

**AUXILIARY ORGANIZATIONS**  
**CALIFORNIA STATE UNIVERSITY,**  
**CHICO**

**Audit Report 06-51**  
**March 29, 2007**

---

**Members, Committee on Audit**

Raymond W. Holdsworth, Chair  
Debra S. Farar, Vice Chair  
Herbert L. Carter    Carol R. Chandler  
George G. Gowgani    William Hauck  
Glen O. Toney

---

**Staff**

University Auditor: Larry Mandel  
Senior Director: Michael Redmond  
IS Audit Manager: Greg Dove  
Audit Manager: Aaron Bolin  
Senior Auditor: Alec Lu

---

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

---

## CONTENTS

Executive Summary .....	1
Introduction.....	4
Background .....	4
Purpose.....	5
Scope and Methodology.....	5

---

## OBSERVATIONS, RECOMMENDATIONS, AND CAMPUS RESPONSES

### **CAMPUS**

Operating and Administrative Agreements.....	8
--	---

### **THE UNIVERSITY FOUNDATION CALIFORNIA STATE UNIVERSITY, CHICO**

Operational Compliance .....	9
Program Compliance .....	9

### **THE CSU, CHICO RESEARCH FOUNDATION**

Auxiliary Programs .....	11
--------------------------	----

### **ASSOCIATED STUDENTS OF CALIFORNIA STATE UNIVERSITY, CHICO**

Purchasing and Accounts Payable .....	13
Information Technology .....	14

## **APPENDICES**

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

---

## **ABBREVIATIONS**

AS	Associated Students of California State University, Chico
AWTU	Academic Weighted Teaching Units
CSU	California State University
CMS	Common Management Systems
EO	Executive Order
Foundation	The University Foundation California State University, Chico
IT	Information Technology
OMB	Office of Management and Budget
Research Foundation	The CSU, Chico Research Foundation
RFIN	Resolution of the Committee on Finance

---

## EXECUTIVE SUMMARY

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

California State University, Chico 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, Chico campus and its auxiliary organizations from October 2, 2006, through November 3, 2006, and made a study and evaluation of the system of internal compliance/internal control in effect for the period January 2004 to November 2006. This report represents our triennial review.

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

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

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

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

Several automated teller machine licensing agreements administered by the campus between the Associated Students of California State University, Chico and third parties expired on June 30, 2006.

## **THE UNIVERSITY FOUNDATION CALIFORNIA STATE UNIVERSITY, CHICO**

### **OPERATIONAL COMPLIANCE [9]**

The University Foundation California State University, Chico (Foundation) was unable to locate conflict-of-interest statements received from board members for fiscal year 2005/06.

### **PROGRAM COMPLIANCE [9]**

The Foundation had not developed a procedure to report the issuance of student stipends and awards under \$600 to the campus financial aid office.

## **THE CSU, CHICO RESEARCH FOUNDATION**

### **AUXILIARY PROGRAMS [11]**

The CSU, Chico Research Foundation's effort reporting process required improvement. For example, several effort certifications were not signed before the end of the semester in which the effort was performed.

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

**PURCHASING AND ACCOUNTS PAYABLE [13]**

Certain Associated Students of California State University, Chico (AS) cash disbursements were not supported by sufficient and appropriate documentation and/or appropriate authorization.

**INFORMATION TECHNOLOGY [14]**

The AS had not developed a written information technology disaster recovery plan.

---

## 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 November 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:

The University Foundation California State University, Chico

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

The CSU, Chico Research Foundation

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

Associated Students of California State University, Chico

- ▶ Operating and Administrative Agreements
- ▶ Facilities Agreements
- ▶ Corporate Governance
- ▶ Fiscal Compliance
- ▶ Operational Compliance
- ▶ Program Compliance
- ▶ Campus Oversight and Control
- ▶ Cash Receipts and Handling
- ▶ Petty Cash and Change Funds
- ▶ Fees, Revenues, and Receivables
- ▶ Purchasing and Accounts Payable

Associated Students of California State University, Chico (cont.)

- ▶ Personnel and Payroll
- ▶ Property and Equipment
- ▶ Information Technology

Campus

Campus Oversight and Control

We have not performed any auditing procedures beyond November 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**

## **CAMPUS**

### **OPERATING AND ADMINISTRATIVE AGREEMENTS**

Several automated teller machine licensing agreements administered by the campus between the Associated Students of California State University, Chico and third parties expired on June 30, 2006.

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

The associate vice president of business and finance stated that the absence of renewed agreements with third parties was due to oversight.

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

#### **Recommendation 1**

We recommend that the campus ensure that all licensing agreements with third parties are executed in a timely manner.

#### **Campus Response**

We concur. Expiration dates of licenses will be electronically calendared on the responsible party's calendar at least four months before the expiration date to allow for renewal and/or new license development. In addition, a spreadsheet has been developed to track licenses and leases. The expiration term will be automatically highlighted in red if the date has passed, and highlighted in yellow if within four months or less of the expiration. Monthly review of the spreadsheet will be electronically calendared for the parties responsible for development of the various licenses and leases.

Status: Complete

## **THE UNIVERSITY FOUNDATION CALIFORNIA STATE UNIVERSITY, CHICO**

### **OPERATIONAL COMPLIANCE**

The University Foundation California State University, Chico (Foundation) was unable to locate conflict-of-interest statements obtained from board members for fiscal year 2005/06.

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

The campus vice president of university advancement stated that the conflict-of-interest statements had been obtained from all board members, but were misplaced during the relocation of the Foundation offices.

Failure to retain conflict-of-interest statements from all auxiliary board members increases liability for acts contrary to the code.

#### **Recommendation 2**

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

#### **Campus Response**

We concur. The Foundation has long had the practice of gathering conflict-of-interest statements at the fall meeting of the board. To ensure that follow-up has occurred with board members who were absent from the meeting or delinquent with their statements, the Foundation will implement a checklist for staff to use in preparing for all board meetings. One item on that checklist will be to ensure that the statements on file in the corporate office match the current membership of the board. If there are new members or missing statements, follow-up action will be taken at that time.

Status: Incomplete with an expected implementation date of July 31, 2007

### **PROGRAM COMPLIANCE**

The Foundation had not developed a procedure to report the issuance of student stipends and awards under \$600 to the campus financial aid office.

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

The CSU, Chico Research Foundation assistant executive director stated that the Foundation reported all scholarships to the campus financial aid office and all payments over \$600 to students on 1099-MISC tax forms; however, stipends and awards under \$600 were not reported due to oversight.

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

### **Recommendation 3**

We recommend that the Foundation develop a procedure to report the issuance of all student stipends and awards to the campus financial aid office.

### **Campus Response**

We concur. The Foundation has created a new set of transaction codes that enable it to identify all stipend and award payments made to CSU, Chico students. All payments made to students now employ the new set of codes. A quarterly report of these transactions will be printed and sent to the financial aid office. The Foundation is in the process of writing a report that will enable the financial aid office to go online and directly access up-to-date information on student payments at any time.

Status: Incomplete with an expected implementation date of October 1, 2007

## **THE CSU, CHICO RESEARCH FOUNDATION**

### **AUXILIARY PROGRAMS**

The CSU, Chico Research Foundation's (Research Foundation) effort reporting process required improvement.

We noted the following related to fiscal year 2004/05 effort certifications:

- ▶ In four instances, effort certifications for spring 2005 were not signed before the end of the semester in which the effort was performed.
- ▶ In one instance, effort certification for spring 2005 was not received from the project director until May 2006.

Office of Management and Budget (OMB), Circular A-21, *Cost Principles for Educational Institutions*, §J10b(1), requires that an institution's payroll distribution system reasonably reflect the activity for which the employee is compensated by the institution and encompass both sponsored and all other activities.

It further states that the method must recognize the principle of after-the-fact confirmation or determination so that costs distributed represent actual costs. Lastly, the Circular states that at least annually a statement will be signed by the employee, principal investigator, or responsible official(s) using suitable means of verification that the work was performed.

Executive Order (EO) 890, *Administration of Grants and Contracts in Support of Sponsored Programs*, dated January 7, 2004, in part, states that each campus shall develop a process for monitoring employment, including additional employment through contracts and grants, and shall comply with the limits established by the California State University (CSU) Additional Employment Policy.

The Research Foundation director of the office of research and sponsored programs stated that the current effort certification process allowed principal investigators to certify during the current semester.

She also stated that although some effort certifications were collected untimely, the current process ensured that all effort reports are received prior to the termination of the project.

Inadequate sponsored program administration of effort and program reporting increases the risk of non-compliance with OMB requirements and CSU Additional Employment Policy, and exposes the auxiliary organization to penalties and disallowances for non-compliance with contracts and grants terms.

#### **Recommendation 4**

We recommend that the Research Foundation:

- a. Ensure that effort certifications are signed subsequent to the semester in which the effort is performed.
- b. Ensure that effort certifications are collected in a timely manner.

#### **Campus Response**

- a. We concur. In the fall of 2006, the Research Foundation implemented a new effort reporting process whereby certification of effort forms are generated directly from the faculty workload, which is entered into CMS/People Soft by college administrative staff. The standard Academic Weighted Teaching Units (AWTU) form has been modified for sponsored project releases and includes a certification of effort statement. After the close of each semester, CMS staff forward all AWTU forms (for sponsored projects and other non-instructional activities) to faculty. Faculty members released for work on sponsored projects certify that the work was performed at the percentage of effort proposed. The form is then signed by the chair and dean and returned to CMS, who forwards it to the Research Foundation where it is verified and filed in the project file. This process will ensure that effort on sponsored projects is not certified prior to the end of the semester.

Status: Incomplete with an expected implementation date of July 31, 2007

- b. We concur. The Research Foundation has implemented a procedure to compare AWTU/effort certifications received from CMS (see above) against a schedule of reimbursements made to CSU, Chico for faculty release time. When faculty release is not reimbursed from a sponsored project (e.g., cost share), AWTU are crosschecked against a log maintained in a central location on the Research Foundation's server. Information on faculty releases, which have been committed as cost share, is entered into the log by the grant/contract analyst assigned to manage the award when the project is initially set up.

The Research Foundation also has in place standard award closeout procedures that include a final verification by the grant/contract analyst that all certifications of effort have been received and placed in the project file. In the event that an AWTU/certification of effort was misplaced or misfiled after receipt by the Research Foundation, this would be discovered at closeout and the analyst would obtain a replacement certification.

Status: Incomplete with an expected implementation date of July 31, 2007

## **ASSOCIATED STUDENTS OF CALIFORNIA STATE UNIVERSITY, CHICO**

### **PURCHASING AND ACCOUNTS PAYABLE**

Certain Associated Students of California State University, Chico (AS) cash disbursements were not supported by sufficient and appropriate documentation and/or appropriate authorization.

Our review of 30 cash disbursements disclosed the following processing exceptions:

- ▶ In one instance, a disbursement was issued without sufficient supporting documentation explaining the reason the payment did not match the invoice provided by the vendor.
- ▶ In two instances, payment was issued without an appropriate signature specimen on file.

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

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

The AS associate financial services director stated that the disbursement was issued to partially fund a performance and a notation explaining the reason for the discrepancy between the invoice amount and the payment amount was not included on the supporting documentation due to oversight. She also stated that fiscal year 2005/06 was the first year that the signature specimen was in place, and although attempts were made to obtain all appropriate signatures, some were missing due to oversight.

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

#### **Recommendation 5**

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

### **Campus Response**

We concur. Procedures are in place that requires a reconciliation of the invoice amount to the payment amount when different. In addition, procedures are in place for obtaining signature specimens. These procedures have been reiterated to staff.

Status: Complete

## **INFORMATION TECHNOLOGY**

The AS had not developed a written information technology (IT) disaster recovery plan.

EO 921, *California State University Emergency Management Program*, dated November 21, 2004, states, in part, that each campus president is delegated the responsibility for the implementation of an emergency management program on campus and shall ensure that management activities including, but not limited to, maintenance and regular updating of the institutional emergency management plan and determination, acquisition, and maintenance of facilities, equipment, and related supplies required for emergency preparedness are accomplished.

The AS financial services director stated that although an informal emergency contingency plan was in place, a written disaster recovery plan had not been developed.

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

### **Recommendation 6**

We recommend that the AS develop a written IT disaster recovery plan.

### **Campus Response**

We concur. We will develop a written IT disaster recovery plan. Several components of a recovery plan (such as data backup and off-site storage) are currently in place and will be included in the written plan.

Status: Incomplete with an expected implementation date of October 1, 2007

---

## **APPENDIX A: PERSONNEL CONTACTED**

### **Name**

### **Title**

#### **CAMPUS**

Paul J. Zingg	President
Richard Ellison	Vice President, University Advancement
Beverly Gentry	Director, Strategic Planning
Dennis Graham	Vice President, Business and Finance
Bill Jones	Associate Vice President, Business and Finance
Katie Milo	Vice Provost, Research

#### **THE UNIVERSITY FOUNDATION CALIFORNIA STATE UNIVERSITY, CHICO**

Richard Ellison	Secretary
Dennis Graham	Treasurer

#### **THE CSU, CHICO RESEARCH FOUNDATION**

Stacie Corona	Assistant Executive Director/Finance Director
Gail Hildebrand	Project Administration Manager, Office of Research and Sponsored Programs
Steven Jackson	Executive Director
Carol Sager	Director, Office of Research and Sponsored Programs

#### **ASSOCIATED STUDENTS OF CALIFORNIA STATE UNIVERSITY, CHICO**

Karen Bang	Administrative Office Coordinator
Denise Booth	Human Resources Director
David Buckley	Executive Director
Brian Buie	Programmer Analyst
Stevey Dubey	Bookstore Director
Joyce Friedman	Financial Services Director
Linda Garcia	Accounts Payable Supervisor
Marilyn Hoag	Operations and Information Systems Manager
Susan Jennings	Associate Financial Services Director
Deborah Lemmo	Bookstore Associate Director
Yvette McMillan	Accounting Supervisor
Jon Slaughter	Activity Fee Director
Susan Toussaint	Children's Center Director
Colette Young	Accounting Supervisor

## **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, Chico  
 Chico, California 95929-0025  
 Vice President for Business and Finance  
 Office: 530-898-6231 Fax: 530-898-4513  
 E-mail: dcgraham@csuchico.edu



April 27, 2007

RECEIVED  
 UNIVERSITY AUDITOR

MAY - 2 2007

THE CALIFORNIA STATE  
 UNIVERSITY

Mr. Larry Mandel  
 University Auditor  
 The California State University  
 401 Golden Shore, 4th Floor  
 Long Beach, CA 90802-4210

Subject: Campus Response to Auxiliary Audit Report 06-51

Dear Mr. Mandel:

Enclosed is California State University, Chico's response to the CSU Auxiliary Audit Report 06-51. We appreciate the time and effort your office has invested in the review of our procedures and internal controls. We welcome the report's recommendations and will take the action necessary to address them.

If you have any questions or require additional information, please contact Beverly Delker Gentry, Director of Strategic Planning for Business and Finance, at [bgentry@csuchico.edu](mailto:bgentry@csuchico.edu) or (530) 898-6231.

Sincerely,

Dennis C. Graham  
 Vice President for Business and Finance

Enclosure

cc: Dr. Paul J. Zingg, President (w/o Enclosure)  
 Richard E. Ellison, Vice President for University Advancement  
 William A. B. Jones, Associate Vice President for Financial Services  
 Richard Jackson, Executive Director for the CSU, Chico Research  
 Foundation  
 Carol Sager, Director, Office of Research and Sponsored Programs  
 Joyce Friedman, Financial Director, Associated Students Business  
 Office  
 Beverly Delker Gentry, Director of Strategic Planning

**AUXILIARY ORGANIZATIONS**  
**CALIFORNIA STATE UNIVERSITY,**  
**CHICO**

**Audit Report 06-51**  
**March 29, 2007**

**CAMPUS**

**OPERATING AND ADMINISTRATIVE AGREEMENTS**

**Recommendation 1**

We recommend that the campus ensure that all licensing agreements with third parties are executed in a timely manner.

**Campus Response**

We concur. Expiration dates of licenses will be electronically calendared on the responsible party's calendar at least four months before the expiration date to allow for renewal and/or new license development. In addition, a spreadsheet has been developed to track licenses and leases. The expiration term will be automatically highlighted in red if the date has passed, and highlighted in yellow if within four months or less of the expiration. Monthly review of the spreadsheet will be electronically calendared for the parties responsible for development of the various licenses and leases.

Status: Complete.

**THE UNIVERSITY FOUNDATION CALIFORNIA STATE UNIVERSITY, CHICO****OPERATIONAL COMPLIANCE****Recommendation 2**

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

**Campus Response**

We concur. The University Foundation has long had the practice of gathering conflict-of-interest statements at the fall meeting of the Board. To insure that follow-up has occurred with Board members who were absent from the meeting or delinquent with their statements, the Foundation will implement a checklist for staff to use in preparing for all Board meetings. One item on that checklist will be to ensure that the statements on file in the corporate office match the current membership of the Board. If there are new members, or missing statements, follow-up action will be taken at that time.

Status: Incomplete with an expected implementation date of July 31, 2007.

**PROGRAM COMPLIANCE****Recommendation 3**

We recommend that the Foundation develop a procedure to report the issuance of all student stipends and awards to the campus financial aid office.

**Campus Response**

We concur. The University Foundation has created a new set of transaction codes that enable it to identify all stipend and award payments made to CSU, Chico students. All payments made to students now employ the new set of codes. A quarterly report of these transactions will be printed and sent to the Financial Aid office. The Foundation is in the process of writing a report that will enable the Financial Aid office to go on-line and directly access up-to-date information on student payments at any time.

Status: Incomplete with an expected implementation date of October 1, 2007.

**THE CSU, CHICO RESEARCH FOUNDATION**

**AUXILIARY PROGRAMS**

**Recommendation 4**

We recommend that the Research Foundation:

- a. Ensure that effort certifications are signed subsequent to the semester in which the effort is performed.
- b. Ensure that effort certifications are collected in a timely manner.

**Campus Response**

- a. We concur. In the fall of 2006, the Research Foundation implemented a new effort reporting process whereby certification of effort forms are generated directly from the faculty workload which is entered into CMS/People Soft by college administrative staff. The standard Academic Weighted Teaching Units (AWTU) form has been modified for sponsored project releases and includes a certification of effort statement. After the close of each semester, CMS staff forward all AWTU forms (for sponsored projects and other non-instructional activities) to faculty. Faculty members released for work on sponsored projects certify that the work was performed at the percentage of effort proposed. The form is then signed by the chair and dean and returned to CMS, who forwards it to the Research Foundation where it is verified and filed in the project file. This process will ensure that effort on sponsored projects is not certified prior to the end of the semester.

Status: Incomplete with an expected implementation date of July 31, 2007.

- b. We concur. The Research Foundation has implemented a procedure to compare AWTU/effort certifications received from CMS (see above) against a schedule of reimbursements made to CSU, Chico for faculty release time. When faculty release is not reimbursed from a sponsored project (e.g., cost share), AWTU's are cross checked against a log maintained in a central location on the Research Foundation's server. Information on faculty releases which have been committed as cost share is entered into the log by the grant/contract analyst assigned to manage the award when the project is initially set up.

The Research Foundation also has in place standard award close out procedures that include a final verification by the grant/contract analyst that all certifications of effort have been received and placed in the project file. In the event that an AWTU/certification of effort was misplaced or misfiled after receipt by the Foundation, this would be discovered at close out and the analyst would obtain a replacement certification.

Status: Incomplete with an expected implementation date of July 31, 2007.

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

**PURCHASING AND ACCOUNTS PAYABLE**

**Recommendation 5**

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

**Campus Response**

We concur with the recommendation. Procedures are in place that requires a reconciliation of the invoice amount to the payment amount, when different. In addition, procedures are in place for obtaining signature specimens. These procedures have been reiterated to staff.

Status: Complete.

**INFORMATION TECHNOLOGY**

**Recommendation 6**

We recommend that the AS develop a written IT disaster recovery plan.

**Campus Response**

We concur with the recommendation and will develop a written IT disaster recovery plan. Several components of a recovery plan (such as data backup and off-site storage) are currently in place and will be included in the written plan.

Status: Incomplete with an expected implementation date of October 1, 2007.

THE CALIFORNIA STATE UNIVERSITY  
OFFICE OF THE CHANCELLOR



BAKERSFIELD

May 11, 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 06-51 on *Auxiliary Organizations*,  
California State University, Chico

LOS ANGELES

MARITIME ACADEMY

In response to your memorandum of May 11, 2007, I accept the response as submitted with the draft final report on *Auxiliary Organizations*, California State University, Chico.

MONTEREY BAY

NORTHRIDGE

POMONA

CBR/jt

SACRAMENTO

SAN BERNARDINO

Enclosure

SAN DIEGO

cc: Mr. Dennis C. Graham, Vice President, Business and Finance  
Dr. Paul J. Zingg, President

SAN FRANCISCO

SAN JOSÉ

SAN LUIS OBISPO

SAN MARCOS

SONOMA

STANISLAUS