

**AUXILIARY ORGANIZATIONS**  
**CALIFORNIA STATE UNIVERSITY,**  
**STANISLAUS**

**Audit Report 07-47**  
**April 10, 2008**

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

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## **ABBREVIATIONS**

ABS	California State University, Stanislaus Auxiliary and Business Services
ASI	Associated Students Incorporated of California State University, Stanislaus
CFO	Chief Financial Officer
CSU	California State University
EO	Executive Order
ERP	Enterprise Resource Planning
Foundation	California State University, Stanislaus Foundation
RFIN	Resolution of the Committee on Finance
Union	University Union of California State University, Stanislaus

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## EXECUTIVE SUMMARY

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

California State University, Stanislaus 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, Stanislaus campus and its auxiliary organizations from October 1, 2007, through October 25, 2007, and made a study and evaluation of the system of internal compliance/internal control in effect as of October 25, 2007. This report represents our triennial review.

Our study and evaluation at *California State University, Stanislaus 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 October 25, 2007, taken as a whole, was sufficient to meet the objectives stated above.

Our study and evaluation at *California State University, Stanislaus Auxiliary and Business Services* 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 October 25, 2007, taken as a whole, was sufficient to meet the objectives stated above.

Our study and evaluation at *Associated Students Incorporated of California State University, Stanislaus* 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 October 25, 2007, taken as a whole, was sufficient to meet the objectives stated above.

Our study and evaluation at *University Union of California State University, Stanislaus* 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 October 25, 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, STANISLAUS FOUNDATION**

### **FISCAL COMPLIANCE [10]**

The California State University, Stanislaus Foundation (Foundation) had not established policies and procedures to calculate sales tax collected from fund-raising events and remit the sales tax to the California Board of Equalization.

### **CASH RECEIPTS AND HANDLING [10]**

Checks received in the Foundation office were not restrictively endorsed upon receipt.

## **ENDOWMENT ADMINISTRATION [11]**

Signature authorization forms for disbursement of certain endowment funds by the Foundation were outdated. Nine of the ten endowment files reviewed showed authorized signatures of project directors who were no longer in the position stated on the form.

## **CALIFORNIA STATE UNIVERSITY, STANISLAUS AUXILIARY AND BUSINESS SERVICES**

## **OPERATING AND ADMINISTRATIVE AGREEMENTS [13]**

The agreement between California State University, Stanislaus Auxiliary and Business Services (ABS) and the vending machine vendor did not include indemnification and insurance clauses.

## **SEGREGATION OF DUTIES [14]**

Duties and responsibilities over certain accounts payable functions were not appropriately segregated at ABS. One individual prepared purchase orders, procured goods/services, received invoices, matched purchase orders to invoices, reviewed general ledger postings, received canceled checks, balanced monthly bank statements, and established/modified vendors within the disbursement system.

## **FEES, REVENUES, AND RECEIVABLES [15]**

Administration of ABS accounts receivable due from the campus required improvement. Specifically, as of October 17, 2007, ABS accounts receivable totaled \$954,875, of which \$804,286 (84%) was due from the campus and 120 days past due. The funds were used to pay financial aid to students during the campus' conversion to PeopleSoft in 2006. The ABS did not re-invoice the campus for these accounts after 30 and 90 days, as it was their standard procedure for all other customers.

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

Certain ABS cash disbursements were not supported by appropriate authorization or sufficient documentation, or were not timely paid.

## **PROPERTY AND EQUIPMENT [17]**

Certain ABS capitalized equipment was not properly tagged. This is a repeat finding from the prior auxiliary organizations audit.

**ASSOCIATED STUDENTS INCORPORATED OF CALIFORNIA STATE UNIVERSITY, STANISLAUS**

**OPERATING AND ADMINISTRATIVE AGREEMENTS [18]**

A current operating agreement between Associated Students Incorporated of California State University, Stanislaus (ASI) and the campus had not been executed. The prior operating agreement expired on June 30, 2007.

**CORPORATE GOVERNANCE [18]**

ASI had not filed amended bylaws with the chancellor's office in a timely manner. Amendments to bylaws from September 2005 and May 2006 had not been filed with the chancellor's office until noted during our review.

**PURCHASING AND ACCOUNTS PAYABLE [19]**

ASI cash disbursements were not always supported by sufficient documentation. Supporting documentation could not be located for 3 of 35 cash disbursements reviewed.

**PROPERTY AND EQUIPMENT [20]**

Administration of ASI property and equipment did not ensure proper identification, recording, and accountability. Property and equipment was not always tagged in a timely manner, disposition of property and equipment was neither sufficiently documented nor processed in a timely manner, authorization to dispose of equipment was not properly documented, and sensitive equipment was not adequately tracked.

**UNIVERSITY UNION OF CALIFORNIA STATE UNIVERSITY, STANISLAUS**

**OPERATING AND ADMINISTRATIVE AGREEMENTS [22]**

The University Union of California State University, Stanislaus (Union) had not renewed its vending machine agreement in a timely manner. The initial term of the vending machine agreement was August 9, 2002, until August 8, 2005, with an option to renew for one additional three-year period at the sole option of the Union, and the option was to be exercised by giving 90-day advance written notice of intent to renew. However, the Union did not give its notice to renew until October 20, 2007, more than 29 months late.

**CORPORATE GOVERNANCE [23]**

The Union did not have a community representative on its governing board for fiscal years 2004/05, 2005/06, and 2006/07.

### **SEGREGATION OF DUTIES [23]**

Duties and responsibilities over certain property and equipment functions were not appropriately segregated at the Union. One employee maintained the equipment control log; authorized equipment to be capitalized, tagged, and placed on the equipment control log; authorized and removed equipment from the equipment control log; and performed the annual physical inventory.

### **PURCHASING AND ACCOUNTS PAYABLE [24]**

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

### **PROPERTY AND EQUIPMENT [25]**

Administration of Union property and equipment was inadequate. Annual independent property and equipment counts were not documented, and policies and procedures had not been developed to tag or track property and equipment purchased for the off-site Stockton Lounge.

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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 2005/06 and 2006/07 were the primary periods reviewed. In certain instances, we were concerned with representations of the most current data; in such cases, the test period July 1, 2006, to October 25, 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, Stanislaus Foundation

- ▶ Operating and Administrative Agreements
- ▶ Facilities Agreements
- ▶ Corporate Governance
- ▶ Fiscal Compliance
- ▶ Operational Compliance
- ▶ Program Compliance
- ▶ Campus Oversight and Control
- ▶ Cash Receipts and Handling
- ▶ Investments
- ▶ Fees, Revenues, and Receivables
- ▶ Purchasing and Accounts Payable
- ▶ Trusts and Other Liabilities
- ▶ Endowment Administration
- ▶ Campus Programs

California State University, Stanislaus Auxiliary and Business Services

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

Associated Students Incorporated of California State University, Stanislaus

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

University Union of California State University, Stanislaus

- ▶ 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
- ▶ Purchasing and Accounts Payable
- ▶ Personnel and Payroll
- ▶ Property and Equipment

We have not performed any auditing procedures beyond October 25, 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**

### **CALIFORNIA STATE UNIVERSITY, STANISLAUS FOUNDATION**

#### **FISCAL COMPLIANCE**

The California State University, Stanislaus Foundation (Foundation) had not established policies and procedures to calculate sales tax collected from fund-raising events and remit the sales tax to the California Board of Equalization.

California Board of Equalization Publication 18, *Tax Tips for Nonprofit Organizations*, states, in part, that taxable activities commonly engaged in by non-profit and volunteer organizations include sales of items at rummage sales, bazaars, carnival booths, auctions, silent auctions, community events, and other fund-raisers. Tax applies to the sale of homemade items, commercially produced goods, and donated merchandise.

The Foundation treasurer stated that she was unaware revenues from these types of fund-raising activities were taxable.

Failure to calculate and remit sales tax for taxable activities increases the risk of tax penalties and interest.

#### **Recommendation 1**

We recommend that the Foundation establish and document policies and procedures to ensure that sales tax is calculated and remitted to the taxing authority.

#### **Campus Response**

Management is reviewing all fund-raising events in the past year to identify the types of events that may give rise to sales tax remittance. A policy will be formulated and implemented regarding the collection of sales tax and the remittance of sales tax. Training of the appropriate personnel will occur and the policy will be posted on the financial services policy and procedure website. Sales tax returns will be reviewed and signed by senior management and submitted timely on a quarterly basis. This will be completed on or before August 31, 2008.

#### **CASH RECEIPTS AND HANDLING**

Checks received in the Foundation office were not restrictively endorsed upon receipt.

The *Compilation of Policies and Procedures for California State University Auxiliary Organizations* sets sound business practice guidelines for auxiliary organizations operating within the California State University (CSU) system. Section 8.9.1, *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 Foundation assistant budget analyst stated that the procedure had been to restrictively endorse the checks as the last step during deposit preparation.

Inadequate control over cash receipts increases the auxiliary's exposure to loss from inappropriate acts.

### **Recommendation 2**

We recommend that the Foundation restrictively endorse checks immediately upon receipt.

### **Campus Response**

Foundation checks that are received through the mail and hand delivered to financial services will be restrictively endorsed. The policy for check handling will be updated to reflect this process change. The updated policy will be posted on the financial services policy and procedure website and the appropriate personnel will be trained. This will be completed on or before August 31, 2008.

## **ENDOWMENT ADMINISTRATION**

Signature authorization forms for disbursement of certain endowment funds by the Foundation were outdated.

Nine of the ten endowment files reviewed showed authorized signatures of project directors who were no longer in the position stated on the form.

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 Foundation executive director stated that updating the endowment authorized signatures for disbursements was not performed due to staffing constraints.

Failure to maintain current, written signature authorization forms increases the risk of errors, irregularities, and misappropriation of funds.

### **Recommendation 3**

We recommend that the Foundation review all endowment funds, and if necessary, obtain updated signature authorization forms for project directors.

**Campus Response**

All endowment funds are currently being reviewed for signature authorization accuracy. A policy will be written addressing the ongoing process of maintaining accurate signature authority for each endowment fund. The new policy will be posted on the financial services policy and procedure website and the appropriate personnel will be trained. This will be completed on or before September 30, 2008.

**CALIFORNIA STATE UNIVERSITY, STANISLAUS**  
**AUXILIARY AND BUSINESS SERVICES**

**OPERATING AND ADMINISTRATIVE AGREEMENTS**

The agreement between the California State University, Stanislaus Auxiliary and Business Services (ABS) and the vending machine vendor did not include indemnification and insurance clauses.

Executive Order (EO) 849, *California State University Insurance Requirements*, dated February 5, 2003, states that auxiliary organizations shall require certain levels of general liability insurance and 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, arising out of, or in any way connected with the operations of the auxiliary.

The ABS executive director stated that failure to include indemnification and insurance clauses was due to oversight.

The absence of indemnification and insurance clauses increases the liability risk for both the auxiliary and the CSU.

**Recommendation 4**

We recommend that ABS ensure that all agreements include appropriate indemnification and insurance clauses.

**Campus Response**

A listing of all ABS agreements will be assembled and each contract will be reviewed to determine that the appropriate indemnification and insurance clauses are included. Management will work with legal counsel to frame appropriate wording for indemnification and insurance clauses for all future contracts. For any agreements that do not have the appropriate clauses for indemnification and insurance, an attempt will be made to add those to the current agreement as an amendment. If unsuccessful, appropriate wording for indemnification and insurance will be added to any contract before renewal. This will be completed on or before August 31, 2008.

## SEGREGATION OF DUTIES

Duties and responsibilities over certain accounts payable functions were not appropriately segregated at ABS.

We found that one employee:

- ▶ Prepared purchase orders.
- ▶ Procured goods/services.
- ▶ Received invoices.
- ▶ Matched purchase orders to invoices.
- ▶ Reviewed postings to the general ledger.
- ▶ Received canceled checks.
- ▶ Balanced monthly bank statements to the general ledger.
- ▶ Established and modified vendors within the disbursement 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 *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 establish a written internal controls system that ensures cash receipts and disbursements are conducted with appropriate segregation of duties.

The ABS accounting and finance manager stated that the lack of segregation of duties was due to a limited number of staff among which to appropriately segregate functions.

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

### **Recommendation 5**

We recommend that ABS appropriately segregate certain accounts payable functions or institute mitigating procedures approved by the campus chief financial officer (CFO).

### **Campus Response**

With the reorganization of financial services and auxiliary operations, adequate segregation of duties will be achieved for ABS transactions. Beginning on July 1, 2008, all financial transactions of the ABS organization will be handled through the PeopleSoft Enterprise Resource Planning (ERP) accounting system. This is the primary accounting system used by university operations. ABS transactions will flow through financial services in the same way as all other corporate transactions. Within financial services, no one person will be responsible for all sides of a transaction. Our workflow has been designed with adequate internal controls in place.

## FEES, REVENUES, AND RECEIVABLES

Administration of ABS accounts receivable due from the campus required improvement.

Specifically, we noted that as of October 17, 2007, ABS accounts receivable totaled \$954,875, of which \$804,286 (84%) was due from the campus and 120 days past due. The funds were used to pay financial aid to students during the campus' conversion to PeopleSoft in 2006. The ABS did not re-invoice the campus for these accounts after 30 and 90 days, as it was their standard procedure for all other customers.

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 timely write-off of past-due accounts.

The ABS accounting and finance manager stated that because the bulk of past-due accounts were monies owed from the campus, it was assumed that the campus would pay; therefore, standard follow-up was not performed.

Inadequate administration of accounts receivable due from the campus negatively impacts cash flow.

### Recommendation 6

We recommend that ABS work in conjunction with the campus to resolve the past-due accounts.

### Campus Response

The past-due accounts receivable to ABS from the university has been paid back. There are no other large or unusual accounts receivables on the books of ABS that are not being handled according to our established procedures for collection. This issue has been resolved.

## PURCHASING AND ACCOUNTS PAYABLE

Certain ABS cash disbursements were not supported by appropriate authorization or sufficient documentation, or were not timely paid.

Our review of 49 cash disbursements disclosed the following processing exceptions:

- ▶ In five instances, purchase orders authorizing the transaction were prepared after the invoice was received.
- ▶ In three instances, invoices were not timely paid. The payments ranged from 39 to 63 days late.

- ▶ In two instances, documentation supporting the disbursement could not be located.
- ▶ In one instance, a facsimile invoice was accepted for payment without certification that records were checked for duplicate payments.

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 properly authorized, fully supported, and timely paid.

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 controls, with annual management review.

The ABS accounting and finance manager stated that the preparation of purchase orders after invoice receipt was a procedural deficiency. She further stated that untimely payment, acceptance of a facsimile invoice for payment, and lack of supporting documentation were due to oversight.

Lack of appropriate authorization, insufficient supporting documentation, and untimely payments increase the risk of errors, irregularities, and misappropriation of funds.

### **Recommendation 7**

We recommend that ABS reiterate to staff existing cash disbursement policies and procedures regarding preparation of purchase orders, sufficient supporting documentation, and timeliness of payment.

### **Campus Response**

With the reorganization of financial services and auxiliary operations, on July 1, 2008, all of ABS transactions will be processed through the university financial services group. This is a well-trained group with several trained accountants in each functional area. Processing of transactions will follow well-established protocols and procedures that meet the guidelines of sufficiency of documentation, proper authorization, and timeliness of processing.

## PROPERTY AND EQUIPMENT

Certain ABS capitalized equipment was not properly tagged. This is a repeat finding from the prior auxiliary organizations audit.

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 ABS executive director stated that lack of capitalized equipment being properly tagged was due to oversight.

Failure to properly tag capitalized equipment increases the risk of theft or loss.

### **Recommendation 8**

We recommend that ABS ensure that all property and equipment is properly tagged.

### **Campus Response**

ABS property and equipment will be tagged and controlled by the university property management department beginning on July 1, 2008. The property management department properly accounts for all equipment by tagging each item and performing periodic asset inventories to ensure all book assets can be accounted for physically. A separate fixed asset tracking software is used for accounting and managing property and equipment. A policy regarding the tagging of owned assets will be written and posted on our financial services policy and procedure website, and the appropriate personnel will be trained.

**ASSOCIATED STUDENTS INCORPORATED OF  
CALIFORNIA STATE UNIVERSITY, STANISLAUS**

**OPERATING AND ADMINISTRATIVE AGREEMENTS**

A current operating agreement between Associated Students Incorporated of California State University, Stanislaus (ASI) and the campus had not been executed.

We found that the prior operating agreement expired on June 30, 2007.

Title 5 §42501 states that a written agreement on behalf of the State of California by the chancellor of the CSU and the auxiliary organization is required for the performance by such auxiliary organization of any of the functions listed in §42500. Title 5 §42502 states that the operating agreement should specify the function or functions which the organization is to manage, operate, or administer.

The ASI executive director stated that a new agreement was in draft form, and the failure to formally execute a current operating agreement with the campus was due to oversight.

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

**Recommendation 9**

We recommend that ASI promptly execute an operating agreement with the campus.

**Campus Response**

The operating agreement between ASI and CSU Stanislaus has been executed for fiscal year 2007/08.

**CORPORATE GOVERNANCE**

ASI had not filed amended bylaws with the chancellor's office in a timely manner.

We found amendments to bylaws from September 2005 and May 2006 that had not been filed with the chancellor's office until noted during our review.

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 (or Constitutions) and Bylaws*, states that when the auxiliary organization makes changes to its Articles of Incorporation or Bylaws, a complete amended copy is to be submitted to Financing and Treasury at the Office of the Chancellor

within 30 calendar days. The submission should indicate the date the changes were approved by the governing board and/or members.

The ASI executive director stated that the amended bylaws were not submitted to the chancellor's office due to oversight.

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

### **Recommendation 10**

We recommend that ASI ensure that all changes/amendments to bylaws are timely filed with the chancellor's office.

### **Campus Response**

ASI bylaws will be reviewed for completeness and an updated filing will be made with the chancellor's office. The ASI board and executive director have been informed of their responsibility to file both with the chancellor's office and the campus CFO whenever changes to the bylaws are approved. A new procedure will be written that requires the ASI board to submit their bylaws annually to the CFO and vice president of student affairs. The new policy will be posted on the financial services policy and procedure website and the appropriate personnel will be trained. This will be completed on or before August 31, 2008.

## **PURCHASING AND ACCOUNTS PAYABLE**

ASI cash disbursements were not always supported by sufficient documentation.

Our review of 35 cash disbursements disclosed that supporting documentation could not be located in three instances.

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 all cash disbursements be fully supported with sufficient 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 8.9.1, *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 ASI executive director stated that the three instances of insufficient documentation were due to oversight.

Insufficient supporting documentation for cash disbursements increases the risk of errors, irregularities, and misappropriation of funds.

### **Recommendation 11**

We recommend that ASI reiterate to staff existing cash disbursement policies and procedures regarding the maintenance of sufficient supporting documentation.

### **Campus Response**

Even though university financial services processes accounts payables for ASI, it is a shared responsibility role with ASI staff because they prepare the information for input and approval. A new policy will be developed for documenting ASI's staff responsibilities in the cash disbursement process as it relates to the new PeopleSoft accounting system and the reorganized financial services department. There will be a training with all ASI staff members regarding the cash disbursement process and this policy will be posted on the financial services policy and procedure website. This will be completed on or before August 31, 2008.

## **PROPERTY AND EQUIPMENT**

Administration of ASI property and equipment did not ensure proper identification, recording, and accountability.

We noted that:

- ▶ Property and equipment was not always tagged in a timely manner. Employees were permitted to pick up purchases prior to tagging, in which case the items were subsequently tagged during the annual physical inventory.
- ▶ Disposition of property and equipment was neither sufficiently documented nor processed in a timely manner. No records were maintained to evidence the date and method of disposition, and dispositions were only recorded annually instead of at the time of disposition.
- ▶ Authorization to dispose of equipment was not properly documented. Authorization was verbally given by the ASI vice president of finance.
- ▶ Sensitive equipment was not adequately tracked. For example, records were not maintained to document the assignment of laptop computers, and off-site use permits were not used for laptops removed from the work location.

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 ASI executive director stated that the lack of controls over property and equipment was due to oversight.

Insufficient administration of property and equipment increases the risk of misstated property records and theft, loss, or unauthorized use of auxiliary property.

### **Recommendation 12**

We recommend that ASI:

- a. Tag all property and equipment in a timely manner.
- b. Document and timely record the disposition of property and equipment.
- c. Document the authorization to dispose of equipment.
- d. Track sensitive equipment.

### **Campus Response**

ASI property and equipment will be tagged and controlled by the university property management department beginning on July 1, 2008. The property management department properly accounts for all equipment by tagging each item and performing periodic asset inventories to ensure all book assets can be accounted for physically. A separate fixed asset tracking software is used for accounting and managing property and equipment. A policy regarding the tagging of owned assets will be written and posted on our financial services policy and procedure website, and the appropriate personnel will be trained. A policy regarding the authorization and disposal of owned assets will be written and posted on our financial services policy and procedure website, and the appropriate personnel will be trained. A procedure regarding the off-campus use of ASI assets will be written and posted on our financial services policy and procedure website, and the appropriate personnel will be trained.

**UNIVERSITY UNION OF**  
**CALIFORNIA STATE UNIVERSITY, STANISLAUS**

**OPERATING AND ADMINISTRATIVE AGREEMENTS**

The University Union of California State University, Stanislaus (Union) had not renewed its vending machine agreement in a timely manner.

We noted that the initial term of the vending machine agreement was August 9, 2002, until August 8, 2005, with an option to renew for one additional three-year period at the sole option of the Union. The option was to be exercised by giving 90-day advance written notice of intent to renew. The Union did not give its notice to renew until October 20, 2007, more than 29 months late.

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

The Union executive director stated that the failure to renew the vending machine agreement was due to oversight.

Failure to timely exercise agreement renewal options results in expired agreements and increases the risk of misunderstandings and miscommunication regarding rights and responsibilities.

**Recommendation 13**

We recommend that the Union timely exercise its renewal options with vendors to ensure that business arrangements are supported by current agreements.

**Campus Response**

All existing Union agreements will be reviewed to ensure that they are active, complete, and binding. A listing of agreements showing expiration dates will be developed to ensure that Union staff is aware of all agreement terms including their expiration date and renewal option dates. This will be completed on or before August 31, 2008.

## CORPORATE GOVERNANCE

The Union did not have a community representative on its governing board for fiscal years 2004/05, 2005/06, and 2006/07.

Title 5 §42602(b) specifically requires that the composition of the governing board of auxiliary organizations include non-campus personnel (i.e., a community representative).

The Union administrative services manager stated that the failure to have a community representative on its governing board was due to the difficulty in finding and retaining such a board member.

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

### Recommendation 14

We recommend that the Union promptly fill the community representative board position.

### Campus Response

The community representative position on the Union board was filled in fiscal year 2007/08. Whenever a required board seat is vacated, it will be promptly filled by the Union board.

## SEGREGATION OF DUTIES

Duties and responsibilities over certain property and equipment functions were not appropriately segregated at the Union.

We found that one employee:

- ▶ Maintained the equipment control log.
- ▶ Authorized equipment to be capitalized, tagged, and placed on the equipment control log.
- ▶ Authorized and removed equipment from the equipment control log.
- ▶ Performed the annual physical inventory.

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 8.9.7, *Property and Equipment*, states that the auxiliary should establish a written internal control system that ensures employees maintaining fixed asset records are independent of those maintaining physical control of property and equipment.

The Union executive director stated that failure to adequately segregate the functions related to property and equipment was due to oversight.

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

### **Recommendation 15**

We recommend that the Union appropriately segregate certain property and equipment functions or institute mitigating controls approved by the campus CFO.

### **Campus Response**

With the reorganization of financial services and auxiliary operations, adequate segregation of duties will be achieved for Union transactions. Beginning on July 1, 2008, all financial transactions of the Union organization will be handled through the PeopleSoft ERP accounting system. Property, plant, and equipment tracking will be handled by a separate sub ledger software system that is reconciled to the Union general ledger in PeopleSoft. This is the primary accounting system used by university operations. Union transactions will flow through financial services in the same way as all other corporate transactions. Within financial services, no one person will be responsible for all sides of a transaction. Our workflow has been designed with adequate internal controls in place.

## **PURCHASING AND ACCOUNTS PAYABLE**

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

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

- ▶ In one instance, payment issued was not in compliance with credit card policy.
- ▶ In one instance, payment issued did not have appropriate authorization.
- ▶ In one instance, payment was issued to the wrong vendor.

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 Union administrative services manager stated that the failure to comply with credit card policy was due to oversight. The ABS accounting and finance manager stated that the lack of appropriate authorization on one payment was because the payment did not go through the normal disbursement process. She further stated that the payment issued to the wrong vendor was due to oversight.

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

### **Recommendation 16**

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

### **Campus Response**

Even though university financial services processes accounts payables for the Union, it is a shared responsibility role with Union staff because they prepare the information for input and approval. A new policy will be developed for the Union documenting their responsibilities in the cash disbursement process as it relates to the new PeopleSoft accounting system and the reorganized financial services department. There will be a training with all Union staff members regarding the cash disbursement process and this policy will be posted on the financial services policy and procedure website. This will be completed on or before August 31, 2008.

## **PROPERTY AND EQUIPMENT**

Administration of Union property and equipment was inadequate.

We noted that:

- ▶ Annual independent property and equipment counts were not documented.
- ▶ Policies and procedures had not been developed to tag or track property and equipment purchased for the off-site Stockton Lounge.

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. It also states that the auxiliary should establish a written system that ensures physical inspection of property and equipment on a service life schedule.

The Union executive director stated that the failure to document independent counts and to tag and track equipment was due to oversight.

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

### **Recommendation 17**

We recommend that the Union:

- a. Document all independent property and equipment counts.
- b. Develop and implement policies and procedures to ensure that property and equipment purchased for the Stockton Lounge are tagged and tracked.

### **Campus Response**

Union property and equipment will be tagged and controlled by the university property management department beginning on July 1, 2008. The property management department properly accounts for all equipment by tagging each item and performing periodic asset inventories to ensure all book assets can be accounted for physically. A separate fixed assets tracking software is used for accounting and managing property and equipment. A policy regarding the tagging of owned assets will be written and posted on our financial services policy and procedure website, and the appropriate personnel will be trained. A policy regarding the authorization and disposal of owned assets will be written and posted on our financial services policy and procedure website, and the appropriate personnel will be trained. A procedure regarding the off-campus use of Union assets will be written and posted on our financial services policy and procedure website, and the appropriate personnel will be trained.

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## **APPENDIX A: PERSONNEL CONTACTED**

### **Name**

### **Title**

#### **CAMPUS**

Hamid Shirvani	President
Susana Gajic-Brueya	Vice President, University Advancement
Nancy Havens	Associate Vice President, Financial Services
Mary Stephens	Vice President, Business and Finance (At time of review)
Ken Whitfield	Interim Vice President, Business and Finance

#### **CALIFORNIA STATE UNIVERSITY, STANISLAUS FOUNDATION**

Rebecca Abbott	Executive Director (At time of review)
Nancy Bendickson	Accounting Technician
Susana Gajic-Brueya	Executive Director
Durena Long	Assistant Budget Analyst
Mary Stephens	Treasurer (At time of review)

#### **CALIFORNIA STATE UNIVERSITY, STANISLAUS AUXILIARY AND BUSINESS SERVICES**

Tawn Gillihan	Administrative Analyst
Valerie Heckendorf	Human Resources Manager
Kathy Kennemer	Accounts Receivable Specialist II
Clyta Polhemus	Commercial Operations Manager
Tony Silveira	Accountant
Mary Stephens	Executive Director (At time of review)
Shirrell Wells	Accounting Assistant
Alison Wolz	Accounting and Finance Manager

#### **ASSOCIATED STUDENTS INCORPORATED OF CALIFORNIA STATE UNIVERSITY, STANISLAUS**

Cheryl Cone	Administrative Assistant
Andrew Janz	President
Byron Kamp	Executive Director
Cesar Rumayor	Program Coordinator
Matt Ryan	Vice President, Finance

#### **UNIVERSITY UNION OF CALIFORNIA STATE UNIVERSITY, STANISLAUS**

Bill Brosmer	Assistant Director
Byron Kamp	Executive Director
Melanie Lourenco	Administrative Services Manager

## **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.



**AUXILIARY ORGANIZATIONS**  
**CALIFORNIA STATE UNIVERSITY,**  
**STANISLAUS**

**Audit Report 07-47**

**CALIFORNIA STATE UNIVERSITY, STANISLAUS FOUNDATION**

**FISCAL COMPLIANCE**

**Recommendation 1**

We recommend that the Foundation establish and document policies and procedures to ensure that sales tax is calculated and remitted to the taxing authority.

**Campus Response**

Management is reviewing all fundraising events in the past year to identify the types of events that may give rise to sales tax remittance. A policy will be formulated and implemented regarding the collection of sales tax and the remittance of sales tax. Training of the appropriate personnel will occur and the policy will be posted on the Financial Services policy and procedure website. Sales tax returns will be reviewed and signed by senior management and submitted timely on a quarterly basis. This will be completed on or before August 31, 2008.

**CASH RECEIPTS AND HANDLING**

**Recommendation 2**

We recommend that the Foundation restrictively endorse checks immediately upon receipt.

**Campus Response**

Foundation checks that are received through the mail and hand delivered to financial services will be restrictively endorsed. The policy for check handling will be updated to reflect this process change. The updated policy will be posted on the Financial Services policy and procedure website and the appropriate personnel will be trained. This will be completed on or before August 31, 2008.

**ENDOWMENT ADMINISTRATION**

**Recommendation 3**

We recommend that the Foundation review all endowment funds, and if necessary, obtain updated signature authorization forms for project directors.

**Campus Response**

All endowment funds are currently being reviewed for signature authorization accuracy. A policy will be written addressing the on-going process of maintaining accurate signature authority for each endowment fund. The new policy will be posted on the Financial Services policy and procedure website and the appropriate personnel will be trained. This will be completed on or before September 30, 2008.

**CALIFORNIA STATE UNIVERSITY, STANISLAUS**  
**AUXILIARY AND BUSINESS SERVICES**

**OPERATING AND ADMINISTRATIVE AGREEMENTS****Recommendation 4**

We recommend that ABS ensure that all agreements include appropriate indemnification and insurance clauses.

**Campus Response**

A listing of all ABS agreements will be assembled and each contract will be reviewed to determine that the appropriate indemnification and insurance clauses are included. Management will work with legal counsel to frame appropriate wording for indemnification and insurance clauses for all future contracts. For any agreements that do not have the appropriate clauses for indemnification and insurance, an attempt will be made to add those to the current agreement as an amendment. If unsuccessful, appropriate wording for indemnification and insurance will be added to any contract before renewal. This will be completed on or before August 31, 2008.

**SEGREGATION OF DUTIES****Recommendation 5**

We recommend that ABS appropriately segregate certain accounts payable functions or institute mitigating procedures approved by the campus chief financial officer (CFO).

**Campus Response**

With the reorganization of Financial Services and Auxiliary operations, adequate segregation of duties will be achieved for ABS transactions. Beginning on July 1, 2008, all financial transactions of the ABS organization will be handled through the PeopleSoft ERP accounting system. This is the primary accounting system used by university operations. ABS transactions will flow through financial services in the same way as all other corporate transactions. Within Financial Services, no one person will be responsible for all sides of a transaction. Our workflow has been designed with adequate internal controls in place.

**FEES, REVENUES, AND RECEIVABLES****Recommendation 6**

We recommend that ABS work in conjunction with the campus to resolve the past-due accounts.

**Campus Response**

The past due Accounts Receivable to ABS from the University has been paid back. There are no other large or unusual Accounts Receivables on the books of ABS that are not being handled according to our established procedures for collection. This issue is resolved.

**PURCHASING AND ACCOUNTS PAYABLE****Recommendation 7**

We recommend that ABS reiterate to staff existing cash disbursement policies and procedures regarding preparation of purchase orders, sufficient supporting documentation, and timeliness of payment.

**Campus Response**

With the reorganization of Financial Services and Auxiliary operations, on July 1, 2008 all of ABS transactions will be processed through the University Financial Services Group. This is a well trained group with several trained accountants in each functional area. Processing of transactions will follow well established protocols and procedures that meet the guidelines of sufficiency of documentation, proper authorization and timeliness of processing.

**PROPERTY AND EQUIPMENT****Recommendation 8**

We recommend that ABS ensure that all property and equipment is properly tagged.

**Campus Response**

ABS property and equipment will be tagged and controlled by the University Property Management department beginning on July 1, 2008. The Property Management department properly accounts for all equipment by tagging each item and performing periodic asset inventories to ensure all book assets can be accounted for physically. A separate Fixed Asset Tracking software is used for accounting and managing property and equipment. A policy regarding the tagging of owned assets will be written, trained and posted on our Financial Services policy and procedure website.

**ASSOCIATED STUDENTS INCORPORATED OF  
CALIFORNIA STATE UNIVERSITY, STANISLAUS**

**OPERATING AND ADMINISTRATIVE AGREEMENTS**

**Recommendation 9**

We recommend that ASI promptly execute an operating agreement with the campus.

**Campus Response**

The operating agreement between ASI and CSU Stanislaus has been executed for the 2007/08 fiscal year.

**CORPORATE GOVERNANCE**

**Recommendation 10**

We recommend that ASI ensure that all changes/amendments to bylaws are timely filed with the chancellor's office.

**Campus Response**

ASI bylaws will be reviewed for completeness and an updated filing will be made with the Chancellors office. The ASI board and Executive Director have been informed of their responsibility to file both with the Chancellors office and the Campus CFO whenever changes to the bylaws are approved. A new procedure will be written that requires the ASI board to submit their bylaws annually to the CFO and VP of Student Affairs. The new policy will be posted on the Financial Services policy and procedure website and the appropriate personnel will be trained. This will be completed on or before August 31, 2008.

**PURCHASING AND ACCOUNTS PAYABLE**

**Recommendation 11**

We recommend that ASI reiterate to staff existing cash disbursement policies and procedures regarding the maintenance of sufficient supporting documentation.

**Campus Response**

Even though University Financial Services processes accounts payables for ASI, it is a shared responsibility role with ASI staff because they prepare the information for input and approval. A new policy will be developed for documenting ASI's staff responsibilities in the cash disbursement process as it relates to the new PeopleSoft accounting system and the reorganized Financial Services department. There will be a training with all ASI staff members regarding the cash disbursement process and this policy will be posted on the Financial Services policy and procedure website. This will be completed on or before August 31, 2008.

## PROPERTY AND EQUIPMENT

### Recommendation 12

We recommend that ASI:

- a. Tag all property and equipment in a timely manner.
- b. Document and timely record the disposition of property and equipment.
- c. Document the authorization to dispose of equipment.
- d. Track sensitive equipment.

### Campus Response

ASI property and equipment will be tagged and controlled by the University Property Management department beginning on July 1, 2008. The Property Management department properly accounts for all equipment by tagging each item and performing periodic asset inventories to ensure all book assets can be accounted for physically. A separate Fixed Asset Tracking software is used for accounting and managing property and equipment. A policy regarding the tagging of owned assets will be written, trained and posted on our Financial Services policy and procedure website. A policy regarding the authorization and disposal of owned assets will be written, trained and posted on our Financial Services policy and procedure website. A procedure regarding the off-campus use of ASI assets will be written, trained and posted on our Financial Services policy and procedure website.

**UNIVERSITY UNION OF  
CALIFORNIA STATE UNIVERSITY, STANISLAUS**

## **OPERATING AND ADMINISTRATIVE AGREEMENTS**

### **Recommendation 13**

We recommend that the Union timely exercise its renewal options with vendors to ensure that business arrangements are supported by current agreements.

### **Campus Response**

All existing University Union agreements will be reviewed to ensure that they are active, complete and binding. A listing of agreements showing expiration dates will be developed to ensure that Union Staff is aware of all agreement terms including their expiration date and renewal option dates. This will be completed on or before August 31, 2008.

## **CORPORATE GOVERNANCE**

### **Recommendation 14**

We recommend that the Union promptly fill the community representative board position.

### **Campus Response**

The community representative position on the Union Board was filled by Kurt Vander Weide in fiscal year 2007/08. Whenever a required board seat is vacated it will be promptly filled by the Union Board.

## **SEGREGATION OF DUTIES**

### **Recommendation 15**

We recommend that the Union appropriately segregate certain property and equipment functions or institute mitigating controls approved by the campus CFO.

### **Campus Response**

With the reorganization of Financial Services and Auxiliary operations, adequate segregation of duties will be achieved for Union transactions. Beginning on July 1, 2008, all financial transactions of the Union organization will be handled through the PeopleSoft ERP accounting system. Property, Plant and Equipment tracking will be handled by a separate sub-ledger software system that is reconciled to the Union general ledger in PeopleSoft. This is the primary accounting system used by university operations. Union transactions will flow through financial services in the same way as all other corporate transactions. Within Financial Services, no one person will be responsible for all sides of a transaction. Our workflow has been designed with adequate internal controls in place.

## **PURCHASING AND ACCOUNTS PAYABLE**

### **Recommendation 16**

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

### **Campus Response**

Even though University Financial Services processes accounts payables for the Union, it is a shared responsibility role with Union staff because they prepare the information for input and approval. A new policy will be developed for the Union documenting their responsibilities in the cash disbursement process as it relates to the new PeopleSoft accounting system and the reorganized Financial Services department. There will be a training with all Union staff members regarding the cash disbursement process and this policy will be posted on the Financial Services policy and procedure website. This will be completed on or before August 31, 2008.

## **PROPERTY AND EQUIPMENT**

### **Recommendation 17**

We recommend that the Union:

- a. Document all independent property and equipment counts.
- b. Develop and implement policies and procedures to ensure that property and equipment purchased for the Stockton Lounge are tagged and tracked.

### **Campus Response**

University Union property and equipment will be tagged and controlled by the University Property Management department beginning on July 1, 2008. The Property Management department properly accounts for all equipment by tagging each item and performing periodic asset inventories to ensure all book assets can be accounted for physically. A separate Fixed Asset Tracking software is used for accounting and managing property and equipment. A policy regarding the tagging of owned assets will be written, trained and posted on our Financial Services policy and procedure website. A policy regarding the authorization and disposal of owned assets will be written, trained and posted on our Financial Services policy and procedure website. A procedure regarding the off-campus use of Union assets will be written, trained and posted on our Financial Services policy and procedure website.



THE CALIFORNIA STATE UNIVERSITY  
OFFICE OF THE CHANCELLOR

BAKERSFIELD

June 16, 2008

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 07-47 on *Auxiliary Organizations*,  
California State University, Stanislaus

LOS ANGELES

MARITIME ACADEMY

In response to your memorandum of June 16, 2008, I accept the response as  
submitted with the draft final report on *Auxiliary Organizations*, California  
State University, Stanislaus.

MONTEREY BAY

NORTHRIDGE

POMONA

CBR/jt

SACRAMENTO

Enclosure

SAN BERNARDINO

cc: Dr. Hamid Shirvani, President

SAN DIEGO

Mr. Ken Whitfield, Interim Vice President, Business and Finance

SAN FRANCISCO

SAN JOSÉ

SAN LUIS OBISPO

SAN MARCOS

SONOMA

STANISLAUS