

AUXILIARY ORGANIZATIONS
CALIFORNIA STATE UNIVERSITY,
DOMINGUEZ HILLS

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CALIFORNIA STATE UNIVERSITY DOMINGUEZ HILLS FOUNDATION

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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, Dominguez Hills (CSUDH) campus and its auxiliary organizations from December 8, 2003, through January 16, 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.

CSUDH 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 *California State University Dominguez Hills Foundation* revealed certain conditions which, in our opinion, could result in errors and irregularities if not corrected. Specifically, the auxiliary did not maintain adequate control over the following area: campus 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.

Our study and evaluation at the *Associated Students, California State University, Dominguez Hills* revealed certain conditions which, in our opinion, could result in errors and irregularities if not corrected. Specifically, the auxiliary did not maintain adequate control over the following areas: cash receipts and handling; fees, revenues, and receivables; and fixed assets. These conditions, along with other weaknesses, are described in the executive summary and in the body of the report. In our opinion, except

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.

OBSERVATIONS, RECOMMENDATIONS, AND CAMPUS RESPONSES

CAMPUS

LEGAL AND REGULATORY COMPLIANCE

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

Executive Order (EO) 753, *Allocation of Costs to Auxiliary Enterprises*, dated July 28, 2000, established the responsibility for auxiliaries to pay allowable direct costs plus an allocable portion of indirect costs associated with facilities, goods, and services provided by the campus and funded by the General Fund.

The vice president of administration and finance stated that a formal plan had not been developed due to time constraints.

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

Recommendation 1

We recommend that the campus take steps to immediately establish a cost allocation plan in accordance with EO 753.

Campus Response

We concur. The campus has been working on drafting a cost allocation plan that will conform to EO 753. It is anticipated that a plan will be completed by December 2004.

CAMPUS PROGRAMS

Funds received by the university for the use of campus facilities by non-campus athletic programs, including sport tournaments, camps, and clinics, were inappropriately administered.

We found that:

- ▶ Funds received were inappropriately deposited to the California State University Dominguez Hills Foundation (Foundation) accounts instead of the General Fund.
- ▶ Donations and other restricted funds were commingled in the Foundation account where facility-use fees were deposited.

