

AUXILIARY ORGANIZATIONS
CALIFORNIA STATE UNIVERSITY,
SACRAMENTO

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BOARD OF TRUSTEES
THE CALIFORNIA STATE UNIVERSITY

CONTENTS

Executive Summary	1
Introduction.....	7
Background	7
Purpose	8
Scope and Methodology	8

OBSERVATIONS, RECOMMENDATIONS, AND CAMPUS RESPONSES

CAMPUS

Campus Oversight and Control.....	12
Trusts and Other Liabilities	13

UNIVERSITY ENTERPRISES, INC.

Operating and Administrative Agreements.....	14
Segregation of Duties.....	15

CALIFORNIA STATE UNIVERSITY, SACRAMENTO, TRUST FOUNDATION

Operating and Administrative Agreements.....	16
Corporate Governance	17
Dissolution of Auxiliary	17
Bylaws	17
Board Composition.....	18
Fiscal Compliance.....	18
Reserves.....	18
Cost Reimbursement	19
Operational Compliance	20
Purchasing and Accounts Payable	21
Trusts and Other Liabilities	22

CAPITAL PUBLIC RADIO, INC.

Operating and Administrative Agreements..... 24

Corporate Governance 24

 Board Minutes 24

 Bylaws 25

Operational Compliance 25

Personnel and Payroll 26

Property and Equipment 27

Information Technology 28

 Password Security 28

 Disaster Recovery Plan 28

 Network Security 29

ASSOCIATED STUDENTS OF CALIFORNIA STATE UNIVERSITY, SACRAMENTO

Operating and Administrative Agreements..... 30

Corporate Governance 31

Fiscal Compliance..... 32

Operational Compliance 32

 Risk Management..... 32

 Conflict of Interest..... 33

Program Compliance 34

Segregation of Duties..... 34

Cash Receipts and Handling 35

Petty Cash and Change Funds..... 36

Fees, Revenues, and Receivables..... 37

Purchasing and Accounts Payable 38

Property and Equipment 39

UNIVERSITY UNION OPERATION OF
CALIFORNIA STATE UNIVERSITY, SACRAMENTO

Purchasing and Accounts Payable 41
 Disbursements 41
 Signature Authority 42

Property and Equipment 43

APPENDICES

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

ABBREVIATIONS

Aquatic Center	Sacramento State Aquatic Center
ASI	Associated Students of California State University, Sacramento
BOT	Board of Trustees
CBORD	Cornell's Board Plan
CFO	Chief Financial Officer
CO	Chancellor's Office
CPR	Capital Public Radio, Inc.
CSU	California State University
CSUS	California State University, Sacramento
EO	Executive Order
IT	Information Technology
OWP	Office of Water Programs
RFIN	Resolution of the Committee on Finance
Trust Foundation	California State University, Sacramento, Trust Foundation
UE	University Enterprises, Inc.
Union	University Union Operation of California State University, Sacramento

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.

California State University, Sacramento (CSUS) 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.

We visited the CSUS campus and its auxiliary organizations from August 8, 2005, through September 9, 2005, and made a study and evaluation of the system of internal compliance/internal control in effect for the period July 2002 to September 2005. This report represents our triennial review.

Our study and evaluation at *University Enterprises, Inc.* did not reveal any significant internal control problems or weaknesses that would be considered pervasive in their effects on the accounting and administrative controls. However, we did identify other reportable weaknesses that are described in the executive summary and in the body of the report. In our opinion, the accounting and administrative control in effect as of September 2005, taken as a whole, was sufficient to meet the objectives stated above.

Our study and evaluation at *California State University, Sacramento, Trust Foundation* did not reveal any significant internal control problems or weaknesses that would be considered pervasive in their effects on the accounting and administrative controls. However, we did identify other reportable weaknesses that are described in the executive summary and in the body of the report. In our opinion, the accounting and administrative control in effect as of September 2005, taken as a whole, was sufficient to meet the objectives stated above.

Our study and evaluation at *Capital Public Radio, Inc.* did not reveal any significant internal control problems or weaknesses that would be considered pervasive in their effects on the accounting and administrative controls. However, we did identify other reportable weaknesses that are described in the executive summary and in the body of the report. In our opinion, the accounting and administrative control in effect as of September 2005, taken as a whole, was sufficient to meet the objectives stated above.

Our study and evaluation at *Associated Students of California State University, Sacramento* did not reveal any significant internal control problems or weaknesses that would be considered pervasive in their effects on the accounting and administrative controls. However, we did identify other reportable weaknesses that are described in the executive summary and in the body of the report. In our opinion, the accounting and administrative control in effect as of September 2005, taken as a whole, was sufficient to meet the objectives stated above.

Our study and evaluation at *University Union Operation of California State University, Sacramento* did not reveal any significant internal control problems or weaknesses that would be considered pervasive in their effects on the accounting and administrative controls. However, we did identify other reportable weaknesses that are described in the executive summary and in the body of the report. In our opinion, the accounting and administrative control in effect as of September 2005, 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 changes 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

CAMPUS OVERSIGHT AND CONTROL [12]

Two university centers, identified as “campus” programs, improperly deposited their revenues and had their expenses paid through custodial accounts at University Enterprises, Inc. (UE).

TRUSTS AND OTHER LIABILITIES [13]

The campus chief financial officer (CFO) was not acting as the custodian of all state trust funds.

UNIVERSITY ENTERPRISES, INC.

OPERATING AND ADMINISTRATIVE AGREEMENTS [14]

The University Enterprises, Inc. (UE) performed real property transactions, a function not authorized by the operating agreement with the campus.

SEGREGATION OF DUTIES [15]

Duties and responsibilities over certain accounting functions for cash receipts were not appropriately segregated within the UE dining commons operation. For instance, the dining commons clerk performed cash-handling duties, prepared daily deposits, and added, deleted, transferred, and edited accounts in the CBORD system without an independent review.

CALIFORNIA STATE UNIVERSITY, SACRAMENTO, TRUST FOUNDATION

OPERATING AND ADMINISTRATIVE AGREEMENTS [16]

Certain agreements between the California State University, Sacramento, Trust Foundation (Trust Foundation) and the campus were incomplete or had expired.

CORPORATE GOVERNANCE [17]

The Trust Foundation Articles of Incorporation included an improper dissolution clause; it allowed the board of governors to select a successor. In addition, the Trust Foundation's amended bylaws were not filed with the chancellor's office (CO). Further, the Trust Foundation board of directors did not include a secretary and CFO for fiscal year 2004/05.

FISCAL COMPLIANCE [18]

The Trust Foundation did not record board-designated reserves within its general ledger. Further, the Trust Foundation had not fully reimbursed the General Fund for all direct and indirect costs associated with the services provided by the campus for fiscal years ended June 30, 2003, 2004, and 2005.

OPERATIONAL COMPLIANCE [20]

The Trust Foundation had not officially adopted a conflict-of-interest policy. In addition, annual conflict-of-interest statements had not been obtained from all board members and/or management.

PURCHASING AND ACCOUNTS PAYABLE [21]

Certain Trust Foundation cash disbursements were not supported by sufficient and appropriate documentation and/or appropriate authorization.

TRUSTS AND OTHER LIABILITIES [22]

The Trust Foundation's accounting and management of endowments required improvement. Specifically, unrealized gains or losses were not tracked or allocated on an individual endowment fund basis. In addition, the Trust Foundation had not developed policies and procedures to address the inclusion of endowment donations into medium- and long-term investments.

CAPITAL PUBLIC RADIO, INC.

OPERATING AND ADMINISTRATIVE AGREEMENTS [24]

The hold harmless provision in the Capital Public Radio, Inc. (CPR) operating agreement did not specifically indemnify the campus.

CORPORATE GOVERNANCE [24]

CPR board and finance committee minutes were not signed and approved by an appropriate official. In addition, the CPR's amended bylaws were not filed with the CO.

OPERATIONAL COMPLIANCE [25]

The CPR had not officially adopted a conflict-of-interest policy. In addition, annual conflict-of-interest statements had not been obtained from all board members and/or management.

PERSONNEL AND PAYROLL [26]

CPR management did not review payroll-related reports detailing employee salary and wage adjustments.

PROPERTY AND EQUIPMENT [27]

The CPR fixed assets policy did not require timely inventories.

INFORMATION TECHNOLOGY [28]

Password security features had not been set to provide effective access control for the CPR network and applications. For example, password syntax controls did not prevent the creation of simple passwords. In addition, CPR had not developed a formal, written information technology disaster recovery plan. Lastly, neither firewalls nor routers had been installed to prevent/control external intrusion to the CPR network or systems.

ASSOCIATED STUDENTS OF CALIFORNIA STATE UNIVERSITY, SACRAMENTO

OPERATING AND ADMINISTRATIVE AGREEMENTS [30]

Certain written agreements among the Associated Students of California State University, Sacramento (ASI), other entities, and outside third parties were either incomplete or not established.

CORPORATE GOVERNANCE [31]

Minutes were not recorded for all ASI board meetings.

FISCAL COMPLIANCE [32]

The ASI reserve policy did not fully address the methodology used for the calculation and adequacy of reserves.

OPERATIONAL COMPLIANCE [32]

The ASI did not verify that volunteer drivers for the Safe Rides program were covered by a valid insurance policy. In addition, conflict-of-interest statements had not been consistently obtained from certain ASI board members or from ex-officio members.

PROGRAM COMPLIANCE [34]

The ASI did not report to the campus financial aid office all reimbursements to students for education-related expenditures.

SEGREGATION OF DUTIES [34]

Duties and responsibilities over certain purchasing functions were not adequately segregated at the ASI Peak Adventures program bike shop. Specifically, the same individual ordered supplies and parts, received goods ordered, and performed inventory of goods received.

CASH RECEIPTS AND HANDLING [35]

The ASI Peak Adventures program did not adequately safeguard the contents of cash register drawers prior to depositing the cash receipts at the ASI business office.

PETTY CASH AND CHANGE FUNDS [36]

Administration of ASI petty cash and change funds was insufficient. For example, independent cash counts of petty cash and change funds were not documented.

FEES, REVENUES, AND RECEIVABLES [37]

Revenues received by the ASI Peak Adventures program were not reconciled to attendance records for participation in the Challenge Course classes.

PURCHASING AND ACCOUNTS PAYABLE [38]

Certain ASI cash disbursements were not supported by sufficient and appropriate documentation and/or appropriate authorization.

PROPERTY AND EQUIPMENT [39]

Administration of ASI property and equipment was deficient. Specifically, fixed assets were not tagged and proof of receipt was not consistently collected prior to recording the fixed assets.

UNIVERSITY UNION OPERATION OF CALIFORNIA STATE UNIVERSITY, SACRAMENTO

PURCHASING AND ACCOUNTS PAYABLE [41]

Certain University Union Operation of California State University, Sacramento (Union) cash disbursements were not paid timely nor supported by sufficient and appropriate documentation and/or appropriate authorization. In addition, the Union had not updated bank signature cards in a timely manner.

PROPERTY AND EQUIPMENT [43]

Administration of Union property and equipment was insufficient. For example, fixed assets were not consistently tagged upon receipt.

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 *International 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 2003/04 and 2004/05 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 2004 to September 2005. 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:

University Enterprises, Inc.

- ▶ Operating and Administrative Agreements
- ▶ Facilities Agreements
- ▶ Corporate Governance
- ▶ Fiscal Compliance
- ▶ Operational Compliance
- ▶ Program Compliance
- ▶ Campus Oversight and Control
- ▶ Segregation of Duties
- ▶ Cash Receipts and Handling
- ▶ Petty Cash and Change Funds
- ▶ Investments
- ▶ Fees, Revenues, and Receivables
- ▶ Purchasing and Accounts Payable
- ▶ Personnel and Payroll
- ▶ Property and Equipment
- ▶ Trusts and Other Liabilities
- ▶ Auxiliary Programs
- ▶ Information Technology

California State University, Sacramento, Trust Foundation

- ▶ Operating and Administrative Agreements
- ▶ Facilities Agreements
- ▶ Corporate Governance
- ▶ Fiscal Compliance
- ▶ Operational Compliance
- ▶ Program Compliance
- ▶ Campus Oversight and Control
- ▶ Segregation of Duties
- ▶ Investments
- ▶ Fees, Revenues, and Receivables
- ▶ Purchasing and Accounts Payable
- ▶ Trusts and Other Liabilities

Capital Public Radio, Inc.

- ▶ Operating and Administrative Agreements
- ▶ Facilities Agreements
- ▶ Corporate Governance
- ▶ Fiscal Compliance
- ▶ Operational Compliance
- ▶ Program Compliance
- ▶ Campus Oversight and Control
- ▶ Segregation of Duties
- ▶ Cash Receipts and Handling
- ▶ Fees, Revenues, and Receivables
- ▶ Purchasing and Accounts Payables
- ▶ Property and Equipment
- ▶ Auxiliary Programs
- ▶ Information Technology

Associated Students of California State University, Sacramento

- ▶ Operating and Administrative Agreements
- ▶ Facilities Agreements
- ▶ Corporate Governance
- ▶ Fiscal Compliance
- ▶ Operational Compliance
- ▶ Program Compliance
- ▶ Campus Oversight and Control
- ▶ Segregation of Duties
- ▶ Cash Receipts and Handling
- ▶ Petty Cash and Change Funds
- ▶ Investments
- ▶ Fees, Revenues, and Receivables
- ▶ Purchasing and Accounts Payables
- ▶ Personnel and Payroll
- ▶ Property and Equipment
- ▶ Trusts and Other Liabilities
- ▶ Auxiliary Programs

University Union Operation of California State University, Sacramento

- ▶ Operating and Administrative Agreements
- ▶ Facilities Agreements
- ▶ Corporate Governance
- ▶ Fiscal Compliance
- ▶ Operational Compliance
- ▶ Program Compliance
- ▶ Campus Oversight and Control

University Union Operation of California State University, Sacramento (cont.)

- ▶ Segregation of Duties
- ▶ Cash Receipts and Handling
- ▶ Fees, Revenues, and Receivables
- ▶ Purchasing and Accounts Payables
- ▶ Property and Equipment
- ▶ Auxiliary Programs
- ▶ Information Technology

Campus

- ▶ Campus Oversight and Control

We have not performed any auditing procedures beyond September 2005. 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.

OBSERVATIONS, RECOMMENDATIONS, AND CAMPUS RESPONSES

CAMPUS

CAMPUS OVERSIGHT AND CONTROL

Two university centers, identified as “campus” programs, improperly deposited their revenues and had their expenses paid through custodial accounts at University Enterprises, Inc. (UE).

The Office of Water Programs (OWP) and Academic Talent Search were both classified by the campus as state rather than auxiliary programs (one informally, the other formally). However, they were both being operated as though they were auxiliary programs.

Executive Order (EO) 751, *Centers, Institutes and Similar Organizations on Campuses of the California State University*, dated July 5, 2000, governs the development of these types of enterprises on each campus. It clearly states that programs can either be owned by the campus or owned by an auxiliary. It also indicates that financial responsibility follows the ownership decision.

EO 919, *Policy Governing Non-General Fund Receipts*, dated October 15, 2004, states that each California State University (CSU) campus shall administer their non-General Fund receipts to ensure that the funds are held in proper accounts.

The campus director of auditing services stated that campus policies governing centers and institutes were established subsequent to the creation of the OWP. Therefore, the program did not have documentation evidencing formal approval.

Placement of state funds in auxiliary accounts increases the risk of misunderstandings and miscommunication regarding rights and responsibilities, and is contrary to Trustee policy.

Recommendation 1

We recommend that the campus reevaluate both of these programs to ensure that they have been appropriately classified as to ownership and financial responsibility and that funds then be placed in the appropriate accounts.

Campus Response

We concur. Both programs will be evaluated by the campus with the involvement of the auxiliary. By June 30, 2006, funds will be moved as needed to comply with EO 751.

TRUSTS AND OTHER LIABILITIES

The campus chief financial officer (CFO) was not acting as the custodian of all state trust funds.

We noted that:

- ▶ The California State University, Sacramento, Trust Foundation (Trust Foundation), at fiscal year ended June 30, 2005, held \$3,206,783 in state trust funds.
- ▶ The Associated Students of California State University, Sacramento (ASI) reported holding monies for the campus student newspaper and the campus recreational sports department.
- ▶ The UE, under administrative service agreements with the campus, administered and maintained funds for several campus programs.

EO 919, *Policy Governing Non-General Fund Receipts*, dated October 15, 2004, states that each CSU campus shall administer their non-General Fund receipts to ensure that the funds are held in proper accounts.

The campus CFO stated that he had effective control of agency funds held by the Trust Foundation and ASI through both the assignment of staff to directly oversee the financial transactions and, in the case of the Trust Foundation, through a financial services agreement.

The campus' required oversight of state funds is limited when funds are deposited outside the custody of the CFO.

Recommendation 2

We recommend that state trust funds be retained in campus trust accounts to enable the campus CFO to strengthen his custodianship over such funds.

Campus Response

We concur. The university will move all funds held in trust by auxiliary organizations to university trust accounts on or before June 30, 2006.

UNIVERSITY ENTERPRISES, INC.

OPERATING AND ADMINISTRATIVE AGREEMENTS

The University Enterprises, Inc. (UE) performed real property transactions, a function not authorized by the operating agreement with the campus.

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 (BOT), 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.

Title 5 §42501 states that a written agreement on behalf of the State of California by the chancellor of the CSU 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 UE director of finance stated that the function related to the performance of real property transactions was not included in the operating agreement due to oversight. She added that a new auxiliary organization will soon be established for the purpose of performing real property transactions.

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

Recommendation 3

We recommend that the UE amend its operating agreement to include the function of real property transactions.

Campus Response

We concur. The request to amend the operating agreement will be submitted to the chancellor of the CSU by June 30, 2006.

SEGREGATION OF DUTIES

Duties and responsibilities over certain accounting functions for cash receipts were not adequately segregated within the UE dining commons operation.

We found that the dining commons clerk:

- ▶ Performed cash-handling duties.
- ▶ Prepared the daily deposits.
- ▶ Added, deleted, transferred, and edited accounts in the CBORD system without an independent review.

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 UE director of finance stated that she was unaware that procedures needed to be modified in dining services to improve segregation of duties.

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

Recommendation 4

We recommend that the UE properly segregate accounting functions over cash receipts or institute mitigating procedures approved by the campus CFO.

Campus Response

We concur. As of January 18, 2006, UE implemented procedures to provide proper oversight of the accounting functions performed by the clerk in the dining commons operation.

CALIFORNIA STATE UNIVERSITY, SACRAMENTO, TRUST FOUNDATION

OPERATING AND ADMINISTRATIVE AGREEMENTS

Certain agreements between the California State University, Sacramento, Trust Foundation (Trust Foundation) and the campus were incomplete or had expired.

We found that:

- ▶ The operating and business service agreement had expired.
- ▶ The hold harmless and insurance provisions did not indemnify the campus nor meet minimum requirements.

Title 5 §42401 and §42402 indicate that the campus president shall require that auxiliary organizations operate in conformity with policy of the BOT 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 current and complete, written agreements.

EO 849, *California State University Insurance Requirements*, dated February 5, 2003, states that auxiliary organizations shall agree to indemnify, defend, and save harmless the State of California, the Trustees of the CSU, 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 campus vice president of university advancement stated that the absence of a current operating and business service agreement with the campus was due to oversight. She further stated that she was unaware the operating agreement did not include adequate hold harmless or insurance provisions.

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

Recommendation 5

We recommend that the Trust Foundation establish a current operating and business service agreement with the campus, including appropriate hold harmless and insurance provisions.

Campus Response

We concur. At the September 8, 2005, board meeting, the Trust Foundation board of directors approved and signed a current operating agreement and business agreement with the campus.

CORPORATE GOVERNANCE

DISSOLUTION OF AUXILIARY

The Trust Foundation Articles of Incorporation included an improper dissolution clause; it allowed the board of governors to select a successor.

Title 5 §42600(b) states that upon dissolution of the organization, net assets, other than trust funds, shall be distributed to a successor approved by the president of the campus and by the BOT.

The campus vice president of university advancement stated that she was unaware the dissolution clause was not in compliance with Title 5.

Failure to include a proper dissolution clause in accordance with Title 5 could result in net assets not being properly distributed in the event the corporation is dissolved.

Recommendation 6

We recommend that the Trust Foundation redraft its corporate dissolution clause in accordance with Title 5 and appropriately reflect the change in its Articles of Incorporation.

Campus Response

We concur. At the September 8, 2005, board meeting, the Trust Foundation board of directors amended its Articles of Incorporation to include the appropriate dissolution clause.

BYLAWS

The Trust Foundation's amended bylaws were not filed with the chancellor's office (CO).

The *Compilation of Policies and Procedures for California State University Auxiliary Organizations* sets sound business practice guidelines for auxiliary organizations operating within the CSU system. Section 11.6.1, *Reporting Changes in Articles of Incorporation and Bylaws*, requires an auxiliary organization to submit its amended bylaws to the Financing and Treasury department at the Office of the Chancellor within 30 calendar days.

The campus vice president of university advancement stated that she was unaware of the requirement to file amended bylaws with the CO.

Failure to file amendments to bylaws increases the risk of misunderstandings and may increase legal liability.

Recommendation 7

We recommend that the Trust Foundation immediately submit its amended bylaws to the CO.

Campus Response

We concur. The Trust Foundation submitted amended bylaws to the CO on August 25, 2005.

BOARD COMPOSITION

The Trust Foundation board of directors did not include a secretary and CFO for fiscal year 2004/05.

Corporations Code §5213(b) requires officers to be chosen by the board.

The campus vice president of university advancement stated that the vacancies were due to recent resignations. The board was in a transition period and new board members were being recruited.

Failure to maintain mandated board composition violates statutory requirements, and increases the risk of misunderstandings and the potential for legal liability.

Recommendation 8

We recommend that the Trust Foundation ensure that all board officer positions are filled in a timely manner.

Campus Response

We concur. The Trust Foundation elected board officers at the December 1, 2005, meeting.

FISCAL COMPLIANCE

RESERVES

The Trust Foundation did not record board-designated reserves within its general ledger.

Title 5 §42401 and §42402 indicate that the campus president shall require that auxiliary organizations operate in conformity with policy of the BOT and the campus. One of the objectives of the auxiliary organizations is to provide fiscal procedures and management systems that allow effective coordination of the auxiliary activities with the campus in accordance with sound business practices. Sound business practice mandates that a designated fund balance be recognized within an organization's general ledger.

The campus director of financial accounting stated that she was unaware of the requirement to record board-designated reserves in the general ledger.

Failure to appropriately record designated amounts increases the risk of misunderstandings and miscommunication regarding available reserves.

Recommendation 9

We recommend that the Trust Foundation record board-designated reserves within its general ledger.

Campus Response

We concur. A cash reserve of \$19,064 (25% of the estimated expense budget for 2005/06) was posted in September 2005 and included as a line item on the quarterly financial statements. This amount will be adjusted annually or if the budget is amended midyear by the board.

COST REIMBURSEMENT

The Trust Foundation had not fully reimbursed the General Fund for all direct and indirect costs associated with the services provided by the campus for fiscal years ended June 30, 2003, 2004, and 2005.

We noted that a \$28,000 payment by the Trust Foundation to the campus for accounting services was not sufficient to cover the true cost of \$95,100, as determined by an internal cost reimbursement study.

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 campus associate vice president of financial services stated that the memorandum of understanding between the university and the Trust Foundation detailing the \$28,000 payment to the campus for accounting services was the agreed upon amount to reimburse the General Fund.

Failure to fully document the methodology for cost reimbursement could result in the General Fund not being properly reimbursed for facilities, goods, or services provided to the auxiliary organization.

Recommendation 10

We recommend that the Trust Foundation:

- a. Immediately reimburse the General Fund for all prior direct and indirect costs associated with the services provided by the campus.
- b. Reimburse the General Fund timely for all current direct and indirect costs associated with the services provided by the campus.

Campus Response

We concur. By June 30, 2006, the Trust Foundation will fully compensate the university for services provided from July 1, 2002, through January 31, 2006. The revised reimbursement amount will be based on a methodology to be reviewed by the Trust Foundation audit committee, and approved by the Trustees' audit staff.

OPERATIONAL COMPLIANCE

The Trust Foundation had not officially adopted a conflict-of-interest policy. In addition, annual conflict-of-interest statements had not been obtained from all board members and/or management.

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 and compliance with existing policies and procedures.

The campus vice president of university advancement stated that a formal conflict-of-interest policy had recently been adopted and that the conflict-of-interest statements were being completed by board members.

Failure to formally establish conflict-of-interest policies and procedures and obtain conflict-of-interest statements from all auxiliary board members and/or management increases liability for acts contrary to the code.

Recommendation 11

We recommend that the Trust Foundation formally adopt a conflict-of-interest policy and obtain annual conflict-of-interest statements from all board members and/or management.

Campus Response

We concur. At the September 8, 2005, board meeting, the Trust Foundation adopted a conflict-of-interest policy. All current Trust Foundation board members have signed a conflict-of-interest statement.

PURCHASING AND ACCOUNTS PAYABLE

Certain Trust Foundation cash disbursements were not supported by sufficient and appropriate documentation and/or appropriate authorization.

Our review of 60 cash disbursements disclosed the following processing exceptions:

- ▶ In three instances, payment was issued without adequate supporting documentation.
- ▶ In six instances, facsimile or photocopied invoices were accepted for payment without certification that records were verified to prevent duplicate payment.
- ▶ In five instances, payment was issued without a purchase order or service agreement.
- ▶ In one instance, a check request did not include an official approval signature.

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

The *Compilation of Policies and Procedures for California State University Auxiliary Organizations* sets sound business practice guidelines for auxiliary organizations operating within the CSU system. Section 8.9.1, *Cash*, states that the auxiliary should disburse cash in a consistent manner utilizing systems that ensure integrity of existing internal controls, with annual management review.

The campus director of financial accounting stated that the lack of sufficient documentation and authorization for disbursements was due to oversight.

Insufficient supporting documentation and/or lack of authorization increase the risk of errors, irregularities, and misappropriation of funds.

Recommendation 12

We recommend that the Trust Foundation reiterate to staff existing cash disbursement policies and procedures regarding sufficient and appropriate documentation and authorization.

Campus Response

We concur. Cash disbursement policies will be developed and reviewed with the board. Upon approval and implementation, these policies will be part of ongoing staff training. Board approval of these cash disbursement policies will be completed by June 30, 2006.

TRUSTS AND OTHER LIABILITIES

The Trust Foundation's accounting and management of endowments required improvement.

We noted that:

- ▶ Unrealized gains or losses were not tracked or allocated on an individual endowment fund basis. Specifically, the Trust Foundation's accounting methodology tracked unrealized gains and losses in the aggregate and did not allocate these unrealized gains and losses to individual endowment funds. Based on current methodology, the true market value of each individual endowment fund could not be determined.
- ▶ The Trust Foundation had not developed policies and procedures to address the inclusion of endowment donations into medium- and long-term investments. The frequency of the movement of monies into the Trust Foundation's investment pool was based on periodic board decisions instead of a systematic process governed by an approved policy. We noted instances where endowment donations were held in short-term investments without a clear intent as to when those donations would be moved to longer-term investments.

Title 5 §42401 and §42402 indicate that the campus president shall require that auxiliary organizations operate in conformity with policy of the BOT 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 sufficient management and accounting controls over investments.

The *Compilation of Policies and Procedures for California State University Auxiliary Organizations* sets sound business practice guidelines for auxiliary organizations operating within the CSU system. Section 8.9.2, *Investments*, states that the auxiliary should adopt a written governing board investment policy that describes investment objectives and limitations, and provides for practices to be used to meet its business and fiduciary responsibilities.

The campus vice president of university advancement stated that the failure to track unrealized gains and losses was the result of management decisions made prior to her arrival.

Insufficient management and accounting of endowments increase the risk of errors and irregularities and the risk that funds will be handled contrary to the expectations of the campus and the donors.

Recommendation 13

We recommend that the Trust Foundation:

- a. Develop a methodology to ensure unrealized gains and losses are tracked and allocated on an individual endowment fund basis.

- b. Develop policies and procedures to address the inclusion of endowment donations into medium- and long-term investments.

Campus Response

We concur. The Trust Foundation hired an accountant to assist with unitizing the endowment funds in order to track and allocate unrealized gains and losses for each individual endowment fund. At the June 9, 2005, board meeting, the Trust Foundation adopted new investment policies and procedures that addressed the inclusion of endowment donations into medium- and long-term investments.

CAPITAL PUBLIC RADIO, INC.

OPERATING AND ADMINISTRATIVE AGREEMENTS

The hold harmless provision in the Capital Public Radio, Inc. (CPR) operating agreement did not specifically indemnify the campus.

EO 849, *California State University Insurance Requirements*, dated February 5, 2003, states that auxiliary organizations shall agree to indemnify, defend, and save harmless the State of California, the Trustees of the CSU, 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 CPR general manager stated that since the agreement had been drafted by the campus, he was unaware of the requirement to indemnify the campus.

The absence of a complete indemnification clause in the operating agreement increases the risk of misunderstandings and miscommunication regarding rights and responsibilities.

Recommendation 14

We recommend that the CPR update its operating agreement to extend the hold harmless provision to include the campus.

Campus Response

We concur. By March 31, 2006, CPR will finalize a new operating agreement, which will include the campus in the hold harmless provision.

CORPORATE GOVERNANCE

BOARD MINUTES

CPR board and finance committee 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 CPR general manager stated that he was unaware that an approval signature was required on all board and committee minutes.

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

Recommendation 15

We recommend that CPR take appropriate measures to ensure that its board and finance committee minutes are signed and approved by an appropriate official.

Campus Response

We concur. As of July 28, 2005, all board and finance committee minutes are signed.

BYLAWS

The CPR's amended bylaws were not filed with the CO.

The *Compilation of Policies and Procedures for California State University Auxiliary Organizations* sets sound business practice guidelines for auxiliary organizations operating within the CSU system. Section 11.6.1, *Reporting Changes in Articles of Incorporation and Bylaws*, requires an auxiliary organization to submit its amended bylaws to the Financing and Treasury department at the Office of the Chancellor within 30 calendar days.

The CPR general manager stated that he was unaware of the requirement to file amended bylaws with the CO.

Failure to file amendments to bylaws increases the risk of misunderstandings and may increase legal liability.

Recommendation 16

We recommend that the CPR immediately submit its amended bylaws to the CO.

Campus Response

We concur. Amended bylaws were sent to the director of Financing and Treasury, CO, on January 12, 2006.

OPERATIONAL COMPLIANCE

The CPR had not officially adopted a conflict-of-interest policy. In addition, annual conflict-of-interest statements had not been obtained from all board members and/or management.

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 and compliance with existing policies and procedures.

The CPR general manager stated that board members were screened for potential conflicts of interest based on information in their applications; however, a formal policy had not been established to require board members to annually disclose or certify potential conflicts of interest.

Failure to formally establish conflict-of-interest policies and procedures and obtain conflict-of-interest statements from all auxiliary board members and/or management increases liability for acts contrary to the code.

Recommendation 17

We recommend that CPR formally adopt a conflict-of-interest policy and obtain annual conflict-of-interest statements from all board members and/or management.

Campus Response

We concur. A conflict-of-interest policy will be developed and implemented by March 31, 2006. Additionally, annual conflict-of-interest statements will be obtained by March 31, 2006.

PERSONNEL AND PAYROLL

CPR management did not review payroll-related reports detailing employee salary and wage adjustments.

The *Compilation of Policies and Procedures for California State University Auxiliary Organizations* sets sound business practice guidelines for auxiliary organizations operating within the CSU system. Section 8.9.6, *Payroll*, states that the auxiliary should establish a written system that ensures proper authorization, approval, and documentation of new hires, changes in employment, salary and wage rates, and payroll deductions.

The CPR general manager stated that the failure to review employee salary and wage adjustments immediately following payroll processing was due to oversight.

Failure to perform a timely review of payroll-related data increases the risk that loss, errors, and misappropriation will not be detected in a timely manner.

Recommendation 18

We recommend that CPR management review payroll-related reports detailing employee salary and wage adjustments on a regular basis.

Campus Response

We concur. As of November 1, 2005, CPR management reviews payroll-related reports detailing employee and wage adjustments on a semimonthly basis.

PROPERTY AND EQUIPMENT

The CPR fixed assets policy did not require timely inventories.

We noted that the fixed assets policy stated that physical inventories should be performed every five years to identify potential losses.

Title 5 §42401 and §42402 indicate that the campus president shall require that auxiliary organizations operate in conformity with policy of the BOT 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 fixed assets and timely inventories.

The *Compilation of Policies and Procedures for California State University Auxiliary Organizations* sets sound business practice guidelines for auxiliary organizations operating within the CSU system. Section 8.9.7, *Property and Equipment*, states, in part, that the auxiliary should establish a written system that ensures physical inspection of property and equipment on a service life schedule.

The CPR director of finance stated that any large equipment losses in the operation of the radio station would be detected, as CPR would not have been able to function without them.

Untimely inventories increase the risk that property may be lost or stolen.

Recommendation 19

We recommend that CPR revise its fixed assets policy to ensure physical inventories are performed at least every three years.

Campus Response

We concur. As of January 25, 2006, the fixed assets procedures were revised to include the following:

The director of finance and the general manager will determine the schedule for physical inventory of fixed assets based on the level of fixed assets activity (i.e., number of purchases, disposals, and relocations over a period of years). This schedule will occur at least every three years for all applicable fixed assets, except for the remote transmitter sites, which shall be inventoried at the rate of at least one site per year.

INFORMATION TECHNOLOGY

PASSWORD SECURITY

Password security features had not been set to provide effective access control for the CPR network and applications.

We found that:

- ▶ Password syntax controls did not prevent the creation of simple passwords.
- ▶ Controls did not ensure that passwords were changed on a periodic basis, that passwords were not reused, and that accounts were locked after successive unsuccessful access attempts.

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 CPR information technology coordinator stated that the system had been installed for several years and a formal security assessment was currently being performed.

Without adequate settings of password security parameters, there is no assurance that controls are operating as intended by management or that the system is not compromised.

Recommendation 20

We recommend that CPR enforce password security controls to help ensure that all system access is adequately authenticated and authorized.

Campus Response

We concur. An updated password policy will be implemented by May 31, 2006. The required server equipment to implement and enforce system password length, uniqueness, and lifespan has been purchased and will be installed by April 1, 2006.

DISASTER RECOVERY PLAN

CPR had not developed a formal, written information technology (IT) disaster recovery plan.

EO 696, *Implementation of The California State University Emergency Preparedness Program*, dated January 29, 1999, states, in part, that each campus president is delegated the responsibility for the implementation of a multihazard emergency program on campus and shall ensure that management activities including, but not limited to, maintenance and regular updating of the institutional multihazard emergency plan and determination, acquisition, and maintenance of facilities, equipment, and related supplies required for emergency preparedness are accomplished.

The CPR information technology coordinator stated that there had been significant changes to the network and applications which had made previous plans obsolete. He added that some IT disaster recovery provisions were in place, but a written plan had not yet been created to reflect the new environment.

Without a detailed, written IT disaster recovery plan, business operations may be interrupted and data processing operations may not be restored within a reasonable time frame.

Recommendation 21

We recommend that CPR develop a formal, written IT disaster recovery plan.

Campus Response

We concur. The current IT disaster recovery plan draft will be completed by April 30, 2006.

NETWORK SECURITY

Neither firewalls nor routers had been installed to prevent/control external intrusion to the CPR network or systems.

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 CPR information technology coordinator stated his belief that the campus network equipment could provide some protection to the CPR network, but was unable to assess the control requirements due to the recent significant system modifications and his relatively short tenure in the position.

The lack of sufficient security devices to restrict network access increases the risk of external attempts to undermine the production systems.

Recommendation 22

We recommend that CPR implement security devices to limit and control access and exclude unauthorized external network access to production systems.

Campus Response

We concur. CPR purchased and installed a Cisco Pix 520 firewall and Cisco multilayer switch router. Critical systems are currently being migrated behind this system. This project will be completed by March 31, 2006.

**ASSOCIATED STUDENTS OF
CALIFORNIA STATE UNIVERSITY, SACRAMENTO**

OPERATING AND ADMINISTRATIVE AGREEMENTS

Certain written agreements among the Associated Students of California State University, Sacramento (ASI), other entities, and outside third parties were either incomplete or not established.

We found that:

- ▶ The ASI Peak Adventures program contracts, the Sacramento State Aquatic Center (Aquatic Center) waivers, and community service day release forms between ASI programs and outside third parties did not indemnify the State of California, the CSU Trustees, and the campus.
- ▶ A written agreement was not established with the University Union Operation of California State University, Sacramento (Union) for the support given to the Aquatic Center. Specifically, the Union had contributed to maintenance, repairs, utilities, and equipment costs.

EO 849, *California State University Insurance Requirements*, dated February 5, 2003, in part, 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 CSU, 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.

Title 5 §42401 and §42402 indicate that the campus president shall require that auxiliary organizations operate in conformity with policy of the BOT 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, written agreements and executed in a timely manner.

The ASI executive director stated her belief that the operating agreement between the ASI and the campus covered all required indemnification clauses between ASI programs and outside parties. In addition, she stated that an agreement was not established with the Union due to oversight.

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

Recommendation 23

We recommend that the ASI:

- a. Ensure that the ASI Peak Adventures program contracts, the Aquatic Center waivers, and community service day release forms include appropriate indemnification clauses.
- b. Establish an agreement with the Union for support given to the Aquatic Center for maintenance, repairs, utilities, and equipment costs.

Campus Response

We concur.

- a. Revisions of ASI Peak Adventure program contracts, the Aquatic Center waivers, and Community Service Day release forms to contain appropriate indemnification clauses that include the State, CSU Trustees, and Sacramento State will be completed by March 31, 2006.
- b. A memorandum of understanding with the Union for financial support given to the Aquatic Center was executed on February 7, 2006.

CORPORATE GOVERNANCE

Minutes were not recorded for all ASI board meetings.

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 ASI executive director stated her belief that minutes were not required for working board meetings.

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

Recommendation 24

We recommend that the ASI record minutes for all board meetings.

Campus Response

We concur. Effective February 1, 2006, minutes are recorded for all ASI board meetings.

FISCAL COMPLIANCE

The ASI reserve policy did not fully address the methodology used for the calculation and adequacy of reserves.

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

The *Compilation of Policies and Procedures for California State University Auxiliary Organizations* sets sound business practice guidelines for auxiliary organizations operating within the CSU system. Section 8.9.9, *Reserves and Net Assets and Maintain Financial Viability*, states that the auxiliary should implement financial standards, which will assure fiscal viability, including proper provision for professional management, adequate working capital, adequate reserve funds for current operations and capital replacements, and adequate provisions for new business requirements.

The ASI director of finance and administration stated that the ASI established a reserve of \$750,000 to meet a reserve goal established by the CFO.

Insufficient reserve planning and analysis increase the auxiliary's risk to fund future needs.

Recommendation 25

We recommend that the ASI fully develop and implement reserve policies and procedures. Comprehensive policies and procedures should address or consider at least the following areas: minimum reserve requirements; the methodology used for the calculation of reserves; board review of reserve levels; reserves for capital replacements, working capital, and current operations; and adequacy of reserves.

Campus Response

We concur. ASI has developed reserve policies, and implementation will be completed by March 31, 2006.

OPERATIONAL COMPLIANCE

RISK MANAGEMENT

The ASI did not verify that volunteer drivers for the Safe Rides program were covered by a valid insurance policy.

EO 715, *California State University Risk Management Policy*, dated October 27, 1999, requires each president to develop campus risk management policies and procedures that include an ongoing process by which appropriate administrators identify risks, perform analyses of the frequency and severity of the potential risks, select the best risk management techniques to manage the risk without unduly curtailing or modifying activities necessary to the CSU mission, implement appropriate risk management techniques and staffing standards, and monitor, evaluate, and document the results.

The ASI executive director stated that the volunteer drivers were required to submit an insurance policy number and was unaware that this procedure was inadequate.

Failure to verify insurance coverage increases the risk of misunderstandings and may increase legal liability.

Recommendation 26

We recommend that the ASI ensure that documentation evidencing verification of valid insurance coverage is maintained for volunteer drivers for the Safe Rides program.

Campus Response

We concur. Effective February 9, 2006, evidence of valid insurance coverage is a requirement for volunteer drivers, and is included in the contract and paperwork between volunteer(s), clubs and organizations, and ASI Safe Rides.

CONFLICT OF INTEREST

Conflict-of-interest statements had not been consistently obtained from certain ASI board members or from ex-officio members.

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/she 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 compliance with existing conflict-of-interest policies and procedures.

The ASI director of finance and administration stated that the failure to consistently obtain conflict-of-interest statements from all ASI board members and ex-officio members was due to oversight.

Failure to obtain signed conflict-of-interest statements from all auxiliary board members and ex-officio members increases liability for acts contrary to the code.

Recommendation 27

We recommend that the ASI ensure that annual conflict-of-interest statements are obtained from all board members and ex-officio members.

Campus Response

We concur. All board members and ex-officio members have current conflict-of-interest statements on file. By March 31, 2006, policies and procedures will be amended to strengthen implementation of annual conflict-of-interest statements.

PROGRAM COMPLIANCE

The ASI did not report to the campus financial aid office all reimbursements to students for education-related expenditures.

Title 5 §42500(d) states that student loans, scholarships, stipends, and grants-in-aid shall only be given to currently admitted students. A record of such financial assistance shall be forwarded on a timely basis to the campus financial aid office and shall be documented on student financial aid recipient records kept in that office. All such financial assistance provided from student body organization funds shall be approved by the campus financial aid office before such funds are expended and shall not exceed amounts to be provided under regulations of federal and state financial aid programs, except as provided under Section 42403, subdivision (b).

The ASI executive director and the ASI director of finance and administration stated their belief that reimbursements did not have to be reported to the campus financial aid office.

Failure to adequately report educational support to the financial aid office may result in an overpayment of financial aid funds.

Recommendation 28

We recommend that the ASI report to the campus financial aid office all reimbursements to students for education-related expenditures.

Campus Response

We concur. As of February 15, 2006, ASI implemented revised forms to ensure proper reporting to the financial aid office.

SEGREGATION OF DUTIES

Duties and responsibilities over certain purchasing functions were not adequately segregated at the ASI Peak Adventures program bike shop.

We noted that one individual:

- ▶ Ordered supplies and parts.
- ▶ Received goods ordered.

- ▶ Performed inventory of the goods received.

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 ASI director of finance and administration stated that he was unaware that certain purchasing functions were not adequately segregated.

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

Recommendation 29

We recommend that the ASI properly segregate certain purchasing functions at the Peak Adventures program bike shop or institute mitigating procedures approved by the campus CFO.

Campus Response

We concur. Mitigating procedures will be developed and implemented by March 31, 2006.

CASH RECEIPTS AND HANDLING

The ASI Peak Adventures program did not adequately safeguard the contents of cash register drawers prior to depositing the cash receipts at the ASI business office.

Title 5 §42401 and §42402 indicate that the campus president shall require that auxiliary organizations operate in conformity with policy of the BOT 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 controls over cash receipts and handling.

The ASI director of finance and administration stated that he was unaware that change funds and deposits were inadequately safeguarded.

Failure to adequately safeguard cash increases the risk of a loss or misappropriation of funds.

Recommendation 30

We recommend that the ASI take appropriate measures to ensure that cash register drawers are adequately safeguarded by the ASI Peak Adventures program.

Campus Response

We concur. ASI will evaluate appropriate safeguard options for use in Peak Adventures, and these procedures will be implemented by March 31, 2006.

PETTY CASH AND CHANGE FUNDS

Administration of ASI petty cash and change funds was insufficient.

We found that:

- ▶ Independent cash counts of petty cash and change funds were not documented.
- ▶ The ASI Peak Adventures program did not appropriately reconcile its petty cash funds with receipts.
- ▶ The Aquatic Center and ASI Peak Adventures program had more than the specified limit of petty cash.

Title 5 §42401 and §42402 indicate that the campus president shall require that auxiliary organizations operate in conformity with policy of the BOT 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 sufficient administration of petty cash and change funds.

The ASI director of finance and administration stated that although he performed independent cash counts, documentation was not maintained. He further stated that he was unaware that ASI Peak Adventures was not adequately reconciling its petty cash funds and that two ASI programs had more than the specified limit of petty cash.

Inadequate administration of petty cash and change funds increases the risk of a loss or misappropriation of funds.

Recommendation 31

We recommend that the ASI:

- a. Document independent cash counts of petty cash and change funds.
- b. Establish a petty cash reconciliation form for ASI programs and ensure that reconciliations are adequately performed.
- c. Ensure that ASI programs maintain the appropriate specified limit of petty cash.

Campus Response

We concur.

- a. In an ongoing monitoring program, ASI will document the petty cash and change funds, review periodic reconciliations prepared by fund custodians, administer unscheduled audits, and monitor the use and operation of the funds for all programs. The policy and procedures will be completed and implemented by March 31, 2006.
- b. ASI will create a fund reconciliation form for all programs managed by the ASI by March 31, 2006.
- c. The ASI business office will review and reassess with program managers the appropriate petty cash level for their operational need. A policy update will be completed by March 31, 2006.

FEES, REVENUES, AND RECEIVABLES

Revenues received by the ASI Peak Adventures program were not reconciled to attendance records for participation in the Challenge Course classes.

Title 5 §42401 and §42402 indicate that the campus president shall require that auxiliary organizations operate in conformity with policy of the BOT 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 reconciliation between revenue collections and attendance records.

The *Compilation of Policies and Procedures for California State University Auxiliary Organizations* sets sound business practice guidelines for auxiliary organizations operating within the CSU system. Section 8.9.1, *Cash*, states that the auxiliary should receive cash in a consistent manner utilizing systems that ensure integrity of existing internal controls.

The ASI director of finance and administration stated that he was unaware that Peak Adventures did not have an adequate revenue reconciliation process established for the Challenge Course.

Failure to reconcile revenues increases the risk that errors or misappropriation of funds will not be detected.

Recommendation 32

We recommend that the ASI ensure that revenues received by the Peak Adventures program are reconciled to attendance records for participation in the Challenge Course classes.

Campus Response

We concur. Effective January 3, 2006, ASI has reconciled Challenge Course attendance and revenue records using a new upgrade to the CLASS database system.

PURCHASING AND ACCOUNTS PAYABLE

Certain ASI cash disbursements were not supported by sufficient and appropriate documentation and/or appropriate authorization.

Our review of 60 disbursements disclosed the following processing exceptions:

- ▶ In 36 instances, payments were issued without adequate supporting documentation.
- ▶ In 13 instances, facsimile and photocopied invoices and receipts were accepted for payment without certification that records were verified to prevent duplicate payment.
- ▶ In four instances, payments were issued based on an authorized check request with no supporting documentation.
- ▶ In four instances, check requests were accepted without an official approval signature.
- ▶ In three instances, check requests did not state the purpose for disbursement.
- ▶ In one instance, a check request was processed as submitted by an unauthorized requestor.

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

The *Compilation of Policies and Procedures for California State University Auxiliary Organizations* sets sound business practice guidelines for auxiliary organizations operating within the CSU system. Section 8.9.1, *Cash*, states that the auxiliary should disburse cash in a consistent manner utilizing systems that ensure integrity of existing internal controls, with annual management review.

The ASI director of finance and administration stated that the lack of adequate supporting documentation and/or authorization was due to oversight.

Insufficient supporting documentation and/or lack of appropriate authorization increase the risk of errors, irregularities, and misappropriation of funds.

Recommendation 33

We recommend that the ASI reiterate to staff existing cash disbursement policies and procedures regarding sufficient and appropriate supporting documentation and authorization.

Campus Response

We concur. As of October 2005, ASI conducted staff meetings to reiterate the cash disbursement policy regarding the utilization of appropriate supporting documentation and signature authority. This cash disbursement policy is a component of an ongoing training program for ASI business office staff.

PROPERTY AND EQUIPMENT

Administration of ASI property and equipment was deficient.

We noted that:

- ▶ Fixed assets were not tagged.
- ▶ Proof of receipt was not consistently collected prior to recording the fixed assets.

Title 5 §42401 and §42402 indicate that the campus president shall require that auxiliary organizations operate in conformity with policy of the BOT 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 sufficient administration of property and equipment.

The *Compilation of Policies and Procedures for California State University Auxiliary Organizations* sets sound business practice guidelines for auxiliary organizations operating within the CSU system. Section 8.9.7, *Property and Equipment*, states that the auxiliary should establish a written system that ensures proper recording of property and equipment when received and for labeling of equipment.

The ASI director of finance and administration stated that fixed assets had not been tagged due to staff constraints. He also stated that the lack of consistently collecting proof of receipt was due to oversight.

Insufficient administration of property and equipment increases the risk that property may be lost or stolen.

Recommendation 34

We recommend that the ASI:

- a. Ensure that fixed assets are tagged.
- b. Obtain proof of receipt prior to recording the fixed assets.

Campus Response

We concur.

- a. ASI will implement the fixed assets module of the accounting system, and purchase a barcode reader/writer to tag and inventory fixed assets. This action will be completed by May 31, 2006.
- b. By May 31, 2006, ASI will revise the purchasing policy to include the requirement to provide packing/shipping slips and other related documentation. These documentation requirements were communicated to the program managers at the October 2005 managers' meeting.

UNIVERSITY UNION OPERATION OF
CALIFORNIA STATE UNIVERSITY, SACRAMENTO

PURCHASING AND ACCOUNTS PAYABLE

DISBURSEMENTS

Certain University Union Operation of California State University, Sacramento (Union) cash disbursements were not paid timely nor supported by sufficient and appropriate documentation and/or appropriate authorization.

Our review of 60 cash disbursements disclosed the following processing exceptions:

- ▶ In six instances, documentation to support expenditures was not on file.
- ▶ In six instances, the business purpose was not clearly indicated.
- ▶ In three instances, a facsimile or photocopied invoice was accepted for payment without certification that records were check to prevent duplicate payment.
- ▶ In one instance, a disbursement was processed without an official approval signature.
- ▶ In one instance, an invoice was not paid timely.
- ▶ In one instance, a second signature was not obtained when required.

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

The *Compilation of Policies and Procedures for California State University Auxiliary Organizations* sets sound business practice guidelines for auxiliary organizations operating within the CSU system. Section 8.9.1, *Cash*, states that the auxiliary should disburse cash in a consistent manner utilizing systems that ensure integrity of existing internal controls, with annual management review.

The Union director stated that lack of appropriate supporting documentation and authorization for disbursements was due to oversight.

Untimely payment, insufficient supporting documentation, and/or lack of appropriate authorization increase the risk of errors, irregularities, and misappropriation of funds.

Recommendation 35

We recommend that the Union reiterate to staff existing cash disbursement policies and procedures regarding timely payment and sufficient and appropriate supporting documentation and authorization.

Campus Response

We concur. On February 1, 2006, the director sent a memorandum to all appropriate Union staff responsible for purchase orders, check requisitions, and other cash disbursement policies. This memorandum reiterated the existing cash disbursement policies and procedures regarding timely payment and sufficient and appropriate supporting documentation and authorization.

SIGNATURE AUTHORITY

The Union had not updated bank signature cards in a timely manner.

We noted that bank signature cards did not list current individuals authorized to sign from July 1, 2003, through August 28, 2005.

Title 5 §42401 and §42402 indicate that campus president shall require that auxiliary organizations operate in conformity with policy of the BOT and the campus. One of the objectives of the auxiliary organizations is to provide fiscal procedures and management systems that allow effective coordination of the auxiliary activities with the campus in accordance with sound business practices. Sound business practice mandates the identification of individuals authorized to sign cash disbursements on behalf of the Union.

The *Compilation of Policies and Procedures for California State University Auxiliary Organizations* sets sound business practice guidelines for auxiliary organizations operating within the CSU system. Section 8.9.1, *Cash*, states that the auxiliary should adopt and annually review governing board policy that identifies signature authority and provides practices for the receipt and disbursement of cash.

The Union director stated that failure to update bank signature cards in a timely manner was due to oversight.

The lack of current bank signature cards increases the risk of misunderstandings and may increase legal liability.

During our fieldwork, the Union provided documentation evidencing that they had updated the bank signature cards.

PROPERTY AND EQUIPMENT

Administration of Union property and equipment was insufficient.

We found that:

- ▶ Fixed assets were not consistently tagged upon receipt.
- ▶ The Union was not in compliance with the fixed assets policy, specifically to record serial numbers, location of property, location of inventory number on property, and last date verified.

Title 5 §42401 and §42402 indicate that the campus president shall require that auxiliary organizations operate in conformity with policy of the BOT 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 sufficient administration of property and equipment.

The *Compilation of Policies and Procedures for California State University Auxiliary Organizations* sets sound business practice guidelines for auxiliary organizations operating within the CSU system. Section 8.9.7, *Property and Equipment*, states, in part, that the auxiliary should establish a written system that ensures proper recording of property and equipment when received and for labeling of equipment.

The Union director stated that fixed assets were not consistently tagged upon receipt due to oversight. In addition, she stated that the serial numbers, location of property, location of inventory number on property, and the last date verified were not recorded based on management decision and may lead to a revision in the policy.

Insufficient administration of property and equipment increases the risk that property may be lost or stolen.

Recommendation 36

We recommend that the Union:

- a. Ensure all fixed assets are tagged upon receipt.
- b. Reiterate to staff existing policies and procedures regarding sufficient record tracking of property and equipment.

Campus Response

We concur. On February 1, 2006, the director sent a memorandum to appropriate Union staff reiterating the existing property management policy and procedures, and emphasizing the importance of promptly affixing inventory tags. By April 30, 2006, the property and equipment management policy will be revised to reflect enhancements related to tracking of property and equipment.

APPENDIX A: PERSONNEL CONTACTED

Name

Title

CAMPUS

Alexander Gonzalez	President
Matt Altier	Vice President, Planning and Resource Development
Frances Baxter-Guigli	Director, Development Operations
Stephen Garcia	Vice President for Administration and Chief Financial Officer
Suzanne Green	Associate Vice President for Financial Services
Carole Hayashino	Vice President, University Advancement
Justine Heartt	Director, Financial Accounting
Aimee Hendrie	Assistant to Vice President, University Advancement
Ramzi Mahmood	Director, Office of Water Programs
Kathi McCoy	Director, Auditing Services
Deneilia Pappas	Scheduling Coordinator, Facilities Management
Pat Vercuysen	Auxiliary Accounting Technician

UNIVERSITY ENTERPRISES, INC.

Mery AliSastra	Clerk, Dining Commons
Matt Altier	Executive Director
Sandy Brooks	Dining Services Coordinator
Emily Chu	Accounting Manager
Barbara Denning	Cashier Supervisor
Marlene Franz	Supervisor, Campus Programs
Lisa Hall	Director of Project/Resource Development
Trina Knight	Director of Human Resources
Ada Lai	Business Analyst
Mark Lewandowski	Dining Commons Director
Kelly Lewis	Campus Caterers
Scarlet Maurin	Associate Director, Academic Talent Search
Meri McGraw	Information Technology Manager
Donna McLeod	Payroll Manager
Paula Mikal	Director, Contracts and Grants
Michael Miller	Dining Services Manager
Veronica Nute	Interim Assistant Director, Research and Operations
Donna Parenti	Director of Finance
Kevin Schroeder	Campus Caterers
Sandy Siu	Accounts Payable Supervisor

CAPITAL PUBLIC RADIO, INC.

Julie Chiarelli	Director of Finance
Rick Copeland	Information Technology Coordinator
Susan Damberger	Executive Assistant
Joan Kassis	Director of Human Resources
Michael Lazar	President and General Manager

ASSOCIATED STUDENTS OF CALIFORNIA STATE UNIVERSITY, SACRAMENTO

Brian Dulgar	Director, Sacramento State Aquatic Center (Aquatic Center)
Cindi Dulgar	Youth Programs Director and Operations Manager, Aquatic Center
Tatyana Dyda	Accounting Associate
Andy Garcia	Payroll Technician
Vicki Johnson	Accountant, Business Office
Nancy Lopez	Office Assistant
Hunter Merritt	Programs Manager, ASI Peak Adventures
Jennifer Millsap	Program Director, Student Life and Service
Randolph Morgan	Director of Finance and Administration, Business Office
Mary Ray	Administrative Associate
Mari Ruiz	Student Services Supervisor
Leah Spratt	Human Resources Generalist
Ryta Tyk	Board Associate
Sherry Velte	Assistant Director, Children's Center
Denise Wessels	Director, Children's Center
Kwan Wong	Accounting Manager, Business Office
Patricia Worley	Executive Director, Administration
Jael Young	Program Director, ASI Peak Adventures

**UNIVERSITY UNION OPERATION OF
CALIFORNIA STATE UNIVERSITY, SACRAMENTO**

Leslie Davis	Director
Rebecca Dietzler	Event Services Manager
Norma Sanchez	Program Services Manager
Dean Sorensen	Interim Assistant Director, Programs
Donald Tucker	Associate Director, Operations

STATEMENT OF INTERNAL CONTROLS

A. INTRODUCTION

Internal accounting and related operational controls established by the State of California, the California State University 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 recordkeeping 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.



SACRAMENTO
STATE

California State University, Sacramento
Office of the Chief Financial Officer & Vice President
6000 J Street • Sacramento Hall 272 • Sacramento, CA 95819-6038
T (916) 278-6312 • F (916) 278-5783 • www.csus.edu/admbus/

RECEIVED
UNIVERSITY AUDITOR

FEB 27 2006

THE CALIFORNIA STATE
UNIVERSITY

February 24, 2006

Larry Mandel
Office of the University Auditor
The California State University
401 Golden Shore
Long Beach, CA 90802-4210

Subject: Campus Response to Recommendations of Audit –
Auxiliary Organizations, Report #05-49

Dear Mr. Mandel:

We submit the attached document as our response to the recommendations of the audit. The campus is committed to addressing and resolving the issues identified in the audit report.

If you have any questions or require additional information, please contact Kathi McCoy, Director of Auditing Services, at 916 278-7439.

Sincerely,

Stephen G. Garcia
Vice President for Administration

Attachment

cc:

Matthew Altier
Leslie Davis
Alexander Gonzalez
Carole Hayashino
Michael Lazar
Kathi McCoy
Patricia Worley

AUXILIARY ORGANIZATIONS
CALIFORNIA STATE UNIVERSITY,
SACRAMENTO

Report Number 05-49
January 19, 2006

CAMPUS

CAMPUS OVERSIGHT AND CONTROL

Recommendation 1

We recommend that the campus reevaluate both of these programs to ensure that they have been appropriately classified as to ownership and financial responsibility and that funds then be placed in the appropriate accounts.

Campus Response

We concur. Both programs will be evaluated by the campus with the involvement of the auxiliary. By June 30, 2006, funds will be moved as needed to comply with Executive Order 751.

TRUSTS AND OTHER LIABILITIES

Recommendation 2

We recommend that state trust funds be retained in campus trust accounts to enable the campus CFO to strengthen his custodianship over such funds.

Campus Response

We concur. The University will move all funds held in trust by auxiliary organizations to University trust accounts on or before June 30, 2006.

UNIVERSITY ENTERPRISES, INC.

OPERATING AND ADMINISTRATIVE AGREEMENTS

Recommendation 3

We recommend that the UE amend its operating agreement to include the function of real property transactions.

Campus Response

We concur. The request to amend the Operating Agreement will be submitted to the chancellor of the CSU by June 30, 2006.

SEGREGATION OF DUTIES

Recommendation 4

We recommend that the UE properly segregate accounting functions over cash receipts or institute mitigating procedures approved by the campus CFO.

Campus Response

We concur. As of January 18, 2006, UE implemented procedures to provide proper oversight of the accounting functions performed by the clerk in the dining commons operation.

CALIFORNIA STATE UNIVERSITY, SACRAMENTO, TRUST FOUNDATION

OPERATING AND ADMINISTRATIVE AGREEMENTS

Recommendation 5

We recommend that the Trust Foundation establish a current operating and business service agreement with the campus, including appropriate hold harmless and insurance provisions.

Campus Response

We concur. At the September 8, 2005 board meeting, the Trust Foundation Board of Directors approved and signed a current operating agreement and business agreement with the campus.

CORPORATE GOVERNANCE

DISSOLUTION OF AUXILIARY

Recommendation 6

We recommend that the Trust Foundation redraft its corporate dissolution clause in accordance with Title 5 and appropriately reflect the change in its Articles of Incorporation.

Campus Response

We concur. At the September 8, 2005 board meeting, the Trust Foundation Board of Directors amended its Articles of Incorporation to include the appropriate dissolution clause.

BYLAWS

Recommendation 7

We recommend that the Trust Foundation immediately submit its amended bylaws to the CO.

Campus Response

We concur. The Trust Foundation submitted amended By Laws to the Chancellor's Office on August 25, 2005.

BOARD COMPOSITION

Recommendation 8

We recommend that the Trust Foundation ensure that all board officer positions are filled in a timely manner.

Campus Response

We concur. The Trust Foundation elected board officers at the December 1, 2005 meeting.

FISCAL COMPLIANCE

RESERVES

Recommendation 9

We recommend that the Trust Foundation record board-designated reserves within its general ledger.

Campus Response

We concur. A Cash Reserve of \$19,064 (25% of the estimated expense budget for 2005/06) was posted in September 2005 and included as a line item on the quarterly financial statements. This amount will be adjusted annually or if the budget is amended mid-year by the Board.

COST REIMBURSEMENT

Recommendation 10

We recommend that the Trust Foundation:

- a. Immediately reimburse the General Fund for all prior direct and indirect costs associated with the services provided by the campus.
- b. Reimburse the General Fund timely for all current direct and indirect costs associated with the services provided by the campus.

Campus Response

We concur. By June 30, 2006, the Trust Foundation will fully compensate the University for services provided from July 1, 2002 through January 31, 2006. The revised reimbursement amount will be based on a methodology to be reviewed by the Trust Foundation Audit Committee, and approved by the Trustees' audit staff.

OPERATIONAL COMPLIANCE

Recommendation 11

We recommend that the Trust Foundation formally adopt a conflict-of-interest policy and obtain annual conflict-of-interest statements from all board members and/or management.

Campus Response

We concur. At the September 8, 2005 board meeting, the Trust Foundation adopted a conflict of interest policy. All current Trust Foundation board members have signed a conflict of interest statement.

PURCHASING AND ACCOUNTS PAYABLE

Recommendation 12

We recommend that the Trust Foundation reiterate to staff existing cash disbursement policies and procedures regarding sufficient and appropriate documentation and authorization.

Campus Response

We concur. Cash disbursement policies will be developed and reviewed with the Board. Upon approval and implementation, these policies will be part of on-going staff training. Board approval of these cash disbursement policies will be completed by June 30, 2006.

TRUSTS AND OTHER LIABILITIES

Recommendation 13

We recommend that the Trust Foundation:

- a. Develop a methodology to ensure unrealized gains and losses are tracked and allocated on an individual endowment fund basis.
- b. Develop policies and procedures to address the inclusion of endowment donations into medium- and long-term investments.

Campus Response

We concur. The Trust Foundation hired an accountant to assist with unitizing the endowment funds in order to track and allocate unrealized gains and losses for each individual endowment fund. At the June 9, 2005 board meeting, the Trust Foundation adopted new investment policies and procedures that addressed the inclusion of endowment donations into medium- and long-term investments.

CAPITAL PUBLIC RADIO, INC.

OPERATING AND ADMINISTRATIVE AGREEMENTS

Recommendation 14

We recommend that the CPR update its operating agreement to extend the hold harmless provision to include the campus.

Campus Response

We concur. By March 31, 2006, CPR will finalize a new operating agreement, which will include the campus in the hold harmless provision.

CORPORATE GOVERNANCE

BOARD MINUTES

Recommendation 15

We recommend that CPR take appropriate measures to ensure that its board and finance committee minutes are signed and approved by an appropriate official.

Campus Response

We concur. As of July 28, 2005, all board and finance committee minutes are signed.

BYLAWS

Recommendation 16

We recommend that the CPR immediately submit its amended bylaws to the CO.

Campus Response

We concur. Amended bylaws were sent to the Director of Financing & Treasury, Chancellor's Office, on January 12, 2006.

OPERATIONAL COMPLIANCE

Recommendation 17

We recommend that CPR formally adopt a conflict-of-interest policy and obtain annual conflict-of-interest statements from all board members and/or management.

Campus Response

We concur. A conflict-of-interest policy will be developed and implemented by March 31, 2006. Additionally, annual conflict of interest statements will be obtained by March 31, 2006.

PERSONNEL AND PAYROLL**Recommendation 18**

We recommend that CPR management review payroll-related reports detailing employee salary and wage adjustments on a regular basis.

Campus Response

We concur. As of November 1, 2005, Capital Public Radio management reviews payroll-related reports detailing employee and wage adjustments on a semi-monthly basis.

PROPERTY AND EQUIPMENT**Recommendation 19**

We recommend that CPR revise its fixed assets policy to ensure physical inventories are performed at least every three years.

Campus Response

We concur. As of January 25, 2006, the Fixed Asset Procedures were revised to include the following:

The Director of Finance and the General Manager will determine the schedule for physical inventory of fixed assets based on the level of fixed asset activity (i.e., number of purchases, disposals, and relocations over a period of years). This schedule will occur at least every three years for all applicable fixed assets, except for the remote transmitter sites, which shall be inventoried at the rate of at least one site per year.

INFORMATION TECHNOLOGY**PASSWORD SECURITY****Recommendation 20**

We recommend that CPR enforce password security controls to help ensure that all system access is adequately authenticated and authorized.

Campus Response

We concur. An updated password policy will be implemented by May 31, 2006. The required server equipment to implement and enforce system password length, uniqueness, and lifespan has been purchased and will be installed by April 1, 2006.

DISASTER RECOVERY PLAN

Recommendation 21

We recommend that CPR develop a formal, written IT disaster recovery plan.

Campus Response

We concur. The current IT disaster recovery plan draft will be completed by April 30, 2006.

NETWORK SECURITY

Recommendation 22

We recommend that CPR implement security devices to limit and control access and exclude unauthorized external network access to production systems.

Campus Response

We concur. CPR purchased and installed a Cisco Pix 520 firewall and Cisco Multilayer Switch Router. Critical systems are currently being migrated behind this system. This project will be completed by March 31, 2006.

**ASSOCIATED STUDENTS OF
CALIFORNIA STATE UNIVERSITY, SACRAMENTO**

OPERATING AND ADMINISTRATIVE AGREEMENTS

Recommendation 23

We recommend that the ASI:

- a. Ensure that the ASI Peak Adventures program contracts, the Aquatic Center waivers, and community service day release forms include appropriate indemnification clauses.
- b. Establish an agreement with the Union for support given to the Aquatic Center for maintenance, repairs, utilities, and equipment costs.

Campus Response

We concur.

- a. Revisions of ASI Peak Adventure program contracts, the Aquatic Center waivers, and Community Service Day release forms to contain appropriate indemnification clauses that include the State, CSU Trustees, and Sacramento State will be completed by March 31, 2006.
- b. A Memorandum of Understanding with the University Union for financial support given to the Aquatic Center was executed on February 7, 2006.

CORPORATE GOVERNANCE

Recommendation 24

We recommend that the ASI record minutes for all board meetings.

Campus Response

We concur. Effective February 1, 2006, minutes are recorded for all ASI Board meetings.

FISCAL COMPLIANCE

Recommendation 25

We recommend that the ASI fully develop and implement reserve policies and procedures. Comprehensive policies and procedures should address or consider at least the following areas: minimum reserve requirements; the methodology used for the calculation of reserves; board review of reserve levels; reserves for capital replacements, working capital, and current operations; and adequacy of reserves.

Campus Response

We concur. ASI has developed reserve policies, and implementation will be completed by March 31, 2006.

OPERATIONAL COMPLIANCE**RISK MANAGEMENT****Recommendation 26**

We recommend that the ASI ensure that documentation evidencing verification of valid insurance coverage is maintained for volunteer drivers for the Safe Rides program.

Campus Response

We concur. Effective February 9, 2006, evidence of valid insurance coverage is a requirement for volunteer drivers, and is included in the contract and paperwork between volunteer(s), clubs and organizations, and ASI Safe Rides.

CONFLICT OF INTEREST**Recommendation 27**

We recommend that the ASI ensure that annual conflict-of-interest statements are obtained from all board members and ex-officio members.

Campus Response

We concur. All board members and ex-officio members have current conflict-of-interest statements on file. By March 31, 2006, policies and procedures will be amended to strengthen implementation of annual conflict-of-interest statements.

PROGRAM COMPLIANCE**Recommendation 28**

We recommend that the ASI report to the campus financial aid office all reimbursements to students for education-related expenditures.

Campus Response

We concur. As of February 15, 2006, ASI implemented revised forms to ensure proper reporting to the financial aid office.

SEGREGATION OF DUTIES

Recommendation 29

We recommend that the ASI properly segregate certain purchasing functions at the Peak Adventures program bike shop or institute mitigating procedures approved by the campus CFO.

Campus Response

We concur. Mitigating procedures will be developed and implemented by March 31, 2006.

CASH RECEIPTS AND HANDLING

Recommendation 30

We recommend that the ASI take appropriate measures to ensure that cash register drawers are adequately safeguarded by the ASI Peak Adventures program.

Campus Response

We concur. ASI will evaluate appropriate safeguard options for use in Peak Adventures, and these procedures will be implemented by March 31, 2006.

PETTY CASH AND CHANGE FUNDS

Recommendation 31

We recommend that the ASI:

- a. Document independent cash counts of petty cash and change funds.
- b. Establish a petty cash reconciliation form for ASI programs and ensure that reconciliations are adequately performed.
- c. Ensure that ASI programs maintain the appropriate specified limit of petty cash.

Campus Response

We concur.

- a. In an on-going monitoring program, ASI will document the petty cash and change funds; review periodic reconciliations prepared by fund custodians; administer unscheduled audits; and monitor the use and operation of the funds for all programs. The policy and procedures will be completed and implemented by March 31, 2006.
- b. ASI will create a fund reconciliation form for all programs managed by Associated Students Inc. by March 31, 2006.

- c. ASI Business Office will review and reassess with program managers the appropriate petty cash level for their operational need. A policy update will be completed by March 31, 2006.

FEES, REVENUES, AND RECEIVABLES

Recommendation 32

We recommend that the ASI ensure that revenues received by the Peak Adventures program are reconciled to attendance records for participation in the Challenge Course classes.

Campus Response

We concur. Effective January 3, 2006, ASI has reconciled Challenge Course attendance and revenue records, using a new upgrade to the CLASS database system.

PURCHASING AND ACCOUNTS PAYABLE

Recommendation 33

We recommend that the ASI reiterate to staff existing cash disbursement policies and procedures regarding sufficient and appropriate supporting documentation and authorization.

Campus Response

We concur. As of October 2005, ASI conducted staff meetings to reiterate the cash disbursement policy regarding the utilization of appropriate supporting documentation and signature authority. This cash disbursement policy is a component of an on-going training program for ASI Business Office staff.

PROPERTY AND EQUIPMENT

Recommendation 34

We recommend that the ASI:

- a. Ensure that fixed assets are tagged.
- b. Obtain proof of receipt prior to recording the fixed assets.

Campus Response

We concur.

- a. ASI will implement the Fixed Assets module of the accounting system, and purchase a barcode reader/writer to tag and inventory fixed assets. This action will be completed by May 31, 2006.

- b. By May 31, 2006, ASI will revise the Purchasing Policy to include the requirement to provide packing/shipping slips and other related documentation. These documentation requirements were communicated to the program managers at the October 2005 managers' meeting.

UNIVERSITY UNION OPERATION OF
CALIFORNIA STATE UNIVERSITY, SACRAMENTO

PURCHASING AND ACCOUNTS PAYABLE

DISBURSEMENTS

Recommendation 35

We recommend that the Union reiterate to staff existing cash disbursement policies and procedures regarding timely payment and sufficient and appropriate supporting documentation and authorization.

Campus Response

We concur. On February 1, 2006, the Director sent a memorandum to all appropriate Union staff responsible for purchase orders, check requisitions, and other cash disbursement policies. This memorandum reiterated the existing cash disbursement policies and procedures regarding timely payment and sufficient and appropriate supporting documentation and authorization.

PROPERTY AND EQUIPMENT

Recommendation 36

We recommend that the Union:

- a. Ensure all fixed assets are tagged upon receipt.
- b. Reiterate to staff existing policies and procedures regarding sufficient record tracking of property and equipment.

Campus Response

We concur. On February 1, 2006, the Director sent a memorandum to appropriate Union staff reiterating the existing property management policy and procedures, and emphasizing the importance of promptly affixing inventory tags. By April 30, 2006, the property and equipment management policy will be revised to reflect enhancements related to tracking of property and equipment.



THE CALIFORNIA STATE UNIVERSITY
OFFICE OF THE CHANCELLOR

BAKERSFIELD

April 4, 2006

CHANNEL ISLANDS

CHICO

MEMORANDUM

DOMINGUEZ HILLS

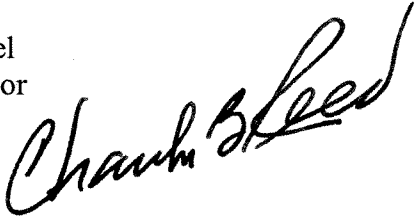
EAST BAY

TO: Mr. Larry Mandel
University Auditor

FRESNO

FULLERTON

FROM: Charles B. Reed
Chancellor



HUMBOLDT

LONG BEACH

SUBJECT: Draft Final Report Number 05-49 on *Auxiliary Organizations*,
California State University, Sacramento

LOS ANGELES

MARITIME ACADEMY

MONTEREY BAY

In response to your memorandum of April 4, 2006, I accept the response as
submitted with the draft final report on *Auxiliary Organizations*,
California State University, Sacramento.

NORTHRIDGE

POMONA

SACRAMENTO

CBR/jt

SAN BERNARDINO

Enclosure

SAN DIEGO

cc: Dr. Alexander Gonzalez, President
Ms. Kathi McCoy, Director of Auditing Services

SAN FRANCISCO

SAN JOSÉ

SAN LUIS OBISPO

SAN MARCOS

SONOMA

STANISLAUS