

AUXILIARY ORGANIZATIONS
CALIFORNIA STATE UNIVERSITY,
MONTEREY BAY

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ABBREVIATIONS

ATM	Automated Teller Machine
CDC	Child Development Center
CEHI	CSUMB Employee Housing, Inc.
CFO	Chief Financial Officer
CSU	California State University
CSUMB	California State University, Monterey Bay
EO	Executive Order
Foundation	Foundation of California State University, Monterey Bay
KAZU	KAZU Radio Station
PD/PI	Program Director/Principal Investigator
RFIN	Resolution of the Committee on Finance

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, Monterey 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, Monterey Bay campus and its auxiliary organizations from October 24, 2005, through December 2, 2005, and made a study and evaluation of the system of internal compliance/internal control in effect for the period March 2003 to December 2005. This report represents our triennial review.

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

Our study and evaluation at *CSUMB Employee Housing, 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 December 2005, taken as a whole, was sufficient to meet the objectives stated above.

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

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

CAMPUS

CAMPUS OVERSIGHT AND CONTROL [9]

Policies and procedures had not been developed to address misconduct in research for sponsored programs.

FOUNDATION OF CALIFORNIA STATE UNIVERSITY, MONTEREY BAY

OPERATING AND ADMINISTRATIVE AGREEMENTS [10]

Certain business and operating arrangements between the Foundation of California State University, Monterey Bay (Foundation), the campus, and other entities were not supported by complete or current written agreements. For example, management agreements with a food service contractor, bookstore contractor, and a property management company did not include an indemnification provision.

CORPORATE GOVERNANCE [11]

The Foundation Articles of Incorporation included an improper dissolution clause; it only allowed a non-profit organization to be selected as successor.

FISCAL COMPLIANCE [12]

The Foundation had not fully implemented its current reserve policy. For example, minimum reserves requirements had not been met in accordance with the reserve policy, nor had reserve accounts been designated and reflected in the general ledger.

SEGREGATION OF DUTIES [13]

Duties and responsibilities over certain accounting functions for cash receipts and payroll at the Child Development Center (CDC), university advancement, KAZU Radio Station (KAZU), residential life, and the Foundation were not appropriately segregated. For example, at the CDC, the office manager who received checks and cash also prepared the invoices and deposits; and one Foundation employee

entered the number of hours worked, processed the payroll information, received the payroll checks, and had the capability to override employee pay rates, including her own.

CASH RECEIPTS AND HANDLING [15]

The Foundation's administration of cash receipts and handling required improvement. Specifically, cash receipts were not deposited, posted in the general ledger, or reconciled in a timely manner. In addition, the same individual performed both the bank and investment reconciliations.

FEES, REVENUES, AND RECEIVABLES [16]

The Foundation did not perform revenue reconciliations between the donor database system and the general ledger accounting system at both KAZU and university advancement.

PURCHASING AND ACCOUNTS PAYABLE [17]

Certain Foundation cash disbursements were not supported by sufficient and appropriate documentation and/or appropriate authorization. In addition, the Foundation had not fully developed written policies and procedures to address a specified dollar threshold requirement for purchase orders. Lastly, the administration of the Foundation's procurement card program was not sufficient. For example, individuals other than the authorized cardholder signed receipts.

PROPERTY AND EQUIPMENT [20]

The Foundation's current reconciliation process between campus fixed assets records and the Foundation general ledger was incomplete. Specifically, during the transition of all accounting functions between the campus and the Foundation, procedures for fixed assets reconciliation had not been established. Additionally, the Foundation had not developed written policies and procedures over fixed assets as adopted by its governing board.

AUXILIARY PROGRAMS [22]

The Foundation had not developed policies and procedures to monitor the submission of technical reports to contracting agencies.

CSUMB EMPLOYEE HOUSING, INC.

OPERATING AND ADMINISTRATIVE AGREEMENTS [23]

The hold harmless provision in the CSUMB Employee Housing, Inc. (CEHI) operating agreement had not been updated to indemnify the campus.

CORPORATE GOVERNANCE [24]

The CEHI Articles of Incorporation included an improper dissolution clause; it only allowed a non-profit organization to be selected as successor.

FISCAL COMPLIANCE [24]

The CEHI had not fully implemented its current reserve policy. Specifically, reserve reports and three-year forward-looking schedules were not prepared annually and reserve accounts were not designated and reflected in the general ledger.

INTRODUCTION

BACKGROUND

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

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

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

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

This executive order requires that the Office of the University Auditor will perform an internal compliance/internal control review of auxiliary organizations. The review will be used to determine compliance with law, including statutes in the Education Code and rules and regulations of Title 5, and compliance with policy of the Board of Trustees and of the campus, including appropriate separation of duties, safeguarding of assets, and reliability and integrity of information. According to Board of Trustee instruction, each auxiliary organization shall be examined on a triennial basis pursuant to procedures established by the chancellor.

PURPOSE

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

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

SCOPE AND METHODOLOGY

Our study and evaluation were conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing* issued by the Institute of Internal Auditors, and included the audit tests we considered necessary in determining that accounting and administrative controls are in place and operative. The management review emphasized, but was not limited to, compliance with state and federal laws, Board of Trustee policies, and Office of the Chancellor policies, letters, and directives. For those audit tests that required annualized data, fiscal years 2003/04 and 2004/05 were the primary periods reviewed. In certain instances, we were concerned with representations of the most current data; in such cases, the test period was July 2004 to December 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:

Foundation of California State University, Monterey 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
- ▶ 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

CSUMB Employee Housing, Inc.

- ▶ Operating and Administrative Agreements
- ▶ Facilities Agreements
- ▶ Corporate Governance
- ▶ Fiscal Compliance
- ▶ Operational Compliance
- ▶ Program Compliance
- ▶ Campus Oversight and Control
- ▶ Fees, Revenues, and Receivables
- ▶ Purchasing and Accounts Payable
- ▶ Information Technology

Campus

- ▶ Campus Oversight and Control

INTRODUCTION

We have not performed any auditing procedures beyond December 2005. Accordingly, our comments are based on our knowledge as of that date. Since the purpose of our comments is to suggest areas for improvement, comments on favorable matters are not addressed.

OBSERVATIONS, RECOMMENDATIONS, AND CAMPUS RESPONSES

CAMPUS

CAMPUS OVERSIGHT AND CONTROL

The campus had not developed policies and procedures to address the misconduct in research for sponsored programs.

Executive Order (EO) 890, *Administration of Grants and Contracts in Support of Sponsored Programs*, dated January 7, 2004, in part, states that each campus 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 EO further states that each campus shall provide for a procedure for processing complaints of research misconduct or other employee misconduct in connection with sponsored programs.

The director of grants and contracts stated that the lack of policies and procedures to address misconduct in research was due to campus oversight.

Failure to develop policies and procedures to address misconduct in research increases the risk that sponsored programs will operate in a manner inconsistent with the educational mission of the campus.

Recommendation 1

We recommend that the campus develop policies and procedures to address misconduct in research for sponsored programs.

Campus Response

We concur. Currently the campus is vetting a research misconduct policy pursuant to its policy implementation guidelines and anticipates that the research misconduct policy will be adopted by September 30, 2006.

FOUNDATION OF CALIFORNIA STATE UNIVERSITY, MONTEREY BAY

OPERATING AND ADMINISTRATIVE AGREEMENTS

Certain business and operating arrangements between the Foundation of California State University, Monterey Bay (Foundation), the campus, and other entities were not supported by complete or current written agreements.

We found that:

- ▶ The hold harmless provision in the Foundation operating agreement did not specifically indemnify the campus.
- ▶ The indemnification clause and insurance provisions in the Foundation's conference and event services contract did not specifically indemnify the State of California and the California State University (CSU) Trustees.
- ▶ The management agreement with the food service contractor did not include an indemnification provision.
- ▶ The management agreement with the bookstore contractor did not include an indemnification provision.
- ▶ The management agreement with the property management company did not include an indemnification provision.
- ▶ A written agreement was not established with a third party for automated teller machine (ATM) services provided on campus.
- ▶ A written agreement had not been established for a loan from CSUMB Employee Housing, Inc. (CEHI) to the Foundation.

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 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 the hold harmless provision was in compliance at the time the operating agreement was executed with the chancellor's office. In addition, he stated that since the campus contracting department established and approved all agreements, he was unaware of the lack of proper indemnification provisions. He further stated that the absence of a written agreement with the third party for ATM services was due to oversight. Lastly, he stated his belief that the loan from CEHI to the Foundation was approved in a board meeting.

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

Recommendation 2

We recommend that the Foundation:

- a. Ensure that current and new agreements include appropriate indemnification clauses.
- b. Establish a written agreement for ATM services provided by a third party.
- c. Establish a written agreement for the loan arrangement with CEHI.

Campus Response

We concur.

- a. The Foundation is currently ensuring that current and new agreements include appropriate indemnification clauses and will have completed any necessary amendments by October 15, 2006.
- b. The Foundation has established a written agreement for ATM services.
- c. The loan arrangement with CEHI has been paid in full. In the future, the Foundation will establish written agreements for loan arrangements.

CORPORATE GOVERNANCE

The Foundation Articles of Incorporation included an improper dissolution clause; it only allowed a non-profit organization to be selected as 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 Foundation executive director stated that he was unaware that the dissolution clause was not in compliance with Title 5, because it was his belief that the dissolution clause was in compliance with current legal counsel opinion at the time the Articles of Incorporation were drafted.

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 3

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

Campus Response

We concur. By July 31, 2006, the Foundation will revise its corporate dissolution clause in its Articles of Incorporation.

FISCAL COMPLIANCE

The Foundation had not fully implemented its current reserve policy.

We found that:

- ▶ Reserve accounts were not designated and reflected in the general ledger.
- ▶ Minimum reserve requirements had not been met in accordance with the reserve policy.
- ▶ Neither the actual allocation to reserves nor the assessment of the adequacy of reserves could be provided.

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 that 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 Foundation director of operations stated that the failure to prepare reserve reports and three-year forward-looking schedules, designate reserves accounts in the general ledger, and assess adequacy of reserves was due to oversight. She further stated that although the Foundation continued to budget and set aside funds, other fiscal constraints made it difficult to fully fund the reserves in a timely manner.

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

Recommendation 4

We recommend that the Foundation:

- a. Ensure reserve accounts are designated and reflected in the general ledger.
- b. Ensure proper reserves are maintained in accordance with its reserve policy or revise the reserve policy to reflect current practice.
- c. Monitor its reserve levels to ensure that adequate working capital exists to fund future operations.

Campus Response

We concur.

- a. The Foundation will work with the campus to ensure that reserve accounts are designated and reflected in the general ledger by October 15, 2006.
- b. The Foundation will ensure that proper reserves are maintained in accordance with its reserve policy by October 15, 2006.
- c. By October 15, 2006, the Foundation director of accounting will be monitoring the Foundation's reserve levels on a quarterly basis to ensure that adequate working capital exists to fund future operations.

SEGREGATION OF DUTIES

CASH RECEIPTS AND HANDLING

Duties and responsibilities over certain cash receipts processing functions were not properly segregated at the Child Development Center (CDC), university advancement, KAZU Radio Station (KAZU), and residential life.

- ▶ At the CDC, the office manager who received checks and cash also prepared the invoices and deposits.
- ▶ At university advancement, the development analyst who received checks also posted receipts to the donor database, recorded pledge receivables, wrote-off pledge receivables, and prepared acknowledgment and tax letters to donors.
- ▶ At KAZU, the budget analyst who received checks also posted receipts to the donor database, recorded pledge receivables, and wrote-off pledge receivables.
- ▶ At residential life, the assignment analyst who received checks also prepared deposits and performed the reconciliation.

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 and Segregation of Duties*, states that the auxiliary should establish a written internal controls system that ensures cash receipt and disbursements are conducted with appropriate segregation of duties.

The Foundation executive director stated that staffing constraints and workload issues led to the lack of proper oversight and appropriate segregation of duties at the CDC, KAZU, and university advancement. He further stated that the Foundation was in the process of adjusting job responsibilities and addressing cash procedures. The Foundation residential life administrative and financial coordinator stated that the assignment analyst was performing all of the above duties due to a vacancy in the customer service specialist position.

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

Recommendation 5

We recommend that the Foundation take appropriate measures to ensure that the cash receipts processing functions at the CDC, university advancement, KAZU, and residential life are properly segregated or institute mitigating procedures approved by the campus chief financial officer (CFO).

Campus Response

We concur. The Foundation will determine whether to segregate or to institute mitigating procedures by October 15, 2006.

PAYROLL

Duties and responsibilities over certain payroll functions were not properly segregated at the Foundation.

We found that one employee:

- ▶ Entered the number of hours worked.
- ▶ Processed the payroll information.
- ▶ Received the payroll checks.
- ▶ Had the capability to override employee pay rates, including her own.

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 8.9.6, *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 personnel constraints led to a lack of proper oversight and appropriate segregation of duties.

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

Recommendation 6

We recommend that the Foundation ensure that payroll functions are properly segregated or institute mitigating procedures approved by the campus CFO.

Campus Response

We concur. By meeting staffing needs, the Foundation now has properly segregated payroll functions. One staff member prepares payroll and a different staff member checks payroll.

CASH RECEIPTS AND HANDLING

Administration of Foundation cash receipts and handling required improvement.

We found that:

- ▶ Cash receipts at the CDC were not deposited on a timely basis.
- ▶ Cash receipts were not posted to the general ledger in a timely manner.
- ▶ Certain bank and investment reconciliations were not performed timely.
- ▶ The same individual performed and reviewed the bank and investment reconciliations.

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

The Foundation director of operations stated that cash receipts at the CDC were not deposited timely due to lack of sufficient staffing. The Foundation executive director stated that staffing constraints and workload issues led to the lack of proper oversight and appropriate segregation of duties. He further stated that the Foundation was in the process of adjusting job responsibilities and addressing cash procedures.

Inadequate administration of cash receipts and handling increases the risk of loss or misappropriation of funds.

Recommendation 7

We recommend that the Foundation:

- a. Ensure that cash receipts are deposited on a timely basis.
- b. Post cash receipts to the general ledger in a timely manner.
- c. Perform timely bank and investment reconciliations.
- d. Ensure that independent reviews of bank and investment reconciliations are performed.

Campus Response

We concur.

- a. The Foundation is ensuring that cash receipts are deposited on a timely basis.
- b. Due to being fully staffed, the Foundation is now posting cash receipts to the general ledger in a timely manner.
- c. The Foundation now performs timely, monthly reconciliations.
- d. The director of accounting now undertakes an independent review of all reconciliations.

FEES, REVENUES, AND RECEIVABLES

The Foundation did not perform revenue reconciliations between the donor database system and the general ledger accounting system at both KAZU and university advancement.

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 revenue reconciliations be completed for cash deposits.

The *Compilation of Policies and Procedures for California State University Auxiliary Organizations* sets sound business practice guidelines for auxiliary organizations operating within the CSU system. Section 8.9.1, *Cash*, states that the auxiliary should receive cash in a consistent manner utilizing systems that ensure integrity of existing internal controls. The compilation further states that the auxiliary should establish a written recordkeeping system that enables gifts to be properly received, recorded, and acknowledged in accordance with donor restrictions and other requirements.

The Foundation director of operations stated that revenue reconciliations were not performed due to lack of sufficient accounting staff.

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

Recommendation 8

We recommend that the Foundation take appropriate measures to ensure that revenue reconciliations between the donor database system and the general ledger accounting system are performed.

Campus Response

We concur. By October 15, 2006, the Foundation will take appropriate measures to ensure that revenue reconciliations between the donor database system and the general ledger accounting system are performed and will provide a procedure document evidencing the same.

PURCHASING AND ACCOUNTS PAYABLE

DISBURSEMENTS

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 one instance, a travel expense claim was processed without an approval signature.
- ▶ In one instance, the business purpose was not stated.
- ▶ In five instances, signature authorization cards were not on file.
- ▶ In three instances, payments were issued with an unauthorized 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 director of operations stated that the lack of sufficient documentation and authorization for disbursements was due to oversight.

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

Recommendation 9

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

Campus Response

We concur. The Foundation has reiterated to staff existing cash disbursement policies and procedures regarding sufficient and appropriate documentation and authorization.

PURCHASE ORDER APPROVAL

The Foundation had not fully developed written policies and procedures to address a specified dollar threshold requirement for purchase orders.

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 sufficient purchasing policies and procedures.

The Foundation executive director stated that the current policies and procedures had not been updated to reflect current practice and acknowledged that a revision was required.

Failure to fully develop written policies and procedures increases the risk that misunderstandings and inconsistencies will occur.

Recommendation 10

We recommend that the Foundation revise its policies and procedures to include a specified dollar threshold requirement for purchase orders.

Campus Response

We concur. By October 15, 2006, the Foundation will have revised its policies and procedures to include a specified threshold requirement for purchase orders.

CREDIT CARDS

Administration of the Foundation's procurement card program was not sufficient.

We found that:

- ▶ Procurement card application forms were not always maintained on file.
- ▶ Monthly credit card statements, monthly bankcard purchase reports, and related supporting documentation (i.e. receipts) were not submitted to accounts payable by cardholders on a timely basis in accordance with the Foundation procurement card manual, and therefore, timely audits of the reports could not be performed by either accounts payable or grants and contracts.
- ▶ Individuals other than the authorized cardholder signed receipts.
- ▶ Unauthorized purchases, such as digital cameras and gift cards, were made with procurement cards.
- ▶ All cardholders were not aware of the most current procurement card 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 significant processes be supported by current and complete procurement policies and procedures.

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 8.9.5, *Procurement*, states that the auxiliary should establish a written system that provides for purchases and service contracts to be made within governing board policies, source restrictions, funds availability, and other applicable requirements.

The Foundation director of operations stated that the procurement card program had suffered from a lack of consistent monitoring and enforcement over the years. She further stated that this was due to a lack of sufficient staff as well as the lack of sufficient authority given to those responsible for monitoring and enforcing the procurement card program.

Internal controls are compromised when procurement card policies and procedures are not current and communicated to all cardholders.

Recommendation 11

We recommend that the Foundation:

- a. Reiterate to staff existing procurement card policies and procedures, including timely submission of monthly reports, appropriate authorization, and disallowed use of procurement cards.
- b. Ensure documented procurement card policies and procedures reflect current practice and are communicated to all cardholders.

Campus Response

We concur.

- a. By October 15, 2006, the Foundation will reiterate to staff existing procurement card policies and procedures, including timely submission of monthly reports, appropriate authorization, and disallowed use of procurement cards.
- b. By October 15, 2006, the Foundation will ensure that documented procurement card policies and procedures reflect current practice and are communicated to all cardholders.

PROPERTY AND EQUIPMENT

ACCOUNTING

The Foundation's current reconciliation process between campus fixed assets records and the Foundation general ledger was incomplete.

Specifically, we noted that during the transition of all accounting functions between the campus and the Foundation, procedures for fixed assets reconciliation had not been established.

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 property and equipment.

The Foundation executive director stated that due to staff turnover and personnel constraints, the transition of this reconciliation process was still ongoing.

Inadequate reconciliation process over fixed assets increases the risk that property may be lost or stolen.

Recommendation 12

We recommend that the Foundation implement procedures to reconcile campus fixed assets inventory records to the Foundation general ledger.

Campus Response

We concur. By October 15, 2006, the Foundation will implement procedures to reconcile campus fixed assets inventory records to the Foundation general ledger.

ADMINISTRATION

The Foundation had not developed written policies and procedures over fixed assets as adopted by its governing board.

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 significant processes be supported by current, written policies and procedures.

The Foundation executive director stated that the campus property department received, tagged, and tracked Foundation fixed assets, and therefore, the Foundation referred to the campus property policies and procedures.

Failure to formally adopt and communicate written policies and procedures increases the risk that misunderstandings and inconsistencies will occur.

Recommendation 13

We recommend that the Foundation develop written policies and procedures for fixed assets, addressing the acquisition and disposal of capitalized assets.

Campus Response

We concur. By October 15, 2006, the Foundation will have written policies and procedures for fixed assets, addressing the acquisition and disposal of capitalized assets.

AUXILIARY PROGRAMS

The Foundation had not developed policies and procedures to monitor the submission of technical reports to contracting agencies.

EO 890, *Administration of Grants and Contracts in Support of Sponsored Programs*, dated January 7, 2004, in part, states that each campus 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 EO further states that the sponsored program administrator shall ensure that all fiscal reports (including final reports) and billings are prepared and submitted, on a timely basis, to sponsors in accordance with the terms and conditions of the contract and grant.

The Foundation assistant director of grants and contracts stated that the lack of policies and procedures to monitor the submission of technical reports was due to oversight.

Failure to adequately monitor the submission of technical reports increases the risk of penalties and disallowances for non-compliance with grants and contracts terms.

Recommendation 14

We recommend that the Foundation develop policies and procedures to monitor the submission of technical reports to contracting agencies.

Campus Response

We concur. The Foundation has policies in place already that address the responsibility and the importance of timely technical reports submission including (a) 511-001-A: *Management of Sponsored Programs Policy*, (b) 511-002-A: *Best Business Practices and Proper Stewardship of Funded Projects Policy*, and (c) 511-005-A: *Grants and Contracts Reporting Policy*. Per existing policies, the program director/principal investigator (PD/PI) shall still be responsible for timely submission of the technical reports per the terms and conditions of the award, and to send a copy of the report to the office of grants and contracts for the official award file. However, acknowledging the importance of and to assist with the timely reporting, the office of grants and contracts shall implement a system by October 2006 that will notify the PD/PI's in advance of a technical report due date.

CSUMB EMPLOYEE HOUSING, INC.

OPERATING AND ADMINISTRATIVE AGREEMENTS

The hold harmless provision in the CSUMB Employee Housing, Inc. (CEHI) operating agreement had not been updated to indemnify the campus.

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.

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 CEHI managing director stated that the indemnification clause was in compliance at the time the operating agreement was executed with the chancellor's office.

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

Recommendation 15

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

Campus Response

We concur. By July 31, 2006, the CEHI operating agreement will be updated to extend the hold harmless provision to the campus.

CORPORATE GOVERNANCE

The CEHI Articles of Incorporation included an improper dissolution clause; it only allowed a non-profit organization to be selected as 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 CEHI managing director stated that he was unaware that the dissolution clause was not in compliance with Title 5, because it was his belief that the dissolution clause was in compliance with current legal counsel opinion at the time the Articles of Incorporation were drafted.

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 16

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

Campus Response

We concur. By July 31, 2006, CEHI's Articles of Incorporation will reflect the change in the corporation dissolution clause.

FISCAL COMPLIANCE

The CEHI had not fully implemented its current reserve policy.

We found that:

- ▶ Reserve reports and three-year forward-looking schedules were not prepared annually in accordance with the reserve policy.
- ▶ Reserve accounts were not designated and reflected in the general ledger.

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 that 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 CEHI managing director stated that the failure to prepare reserve reports and three-year forward-looking schedules, and designate reserve accounts in the general ledger was due to oversight.

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

Recommendation 17

We recommend that the CEHI:

- a. Ensure that the reserve reports and three-year forward-looking schedules are prepared annually in accordance with the reserve policy or revise the reserve policy to reflect current practice.
- b. Ensure reserve accounts are designated and reflected in the general ledger.

Campus Response

We concur.

- a. By October 15, 2006, the reserve reports and three-year forward-looking schedules will be prepared annually in accordance with the reserve policy or the reserve policy will be revised to reflect current practice.
- b. By October 15, 2006, the reserve accounts will be designated and reflected in the general ledger.

APPENDIX A: PERSONNEL CONTACTED

Name

Title

CAMPUS

Dianne F. Harrison	President
Diane Cordero de Noriega	Interim President (At time of review)
George Ball	Property Coordinator
Charles Fisher	Travel Coordinator
John Fitzgibbon	Associate Vice President of Finance
Francine Flores	Development Systems Analyst, University Advancement
Gil Gonzales	Chief Information Officer
Dan Johnson	Vice President, Administration and Finance
Andy Klingelhofer	Dean, Student Life
Cindy Lopez	Director, Grants and Contracts
William Musselman	Director, Accounting
Richard Westing	Advancement Services Manager

FOUNDATION OF CALIFORNIA STATE UNIVERSITY, MONTEREY BAY

Warda Alhadi	Budget Analyst, KAZU Radio Station (KAZU)
Pat Clausen	Manager, Black Box Cabaret
Rhonda Combs	Risk and Compliance Manager
Maricel Gallaran	Human Resources Specialist
Maria Garcia	Director, Operations
Allison Griffin	Administrative Assistant
Gehane Kiama	Manager, Human Resources
Christine Limesand	Assistant Director, Grants and Contracts
Duncan Lively	Manager, KAZU
Bella Morgenstern	Accounts Payable Technician
Monica Rodriguez	Grants and Contracts Accountant
Eva Salas	Buyer
Victor Salas	Grants and Contracts Technician
Kevin Saunders	Executive Director
Vania Silveira	Office Manager, Child Development Center
Amy Tomasi	Administrative Assistant, Conference and Event Services
Carolyn Tomlin	Manager, Conference and Event Services
Christy Underwood	Administrative and Financial Coordinator, Residential Life
Lorena Villalobos	Accounting Technician
Barbara Yesnosky	Director, Auxiliary Accounting

CSUMB EMPLOYEE HOUSING, INC.

Susie Deas	Senior Manager, Alliance Property Manager
Kevin Saunders	Managing 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 record keeping and accounting reports from those concerned with operations or asset custody, physical controls over assets, and personnel of a quality commensurate with responsibilities.

2. Operational Controls

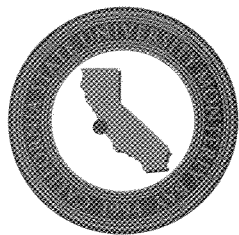
Operational controls comprise the plan of organization and all methods and procedures that are concerned mainly with operational efficiency and adherence to managerial policies and usually relate only indirectly to the financial records.

C. INTERNAL CONTROL OBJECTIVES

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

D. INTERNAL CONTROL SYSTEMS LIMITATIONS

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



CALIFORNIA STATE UNIVERSITY
Monterey Bay

OFFICE OF THE VICE PRESIDENT
 FOR ADMINISTRATION AND FINANCE

100 CAMPUS CENTER, BUILDING 84D

SEASIDE, CA 93955-8001

831-582-3398

FAX 831-582-4430

www.csUMB.edu

June 6, 2006

Mr. Larry Mandel
 University Auditor
 California State University
 401 Golden Shore, 4th Floor
 Long Beach, California 90802

RECEIVED
 UNIVERSITY AUDITOR

JUN - 9 2006

THE CALIFORNIA STATE
 UNIVERSITY


**Subject: Campus Response to Recommendations of Audit Report Number 05-51,
 Auxiliary Organizations at California State University, Monterey Bay.**

Dear Larry:

Attached please find CSUMB's response to Recommendations 1 through 17
 for the subject audit report as requested in your letter of May 9, 2006.

Should you have any questions or comments, please direct them to Kevin Saunders,
 Executive Director of the Foundation of CSU Monterey Bay. Kevin can be reached at
 (831) 582-3397.

Sincerely,


 Dan Johnson
 Vice President of Administration and Finance

Attachment

cc: Diane Cordero de Noriega w/o attachment
 John McCutcheon w/o attachment
 Kevin Saunders w/o attachment
 John Fitzgibbon w/o attachment

AUXILIARY ORGANIZATIONS
CALIFORNIA STATE UNIVERSITY,
MONTEREY BAY

Report Number 05-51
April 21, 2006

CAMPUS

CAMPUS OVERSIGHT AND CONTROL

Recommendation 1

We recommend that the campus develop policies and procedures to address misconduct in research for sponsored programs.

Campus Response

We concur. Currently the campus is vetting a research misconduct policy pursuant to its policy implementation guidelines and anticipates that the research misconduct policy will be adopted by September 30, 2006.

FOUNDATION OF CALIFORNIA STATE UNIVERSITY, MONTEREY BAY

OPERATING AND ADMINISTRATIVE AGREEMENTS

Recommendation 2

We recommend that the Foundation:

- a. Ensure that current and new agreements include appropriate indemnification clauses.
- b. Establish a written agreement for ATM services provided by a third party.
- c. Establish a written agreement for the loan arrangement with CEHI.

Campus Response

We concur. (a) The Foundation is currently ensuring that current and new agreements include appropriate indemnification clauses and will have completed any necessary amendments by October 15, 2006. (b) The Foundation has established a written agreement for ATM services. (c) The loan arrangement with CEHI has been paid in full. In the future, the Foundation will establish written agreements for loan arrangements.

CORPORATE GOVERNANCE

Recommendation 3

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

Campus Response

We concur. By July 31, 2006 the Foundation will revise its corporate dissolution clause in its Articles of Incorporation.

FISCAL COMPLIANCE

Recommendation 4

We recommend that the Foundation:

- a. Ensure reserve accounts are designated and reflected in the general ledger.
- b. Ensure proper reserves are maintained in accordance with its reserve policy or revise the reserve policy to reflect current practice.
- c. Monitor its reserve levels to ensure that adequate working capital exists to fund future operations.

Campus Response

We concur. (a) The Foundation will work with the campus to ensure that reserve accounts are designated and reflected in the general ledger by October 15, 2006. (b) The Foundation will ensure that proper reserves are maintained in accordance with its reserve policy by October 15, 2006. (c) By October 15, 2006 the Foundation Director of Accounting will be monitoring the Foundation's reserve levels on a quarterly basis to ensure that adequate working capital exists to fund future operations.

SEGREGATION OF DUTIES**CASH RECEIPTS AND HANDLING****Recommendation 5**

We recommend that the Foundation take appropriate measures to ensure that the cash receipts processing functions at the CDC, university advancement, KAZU, and residential life are properly segregated or institute mitigating procedures approved by the campus chief financial officer (CFO).

Campus Response

We concur. The Foundation will determine whether to segregate or to institute mitigating procedures by October 15, 2006.

PAYROLL**Recommendation 6**

We recommend that the Foundation ensure that payroll functions are properly segregated or institute mitigating procedures approved by the campus CFO.

Campus Response

We concur. By meeting staffing needs, Foundation now has properly segregated payroll functions. One staff member prepares payroll and a different staff member checks payroll.

CASH RECEIPTS AND HANDLING**Recommendation 7**

We recommend that the Foundation:

- a. Ensure that cash receipts are deposited on a timely basis.
- b. Post cash receipts to the general ledger in a timely manner.
- c. Perform timely bank and investment reconciliations.
- d. Ensure that independent reviews of bank and investment reconciliations are performed.

Campus Response

We concur. (a) Foundation is ensuring that cash receipts are deposited on a timely basis. (b) Due to being fully staffed, Foundation is now posting cash receipts to the general ledger in a timely manner. (c) Foundation now performs timely, monthly reconciliations. (d) The Director of Accounting now undertakes an independent review of all reconciliations.

FEEES, REVENUES, AND RECEIVABLES**Recommendation 8**

We recommend that the Foundation take appropriate measures to ensure that revenue reconciliations between the donor database system and the general ledger accounting system are performed.

Campus Response

We concur. By October 15, 2006 the Foundation will take appropriate measures to ensure that revenue reconciliations between the donor database system and the general ledger accounting system are performed and will provide a procedure document evidencing the same.

PURCHASING AND ACCOUNTS PAYABLE**DISBURSEMENTS****Recommendation 9**

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

Campus Response

We concur. The Foundation has reiterated to staff existing cash disbursement policies and procedures regarding sufficient and appropriate documentation and authorization.

PURCHASE ORDER APPROVAL**Recommendation 10**

We recommend that the Foundation revise its policies and procedures to include a specified dollar threshold requirement for purchase orders.

Campus Response

We concur. By October 15, 2006 the Foundation will have revised its policies and procedures to include a specified threshold requirement for purchase orders.

CREDIT CARDS

Recommendation 11

We recommend that the Foundation:

- a. Reiterate to staff existing procurement card policies and procedures, including timely submission of monthly reports, appropriate authorization, and disallowed use of procurement cards.
- b. Ensure documented procurement card policies and procedures reflect current practice and are communicated to all cardholders.

Campus Response

We concur. (a) By October 15, 2006 the Foundation will reiterate to staff existing procurement card policies and procedures, including timely submission of monthly reports, appropriate authorization, and disallowed use of procurement cards. (b) By October 15, 2006 the Foundation will ensure that documented procurement card policies and procedures reflect current practice and are communicated to all cardholders.

PROPERTY AND EQUIPMENT

ACCOUNTING

Recommendation 12

We recommend that the Foundation implement procedures to reconcile campus fixed assets inventory records to the Foundation general ledger.

Campus Response

We concur. By October 15, 2006 the Foundation will implement procedures to reconcile campus fixed assets inventory records to the Foundation general ledger.

ADMINISTRATION

Recommendation 13

We recommend that the Foundation develop written policies and procedures for fixed assets, addressing the acquisition and disposal of capitalized assets.

Campus Response

We concur. By October 15, 2006 the Foundation will have written policies and procedures for fixed assets, addressing the acquisition and disposal of capitalized assets.

AUXILIARY PROGRAMS

Recommendation 14

We recommend that the Foundation develop policies and procedures to monitor the submission of technical reports to contracting agencies.

Campus Response

We concur. Foundation has policies in place already that address the responsibility and the importance of timely technical reports submission including (a) 511-001-A: Management of Sponsored Programs Policy, (b) 511-002-A: Best Business Practices and Proper Stewardship of Funded Projects Policy, and (c) 511-005-A: Grants and Contracts Reporting Policy. Per existing policies, the PD/PI shall still be responsible for timely submission of the technical reports per the terms and conditions of the award, and to send a copy of the report to the Office of Grants & Contracts for the official award file. However, acknowledging the importance of and to assist with the timely reporting, the Office of Grants & Contracts shall implement a system by October 2006 that will notify the PD/PI's in advance of a technical report due date.

CSUMB EMPLOYEE HOUSING, INC.

OPERATING AND ADMINISTRATIVE AGREEMENTS

Recommendation 15

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

Campus Response

We concur. By July 31, 2006 the CEHI operating agreement will be updated to extend the hold harmless provision to the campus.

CORPORATE GOVERNANCE

Recommendation 16

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

Campus Response

We concur. By July 31, 2006 CEHI's Articles of Incorporation will reflect the change in the corporation dissolution clause.

FISCAL COMPLIANCE

Recommendation 17

We recommend that the CEHI:

- a. Ensure that the reserve reports and three-year forward-looking schedules are prepared annually in accordance with the reserve policy or revise the reserve policy to reflect current practice.
- b. Ensure reserve accounts are designated and reflected in the general ledger.

Campus Response

We concur. (a) By October 15, 2006 the reserve reports and three-year forward-looking schedules will be prepared annually in accordance with the reserve policy or the reserve policy will be revised to reflect current practice. (b) By October 15, 2006 the reserve accounts will be designated and reflected in the general ledger.



THE CALIFORNIA STATE UNIVERSITY
 OFFICE OF THE CHANCELLOR

BAKERSFIELD

June 28, 2006

CHANNEL ISLANDS

CHICO

MEMORANDUM

DOMINGUEZ HILLS

EAST BAY

TO: Mr. Larry Mandel
University Auditor

FRESNO

FULLERTON

FROM: Charles B. Reed
Chancellor

HUMBOLDT

LONG BEACH

SUBJECT: Draft Final Report Number 05-51 on *Auxiliary Organizations*,
California State University, Monterey Bay

LOS ANGELES

MARITIME ACADEMY

In response to your memorandum of June 28, 2006, I accept the response as submitted with the draft final report on *Auxiliary Organizations*, California State University, Monterey Bay.

MONTEREY BAY

NORTHRIDGE

POMONA

CBR/jt

SACRAMENTO

Enclosure

SAN BERNARDINO

cc: Dr. Dianne F. Harrison, President
Mr. Dan Johnson, Vice President, Administration and Finance

SAN DIEGO

SAN FRANCISCO

SAN JOSÉ

SAN LUIS OBISPO

SAN MARCOS

SONOMA

STANISLAUS