

AUXILIARY ORGANIZATIONS
CALIFORNIA STATE UNIVERSITY,
SAN MARCOS

Audit Report 07-43
July 31, 2007

Members, Committee on Audit

Raymond W. Holdsworth, Chair
Kenneth Fong, Vice Chair
Herbert L. Carter George G. Gowgani
Melinda Guzman William Hauck
Ricardo Icaza Glen O. Toney

Staff

University Auditor: Larry Mandel
Senior Director: Michael Redmond
IT Audit Manager: Greg Dove
Audit Manager: Aaron Bolin
Internal Auditor: Kwabena Boakye

BOARD OF TRUSTEES
THE CALIFORNIA STATE UNIVERSITY

CONTENTS

Executive Summary	1
Introduction.....	6
Background	6
Purpose.....	7
Scope and Methodology	7

OBSERVATIONS, RECOMMENDATIONS, AND CAMPUS RESPONSES

CALIFORNIA STATE UNIVERSITY, SAN MARCOS FOUNDATION

Operating and Administrative Agreements.....	10
Facilities Agreements.....	11
Segregation of Duties.....	12
Purchasing.....	12
Investments	13
Cash Receipts and Handling	14
Fees, Revenues, and Receivables.....	15
Accounts Receivable.....	15
Gift Processing and Valuation	16
Property and Equipment	17
Accounting.....	17
Administration	18
Auxiliary Programs.....	19
Information Technology	20

SAN MARCOS UNIVERSITY CORPORATION

Facilities Agreements.....	21
Corporate Governance	22
Board Composition	22
Bylaws.....	23
Fiscal Compliance.....	23

CONTENTS

Investments 24

Purchasing and Accounts Payable 25

Property and Equipment 26

 Accounting 26

 Administration 27

ASSOCIATED STUDENTS OF CALIFORNIA STATE UNIVERSITY, SAN MARCOS

Segregation of Duties 29

Fees, Revenues, and Receivables 30

Purchasing and Accounts Payable 30

Personnel and Payroll 32

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, San Marcos
ATM	Automated Teller Machine
Center ARTES	Center for Arts, Research, Teachers, Education and Schools
CFO	Chief Financial Officer
Corporation	San Marcos University Corporation
CSU	California State University
EO	Executive Order
Foundation	California State University, San Marcos Foundation
RFIN	Resolution of the Committee on Finance
UPD	University Police Department

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, San Marcos 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, San Marcos campus and its auxiliary organizations from January 29, 2007, through March 9, 2007, and made a study and evaluation of the system of internal compliance/internal control in effect for the period April 2004 to March 2007. This report represents our triennial review.

Our study and evaluation at the *California State University, San Marcos 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 March 2007, taken as a whole, was sufficient to meet the objectives stated above.

Our study and evaluation at the *San Marcos University Corporation* 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 March 2007, taken as a whole, was sufficient to meet the objectives stated above.

Our study and evaluation at the *Associated Students of California State University, San Marcos* 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 March 2007, 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, SAN MARCOS FOUNDATION

OPERATING AND ADMINISTRATIVE AGREEMENTS [10]

An administrative service agreement between the California State University, San Marcos Foundation (Foundation) and the university police department (UPD) had not been established. Specifically, the campus cost allocation plan indicated that an administrative service agreement should be established between UPD and the Foundation for public safety services at commercial locations and events.

FACILITIES AGREEMENTS [11]

Certain business arrangements among the Foundation, the campus, and third parties were not supported by written agreements. For example, a sublease agreement with the campus regarding space for a coffee cart had not been established. Further, lease agreements with third parties regarding space for vending machines and automated teller machines (ATM) had not been established.

SEGREGATION OF DUTIES [12]

Duties and responsibilities over certain purchasing functions within dining services were not appropriately segregated at the Foundation. One employee negotiated contracts; placed, received, and verified orders; and approved vendor invoices. Further, duties and responsibilities related to

endowment investment account unitization were not appropriately segregated at the Foundation. Specifically, one individual performed the calculation of the endowment investment account unitization to the individual endowment funds without an independent review.

CASH RECEIPTS AND HANDLING [14]

Administration of Foundation central office cash receipts and handling required improvement. Prior to processing for deposit, the checks were not strictly endorsed immediately upon receipt. In addition, cash receipts were not adequately safeguarded in a locked safe and certain bank reconciliations were not reviewed in a timely manner by management.

FEES, REVENUES, AND RECEIVABLES [15]

The Foundation had not fully documented policies and procedures to address accounts receivable aging, timely action on uncollected receivables, write-off of uncollectible accounts, and assessment of allowance for doubtful accounts. In addition, administration and accounting of Foundation gift pledges were inadequate. Specifically, reviews of overdue pledges were not consistently performed and documented. Reconciliations between the Foundation accounting system and computerized donor records maintained by university advancement were not adequately performed. Charitable trusts and/or pledges received by university advancement were not submitted to the Foundation in a timely manner. Finally, the current pledges receivable listing did not reflect all pledges received and managed by university advancement.

PROPERTY AND EQUIPMENT [17]

Administration and accounting of Foundation property and equipment was insufficient. Specifically, the current inventory listing did not reflect all assets, equipment was not consistently tagged, the property control log had not been reconciled to the general ledger, and policies and procedures had not been developed for the disposition of fixed assets.

AUXILIARY PROGRAMS [19]

State funds generated by campus-designated programs were inappropriately classified as Foundation revenue. Specifically, the Barahona Center for the Study of Books in Spanish for Children and Adolescents; the Center ARTES (Center for Arts, Research, Teachers, Education, and Schools); and the Center for Border Pedagogy were each classified as state programs in which campus revenues were processed by the Foundation and recorded on the Foundation financial statements.

INFORMATION TECHNOLOGY [20]

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

SAN MARCOS UNIVERSITY CORPORATION

FACILITIES AGREEMENTS [21]

Certain business arrangements among the San Marcos University Corporation (Corporation), the Foundation, the campus, and a third party were not supported by complete and/or written agreements. For example, sublease agreements with the Foundation regarding space for vending machines and an ATM had not been established and a sublease agreement with a third party regarding space for laundry services was not approved by the campus.

CORPORATE GOVERNANCE [22]

The Corporation board of directors did not include a student representative between March 2006 and March 2007. Further, amendments to the Corporation Articles of Incorporation and bylaws were not filed with the Office of the Chancellor in a timely manner.

FISCAL COMPLIANCE [23]

The Corporation had not developed a written reserve policy.

INVESTMENTS [24]

The Corporation had not developed a written investment policy and accompanying procedures. The policy and procedures should address investment objectives and goals, board restrictions and limitations, and segregating duties and functions between investment decisions and recordkeeping.

PURCHASING AND ACCOUNTS PAYABLE [25]

The Corporation had not developed procurement policies and procedures to address the purchasing activities of a property management firm. The Corporation reviewed the property management firm's purchase transactions, after the fact, and reimbursed the property management firm for all disbursements. Only if the transaction exceeded the budgeted amount would the Corporation approve a transaction in advance of the procurement of goods or services. Further, the existing property management agreement does not include specific requirements related to documentation requirements and approval threshold for purchases by the property management firm staff.

PROPERTY AND EQUIPMENT [26]

Accounting and administration of Corporation property and equipment was insufficient. For example, the documentation of annual property and equipment inventory counts had not been maintained. Further, reconciliation between accounting records and the financial statements related to property and equipment was not being documented. Lastly, policy and procedures had not been developed to address the tagging of non-capitalized sensitive equipment and equipment was not tagged.

ASSOCIATED STUDENTS OF CALIFORNIA STATE UNIVERSITY, SAN MARCOS

SEGREGATION OF DUTIES [29]

Duties and responsibilities over certain accounts receivable functions related to the collection of childcare fees were not adequately segregated at the Associated Students of California State University, San Marcos (AS). Specifically, two individuals had the ability to create invoices, collected payments from customers, and researched and attempted collection of aged receivables.

FEES, REVENUES, AND RECEIVABLES [30]

The AS did not perform independent reconciliations between revenue received from childcare fees and classroom attendance records.

PURCHASING AND ACCOUNTS PAYABLE [30]

Administration of AS consignment tickets was deficient. Specifically, an independent reconciliation was not performed of consignment tickets on hand to the ticket inventory. Further, an independent reconciliation was not performed from the ticket inventory to the general ledger. Lastly, the disposition of unreconciled differences between the general ledger and the ticket inventory were not approved by management.

PERSONNEL AND PAYROLL [32]

AS management did not consistently review payroll-related reports detailing employee salary and wage adjustments.

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 March 2007. 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, San Marcos 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

San Marcos University Corporation

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

Associated Students of California State University, San Marcos

- ▶ Operating and Administrative Agreements
- ▶ Facilities Agreements
- ▶ Corporate Governance
- ▶ Fiscal Compliance
- ▶ Operational Compliance

Associated Students of California State University, San Marcos (cont.)

- ▶ Program Compliance
- ▶ Campus Oversight and Control
- ▶ Segregation of Duties
- ▶ Cash Receipts and Handling
- ▶ Fees, Revenues, and Receivables
- ▶ Purchasing and Accounts Payable
- ▶ Personnel and Payroll
- ▶ Auxiliary Programs

We have not performed any auditing procedures beyond March 2007. 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, SAN MARCOS FOUNDATION

OPERATING AND ADMINISTRATIVE AGREEMENTS

An administrative service agreement between the California State University, San Marcos Foundation (Foundation) and the university police department (UPD) had not been established.

Specifically, the campus cost allocation plan indicated that an administrative service agreement should be established between UPD and the Foundation for public safety services at commercial locations and events.

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

The Foundation executive director stated that she was unaware that an administrative service agreement with UPD was required.

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

Recommendation 1

We recommend that the Foundation establish an administrative service agreement with UPD for public safety services at commercial locations and events.

Campus Response

We concur. The Foundation will establish an administrative service agreement with the UPD for public safety services at commercial locations and events.

Anticipated completion date: November 30, 2007

FACILITIES AGREEMENTS

Certain business arrangements among the Foundation, the campus, and third parties were not supported by written agreements.

We found that:

- ▶ A sublease agreement with the campus regarding space for a coffee cart had not been established.
- ▶ Lease agreements with third parties regarding space for vending machines and automated teller machines (ATM) had not been established.

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

Executive Order (EO) 849, *California State University Insurance Requirements*, dated February 5, 2003, states that auxiliary organizations shall agree to indemnify, defend, and save harmless the State of California, the Trustees of the California State University (CSU), the campus, and the officers, employees, volunteers, and agents of each of them from any and all loss, damage, or liability that may be suffered or incurred by state, caused by, arising out of, or in any way connected with the operations of the auxiliary.

The Foundation executive director stated that the absence of written agreements with the campus and third parties were due to oversight.

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

Recommendation 2

We recommend that the Foundation establish written agreements with the campus and third parties regarding space for vending machines, ATMs, and a coffee cart.

Campus Response

We concur. The Foundation will establish written agreements with the campus and third parties regarding space for vending machines, ATMs, and the coffee cart.

Anticipated completion date: November 30, 2007

SEGREGATION OF DUTIES

PURCHASING

Duties and responsibilities over certain purchasing functions within dining services were not appropriately segregated at the Foundation.

We found that one employee:

- ▶ Negotiated contracts.
- ▶ Placed orders.
- ▶ Received and verified orders.
- ▶ Approved vendor invoices.
- ▶ Performed physical inventory.
- ▶ Maintained inventory records.
- ▶ Approved spoilage/waste write-off.

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

The *Compilation of Policies and Procedures for California State University Auxiliary Organizations* sets sound business practice guidelines for auxiliary organizations operating within the CSU system. Section 8.9.5, *Procurement*, states, in part, that the auxiliary should establish a written internal controls system that provides purchase orders and service contracts are prepared separately from both receiving and shipping, and payables and disbursements.

The Foundation executive director stated that the lack of proper segregation of purchasing duties within dining services was due to staffing constraints.

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

Recommendation 3

We recommend that the Foundation properly segregate certain purchasing functions within dining services or institute mitigating procedures approved by the campus vice president of finance and administrative services.

Campus Response

We concur. The Foundation will develop and implement procedures to properly segregate certain purchasing functions within dining services and/or institute mitigating procedures.

Anticipated completion date: November 30, 2007

INVESTMENTS

Duties and responsibilities related to endowment investment account unitization were not appropriately segregated at the Foundation.

Specifically, we found that one individual performed the calculation of the endowment investment account unitization to the individual endowment funds without an independent review.

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

The *Compilation of Policies and Procedures for California State University Auxiliary Organizations* sets sound business practice guidelines for auxiliary organizations operating within the CSU system. Section 8.9.2, *Investments*, states that the auxiliary should establish a written internal controls system that ensures investment and income decisions and recordkeeping are conducted and reviewed by more than one person.

The Foundation executive director stated that the lack of proper segregation of duties was due to staffing constraints.

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

Recommendation 4

We recommend that the Foundation properly segregate certain endowment investment account functions or institute mitigating procedures approved by the campus vice president of finance and administrative services.

Campus Response

We concur. The Foundation will develop and implement procedures to properly segregate certain endowment investment account functions and/or institute mitigating procedures.

Anticipated completion date: November 30, 2007

CASH RECEIPTS AND HANDLING

Administration of Foundation central office cash receipts and handling required improvement.

We found that:

- ▶ Incoming checks were not strictly endorsed immediately upon receipt.
- ▶ Cash receipts were not adequately safeguarded in a locked safe prior to deposit.
- ▶ Certain bank reconciliations were not reviewed by management in a timely manner.

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

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

The Foundation executive director stated that inadequate administration of cash receipts and handling was due to the lack of proper training of new staff.

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

Recommendation 5

We recommend that the Foundation:

- a. Strictly endorse checks immediately upon receipt.
- b. Adequately safeguard cash receipts in a locked safe prior to deposit.
- c. Ensure that all bank reconciliations are reviewed by management in a timely manner.

Campus Response

We concur. The Foundation will ensure proper training of new staff on established procedures for strictly endorsing incoming checks immediately upon receipt, safeguarding cash receipts in a locked safe prior to deposit, and timely management review of bank reconciliations.

Anticipated completion date: November 30, 2007

FEES, REVENUES, AND RECEIVABLES

ACCOUNTS RECEIVABLE

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

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 an establishment of written systems to record receivables in a timely manner with proper documentation.

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 8.9.4, *Receivables*, states that the auxiliary should properly record and promptly collect receivables in a consistent manner utilizing systems that ensure integrity of existing internal controls.

The Foundation executive director stated that accounts receivable policies and procedures had been developed, but documentation could not be located.

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

Recommendation 6

We recommend that the Foundation fully document policies and procedures to address accounts receivable aging, timely action on uncollected receivables, write-off of uncollectible accounts, and the assessment of allowance for doubtful accounts.

Campus Response

We concur. The Foundation will document existing practices for the handling of accounts receivables.

Anticipated completion date: November 30, 2007

GIFT PROCESSING AND VALUATION

Administration and accounting of Foundation gift pledges were inadequate.

We found that:

- ▶ Reviews of overdue pledges were not consistently performed and documented.
- ▶ Reconciliations between the Foundation accounting system and computerized donor records maintained by university advancement were not adequately performed.
- ▶ Charitable trusts and/or pledges received by university advancement were not submitted to the Foundation in a timely manner.
- ▶ The current pledges receivable listing did not reflect all pledges received and managed by university advancement.

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

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 8.9.3, *Donations, Programs Service Fees, Other Income*, states that the auxiliary should establish a written recordkeeping system that enables gifts to be properly received, recorded, and acknowledged in accordance with donor restrictions and other requirements.

The Foundation chief financial officer (CFO) stated that the Foundation appropriately administered and accounted for all pledges submitted to the Foundation by university advancement.

Inadequate administration and accounting of gift pledges increases the risk of misunderstandings and miscommunication regarding rights and responsibilities.

Recommendation 7

We recommend that the Foundation:

- a. Perform and document reviews of all overdue pledges.
- b. Perform reconciliations between the Foundation's accounting system and university advancement's computerized donor records.

- c. Request information timely from university advancement of any outstanding charitable trusts and/or pledges received.
- d. Ensure that the pledges receivable listing includes all pledges received and managed by university advancement.

Campus Response

We concur. The Foundation will develop and implement procedures, in cooperation with university advancement, to address timely recording and routine reconciliation of pledges received and pledge information.

Anticipated completion date: November 30, 2007

PROPERTY AND EQUIPMENT

ACCOUNTING

Accounting of Foundation property and equipment was insufficient.

We found that:

- ▶ The property control log had not been reconciled to the general ledger.
- ▶ Policies and procedures for the disposition of property and equipment had not been developed.

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 accounting of property and equipment.

The Foundation executive director stated that due to staffing constraints, she was unable to revise the existing fixed assets policies and procedures to include best practices regarding reconciliations and dispositions.

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

Recommendation 8

We recommend that the Foundation:

- a. Reconcile its property control log listing to the general ledger on a regular basis.

- b. Develop policies and procedures for the disposition of property and equipment.

Campus Response

We concur. The Foundation will reconcile the property control log to the general ledger and develop policies and procedures for the disposition of property and equipment.

Anticipated completion date: November 30, 2007

ADMINISTRATION

Administration of Foundation property and equipment required improvement.

We found that:

- ▶ The current inventory listing did not reflect all property and equipment.
- ▶ Equipment was not consistently tagged in a timely manner.

Title 5 §42401 and §42402 indicate that the campus president shall require that auxiliary organizations operate in conformity with policy of the Board of Trustees and the campus. One of the objectives of the auxiliary organizations is to provide fiscal procedures and management systems that allow effective coordination of the auxiliary activities with the campus in accordance with sound business practices. Sound business practice mandates 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, 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 Foundation executive director stated that due to staffing constraints, she was unable to revise the existing fixed assets policies and procedures to include best practices regarding asset listing and tagging.

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

Recommendation 9

We recommend that the Foundation:

- a. Ensure the current inventory listing reflects all property and equipment.
- b. Ensure the tagging of all equipment.

Campus Response

We concur. The Foundation will update its existing policies and procedures to ensure the current inventory listing reflects all property and equipment by the tagging of all equipment.

Anticipated completion date: November 30, 2007

AUXILIARY PROGRAMS

State funds generated by campus-designated programs were inappropriately classified as Foundation revenue.

We found that the Barahona Center for the Study of Books in Spanish for Children and Adolescents; the Center ARTES (Center for Arts, Research, Teachers, Education, and Schools); and the Center for Border Pedagogy were each classified as state programs in which campus revenues were processed by the Foundation and recorded on the Foundation financial statements.

EO 751, *Centers, Institutes and Similar Organizations on Campuses of the California State University*, dated July 5, 2000, governs the development of these types of enterprises on each campus. The EO also states that programs can either be owned by the campus or owned by an auxiliary and that financial responsibility follows the ownership decision.

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.

The Foundation executive director stated that the campus-designated program accounts maintained by the Foundation were established prior to EO 919 and, therefore, had minimal state revenue residing within the fund balances.

Placement of state funds in auxiliary accounts increases the risk that funds will be expended for inappropriate purposes.

Recommendation 10

We recommend that the Foundation, together with the campus, ensure that all state revenues for campus-designated programs are maintained and administered in state accounts and that all state funds currently residing in Foundation accounts be immediately transferred to the state.

Campus Response

We concur. The Foundation and the campus will conduct a review to ensure that all state revenues for campus-designated programs are maintained and administered in state accounts. All state funds that are currently in Foundation accounts will be transferred to state accounts.

Anticipated completion date: November 30, 2007

INFORMATION TECHNOLOGY

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

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

The Foundation CFO stated that data stored on the financial system had been secure and placed behind the campus border firewall to help minimize the likelihood of a system breach, but was unsure about proper protection from internal campus network traffic.

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

Recommendation 11

We recommend that the Foundation encrypt sensitive personnel information stored on the financial system as soon as possible or replace the financial system with a product that will provide such encryption, or institute mitigating procedures approved by the campus vice president of finance and administrative services.

Campus Response

We concur. The Foundation will evaluate the effect of encrypting sensitive personnel information stored on the financial system or develop and implement mitigating procedures.

Anticipated completion date: November 30, 2007

SAN MARCOS UNIVERSITY CORPORATION

FACILITIES AGREEMENTS

Certain business arrangements among the San Marcos University Corporation (Corporation), the Foundation, the campus, and a third party were not supported by complete and/or written agreements.

We found that:

- ▶ Sublease agreements with the Foundation regarding space for vending machines and an ATM had not been established.
- ▶ A sublease agreement with a third party regarding space for laundry services was not approved by the campus. In addition, the indemnification provision did not specifically indemnify the CSU Trustees, the campus, and the State of California.

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

EO 849, *California State University Insurance Requirements*, dated February 5, 2003, states that auxiliary organizations shall agree to indemnify, defend, and save harmless the State of California, the Trustees of the CSU, the campus, and the officers, employees, volunteers, and agents of each of them from any and all loss, damage, or liability that may be suffered or incurred by state, caused by, arriving out of, or in any way connected with the operations of the auxiliary.

The Foundation executive director stated that the absence of sublease agreements with the Foundation and the failure to receive campus approval and to include a proper indemnification provision in a sublease agreement with a third party 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 Trustees, the campus, and the State of California to potential liability.

Recommendation 12

We recommend that the Corporation:

- a. Establish a written sublease agreement with the Foundation regarding space for vending machines and an ATM.

- b. Ensure that the sublease agreement with a third party regarding space for laundry services include approval by the campus and an appropriate indemnification clause.

Campus Response

We concur. The Corporation will establish a written sublease agreement with the Foundation for space for vending machines, an ATM, and laundry services, including an appropriate indemnification clause.

Anticipated completion date: November 30, 2007

CORPORATE GOVERNANCE

BOARD COMPOSITION

The Corporation board of directors did not include a student representative between March 2006 and March 2007.

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

The campus vice president of finance and administrative services stated that the Corporation was in the process of selecting a representative, and the Foundation executive director stated that the Corporation has developed a more robust recruitment strategy.

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

Recommendation 13

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

Campus Response

We concur. The vacancy was filled before the audit fieldwork was completed. The Corporation has implemented a more robust recruitment strategy to ensure all board positions are filled in a timely manner.

This was completed June 30, 2007.

BYLAWS

Amendments to the Corporation Articles of Incorporation and bylaws were not filed with the Office of the Chancellor in a timely manner.

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

The Foundation executive director stated that although she was aware of the requirement to file amended Articles of Incorporation and bylaws with the Office of the Chancellor, they were not submitted in a timely manner due to oversight.

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

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

FISCAL COMPLIANCE

The Corporation had not developed a written reserve policy.

Such a policy should address or consider the following areas:

- ▶ Minimum reserve requirements.
- ▶ Board review of reserve levels.
- ▶ Reserves for working capital and capital replacement.
- ▶ The methodology used for the calculation of reserves.

Education Code §89904(b), §89904.5, and §89905 indicate that reserve planning is necessary.

The *Compilation of Policies and Procedures for California State University Auxiliary Organizations* sets sound business practice guidelines for auxiliary organizations operating within the CSU system. Section 8.9.9, *Reserves and Net Assets*, states, in part, an auxiliary implement financial standards, which will assure fiscal viability, including proper provision for professional management, adequate working capital, adequate reserve funds for current operations and capital replacements, and adequate provisions for new business requirements.

The Foundation CFO stated that the Corporation was in the process of developing a reserve policy.

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

Recommendation 14

We recommend that the Corporation develop a written policy to address the allocation of surplus funds/reserves.

Campus Response

We concur. The Corporation will develop and implement a written policy to address the allocation of surplus funds/reserves.

Anticipated completion date: November 30, 2007

INVESTMENTS

The Corporation had not developed a written investment policy and accompanying procedures.

Such a policy and procedures should address or consider the following areas:

- ▶ Investment objectives and goals.
- ▶ Board restrictions and limitations.
- ▶ Segregation of duties and functions between investment decisions and recordkeeping.
- ▶ The methodology to regularly reconcile investment positions and investment income with independent management review.

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

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 8.9.2, *Investments*, states that the auxiliary should adopt a written governing board investment policy that describes the investment objectives and limitations, and provides for practices to be used to meet its business and fiduciary responsibilities.

The Foundation CFO stated that the policy and procedures for the investment program were currently being developed.

The absence of a written investment policy and procedures increases the risk of misunderstandings and miscommunication regarding rights and responsibilities.

Recommendation 15

We recommend that the Corporation develop a written investment policy and accompanying procedures that address or consider the following:

- a. Establishment of investment objectives and goals.
- b. Adherence to board restrictions and limitations.
- c. Segregation of duties and functions between investment decisions and recordkeeping.
- d. Implementation of a methodology to regularly reconcile investment positions and investment income with independent management review.

Campus Response

We concur. The Corporation will develop and implement a written investment policy and procedures that addresses the items noted in the recommendation.

Anticipated completion date: November 30, 2007

PURCHASING AND ACCOUNTS PAYABLE

The Corporation had not developed procurement policies and procedures to address the purchasing activities of a property management firm.

The Corporation established an agreement with a property management firm to operate the University Village Apartments. The agreement required the property management firm to establish an annual budget for the operating expenses associated with the University Village Apartments. During the course of the year, the property management firm was allowed to procure goods and services for the operation of the University Village Apartments up to the budgeted amounts.

The Corporation reviewed these transactions, after the fact, and reimbursed the property management firm for all disbursements. Only if the transaction exceeded the budgeted amount would the Corporation approve a transaction in advance of the procurement of goods or services. Further, the existing property management agreement did not include specific requirements related to documentation requirements and approval threshold for purchases by the property management firm staff.

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 supporting significant procurement processes with written policies and procedures.

The *Compilation of Policies and Procedures for California State University Auxiliary Organizations* sets sound business practice guidelines for auxiliary organizations operating within the CSU system. Section 8.9.5, *Procurement*, states, in part, that the auxiliary should establish a written system that provides for purchases and service contracts to be made within governing board policies, source restrictions, funds availability, and other applicable requirements.

The Foundation CFO stated that the Corporation was operating under the procurement guidelines within the property management agreement, but had not yet established specific policies and procedures.

The absence of written policies and procedures increases the risk of errors or misappropriation.

Recommendation 16

We recommend that the Corporation develop procurement policies and procedures to address the purchasing activities of the property management firm.

Campus Response

We concur. The Corporation has reviewed and accepted the property management firm's procedures. A copy of each purchase will be forwarded to and reviewed by the Corporation prior to payment.

This was completed and implemented August 1, 2007.

PROPERTY AND EQUIPMENT

ACCOUNTING

Accounting for Corporation property and equipment was insufficient.

We found that:

- ▶ Documentation of annual property and equipment inventory counts had not been maintained.
- ▶ Reconciliation between accounting records and the financial statements related to property and equipment was not documented.

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 accounting over property and equipment.

The Foundation executive director stated her belief that the property management firm was responsible for performing these activities.

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

Recommendation 17

We recommend that the Corporation:

- a. Maintain documentation of annual property and equipment inventory counts.
- b. Document the reconciliation between the accounting records and the financial statements related to property and equipment.

Campus Response

We concur. The Corporation will develop and implement procedures to maintain documentation of annual property and equipment inventory counts and will document the reconciliation between the accounting records and the financial statements related to property and equipment.

Anticipated completion date: November 30, 2007

ADMINISTRATION

Administration of Corporation property and equipment required improvement.

We found that:

- ▶ Policy and procedures had not been developed to address the tagging of non-capitalized sensitive equipment.
- ▶ A written property control log had not been maintained.
- ▶ Equipment was not 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 over 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, 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 Foundation executive director stated her belief that the property management firm was responsible for performing these activities.

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

Recommendation 18

We recommend that the Corporation:

- a. Develop policy and procedures for the tagging of non-capitalized sensitive equipment.
- b. Maintain a written property control log.
- c. Ensure all equipment is tagged.

Campus Response

We concur. The Corporation will develop and implement a written policy and procedures for the tagging of non-capitalized sensitive equipment to include maintaining a written property control log and ensuring all equipment is tagged.

Anticipated completion date: November 30, 2007

**ASSOCIATED STUDENTS OF
CALIFORNIA STATE UNIVERSITY, SAN MARCOS**

SEGREGATION OF DUTIES

Duties and responsibilities over certain accounts receivable functions related to the collection of childcare fees were not adequately segregated at the Associated Students of California State University, San Marcos (AS).

We found that two individuals:

- ▶ Had the ability to create invoices.
- ▶ Collected payments from customers.
- ▶ Researched and attempted collection of aged receivables.

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

The *Compilation of Policies and Procedures for California State University Auxiliary Organizations* sets sound business practice guidelines for auxiliary organizations operating within the CSU system. Section 8.9.4, *Receivables*, states that the auxiliary should establish a written internal controls system that ensures billing, cash collection, customer inquiries, and subsidiary ledger reconciliations are conducted separately and with due regard for receivable duties.

The AS executive director stated that the former operations manager performed certain accounting functions that provided the appropriate segregation of duties; however, upon her departure, these duties were consolidated among other existing staff positions.

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

Recommendation 19

We recommend that the AS properly segregate certain accounts receivable functions related to the collection of childcare fees or institute mitigating procedures approved by the campus vice president of finance and administrative services.

Campus Response

We concur. As of September 4, 2007, the Early Learning Center will cease operations due to the opening of the Center for Children and Families. This center will be under the management of San Marcos University Corporation (Corporation). Therefore, no corrective action is required of the AS to this recommendation.

FEES, REVENUES, AND RECEIVABLES

The AS did not perform independent reconciliations between revenue received from childcare fees and classroom attendance records.

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 reconciliation between revenue collections and attendance records.

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

The AS executive director stated that she was unaware that the childcare center had not established an adequate revenue reconciliation process.

Failure to reconcile revenues increases the risk that errors or misappropriation of funds will not be detected.

Recommendation 20

We recommend that the AS perform documented reconciliations between revenue received from childcare fees and classroom attendance.

Campus Response

We concur. As of September 4, 2007, the Early Learning Center will cease operations due to the opening of the Center for Children and Families. This center will be under the management of the Corporation. Therefore, no corrective action is required of the AS to this recommendation.

PURCHASING AND ACCOUNTS PAYABLE

Administration of AS consignment tickets was deficient.

We found that:

- ▶ An independent reconciliation was not performed of consignment tickets on hand to the ticket inventory.
- ▶ An independent reconciliation was not performed of the ticket inventory to the general ledger.

- ▶ The disposition of unreconciled differences between the general ledger and the ticket inventory were not approved by management.

Title 5 §42401 and §42402 indicate that the campus president shall require that auxiliary organizations operate in conformity with the 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 merchandise held on consignment be recorded as a liability to the general ledger.

The *Compilation of Policies and Procedures for California State University Auxiliary Organizations* sets sound business practice guidelines for auxiliary organizations operating within the CSU system. Section 8.9.8, *Debt and Other Liabilities*, states that the auxiliary should establish a written system that records all liabilities and their terms and conditions. The compilation further states that the auxiliary should ensure materials are received in a consistent manner, and that they are properly inspected, recorded, and reported to the purchasing agent or equivalent.

The AS executive director stated that the above-noted deficiencies were due to oversight.

Inadequate control of consignment merchandise increases the risk of errors or misappropriation.

Recommendation 21

We recommend that the AS:

- a. Perform an independent reconciliation of consignment tickets on hand to the ticket inventory.
- b. Perform an independent reconciliation of ticket inventory to the general ledger.
- c. Obtain management approval for the disposition of unreconciled differences between the general ledger and the ticket inventory.

Campus Response

We concur. The AS, in collaboration with the campus accounting services staff, will develop and implement procedures to perform independent reconciliations of consignment tickets on hand to the ticket inventory and of the ticket inventory to the general ledger.

Anticipated completion date: November 30, 2007

PERSONNEL AND PAYROLL

AS management did not consistently review payroll-related reports detailing employee salary and wage adjustments.

The *Compilation of Policies and Procedures for California State University Auxiliary Organizations* sets sound business practice guidelines for auxiliary organizations operating within the CSU system. Section 8.9.6, *Payroll*, states that the auxiliary should establish a written system that ensures proper authorization, approval, and documentation of new hires, changes in employment, salary and wage rates, and payroll deductions.

The AS executive director stated that staff constraints caused by a vacant position created a situation where these reports were not consistently reviewed.

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

Recommendation 22

We recommend that AS management review payroll-related reports detailing employee salary and wage adjustments prior to the disbursement of paychecks.

Campus Response

We concur. AS management has since hired a full-time operations manager to ensure consistent review and approval of payroll-related reports detailing employee salary and wage adjustments prior to the disbursement of paychecks.

Anticipated completion date: November 30, 2007

APPENDIX A: PERSONNEL CONTACTED

Name

Title

CAMPUS

Karen S. Haynes	President
Tina Bell	Associate Vice President, Advancement
Linda Hawk	Associate Vice President, Resource Management
Neal Hoss	Vice President, Finance and Administrative Services
Sri Renganathan	Associate Vice President, Finance and Business Services
Agnes Tobe	Accountant
Patricia Worden	Vice President, Student Affairs

CALIFORNIA STATE UNIVERSITY, SAN MARCOS FOUNDATION

Kathy Brown	Manager, University Store
Deborah Davis	Assistant Director, Finance and Business Services
Angela Dawson	Starbucks Manager
Pam Edmonson	Director, Commercial Services
Michelle Giglio	Accounting Technician, Sales Audit
Marti Gray	Executive Director
Clark Hampton	Chief Financial Officer
Mary Hand	Textbook Buyer
Michelle Hinojosa	Human Resources Generalist
Grant Hubbard	Director, Grants and Contracts
Audrey Macy	Administrative Assistant
Lourdes Mendez	Payroll Technician
Melanie Niedens	Cougar Corner Manager
Christopher Wood	Dome Café and Catering Manager

SAN MARCOS UNIVERSITY CORPORATION

Brian Dawson	Director, University Village Apartments
--------------	---

ASSOCIATED STUDENTS OF CALIFORNIA STATE UNIVERSITY, SAN MARCOS

Roy Lee	President
Marilyn McWilliams	Coordinator, Student Accounts and Services
Lura Poggi	Executive Director
Mosetta Rodrigues-Coppedge	Director, Early Learning Center

STATEMENT OF INTERNAL CONTROLS

A. INTRODUCTION

Internal accounting and related operational controls established by the State of California, the California State University Board of Trustees, and the Office of the Chancellor are evaluated by the University Auditor, in compliance with professional standards for the conduct of internal audits, to determine if an adequate system of internal control exists and is effective for the purposes intended. Any deficiencies observed are brought to the attention of appropriate management for corrective action.

B. INTERNAL CONTROL DEFINITION

Internal control, in the broad sense, includes controls that may be characterized as either accounting or operational as follows:

1. Internal Accounting Controls

Internal accounting controls comprise the plan of organization and all methods and procedures that are concerned mainly with, and relate directly to, the safeguarding of assets and the reliability of financial records. They generally include such controls as the systems of authorization and approval, separation of duties concerned with recordkeeping and accounting reports from those concerned with operations or asset custody, physical controls over assets, and personnel of a quality commensurate with responsibilities.

2. Operational Controls

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

C. INTERNAL CONTROL OBJECTIVES

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

D. INTERNAL CONTROL SYSTEMS LIMITATIONS

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

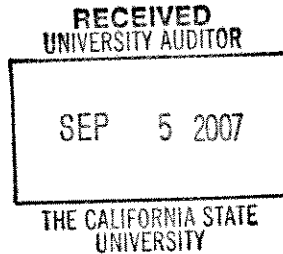


Office of the Vice President, Finance and Administrative Services

Neal R. Hoss
Vice President

California State University San Marcos
San Marcos, California 92096-0001 USA
Tel: 760 750-4950; Fax: 760 750-4949
nhoss@csusm.edu
www.csusm.edu

September 4, 2007



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

Subject: Campus Response to Audit Report 07-43
California State University, San Marcos Auxiliary Organizations

Dear Mr. Mandel:

Enclosed is our response to the recommendations in Audit Report 07-43, Auxiliary Organizations. Upon acceptance of our response, we will provide documentation for those recommendations that we have completed and follow up with you by the anticipated completion date for the remaining recommendations.

Please let us know if you have any questions or need additional information.

Sincerely,

A handwritten signature in black ink, appearing to read "Neal R. Hoss".

Neal R. Hoss
Vice President
Finance and Administrative Services

Enclosure

cc: President Karen S. Haynes
Ms. Marti Gray, Executive Director, CSUSM Foundation
Mr. Rick Keith, Vice President, University Advancement
Ms. Patricia Warden, Vice President, Student Affairs
Ms. Lura Poggi, Executive Director, ASI, Inc.

The California State University

Bakersfield • Channel Islands • Chico • Dominguez Hills • East Bay • Fresno • Fullerton • Humboldt • Long Beach • Los Angeles • Maritime Academy • Monterey Bay
• Northridge • Pomona • Sacramento • San Bernardino • San Diego • San Francisco • San Jose • San Luis Obispo • San Marcos • Sonoma • Stanislaus

AUXILIARY ORGANIZATIONS
CALIFORNIA STATE UNIVERSITY,
SAN MARCOS

Audit Report 07-43
July 31, 2007

CALIFORNIA STATE UNIVERSITY, SAN MARCOS FOUNDATION

OPERATING AND ADMINISTRATIVE AGREEMENTS

Recommendation 1

We recommend that the Foundation establish an administrative service agreement with UPD for public safety services at commercial locations and events.

Campus Response

We concur. The Foundation will establish an administrative service agreement with the UPD for public safety services at commercial locations and events.

Anticipated Completion Date: November 30, 2007

FACILITIES AGREEMENTS

Recommendation 2

We recommend that the Foundation establish written agreements with the campus and third parties regarding space for vending machines, ATMs, and a coffee cart.

Campus Response

We concur. The Foundation will establish written agreements with the campus and third parties regarding space for vending machines, ATMs, and the coffee cart.

Anticipated Completion Date: November 30, 2007

SEGREGATION OF DUTIES

PURCHASING

Recommendation 3

We recommend that the Foundation properly segregate certain purchasing functions within dining services or institute mitigating procedures approved by the campus vice president of finance and administrative services.

Campus Response

We concur. The Foundation will develop and implement procedures to properly segregate certain purchasing functions within dining services and/or institute mitigating procedures.

Anticipated Completion Date: November 30, 2007

INVESTMENTS

Recommendation 4

We recommend that the Foundation properly segregate certain endowment investment account functions or institute mitigating procedures approved by the campus vice president of finance and administrative services.

Campus Response

We concur. The Foundation will develop and implement procedures to properly segregate certain endowment investment account functions and/or institute mitigating procedures.

Anticipated Completion Date: November 30, 2007

CASH RECEIPTS AND HANDLING

Recommendation 5

We recommend that the Foundation:

- a. Strictly endorse checks immediately upon receipt.
- b. Adequately safeguard cash receipts in a locked safe prior to deposit.
- c. Ensure that all bank reconciliations are reviewed by management in a timely manner.

Campus Response

We concur. The Foundation will ensure proper training of new staff on established procedures for strictly endorsing incoming checks immediately upon receipt, safeguarding cash receipts in a locked safe prior to deposit, and timely management review of bank reconciliations.

Anticipated Completion Date: November 30, 2007

FEES, REVENUES, AND RECEIVABLES

ACCOUNTS RECEIVABLE

Recommendation 6

We recommend that the Foundation fully document policies and procedures to address accounts receivable aging, timely action on uncollected receivables, write-off of uncollectible accounts, and the assessment of allowance for doubtful accounts.

Campus Response

We concur. The Foundation will document existing practices for the handling of accounts receivables.

Anticipated Completion Date: November 30, 2007

GIFT PROCESSING AND VALUATION

Recommendation 7

We recommend that the Foundation:

- a. Perform and document reviews of all overdue pledges.
- b. Perform reconciliations between the Foundation's accounting system and university advancement's computerized donor records.
- c. Request information timely from university advancement of any outstanding charitable trusts and/or pledges received.
- d. Ensure that the pledges receivable listing includes all pledges received and managed by university advancement.

Campus Response

We concur. The Foundation will develop and implement procedures, in cooperation with university advancement, to address timely recording and routine reconciliation of pledges received and pledge information.

Anticipated Completion Date: November 30, 2007

PROPERTY AND EQUIPMENT

ACCOUNTING

Recommendation 8

We recommend that the Foundation:

- a. Reconcile its property control log listing to the general ledger on a regular basis.
- b. Develop policies and procedures for the disposition of property and equipment.

Campus Response

We concur. The Foundation will reconcile the property control log to the general ledger and develop policies and procedures for the disposition of property and equipment.

Anticipated Completion Date: November 30, 2007

ADMINISTRATION

Recommendation 9

We recommend that the Foundation:

- a. Ensure the current inventory listing reflects all property and equipment.
- b. Ensure the tagging of all equipment.

Campus Response

We concur. The Foundation will update its existing policies and procedures to ensure the current inventory listing reflects all property and equipment by the tagging of all equipment.

Anticipated Completion Date: November 30, 2007

AUXILIARY PROGRAMS

Recommendation 10

We recommend that the Foundation, together with the campus, ensure that all state revenues for campus-designated programs are maintained and administered in state accounts and that all state funds currently residing in Foundation accounts be immediately transferred to the state.

Campus Response

We concur. The Foundation and the campus will conduct a review to ensure that all state revenues for campus-designated programs are maintained and administered in state accounts. All state funds that are currently in Foundation accounts will be transferred to state accounts.

Anticipated Completion Date: November 30, 2007

INFORMATION TECHNOLOGY

Recommendation 11

We recommend that the Foundation encrypt sensitive personnel information stored on the financial system as soon as possible or replace the financial system with a product that will provide such encryption, or institute mitigating procedures approved by the campus vice president of finance and administrative services.

Campus Response

We concur. The Foundation will evaluate the effect of encrypting sensitive personnel information stored on the financial system or develop and implement mitigating procedures.

Anticipated Completion Date: November 30, 2007

SAN MARCOS UNIVERSITY CORPORATION

FACILITIES AGREEMENTS

Recommendation 12

We recommend that the Corporation:

- a. Establish a written sublease agreement with the Foundation regarding space for vending machines and an ATM.
- b. Ensure that the sublease agreement with a third party regarding space for laundry services include approval by the campus and an appropriate indemnification clause.

Campus Response

We concur. The Corporation will establish a written sublease agreement with the Foundation for space for vending machines, an ATM, and laundry services, including an appropriate indemnification clause.

Anticipated Completion Date: November 30, 2007

CORPORATE GOVERNANCE

BOARD COMPOSITION

Recommendation 13

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

Campus Response

We concur. The vacancy was filled before the audit fieldwork was completed. The Corporation has implemented a more robust recruitment strategy to ensure all board positions are filled in a timely manner.

Anticipated Completion Date: Completed June 30, 2007

FISCAL COMPLIANCE

Recommendation 14

We recommend that the Corporation develop a written policy to address the allocation of surplus funds/reserves.

Campus Response

We concur. The Corporation will develop and implement a written policy to address the allocation of surplus funds/reserves.

Anticipated Completion Date: November 30, 2007

INVESTMENTS

Recommendation 15

We recommend that the Corporation develop a written investment policy and accompanying procedures that address or consider the following:

- a. Establishment of investment objectives and goals.
- b. Adherence to board restrictions and limitations.
- c. Segregation of duties and functions between investment decisions and recordkeeping.
- d. Implementation of a methodology to regularly reconcile investment positions and investment income with independent management review.

Campus Response

We concur. The Corporation will develop and implement a written investment policy and procedures that addresses the items noted in the recommendation.

Anticipated Completion Date: November 30, 2007

PURCHASING AND ACCOUNTS PAYABLE

Recommendation 16

We recommend that the Corporation develop procurement policies and procedures to address the purchasing activities of the property management firm.

Campus Response

We concur. The Corporation has reviewed and accepted property management firm's procedures. A copy of each purchase will be forwarded to and reviewed by the Corporation prior to payment.

Anticipated Completion Date: Completed and implemented August 1, 2007

PROPERTY AND EQUIPMENT

ACCOUNTING

Recommendation 17

We recommend that the Corporation:

- a. Maintain documentation of annual property and equipment inventory counts.
- b. Document the reconciliation between the accounting records and the financial statements related to property and equipment.

Campus Response

We concur. The Corporation will develop and implement procedures to maintain documentation of annual property and equipment inventory counts and will document the reconciliation between the accounting records and the financial statements related to property and equipment.

Anticipated Completion Date: November 30, 2007

ADMINISTRATION

Recommendation 18

We recommend that the Corporation:

- a. Develop policy and procedures for the tagging of non-capitalized sensitive equipment.
- b. Maintain a written property control log.
- c. Ensure all equipment is tagged.

Campus Response

We concur. The Corporation will develop and implement a written policy and procedures for the tagging of non-capitalized sensitive equipment to include maintaining a written property control log and ensuring all equipment is tagged.

Anticipated Completion Date: November 30, 2007

**ASSOCIATED STUDENTS OF
CALIFORNIA STATE UNIVERSITY, SAN MARCOS**

SEGREGATION OF DUTIES

Recommendation 19

We recommend that the AS properly segregate certain accounts receivable functions related to the collection of childcare fees or institute mitigating procedures approved by the campus vice president of finance and administrative services.

Campus Response

We concur. As of September 4, 2007, the Early Learning Center will cease operations due to the opening of the Center for Children and Families. This center will be under the management of San Marcos University Corporation. Therefore, no corrective action is required of Associated Students, Inc. to this recommendation.

Anticipation Completion Date: No further action required

FEES, REVENUES, AND RECEIVABLES

Recommendation 20

We recommend that the AS perform documented reconciliations between revenue received from childcare fees and classroom attendance.

Campus Response

We concur. As of September 4, 2007, the Early Learning Center will cease operations due to the opening of the Center for Children and Families. This center will be under the management of San Marcos University Corporation. Therefore, no corrective action is required of Associated Students, Inc. to this recommendation.

Anticipation Completion Date: No further action required

PURCHASING AND ACCOUNTS PAYABLE

Recommendation 21

We recommend that the AS:

- a. Perform an independent reconciliation of consignment tickets on hand to the ticket inventory.
- b. Perform an independent reconciliation of ticket inventory to the general ledger.

- c. Obtain management approval for the disposition of unreconciled differences between the general ledger and the ticket inventory.

Campus Response

We concur. Associated Students, Inc., in collaboration with the campus accounting services staff, will develop and implement procedures to perform independent reconciliations of consignment tickets on hand to the ticket inventory and of the ticket inventory to the general ledger.

Anticipated Completion Date: November 30, 2007

PERSONNEL AND PAYROLL

Recommendation 22

We recommend that AS management review payroll-related reports detailing employee salary and wage adjustments prior to the disbursement of paychecks.

Campus Response

We concur. Associated Students, Inc. management has since hired a full time Operations Manager to ensure consistent review and approval of payroll-related reports detailing employee salary and wage adjustments prior to the disbursement of paychecks.

Anticipated Completion Date: November 30, 2007



THE CALIFORNIA STATE UNIVERSITY
OFFICE OF THE CHANCELLOR

BAKERSFIELD

September 19, 2007

CHANNEL ISLANDS

CHICO

MEMORANDUM

DOMINGUEZ HILLS

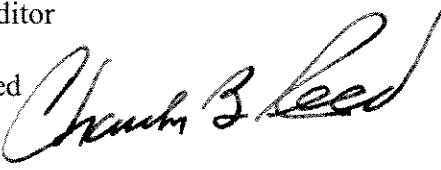
EAST BAY

TO: Mr. Larry Mandel
University Auditor

FRESNO

FULLERTON

FROM: Charles B. Reed
Chancellor



HUMBOLDT

LONG BEACH

SUBJECT: Draft Final Audit Report 07-43 on *Auxiliary Organizations*,
California State University, San Marcos

LOS ANGELES

MARITIME ACADEMY

In response to your memorandum of September 19, 2007, I accept the response as submitted with the draft final report on *Auxiliary Organizations*, California State University, San Marcos.

MONTEREY BAY

NORTHRIDGE

POMONA

SACRAMENTO

CBR/jt

SAN BERNARDINO

Enclosure

SAN DIEGO

cc: Dr. Karen S. Haynes, President
Mr. Neal R. Hoss, Vice President, Finance and Administrative Services

SAN FRANCISCO

SAN JOSÉ

SAN LUIS OBISPO

SAN MARCOS

SONOMA

STANISLAUS