

**AUXILIARY ORGANIZATIONS**  
**SAN DIEGO STATE UNIVERSITY**

**Audit Report 07-44**  
**July 31, 2007**

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

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## **ABBREVIATIONS**

AS	Associated Students, San Diego State University
CFO	Chief Financial Officer
CSU	California State University
EO	Executive Order
Foundation	San Diego State University Research Foundation
RFIN	Resolution of the Committee on Finance
Shops	Aztec Shops, Ltd.

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## EXECUTIVE SUMMARY

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

San Diego State University 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 San Diego State University campus and its auxiliary organizations from April 2, 2007, through May 3, 2007, and made a study and evaluation of the system of internal compliance/internal control in effect for the period June 2004 to May 2007. This report represents our triennial review.

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

Our study and evaluation at *The Campanile 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 May 2007, taken as a whole, was sufficient to meet the objectives stated above.

Our study and evaluation at the *Aztec Shops, Ltd.* 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 May 2007, taken as a whole, was sufficient to meet the objectives stated above.

Our study and evaluation at the *Associated Students, San Diego State University* 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 May 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.

## **SAN DIEGO STATE UNIVERSITY RESEARCH FOUNDATION**

### **FACILITIES AGREEMENTS [8]**

The hold harmless provision in the San Diego State University Research Foundation's (Foundation) facilities lease agreements with third parties did not indemnify the State of California, the campus, or the California State University Trustees.

### **INFORMATION TECHNOLOGY [8]**

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

## **THE CAMPANILE FOUNDATION**

### **CORPORATE GOVERNANCE [10]**

The Campanile Foundation finance and investment subcommittee minutes were not signed and approved by an appropriate official. In addition, The Campanile Foundation's amended Articles of Incorporation were not filed with the chancellor's office in a timely manner.

## **ENDOWMENT ADMINISTRATION [11]**

Documentation supporting the establishment of certain Campanile Foundation endowment accounts was not signed and approved by an appropriate official. Specifically, we found 5 of 11 endowment files were missing approval by the appropriate accounting official.

### **AZTEC SHOPS, LTD.**

## **OPERATIONAL COMPLIANCE [12]**

The Aztec Shops, Ltd. (Shops) did not develop policies and procedures to address the management and/or control of waste and spoilage related to dining service operations. Also, the Shops had not obtained annual conflict-of-interest statements from all board members for fiscal years 2004/05, 2005/06, and 2006/07. Specifically, board members were only required to sign conflict-of-interest statements during their first fiscal year of service.

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

The Shops had not developed a standardized service agreement addressing duties, rights, and responsibilities for use in acquiring the services of third-party vendors.

### **ASSOCIATED STUDENTS, SAN DIEGO STATE UNIVERSITY**

## **FACILITIES AGREEMENTS [15]**

The Aztec Aquaplex sublease between the Associated Students, San Diego State University (AS) and the campus was not supported by a written agreement prior to the commencement of operations.

## **PURCHASING AND ACCOUNTS PAYABLE [15]**

Certain AS cash disbursements for large purchases were not supported by sufficient and appropriate documentation and authorization. Specifically, the purchase of a ski boat and a two-year lease for a 15-passenger van did not have the following: purchase requests from the appropriate department, purchase orders authorized by the appropriate personnel, and a minimum of three required bids/quotations.

## **PROPERTY AND EQUIPMENT [16]**

Administration of AS property and equipment was deficient. Certain capitalized equipment was not tagged and policies and procedures to address the disposition of property and equipment were insufficient.

## **INFORMATION TECHNOLOGY [18]**

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

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## INTRODUCTION

### **BACKGROUND**

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

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

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

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

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

## **PURPOSE**

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

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

## **SCOPE AND METHODOLOGY**

Our study and evaluation were conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing* issued by the Institute of Internal Auditors, and included the audit tests we considered necessary in determining that accounting and administrative controls are in place and operative. The management review emphasized, but was not limited to, compliance with state and federal laws, Board of Trustee policies, and Office of the Chancellor policies, letters, and directives. For those audit tests that required annualized data, fiscal years 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 May 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:

San Diego State University Research 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

The Campanile 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
- ▶ Information Technology

Aztec Shops, Ltd.

- ▶ 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

Associated Students, San Diego State University

- ▶ 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

Campus

Campus Oversight and Control

We have not performed any auditing procedures beyond May 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.

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

### **SAN DIEGO STATE UNIVERSITY RESEARCH FOUNDATION**

#### **FACILITIES AGREEMENTS**

The hold harmless provision in the San Diego State University Research Foundation's (Foundation) facilities lease agreements with third parties did not indemnify the State of California, the campus, or the California State University (CSU) Trustees.

Executive Order (EO) 849, *California State University Insurance Requirements*, dated February 5, 2003, states that hold harmless provisions should be modeled after agreements available at the CSU contract resource library. The model auxiliary operating agreement states that auxiliary organizations shall agree to indemnify, defend, and save harmless the State of California, the CSU Trustees, 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 chief financial officer (CFO) stated that the Foundation intended to incorporate appropriate indemnification language into the template lease agreement as it has with its other agreements, but had not done so because this review process was not complete.

Failure to include appropriate indemnification clauses within agreements increases the risk of misunderstandings and miscommunications regarding rights and responsibilities and subjects the State of California, the campus, and the CSU Trustees to potential liability.

#### **Recommendation 1**

We recommend that the Foundation ensure that its facilities lease agreements include an appropriate indemnification clause.

#### **Campus Response**

We concur. The Foundation will complete a review of its facilities lease agreements by January 31, 2008, to ensure that they include an appropriate clause for indemnification.

#### **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 director of computing services stated that data stored on the financial system had been safeguarded by passwords, access levels, and a firewall. He further stated that other features of the system provide additional security measures and the Foundation continually analyzed the cost/benefit of implementing additional security features.

Failure to encrypt sensitive personnel information increases the risk that the auxiliary organization would need to notify all affected personnel in the event of a breach of security.

### **Recommendation 2**

We recommend that the Foundation encrypt sensitive personnel information stored on the financial system as soon as possible or replace the system with a product that will provide such encryption. Until encryption can be provided, we recommend that the Foundation work with the campus to ensure that the server is protected from unauthorized internal network traffic, and that server logs are generated and maintained separate from the server itself.

### **Campus Response**

We concur. The Foundation will work with the university by January 31, 2008, to complete a review for ensuring that the server is adequately protected from unauthorized internal network traffic, and that server logs are generated and maintained separate from the server itself.

## **THE CAMPANILE FOUNDATION**

### **CORPORATE GOVERNANCE**

#### **BOARD MINUTES**

The Campanile Foundation finance and investment subcommittee minutes were not signed and approved by an appropriate official.

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

The Campanile Foundation CFO/treasurer stated his belief that minutes were not required to be individually signed as all subcommittee minutes become a formal part of the board minutes through the consent agenda.

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

#### **Recommendation 3**

We recommend that The Campanile Foundation take appropriate measures to ensure that its finance and investment subcommittee minutes are signed and approved by an appropriate official.

#### **Campus Response**

We concur. The Campanile Foundation now requires that all subcommittee minutes be signed prior to their inclusion in the consent agenda for board meetings.

### **ARTICLES OF INCORPORATION**

The Campanile Foundation's amended Articles of Incorporation were not filed with the chancellor's office 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 Campanile Foundation CFO/treasurer stated that the revised Articles of Incorporation were submitted and accepted by the Office of the University Auditor to clear a 2004 auxiliary audit recommendation, and believed that this also constituted submission to the chancellor's office.

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

**During our fieldwork, The Campanile Foundation provided documentation evidencing that the amended Articles of Incorporation were recently submitted to the Office of the Chancellor.**

## **ENDOWMENT ADMINISTRATION**

Documentation supporting the establishment of certain Campanile Foundation endowment accounts was not signed and approved by an appropriate official.

Specifically, we found 5 of 11 endowment files were missing approval by the appropriate accounting official.

The *Compilation of Policies and Procedures for California State University Auxiliary Organizations* sets sound business practice guidelines for auxiliary organizations operating within the CSU system. Section 8.9.3, *Donations, Program 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 Campanile Foundation CFO/treasurer stated that Foundation staff stopped signing endowment request forms when The Campanile Foundation assumed responsibility and that the form had not been revised to reflect this change in process.

Failure to obtain signed and approved documentation supporting the establishment of endowments increases the risk that donor expectations will not be met.

### **Recommendation 4**

We recommend that The Campanile Foundation ensure that documentation supporting the establishment of current and future endowment accounts is signed and approved by an appropriate official.

### **Campus Response**

We concur. The endowment request form has been revised to reflect that San Diego State University Research Foundation personnel are no longer required to sign and approve new endowment accounts.

## **AZTEC SHOPS, LTD.**

### **OPERATIONAL COMPLIANCE**

#### **POLICIES AND PROCEDURES**

The Aztec Shops, Ltd. (Shops) did not develop policies and procedures to address the management and/or control of waste and spoilage related to dining service operations.

Specifically, policies and procedures should address:

- ▶ Development of acceptable levels of waste or spoilage and guidelines for when spoilage or waste exceed these amounts.
- ▶ Recording the type and cost of waste and spoilage generated by each dining service operation.
- ▶ Periodic management review of waste and spoilage data.

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 development of policies and procedures to address waste and spoilage.

The Shops associate director of dining services stated her belief that present controls indicated a minimal risk and were considered sufficient.

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

#### **Recommendation 5**

We recommend that the Shops develop policies and procedures to address the management and/or control of waste and spoilage related to dining service operations.

#### **Campus Response**

We concur. The Shops has prepared and distributed a corporate policy covering the procedures to be followed to account for and reduce waste and spoilage.

## **CONFLICT OF INTEREST**

The Shops had not obtained annual conflict-of-interest statements from all board members for fiscal years 2004/05, 2005/06, and 2006/07.

Specifically, board members were only required to sign conflict-of-interest statements during their first fiscal year of service.

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 Shops chief executive officer stated that the conflict-of-interest policy had not been updated to reflect current practices.

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

### **Recommendation 6**

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

### **Campus Response**

We concur. The policies and procedures regarding board of directors' conflict of interest have been revised and promulgated to all board members indicating annual notification to them in the event of new activities, which might entail a conflict of interest.

## **PURCHASING AND ACCOUNTS PAYABLE**

The Shops had not developed a standardized service agreement addressing duties, rights, and responsibilities for use in acquiring the services of third-party vendors.

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 *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 Shops director of facilities services stated that, although the Shops did not have its own agreement, a written policy exists related to the use of vendor provided service agreements. However, it was inconsistently applied.

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

**Recommendation 7**

We recommend that the Shops develop a standardized service agreement addressing duties, rights, and responsibilities for use in acquiring the services of third-party vendors.

**Campus Response**

We concur. The Shops has prepared and distributed a corporate policy covering the procedures to be followed, and documentation required when acquiring the services of third-party vendors.

## **ASSOCIATED STUDENTS, SAN DIEGO STATE UNIVERSITY**

### **FACILITIES AGREEMENTS**

The Aztec Aquaplex sublease between the Associated Students, San Diego State University (AS) and the campus was not supported by a written agreement prior to the commencement of operations.

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 AS associate director stated that although the AS kept campus representatives informed of the status of the agreement, it was delayed due to discussions with athletics regarding the details of the shared use of the facilities.

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

#### **Recommendation 8**

We recommend that the AS immediately establish a written agreement with the campus regarding the Aztec Aquaplex sublease arrangement.

#### **Campus Response**

We concur. An agreement regarding the Aztec Aquaplex sublease arrangement between the AS and the university was executed during the audit fieldwork period.

### **PURCHASING AND ACCOUNTS PAYABLE**

Certain AS cash disbursements for large purchases were not supported by sufficient and appropriate documentation and authorization.

Specifically, we found that the purchase of a ski boat and a two-year lease for a 15-passenger van did not have the following:

- ▶ Purchase requests from the appropriate department.
- ▶ Purchase orders authorized by the appropriate personnel.
- ▶ Minimum of three required bids/quotations.

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

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

The AS associate director stated that the purchase of the ski boat was an annual arrangement with a specific vendor. She also stated that because this was a special purchase arrangement with a special price, a purchase order was not used. She further stated that the vendor from which they leased the van was the only company within San Diego County providing this type of vehicle.

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

### **Recommendation 9**

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. The AS has reminded staff that all purchases \$10,000 and over must be approved in advance by a purchase order or purchasing contract.

## **PROPERTY AND EQUIPMENT**

Administration of AS property and equipment was deficient.

We found that:

- ▶ Certain capitalized equipment was not tagged.
- ▶ Policies and procedures to address the disposition of property and equipment were insufficient.

Specifically, policies and procedures should address:

- ▶ Proper segregation of the custodianship and disposal authorization of property and equipment.
- ▶ Review and approval of disposal options, such as sale, trade-in, donation, auction, etc.
- ▶ Fair value of property and/or equipment and approval of financial transaction upon disposition.

- ▶ Collection, recording, and depositing of proceeds from the disposition of property and equipment into proper accounts.

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

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

The AS associate director stated that the written fixed assets policy, which outlines tagging requirements and exceptions, was approved in November 2006 (and revised in April 2007). She further stated that implementation of the new policy was not complete because the AS was updating all equipment with bar-coded tags.

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

### **Recommendation 10**

We recommend that the AS:

- a. Ensure that all property and equipment are tagged in a timely manner.
- b. Revise policies and procedures to fully address the disposition of property and equipment.

### **Campus Response**

We concur.

- a. The AS has completed the tagging of property and equipment with updated bar-coded tags.
- b. Policies and procedures regarding the disposition of property and equipment have been revised.

## INFORMATION TECHNOLOGY

The AS 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 AS associate director stated the data stored on the financial system was safeguarded by dual passwords and a firewall. She further stated that the AS continually analyzed the cost/benefit of implementing additional security features.

Failure to encrypt sensitive personnel information increases the risk that the AS would need to notify all affected personnel in the event of a breach of security.

### **Recommendation 11**

We recommend that the AS encrypt sensitive personnel information on the financial system as soon as possible or replace the system with a product that will provide such encryption. Until encryption can be provided, we recommend that the AS work with the campus to ensure that the server is protected from unauthorized internal network traffic, and that server logs are generated and maintained separate from the server itself.

### **Campus Response**

We concur. The AS has consulted and will continue to work with the university to ensure that the server is protected from unauthorized internal network traffic, and that server logs are generated and maintained separate from the server itself. The university will conduct a review by January 31, 2008.

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## **APPENDIX A: PERSONNEL CONTACTED**

### **Name**

### **Title**

#### **CAMPUS**

Stephen L. Weber	President
Scott Burns	Associate Vice President, Financial Operations
Valerie Carter	Director, Audit and Tax
Norma Casas	Analyst, Audit and Tax
Sally Roush	Vice President, Business and Financial Affairs
Thomas Scott	Vice President, Research Affairs

#### **SAN DIEGO STATE UNIVERSITY RESEARCH FOUNDATION**

Jennie Amison	Associate Director, Sponsored Research Development
Jennifer Bagg	Director, Accounting and Administration, KPBS
Cherie Bloodworth	Registrar, Continuing Education Services
John Borchert	Manager, Finance and Accounting
Melinda Coil	Chief Financial Officer (CFO)
Michelle Goetz	Director, Sponsored Research Administration
Lynne Grenfell	Director, Business Services
Rachel Lancaster	Accountant
Dianne Lovell	Director, Human Resources and Legal Affairs
Nancy Monaghan	Manager, Payment Services
Thinh Nguyen	Cashier
Roberta Pointer	Administrative Analyst
Mike Reeves	Director, Computing Services
Michael Rondelli	Director, Technology Transfer and Commercialization
Eugene Stein	Director, Sponsored Research Development
Frank Sweeney	Director, Investments and Gifts

#### **THE CAMPANILE FOUNDATION**

Allan Bailey	CFO/Treasurer
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#### **AZTEC SHOPS, LTD.**

Denise Allen	Assistant Manager, Sales Audit
Rick Barber	Associate Director, Dining Services
Colleen Bucci	Programs Administrator, Dining Services
Debbie Burchianti	Associate Director, Dining Services
Margaret Casey	Director, Facilities Services
Nancy Irwin	Textbook Buyer and Returns Coordinator
Jayne Laporta	Director, Merchandising
Sylvia Mangubat	Director, Campus Stores
Gary Mansfield	Associate Director, Bookstore
Paul Melchior	Associate Director, Dining Services
Leah Messenger	Payroll Manager
H. E. Reichert	Internal Auditor and Senior Director, Administrative Services
Cathy Schieffer	Controller

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APPENDIX A: PERSONNEL CONTACTED

**Name**

**Title**

Martha Speck	Senior Director, Management Services
Dawn Stoebe	Purchasing, Warehouse and Distribution, Dining Services
Todd Summer	Director, Course Material and Montezuma Publishing
Donna Tusack	Chief Executive Officer
Barbara Van Meter	Director, Financial Services

**ASSOCIATED STUDENTS, SAN DIEGO STATE UNIVERSITY**

Melissa Albano	Cox Arena Ticket Office Supervisor
June Barreras	Cox Arena Ticket Office Manager
Cheryle Conelly	Accounts Payable Supervisor
Dan Cornthwaithe	Executive Director
Victoria Elder	Business Services Manager
Israel Garza	Accounting Manager
Tom Granucci	Cox Arena Production Manager
Vicki Greene	Aztec Recreation Center Membership Services Coordinator
Fran Hasterok	Accounts Receivable Supervisor
Katie Heinz	Payroll Assistant
Susan Heiser	Associate Director
Robin Judd	Children's Center Director
Sandra Keshka	Controller
John Kolek	Cox Arena Director
Ricardo Padilla	Vault Cashier
Rosie Ramos	Payroll Supervisor
Abel Wurmnest	Business Office 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**

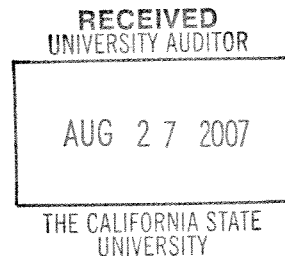
There are inherent limitations that should be recognized in considering the potential effectiveness of any system of internal accounting and related operational control. In the performance of most control procedures, errors can result from misunderstanding of instruction, mistakes of judgment, carelessness, 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.

Office of the President  
San Diego State University



5500 Campanile Drive  
San Diego, CA 92182 · 8000  
Tel: 619 594 · 5204  
Fax: 619 594 · 8894

August 23, 2007



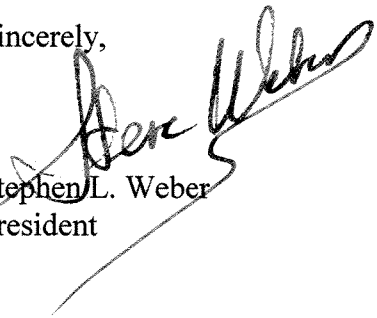
Mr. Larry Mandel  
University Auditor  
The California State University  
401 Golden Shore, 4<sup>th</sup> Floor  
Long Beach, CA 90802

Dear Mr. Mandel:

Attached is San Diego State University's response to Report Number 07-44, *Auxiliary Organizations*. For ease of reference, the report's recommendations have been included with our responses. Documentation of policy and control changes will follow under separate cover.

Should you have any questions or require additional information, please contact Valerie Carter, Audit and Tax Director, at 619-594-5901.

Sincerely,

  
Stephen L. Weber  
President

Attachment

- c: Sally F. Roush, Vice President for Business and Financial Affairs  
Scott Burns, Associate Vice President, Financial Operations  
Dan R. Cornthwaite, Executive Director, Associated Students  
Donna Tusack, Chief Executive Office, Aztec Shops, Ltd.  
Thomas Scott, Chief Executive Officer, San Diego State University Research Foundation  
Allan Bailey, Chief Financial Officer/Treasurer, The Campanile Foundation  
Valerie J. Carter, Director, Audit and Tax

**AUXILIARY ORGANIZATIONS**  
**SAN DIEGO STATE UNIVERSITY**

**Audit Report 07-44**  
**July 31, 2007**

**SAN DIEGO STATE UNIVERSITY RESEARCH FOUNDATION**

**FACILITIES AGREEMENTS**

**Recommendation 1**

We recommend that the Foundation ensure that its facilities lease agreements include an appropriate indemnification clause.

**Campus Response**

We concur. The Foundation will complete a review of its facilities lease agreements by January 31, 2008 to ensure that they include an appropriate clause for indemnification.

**INFORMATION TECHNOLOGY**

**Recommendation 2**

We recommend that the Foundation encrypt sensitive personnel information stored on the financial system as soon as possible or replace the system with a product that will provide such encryption. Until encryption can be provided, we recommend that the Foundation work with the campus to ensure that the server is protected from unauthorized internal network traffic, and that server logs are generated and maintained separate from the server itself.

**Campus Response**

We concur. The Foundation will work with the University, by January 31, 2008, to complete a review for ensuring that the server is adequately protected from unauthorized internal network traffic, and that server logs are generated and maintained separate from the server itself.

**THE CAMPANILE FOUNDATION**

**CORPORATE GOVERNANCE**

**BOARD MINUTES**

**Recommendation 3**

We recommend that The Campanile Foundation take appropriate measures to ensure that its finance and investment subcommittee minutes are signed and approved by an appropriate official.

**Campus Response**

We concur. The Campanile Foundation now requires that all sub-committee minutes be signed prior to their inclusion in the consent agenda for board meetings.

**ENDOWMENT ADMINISTRATION**

**Recommendation 4**

We recommend that The Campanile Foundation ensure that documentation supporting the establishment of current and future endowment accounts is signed and approved by an appropriate official.

**Campus Response**

We concur. The endowment request form has been revised to reflect that San Diego State University Research Foundation personnel are no longer required to sign and approve new endowment accounts.

**AZTEC SHOPS, LTD.**

**OPERATIONAL COMPLIANCE**

**POLICIES AND PROCEDURES**

**Recommendation 5**

We recommend that the Shops develop policies and procedures to address the management and/or control of waste and spoilage related to dining service operations

**Campus Response**

We concur. Aztec Shops has prepared and distributed a corporate policy covering the procedures to be followed to account for and reduce waste and spoilage.

**CONFLICT OF INTEREST**

**Recommendation 6**

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

**Campus Response**

We concur. The policies and procedures regarding board of directors' conflict of interest have been revised and promulgated to all board members indicating annual notification to them in the event of new activities which might entail a conflict of interest.

**PURCHASING AND ACCOUNTS PAYABLE**

**Recommendation 7**

We recommend that the Shops develop a standardized service agreement addressing duties, rights, and responsibilities for use in acquiring the services of third-party vendors.

**Campus Response**

We concur. Aztec Shops has prepared and distributed a corporate policy covering the procedures to be followed, and documentation required when acquiring the services of third party vendors.

**ASSOCIATED STUDENTS, SAN DIEGO STATE UNIVERSITY**

**FACILITIES AGREEMENTS**

**Recommendation 8**

We recommend that the AS immediately establish a written agreement with the campus regarding the Aztec Aquaplex sublease arrangement.

**Campus Response**

We concur. An agreement regarding the Aztec Aquaplex sublease arrangement between AS and the University was executed during the audit fieldwork period.

**PURCHASING AND ACCOUNTS PAYABLE**

**Recommendation 9**

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. AS has reminded staff that all purchases \$10,000 and over must be approved in advance by a purchase order or purchasing contract.

**PROPERTY AND EQUIPMENT**

**Recommendation 10**

We recommend that the AS:

- a. Ensure that all property and equipment are tagged in a timely manner.
- b. Revise policies and procedures to fully address the disposition of property and equipment.

**Campus Response**

We concur.

- a. AS has completed the tagging of property and equipment with updated bar coded tags.
- b. Policies and procedures regarding the disposition of property and equipment have been revised.

## INFORMATION TECHNOLOGY

### **Recommendation 11**

We recommend that the AS encrypt sensitive personnel information on the financial system as soon as possible or replace the system with a product that will provide such encryption. Until encryption can be provided, we recommend that the AS work with the campus to ensure that the server is protected from unauthorized internal network traffic, and that server logs are generated and maintained separate from the server itself.

### **Campus Response**

We concur. AS has consulted and will continue to work with the University to ensure that the server is protected from unauthorized internal network traffic, and that server logs are generated and maintained separate from the server itself. The University will conduct a review by January 31, 2008.



THE CALIFORNIA STATE UNIVERSITY  
OFFICE OF THE CHANCELLOR

BAKERSFIELD

August 30, 2007

CHANNEL ISLANDS

CHICO

**MEMORANDUM**

DOMINGUEZ HILLS

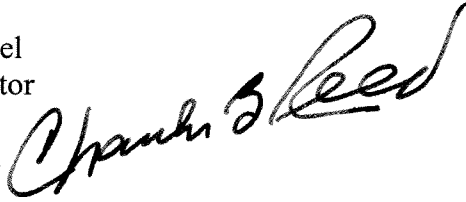
EAST BAY

TO: Mr. Larry Mandel  
University Auditor

FRESNO

FULLERTON

FROM: Charles B. Reed  
Chancellor



HUMBOLDT

LONG BEACH

SUBJECT: Draft Final Audit Report 07-44 on *Auxiliary Organizations*,  
San Diego State University

LOS ANGELES

MARITIME ACADEMY

In response to your memorandum of August 30, 2007, I accept the response as submitted with the draft final report on *Auxiliary Organizations*, San Diego State University.

MONTEREY BAY

NORTHRIDGE

POMONA

CBR/jt

SACRAMENTO

Enclosure

SAN BERNARDINO

cc: Mr. Scott Burns, Associate Vice President, Financial Operations  
Dr. Stephen L. Weber, President

SAN DIEGO

SAN FRANCISCO

SAN JOSÉ

SAN LUIS OBISPO

SAN MARCOS

SONOMA

STANISLAUS