

AUXILIARY ORGANIZATIONS
CALIFORNIA STATE UNIVERSITY,
LONG BEACH

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BOARD OF TRUSTEES
THE CALIFORNIA STATE UNIVERSITY

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ABBREVIATIONS

AS	Associated Students, California State University, Long Beach
CFO	Chief Financial Officer
CSU	California State University
EO	Executive Order
Foundation	California State University, Long Beach Foundation
IRS	Internal Revenue Service
IST	Information Systems Technology
RFIN	Resolution of the Committee on Finance
Shops	Forty-Niner Shops, Inc.
UBI	Unrelated Business Income

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, Long Beach 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, Long Beach campus and its auxiliary organizations from August 7, 2006, through September 8, 2006, and made a study and evaluation of the system of internal compliance/internal control in effect for the period November 2003 to September 2006. This report represents our triennial review.

Our study and evaluation at the *California State University, Long Beach Foundation* did not reveal any significant internal control problems or weaknesses that would be considered pervasive in their effects on the accounting and administrative controls. However, we did identify other reportable weaknesses that are described in the executive summary and in the body of the report. In our opinion, the accounting and administrative control in effect as of September 2006, taken as a whole, was sufficient to meet the objectives stated above.

Our study and evaluation at *Forty-Niner Shops, Inc.* did not reveal any significant internal control problems or weaknesses that would be considered pervasive in their effects on the accounting and administrative controls. However, we did identify other reportable weaknesses that are described in the executive summary and in the body of the report. In our opinion, the accounting and administrative control in effect as of September 2006, taken as a whole, was sufficient to meet the objectives stated above.

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

CALIFORNIA STATE UNIVERSITY, LONG BEACH FOUNDATION

FACILITIES AGREEMENTS [9]

A current lease agreement between the California State University, Long Beach Foundation (Foundation) and an outside third party for space occupied by the Center for Behavioral Research and Services had not been executed.

CORPORATE GOVERNANCE [9]

Foundation board and committee minutes were not signed and approved by an appropriate official.

PROPERTY AND EQUIPMENT [10]

Administration of Foundation property and equipment required improvement. Specifically, property and certain controlled equipment that is not capitalized, purchased with sponsored program funds, were inconsistently recorded in the accounting system. There were instances where the items were recorded to either the equipment account or to the supplies account. Further, theft sensitive equipment was neither consistently identified nor tagged.

INFORMATION TECHNOLOGY [11]

The Foundation did not encrypt sensitive personnel information stored on the payroll system.

FORTY-NINER SHOPS, INC.

FACILITIES AGREEMENTS [13]

Certain lease and sublease agreements among Forty-Niner Shops, Inc. (Shops), the campus, and other third parties were either incomplete or not executed.

CORPORATE GOVERNANCE [14]

Shops board and subcommittee minutes were not signed and approved by an appropriate official.

OPERATIONAL COMPLIANCE [14]

Shops had not performed an analysis of the comparability of salaries, wages, and benefits for its full-time employees in relation to those provided campus employees performing substantially similar positions. Further, Shops was neither reporting food sampling dollars correctly nor had developed complete policies and procedures for the program.

CASH RECEIPTS AND HANDLING [16]

Administration of Shops cash receipts and handling were deficient. For example, cash was not adequately transported in a secure manner. Employees were used to transport deposits from outlying areas to the cashier's office without a security escort.

PURCHASING AND ACCOUNTS PAYABLE [17]

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

PROPERTY AND EQUIPMENT [18]

Administration of Shops fixed assets required improvement. For example, periodic, independent physical inventory counts of fixed assets were not performed.

TRUSTS AND OTHER LIABILITIES [19]

Shops had not remitted, in a timely manner, credit balances back to the campus for several custodial accounts.

AUXILIARY PROGRAMS [20]

Administration of the Shops Beach Club card program required improvement. Specifically, there were unaddressed accounts with credit balances, use of social security numbers as account numbers, and untimely write-offs of inactive accounts.

ASSOCIATED STUDENTS, CALIFORNIA STATE UNIVERSITY, LONG BEACH

OPERATING AND ADMINISTRATIVE AGREEMENTS [21]

Certain service and lease agreements among Associated Students, California State University, Long Beach (AS) and other entities were either incomplete or not executed. Specifically, AS had not executed an agreement for services provided by the electronic equipment waste disposal contractor and two service agreements and one lease agreement with third parties did not contain the proper indemnification provision.

FISCAL COMPLIANCE [22]

AS had neither accounted for nor tracked unrelated business income for childcare services provided to community members, nor filed an Internal Revenue Service Form 990T.

FEES, REVENUES, AND RECEIVABLES [23]

AS accounts receivable policies and procedures did not indicate those instances wherein overdue accounts should not be sent to a collection agency.

PROPERTY AND EQUIPMENT [23]

Administration and accounting for AS property and equipment were insufficient. Specifically, an annual physical inventory had not been performed and the fixed assets inventory listing had not been reconciled to the general ledger. In addition, recently acquired equipment was not tagged upon installation and disposal forms lacked a missing item report when required.

INFORMATION TECHNOLOGY [25]

AS did not encrypt sensitive data stored on both the payroll and the human resource systems.

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 2004/05 and 2005/06 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 2005 to September 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 State University, Long Beach Foundation

- ▶ 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
- ▶ Fees, Revenues, and Receivables
- ▶ Purchasing and Accounts Payable
- ▶ Personnel and Payroll
- ▶ Property and Equipment
- ▶ Auxiliary Programs
- ▶ Information Technology

Forty-Niner Shops, Inc.

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

Associated Students, California State University, Long Beach

- ▶ 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
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- ▶ Purchasing and Accounts Payable
- ▶ Personnel and Payroll
- ▶ Property and Equipment
- ▶ Trusts and Other Liabilities
- ▶ Auxiliary Programs
- ▶ Information Technology

We have not performed any auditing procedures beyond September 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.

OBSERVATIONS, RECOMMENDATIONS, AND CAMPUS RESPONSES

CALIFORNIA STATE UNIVERSITY, LONG BEACH FOUNDATION

FACILITIES AGREEMENTS

A current lease agreement between the California State University, Long Beach Foundation (Foundation) and an outside third party for space occupied by the Center for Behavioral Research and Services had not been executed.

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 business arrangements be supported by current, written agreements.

The Foundation associate executive director stated that an older agreement had been in place, but had expired.

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

Recommendation 1

We recommend that the Foundation execute a lease agreement for the space occupied by the Center for Behavioral Research and Services.

Campus Response

We concur. Out of 37 active facilities agreements, only one was not available at the beginning of the audit. On this particular property, a multiyear lease had previously been in place. The funding for the project occupying that off-campus facility had become uncertain, so at the end of the existing lease term a verbal agreement had been reached with the property owner to continue the lease arrangement on a month-to-month basis. When a lease for this facility was requested by audit staff, one was promptly negotiated and delivered to the auditors during their fieldwork. The corrective action on this issue is complete.

CORPORATE GOVERNANCE

Foundation board and committee minutes were not signed and approved by an appropriate official.

Corporations Code §5215 states that the original or a copy of the bylaws or of the minutes of any incorporators', members', directors', committee or other meeting or of any resolution adopted by the

board or a committee thereof, or members, certified to be a true copy by a person purporting to be the secretary or an assistant secretary of the corporation, is prima facie evidence of the adoption of such bylaws or resolution or of the due holding of such meeting and of the matters stated therein.

The Foundation chief financial officer (CFO) stated that board and subcommittee minutes were not signed due to oversight.

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

Recommendation 2

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

Campus Response

We concur. The lack of signatures on meeting minutes was an oversight that was corrected during fieldwork. Both board and committee minutes are now being signed by an appropriate official. The corrective action on this issue is complete.

PROPERTY AND EQUIPMENT

Administration of Foundation property and equipment required improvement.

We found that:

- ▶ Property and certain controlled equipment that is not capitalized, purchased with sponsored program funds, were inconsistently recorded in the accounting system. We noted instances where the items were inconsistently recorded either to the equipment account or to the supplies account.
- ▶ Theft sensitive equipment was neither consistently identified nor tagged.

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 administration of property and equipment.

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

The Foundation grants, contracts and foundation programs director stated that equipment was recorded in accordance with the sponsored program budgets. The inconsistent booking of items was mainly due to unclear account descriptions. The Foundation CFO stated that some assets were not tagged due to recent staff turnover.

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

Recommendation 3

We recommend that the Foundation:

- a. Clarify account descriptions to ensure that property and equipment purchased with sponsored program funds are consistently recorded to the proper account.
- b. Ensure that theft sensitive equipment is consistently identified and tagged.

Campus Response

- a. We concur and have developed a methodology to ensure consistency in the use of general ledger account codes when charging expendable property on grant and contract funded accounts. For purchases of supplies or expendable property, the two most commonly used account codes were 510000 (supplies) and 733000 (equipment < \$5,000), the latter was not accurately named. We changed the name on 733000 to “expendable property” to more accurately reflect the charges in the account. Effective immediately, we began charging all purchases of expendable property to 733000. Equipment purchased (over \$5,000) continues to be consistently charged to the equipment account. The corrective action on this issue is complete.
- b. We concur that theft sensitive equipment should be consistently identified and tagged. Information systems technology (IST) is currently tagging and tracking all items charged to 733000 in the Foundation’s fixed asset module. In addition to tagging items charged to 733000, IST reviews all purchase orders and scrubs the general ledger for potential charges of expendable property exceeding \$1,000 to other account codes, such as those beginning with 510000. The general ledger and fixed asset subsidiary ledger are reconciled for items greater than \$1,000. The corrective action on this issue is complete.

INFORMATION TECHNOLOGY

The Foundation did not encrypt sensitive personnel information stored on the payroll system.

Executive Order (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 Foundation information systems supervisor stated that preventative and detective controls have been implemented to protect sensitive data with the best available technology.

Failure to encrypt sensitive personnel information could require the auxiliary to notify all affected personnel in the event of a breach of security.

Recommendation 4

We recommend that the Foundation encrypt sensitive personnel information as soon as possible or replace both the payroll and human resource systems with products that will provide such encryption.

Campus Response

We concur with the qualifications. Currently, the application vendor has no future plans to support encrypted data. The Foundation has implemented preventative and detective controls, which were discussed with the auditors. It was agreed that these controls protect sensitive data with the best available technology. The campus and the Foundation both accept the risks inherent in not encrypting sensitive personnel information. The corrective action on this issue is complete.

FORTY-NINER SHOPS, INC.

FACILITIES AGREEMENTS

Certain lease and sublease agreements among Forty-Niner Shops, Inc. (Shops), the campus, and other third parties were either incomplete or not executed.

We found that:

- ▶ A lease agreement with the campus regarding space for vending machines and food cart locations was not executed.
- ▶ The CSU Trustees, the campus, and the State of California were not specifically indemnified in several sublease agreements with third parties.

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.

The Shops general manager stated that the absence of a lease agreement for the vending machines and food cart locations and the failure to include the proper indemnification in the sublease agreements were due to oversight.

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

Recommendation 5

We recommend that Shops:

- a. Execute a written lease agreement with the campus for space for vending machines and food cart locations.
- b. Ensure that all agreements include an appropriate indemnification provision.

Campus Response

We concur. We will ensure that the space for vending machines and food cart locations is included in the lease agreement. All vendor contracts negotiated since August 2006 (including the beverage pouring agreement) contain language for indemnification. Estimated date of completion is May 31, 2007.

CORPORATE GOVERNANCE

Shops board and subcommittee minutes were not signed and approved by an appropriate official.

Corporations Code §5215 states that the original or a copy of the bylaws or of the minutes of any incorporators', members', directors', committee or other meeting or of any resolution adopted by the board or a committee thereof, or members, certified to be a true copy by a person purporting to be the secretary or an assistant secretary of the corporation, is prima facie evidence of the adoption of such bylaws or resolution or of the due holding of such meeting and of the matters stated therein.

The Shops general manager stated that board and subcommittee minutes were not signed due to oversight.

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

Recommendation 6

We recommend that Shops take appropriate measures to ensure that its board and subcommittee minutes are signed and approved by an appropriate official.

Campus Response

We concur. The Shops general manager has accepted the responsibility to sign off on board and subcommittee minutes. The corrective action on this issue is complete.

OPERATIONAL COMPLIANCE

EMPLOYEES

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

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

The Shops general manager stated that a salary and benefits comparability analysis had been in process for the past eight months; however, the project was delayed because Shops chose to expand job descriptions in addition to performing the analysis.

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

Recommendation 7

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

Campus Response

We concur. An analysis of wages and benefits was performed by an outside consultant with final results published in October 2006. The published result was approved by the Shops board of directors as noted in the minutes of December 8, 2006. Subsequently, the outside consultant delivered a wage and salary program dated February 26, 2007. The corrective action on this issue is complete.

FOOD SAMPLING PROGRAM

Shops was neither reporting food sampling payments correctly nor had developed complete policies and procedures for the program.

Shops was not reporting food sampling program dollars paid and/or used by board members to the Internal Revenue Service (IRS) for campus and auxiliary employees and to campus financial aid for students.

Shops policies and procedures for the program did not address dollar limits for individual transactions, and standards had not been established requiring documented activity reports by program participants.

IRS code and CSU policy require the reporting of additional income to the IRS and to provide a corresponding statement to individuals on the information return, indicating that the information regarding payments had been reported.

Title 5 §42500(d) states that student loans, scholarships, stipends, and grants-in-aid shall only be given to currently admitted students. A record of such financial assistance shall be forwarded on a timely basis to the campus financial aid office and shall be documented on student financial aid recipient records kept in that office.

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 observance of additional income policies and the development of complete policies and procedures to address the food sampling program.

The Shops general manager stated his belief that the program was established expressly for the benefit of Shops, not the individuals; hence, amounts were not reported as income to campus/auxiliary employees nor to financial aid as stipends.

Failure to properly report payments made to board members to the IRS/campus financial aid increases the risk of fines and penalties and may result in an overpayment of financial aid funds. Further, the lack of formal written policies and procedures increases the risk of errors or misappropriation.

Recommendation 8

We recommend that Shops:

- a. Ensure that amounts paid to campus and auxiliary employees as part of the food sampling program are appropriately reported as additional income to the IRS.
- b. Ensure that amounts paid to students as part of the food sampling program are reported to the campus financial aid office.
- c. Document its food sampling program policies and procedures to include dollar limits for single transactions and monthly activity reports documented by each program participant.

Campus Response

We concur. We will revisit the food sampling program and determine the IRS reporting requirements for proper compliance. Estimated date of completion is May 31, 2007.

CASH RECEIPTS AND HANDLING

Administration of Shops cash receipts and handling were deficient.

We found that:

- ▶ Shops did not maintain a log of incoming checks or cash prior to processing by accounts receivable staff.
- ▶ Cash was not adequately transported in a secure manner. Employees were used to transport deposits from outlying areas to the cashier's office without a security escort.
- ▶ Shops did not have procedures to document its periodic and independent cash count of the cash room safe.

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 proper administration of cash receipts and handling.

The Shops general manager stated that the insufficient administration of cash receipts and handling was due to oversight.

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

Recommendation 9

We recommend that Shops:

- a. Maintain a log of incoming checks and cash prior to processing by accounts receivable staff.
- b. Implement procedures to adequately safeguard employees transporting deposits.
- c. Establish procedures to document periodic and independent cash counts of the cash room safe.

Campus Response

We concur. We will take appropriate action to establish and enforce cash handling policies and procedures. Estimated date of completion is April 30, 2007.

PURCHASING AND ACCOUNTS PAYABLE

Certain Shops 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 four instances, facsimile or photocopied invoices were accepted for payment without certification that records were verified to prevent duplicate payment.
- ▶ In two instances, one-up signature authorization was not obtained.

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 all 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 Shops general manager stated that the above-noted processing exceptions were due to oversight.

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

Recommendation 10

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

Campus Response

We concur. Upon audit findings, it was conveyed to staff that current cash disbursement policies and procedures must be adhered to. The corrective action on this issue is complete.

PROPERTY AND EQUIPMENT

Administration of Shops fixed assets required improvement.

We found that:

- ▶ Periodic, independent physical inventory counts of fixed assets were not performed.
- ▶ Tagged items had not been included on the fixed asset listing.
- ▶ Items included on the fixed asset listing could not be located.

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 administration of property and equipment.

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

The Shops general manager stated that the current process reengineering project would facilitate the identification and disposition of unused equipment. He further stated that the fixed asset listing was currently being updated.

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

Recommendation 11

We recommend that Shops:

- a. Conduct periodic, independent physical inventory counts.
- b. Ensure that all tagged items are included on the fixed asset listing.
- c. Update the fixed asset listing to reflect all current assets.

Campus Response

We concur. Shops has taken action by conducting a physical inventory. Analysis of the data is in progress with appropriate book adjustments pending.

In support of the ongoing recommendations, Shops will be adding and implementing the fixed asset module component of their new accounting system. Estimated completion date of data updates and system implementation is April 30, 2007.

TRUSTS AND OTHER LIABILITIES

Shops had not remitted, in a timely manner, credit balances to the campus for several custodial accounts.

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

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

The Shops general manager stated that campus custodial accounts are usually cleared in the current year; however, there was a credit that was not dispersed due to a recent consolidation of departments.

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

Recommendation 12

We recommend that Shops monitor and remit credit balances to the campus in a timely manner to ensure that state revenues are maintained and administered by the campus.

Campus Response

We concur. Shops will monitor and remit credit balances to the campus in a timely manner. To mitigate unnecessary transfers of monies, Shops will monitor activity volumes to ensure any credit balances remain within a reasonable utilization threshold. Level of campus activity will be reported accordingly and provided along with statements at time of review. Estimated completion date on this issue is April 30, 2007.

AUXILIARY PROGRAMS

Administration of the Shops Beach Club card program required improvement.

Specifically, we found:

- ▶ Unaddressed accounts with credit balances.
- ▶ Use of social security numbers as account numbers.
- ▶ Untimely write-offs of inactive accounts.

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 administration of auxiliary programs.

The Shops general manager stated that reports were not regularly generated to identify these exception accounts; however, future monthly reports would be generated.

Insufficient administration of auxiliary programs increases the risk of errors, irregularities, and misappropriation of funds.

Recommendation 13

We recommend that Shops:

- a. Perform periodic reviews to address accounts with credit balances.
- b. Eliminate the use of social security numbers as accounts numbers.
- c. Perform timely write-offs of inactive accounts.

Campus Response

We concur. Credit balance review revealed a carry over position from prior system and several aged reset/off-line transactions. We will write-off all inactive accounts and monitor accordingly for active status. Any usage of social security numbers has already been eliminated. Estimated date of completion is April 30, 2007.

ASSOCIATED STUDENTS,
CALIFORNIA STATE UNIVERSITY, LONG BEACH

OPERATING AND ADMINISTRATIVE AGREEMENTS

Certain service and lease agreements among Associated Students, California State University, Long Beach (AS) and other entities were either incomplete or not executed.

We found that:

- ▶ AS had not executed an agreement for services provided by the electronic equipment waste disposal contractor.
- ▶ Two service agreements and one lease agreement with third parties did not contain the proper indemnification provision.

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

EO 849, *California State University Insurance Requirements*, dated February 5, 2003, in part, states that hold harmless provisions should be modeled after agreements available at the CSU contract resource library. The model auxiliary operating agreement states that auxiliary organizations shall agree to indemnify, defend, and save harmless the State of California, the Trustees of the CSU, the campus, and the officers, employees, volunteers, and agents of each of them from any and all loss, damage, or liability that may be suffered or incurred by state, caused by, arriving out of, or in any way connected with the operations of the auxiliary.

The AS executive director stated that the failure to provide for a complete indemnification clause in those three agreements and the lack of an executed agreement with the electronic equipment waste disposal contractor were due to oversight.

The absence of complete, written agreements increases the risk of misunderstandings and miscommunication regarding rights and responsibilities and subjects the CSU to potential liability.

Recommendation 14

We recommend that AS:

- a. Execute a service agreement with the electronic equipment waste disposal contractor.
- b. Ensure that third-party agreements include appropriate indemnification provisions.

Campus Response

We concur. AS will execute a service agreement with the contractor before disposing of any additional electronic equipment. AS will modify any existing third-party agreements to include appropriate indemnification provisions. Estimated date of completion is March 30, 2007.

FISCAL COMPLIANCE

AS had neither accounted for nor tracked unrelated business income (UBI) for childcare services provided to community members, nor filed an IRS Form 990T.

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

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

The AS executive director stated that based on consultation with its external auditors, AS management believed that providing childcare services to the community was an instructionally related activity, which is a part of its tax-exempt purpose.

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

Recommendation 15

We recommend that AS account for and track UBI for childcare services provided to community members, and file federal income tax returns Form 990T for these services.

Campus Response

We concur. We will track UBI for childcare services provided to community members and file income tax returns if necessary. Estimated date of completion is April 30, 2007.

FEES, REVENUES, AND RECEIVABLES

AS accounts receivable policies and procedures did not indicate those instances wherein overdue accounts should not be sent to a collection agency.

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 fully developed policies and procedures to address accounts receivable issues pertaining to past-due accounts.

The AS executive director stated that prior to the recent centralization of the accounts receivable process, inconsistent collections may have occurred.

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

Recommendation 16

We recommend that AS revise its accounts receivable policies and procedures to address situations where overdue accounts should not be sent to a collection agency.

Campus Response

We concur. AS will revise its policy on accounts receivable to identify those situations where overdue accounts should not be sent to the collection agency. Estimated date of completion is March 30, 2007.

PROPERTY AND EQUIPMENT

ACCOUNTING

Accounting for AS property and equipment was insufficient.

We found that:

- ▶ An annual physical inventory was not consistently performed.
- ▶ The fixed assets inventory listing had not been reconciled to the general ledger.

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

business practices. Sound business practice mandates proper control and accountability over fixed assets.

The AS executive director stated that due to time constraints resulting from the conversion to a new property and equipment control system, AS staff was unable to perform the physical inventory count on an annual basis or reconcile the inventory listing to the general ledger.

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

Recommendation 17

We recommend that AS:

- a. Perform periodic physical inventory counts of property and equipment.
- b. Reconcile its fixed assets inventory listing to the general ledger.

Campus Response

We concur. AS will revise its policy to require that complete physical inventories be conducted every three years rather than annually, with annual inventory confirmations conducted during intervening years. These confirmations, along with the physical inventories will be reconciled to the fixed asset subsidiary ledger and the general ledger on an annual basis. Estimated date of completion is June 29, 2007.

ADMINISTRATION

Administration of AS property and equipment required improvement.

We found that:

- ▶ Recently acquired equipment was not tagged upon installation.
- ▶ Disposal forms lacked a missing item report when required.

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

The AS executive director stated that AS did not tag those fixed assets because they were part of a capital improvement project in process. He further stated that the lack of a missing item report and board approval of fixed asset disposition were due to oversight.

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

Recommendation 18

We recommend that AS:

- a. Ensure the timely tagging of all equipment.
- b. Complete a missing item report for all property and equipment lost or stolen.

Campus Response

We concur. AS will begin tagging equipment immediately upon installation rather than waiting until the asset is fully placed in service. AS will implement a missing item report and require its completion when warranted. Estimated date of completion is March 30, 2007.

INFORMATION TECHNOLOGY

AS did not encrypt sensitive data stored on both the payroll and the human resource systems.

EO 698, *Board of Trustees Policy for The California State University Auxiliary Organizations*, dated March 3, 1999, states that the review of auxiliary organizations will be used to determine appropriate separation of duties, safeguarding of assets, and reliability and integrity of information.

The AS network administrator stated that preventative and detective controls have been implemented to protect sensitive data with the best available technology.

Failure to encrypt sensitive data could require the auxiliary to notify all affected personnel in the event of a breach of security.

Recommendation 19

We recommend that AS encrypt sensitive data as soon as possible.

Campus Response

We concur with qualifications. Currently, encryption is not being supported by the vendor. AS has implemented preventative and detective controls, which were discussed with the auditors. It was agreed that these controls protect sensitive data with the best available technology. The campus and AS both accept the risks inherent in not encrypting sensitive data. The corrective action on this issue is complete.

APPENDIX A: PERSONNEL CONTACTED

Name

Title

CAMPUS

F. King Alexander	President
William Griffith	Vice President, Administration and Finance
Tanya Ho	Senior Internal Auditor (At time of review)
Robyn Mack	Associate Vice President, University Services
Aysu Spruill	Director, Internal Audits

CALIFORNIA STATE UNIVERSITY, LONG BEACH FOUNDATION

Robert Behm	Executive Director
Sue DeRosa	Director, Grants, Contracts and Foundation Programs
Jonie Jones	Associate Director, Payroll and Benefits
Stephanie Moreno	Associate Director, Human Resources and Administrative Services
Brian Nowlin	Associate Executive Director
Greg Raitz	Supervisor, Information Systems
Alan Ray	Chief Financial Officer
Arlene Reyes	Director, Finance

FORTY-NINER SHOPS, INC.

Margi Benitez	Supervisor, Nugget
Mary Lou Cajucom	Cashier/Vault Manager
Clint Campbell	Contract Administrator
Barbara Davis	Executive Secretary
Cora Ejercito	Accounting Manager
Cyndi Farrington	Warehouse Manager
Patti Gray	Director, Dining Services
Nancy Green	Director, Human Resources
Tess Monzon-Santos	Senior Accountant
Fred Neely	Bookstore Director
Don Penrod	General Manager
Sandy Phillips	Accounts Receivable
Chris Ramirez	Customer Service Manager
Liz Sanchez	Account Payable Clerk
Donna Soto	ID Card Manager
Russell Tompkins	Information Technology Manager
Tim Willis	Textbook Buyer/Manager
Marianne Winters	Receptionist
Steve Zimmerle	Computer Store Buyer/Manager

ASSOCIATED STUDENTS, CALIFORNIA STATE UNIVERSITY, LONG BEACH

Judith Abernathy	Human Resources Administrator
Marfi Barnes	Human Resources Technician
Dave Edwards	Associate Executive Director, University Student Union
Clarence Fong	Controller
Richard Haller	Executive Director
David Kleen	Network Administrator
Marcy Le Beau	Staff Accountant
Rhonda Marikos	Director, Isabel Patterson Child Development Center
Judy Musselman	Vault Teller
Stewart Ohanesian	Expenditures Technician
Elizabeth Post	Accounting Technician
Kirsten Stava	Recycling Coordinator

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.



CALIFORNIA STATE UNIVERSITY, LONG BEACH

DIVISION OF ADMINISTRATION AND FINANCE

March 9, 2007

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

RECEIVED
UNIVERSITY AUDITOR

MAR 19 2007

THE CALIFORNIA STATE
UNIVERSITY

Re: Response to Auxiliary Organizations Audit # 06-50

Dear Larry:

Please find enclosed California State University, Long Beach's response to the above report. The campus is committed to addressing and resolving the issues identified in the audit report.

Please let me know if we can provide you with any additional information.

Sincerely,

A handwritten signature in black ink, appearing to read "William H. Griffith".

William H. Griffith
Vice President for Administration and Finance

Enclosure

IA-0125

cc:

F. King Alexander, President
Robyn R. Mack, Associate Vice President, University Services, and Chief of Staff
Joseph A. Latter, Associate Vice President, Financial Management
Aysu Spruill, Director, Internal Auditing Services
Don Penrod, General Manager, Forty-Niner Shops
Richard Haller, Executive Director, Associated Students, Inc.
Alan Ray, Chief Financial Officer, Foundation Office

AUXILIARY ORGANIZATIONS
CALIFORNIA STATE UNIVERSITY,
LONG BEACH

Audit Report 06-50
February 15, 2007

CALIFORNIA STATE UNIVERSITY, LONG BEACH FOUNDATION

FACILITIES AGREEMENTS

Recommendation 1

We recommend that the Foundation execute a lease agreement for the space occupied by the Center for Behavioral Research and Services.

Campus Response

We concur. Out of 37 active facilities agreements only one was not available at the beginning of the audit. On this particular property, a multi-year lease had previously been in place. The funding for the project occupying that off-campus facility had become uncertain, so at the end of the existing lease term a verbal agreement had been reached with the property owner to continue the lease arrangement on a month-to-month basis. When a lease for this facility was requested by audit staff, one was promptly negotiated and delivered to the auditors during their fieldwork. The corrective action on this issue is complete.

CORPORATE GOVERNANCE

Recommendation 2

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

Campus Response

We concur. The lack of signatures on meeting minutes was an oversight that was corrected during fieldwork. Both board and committee minutes are now being signed by an appropriate official. The corrective action on this issue is complete.

PROPERTY AND EQUIPMENT

Recommendation 3

We recommend that the Foundation:

- a. Clarify account descriptions to ensure that property and equipment purchased with sponsored program funds are consistently recorded to the proper account.
- b. Ensure that theft sensitive equipment is consistently identified and tagged.

Campus Response

- a. We concur and have developed a methodology to ensure consistency in the use of general ledger account codes when charging expendable property on grant & contract funded accounts. For purchases of supplies or expendable property, the two most commonly used account codes were 510000 (Supplies) and 733000 (Equipment < \$5,000), the latter was not accurately named. We changed the name on 733000 to “Expendable Property” to more accurately reflect the charges in the account. Effective immediately, we began charging all purchases of expendable property to 733000. Equipment purchased (over \$5,000) continues to be consistently charged to the equipment account. The corrective action on this issue is complete.
- b. We concur that theft sensitive equipment should be consistently identified and tagged. Information Systems Technology (IST) is currently tagging and tracking all items charged to 733000 in the Foundation’s Fixed Asset module. In addition to tagging items charged to 733000, IST reviews all purchase orders and scrubs the general ledger for potential charges of expendable property exceeding \$1,000 to other account codes, such as those beginning with 510000. The general ledger and fixed asset subsidiary ledger are reconciled for items greater than \$1,000. The corrective action on this issue is complete.

INFORMATION TECHNOLOGY

Recommendation 4

We recommend that the Foundation encrypt sensitive personnel information as soon as possible or replace both the payroll and human resource systems with products that will provide such encryption.

Campus Response

We concur with qualifications. Currently, the application vendor has no future plans to support encrypted data. The Foundation has implemented preventative and detective controls, which were discussed with the auditors. It was agreed that these controls protect sensitive data with the best available technology. The campus and the Foundation both accept the risks inherent in not encrypting sensitive personnel information. The corrective action on this issue is complete.

FORTY-NINER SHOPS, INC.**FACILITIES AGREEMENTS****Recommendation 5**

We recommend that Shops:

- a. Execute a written lease agreement with the campus for space for vending machines and food cart locations.
- b. Ensure that all agreements include an appropriate indemnification provision.

Campus Response

We concur. We will ensure that the space for vending machines and food cart locations is included in the lease agreement. All vendor contracts negotiated since August 2006 (including the beverage pouring agreement) contain language for indemnification. Estimated date of completion is May 31, 2007.

CORPORATE GOVERNANCE**Recommendation 6**

We recommend that Shops take appropriate measures to ensure that its board and subcommittee minutes are signed and approved by an appropriate official.

Campus Response

We concur. The Shops general manager has accepted the responsibility to sign off on board and subcommittee minutes. The corrective action on this issue is complete.

OPERATIONAL COMPLIANCE**EMPLOYEES****Recommendation 7**

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

Campus Response

We concur. An analysis of wages and benefits was performed by an outside consultant with final results published in October 2006. The published result was approved by the Shops Board of Directors as noted in the minutes of December 8, 2006. Subsequently, the outside consultant

delivered a Wage and Salary Program dated February 26, 2007. The corrective action on this issue is complete.

FOOD SAMPLING PROGRAM

Recommendation 8

We recommend that Shops:

- a. Ensure that amounts paid to campus and auxiliary employees as part of the food sampling program are appropriately reported as additional income to the IRS.
- b. Ensure that amounts paid to students as part of the food sampling program are reported to the campus financial aid office.
- c. Document its food sampling program policies and procedures to include dollar limits for single transactions and monthly activity reports documented by each program participant.

Campus Response

We concur. We will revisit the food sampling program and determine the IRS reporting requirements for proper compliance. Estimated date of completion is May 31, 2007.

CASH RECEIPTS AND HANDLING

Recommendation 9

We recommend that Shops:

- a. Maintain a log of incoming checks and cash prior to processing by accounts receivable staff.
- b. Implement procedures to adequately safeguard employees transporting deposits.
- c. Establish procedures to document periodic and independent cash counts of the cash room safe.

Campus Response

We concur. We will take appropriate action to establish and enforce cash handling policies and procedures. Estimated date of completion is April 30, 2007.

PURCHASING AND ACCOUNTS PAYABLE

Recommendation 10

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

Campus Response

We concur. Upon audit findings, it was conveyed to staff that current cash disbursement policies and procedures must be adhered to. The corrective action on this issue is complete.

PROPERTY AND EQUIPMENT**Recommendation 11**

We recommend that Shops:

- a. Conduct periodic, independent physical inventory counts.
- b. Ensure that all tagged items are included on the fixed asset listing.
- c. Update the fixed asset listing to reflect all current assets.

Campus Response

We concur. The Shops have taken action by conducting a physical inventory. Analysis of the data is in progress with appropriate book adjustments pending.

In support of the ongoing recommendations, the Shops will be adding and implementing the Fixed Asset Module component of their new Accounting System. Estimated completion date of data updates and system implementation is April 30, 2007.

TRUSTS AND OTHER LIABILITIES**Recommendation 12**

We recommend that Shops monitor and remit credit balances to the campus in a timely manner to ensure that state revenues are maintained and administered by the campus.

Campus Response

We concur. The Shops will monitor and remit credit balances to the campus in a timely manner. To mitigate unnecessary transfers of monies, the Shops will monitor activity volumes to ensure any credit balances remain within a reasonable utilization threshold. Level of campus activity will be reported accordingly, and provided along with statements at time of review. Estimated completion date on this issue is April 30, 2007.

AUXILIARY PROGRAMS**Recommendation 13**

We recommend that Shops:

- a. Perform periodic reviews to address accounts with credit balances.
- b. Eliminate the use of social security numbers as accounts numbers.

- c. Perform timely write-offs of inactive accounts.

Campus Response

We concur. Credit balance review revealed a carry over position from prior system and several aged reset/off-line transactions. We will write-off all inactive accounts and monitor accordingly for active status. Any usage of social security numbers has already been eliminated. Estimated date of completion is April 30, 2007.

70.

ASSOCIATED STUDENTS,
CALIFORNIA STATE UNIVERSITY, LONG BEACH

OPERATING AND ADMINISTRATIVE AGREEMENTS

Recommendation 14

We recommend that AS:

- a. Execute a service agreement with the electronic equipment waste disposal contractor.
- b. Ensure that third-party agreements include appropriate indemnification provisions.

Campus Response

We concur. AS will execute a service agreement with the contractor before disposing of any additional electronic equipment. AS will modify any existing third-party agreements to include appropriate indemnification provisions. Estimated date of completion is March 30, 2007.

FISCAL COMPLIANCE

Recommendation 15

We recommend that AS account for and track UBI for childcare services provided to community members, and file federal income tax returns Form 990T for these services.

Campus Response

We concur. We will track UBI for childcare services provided to community members and file income tax returns if necessary. Estimated date of completion is April 30, 2007.

FEEES, REVENUES, AND RECEIVABLES

Recommendation 16

We recommend that AS revise its accounts receivable policies and procedures to address situations where overdue accounts should not be sent to a collection agency.

Campus Response

We concur. AS will revise its policy on accounts receivable to identify those situations where overdue accounts should not be sent to the collection agency. Estimated date of completion is March 30, 2007.

PROPERTY AND EQUIPMENT

ACCOUNTING

Recommendation 17

We recommend that AS:

- a. Perform periodic physical inventory counts of property and equipment.
- b. Reconcile its fixed assets inventory listing to the general ledger.

Campus Response

We concur. AS will revise its policy to require that complete physical inventories be conducted every three years rather than annually, with annual inventory confirmations conducted during intervening years. These confirmations, along with the physical inventories will be reconciled to the fixed asset subsidiary ledger and the general ledger on an annual basis. Estimated date of completion is June 29, 2007.

ADMINISTRATION

Recommendation 18

We recommend that AS:

- a. Ensure the timely tagging of all equipment.
- b. Complete a missing item report for all property and equipment lost or stolen.

Campus Response

We concur. AS will begin tagging equipment immediately upon installation rather than waiting until the asset is fully placed in service. AS will implement a missing item report and require its completion when warranted. Estimated date of completion is March 30, 2007.

INFORMATION TECHNOLOGY

Recommendation 19

We recommend that AS encrypt sensitive data as soon as possible.

Campus Response

We concur with qualifications. Currently, encryption is not being supported by the vendor. AS has implemented preventative and detective controls, which were discussed with the auditors. It was agreed that these controls protect sensitive data with the best available technology. The campus and AS both accept the risks inherent in not encrypting sensitive data. The corrective action on this issue is complete.

THE CALIFORNIA STATE UNIVERSITY
OFFICE OF THE CHANCELLOR



BAKERSFIELD

March 26, 2007

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 Audit Report 06-50 on *Auxiliary Organizations*,
California State University, Long Beach

LOS ANGELES

MARITIME ACADEMY

In response to your memorandum of March 26, 2007, I accept the response as submitted with the draft final report on *Auxiliary Organizations*, California State University, Long Beach.

MONTEREY BAY

NORTHRIDGE

POMONA

CBR/jt

SACRAMENTO

Enclosure

SAN BERNARDINO

cc: Dr. F. King Alexander, President
Mr. William H. Griffith, Vice President, Administration and Finance

SAN DIEGO

SAN FRANCISCO

SAN JOSÉ

SAN LUIS OBISPO

SAN MARCOS

SONOMA

STANISLAUS

43