

**AUXILIARY ORGANIZATIONS**  
**CALIFORNIA MARITIME ACADEMY**

**Report Number 05-53**  
**May 9, 2006**

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**BOARD OF TRUSTEES**  
**THE CALIFORNIA STATE UNIVERSITY**

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## **ABBREVIATIONS**

|            |  |
|------------|--|
| ASCMA      | Associated Students of the California Maritime Academy |
| CSU        | California State University                            |
| EO         | Executive Order  |
| Foundation | California Maritime Academy Foundation, Inc.           |
| RFIN       | Resolution of the Committee on Finance                 |

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## EXECUTIVE SUMMARY

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

California Maritime Academy 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 Maritime Academy campus and its auxiliary organizations from January 9, 2006, through February 9, 2006, and made a study and evaluation of the system of internal compliance/internal control in effect for the period May 2003 to February 2006. This report represents our triennial review.

Our study and evaluation at *California Maritime Academy 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 February 2006 taken as a whole, was sufficient to meet the objectives stated above.

Our study and evaluation at the *Associated Students of the California Maritime Academy* 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 February 2006 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 [7]**

The Associated Students of California Maritime Academy and California Maritime Academy Foundation, Inc. did not submit their respective annual budgets to the campus president for approval in a timely manner for fiscal years 2003/04, 2004/05, and 2005/06.

## **CALIFORNIA MARITIME ACADEMY FOUNDATION, INC.**

### **OPERATING AND ADMINISTRATIVE AGREEMENTS [8]**

A business arrangement between the California Maritime Academy Foundation, Inc. (Foundation) and the campus for accounting services was not supported by a written agreement.

### **FISCAL COMPLIANCE [8]**

The Foundation's current reserve policy was not fully implemented. As a result, reserve accounts were not designated and reflected in the general ledger and minimum reserve requirements had not been met. In addition, the Foundation had not fully reimbursed the General Fund for campus advancement services for fiscal year ended June 30, 2005; a payment was deficient by \$60,000. Lastly, the Foundation was not operating on a self-sufficient basis. For fiscal year ended June 30, 2006, Foundation operating expenditures exceeded operating revenues by \$1,963,410. Approximately \$1.5 million of the loss was related to a non-cash transfer of property to the campus.

### **OPERATIONAL COMPLIANCE [11]**

The Foundation had not obtained conflict-of-interest statements from its board members for fiscal year 2004/05.

## **FEES, REVENUES, AND RECEIVABLES [12]**

The Foundation had not performed revenue reconciliations between the donor database system and the general ledger accounting system.

## **PURCHASING AND ACCOUNTS PAYABLE [13]**

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

## **TRUSTS AND OTHER LIABILITIES [14]**

The Foundation did not have a spending policy to manage the distribution of earnings from endowments. In addition, documentation was not consistently maintained to identify the endowment purpose, type, or restrictions.

## **INFORMATION TECHNOLOGY [15]**

The Foundation did not maintain backup data from its financial accounting and donor database system.

## **ASSOCIATED STUDENTS OF THE CALIFORNIA MARITIME ACADEMY**

### **FACILITIES AGREEMENTS [16]**

A lease agreement between the Associated Students of the California Maritime Academy (ASCMA) and the campus had not been established for the use of office space in the Student Center.

### **CORPORATE GOVERNANCE [16]**

Bylaws were not amended in accordance with board resolution, signed by an appropriate official, or filed with the chancellor's office.

### **OPERATIONAL COMPLIANCE [17]**

The ASCMA had neither adopted a conflict-of-interest policy nor obtained annual conflict-of-interest statements from all board members.

### **PURCHASING AND ACCOUNTS PAYABLE [18]**

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

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## INTRODUCTION

### **BACKGROUND**

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

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

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

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

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

## **PURPOSE**

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

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

## **SCOPE AND METHODOLOGY**

Our study and evaluation were conducted in accordance with the *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 March 2005 to February 2006. 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 Maritime Academy Foundation, Inc.

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

Associated Students of the California Maritime Academy

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

Campus

- ▶ Campus Oversight and Control

We have not performed any auditing procedures beyond February 2006. Accordingly, our comments are based on our knowledge as of that date. Since the purpose of our comments is to suggest areas for improvement, comments on favorable matters are not addressed.

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

### **CAMPUS**

#### **CAMPUS OVERSIGHT AND CONTROL**

The Associated Students of California Maritime Academy (ASCMA) and California Maritime Academy Foundation, Inc. (Foundation) did not submit their respective annual budgets to the campus president for approval in a timely manner for fiscal years 2003/04, 2004/05, and 2005/06.

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 vice president of administration and finance stated that ASCMA student officers are elected in March of each year and are unable to approve the budget before the end of the academic year. He further stated that the Foundation budgets were not approved in a timely manner due to the difficulty in obtaining a quorum of voting board members during the respective periods.

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

#### **Recommendation 1**

We recommend that the campus take appropriate measures to ensure that auxiliary budgets are approved by its board and submitted to the campus president for approval in a timely manner.

#### **Campus Response**

We concur. A budget for fiscal year 2006 is being prepared for presentation to and approval by the Foundation at their scheduled meeting on June 7, 2006. The board-approved budget will be presented to the president for signature approval by June 30, 2006.

## **CALIFORNIA MARITIME ACADEMY FOUNDATION, INC.**

### **OPERATING AND ADMINISTRATIVE AGREEMENTS**

A business arrangement between the California Maritime Academy Foundation, Inc. (Foundation) and the campus for accounting services was not supported by a written agreement.

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

The campus controller stated that the lack of a business service agreement with the campus was due to oversight.

The absence of a written agreement increases the risk of misunderstandings and miscommunication regarding rights and responsibilities.

#### **Recommendation 2**

We recommend that the Foundation establish a written agreement with the campus for accounting services.

#### **Campus Response**

We concur. An operating agreement between California Maritime Academy and the Foundation is being drafted and will include the consideration for accounting services. This agreement will be executed by June 30, 2006.

### **FISCAL COMPLIANCE**

#### **RESERVES**

The Foundation had not fully implemented its current reserve policy.

We noted 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.

The *Compilation of Policies and Procedures for California State University Auxiliary Organizations* sets sound business practice guidelines for auxiliary organizations operating within the California State University (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 campus vice president of administration and finance stated that challenges in obtaining alternative funding sources created a revenue shortage, making it difficult to meet minimum reserve levels. Therefore, reserves were not tracked in the general ledger.

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

### **Recommendation 3**

We recommend that the Foundation:

- a. Ensure reserve accounts are designated and reflected in the general ledger.
- b. Monitor reserve levels to ensure that adequate working capital exists to fund future operations.

### **Campus Response**

We concur. The Foundation fiscal year 2006 budget, being presented to the president by June 30, 2006, will be a balanced budget. An appropriate reserve will be created over the next two, three annual cycles and maintained thereafter.

## **COST REIMBURSEMENT**

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

We noted that payment by the Foundation to the campus for advancement services was deficient by \$60,000.

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 campus vice president of administration and finance stated that challenges in obtaining alternative funding sources created a revenue shortage, making it difficult to meet General Fund obligations.

Failure to reimburse for all costs associated with advancement services could result in the General Fund not being properly reimbursed for services provided to the auxiliary organization.

#### **Recommendation 4**

We recommend that the Foundation:

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

#### **Campus Response**

We concur. By June 30, 2006, the Foundation will compensate the university for services provided from July 1, 2004, through June 30, 2006. The revised reimbursement amount will be based on methodology to be continued in the new operating agreement to be approved by the president and Foundation executive director.

#### **OPERATING LOSSES**

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

For fiscal year ended June 30, 2006, Foundation operating expenditures exceeded operating revenues by \$1,963,410. Approximately \$1.5 million of the loss was related to a non-cash transfer of property to the campus.

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 campus vice president of administration and finance stated that challenges in obtaining alternative funding sources created a revenue shortage, resulting in an operating loss for the year.

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 5**

We recommend that the Foundation develop 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. By September 1, 2006, the Foundation will retool its fundraising methods and will develop a plan of self-sufficiency. The discontinuation of the boat donation program incurred some large one-time expenses and has caused a disruption of income. The Foundation finance committee will monitor the annual expenses and revenues and will make adjustments to the budget as needed during future budget years.

## **OPERATIONAL COMPLIANCE**

The Foundation had not obtained conflict-of-interest statements from its board members for fiscal year 2004/05.

Education Code §89906 states that no member of the governing board of an auxiliary organization shall be financially interested in any contract or other transaction entered into by the board of which he is a member, and any contract or transaction entered into in violation of this section is void.

Title 5 §42401, §42402, §42500 and Education Code §89900 establish a responsibility to operate in accordance with sound business practices in the interest of the campus. Sound business practice mandates establishing conflict-of-interest policies and procedures and compliance with existing policies and procedures.

The campus controller stated that the failure to obtain conflict-of-interest statements for fiscal year 2004/05 was due to oversight.

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

### **Recommendation 6**

We recommend that the Foundation ensure that annual conflict-of-interest statements are obtained from all board members.

### **Campus Response**

We concur. Presently all current board members have signed a conflict-of-interest statement. This will continue as an annual task at the first meeting of new board members.

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

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

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 campus controller stated that revenue reconciliations were not performed due to a 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 7**

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

### **Campus Response**

We concur. A process of reconciliation between the donor database and the Razer's Edge Foundation accounting records will be implemented by June 30, 2006.

## **PURCHASING AND ACCOUNTS PAYABLE**

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

Our review of 63 cash disbursements disclosed the following:

### Process Controls

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

### Processing Exceptions

- ▶ In three instances, adequate supporting documentation was not provided.
- ▶ In three instances, checks over \$15,000 did not contain dual signatures.
- ▶ In three instances, payment was untimely.

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 campus controller 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 8**

We recommend that the 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. All signature cards on file are now current. By June 30, 2006, the accounting staff will train the Foundation administrative assistant on cash disbursement policies and procedures and how to assist in gathering appropriate supporting documentation for expenditures.

## **TRUSTS AND OTHER LIABILITIES**

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

We noted that:

- ▶ Documentation was not consistently maintained to identify the endowment purpose, type, or restrictions.
- ▶ A spending policy had not been developed to manage the distribution of earnings from endowments.

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 management and accounting of investments.

The campus controller stated that most of the endowments were related to old gifts, which, at the time of receipt, did not contain any written documentation as to its purpose and restrictions. He further stated that the lack of a spending policy was due to oversight.

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

### **Recommendation 9**

We recommend that the Foundation:

- a. Maintain appropriate documentation to identify the endowment purpose, type, and restrictions.
- b. Develop a spending policy to manage the distribution of earnings from endowment funds.

### **Campus Response**

We concur. The Foundation is updating the documentation of each endowment fund, which will be completed by June 30, 2006. The Foundation finance committee is developing a spending policy for management of earning distribution from endowments with a goal of providing level annual distribution while growing the endowments.

## **INFORMATION TECHNOLOGY**

The Foundation did not maintain backup data from its financial accounting and donor database 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 campus senior analyst/programmer stated that the failure to backup the Foundation financial accounting and donor database data was due to oversight.

Failure to maintain backup data could inadvertently expose financial and donor information to theft, accidental disclosure, or possibly render it inaccessible.

### **Recommendation 10**

We recommend that the Foundation routinely backup data from its financial accounting and donor database system.

### **Campus Response**

We concur. The Foundation accounting data has been moved from an individual computer hard drive to a university server. This server will be backed up nightly by a third-party vendor beginning June 1, 2006.

## **ASSOCIATED STUDENTS OF THE CALIFORNIA MARITIME ACADEMY**

### **FACILITIES AGREEMENTS**

A lease agreement between the Associated Students of the California Maritime Academy (ASCMA) and the campus had not been established for the use of office space in the Student Center.

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 controller stated his belief that the use of the office space had been addressed in the ASCMA business service agreement with the campus.

The absence of a written agreement increases the risk of misunderstandings and miscommunication regarding rights and responsibilities.

#### **Recommendation 11**

We recommend that the ASCMA establish a lease agreement with the campus for the use of the office space in the Student Center.

#### **Campus Response**

We concur. An operating agreement between California Maritime Academy and the ASCMA is being drafted and will include the agreement to lease space in the Student Center. This agreement will be executed by September 30, 2006, after the student officers return for the fall 2006 semester.

### **CORPORATE GOVERNANCE**

The ASCMA governance of its bylaws required improvement:

We noted that:

- ▶ The bylaws were not updated in accordance with board resolution.
- ▶ The bylaws were not signed by an appropriate official.
- ▶ The bylaws were not filed with the chancellor's office.

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 maintain current bylaws signed by an appropriate official.

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

The campus director of campus life stated that the failure to amend, sign, and file its bylaws with the chancellor's office was due to oversight.

Failure to maintain current, signed bylaws increases the risk of misunderstandings regarding rights and responsibilities and may increase legal liability.

### **Recommendation 12**

We recommend that the ASMCA:

- a. Amend its bylaws in accordance with board resolution.
- b. Ensure the amended bylaws are signed by an appropriate official.
- c. File the amended bylaws with the chancellor's office.

### **Campus Response**

We concur. The ASCMA did pass a resolution to amend the bylaws. The updated bylaws were not signed by the ASCMA officers before the end of the academic year. When the officers return for the fall 2006 semester, the amended bylaws will be sent to the chancellor's office.

## **OPERATIONAL COMPLIANCE**

The ASCMA had neither adopted a conflict-of-interest policy nor obtained annual conflict-of-interest statements from all board members.

Education Code §89906 states that no member of the governing board of an auxiliary organization shall be financially interested in any contract or other transaction entered into by the board of which he is a member, and any contract or transaction entered into in violation of this section is void.

Title 5 §42401, §42402, §42500 and Education Code §89900 establish a responsibility to operate in accordance with sound business practices in the interest of the campus. Sound business practice mandates establishing conflict-of-interest policies and procedures and compliance with existing policies and procedures.

The campus director of campus life stated that she was unaware that student board members were required to provide conflict-of-interest statements and, therefore, had not established a policy nor obtained annual statements from ASCMA board members.

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

### **Recommendation 13**

We recommend that ASCMA adopt a conflict-of-interest policy and obtain annual conflict-of-interest statements from all board members.

### **Campus Response**

We concur. The ASCMA officers will develop and adopt a conflict-of-interest policy when they return in September 2006. In the future, ASCMA officers will sign a conflict-of-interest statement in the spring semester once they have been elected.

## **PURCHASING AND ACCOUNTS PAYABLE**

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

Our review of 25 cash disbursements disclosed the following processing exceptions:

- ▶ In six instances, supporting documentation did not include an approval signature authorizing payment.
- ▶ In two instances, a stated purpose was not provided.
- ▶ In three instances, a facsimile invoice was accepted for payment without certification that records were verified to prevent duplicate payment.
- ▶ In one instance, a list of attendees was not included in the supporting documentation.
- ▶ In two instances, payment was untimely.

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 campus controller 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 14**

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

#### **Campus Response**

We concur. By September 30, 2006, the accounting staff will orient the ASCMA officers and train the treasurer on cash disbursement policies and procedures and how to assist in gathering appropriate supporting documentation for expenditures.

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## **APPENDIX A: PERSONNEL CONTACTED**

### **Name**

### **Title**

#### **CAMPUS**

William B. Eisenhardt

President

Josie Alexander

Director, Campus Life

Jannette Corpus

Senior Analyst/Programmer

Maria Cundick

Administrative Assistant

Mark Nickerson

Vice President, Administration and Finance

Bobbie Solveson

Database Analyst

Kenneth Toet

Controller

## **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

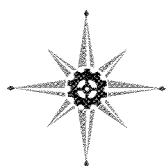
Operational controls comprise the plan of organization and all methods and procedures that are concerned mainly with operational efficiency and adherence to managerial policies and usually relate only indirectly to the financial records.

### **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.



# CAL MARITIME

*Vice President for Administration and Finance*

RECEIVED  
UNIVERSITY AUDITOR

MAY 31 2006

THE CALIFORNIA STATE  
UNIVERSITY

May 30, 2006

Mr. Larry Mandel  
University Auditor  
CSU Office of the Chancellor  
401 Golden Shore  
Long Beach, CA 90802

RE: Response to CMA Audit Report Number 05-53, Auxiliary Organizations

Dear Mr. Mandel,

Please find enclosed our responses to your recommendations for the Auxiliary Organizations at California Maritime Academy Audit Report Number 05-53.

If there is more information we can provide you, please let me know.

Sincerely,

Mark Nickerson  
Vice President for Administration and Finance

cc: William B. Eisenhardt, President  
Kent Toet, Controller  
Tom Dunworth, Vice President for Advancement  
Captain John Keever  
Josie Alexander, Director of Housing and Residential Life  
File

MN:ss

## THE CALIFORNIA MARITIME ACADEMY

200 Maritime Academy Drive, Vallejo, CA 94590-8181 • PHONE (707) 654-1038 • FAX (707) 654-1013 • www.csum.edu • E-MAIL mnickerson@csum.edu

**AUXILIARY ORGANIZATIONS  
CALIFORNIA MARITIME ACADEMY**

**Report Number 05-53  
May 9, 2006**

**CAMPUS**

**CAMPUS OVERSIGHT AND CONTROL**

**Recommendation 1**

We recommend that the campus take appropriate measures to ensure that auxiliary budgets are approved by its board and submitted to the campus president for approval in a timely manner.

**Campus Response**

We concur. A budget for FY 2006 is being prepared for presentation to, and approval by, the Foundation at their scheduled meeting on June 7, 2006. The board approved budget will be presented to the President for signature approval by June 30, 2006.

**CALIFORNIA MARITIME ACADEMY FOUNDATION, INC.**

**OPERATING AND ADMINISTRATIVE AGREEMENTS**

**Recommendation 2**

We recommend that the Foundation establish a written agreement with the campus for accounting services.

**Campus Response**

We concur. An operating agreement between CMA and the Foundation is being drafted and will include the consideration for accounting services. This agreement will be executed by June 30, 2006.

**FISCAL COMPLIANCE**

**RESERVES**

**Recommendation 3**

We recommend that the Foundation:

- a. Ensure reserve accounts are designated and reflected in the general ledger.
- b. Monitor reserve levels to ensure that adequate working capital exists to fund future operations.

**Campus Response**

We concur. The Foundation FY 2006 budget, being presented to the President by June 30, 2006, will be a balanced budget. An appropriate reserve will be created over the next two-three annual cycles and maintained thereafter.

**COST REIMBURSEMENT**

**Recommendation 4**

We recommend that the Foundation:

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

**Campus Response**

We concur. By June 30<sup>th</sup> 2006 the foundation will compensate the University for services provided from July 1, 2004 through June 30, 2006. The revised reimbursement amount will be based on

methodology to be continued in the new operating agreement to be approved by the President and Foundation Executive Director.

## **OPERATING LOSSES**

### **Recommendation 5**

We recommend that the Foundation develop 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. By September 1, 2006, the Foundation will retool its fundraising methods and will develop a plan of self-sufficiency. The discontinuation of the boat donation program incurred some large one-time expenses and has caused a disruption of income. The Foundation Finance Committee will monitor the annual expenses and revenues and will make adjustments to the budget as needed during future budget years.

## **OPERATIONAL COMPLIANCE**

### **Recommendation 6**

We recommend that the Foundation ensure that annual conflict-of-interest statements are obtained from all board members.

### **Campus Response**

We concur. Presently all current board members have signed a conflict-of-interest statement. This will continue as an annual task at the first meeting of new board members.

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

### **Recommendation 7**

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

### **Campus Response**

We concur. A process of reconciliation between the donor database and the Razer's Edge foundation accounting records will be implemented by June 30, 2006.

## PURCHASING AND ACCOUNTS PAYABLE

### Recommendation 8

We recommend that the 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. All signature cards on file are now current. By June 30, 2006, the accounting staff will train the foundation administrative assistant on cash disbursement policies and procedures and how to assist in gathering appropriate supporting documentation for expenditures.

## TRUSTS AND OTHER LIABILITIES

### Recommendation 9

We recommend that the Foundation:

- a. Maintain appropriate documentation to identify the endowment purpose, type, and restrictions.
- b. Develop a spending policy to manage the distribution of earnings from endowment funds.

### Campus Response

We concur. The foundation is updating the documentation of each endowment fund which will be completed by June 30, 2006. The Foundation Finance committee is developing a spending policy for management of earning distribution from endowments with a goal of providing level annual distribution while growing the endowments.

## INFORMATION TECHNOLOGY

### Recommendation 10

We recommend that the Foundation routinely backup data from its financial accounting and donor database system.

### Campus Response

We concur. The Foundation accounting data has been moved from individual computer hard drive to a University server. This server will be backed up nightly by a third party vendor beginning June 1, 2006.

## **ASSOCIATED STUDENTS OF THE CALIFORNIA MARITIME ACADEMY**

### **FACILITIES AGREEMENTS**

#### **Recommendation 11**

We recommend that the ASCMA establish a lease agreement with the campus for the use of the office space in the Student Center.

#### **Campus Response**

We concur. An operating agreement between CMA and the ASCMA is being drafted and will include the agreement to lease space in the Student Center. This agreement will be executed by September 30, 2006, after the student officers return for the fall semester 2006.

### **CORPORATE GOVERNANCE**

#### **Recommendation 12**

We recommend that the ASMCA:

- a. Amend its bylaws in accordance with board resolution.
- b. Ensure the amended bylaws are signed by an appropriate official.
- c. File the amended bylaws with the chancellor's office.

#### **Campus Response**

We concur. The ASCMA did pass a resolution to amend the bylaws. The updated Bylaws were not signed by the ASB officers before the end of the academic year. When the officers return for the fall semester 2006 the amended bylaws will be sent to the Chancellor's Office.

### **OPERATIONAL COMPLIANCE**

#### **Recommendation 13**

We recommend that ASCMA adopt a conflict-of-interest policy and obtain annual conflict-of-interest statements from all board members.

#### **Campus Response**

We concur. The ASCMA officers will develop and adopt a conflict-of-interest policy when they return in the September 2006. In the future, ASCMA officers will sign a conflict-of-interest statement in the spring semester once they have been elected.

## **PURCHASING AND ACCOUNTS PAYABLE**

### **Recommendation 14**

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

### **Campus Response**

We concur. By September 30, 2006, the accounting staff will orient the ASCMA officers and train the treasurer on cash disbursement policies and procedures and how to assist in gathering appropriate supporting documentation for expenditures.

  
**THE CALIFORNIA STATE UNIVERSITY**  
 OFFICE OF THE CHANCELLOR

BAKERSFIELD

June 16, 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 05-53 on *Auxiliary Organizations*,  
California Maritime Academy

LOS ANGELES

MARITIME ACADEMY

In response to your memorandum of June 16, 2006, I accept the response as submitted with the draft final report on *Auxiliary Organizations*, California Maritime Academy.

MONTEREY BAY

NORTHRIDGE

POMONA

CBR/jt

SACRAMENTO

SAN BERNARDINO

Enclosure

SAN DIEGO

cc: Dr. William B. Eisenhardt, President  
Mr. Mark Nickerson, Vice President of Administration and Finance

SAN FRANCISCO

SAN JOSÉ

SAN LUIS OBISPO

SAN MARCOS

SONOMA

STANISLAUS