

AUXILIARY ORGANIZATIONS
CALIFORNIA STATE UNIVERSITY,
EAST BAY

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BOARD OF TRUSTEES
THE CALIFORNIA STATE UNIVERSITY

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ABBREVIATIONS

AS	Associated Students, California State University, Hayward
ATM	Automated Teller Machine
Bookstore	Pioneer Bookstore
CSU	California State University
Ed Foundation	Cal State East Bay Educational Foundation
EO	Executive Order
Foundation	California State University, East Bay Foundation, Inc.
IRC	Internal Revenue Code
IRS	Internal Revenue Service
MOU	Memorandum of Understanding
OMB	Office of Management and Budget
RFIN	Resolution of the Committee on Finance
RFP	Request for Proposal
UBI	Unrelated Business Income
Union	University Union Inc., California State University, East Bay

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, East Bay 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 California State University, East Bay campus and its auxiliary organizations from October 3, 2005, through November 4, 2005, and made a study and evaluation of the system of internal compliance/internal control in effect for the period July 2002 to November 2005. This report represents our triennial review.

Our study and evaluation at *California State University, East Bay Foundation, 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 November 2005, taken as a whole, was sufficient to meet the objectives stated above.

Our study and evaluation at the *Cal State East Bay Educational 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 November 2005, taken as a whole, was sufficient to meet the objectives stated above.

Our study and evaluation at *Associated Students, California State University, Hayward* 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 November 2005, taken as a whole, was sufficient to meet the objectives stated above.

Our study and evaluation at *University Union Inc., California State University, East Bay* 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 November 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

CORPORATE GOVERNANCE [12]

Finance committee minutes for the four auxiliaries were not signed and approved by an appropriate official.

FISCAL COMPLIANCE [12]

Because the campus had not developed a current, formal cost allocation plan for the reimbursement of facilities, goods, and services, auxiliary organizations did not reimburse the campus for indirect costs incurred.

OPERATIONAL COMPLIANCE [13]

The campus had not provided sufficient guidance for its auxiliaries regarding the implementation of conflict-of-interest policies and procedures.

TRUSTS AND OTHER LIABILITIES [14]

State revenues were inappropriately held in trust accounts maintained at the California State University, East Bay Foundation and the Cal State East Bay Educational Foundation.

CALIFORNIA STATE UNIVERSITY, EAST BAY FOUNDATION, INC.

OPERATING AND ADMINISTRATIVE AGREEMENTS [16]

The revised operating agreement between the California State University, East Bay Foundation, Inc. (Foundation) and the campus was not submitted to the chancellor's office for approval in a timely manner.

FACILITIES AGREEMENTS [16]

Certain lease agreements among the Foundation, the campus, and other entities either required revision or were not established. Specifically, a ground lease did not exist with the campus pertaining to the modular building site, and various indemnification and insurance provisions were inadequate.

CORPORATE GOVERNANCE [18]

Amendments to the Foundation Articles of Incorporation were not filed with the chancellor's office in a timely manner.

FISCAL COMPLIANCE [18]

The Foundation was not operating on a self-sufficient basis. For fiscal years ended June 30, 2003, 2004, and 2005, Foundation expenditures exceeded revenues by approximately \$28,087, \$1,070,324, and \$372,144, respectively. These losses were directly related to the Foundation's accumulated post-retirement liability benefit obligations.

OPERATIONAL COMPLIANCE [19]

The Foundation had not performed, in a timely manner, an analysis of the comparability of salaries, wages, and benefits for its full-time employees in relation to those provided campus employees performing substantially similar positions.

SEGREGATION OF DUTIES [20]

Duties and responsibilities related to the cash disbursement process were not adequately segregated at the Foundation. Specifically, one employee had access to manual check stock, created new vendors, posted accounts receivables, and had full access to the general ledger system.

CASH RECEIPTS AND HANDLING [21]

Certain Foundation cashiering duties and cash receipts processing at the Pioneer Bookstore (Bookstore) required improvement. Specifically, change funds maintained in the Bookstore cash vault were not appropriately reconciled on a daily basis, and cash register funds were not appropriately logged in or out of the cash vault.

FEES, REVENUES, AND RECEIVABLES [22]

The Foundation had not documented policies and procedures to address accounts receivable aging, timely action on uncollected receivables, write-off of uncollectible accounts, and assessment of allowance for doubtful accounts, specifically in relation to campus customers and auxiliaries. A review disclosed that as of fiscal year ended June 30, 2005, approximately \$539,618 of outstanding accounts receivables from campus customers and auxiliaries was 90 days past due to the Foundation.

PURCHASING AND ACCOUNTS PAYABLE [23]

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

PERSONNEL AND PAYROLL [24]

An independent review of Foundation payroll data detailing employee salary and wage adjustments was not performed in a timely manner. Specifically, payroll adjustments and summaries were reviewed several days or months after paychecks were disbursed.

TRUSTS AND OTHER LIABILITIES [25]

The Foundation had not fully implemented policies and procedures to escheat unclaimed monies to the state. A review disclosed that approximately \$13,000 for 2001 and 2002 wages and vendor payables was not transferred to the state.

AUXILIARY PROGRAMS [25]

The Foundation's oversight of contracts and grants required improvement. Specifically, documentation indicating that financial reports and other technical deliverables had been submitted to the sponsoring agency was not contained in project files, and time and effort certifications were not collected for fiscal year ended June 30, 2005. In addition, the Foundation had not developed policies and procedures to formally monitor time and effort certification for faculty working on overload, and various grant and contract signature authorization forms were not on file.

CAL STATE EAST BAY EDUCATIONAL FOUNDATION

OPERATING AND ADMINISTRATIVE AGREEMENTS [28]

Certain written agreements among the Cal State East Bay Educational Foundation (Ed Foundation) and other entities either were expired or had not been executed.

CORPORATE GOVERNANCE [29]

The Ed Foundation board of directors did not include a student representative for fiscal year 2005/06. Further, the amendments to the Ed Foundation Articles of Incorporation were not filed with the chancellor's office in a timely manner.

FISCAL COMPLIANCE [30]

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

CAMPUS OVERSIGHT AND CONTROL [30]

The Ed Foundation budgets for fiscal year 2003/04, 2004/05, and 2005/06 were not approved prior to the beginning of the fiscal year.

PURCHASING AND ACCOUNTS PAYABLE [31]

Certain Ed Foundation cash disbursements were not supported by sufficient and appropriate documentation and/or appropriate authorization. Specifically, written signature authorization cards identifying designated individuals to approve certain Ed Foundation disbursements were not maintained.

ASSOCIATED STUDENTS, CALIFORNIA STATE UNIVERSITY, HAYWARD

OPERATING AND ADMINISTRATIVE AGREEMENTS [33]

Certain written agreements among the Associated Students, California State University, Hayward (AS) and other entities were incomplete. Specifically, the registration form and the contract for janitorial services lacked proper indemnification and/or insurance provisions.

CORPORATE GOVERNANCE [34]

The AS board of directors did not consistently include the total number of student representatives from each of the campuses, departments, and elected-at-large as required by the AS bylaws.

FISCAL COMPLIANCE [34]

The AS was not operating on a self-sufficient basis. Specifically for fiscal year ended June 30, 2005, AS operating expenditures exceeded operating revenues by approximately \$286,823. Further, AS had not accounted for or tracked unrelated business income for childcare services provided to community members, nor did the AS file an Internal Revenue Service Form 990T.

CASH RECEIPTS AND HANDLING [36]

The AS did not maintain a log of incoming checks specifically for the Early Childhood Education Center. In addition, the petty cash general ledger balance did not correspond to the funds on hand.

PURCHASING AND ACCOUNTS PAYABLE [37]

Certain AS cash disbursements were not consistently supported by sufficient and appropriate documentation and/or appropriate authorization. Further, the AS business office management had not consistently reconciled the number of tickets sold with the tickets on hand.

PROPERTY AND EQUIPMENT [38]

The AS did not perform an annual physical inventory count of equipment, furniture, and fixtures for fiscal year 2004/05.

TRUSTS AND OTHER LIABILITIES [39]

The AS had not developed policies and procedures to escheat unclaimed monies to the state. Further, funds held and administered by the AS on behalf of student club organizations were not supported by trust agreements or written policies and procedures.

UNIVERSITY UNION, INC., CALIFORNIA STATE UNIVERSITY, EAST BAY

OPERATING AND ADMINISTRATIVE AGREEMENTS [41]

Certain written agreements among the University Union, Inc., California State University, East Bay (Union), the campus, and an outside third party were incomplete or had expired. For example, the indemnification provision in the automated teller machine agreement did not indemnify the campus, the CSU Trustees, or the State of California.

FACILITIES AGREEMENTS [42]

Certain sublease and food service agreements among the Union, the campus, an auxiliary organization, and other entities had expired or were either incomplete, not executed, or not executed timely. For example, sublease agreements pertaining to space for the Concord campus café and the food service facility in the Physical Education building had not been executed.

CORPORATE GOVERNANCE [44]

The Union Articles of Incorporation included an improper dissolution clause; it allowed the board of directors to select and the university to approve a successor. Further, the Union did not establish provisions for elections of officers and board members, such as sample ballots, number of days and hours for voting, polling locations, and notice of elections.

FISCAL COMPLIANCE [45]

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

CASH RECEIPTS AND HANDLING [46]

The Union did not keep a log of incoming checks.

PURCHASING AND ACCOUNTS PAYABLE [46]

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

PROPERTY AND EQUIPMENT [47]

The Union did not perform an annual physical inventory count of equipment, furniture, and fixtures for fiscal year 2004/05.

TRUSTS AND OTHER LIABILITIES [48]

The Union had not developed policies and procedures to escheat unclaimed monies to the state.

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 2003/2004 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 November 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:

California State University, East Bay Foundation, Inc.

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

Cal State East Bay Educational Foundation

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

Associated Students, California State University, Hayward

- ▶ 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

University Union Inc., California State University, East Bay

- ▶ 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 Payable
- ▶ Property and Equipment
- ▶ Auxiliary Programs
- ▶ Information Technology

Campus

- ▶ Campus Oversight and Control

We have not performed any auditing procedures beyond November 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

CORPORATE GOVERNANCE

Finance committee minutes for the four auxiliaries 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 vice president of administration and business affairs stated that the finance committee minutes were not signed due to oversight.

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

Recommendation 1

We recommend that the campus take appropriate measures to ensure that auxiliary finance committee minutes are signed and approved by an appropriate official.

Campus Response

We concur. The campus will act appropriately in ensuring that all board and committee minutes are signed and approved by an appropriate official. The auxiliaries have implemented and have complied with the recommendation.

FISCAL COMPLIANCE

Because the campus had not developed a current, formal cost allocation plan for the reimbursement of facilities, goods, and services, auxiliary organizations did not reimburse the campus for indirect costs incurred.

Government Code §11259 states that all money received by any state agency, other than the Regents of the University of California, for charges for work, services, materials, or equipment shall be deposited in the State Treasury and, except advances or transfers under Sections 11257 and 11258, credited by the State Controller to the fund or appropriation from which the cost of such work, services, materials, or equipment was or will be paid.

Government Code §16301 states that except as otherwise provided by law, all money belonging to the state received from any source whatever by any state agency shall be accounted for to the Controller at the close of each month, or more frequently if required by the Controller or the Department of Finance, in such form as he prescribes, and on the order of the Controller be paid into the Treasury and credited to the General Fund, provided that amounts received as partial or full reimbursement for services furnished shall be credited to the applicable appropriation.

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

The vice president of administration and business affairs stated that a cost allocation plan was developed in 2002 but had not been implemented, and therefore the auxiliaries were not invoiced for the facilities, goods, and services provided.

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

Recommendation 2

We recommend that the campus develop a current, formal cost allocation plan to ensure that the General Fund is appropriately and timely reimbursed for facilities, goods, and services provided to auxiliary organizations.

Campus Response

We concur. The campus will develop a current, formal cost allocation plan to reimburse appropriately the General Fund in a timely manner for facilities, goods, and services provided to our auxiliary organizations. We anticipate completion by December 31, 2006.

OPERATIONAL COMPLIANCE

The campus had not provided sufficient guidance for its auxiliaries regarding the implementation of conflict-of-interest policies and procedures.

The Cal State East Bay Educational Foundation (Ed Foundation) had not developed written conflict-of-interest policies and procedures. In addition, annual conflict-of-interest statements had not been obtained from all board members and/or management at the campus' four auxiliary organizations.

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 establishing conflict-of-interest policies and procedures and compliance with existing policies and procedures.

The vice president of administration and business affairs stated that the lack of conflict-of-interest policies and signed statements was due to management oversight.

Failure to document and/or implement conflict-of-interest policies and procedures for auxiliary boards and management increases liability for acts contrary to the code.

Recommendation 3

We recommend that the campus provide additional guidance for its auxiliaries to strengthen their conflict-of-interest policies and procedures to address, among other things: filing of annual statements by board and management personnel; determination of whether a conflict of interest exists; actions required in association with a conflict; and actions required when violations of conflict-of-interest policy are discovered.

Campus Response

We concur. The campus will monitor and maintain all conflict-of-interest forms for the auxiliary. The campus' designated filing officer will maintain the signed forms and currently has compliance by almost every auxiliary. We anticipate full compliance by August 15, 2006.

TRUSTS AND OTHER LIABILITIES

State revenues were inappropriately held in trust accounts maintained at the California State University, East Bay Foundation (Foundation) and the Ed Foundation.

We found that:

- ▶ State trust funds and other custodial funds, specifically instructionally related activities, were held in trust accounts maintained at the Foundation.
- ▶ Revenues received for the maintenance of an easement through the Concord campus were held in a trust agency account maintained at the Ed Foundation.

EO 919, *Policy Governing Non-General Fund Receipts*, dated October 15, 2004, states that each campus provide administration of their non-General Fund receipts that are subject to local campus control, ensure that the funds are held in proper accounts and are administered in accordance with applicable laws and regulations.

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

objectives of the auxiliary organizations is to provide fiscal procedures and management systems that allow effective coordination of the auxiliary activities with the campus in accordance with sound business practices. Sound business practice mandates strong controls over custodial funds.

The vice president of administration and business affairs stated that trust accounts for state trust funds and other custodial funds were established by the Foundation prior to EO 919 with signed agreements. The Ed Foundation president stated that the easement trust account was established by the Ed Foundation in 1998 with a signed agreement.

Insufficient oversight of custodial funds held in trust increases the risk that funds will be expended for inappropriate purposes.

Recommendation 4

We recommend that the campus ensure that all state revenues are maintained and administered in state trust accounts and that all state revenues currently residing in Foundation and Ed Foundation accounts be immediately transferred to such accounts.

Campus Response

We concur. The campus will work with the Foundation and Ed Foundation to identify and transfer those state trust accounts and all state revenues currently residing in Foundation and Ed Foundation accounts. We anticipate compliance by November 30, 2006.

CALIFORNIA STATE UNIVERSITY, EAST BAY FOUNDATION, INC.

OPERATING AND ADMINISTRATIVE AGREEMENTS

The revised operating agreement between the California State University, East Bay Foundation, Inc. (Foundation) and the campus was not submitted to the chancellor's office for approval in a timely manner.

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

The campus associate vice president of business and financial services stated that the revised operating agreement was not submitted to the chancellor's office due to oversight.

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

Recommendation 5

We recommend that the Foundation ensure that its revised operating agreement with the campus is signed and submitted to the chancellor's office for approval in a timely manner.

Campus Response

We concur. The Foundation has revised its operating agreement with the campus, and it has been approved by the chancellor's office.

FACILITIES AGREEMENTS

Certain lease agreements among the Foundation, the campus, and other entities either required revision or were not established.

We found that:

- ▶ The Foundation did not establish a ground lease with the campus for the modular building site owned by the Foundation. This is a repeat finding from our prior Auxiliary Organizations audit.
- ▶ The indemnification provisions in the vending contracts, office lease, and on-site promotion forms did not specifically indemnify the State of California, the California State University (CSU) Trustees, and the campus.

- ▶ The office lease agreement between the Foundation and a third party did not contain an adequate insurance provision that specifically addressed workers' compensation.

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

EO 849, *California State University Insurance Requirements*, dated February 5, 2003, states that hold harmless provisions should be modeled after agreements available at the CSU contract resource library. The model auxiliary operating agreement states that the 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, arising out of, or in any way connected with the operations of the auxiliary.

The Foundation executive director stated that failure to provide for complete indemnification and insurance clauses in the vending and sublease agreements was due to oversight. Further, he stated that the Foundation was currently drafting a ground lease for the modular building.

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

Recommendation 6

We recommend that the Foundation:

- a. Execute a ground lease with the campus for the modular building site.
- b. Ensure that agreements include appropriate indemnification and insurance clauses.

Campus Response

We concur.

- a. The Foundation has executed a ground lease with the campus for the modular building site and has sent it to the chancellor's office for approval.
- b. The Foundation will also modify agreements to include appropriate indemnification and insurance clauses. We anticipate compliance by September 1, 2006.

CORPORATE GOVERNANCE

Amendments to the Foundation Articles of Incorporation were not filed with the chancellor's office in a timely manner.

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 Articles of Incorporation and bylaws to Financing and Treasury at the Office of the Chancellor within 30 calendar days.

The Foundation executive director stated that the amended Articles of Incorporation were not filed with the chancellor's office due to oversight.

Failure to file amendments to Articles of Incorporation in a timely manner increases the risk of misunderstandings and may increase legal liability.

Recommendation 7

We recommend that the Foundation immediately submit its amended Articles of Incorporation to the chancellor's office.

Campus Response

We concur. The Foundation will provide the amended Articles of Incorporation to the chancellor's office by June 30, 2006.

FISCAL COMPLIANCE

The Foundation was not operating on a self-sufficient basis.

For fiscal years ended June 30, 2003, 2004, and 2005, Foundation expenditures exceeded revenues by approximately \$28,087, \$1,070,324, and \$372,144, respectively. We noted that these losses were directly related to the Foundation's accumulated post-retirement liability benefit obligations.

EO 753, *Allocation of Costs to Auxiliary Enterprises*, dated July 28, 2000, states that the distinguishing characteristic of an auxiliary enterprise is that it is managed on an essentially self-supporting basis.

Title 5 §42401 and §42402 indicate that the campus president shall require that auxiliary organizations operate in conformity with policy of the Board of Trustees and the campus. One of the objectives of the auxiliary organizations is to provide fiscal procedures and management systems that allow effective coordination of the auxiliary activities with the campus in accordance with sound business practices. Sound business practice mandates that an auxiliary operate on a self-sufficient basis and that controls be in place to ensure revenues exceed or equal expenditures.

The Foundation executive director stated that the loss was caused by an accumulated amount of grant employees' post-retirement benefit obligations. Further, he stated that the board had approved a plan that would help reduce post-retirement benefit costs.

Failure to operate on a self-sufficient basis and maintain adequate financial and operational controls, including adequate reserves to ensure revenues equal or exceed expenditures, increases the risk of financial viability/stability of the auxiliary.

Recommendation 8

We recommend that the Foundation implement its formal plan to ensure self-sufficiency, including implementation of financial and operational controls to ensure revenues equal or exceed expenditures.

Campus Response

We concur. The Foundation and the campus are working to limit obligations in operational resources for the Foundation. In addition, the Foundation will create a plan that ensures self-sufficiency and ensure revenues equal or exceed expenditures. This will be accomplished by October 1, 2006.

OPERATIONAL COMPLIANCE

The Foundation had not performed, in a timely manner, an analysis of the comparability of salaries, wages, and benefits for its full-time employees in relation to those provided campus employees performing substantially similar positions.

Title 5 §42405 states that the governing board of each auxiliary organization shall provide salaries, working conditions, and benefits for its full-time employees which are comparable to those provided campus employees performing substantially similar services. For those full-time employees who perform services that are not substantially similar to the services performed by campus employees, the salaries established shall be at least equal to the salaries prevailing in other educational institutions in the area or commercial operations of like nature.

The Foundation executive director stated that he was unaware that a current analysis of the CSU Auxiliary Organizations Association salary survey was insufficient.

Failure to perform the comparative analysis of positions timely increases the risk that the auxiliary may be expending inappropriate amounts on salaries and benefits for employees who perform substantially similar services as employees for the campus.

Recommendation 9

We recommend that the Foundation timely perform and document an analysis of the comparability of salaries, wages, and benefits for its full-time employees in relation to those provided campus employees performing substantially similar services.

Campus Response

We concur. A formal analysis of the comparability of salaries, wages, and benefits for the Foundation's full-time employees in relation to campus' employees performing substantially similar duties was conducted, presented to the board of directors, and sent to the chancellor's office. Future analysis will be performed in a timely manner.

SEGREGATION OF DUTIES

Duties and responsibilities related to the cash disbursement process were not adequately segregated at the Foundation.

We found that an accounting technician:

- ▶ Had access to manual check stock.
- ▶ Created new vendors.
- ▶ Posted accounts receivables.
- ▶ Had full access to the general ledger system.

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 *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 establish a written internal controls system that ensures cash receipts and disbursements are conducted with appropriate segregation of duties.

The Foundation controller stated that the lack of segregation of duties was due to staffing constraints imposed from implementation of the new accounting software.

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

Recommendation 10

We recommend that the Foundation properly segregate certain cash disbursement functions or institute mitigating procedures approved by the campus chief financial officer.

Campus Response

We concur. The Foundation will review its operation and resources to properly segregate certain cash disbursement functions or develop mitigating procedures that will be approved by the campus chief financial officer. This will be accomplished by August 15, 2006.

CASH RECEIPTS AND HANDLING

Certain Foundation cashiering duties and cash receipts processing at the Pioneer Bookstore (Bookstore) required improvement.

We noted that:

- ▶ All change funds maintained in the Bookstore cash vault were not appropriately reconciled on a daily basis to the vault cash inventory.
- ▶ Cash register funds were not appropriately logged in or out of the cash vault.

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

The Foundation controller stated that the failure to address sufficient controls over the cash vault and cash register funds was due to Bookstore management oversight.

Inadequate administration of cashiering duties and cash receipts processing increases the risk of a loss or misappropriation of funds.

Recommendation 11

We recommend that the Foundation:

- a. Ensure all change funds maintained in the Bookstore cash vault are appropriately reconciled on a daily basis to the amount recorded in the vault cash inventory.
- b. Maintain records of Bookstore personnel who have cash register funds on a daily basis.

Campus Response

We concur.

- a. The Foundation will ensure all change funds maintained in the Bookstore cash vault are appropriately reconciled to the sub ledger (cash on hand log) and recorded in the vault cash inventory.
- b. The Foundation will maintain records of Bookstore personnel who have cash register funds on a daily basis.

These will be accomplished by June 15, 2006.

FEES, REVENUES, AND RECEIVABLES

The Foundation had not documented policies and procedures to address accounts receivable aging, timely action on uncollected receivables, write-off of uncollectible accounts, and assessment of allowance for doubtful accounts, specifically in relation to campus customers and auxiliaries.

We found that as of fiscal year ended June 30, 2005, approximately \$539,618 of outstanding accounts receivables from campus customers and auxiliaries was 90 days past due to the Foundation. Further, action taken by the Foundation to administer collection of payment for various auxiliary employee benefits did not agree with the payment terms stated in the service agreement.

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

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, with annual management review.

The Foundation controller stated that the lack of detailed policies and procedures to address collection of accounts receivables in relation to campus customers and auxiliaries was due to time constraints imposed from implementation of the new accounting software. Further, the Foundation executive director stated that the Foundation did not adhere to the payment and collection terms of the benefits service agreements due to oversight.

Failure to document formal policies and procedures increases the risk that inconsistencies and misunderstandings will occur.

Recommendation 12

We recommend that the Foundation:

- a. Develop policies and procedures that address accounts receivable aging, timely action on uncollected receivables, the write-off of uncollectible accounts, and assessment of allowance for doubtful accounts.
- b. Implement specific policies and procedures for collection of outstanding receivables from campus customers and auxiliaries to ensure timely collection of payments.
- c. Administer collection of payment from auxiliaries for employee benefits in accordance with terms stated in the benefits service agreements or seek mutual agreement to modification of the agreements.

Campus Response

We concur.

- a. The Foundation has developed and implemented board approved policy that ensures accounts receivable invoices are accurately and timely recorded, maintained, and collected.
- b. The Foundation will implement specific policies and procedures for collection of outstanding receivables from campus customers and auxiliaries to ensure timely collection of payments.
- c. The Foundation will also work with the other auxiliaries to ensure that payments of employee benefits are in accordance with terms stated in the benefits service agreements.

We anticipate completion by September 1, 2006.

PURCHASING AND ACCOUNTS PAYABLE

Certain 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 11 instances, appropriate signature authorization cards were not on file for Bookstore disbursements.
- ▶ In two instances, one-up signature authorization was not obtained.
- ▶ In two instances, supporting documentation did not include an approval signature authorizing payment.
- ▶ In one instance, a check lacked a second approval signature.

Title 5 §42401 and §42402 indicate that the campus president shall require that auxiliary organizations operate in conformity with policy of the Board of Trustees and the campus. One of the objectives of the auxiliary organizations is to provide fiscal procedures and management systems that allow effective coordination of the auxiliary activities with the campus in accordance with sound business practices. Sound business practice mandates that 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 Foundation controller stated that the lack of adequate and/or appropriate documentation and 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 13

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

Campus Response

We concur. The Foundation has reiterated to staff existing cash disbursement policies and procedures as well as updated signature authorizations for new staff members.

PERSONNEL AND PAYROLL

An independent review of Foundation payroll data detailing employee salary and wage adjustments was not performed in a timely manner.

We found that payroll adjustments and summaries were reviewed several days or months after paychecks were disbursed.

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 Foundation executive director stated that time constraints prohibited the review of employee salary and wage adjustments prior to the disbursement of paychecks.

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

Recommendation 14

We recommend that the Foundation perform an independent review of employee salary and wage adjustments prior to the disbursement of paychecks to prevent unauthorized payroll transactions from occurring.

Campus Response

We concur. The Foundation will perform independent reviews of employee salary and wage adjustments prior to the disbursement of paychecks. This will be accomplished by July 30, 2006.

TRUSTS AND OTHER LIABILITIES

The Foundation had not fully implemented policies and procedures to escheat unclaimed monies to the state.

We found that approximately \$13,300 for 2001 and 2002 wages and vendor payables was not transferred to the state.

Code of Civil Procedure, Chapter 7, *Unclaimed Property Law*, Article 2 §1510 and §1511 indicate that property held by a business association escheats to the state, subject to various requirements and limitations.

The Foundation controller stated that policies and procedures were not fully implemented due to time constraints imposed by the implementation of the new accounting software.

Failure to meet the requirements of unclaimed property law could increase the auxiliary's exposure to potential penalties and fines.

Recommendation 15

We recommend that the Foundation fully implement policies and procedures related to escheatment to meet the requirements of the Code of Civil Procedure with respect to unclaimed property.

Campus Response

We concur. The Foundation will develop and implement a policy and procedure related to escheatment that meets the requirements of the Code of Civil Procedure with respect to unclaimed property. This will be accomplished by August 1, 2006.

AUXILIARY PROGRAMS

Foundation oversight of contracts and grants required improvement.

We found that:

- ▶ Documentation indicating that financial reports and other technical deliverables had been submitted to the sponsoring agency was not contained in project files.
- ▶ Time and effort certifications were not collected for fiscal year ended June 30, 2005.

- ▶ Policies and procedures had not been developed to formally monitor time and effort certification for faculty working on overload.
- ▶ Various grant and contract signature authorization forms were not on file.

Office of Management and Budget (OMB) Circular A-21, *Cost Principles for Educational Institutions*, §.J.10.b.(2)(b), states that the method of documenting the distribution of charges for personal services must recognize the principle of after-the-fact confirmation or determination so that costs distributed represent actual costs, unless a mutually satisfactory alternative agreement is reached. Direct cost activities and facilities and administration cost activities may be confirmed by responsible persons with suitable means of verification that the work was performed. Confirmation by the employee is not a requirement for either direct or facilities and administration cost activities if other responsible persons make appropriate confirmations.

OMB Circular A-110, *Uniform Administrative Requirements for Grants and Agreements With Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations Financial Reporting*, §.71(a), states that recipients shall submit, within 90 calendar days after the date of completion of the award, all financial, performance, and other reports as required by the terms and conditions of the award.

EO 890, *Administration of Grants and Contracts in Support of Sponsored Programs*, dated January 7, 2004, in part, states that prior to acceptance, the recipient shall designate either the university or auxiliary to administer the contract or grant. EO 890 further states that each campus shall establish necessary controls to ensure sound fiscal management of sponsored programs, regardless of whether the university or auxiliary is responsible for sponsored program administration.

The campus vice president of administration and business affairs stated that documentation for technical deliverables had not been contained in project files due to limited authority to require principal investigators to submit documentation in a timely manner. The Foundation contracts and grants manager stated that formal procedures to adequately monitor contracts and grants had not been fully implemented due to staffing constraints.

Failure to provide adequate sponsored program oversight increases the risk of non-compliance with OMB requirements; auxiliaries operating in a manner inconsistent with the educational mission of the campus; contracts and grants being inappropriately managed; and penalties and disallowances for non-compliance with contracts and grants terms.

Recommendation 16

We recommend that the Foundation:

- a. Retain documentation to evidence that financial reports and other technical deliverables are submitted to the sponsoring agency.
- b. Ensure time and effort certifications are collected in a timely manner.

- c. Develop policies and procedures to adequately monitor time and effort certification for faculty working overload.
- d. Ensure grant and contract signature authorization forms are on file.

Campus Response

We concur.

- a. The Foundation has developed a process to retain documentation to evidence the financial reports and other technical deliverables from project directors and submit documents to the sponsoring agencies.
- b. The Foundation has developed and implemented policy for time and effort reporting.
- c. The Foundation has developed policies and procedures to monitor adequately time and effort certification for faculty working overload.
- d. The Foundation will ensure that grant and contract signature authorization forms are on file for project directors. This will be accomplished by November 1, 2006.

CAL STATE EAST BAY EDUCATIONAL FOUNDATION

OPERATING AND ADMINISTRATIVE AGREEMENTS

Certain written agreements among the Cal State East Bay Educational Foundation (Ed Foundation) and other entities either were expired or had not been executed.

We found that:

- ▶ The memorandum of understanding (MOU) between the Ed Foundation and the Foundation for accounting services was expired.
- ▶ Administrative agreements had not been executed with the campus for services provided by state employees at the auxiliary.

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

The Ed Foundation president stated that a current MOU for accounting services was being negotiated with the Foundation. In addition, he stated his belief that the administrative agreements with the campus sufficiently addressed the services provided by state employees at the auxiliary.

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

Recommendation 17

We recommend that the Ed Foundation:

- a. Execute the MOU with the Foundation for accounting services.
- b. Execute administrative agreements with the campus for services provided by state employees at the auxiliary.

Campus Response

We concur.

- a. The Ed Foundation will execute the MOU with the Foundation for accounting services. This will be completed by July 1, 2006.

- b. The Ed Foundation will execute administrative agreements with the campus for the services provided by state employees at the auxiliary. This will be completed by August 1, 2006.

CORPORATE GOVERNANCE

BOARD COMPOSITION

The Ed Foundation board of directors did not include a student representative for fiscal year 2005/06.

Title 5 §42602(b) specifically requires a student representative on an auxiliary organization board.

The campus vice president of university advancement stated that the Ed Foundation was in the process of selecting a representative; however, recruitment was difficult due to student class schedules.

Failure to maintain mandated board composition violates statutory requirements and increases the risk that student views will not be adequately represented.

Recommendation 18

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

Campus Response

We concur. The Ed Foundation will ensure that all board positions are filled in a timely manner. It has named a student as a representative for the College of Letters, Arts, and Social Services for the AS.

BYLAWS

Amendments to the Ed Foundation Articles of Incorporation were not filed with the chancellor's office in a timely manner.

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 articles of incorporation and bylaws to Financing and Treasury at the Office of the Chancellor within 30 calendar days.

The campus vice president of university advancement stated that he was unaware of the requirement to file amended Articles of Incorporation with the chancellor's office.

Failure to file amendments to the Articles of Incorporation in a timely manner increases the risk of misunderstandings and may increase legal liability.

During our fieldwork, the Ed Foundation provided documentation evidencing that the amended Articles of Incorporation were recently submitted to the Office of the Chancellor.

FISCAL COMPLIANCE

The Ed 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 Board of Trustees and the campus. One of the objectives of the auxiliary organizations is to provide fiscal procedures and management systems that allow effective coordination of the auxiliary activities with the campus in accordance with sound business practices. Sound business practice mandates that a designated fund balance be recognized within an organization's general ledger.

The Ed Foundation president stated that although the current reserve policy sets aside an amount that shall be equal to the budgeted expenses for that year, the amount is not reflected within the general ledger.

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

Recommendation 19

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

Campus Response

We concur. The Ed Foundation has established a board-designated reserve account within its general ledger.

CAMPUS OVERSIGHT AND CONTROL

The Ed Foundation budgets for fiscal year 2003/04, 2004/05, and 2005/06 were not approved prior to the beginning of the fiscal year.

We found that the Ed Foundation approved its fiscal budget at the first meeting of each new fiscal year.

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

The Ed Foundation president stated that its budget was approved at the first meeting of the new fiscal year, after the university advancement budget was approved.

The lack of a timely budget approval increases the risk of misunderstandings over the allocation of funds.

Recommendation 20

We recommend that the Ed Foundation ensure that its annual budgets are approved by its board and submitted to the campus president for approval in a timely manner.

Campus Response

We concur. The Ed Foundation will ensure that its annual budgets are approved by its board and submitted to the campus president for approval in a timely manner. The budget for the current fiscal year has been approved by the president.

PURCHASING AND ACCOUNTS PAYABLE

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

Our review of 50 disbursements disclosed the following:

Process Controls

- ▶ Written signature authorization cards identifying designated individuals to approve certain Ed Foundation disbursements were not maintained.

Processing Exceptions

- ▶ In five instances, there was no signature authorizing payment for invoices.
- ▶ In one instance, a facsimile invoice was accepted for payment without certification that records were verified to prevent duplicate payment.
- ▶ In one instance, a vendor statement was accepted for payment.

Title 5 §42401 and §42402 indicate that the campus president shall require that auxiliary organizations operate in conformity with policy of the Board of Trustees and the campus. One of the objectives of the auxiliary organizations is to provide fiscal procedures and management systems that allow effective coordination of the auxiliary activities with the campus in accordance with sound business practices. Sound business practice mandates that 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 Ed Foundation president stated that the revised trust agreement would identify the authorized signature for Ed Foundation disbursements and that the processing exceptions were due to oversight.

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

Recommendation 21

We recommend that the Ed Foundation:

- a. Maintain written signature authorization cards identifying individuals designated to approve all disbursements.
- b. Reiterate to staff existing cash disbursement policies and procedures regarding sufficient and appropriate supporting documentation and authorization.

Campus Response

We concur.

- a. The Ed Foundation will develop and maintain written signature authorization cards identifying individuals designated to approve all disbursements. This will be completed by September 1, 2006.
- b. The Ed Foundation has reiterated to staff existing cash disbursement policies and procedures regarding sufficient and appropriate supporting documentation and authorization.

ASSOCIATED STUDENTS, CALIFORNIA STATE UNIVERSITY, HAYWARD

OPERATING AND ADMINISTRATIVE AGREEMENTS

Certain written agreements among the Associated Students, California State University, Hayward (AS) and other entities were incomplete.

We found that:

- ▶ The indemnification provision on the AS registration form did not indemnify the CSU Trustees.
- ▶ The contract for janitorial services lacked insurance and indemnification provisions.

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. Furthermore, EO 849 states that campus facilities and property leases require insurance limits of \$1,000,000 general liability, \$2,000,000 general aggregate, employer liability insurance of \$1,000,000, business automobile liability insurance not less than \$1,000,000 per occurrence, and workers' compensation insurance as required under California State Law.

The AS executive director stated that the indemnification provision on the registration form did not indemnify the CSU Trustees due to oversight. He further stated that the janitorial contract lacked insurance and indemnification provisions due to oversight.

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

Recommendation 22

We recommend that the AS:

- a. Revise its registration form to extend the hold harmless provision to include the CSU Trustees.
- b. Include proper indemnification and insurance provisions in its contract for janitorial services.

Campus Response

We concur.

- a. The AS has revised its registration form to extend the hold harmless provision to include the CSU Trustees.
- b. The AS' current contract for janitorial services expired on June 1, 2006, and will not be renewed at that time. Future contracts will include proper indemnification and insurance provisions.

CORPORATE GOVERNANCE

The AS board of directors did not consistently include the total number of student representatives from each of the campuses, departments, and elected-at-large as required by the AS bylaws.

Title 5 §42401 and §42402 indicate that the campus president shall require that auxiliary organizations operate in conformity with policy of the Board of Trustees and the campus. One of the objectives of the auxiliary organizations is to provide fiscal procedures and management systems that allow effective coordination of the auxiliary activities with the campus in accordance with sound business practices. Sound business practice mandates that an auxiliary ensure that it meets the requirements set forth in its bylaws.

The AS executive director stated that the board had not consistently included the total number of representatives required by the bylaws due to lack of student interest.

Non-compliance with corporate bylaws increases the risk of misunderstandings and the potential for legal liability.

Recommendation 23

We recommend that the AS ensure that student representation is maintained in accordance with its bylaws.

Campus Response

We concur. The AS has amended its bylaws for greater marketability for elected student representatives.

FISCAL COMPLIANCE

OPERATING LOSSES

The AS was not operating on a self-sufficient basis.

Specifically, for fiscal year ended June 30, 2005, AS operating expenditures exceeded operating revenues by approximately \$286,823.

EO 753, *Allocation of Costs to Auxiliary Enterprises*, dated July 28, 2000, states that the distinguishing characteristic of an auxiliary enterprise is that it is managed on an essentially self-supporting basis.

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

business practices. Sound business practice mandates that an auxiliary operate on a self-sufficient basis and that controls be in place to ensure revenues exceed or equal expenditures.

The AS executive director stated that the AS was operating at a loss due to expenses incurred by the Early Childhood Education Center.

Failure to operate on a self-sufficient basis and maintain adequate financial and operational controls increases the risk of financial viability/stability of the auxiliary.

Recommendation 24

We recommend that the AS implement a formal plan to ensure self-sufficiency, including implementation of financial and operational controls to ensure revenues equal or exceed expenditures.

Campus Response

We concur. The AS has implemented a fee referendum that increases student fees. This will help in developing a formal plan to ensure self-sufficiency of the AS auxiliary. The plan will be completed by October 1, 2006.

UNRELATED BUSINESS INCOME

The AS had not accounted for or tracked unrelated business income (UBI) for childcare services provided to community members, nor did the AS file an Internal Revenue Service (IRS) Form 990T.

Internal Revenue Code (IRC) §512 through §514 define an unrelated trade or business of an exempt organization as any trade or business, the conduct of which is not substantially related to the exercise or performance of its tax-exempt purpose. UBI in excess of \$1,000 must be reported to the IRS, whether or not a tax liability is incurred. In addition, the organization's tax-exempt status may be jeopardized if too large a portion of its revenue is derived from UBI.

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

The AS executive director stated his belief that fees paid by community members for childcare were immaterial. He further stated that UBI was not tracked for the Early Childhood Education Center because the external financial auditors had not informed AS of this requirement.

Failure to properly analyze, document, and report UBI increases the auxiliary's exposure to potential penalties and actions by the IRS.

Recommendation 25

We recommend that the AS account for and track UBI for childcare services provided to community members, and file federal income tax returns as appropriate.

Campus Response

We concur. The AS has developed a new contract with Head Start to allow it to run the Early Childhood Education Center and transfers the responsibility for this tracking and reporting system to it effective June 1, 2006.

CASH RECEIPTS AND HANDLING

The AS did not maintain a log of incoming checks specifically for the Early Childhood Education Center. In addition, the petty cash general ledger balance did not correspond to the funds on hand.

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

The AS executive director stated that a log of incoming checks was not maintained due to oversight. He further stated that the petty cash general ledger balance did not correspond to the funds on hand because a former employee might have failed to submit the funds prior to departure.

Inadequate controls over cash receipts processing increase the risk of a loss or misappropriation of funds.

Recommendation 26

We recommend that AS maintain a log of incoming checks specifically for the Early Childhood Education Center, and ensure that the petty cash general ledger balance is reconciled to the funds on hand.

Campus Response

We concur. The AS has begun to maintain a log of all incoming checks to ensure that the petty cash general ledger balance is reconciled to the funds on hand. However, with the new contract for Head Start taking on the responsibility for running the Early Childhood Education Center, this log becomes its responsibility.

PURCHASING AND ACCOUNTS PAYABLE

DISBURSEMENTS

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

Our review of 56 disbursements disclosed the following processing exceptions:

- ▶ In ten instances, the AS could not provide the disbursement or supporting documentation.
- ▶ In nine instances, payment was issued without proper authorization.
- ▶ In five instances, payment was issued without an approved purchase order.
- ▶ In three instances, payment was issued without supporting documentation.
- ▶ In one instance, a purchase order did not include a stated purpose.
- ▶ In one instance, an invoice was not paid timely.

Title 5 §42401 and §42402 indicate that the campus president shall require that auxiliary organizations operate in conformity with policy of the Board of Trustees and the campus. One of the objectives of the auxiliary organizations is to provide fiscal procedures and management systems that allow effective coordination of the auxiliary activities with the campus in accordance with sound business practices. Sound business practice mandates that 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 AS executive director stated that the disbursement exceptions related to inadequate authorization and missing supporting documentation occurred prior to him becoming the AS executive director. He further stated that he was unaware of the purchase order policy requirement because it was established by the prior executive director, but added that the purchase order policy would be revised appropriately. Lastly, he stated his belief that disbursements to clubs did not require accompanying supporting documentation because it was not the AS' role to monitor the use of student organization funds.

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

Recommendation 27

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

Campus Response

We concur. The AS executive director has held a staff meeting and documented the cash disbursement policies and procedures to reiterate them to staff.

INVENTORY

The AS business office management had not consistently reconciled the number of tickets sold with the tickets on hand.

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

The AS executive director stated that the AS business office performed a weekly reconciliation of tickets on hand to ticket sales. He added that business office management had not performed independent counts of these tickets in the past but would do so in the future.

Failure to reconcile ticket inventory increases the risk of errors, loss, and misappropriation.

Recommendation 28

We recommend that the AS business office management perform a periodic reconciliation of tickets on hand to tickets sold.

Campus Response

We concur. The AS business office management has performed and will continue to perform periodic reconciliation of tickets on hand to tickets sold.

PROPERTY AND EQUIPMENT

The AS did not perform an annual physical inventory count of equipment, furniture, and fixtures for fiscal year 2004/05.

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

The AS executive director stated that although the fiscal year 2004/05 physical inventory had not been conducted due to oversight, the acquisition and disposal of fixed assets were noted.

Failure to conduct annual physical inventory counts increases the risk that property may be lost or stolen.

Recommendation 29

We recommend that the AS perform annual physical inventory counts of fixed assets.

Campus Response

We concur. The AS will perform an annual physical inventory count of fixed assets. The AS is currently working on an inventory of its fixed assets. This will be completed by July 31, 2006.

TRUSTS AND OTHER LIABILITIES

ESCHEATMENT

The AS had not developed policies and procedures to escheat unclaimed monies to the state.

Code of Civil Procedure, Chapter 7, *Unclaimed Property Law*, Article 2 §1510 and §1511 indicate that property held by a business association escheats to the state, subject to various requirements and limitations.

The AS executive director stated that the lack of escheatment policies and procedures was due to oversight.

Failure to meet the requirements of unclaimed property law could increase the auxiliary's exposure to potential penalties and fines.

Recommendation 30

We recommend that the AS develop policies and procedures related to escheatment to meet the requirements of the Code of Civil Procedure with respect to unclaimed property.

Campus Response

We concur. The AS will develop policies and procedures related to escheatment to meet the requirements of the Code of Civil Procedure with respect to unclaimed property. This will be done by July 31, 2006.

STUDENT CLUB FUNDS

Funds held and administered by the AS on behalf of student club organizations were not supported by trust agreements or written policies and procedures.

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

The AS executive director stated his belief that trust agreements were not required because it was not the AS' role to monitor the use of student organization funds.

The absence of trust agreements and written policies and procedures over trust accounts increases the risk of inappropriate expenditures and misunderstandings about account operations.

Recommendation 31

We recommend that the AS establish a trust agreement and written policies and procedures regarding funds held and administered by the AS on behalf of student club organizations.

Campus Response

We concur. The AS will establish a trust agreement and written policies and procedures regarding funds held and administered by the AS on behalf of student club organizations. This will be completed by October 15, 2006.

UNIVERSITY UNION, INC.,
CALIFORNIA STATE UNIVERSITY, EAST BAY

OPERATING AND ADMINISTRATIVE AGREEMENTS

Certain written agreements among the University Union, Inc., California State University, East Bay (Union), the campus, and an outside third party were incomplete or had expired.

We found that:

- ▶ The operating and lease agreement had expired on June 30, 2005.
- ▶ The indemnification provision in the automated teller machine (ATM) agreement did not indemnify the campus, the CSU Trustees, or the State of California.

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

The Union executive director stated that although she had begun the process of renewing the operating and lease agreement in early 2005, it was not complete prior to the expiration date. She added that a new agreement was currently awaiting the chancellor's office approval. She further stated that the ATM agreement was an old agreement that did not include the updated indemnification clause.

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

Recommendation 32

We recommend that the Union:

- a. Establish a current operating and lease agreement with the campus.
- b. Include a proper indemnification provision in the ATM agreement.

Campus Response

We concur.

- a. The Union has established a current operating and lease agreement with the campus that has been approved by the chancellor's office.
- b. The Union will modify the agreement for the ATM and include proper indemnification language. This will be completed by July 31, 2006.

FACILITIES AGREEMENTS

Certain sublease and food service agreements among the Union, the campus, an auxiliary organization, and other entities had expired or were either incomplete, not executed, or not executed timely.

We found that:

- ▶ Sublease agreements pertaining to space for the Concord campus café and the food service facility in the Physical Education building had not been executed.
- ▶ The indemnification provision in the sublease agreement with the AS and three food service providers did not specifically indemnify the CSU Trustees, the campus, and the State of California.
- ▶ Sublease and food service agreements with six food service providers lacked an adequate insurance provision.
- ▶ Sublease agreements with three food service providers were expired.
- ▶ Sublease and food service agreements with five food service providers were not executed in timely manner.

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

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. Furthermore, EO 849

states that campus facilities and property leases require insurance limits of \$1,000,000 general liability, \$2,000,000 general aggregate, employer liability insurance of \$1,000,000, business automobile liability insurance not less than \$1,000,000 per occurrence, and workers' compensation insurance as required under California State Law.

The Union executive director stated that the expiration of several food service agreements coincided with the Union's construction expansion project and the decision to issue a request for proposal (RFP) for all food services. She added that as a result, the agreements were not renewed, and vendors were instead asked to participate in a month-to-month lease. She stated that the month-to-month agreements were in the process of being executed. She further stated that the agreements that lacked adequate insurance and indemnification provisions were old agreements and therefore did not meet the updated standards.

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

Recommendation 33

We recommend that the Union:

- a. Execute sublease agreements pertaining to space for the Concord campus café and the food service facility in the Physical Education building.
- b. Ensure that agreements include appropriate indemnification and insurance provisions.
- c. Ensure that current agreements are executed.
- d. Ensure that agreements are executed in a timely manner.

Campus Response

We concur.

- a. The Union has executed sublease agreements pertaining to space for the Concord campus café and the food service facility in the Physical Education building.
- b. The Union will ensure that all agreements include appropriate indemnification and insurance provisions.
- c. The Union will execute a new food service vendor contract in the next few days.
- d. The Union will ensure that all future agreements are executed in a timely manner.

CORPORATE GOVERNANCE

DISSOLUTION OF AUXILIARY

The Union Articles of Incorporation included an improper dissolution clause; it allowed the board of directors to select and the university to approve 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 Board of Trustees.

The Union executive director stated that the dissolution clause did not include the proper language due to oversight.

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 34

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

Campus Response

We concur. The Union's board of directors has redrafted its corporate dissolution clause in accordance with Title 5 and appropriately reflected the change in its Articles of Incorporation and has reported this to the chancellor's office.

ELECTION OF OFFICERS

The Union did not establish provisions for elections of officers and board members, such as sample ballots, number of days and hours for voting, polling locations, and notice of elections.

Education Code §89925 indicates that each auxiliary organization shall establish by constitution, statute, bylaws, or resolution, provisions for elections of officers and board members. These provisions shall be designed to allow all those eligible to vote complete access to all information on issues and candidates. These provisions shall include, but not be limited to, provisions for sample ballots, numbers of days and hours for voting, polling locations, and notice of elections.

The Union executive director stated her belief that it was unnecessary to include these provisions in its bylaws because Union elections were conducted and staffed by the university.

Failure to establish provisions for elections of officers and board members can result in misunderstandings regarding the election process.

Recommendation 35

We recommend that the Union establish provisions for elections of officers and board members in accordance with the Education Code.

Campus Response

We concur. The Union board of directors has established provisions for elections of officers and board members in accordance with the Education Code.

FISCAL COMPLIANCE

The Union reserve policy did not fully address the methodology used for the calculation of reserves and the 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*, 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 Union executive director stated that the current reserve policy was accepted by the Union board in the late 1990s but added that it would be revised and approved appropriately.

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

Recommendation 36

We recommend that the Union develop and implement comprehensive 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

The Union board of directors developed and has approved a comprehensive reserve policy and procedure that address: minimum reserve requirements; a methodology used for the calculations of reserves; board review and reserve levels; reserves for capital replacements, working capital, and current operations; and adequacy of reserves.

CASH RECEIPTS AND HANDLING

The Union did not keep a log of incoming checks.

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

The Union executive director stated her belief that a check log was not necessary because she opened the checks and another individual endorsed and prepared them for deposit.

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

Recommendation 37

We recommend that the Union maintain a log of incoming checks.

Campus Response

We concur. The Union has implemented and maintains a log of all incoming checks.

PURCHASING AND ACCOUNTS PAYABLE

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

Our review of 59 disbursements disclosed the following processing exceptions:

- ▶ In five instances, facsimile or photocopied invoices were accepted for payment without certification that records were verified to prevent duplicate payment.
- ▶ In three instances, the Union could not provide disbursement and supporting documentation.
- ▶ In three instances, payment was issued without an approved purchase order.
- ▶ In one instance, payment was issued without a travel request form.

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

business practices. Sound business practice mandates that 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 Union executive director stated that these disbursement exceptions occurred due to oversight.

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

Recommendation 38

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

Campus Response

We concur. The Union's executive director has held a staff meeting and provided staff with a memorandum of cash disbursement policies and procedures regarding sufficient and appropriate supporting documentation and authorization.

PROPERTY AND EQUIPMENT

The Union did not perform an annual physical inventory count of equipment, furniture, and fixtures for fiscal year 2004/05.

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

The Union executive director stated that although the fiscal year 2004/05 physical inventory had not been conducted due to oversight, acquisition and disposal of fixed assets were noted.

Failure to conduct annual physical inventory counts increases the risk that property may be lost or stolen.

Recommendation 39

We recommend that the Union perform annual physical inventory counts of fixed assets.

Campus Response

We concur. The Union will perform annual physical inventory counts of fixed assets. The Union has recently completed an audit of fixed assets.

TRUSTS AND OTHER LIABILITIES

The Union had not developed policies and procedures to escheat unclaimed monies to the state.

Code of Civil Procedure, Chapter 7, *Unclaimed Property Law*, Article 2 §1510 and §1511 indicate that property held by a business association escheats to the state, subject to various requirements and limitations.

The Union executive director stated that the lack of escheatment policies and procedures was due to oversight.

Failure to meet the requirements of unclaimed property law could increase the auxiliary's exposure to potential penalties and fines.

Recommendation 40

We recommend that the Union develop policies and procedures related to escheatment to meet the requirements of the Code of Civil Procedure with respect to unclaimed property.

Campus Response

We concur. The Union has developed policies and procedures mirroring the university's as it relates to escheatment to meet the requirements of the Code of Civil Procedure with respect to unclaimed property.

APPENDIX A: PERSONNEL CONTACTED

Name

Title

CAMPUS

Mohammad Qayoumi	President
Norma S. Rees	President (At time of review)
La Tanya Bellow	Executive Assistant
Robert Burt	Vice President, University Advancement
Deane Coleman	Receptionist
Tom Froehlich	Director of Advancement Services
Tendi Henry	Manager of Database Services
Nyassa Love	Associate Vice President, Business and Financial Services
Richard Metz	Vice President, Administration and Business Affairs
Curt Robinson	Assistant Vice President, Enterprise Activities
Kyna Taylor	Administration Support Coordinator
Sonja Uihlein	Operation Specialist
Harry Wong	Systems Administrator

CALIFORNIA STATE UNIVERSITY, EAST BAY FOUNDATION, INC.

La Tanya Bellow	Benefits Coordinator
Sandra Ehrhorn	Manager, Pioneer Bookstore
Derrick Lobo	Operations Manager
Violeta Morales-Solis	Payroll Specialist
Barbara Mueller	Cashier/Accounting Assistant
Margaret Price	Associate Manager, Pioneer Bookstore
Darlene Robertson	Accounting Manager
Curt Robinson	Executive Director
Madelene Spicer	Operations Technician, Pioneer Bookstore
Marilyn Stager	Controller
Cynthia Vinson	Manager, Contracts and Grants

CAL STATE EAST BAY EDUCATIONAL FOUNDATION

Robert Burt	President
Richard Metz	Treasurer

ASSOCIATED STUDENTS, CALIFORNIA STATE UNIVERSITY, HAYWARD

Margaret Daniel	Office Manager
Matthew Friedman	Executive Director
Doris Lagasca	Accounting Clerk
Jo Jo Linnawati	Student Assistant
Bettie Little	Accounting Manager
Karen Natrass	Director, Early Childhood Education Center

UNIVERSITY UNION, INC., CALIFORNIA STATE UNIVERSITY, EAST BAY

Nathan Curtis	Building Operations and Services Coordinator
Jeff Kirker	Assistant Director of Facility Operations
Doris Lagasca	Accounting Clerk
Callie Le Renard	Assistant Director of Business Services
Jo Jo Linnawati	Student Assistant
Bettie Little	Accounting Manager
Joseph Nacion	Concord Café Supervisor
Monica Pacheco	Executive Director

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.



Office of the Vice President, Administration & Business Affairs

CALIFORNIA STATE UNIVERSITY, EAST BAY
 25800 Carlos Bee Boulevard, Hayward, CA 94542-3002
 Phone: 510.885.3803 • Fax: 510.885.4745 • richard.metz@csueastbay.edu

RECEIVED
 UNIVERSITY AUDITOR

JUN 19 2006

THE CALIFORNIA STATE
 UNIVERSITY

June 12, 2006

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

Subject: Audit Report 0550, Auxiliary Organizations at CSU East Bay

Dear Mr. Mandel,

We have reviewed the audit report 0550, Auxiliary Organization at CSU East Bay, and please find attached our campus responses. We are working with the auxiliary to comply with the recommendations and will provide supporting documentation of resolutions once our responses have been approved by your office.

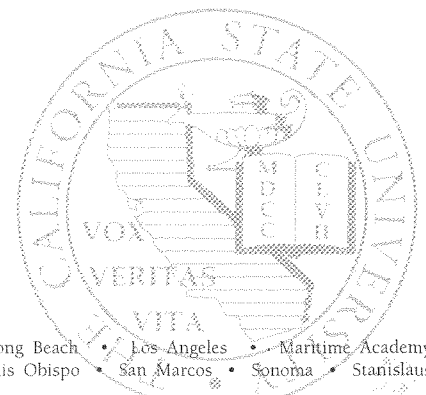
Please let me know if you have further questions or require any additional information.

Sincerely,

Richard S. Metz
 Vice President for Administration and
 Business Affairs

Attachments

c: Nyassa Love
 Norma S. Rees



AUXILIARY ORGANIZATIONS
CALIFORNIA STATE UNIVERSITY,
EAST BAY

Report Number 05-50
May 9, 2006

CAMPUS

CORPORATE GOVERNANCE

Recommendation 1

We recommend that the campus take appropriate measures to ensure that auxiliary finance committee minutes are signed and approved by an appropriate official.

Campus Response

We concur. The campus will act appropriately in ensuring that all board and committee minutes are signed and approved by an appropriate official. The auxiliaries have implemented and have complied with the recommendation.

FISCAL COMPLIANCE

Recommendation 2

We recommend that the campus develop a current, formal cost allocation plan to ensure that the General Fund is appropriately and timely reimbursed for facilities, goods, and services provided to auxiliary organizations.

Campus Response

We concur. The campus will develop a current, formal cost allocation plan to reimburse appropriately the General Fund in a timely manner for facilities, goods, and services provided to our auxiliary organizations.

Anticipated completion: December 31, 2006.

OPERATIONAL COMPLIANCE

Recommendation 3

We recommend that the campus provide additional guidance for its auxiliaries to strengthen their conflict-of-interest policies and procedures to address, among other things: filing of annual statements by board and management personnel; determination of whether a conflict of interest exists; actions required in association with a conflict; and actions required when violations of conflict-of-interest policy are discovered.

Campus Response

We concur. The campus will monitor and maintain all conflict of interest forms for the auxiliary. The campus' designated filing officer will maintain the signed forms and currently has compliance by almost every auxiliary.

Anticipated full compliance: August 15, 2006.

TRUST AND OTHER LIABILITIES

Recommendation 4

We recommend that the campus ensure that all state revenues are maintained and administered in state trust accounts and that all state revenues currently residing in Foundation and Ed Foundation accounts be immediately transferred to such accounts.

Campus Response

We concur. The campus will work with the Foundation and Ed Foundation to identify and transfer those state trust accounts and all state revenues currently residing in Foundation and Ed Foundation accounts.

Anticipated compliance by November 30, 2006.

CALIFORNIA STATE UNIVERSITY, EAST BAY FOUNDATION, INC.

OPERATING AND ADMINISTRATIVE AGREEMENTS

Recommendation 5

We recommend that the Foundation ensure that its revised operating agreement with the campus is signed and submitted to the chancellor's office for approval in a timely manner.

Campus Response

We concur. The Foundation has revised its operating agreement with the campus and it has been approved by the Chancellor's office.

FACILITIES AGREEMENTS

Recommendation 6

We recommend that the Foundation:

- a. Execute a ground lease with the campus for the modular building site.
- b. Ensure that agreements include appropriate indemnification and insurance clauses.

Campus Response

We concur.

- a. The Foundation has executed a ground lease with the campus for the modular building and site has sent it to the Chancellor's Office for approval.
- b. The Foundation will also modify agreements to include appropriate indemnification and insurance clauses. Anticipated compliance by September 1, 2006.

CORPORATE GOVERNANCE

Recommendation 7

We recommend that the Foundation immediately submit its amended Articles of Incorporation to the chancellor's office.

Campus Response

We concur. The Foundation will provide the amended Articles of Incorporation to the chancellor's office by June 30, 2006.

FISCAL COMPLIANCE

Recommendation 8

We recommend that the Foundation implement its formal plan to ensure self-sufficiency, including implementation of financial and operational controls to ensure revenues equal or exceed expenditures.

Campus Response

We concur. The Foundation and the Campus are working to limit obligations in operational resources for the Foundation. In addition, the foundation will create a plan that ensures self-sufficiency and ensure revenues equal or exceed expenditures. This will be accomplished by October 1, 2006.

OPERATIONAL COMPLIANCE

Recommendation 9

We recommend that the Foundation timely perform and document an analysis of the comparability of salaries, wages, and benefits for its full-time employees in relation to those provided campus employees performing substantially similar services.

Campus Response

We concur. A formal analysis of the comparability of salaries, wages, and benefits for the Foundation's full-time employees in relations to campus' employees performing substantially similar duties was conducted, present to the Board of Directors, and sent to the chancellor's office. Future analysis will be performed in a timely manner.

SEGREGATION OF DUTIES

Recommendation 10

We recommend that the Foundation properly segregate certain cash disbursement functions or institute mitigating procedures approved by the campus chief financial officer.

Campus Response

We concur. The Foundation will review its operation and resources to properly segregate certain cash disbursement functions or develop mitigating procedures that will be approved by the campus chief financial officer. This will be accomplished by August 15, 2006.

CASH RECEIPTS AND HANDLING

Recommendation 11

We recommend that the Foundation:

- a. Ensure all change funds maintained in the Bookstore cash vault are appropriately reconciled on a daily basis to the amount recorded in the vault cash inventory.
- b. Maintain records of Bookstore personnel who have cash register funds on a daily basis.

Campus Response

We concur.

- a. The Foundation will ensure all change funds maintained in the Bookstore cash vault are appropriately reconciled to the sub ledger (cash on hand log) and recorded in the vault cash inventory.
- b. The Foundation will maintain records of Bookstore personnel who have cash register funds on a daily basis.

These will be accomplished by June 15, 2006.

FEES, REVENUES, AND RECEIVABLES

Recommendation 12

We recommend that the Foundation:

- a. Develop policies and procedures that address accounts receivable aging, timely action on uncollected receivables, the write-off of uncollectible accounts, and assessment of allowance for doubtful accounts.
- b. Implement specific policies and procedures for collection of outstanding receivables from campus customers and auxiliaries to ensure timely collection of payments.
- c. Administer collection of payment from auxiliaries for employee benefits in accordance with terms stated in the benefits service agreements or seek mutual agreement to modification of the agreements.

Campus Response

We concur.

- a. The Foundation has developed and implemented Board approved policy that ensures accounts receivable invoices are accurately and timely recorded, maintained and collected.

- b. The Foundation will implement specific policies and procedures for collection of outstanding receivables from campus customers and auxiliaries to ensure timely collection of payments.
- c. The Foundation will also work with the other auxiliaries to ensure that payments of employee benefits are in accordance with terms stated in the benefits service agreements.

Anticipated completion by September 1, 2006.

PURCHASING AND ACCOUNTS PAYABLE

Recommendation 13

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

Campus Response

We concur. The Foundation has reiterated to staff existing cash disbursement policies and procedures as well as updated signature authorizations for new staff members.

PERSONNEL AND PAYROLL

Recommendation 14

We recommend that the Foundation perform an independent review of employee salary and wage adjustments prior to the disbursement of paychecks to prevent unauthorized payroll transactions from occurring.

Campus Response

We concur. The Foundation will perform independent reviews of employee salary and wage adjustments prior to the disbursement of paychecks. This will be accomplished by July 30, 2006.

TRUSTS AND OTHER LIABILITIES

Recommendation 15

We recommend that the Foundation fully implement policies and procedures related to escheatment to meet the requirements of the Code of Civil Procedure with respect to unclaimed property.

Campus Response

We concur. The Foundation will develop and implement a policy and procedure related to escheatment that meets the requirements of the Code of Civil Procedure with respect to unclaimed property. This will be accomplished by August 1, 2006.

AUXILIARY PROGRAMS

Recommendation 16

We recommend that the Foundation:

- a. Retain documentation to evidence that financial reports and other technical deliverables are submitted to the sponsoring agency.
- b. Ensure time and effort certifications are collected in a timely manner.
- c. Develop policies and procedures to adequately monitor time and effort certification for faculty working overload.
- d. Ensure grant and contract signature authorization forms are on file.

Campus Response

We concur.

- a. The Foundation has developed a process to retain documentation to evidence the financial reports and other technical deliverables from project directors and submit documents to the sponsoring agencies.
- b. The Foundation has developed and implemented policy for time and effort reporting.
- c. The Foundation has developed policies and procedures to monitor adequately time and effort certification for faculty working overload.
- d. The Foundation will ensure that grant and contract signature authorization forms are on file for project directors. This will be accomplished by November 1, 2006.

CAL STATE EAST BAY EDUCATIONAL FOUNDATION

OPERATING AND ADMINISTRATIVE AGREEMENTS

Recommendation 17

We recommend that the Ed Foundation:

- a. Execute the MOU with the Foundation for accounting services.
- b. Execute administrative agreements with the campus for services provided by state employees at the auxiliary.

Campus Response

We concur.

- a. The Ed Foundation will execute the MOU with the Foundation for accounting services. This will be completed by July 1, 2006.
- b. The Ed Foundation will execute an administrative agreement with the campus for the services provided by state employees at the auxiliary. This will be completed by August 1, 2006.

CORPORATE GOVERNANCE

BOARD COMPOSITION

Recommendation 18

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

Campus Response

We concur. The Ed Foundation will ensure that all board positions are filled in a timely manner. It has named a student as a representative for the College of Letters, Arts, and Social Services for the Associated Students.

FISCAL COMPLIANCE

Recommendation 19

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

Campus Response

We concur. The Ed Foundation has established a board-designated reserve account within its general ledger.

CAMPUS OVERSIGHT AND CONTROL

Recommendation 20

We recommend that the Ed Foundation ensure that its annual budgets are approved by its board and submitted to the campus president for approval in a timely manner.

Campus Response

We concur. The Ed Foundation will ensure that its annual budgets are approved by its board and submitted to the campus president for approval in a timely manner. The budget for the current fiscal year has been approved by the President.

PURCHASING AND ACCOUNTS PAYABLE

Recommendation 21

We recommend that the Ed Foundation:

- a. Maintain written signature authorization cards identifying individuals designated to approve all disbursements.
- b. Reiterate to staff existing cash disbursement policies and procedures regarding sufficient and appropriate supporting documentation and authorization.

Campus Response

We concur.

- a. The Ed Foundation will develop and maintain written signature authorization cards identifying individuals designated to approve all disbursements. This will be completed by September 1, 2006.
- b. The Ed Foundation has reiterated to staff existing cash disbursement policies and procedures regarding sufficient appropriate supporting documentation and authorization.

ASSOCIATED STUDENTS, CALIFORNIA STATE UNIVERSITY, HAYWARD

OPERATING AND ADMINISTRATIVE AGREEMENTS

Recommendation 22

We recommend that the AS:

- a. Revise its registration form to extend the hold harmless provision to include the CSU Trustees.
- b. Include proper indemnification and insurance provisions in its contract for janitorial services.

Campus Response

We concur.

- a. The Associated Students has revised its registration form to extend the hold harmless provision to include the CSU Trustees.
- b. The Associated Students current contract for janitorial services expired on June 1, 2006 and will not be renewed at that time. Future contracts will include proper indemnification and insurance provisions.

CORPORATE GOVERNANCE

Recommendation 23

We recommend that the AS ensure that student representation is maintained in accordance with its bylaws.

Campus Response

We concur. The Associated Student has amended their bylaws for greater marketability for elected student representatives.

FISCAL COMPLIANCE

OPERATING LOSSES

Recommendation 24

We recommend that the AS implement a formal plan to ensure self-sufficiency, including implementation of financial and operational controls to ensure revenues equal or exceed expenditures.

Campus Response

We concur. The Associated Students has implemented a fee referendum that increases student fees. This will help in developing a formal plan to ensure self-sufficiency of the AS auxiliary. The plan will be completed by October 1, 2006.

UNRELATED BUSINESS INCOME

Recommendation 25

We recommend that the AS account for and track UBI for childcare services provided to community members, and file federal income tax returns as appropriate.

Campus Response

We concur. The Associated Students has developed a new contract with Head Start to allow it to run the ECEC and transfers the responsibility for this tracking and reporting system to it effective June 1, 2006.

CASH RECEIPTS AND HANDLING

Recommendation 26

We recommend that AS maintain a log of incoming checks specifically for the Early Childhood Education Center, and ensure that the petty cash general ledger balance is reconciled to the funds on hand.

Campus Response

We concur. The Associated Students have begun to maintain a log of all incoming checks to ensure that the petty cash general ledger balance is reconciled to the funds on hand. However, with the new contract for Head Start taking on the responsibility for running the ECEC, this log becomes its responsibility.

PURCHASING AND ACCOUNTS PAYABLE

DISBURSEMENTS

Recommendation 27

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

Campus Response

We concur. The Associated Students' Executive Director has held a staff meeting and documented the cash disbursement policies and procedures to reiterate them to staff.

INVENTORY

Recommendation 28

We recommend that the AS business office management perform a periodic reconciliation of tickets on hand to tickets sold.

Campus Response

We concur. The Associated Students business office management has performed and will continue to perform periodic reconciliation of tickets on hand to tickets sold.

PROPERTY AND EQUIPMENT**Recommendation 29**

We recommend that the AS perform annual physical inventory counts of fixed assets.

Campus Response

We concur. The Associated Students will perform an annual physical inventory count of fixed assets. The AS is currently working on an inventory of its fixed assets. This will be completed by July 31, 2006.

TRUSTS AND OTHER LIABILITIES**ESCHEATMENT****Recommendation 30**

We recommend that the AS develop policies and procedures related to escheatment to meet the requirements of the Code of Civil Procedure with respect to unclaimed property.

Campus Response

We concur. The Associated Students will develop policies and procedures related to escheatment to meet the requirements of the Code of Civil Procedure with respect to unclaimed property. This will be done by July 31, 2006.

STUDENT CLUB FUNDS**Recommendation 31**

We recommend that the AS establish a trust agreement and written policies and procedures regarding funds held and administered by the AS on behalf of student club organizations.

Campus Response

We concur. The Associated Students will establish a trust agreement and written policies and procedures regarding funds held and administered by the AS on behalf of student club organizations. This will be completed by October 15, 2006.

UNIVERSITY UNION, INC.,
CALIFORNIA STATE UNIVERSITY, EAST BAY

OPERATING AND ADMINISTRATIVE AGREEMENTS

Recommendation 32

We recommend that the Union:

- a. Establish a current operating and lease agreement with the campus.
- b. Include a proper indemnification provision in the ATM agreement.

Campus Response

We concur.

- a. The University Union has established a current operating and lease agreement with the campus that has been approved by the Chancellor's Office.
- b. The University Union will modify the agreement for the ATM and include proper indemnification language. This will be completed by July 31, 2006.

FACILITIES AGREEMENTS

Recommendation 33

We recommend that the Union:

- a. Execute sublease agreements pertaining to space for the Concord campus café and the food service facility in the Physical Education building.
- b. Ensure that agreements include appropriate indemnification and insurance provisions.
- c. Ensure that current agreements are executed.
- d. Ensure that agreements are executed in a timely manner.

Campus Response

We concur.

- a. The University Union has executed sublease agreement pertaining to space for the Concord Campus and the food service facility in the Physical Education building.
- b. The University Union will ensure that all agreements include appropriate indemnification and insurance provisions.
- c. The University Union will execute a new food service vendor contract in the next few days.

- d. The University Union will ensure that all future agreements are executed in a timely manner.

CORPORATE GOVERNANCE

DISSOLUTION OF AUXILIARY

Recommendation 34

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

Campus Response

We concur. The University Union's Board of Directors has redrafted its corporate dissolution clause in accordance with Title 5 and appropriately reflects the change in its Articles of Incorporation and has reported this to the Chancellor's Office.

ELECTION OF OFFICERS

Recommendation 35

We recommend that the Union establish provisions for elections of officers and board members in accordance with the Education Code.

Campus Response

We concur. The University Union Board of Directors has established provisions for elections of officers and board members in accordance with the Education Code.

FISCAL COMPLIANCE

Recommendation 36

We recommend that the Union develop and implement comprehensive 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

The University Union Board of Directors developed and has approved a comprehensive reserve policy and procedure that address: minimum reserve requirements; a methodology used for the calculations of reserves; board review and reserve level; reserves for capital replacements, working capital, and current operations; and adequacy of reserves.

CASH RECEIPTS AND HANDLING

Recommendation 37

We recommend that the Union maintain a log of incoming checks.

Campus Response

We concur. The University Union has implemented and maintains a log of all incoming checks.

PURCHASING AND ACCOUNTS PAYABLE

Recommendation 38

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

Campus Response

We concur. The University Union's Executive Director has held a staff meeting and provided staff with a memorandum of cash disbursement policies and procedures regarding sufficient and appropriate supporting documentation and authorization.

PROPERTY AND EQUIPMENT

Recommendation 39

We recommend that the Union perform annual physical inventory counts of fixed assets.

Campus Response

We concur. The University Union will perform annual physical inventory counts of fixed assets. The Union has recently completed an audit of fixed assets.

TRUSTS AND OTHER LIABILITIES

Recommendation 40

We recommend that the Union develop policies and procedures related to escheatment to meet the requirements of the Code of Civil Procedure with respect to unclaimed property.

Campus Response

We concur. The University Union has developed policies and procedures mirroring the University's as it relates to escheatment to meet the requirements of the Code of Civil Procedure with respect to unclaimed property.

THE CALIFORNIA STATE UNIVERSITY
OFFICE OF THE CHANCELLOR



BAKERSFIELD

July 26, 2006

CHANNEL ISLANDS

CHICO

MEMORANDUM

DOMINGUEZ HILLS

EAST BAY

TO: Mr. Larry Mandel
University Auditor

FRESNO

FULLERTON

FROM: Charles B. Reed
Chancellor

HUMBOLDT

SUBJECT: Draft Final Report Number 05-50 on *Auxiliary Organizations*,
California State University, East Bay

LONG BEACH

LOS ANGELES

MARITIME ACADEMY

In response to your memorandum of July 26, 2006, I accept the response as submitted with the draft final report on *Auxiliary Organizations*, California State University, East Bay.

MONTEREY BAY

NORTHRIDGE

POMONA

CBR/jt

SACRAMENTO

Enclosure

SAN BERNARDINO

cc: Mr. Richard S. Metz, Vice President, Administration and Business Affairs
Dr. Mohammad Qayoumi, President

SAN DIEGO

SAN FRANCISCO

SAN JOSÉ

SAN LUIS OBISPO

SAN MARCOS

SONOMA

STANISLAUS

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