lease agreement for the use of campus facilities for research projects had expired. Also, arrangements were not documented regarding resources and services provided by the campus in conjunction with its administration of construction projects and the auxiliary's farm enterprise unit, radio station, communications services enterprise unit, performing arts program, and auxiliary business incubator.

### **SEGREGATION OF DUTIES [13]**

The Research Foundation did not appropriately segregate certain accounting duties over cash disbursements and accounts receivable.

### **PURCHASING AND ACCOUNTS PAYABLE [15]**

The Research Foundation had not developed purchasing policies and procedures to address requirements associated with enterprise unit procurement. Specifically, purchasing policies and procedures did not address vendor selection processes and conflict prohibitions unique to enterprise units, including processes for receiving purchased items and prohibited purchases/purchasing practices at enterprise units. In addition, procedures were not established to address specifics on obtaining farm enterprise unit manager or faculty approvals, maintaining sufficient documentation to evidence that goods were received or service was provided, and including justification for vendor selection relating to farm enterprise unit expenditures over \$5,000.

### **TRUSTS AND OTHER LIABILITIES [16]**

Research Foundation trust account agreements often lacked specificity as to the source of all funds, the purpose of the account, reporting requirements, administrative fees, instructions for closing the account, and disposition of funds.

## **THE UNIVERSITY FOUNDATION CALIFORNIA STATE UNIVERSITY, CHICO**

### **LEGAL AND REGULATORY COMPLIANCE [18]**

Notices of The University Foundation California State University, Chico (Foundation) board meetings were not posted in a public area, and the board minutes were not consistently signed and approved by an appropriate official. Additionally, the Foundation did not submit its fiscal year 2003/04 budget to the campus president for approval in a timely manner. Also, the Foundation's administration of Alumni Association (Association) funds was inadequate, as audited financial statements did not include a supplementary schedule of the Associations' financial position and trust account agreements with the Association were not established regarding activities and funds.

### **SEGREGATION OF DUTIES [21]**

The Foundation did not appropriately segregate accounting and administrative duties over certain advancement activities and functions. Additionally, the Foundation investment policy inappropriately granted the campus associate vice president (AVP) of university advancement the same authority and responsibility as the Foundation's finance, investment and audit committee.

## **INVESTMENTS [22]**

The campus AVP of university advancement, acting on behalf of the Foundation, inappropriately accepted, administered, and invested \$50,000 in donor funds into a non-publicly traded investment program.

## **FEES, REVENUES, AND RECEIVABLES [24]**

The Foundation did not perform regular and timely revenue reconciliations between the donor database system and the general ledger accounting system. This is a repeat finding from our Development Audit Report No. 02-16, dated December 13, 2002.

## **PURCHASING AND ACCOUNTS PAYABLE [25]**

The Foundation was unable to provide signature cards evidencing authority to approve disbursements from prior periods.

## **TRUSTS AND OTHER LIABILITIES [25]**

Foundation trust agreements did not clearly articulate applicable fees or include specifics as to the disposition of unexpended balances and instructions for closing the account.

## **ASSOCIATED STUDENTS OF CALIFORNIA STATE UNIVERSITY, CHICO**

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

The Associated Students of California State University, Chico (AS) operating agreement with the campus did not address all functions administered by the AS, specifically, contracts and grants activity. Certain business arrangements between the AS and other entities were not supported by current and complete, current agreements. For example, two agreements had expired and the AS had not established a means of tracking contract expirations, and a written agreement was not on file to substantiate the relationship between the AS Community Action Volunteers in Education Program (CAVE) and a campus department involved with the program. Additionally, CAVE agreements were not consistently executed in accordance with AS policy, i.e., contracts were erroneously written between third parties and CAVE instead of the AS. In addition, an arrangement to purchase and buyback textbooks for a local area high school was not supported by a written agreement. The hold harmless provisions in several agreements between the AS and third parties were not in compliance with CSU policy, and certain AS extramural funding contracts were inappropriately excluded from campus pre-award contracts and grants administration processes. Finally, AS board minutes were not signed and approved by an appropriate official.

### **SEGREGATION OF DUTIES [31]**

The AS did not appropriately segregate certain functions for payroll and human resources.

### **PETTY CASH AND CHANGE FUNDS [32]**

Certain controls over AS change funds were inadequate. For example, the AS routinely issued checks made payable to the cashiering supervisor for several hundred thousand dollars as a means to replenish and/or restore the change fund and to adjust the general ledger accounts related to bookstore buyback; independent, unannounced counts of the foodservice and bookstore change funds were not conducted; and a current record of all safe locations, individuals with knowledge of the safe combinations, and dates the combinations were changed was not maintained for the foodservice division. In addition, personal cash was inappropriately stored within the bookstore safe, and certain change funds and receipts were not adequately safeguarded when transported from outlying areas.

### **FEES, REVENUES, AND RECEIVABLES [33]**

The AS did not perform regular and timely detailed revenue reconciliations of receipts to participant records for its Adventure Outings program.

### **PURCHASING AND ACCOUNTS PAYABLE [34]**

The AS did not maintain signature authorization cards identifying individuals designated to approve certain disbursements.

### **PERSONNEL AND PAYROLL [34]**

The AS could not provide documentation to substantiate that managers and supervisors individually reviewed and approved electronic timecard information.

### **TRUSTS AND OTHER LIABILITIES [35]**

The AS did not exercise sufficient control over certain trust funds, as the AS provided banking and accounting services to an unofficially affiliated corporation and supporting documentation was not required for disbursements from certain AS custodial accounts.

### **AUXILIARY PROGRAMS [36]**

The AS had not developed and implemented policies and procedures addressing the administration of volunteers.

### **INFORMATION TECHNOLOGY [37]**

Certain security parameters for the AS computer system hosting the bookstore application were not set to provide effective access control. In addition, the physical security of the AS computer facility required improvement to reduce the risk of fire or unauthorized access.

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## INTRODUCTION

### **BACKGROUND**

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

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

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

The Board of Trustee policy concerning auxiliary organizations was originally adopted in July 1981 in the Resolution of the Committee on Finance (RFIN) 7-81-4. Executive Order 698, *Board of Trustees Policy for the California State University Auxiliary Organizations*, dated March 3, 1999, represents policy of the Trustees addressing CSU auxiliary organization activity and governing the internal management of the system. CSU auxiliary organizations are required to comply with Board of Trustee policy (California Code of Regulations, Title 5, Section 42402 and Education Code, Section 89900).

This executive order requires that the Office of 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. According to Board of Trustee instruction, each auxiliary organization shall be examined on a triennial basis pursuant to procedures established by the chancellor.

## **PURPOSE**

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

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

## **SCOPE AND METHODOLOGY**

Our study and evaluation were conducted in accordance with the *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 management review emphasized, but was not limited to, compliance with state and federal laws, Board of Trustee policies, and Office of the Chancellor policies, letters, and directives. For those audit tests that required annualized data, fiscal years 2001/02 and 2002/03 were the primary periods reviewed. In certain instances, we were concerned with representations of the most current data; in such cases, the test period was July 2003 to October 2003. Our primary focus was on internal compliance/internal control.

Specifically, we reviewed and tested:

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

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

A preliminary survey of CSU auxiliaries at each campus was used to identify risks. Risk was defined as the probability that an event or action would adversely affect the auxiliary and/or the campus. Our assessment of risk was based upon a systematic process, using professional judgments on probable adverse conditions and/or events that became the basis for development of our final scope. We sought to assign higher review priorities to activities with higher risks. As a result, not all risks identified were included within the scope of our review.

Based upon this assessment of risks, we specifically included within the scope of our review the following:

The CSU, Chico Research Foundation

- ▶ Legal and Regulatory Compliance
- ▶ Cash Receipts and Handling
- ▶ Fees, Revenues, and Receivables
- ▶ Purchasing and Accounts Payable
- ▶ Fixed Assets
- ▶ Trusts and Other Liabilities

The University Foundation California State University, Chico

- ▶ Legal and Regulatory Compliance
- ▶ Segregation of Duties
- ▶ Investments
- ▶ Fees, Revenues, and Receivables
- ▶ Purchasing and Accounts Payable
- ▶ Fixed Assets
- ▶ Trusts and Other Liabilities

Associated Students of California State University, Chico

- ▶ Legal and Regulatory Compliance
- ▶ Cash Receipts and Handling
- ▶ Petty Cash and Change Funds
- ▶ Investments
- ▶ Fees, Revenues, and Receivables
- ▶ Purchasing and Accounts Payable
- ▶ Personnel and Payroll
- ▶ Trusts and Other Liabilities
- ▶ Information Technology
- ▶ Bookstore Operations
- ▶ Student Programs and Services

We have not performed any auditing procedures beyond January 9, 2004. Accordingly, our comments are based on our knowledge as of that date. Since the purpose of our comments is to suggest areas for improvement, comments on favorable matters are not addressed.

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

### **CAMPUS**

#### **BUDGET**

The campus did not retain documentation evidencing the campus president's approval of the Associated Students of California State University, Chico (AS) operating budgets for fiscal years ended June 30, 2001, 2002, and 2003.

Title 5 §42402 requires the auxiliary to submit its programs and budgets for review in a timely manner as specified by the president.

The vice president for business and finance stated that the president of the university and his office had reviewed the auxiliary budgets; however, the failure to maintain evidence to substantiate such review was due to oversight.

Failure to retain documentation evidencing appropriate approval of auxiliary budgets increases the risk of misunderstandings over the allocation of funds.

#### **Recommendation 1**

We recommend that the campus retain documentation evidencing the campus president's approval of the AS operating budgets.

#### **Campus Response**

We concur. The university will improve practices to insure proper documentation of the president's approval of the AS operating budgets.

Timeline: December 2004

## **THE CSU, CHICO RESEARCH FOUNDATION**

### **LEGAL AND REGULATORY COMPLIANCE**

#### **AUXILIARY FUNCTIONS**

The CSU, Chico Research Foundation (Research Foundation) performed a function that was inconsistent with California State University (CSU) policy.

We found that the Research Foundation provided telecommunications services to local schools and quasi-governmental organizations, which generated 20 percent (\$300,000/\$1,500,000) of current year budgeted revenues.

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

The Research Foundation executive director stated his belief that this activity was in accordance with the supplemental language added to the operating agreement that was approved by the Office of the Chancellor, Contract Services and Procurement.

Performing unauthorized functions increases the risk that the auxiliary will participate in transactions inconsistent with Title 5 and subjects the CSU to unwarranted liability.

#### **Recommendation 2**

We recommend that the Research Foundation perform only those functions listed in Title 5 or obtain approval for variances from the Office of the Chancellor.

#### **Campus Response**

We concur. We will obtain approval for Title 5 function variances from the Office of the Chancellor.

Timeline: December 2004

### **LEASING OF FACILITIES**

Certain facility lease arrangements between the Research Foundation and the campus were not supported by written agreements.

We found that the lease agreement for the Research Foundation's 25 Main Street Building was not documented. Additionally, the lease agreement for the use of campus facilities for research projects had expired.

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

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

The Research Foundation executive director stated that the 25 Main Street Building lease agreement was in draft form at the time of the audit, but had not been finalized. The lease for research projects space had not been updated because it was no longer needed, given that the campus cost allocation plan is intended to embrace the issue of research space.

The absence of current, written agreements increases the risk of misunderstandings and miscommunication regarding rights and responsibilities.

### **Recommendation 3**

We recommend that the Research Foundation ensure that all lease arrangements with the campus are supported by written agreements, specifically identifying facilities leased to the Research Foundation.

### **Campus Response**

We concur. We will ensure that all lease agreements with the campus are supported by written agreements.

Timeline: December 2004

## **WRITTEN AGREEMENTS**

Written agreements had not been established between the Research Foundation and the campus regarding certain loan arrangements and uses of state resources and services.

Specifically, we found that arrangements were not documented regarding resources and services provided by the campus in conjunction with its administration of construction projects and the auxiliary's farm enterprise unit, radio station, communications services enterprise unit, performing arts program, and auxiliary business incubator.

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

The Research Foundation assistant director/accounting manager stated that written agreements regarding the campus' administration of certain auxiliary programs were not considered necessary because the functions were listed in the auxiliary's operating agreement.

The absence of complete, written agreements increases the risk of misunderstandings and miscommunication regarding rights and responsibilities.

**Recommendation 4**

We recommend that the Research Foundation establish written agreements with the campus regarding its administration of construction projects, the farm enterprise unit, radio station, communications services enterprise unit, performing arts program, and auxiliary business incubator.

**Campus Response**

We concur. We will establish written agreements with the campus regarding the administration of construction projects and various other units and programs.

Timeline: December 2004

**BOARD MEETINGS**

The Research Foundation did not conduct board meetings as required during the second quarter of fiscal years ended June 30, 2001 and 2002.

Education Code §89903 states that each auxiliary governing board shall, during each fiscal year, hold at least one business meeting each quarter.

The Research Foundation executive director stated that a determination was made not to hold meetings in both instances and that a written justification explaining why they were not held was maintained.

When the board does not meet on a regular basis in accordance with Education Code requirements, the board's fiduciary responsibility over the operations of the auxiliary organization may not be met.

**Recommendation 5**

We recommend that the Research Foundation take appropriate measures to ensure that the board meets at least once each quarter in accordance with statutory requirements.

**Campus Response**

We concur. We will take appropriate measures to ensure that the board of directors meets at least once a quarter.

Timeline: December 2004

## **CONFLICT OF INTEREST**

The Research Foundation had not developed procedures to ensure that conflict-of-interest statements were obtained from newly elected board members.

We noted that two new board members appointed at the September 2003 annual meeting had not signed conflict-of-interest agreements as required by the Research Foundation policy.

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 practice mandates 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 or those acting on management's behalf.

The Research Foundation executive director stated that conflict-of-interest statements were not obtained from the two newly elected board members because they were not present at the September 2003 meeting.

Failure to adequately address and implement conflict-of-interest code policies and procedures increases liability for acts contrary to the code.

### **Recommendation 6**

We recommend that the Research Foundation develop procedures to ensure that conflict-of-interest statements are obtained from newly elected board members.

### **Campus Response**

We concur. We will take appropriate measures to ensure that conflict-of-interest statements are obtained from all board members.

Timeline: December 2004

## **SEGREGATION OF DUTIES**

The Research Foundation did not appropriately segregate certain accounting duties over cash disbursements and accounts receivable.

### Cash Disbursements

We noted that the farm enterprise unit accountant:

- ▶ Processed payments to vendors.
- ▶ Approved payments.
- ▶ Created vendor records.

The Research Foundation executive director stated that the lack of proper segregation was due to a management oversight.

#### Accounts Receivable

We found that a radio station sales representative:

- ▶ Sold radio announcement time.
- ▶ Prepared customer invoices.
- ▶ Maintained the listing of customer accounts receivable.
- ▶ Collected payments.
- ▶ Wrote off uncollectible accounts.
- ▶ Deposited cash.

The Research Foundation executive director stated that the lack of proper segregation was due to a management oversight.

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

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

#### **Recommendation 7**

We recommend that the Research Foundation properly segregate certain accounting duties for farm enterprise unit cash disbursements and radio station accounts receivable or institute mitigating procedures approved by the campus chief financial officer (CFO).

#### **Campus Response**

We concur. We will properly segregate certain accounting duties for the farm enterprise unit and radio station or institute mitigating procedures approved by the campus CFO.

Timeline: December 2004

## **PURCHASING AND ACCOUNTS PAYABLE**

Certain Research Foundation purchasing policies and procedures were insufficient.

Purchasing policies and procedures did not address:

- ▶ Vendor selection processes and conflict prohibitions unique to enterprise units, including processes for receiving purchased items and prohibited purchases/purchasing practices at enterprise units.
- ▶ Specifics as to how farm enterprise unit manager or faculty approvals are to be obtained.
- ▶ Documentation required to evidence that goods were received or service was provided.
- ▶ Alternative processes for including justification for vendor selection relating to farm enterprise unit expenditures over \$5,000.

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

The Research Foundation assistant director/accounting manager stated that the enterprise units were following the separate procurement policies for the enterprise units that were developed with the concurrence of the vice president's office and from the basis of its current policy. However, the principles applying to the enterprise units were not clearly articulated in the Foundation's procurement policy.

Failure to fully develop and communicate written policies and procedures weakens internal controls and increases the risk that misunderstandings will occur.

### **Recommendation 8**

We recommend that the Research Foundation:

- a. Fully develop and document specific enterprise unit procurement policies and procedures to address vendor selection processes and conflict prohibitions unique to enterprise units, including processes for receiving purchased items and prohibited purchases/purchasing practices at enterprise units.
- b. Establish a procedure to ensure that farm enterprise unit manager or faculty approvals are obtained.

- c. Establish a procedure to ensure that sufficient documentation is maintained to evidence that goods were received or service was provided.
- d. Establish a procedure to ensure that farm enterprise unit expenditures over \$5,000 include justification for vendor selection.

### **Campus Response**

We concur. We will do the following:

- a. Document enterprise unit procedures and policies.
- b. Establish a procedure to ensure that farm enterprise unit manager or faculty approvals are obtained on expenditures.
- c. Establish a procedure to ensure that documentation is maintained to evidence that goods were received or services were provided.
- d. Establish a procedure to ensure that farm enterprise unit expenditures over \$5,000 include justification for vendor selection.

Timeline: December 2004

## **TRUSTS AND OTHER LIABILITIES**

Research Foundation trust account agreements often lacked specificity as to the source of all funds, the purpose of the account, reporting requirements, administrative fees, instructions for closing the account, and disposition of funds.

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

Title 5 §42401 and §42402 indicate that the campus president shall require that auxiliary organizations operate in conformity with 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 strong controls over trust accounts.

The Research Foundation assistant director/accounting manager stated that trust account agreements had not been revised nor obtained for all accounts due to higher priorities.

Insufficient documentation within trust agreements increases the risk that funds will be handled inappropriately and contrary to the expectations of the campus and donors.

**Recommendation 9**

We recommend that the Research Foundation ensure that trust account agreements include all required terms and conditions, specifically regarding the source of all funds, the purpose of the account, reporting requirements, administrative fees, instructions for closing the account, and disposition of funds.

**Campus Response**

We concur. We will ensure that trust account agreements include all recommended terms and conditions.

Timeline: December 2004

**THE UNIVERSITY FOUNDATION**  
**CALIFORNIA STATE UNIVERSITY, CHICO**

**LEGAL AND REGULATORY COMPLIANCE**

**PUBLIC MEETINGS**

Notices of The University Foundation California State University, Chico (Foundation) board meetings were not posted in a public area.

Education Code §89920 states that each governing board of an auxiliary organization shall conduct its business in public meetings. Education Code §89924 states that no governing board shall take action on any issue until that issue has been publicly posted for at least one week.

The campus associate vice president (AVP) of university advancement stated that notices were posted in the office of the vice president of student affairs and advancement, which was believed to be a public area for notification purposes.

Non-compliance with regulations for public meetings increases the risk of misunderstandings and may increase legal liability.

**Recommendation 10**

We recommend that the Foundation post its board meeting notices in a public area in accordance with the Education Code.

**Campus Response**

We concur. We will post board meeting notices in a public area on the campus.

Timeline: December 2004

**BOARD MINUTES**

The Foundation board minutes were not consistently signed and approved by an appropriate official.

Corporations Code §5215 states that the original or a copy of the bylaws or of the minutes of any incorporators', members', directors', committee or other meeting or of any resolution adopted by the board or a committee thereof, or members, certified to be a true copy by a person purporting to be the secretary or an assistant secretary of the corporation, is prima facie evidence of the adoption of such bylaws or resolution or of the due holding of such meeting and of the matters stated therein.

The campus AVP of university advancement stated that board minutes were not signed and dated due to the prior secretary not being aware of this requirement.

Failure to maintain signed and approved board minutes increases the risk of misunderstandings and may increase legal liability.

**Recommendation 11**

We recommend that the Foundation take appropriate measures to ensure that its board minutes are signed and approved by an appropriate official.

**Campus Response**

We concur. We have implemented procedures to ensure that board minutes are signed and approved by an appropriate official.

Timeline: December 2004

**BUDGET**

The Foundation did not submit its fiscal year 2003/04 budget to the campus president for approval in a timely manner.

Title 5 §42402 requires the auxiliary to submit its programs and budgets for review in a timely manner as specified by the president.

The campus AVP of university advancement stated that the budget was not approved prior to the start of the fiscal year due to the need to coordinate budget costs with the state development budget, which was delayed by the Legislature.

Untimely budget submission increases the risk of misunderstandings over the allocation of funds.

**Recommendation 12**

We recommend that the Foundation take appropriate measures to ensure that budgets are submitted to the campus president for approval in a timely manner.

**Campus Response**

We concur. We have taken the appropriate measures to ensure that budgets are submitted to the campus president in a timely manner.

Timeline: December 2004

## **PROGRAMS**

The Foundation's administration of Alumni Association (Association) funds was inadequate.

We found that the Foundation:

- ▶ Did not include a supplementary schedule of the Associations' financial position within its audited financial statements.
- ▶ Was not party to the agreement between the campus and the Association that detailed certain responsibilities of the Foundation regarding the Association.
- ▶ Had not established appropriate trust account agreements with the Association, including specific documentation of the purpose of the account, the source of funds, the disposition of unexpended funds, reporting requirements, such as the use of investment earnings, as well as other restrictions.

Title 5 §42397.5 requires a campus alumni association whose assets and records are in the custody of an auxiliary organization to present its financial position through supplemental schedules attached to the audited financial statement of the auxiliary organization in sufficient detail to fully represent the financial position and activities of the alumni association. These schedules shall be subjected to the same procedures as the auxiliary's statements and in accordance with any additional systemwide procedures prescribed by the chancellor or designee.

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

Title 5 §42401 and §42402 indicate that the campus president shall require that auxiliary organizations operate in conformity with 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 strong controls over trust accounts.

The Research Foundation assistant director/accounting manager stated that the campus did not communicate to the Foundation that an agreement had been executed between the Association and the campus, and that the Foundation was unaware of the Title 5 requirements regarding oversight of alumni funds. Furthermore, she stated that the lack of appropriate trust agreements was due to oversight.

A lack of sufficient oversight of custodial funds held by auxiliaries exposes the campus and the CSU system to regulatory and legal consequences.

### **Recommendation 13**

We recommend that the Foundation:

- a. Include a supplementary schedule of the Associations' financial position within its audited financial statements.
- b. Become a party to the agreement between the campus and the Association that details certain responsibilities of the Foundation regarding the Association.
- c. Establish appropriate trust account agreements with the Association, including specific documentation of the purpose of the account, the source of funds, the disposition of unexpended funds, reporting requirements, such as the use of investment earnings, as well as other restrictions.

### **Campus Response**

We concur. We are preparing supplementary schedules on alumni accounts to be included in our audited financial statements. We will amend or write a new agreement to include the Foundation as a party to the Alumni Association and university. We will also make sure appropriate trust account agreements are in place for all alumni accounts within the Foundation.

Timeline: December 2004

## **SEGREGATION OF DUTIES**

The Foundation did not appropriately segregate accounting and administrative duties over certain advancement activities and functions.

We found that the campus AVP of university advancement had the authority and responsibility to perform all of the following duties for the Foundation:

- ▶ Develop, implement, and administer planned giving programs.
- ▶ Responsible for all solicitations and relationships including correspondence and visitations.
- ▶ Approve acceptance of planned giving agreements.
- ▶ Accept approved gift plans.
- ▶ Approve in-kind gifts.
- ▶ Negotiate planned giving agreements.
- ▶ Execute contracts and trust agreements.
- ▶ Establish brokerage or bank accounts.
- ▶ Purchase or dispose of securities and other financial instruments.
- ▶ Deposit all monies and other valuables.
- ▶ Disburse Foundation funds.
- ▶ Supervise, direct, and control the businesses of the Foundation.
- ▶ Maintain all official records and the corporate seal.

- ▶ Account of the properties and business transactions.
- ▶ Account for the financial condition of the Foundation.

Additionally, the Foundation investment policy inappropriately granted the campus AVP of university advancement the same authority and responsibility as the Foundation's finance, investment and audit committee, including:

- ▶ Establishing and maintaining guidelines and objectives for investments.
- ▶ Hiring and dismissing investment managers.
- ▶ Selecting brokers and agents.
- ▶ Obtaining assistance to ensure that an investment is compatible with risk tolerance and objectives.
- ▶ Providing and implementing a system for monitoring the performance of investments and professional investment management.

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

The campus AVP of university advancement stated that over a period of time, additional responsibilities were added to the position without review of appropriate segregation of duties. He further stated that the problem was compounded when the AVP became interim secretary in August 2003 and additional duties were added.

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

#### **Recommendation 14**

We recommend that the Foundation properly segregate accounting and administrative duties over certain advancement activities and functions, including the amendment of the investment policy.

#### **Campus Response**

We concur. We have already amended the Foundation's investment policy and will implement policies and procedures to appropriately segregate accounting and administrative duties.

Timeline: December 2004

## **INVESTMENTS**

The campus AVP of university advancement, acting on behalf of the Foundation, inappropriately accepted, administered, and invested \$50,000 in donor funds into a non-publicly traded investment program.

We found that the campus AVP of university advancement:

- ▶ Disregarded a staff analysis of the investment that indicated that the investment was not in compliance with standard set by the Foundation's investment policy. In addition, staff's concerns were not communicated to the board.
- ▶ Stated that he asked the Foundation attorney to review investment documents as to form only. Based upon oral representations of the attorney, he indicated to the board that the attorney did not see any problem in proceeding with this form of investment.
- ▶ Verbally directed the Research Foundation assistant director/accounting manager to wire \$50,000 to the investment company without presenting the assistant director/accounting manager with appropriate supporting documentation, such as an investment agreement, in order to proceed with the investment.
- ▶ Claimed that the donor retained investment authority for the \$50,000 gift. The written agreement establishing a Foundation donor advised investment, however, did not grant such investment authority to the donor.
- ▶ Represented that he reviewed accounting records related to the investment. However, documentation was not retained or submitted to Foundation accounting personnel.
- ▶ Authorized the reinvestment of the funds without appropriate supporting documentation such as an investment statement or other documentation evidencing an equity interest.

Title 5 §42401 and §42402 indicate that the campus president shall require that auxiliary organizations operate in conformity with policy of the Board of Trustees and the campus. One of the objectives of the auxiliary organizations is to provide fiscal procedures and management systems that allow effective coordination of the auxiliary activities with the campus in accordance with sound business practices. Sound business practice mandates detailed instructions regarding the transfer of investment funds and sufficient management and accounting controls over investments.

The *Donor Agreement*, *Donor Advised Fund Program Procedures*, and *Investment Policy* state that the donors will serve in an advisory capacity and that the advice is not binding. Furthermore, the documents state that the Foundation has ultimate authority for the investment of donor advised fund assets in any manner appropriate for a prudent fiduciary.

The campus AVP of university advancement stated his belief that the investment of the donor advised fund was authorized and appropriate under Foundation policies and procedures.

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

### **Recommendation 15**

We recommend that the Foundation reestablish procedures to ensure that:

- a. It meets its duty to perform due diligence of investments.

- b. Gifts are properly accepted, and invested funds have appropriate supporting documentation.
- c. Advancement officers and the board receive training on the newly reestablished procedures.

**Campus Response**

We concur. We will review procedures to ensure that due diligence is performed with respect to investments, gifts are properly accepted and invested with sufficient supporting documentation, and advancement officers and board members have adequate training on the new procedures.

Timeline: December 2004

**FEES, REVENUES, AND RECEIVABLES**

The Foundation did not perform regular and timely revenue reconciliations between the donor database system and the general ledger accounting system.

This is a repeat finding from our Development Audit Report No. 02-16, dated December 13, 2002.

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

The Research Foundation assistant director/accounting manager stated that monthly reconciliations of gifts were not completed timely due to workload issues within the Foundation and development offices and that reconciliation procedures were being finalized between the two offices.

Failure to complete reconciliations of donor and accounting records increases the risk of reporting errors and/or misappropriations of funds.

**Recommendation 16**

We recommend that the Foundation perform regular and timely revenue reconciliations of the donor database system and the general ledger accounting system.

**Campus Response**

We concur. We have agreed that a quarterly reconciliation of revenue is more feasible and appropriate measures have been taken to make sure they are completed on a timely basis.

Timeline: December 2004

## **PURCHASING AND ACCOUNTS PAYABLE**

The Foundation was unable to provide signature cards evidencing authority to approve disbursements from prior periods.

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

The Research Foundation assistant director/accounting manager stated that due to oversight, the older signature cards were inadvertently destroyed when new signature authority was granted.

The lack of sufficient support evidencing appropriate authorization increases the risk of errors, irregularities, and misappropriation of funds.

### **Recommendation 17**

We recommend that the Foundation maintain signature cards for a three-year period evidencing authority to approve disbursement from prior periods.

### **Campus Response**

We concur. We will take appropriate measures to ensure that signature cards are retained for at least a three-year period to support evidence of approval on disbursements.

Timeline: December 2004

## **TRUSTS AND OTHER LIABILITIES**

Foundation trust agreements did not clearly articulate applicable fees or include specifics as to the disposition of unexpended balances and instructions for closing the account.

Title 5 §42401 and §42402 indicate that the campus president shall require that auxiliary organizations operate in conformity with policy of the Board of Trustees and the campus. One of the objectives of the auxiliary organizations is to provide fiscal procedures and management systems that allow effective coordination of the auxiliary activities with the campus in accordance with sound business practices. Sound business practice mandates that trust accounts be supported by documentation indicating specifics as to the disposition of unexpended balances, instructions for closing the account, and applicable fees.

The campus AVP of university advancement stated that the failure to specify administrative fees charged, instructions for closing the account, and disposition of unexpended balances was due to oversight.

Insufficient documentation within trust agreements increases the risk that funds will be handled inappropriately and contrary to the expectations of the campus and donors.

**Recommendation 18**

We recommend that the Foundation ensure that trust agreements clearly articulate applicable fees and include specifics as to the disposition of unexpended balances and instructions for closing the account.

**Campus Response**

We concur. We will amend trust account agreements to clearly articulate applicable fees, how to dispose of unexpended funds, and instructions on how to close an account with the Foundation.

Timeline: December 2004

## **ASSOCIATED STUDENTS OF CALIFORNIA STATE UNIVERSITY, CHICO**

### **LEGAL AND REGULATORY COMPLIANCE**

#### **AUXILIARY AUTHORIZATION**

The Associated Students of California State University, Chico (AS) operating agreement with the campus did not address all functions administered by the AS, specifically, contracts and grants activity.

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 AS executive director stated that the failure to include contracts and grants administration within the operating agreement was due to oversight.

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

#### **Recommendation 19**

We recommend that the AS amend its operating agreement with the campus to specify all functions administered by the auxiliary.

#### **Campus Response**

We concur with the recommendation. The operating and lease agreement with the campus has been amended to include administration of grants and contracts.

Timeline: September 2004

### **WRITTEN AGREEMENTS**

Certain business arrangements between the AS and other entities were not supported by current and complete, written agreements.

We found that:

- ▶ Two agreements had expired and the AS had not established a means of tracking contract expirations.

- ▶ A written agreement was not on file to substantiate the relationship between the AS Community Action Volunteers in Education Program (CAVE) and a campus department involved with the program. Additionally, CAVE agreements were not consistently executed in accordance with policy, i.e., contracts were erroneously written between third parties and CAVE instead of the AS.
- ▶ An arrangement to purchase and buyback textbooks for a local area high school was not supported by a written agreement.

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

The AS executive director stated that the administrative issues regarding written agreements could be attributed to the current practice of decentralized contract management.

The absence of complete and up-to-date, written agreements increases the risk of misunderstandings and miscommunication regarding rights and responsibilities.

### **Recommendation 20**

We recommend that the AS ensure that written agreements between the AS and other entities are complete, current, and include sufficient detail of business arrangements.

### **Campus Response**

We concur with the recommendation. The referenced written agreements will be complete and current.

Timeline: December 2004

### **BOARD MINUTES**

The AS board minutes were not signed and approved by an appropriate official.

Corporations Code §5215 states that the original or a copy of the bylaws or of the minutes of any incorporators', members', directors', committee or other meeting or of any resolution adopted by the board or a committee thereof, or members, certified to be a true copy by a person purporting to be the secretary or an assistant secretary of the corporation, is prima facie evidence of the adoption of such bylaws or resolution or of the due holding of such meeting and of the matters stated therein.

The AS executive director stated that he was unaware of the requirement for signed and approved board minutes.

Failure to maintain signed and approved board minutes increases the risk of misunderstandings and may increase legal liability.

**Recommendation 21**

We recommend that the AS take appropriate measures to ensure that its board minutes are signed and approved by an appropriate official.

**Campus Response**

We concur with the recommendation. Measures will be instituted to ensure board minutes are signed and approved by appropriate officials. Minutes will be signed effective fall 2004 when the committees convene.

Timeline: September 2004

**ACCEPTANCE OF FUNDS**

Certain AS extramural funding contracts were inappropriately excluded from campus pre-award contracts and grants administration processes.

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 AS executive director stated that he was unaware that the existing AS policy did not adequately address all aspects relating to the acceptance of funds.

Failure to fully develop and communicate accurate and up-to-date, written policies and procedures increases the risk of accepting funds that are not consistent with the policies of the CSU Trustees.

**Recommendation 22**

We recommend that the AS revise its policies and procedures for extramural funding contracts to include meeting campus pre-award contracts and grants administration processes.

**Campus Response**

We concur with the recommendation. AS extramural funding policies and procedures will be revised to include campus requirements for pre-award contracts and grant administration.

Timeline: December 2004

## **RISK MANAGEMENT**

The hold harmless provisions in several agreements between the AS and third parties were not in compliance with CSU policy.

We noted the following:

- ▶ The indemnification provision included in the standard participant agreement for Adventure Outings, an AS recreational program offered to both students and non-students, did not specifically indemnify the CSU Trustees and the State of California.
- ▶ The indemnification provision included in certain CAVE agreements did not include required indemnification provisions. The CAVE standard automobile indemnification agreement did not specifically indemnify the CSU Trustees and the State of California, and three other CAVE contracts did not specifically indemnify the AS, the campus, and CSU Trustees.

EO 849, *California State University Insurance Requirements*, February 5, 2003, states that hold harmless provisions should be modeled after agreements available at the CSU contract resource library. The model auxiliary operating agreement states that auxiliary organizations shall agree to indemnify, defend, and save harmless the State of California, the Trustees of the California State University, the campus, and the officers, employees, volunteers, and agents of each of them from any and all loss, damage, or liability that may be suffered or incurred by state, caused by, arriving out of, or in any way connected with the operations of the auxiliary.

The AS executive director stated that the lack of an adequate hold harmless clause in certain agreements was due to oversight.

The absence of appropriate indemnification clauses in written agreements increases the risk of misunderstandings and miscommunication regarding rights and responsibilities.

### **Recommendation 23**

We recommend that the AS:

- a. Amend the indemnification provision included in the Adventure Outings participant agreement to specifically indemnify the CSU Trustees and the State of California.
- b. Amend the indemnification provision included in the CAVE automobile indemnification agreement to specifically indemnify the CSU Trustees and the State of California.
- c. Ensure that all future agreements include indemnification clauses.

### **Campus Response**

We concur with these recommendations. The agreements have been amended to include the appropriate indemnification. Additionally, all future agreements will include the indemnification

clauses. Indemnification provisions have been included in the referenced agreements. Procedures are now in place with the risk manager to ensure future agreements include the required indemnification clauses.

Timeline: Completed

## **SEGREGATION OF DUTIES**

The AS did not appropriately segregate certain functions for payroll and human resources.

We found that payroll employees for the AS and the Research Foundation:

- ▶ Entered data on all new employees.
- ▶ Updated employee records.
- ▶ Entered and adjusted employee salaries.
- ▶ Entered time for employees receiving stipends and processed payroll in the payroll system.
- ▶ Distributed payroll checks to the receptionist's desk.

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

The AS assistant director of financial services stated that resource constraints did not allow for an appropriate segregation of duties between the personnel and payroll functions. She further stated her belief that adding the resources necessary to segregate these functions would not be cost-beneficial to the organization.

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

### **Recommendation 24**

We recommend that the AS properly segregate certain accounting functions for payroll and human resources or institute mitigating procedures approved by the campus CFO.

### **Campus Response**

We concur. We will implement a combination of segregation functions of payroll, and we will implement mitigating controls to the satisfaction of the campus CFO.

Timeline: February 2005

## PETTY CASH AND CHANGE FUNDS

Certain controls over change funds held at the AS cashier's office and other locations were inadequate.

We found that:

- ▶ The AS routinely issued checks made payable to the cashiering supervisor for several hundred thousand dollars as a means to replenish and/or restore the change fund and to adjust the general ledger accounts related to bookstore buyback.
- ▶ Independent, unannounced counts of the AS foodservice and bookstore change funds were not performed.
- ▶ The AS did not maintain a current record of all foodservice safe locations, individuals with knowledge of the safe combinations, and dates the safe combinations were changed.
- ▶ A small amount of personal cash was inappropriately stored within the bookstore safe.
- ▶ Certain change funds and receipts transported from outlying areas were not adequately safeguarded.

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

The AS director of financial services stated her belief that the current method of reimbursement of the AS change fund was appropriate. She further stated that the other areas for improvement of change fund administration were due to oversight.

Inadequate controls over change funds increase the risk of loss or misappropriation of funds.

### **Recommendation 25**

We recommend that the AS:

- a. Evaluate controls relating to the current method of change fund replenishment and take appropriate measures as approved by the campus CFO.
- b. Perform independent, unannounced counts of the AS foodservice and bookstore change funds.
- c. Maintain a current record of all foodservice safe locations, individuals with knowledge of the safe combinations, and dates the combinations are changed.

- d. Ensure that the practice of maintaining personal cash within the bookstore safe is discontinued.
- e. Evaluate current security controls relating to the transportation of funds and take appropriate measures as approved by the campus CFO.

**Campus Response**

We concur with the recommendation. The AS will develop additional procedures to strengthen internal controls over petty cash and change funds.

Timeline: February 2005

**FEES, REVENUES, AND RECEIVABLES**

The AS did not perform regular and timely detailed revenue reconciliations of receipts to participant records for its Adventure Outings program.

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

The AS assistant director of financial services stated that reconciliations were performed for each trip, but stated that the reconciliation procedures could be changed to include more detail.

Failure to adequately reconcile revenues to participant records increases the risk that errors or misappropriation of funds would not be detected.

**Recommendation 26**

We recommend that the AS perform regular and timely detailed revenue reconciliations of receipts to participant records for its Adventure Outings program.

**Campus Response**

We concur with the recommendation. The AS will improve upon the existing revenue reconciliation process to include additional detail.

Timeline: February 2005

## **PURCHASING AND ACCOUNTS PAYABLE**

The AS did not maintain signature authorization cards identifying individuals designated to approve certain disbursements.

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

The AS assistant director of financial services stated that the signature authorization forms were not maintained due to an oversight.

Insufficient record of authorization increases the risk of loss or misappropriation of funds.

### **Recommendation 27**

We recommend that the AS maintain signature authorization cards for three years, identifying individuals designated to approve certain disbursements.

### **Campus Response**

We concur with the recommendation. The AS has already developed and begun using signature authorization forms to designate signature authority over disbursements.

Timeline: Completed

## **PERSONNEL AND PAYROLL**

The AS could not provide documentation to substantiate that managers and supervisors individually reviewed and approved electronic timecard information.

AS managers and supervisors systematically reviewed electronic timecards, and verbally confirmed their review and approval with the payroll clerk. The payroll clerk recorded the verbal approval on a log.

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

The AS assistant director of financial services stated her belief that the electronic timecard software did not allow for individual electronic approval of timecards.

Insufficient documentation to substantiate management approval of electronic timecard information increases the risk of a loss or misappropriation of funds.

**Recommendation 28**

We recommend that the AS take appropriate measures to ensure that documentation to substantiate that managers and supervisors individually review and approve timecard information is retained.

**Campus Response**

We concur with the recommendation. The AS will obtain e-mail notification from each supervisor to document timecard review and support administrative approval.

Timeline: February 2005

**TRUSTS AND OTHER LIABILITIES**

Certain controls over AS trust funds were inadequate.

We noted the following:

- ▶ The AS provided banking and accounting services to an unofficially affiliated corporation. Additionally, a trust agreement was not maintained to support this arrangement.
- ▶ Supporting documentation was not required for disbursements from certain AS custodial accounts. Rather, in these instances, disbursements were released based upon signature authority only.

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

Title 5 §42401 and §42402 indicate that the campus president shall require that auxiliary organizations operate in conformity with 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 strong controls over trust accounts.

The AS director of financial services stated that she was the treasurer of National Software Users Group and had set up an agency account to ensure that the group's finances were subject to the AS controls environment. She further stated her belief that this transaction was acceptable as she was affiliated with the organization. Additionally, the AS financial services director stated that the AS

was merely acting as a bank for the agency/club accounts, and that the AS had no authority over how each respective club/agency spent its funds.

Insufficient controls over funds held in trust by auxiliaries expose the campus and the CSU system to regulatory and legal consequences.

### **Recommendation 29**

We recommend that the AS:

- a. Dissolve the trust arrangement with the unofficially affiliated group.
- b. Ensure that formal policies and procedures are developed that address responsibilities for oversight of custodial funds disbursements.

### **Campus Response**

- a. An AS employee, who is the current treasurer of a national software users group, is not seeking reelection. The account will be closed and funds will be moved to an account outside the AS.

Timeline: March 2005

- b. We concur with the recommendation. After the compliance audit in 2002, the AS strengthened its procedures over the custodial funds. The university will consult with the general counsel's office to determine an appropriate review policy for custodial funds.

Timeline: December 2004

## **AUXILIARY PROGRAMS**

The AS had not developed and implemented policies and procedures addressing the administration of volunteers.

Volunteer policies and procedures, at a minimum, should consider the following:

- ▶ Procedures relating to the management of organizational volunteers.
- ▶ Potential worker's compensation issues relating to volunteers.
- ▶ Risk management concerns relating to volunteers.
- ▶ The collection and management of confidential records and information relating to volunteers.

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

business practices. Sound business practice mandates that written policies and procedures addressing the administration of volunteers be developed and implemented.

The AS human resources director stated that the failure to develop and implement policies and procedures addressing administration of volunteers could be attributed to decentralized management of organizational volunteers.

Failure to fully develop and communicate written policies and procedures weakens internal controls, increases the risk that misunderstandings will occur, and may subject the auxiliary and the CSU to potential liability.

### **Recommendation 30**

We recommend that the AS coordinate with the campus to establish policies and procedures that address the administration of volunteers.

### **Campus Response**

We concur with the recommendation. The AS will coordinate with the campus to establish policies and procedures which will address the administration of volunteers.

Timeline: December 2004

## **INFORMATION TECHNOLOGY**

### **BOOKSTORE COMPUTER SECURITY**

Certain security parameters for the AS computer system hosting the bookstore application were insufficient.

We found that:

- ▶ Systemwide security parameters did not provide audit logging or enforce complex passwords, expiration, or history, and the default for public authority allowed changes to system objects.
- ▶ Generic accounts were used, which does not provide for individual accountability.
- ▶ Many account passwords had not been changed since their creation.
- ▶ Passwords were not required on all accounts.
- ▶ Special authorities were granted to user accounts not requiring that level of access.
- ▶ Command line access was not appropriately restricted for all accounts.

- ▶ The policy for changing and assigning passwords required that the security administrator record the user's password onto a written form.

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

The AS bookstore assistant director stated that the software vendor had not set security parameters during implementation and that a subsequent detailed assessment had not been performed.

Insufficiently controlled access to business applications increases the risk of unauthorized and inappropriate acts.

### **Recommendation 31**

We recommend that the AS review security controls to ensure that:

- a. Password expiration and complexity controls are enabled for all users, audit logging is activated, and the default for public authority is set to prevent changes to system objects.
- b. The use of generic accounts is discontinued and every user is assigned an individual account.
- c. Passwords are changed on all accounts, including system accounts.
- d. Passwords are required on all accounts.
- e. Special authorities are granted to only those individuals requiring such access to perform their job responsibilities.
- f. Command line access is limited.
- g. The policy for changing and assigning passwords is amended to discontinue the practice of written passwords in order to enforce confidentiality.

### **Campus Response**

We concur with the recommendations.

- a. The textbook inventory system software was recently upgraded, and complex passwords were implemented.

Timeline: Completed

- b. All generic accounts have been eliminated.

Timeline: Completed

- c. Password expiration will follow the university standard and expire every six months.

Timeline: Completed

- d. The bookstore inventory system software was recently upgraded and passwords are required on all accounts.

Timeline: Completed

- e. Access to the bookstore inventory system was recently reviewed to include only those individuals requiring access to perform their job responsibilities.

Timeline: Completed

- f. New procedures were implemented so that command line access is limited.

Timeline: Completed

- g. New procedures have been implemented to discontinue the practice of written passwords in order to enforce confidentiality.

Timeline: Completed

## **PHYSICAL SECURITY**

Controls over the physical security of the AS computer facility required improvement.

We found that:

- ▶ Access was not sufficiently limited, as the facility was also used for printing, housing computers for other auxiliaries, and general storage.
- ▶ An after-hours intrusion detection alarm had not been installed.
- ▶ The location of the fire extinguisher inside the computer room may make it inaccessible in the event of a fire.
- ▶ All production computer equipment was not housed in the computer room, and such equipment was subject to these same issues.

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

The AS bookstore assistant director stated that the existing conditions are the result of space limitations and that facility improvements were planned.

Without appropriate physical safeguards over the facilities housing the computer equipment, there is increased risk of unauthorized access and disruption of data processing services.

**Recommendation 32**

We recommend that the AS review physical security controls to ensure that:

- a. Access is sufficiently limited to the computer facility.
- b. An after-hours intrusion detection alarm is installed.
- c. An additional fire extinguisher is installed outside the computer room, making it accessible in the event of a fire.
- d. All production computer equipment is housed in the computer room.

**Campus Response**

- a. We concur with the recommendation. Card swipe access has been installed on the door to the computer room and access is limited to only those employees requiring access to the equipment in the room.

Timeline: Completed

- b. We concur with the recommendation. An after-hours intrusion detection alarm has been installed.

Timeline: Completed

- c. We concur with the recommendation. An additional fire extinguisher has been installed outside the computer room.

Timeline: Completed

- d. We concur with the recommendation. All production computer equipment will be moved from the current locations to the computer room.

Timeline: December 2004

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## **APPENDIX A: PERSONNEL CONTACTED**

<b><u>Name</u></b>	<b><u>Title</u></b>
<b>CAMPUS</b>	
Paul J. Zingg	President
Scott G. McNall	Interim President (At time of review)
John F. Brown	General Manager, KCHO Public Radio Station
Scott Claverie	Telecom and Business Manager, Communication Services
Mark J. Cole	Administrative Director, Agricultural Teaching and Research Center
Dennis C. Graham	Vice President, Business and Finance
Gail Hildebrand	Manager, Sponsored Programs Office
William Jones	Director, Internal Audit/Financial Analyst
Linda Koch	Director, Development and Advancement Services
Thomas Leblanc	Manager, Sponsored Programs Office
Ed Masterson	Associate Vice President, University Advancement
Gary Salberg	Director, University Development for Major and Planned Gifts
Leslie H. Santos	Accountant, Agricultural Teaching and Research Center
Jeffrey Wright	Director, Sponsored Programs Office

### **THE CSU, CHICO RESEARCH FOUNDATION**

Stacie Corona	Assistant Director/Accounting Manager
Karen Finley	Director, Human Resources
Arlene Phalen Hostetter	Executive Director, Passages Adult Resource Center
Richard T. Jackson	Executive Director

### **THE UNIVERSITY FOUNDATION CALIFORNIA STATE UNIVERSITY, CHICO**

Ed Masterson	Campus Associate Vice President, University Advancement
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### **ASSOCIATED STUDENTS OF CALIFORNIA STATE UNIVERSITY, CHICO**

Colette Anderson	Accountant
Karen Bang	Administrative Office Coordinator
Denise Booth	Director, Human Resources
David Buckley	Executive Director
Steve Dubey	Bookstore Director
Debbie Ernenwein	Cash Room Supervisor
Carolyn Finato	General Accounting Supervisor
Joyce Friedman	Director, Financial Services
Marilyn Hoag	Bookstore Assistant Director
Susan Jennings	Assistant Director, Financial Services
Yves Latouche	Food Service Director
John McCarthy	Data Processing Manager
Yvette McMillan	Accountant
Kristie Pease	Cashier/Receptionist Supervisor
Joann Ross	Bank Reconciliation Clerk
Rick Scott	Adventure Outings Coordinator
Kathy Silva	Payroll Technician
Susan Toussaint	Children's Center Director
Terri Van Dusen	Payroll Technician

## **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 that may be characterized as either accounting or operational as follows:

#### 1. Internal Accounting Controls

Internal accounting controls comprise the plan of organization and all methods and procedures that are concerned mainly with, and relate directly to, the safeguarding of assets and the reliability of financial records. They generally include such controls as the systems of authorization and approval, separation of duties concerned with 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.

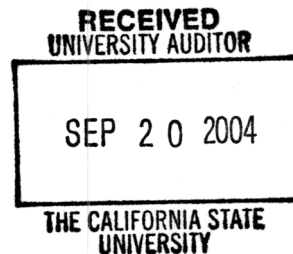
### **C. INTERNAL CONTROL OBJECTIVES**

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, Chico  
Chico, California 95929-0025  
Vice President for Business and Finance  
Office: 530-898-6231 Fax: 530-898-4513  
E-mail: dcgraham@csuchico.edu



September 13, 2004

Mr. Larry Mandel  
University Auditor  
The California State University  
401 Golden Shore  
Long Beach, CA 90802-4210

Dear Mr. Mandel:

Enclosed are CSU, Chico's responses to the Auxiliary Organizations Audit Report 03-52. If you have any questions, please do not hesitate to contact us.

If you have any questions, please do not hesitate to give us a call.

Sincerely,

A handwritten signature in blue ink that reads "Dennis C. Graham".

Dennis C. Graham  
Vice President for Business and Finance

cc: Paul Zingg  
Scott G. McNall  
Jim Moon  
Bill Jones  
Stacie Corona  
Richard Jackson  
Joyce Friedman  
Bob Alber



**CAMPUS**

**BUDGET**

**Recommendation 1**

We recommend that the campus retain documentation evidencing the campus president's approval of the AS operating budgets.

**Campus Response**

We concur. The University will improve practices to insure proper documentation of the president's approval of the AS operating budgets.

**Timeline: December 2004**

**THE CSU, CHICO RESEARCH FOUNDATION**

**LEGAL AND REGULATORY COMPLIANCE**

**AUXILIARY FUNCTIONS**

**Recommendation 2**

We recommend that the Research Foundation perform only those functions listed in Title 5 or obtain approval for variances from the Office of the Chancellor.

**Campus Response**

We concur. We will obtain approval for Title 5 function variances from the Office of the Chancellor.

**Timeline: December 2004**

**LEASING OF FACILITIES**

**Recommendation 3**

We recommend that the Research Foundation ensure that all lease arrangements with the campus are supported by written agreements, specifically identifying facilities leased to the Research Foundation.

**Campus Response**

We concur. We will ensure that all lease agreements with campus are supported by written agreements.

**Timeline: December 2004**

September 13, 2004  
Page 2

### **WRITTEN AGREEMENTS**

#### **Recommendation 4**

We recommend that the Research Foundation establish written agreements with the campus regarding its administration of construction projects, the farm enterprise unit, radio station, communications services enterprise unit, performing arts program, and auxiliary business incubator.

#### **Campus Response**

We concur. We will establish written agreements with the campus regarding the administration of construction projects and various other units and programs.

**Timeline: December 2004**

### **BOARD MEETINGS**

#### **Recommendation 5**

We recommend that the Research Foundation take appropriate measures to ensure that the board meets at least once each quarter in accordance with statutory requirements.

#### **Campus Response**

We concur. We will take appropriate measures to ensure that the Board of Directors meets at least once a quarter.

**Timeline: December 2004**

### **CONFLICT OF INTEREST**

#### **Recommendation 6**

We recommend that the Research Foundation develop procedures to ensure that conflict-of-interest statements are obtained from newly elected board members.

#### **Campus Response**

We concur. We will take appropriate measures to ensure that conflict of interest statements are obtained from all Board members.

**Timeline: December 2004**

September 13, 2004  
Page 3

### **SEGREGATION OF DUTIES**

#### **Recommendation 7**

We recommend that the Research Foundation properly segregate certain accounting duties for farm enterprise unit cash disbursements and radio station accounts receivable or institute mitigating procedures approved by the campus chief financial officer (CFO).

#### **Campus Response**

We concur. We will properly segregate certain accounting duties for the Farm enterprise unit and radio station or institute mitigating procedures approved by the campus chief financial officer.

**Timeline: December 2004**

### **PURCHASING AND ACCOUNTS PAYABLE**

#### **Recommendation 8**

We recommend that the Research Foundation:

- a. Fully develop and document specific enterprise unit procurement policies and procedures to address vendor selection processes and conflict prohibitions unique to enterprise units, including processes for receiving purchased items and prohibited purchases/purchasing practices at enterprise units.
- b. Establish a procedure to ensure that farm enterprise unit manager or faculty approvals are obtained.
- c. Establish a procedure to ensure that sufficient documentation is maintained to evidence that goods were received or service was provided.
- d. Establish a procedure to ensure that farm enterprise unit expenditures over \$5,000 include justification for vendor selection.

#### **Campus Response**

We concur. We will do the following:

- a. Document enterprise unit procedures and policies.
- b. Establish a procedure to ensure that farm enterprise unit manager or faculty approvals are obtained on expenditures.
- c. Establish a procedure to ensure that documentation is maintained to evidence that goods were received or services were provided.
- d. Establish a procedure to ensure that farm enterprise unit expenditures over \$5,000 include justification for vendor selection.

**Timeline: December 2004**

September 13, 2004  
Page 4

## **TRUSTS AND OTHER LIABILITIES**

### **Recommendation 9**

We recommend that the Research Foundation ensure that trust account agreements include all required terms and conditions, specifically regarding the source of all funds, the purpose of the account, reporting requirements, administrative fees, instructions for closing the account, and disposition of funds.

### **Campus Response**

We concur. We will ensure that trust account agreements include all recommended terms and conditions.

**Timeline: December 2004**

## **THE UNIVERSITY FOUNDATION**

## **LEGAL AND REGULATORY COMPLIANCE**

### **PUBLIC MEETINGS**

#### **Recommendation 10**

We recommend that the Foundation post its board meeting notices in a public area in accordance with the Education Code.

#### **Campus Response**

We concur. We will post board meeting notices in a public area on the CSU, Chico campus.

**Timeline: December 2004**

### **BOARD MINUTES**

#### **Recommendation 11**

We recommend that the Foundation take appropriate measures to ensure that its board minutes are signed and approved by an appropriate official.

#### **Campus Response**

We concur. We have implemented procedures to ensure that board minutes are signed and approved by an appropriate official.

**Timeline: December 2004**

September 13, 2004  
Page 5

## **BUDGET**

### **Recommendation 12**

We recommend that the Foundation take appropriate measures to ensure that budgets are submitted to the campus president for approval in a timely manner.

### **Campus Response**

We concur. We have taken the appropriate measures to ensure that budgets are submitted to the campus president in a timely manner.

**Timeline: December 2004**

## **PROGRAMS**

### **Recommendation 13**

We recommend that the Foundation:

- a. Include a supplementary schedule of the Associations' financial position within its audited financial statements.
- b. Become a party to the agreement between the campus and the Association that details certain responsibilities of the Foundation regarding the Association.
- c. Establish appropriate trust account agreements with the Association, including specific documentation of the purpose of the account, the source of funds, the disposition of unexpended funds, reporting requirements, such as the use of investment earnings, as well as other restrictions.

### **Campus Response**

We concur. We are preparing supplementary schedules on Alumni accounts to be included in our audited financial statements. We will amend or write a new agreement to include the Foundation as a party to the Alumni Association and University. We will also make sure appropriate trust account agreements are in place for all Alumni accounts within the Foundation.

**Timeline: December 2004**

September 13, 2004  
Page 6

## **SEGREGATION OF DUTIES**

### **Recommendation 14**

We recommend that the Foundation properly segregate accounting and administrative duties over certain advancement activities and functions, including the amendment of the investment policy.

### **Campus Response**

We concur. We have already amended the Foundation's investment policy and will implement policies and procedures to appropriately segregate accounting and administrative duties.

**Timeline: December 2004**

## **INVESTMENTS**

### **Recommendation 15**

We recommend that the Foundation reestablish procedures to ensure that:

- a. It meets its duty to perform due diligence of investments.
- b. Gifts are properly accepted, and invested funds have appropriate supporting documentation.
- c. Advancement officers and the board receive training on the newly reestablished procedures.

### **Campus Response**

We concur. We will review procedures to ensure that due diligence is performed with respect to investments, gifts are properly accepted and invested with sufficient supporting documentation and Advancement officers and board members have adequate training on the new procedures.

**Timeline: December 2004**

## **FEES, REVENUES, AND RECEIVABLES**

### **Recommendation 16**

We recommend that the Foundation perform regular and timely revenue reconciliations of the donor database system and the general ledger accounting system.

### **Campus Response**

We concur. We have agreed that a quarterly reconciliation of revenue is more feasible and appropriate measures have been taken to make sure they are complete on a timely basis.

**Timeline: December 2004**

September 13, 2004  
Page 7

## **PURCHASING AND ACCOUNTS PAYABLE**

### **Recommendation 17**

We recommend that the Foundation maintain signature cards for a three-year period evidencing authority to approve disbursement from prior periods.

### **Campus Response**

We concur. We will take appropriate measures to ensure that signature cards are retained for at least a three year period to support evidence of approval on disbursements.

**Timeline: December 2004**

## **TRUSTS AND OTHER LIABILITIES**

### **Recommendation 18**

We recommend that the Foundation ensure that trust agreements clearly articulate applicable fees and include specifics as to the disposition of unexpended balances and instructions for closing the account.

### **Campus Response**

We concur. We will amend trust account agreements to clearly articulate applicable fees, how to dispose of unexpended funds and instructions on how to close an account with the Foundation.

**Timeline: December 2004**

## **ASSOCIATED STUDENTS OF CALIFORNIA STATE UNIVERSITY, CHICO**

## **LEGAL AND REGULATORY COMPLIANCE**

### **AUXILIARY AUTHORIZATION**

#### **Recommendation 19**

We recommend that the AS amend its operating agreement with the campus to specify all functions administered by the auxiliary.

#### **Campus Response**

We concur with the recommendation. The operating and lease agreement with the campus has been amended to include administration of grants and contracts.

**Timeline: September 2004**

September 13, 2004  
Page 8

### **WRITTEN AGREEMENTS**

#### **Recommendation 20**

We recommend that the AS ensure that written agreements between the AS and other entities are complete, current, and include sufficient detail of business arrangements.

#### **Campus Response**

We concur with the recommendation. The referenced written agreements will be complete and current.

**Timeline: December 2004**

### **BOARD MINUTES**

#### **Recommendation 21**

We recommend that the AS take appropriate measures to ensure that its board minutes are signed and approved by an appropriate official.

#### **Campus Response**

We concur with the recommendation. Measures will be instituted to ensure board minutes are signed and approved by appropriate officials. Minutes will be signed effective Fall 2004 when the committees convene.

**Timeline: September 2004**

### **ACCEPTANCE OF FUNDS**

#### **Recommendation 22**

We recommend that the AS revise its policies and procedures for extramural funding contracts to include meeting campus pre-award contracts and grants administration processes.

#### **Campus Response**

We concur with the recommendation. AS extramural funding policies and procedures will be revised to include campus requirements for pre-award contracts and grant administration.

**Timeline: December 2004**

September 13, 2004  
Page 9

## **RISK MANAGEMENT**

### **Recommendation 23**

We recommend that the AS:

- a. Amend the indemnification provision included in the Adventure Outings participant agreement to specifically indemnify the CSU Trustees and the State of California.
- b. Amend the indemnification provision included in the CAVE automobile indemnification agreement to specifically indemnify the CSU Trustees and the State of California.
- c. Ensure that all future agreements include indemnification clauses.

### **Campus Response**

We concur with these recommendations. The agreements have been amended to include the appropriate indemnification. Additionally, all future agreements will include the indemnification clauses. Indemnification provisions have been included in the referenced agreements. Procedures are now in place with the Risk Manager to ensure future agreements include the required indemnification clauses.

**Timeline: Completed**

## **SEGREGATION OF DUTIES**

### **Recommendation 24**

We recommend that the AS properly segregate certain accounting functions for payroll and human resources or institute mitigating procedures approved by the campus CFO.

### **Campus Response**

We concur. We will implement a combination of segregation functions of payroll and we will implement mitigating controls to the satisfaction of the campus CFO.

**Timeline: February 2005**

## **PETTY CASH AND CHANGE FUNDS**

### **Recommendation 25**

We recommend that the AS:

- a. Evaluate controls relating to the current method of change fund replenishment and take appropriate measures as approved by the campus CFO.
- b. Perform independent, unannounced counts of the AS foodservice and bookstore change funds.

September 13, 2004  
Page 10

- c. Maintain a current record of all foodservice safe locations, individuals with knowledge of the safe combinations, and dates the combinations are changed.
- d. Ensure that the practice of maintaining personal cash within the bookstore safe is discontinued.
- e. Evaluate current security controls relating to the transportation of funds and take appropriate measures as approved by the campus CFO.

**Campus Response**

We concur with the recommendation. The AS will develop additional procedures to strengthen internal controls over petty cash and change funds.

**Timeline: February 2005**

**FEES, REVENUES, AND RECEIVABLES**

**Recommendation 26**

We recommend that the AS perform regular and timely detailed revenue reconciliations of receipts to participant records for its Adventure Outings program.

**Campus Response**

We concur with the recommendation. The AS will improve upon the existing revenue reconciliation process to include additional detail.

**Timeline: February 2005**

**PURCHASING AND ACCOUNTS PAYABLE**

**Recommendation 27**

We recommend that the AS maintain signature authorization cards for three years, identifying individuals designated to approve certain disbursements.

**Campus Response**

We concur with the recommendation. The AS has already developed and begun using signature authorization forms to designate signature authority over disbursements.

**Timeline: Completed**

September 13, 2004  
Page 11

## **PERSONNEL AND PAYROLL**

### **Recommendation 28**

We recommend that the AS take appropriate measures to ensure that documentation to substantiate that managers and supervisors individually review and approve timecard information is retained.

### **Campus Response**

We concur with the recommendation. The AS will obtain e-mail notification from each supervisor to document timecard review and support administrative approval.

**Timeline: February 2005**

## **TRUSTS AND OTHER LIABILITIES**

### **Recommendation 29**

We recommend that the AS:

- a. Dissolve the trust arrangement with the unofficially affiliated group.
- b. Ensure that formal policies and procedures are developed that address responsibilities for oversight of custodial funds disbursements.

### **Campus Response**

- a. An AS employee, who is the current treasurer of a national software users group, is not seeking re-election. The account will be closed and funds will be moved to an account outside the Associated Students.

### **Timeline: March 2005**

- b. We concur with the recommendation. After the compliance audit in 2002 the AS strengthen its procedures over the custodial funds. The University will consult with General Counsel's office to determine an appropriate review policy for custodial funds.

**Timeline: December 2004**

## **AUXILIARY PROGRAMS**

### **Recommendation 30**

We recommend that the AS coordinate with the campus to establish policies and procedures that address the administration of volunteers.

### **Campus Response**

We concur with the recommendation. The Associated Students will coordinate with the campus to establish policies and procedures which will address the administration of volunteers.

**Timeline: December 2004**

September 13, 2004  
Page 12

## **INFORMATION TECHNOLOGY**

### **BOOKSTORE COMPUTER SECURITY**

#### **Recommendation 31**

We recommend that the AS review security controls to ensure that:

- a. Password expiration and complexity controls are enabled for all users, audit logging is activated, and the default for public authority is set to prevent changes to system objects.
- b. The use of generic accounts is discontinued and every user is assigned an individual account.
- c. Passwords are changed on all accounts, including system accounts.
- d. Passwords are required on all accounts.
- e. Special authorities are granted to only those individuals requiring such access to perform their job responsibilities.
- f. Command line access is limited.
- g. The policy for changing and assigning passwords is amended to discontinue the practice of written passwords in order to enforce confidentiality.

#### **Campus Response**

We concur with recommendations a through g.

- a. The textbook inventory system software was recently upgraded and complex password were implemented

#### **Timeline: Completed**

- b. All generic accounts have been eliminated.

#### **Timeline: Completed**

- c. Password expiration will follow the university standard and expire every six months.

#### **Timeline: Completed**

- d. The Missouri Book System software was recently upgraded and passwords are required on all account.

#### **Timeline: Completed**

- e. Access to the Missouri Book System was recently reviewed to include only those individuals requiring access to perform their job responsibilities.

#### **Timeline: Completed**

- f. New procedures were implemented so that command line access is limited.

#### **Timeline: Completed**

- g. New procedures have been implemented to discontinue the practice of written passwords in order to enforce confidentiality.

#### **Timeline: Completed**

September 13, 2004  
Page 13

## **PHYSICAL SECURITY**

### **Recommendation 32**

We recommend that the AS review physical security controls to ensure that:

- a. Access is sufficiently limited to the computer facility.
- b. An after-hours intrusion detection alarm is installed.
- c. An additional fire extinguisher is installed outside the computer room, making it accessible in the event of a fire.
- d. All production computer equipment is housed in the computer room.

### **Campus Response**

- a. We concur with the recommendation. Card swipe access has been installed on the door to the computer room and access is limited to only those employees requiring access to the equipment in the room.

#### **Timeline: Completed**

- b. We concur with the recommendation. An after-hours intrusion detection alarm has been installed

#### **Timeline: Completed**

- c. We concur with the recommendation. An additional fire extinguisher has been installed outside the computer room.

#### **Timeline: Completed**

- d. We concur with the recommendation. All production computer equipment will be moved from the current locations to the computer room.

#### **Timeline: December 2004**

THE CALIFORNIA STATE UNIVERSITY  
OFFICE OF THE CHANCELLOR

BAKERSFIELD

October 22, 2004

CHANNEL ISLANDS

CHICO

DOMINGUEZ HILLS

**MEMORANDUM**

FRESNO

FULLERTON

TO: Mr. Larry Mandel  
University Auditor

HAYWARD

FROM: Charles B. Reed  
Chancellor

HUMBOLDT

LONG BEACH

SUBJECT: Draft Final Report Number 03-52 on *Auxiliary Organizations*,  
California State University, Chico

LOS ANGELES

MARITIME ACADEMY

MONTEREY BAY

In response to your memorandum of October 22, 2004, I accept the response as  
submitted with the draft final report on *Auxiliary Organizations*, California  
State University, Chico.

NORTHRIDGE

POMONA

SACRAMENTO

CBR/amd

SAN BERNARDINE

Enclosure

SAN DIEGO

cc: Mr. Dennis C. Graham, Vice President for Business and Finance  
Dr. Paul J. Zingg, President

SAN FRANCISCO

SAN JOSE

SAN LUIS OBISPO

SAN MARCOS

SONOMA

STANISLAUS