

**AUXILIARY ORGANIZATIONS**  
**CALIFORNIA STATE UNIVERSITY,**  
**CHANNEL ISLANDS**

**Audit Report 08-48**  
**July 30, 2008**

---

**Members, Committee on Audit**

Melinda Guzman, Chair  
Raymond W. Holdsworth, Vice Chair  
Herbert L. Carter    Kenneth Fong  
Margaret Fortune    George G. Gowgani  
William Hauck

---

**Staff**

University Auditor: Larry Mandel  
Senior Director: Janice Mirza  
Audit Manager: Aaron Bolin  
Senior Auditors: Kwabena Boakye and Ken Tsui

---

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

---

## CONTENTS

Executive Summary .....	1
Introduction.....	5
Background .....	5
Purpose.....	6
Scope and Methodology .....	6

---

## OBSERVATIONS, RECOMMENDATIONS, AND CAMPUS RESPONSES

### **CAMPUS**

Operating and Administrative Agreements.....	9
--	---

### **CALIFORNIA STATE UNIVERSITY, CHANNEL ISLANDS FOUNDATION**

Operational Compliance .....	10
Fees, Revenues, and Receivables.....	10
Endowment Administration .....	11

### **UNIVERSITY GLEN CORPORATION**

Operational Compliance .....	13
Fees, Revenues, and Receivables.....	13
Purchasing and Accounts Payable .....	14
Personnel and Payroll .....	15
Trusts and Other Liabilities .....	16

### **ASSOCIATED STUDENTS OF CALIFORNIA STATE UNIVERSITY, CHANNEL ISLANDS**

Facilities Agreements.....	17
----------------------------	----

## **APPENDICES**

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

---

## **ABBREVIATIONS**

AS	Associated Students of California State University, Channel Islands
CSU	California State University
Foundation	California State University, Channel Islands Foundation
MOU	Memorandum of Understanding
RFIN	Resolution of the Committee on Finance
Site Authority	California State University, Channel Islands Site Authority
UGC	University Glen Corporation

---

## 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, Channel Islands 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, Channel Islands campus and its auxiliary organizations from April 7, 2008, through April 29, 2008, and made a study and evaluation of the system of internal compliance/internal control in effect as of April 29, 2008. This report represents our triennial review.

Our study and evaluation at *California State University, Channel Islands 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 April 29, 2008, taken as a whole, was sufficient to meet the objectives stated above.

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

control in effect as of April 29, 2008, taken as a whole, was sufficient to meet the objectives stated above.

Our study and evaluation at *Associated Students of California State University, Channel Islands* 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 a reportable weakness that is described in the executive summary and in the body of the report. In our opinion, the accounting and administrative control in effect as of April 29, 2008, taken as a whole, was sufficient to meet the objectives stated above.

As a result of changing conditions and the degree of compliance with procedures, the effectiveness of controls changes over time. Specific limitations that may hinder the effectiveness of an otherwise adequate system of controls include, but are not limited to, resource constraints, faulty judgments, unintentional errors, circumvention by collusion, and management overrides. Establishing controls that would prevent all these limitations would not be cost-effective; moreover, an audit may not always detect these limitations.

The following summary provides management with an overview of conditions requiring their attention. Areas of review not mentioned in this section were found to be satisfactory. Numbers in brackets [ ] refer to page numbers in the report.

## **CAMPUS**

### **OPERATING AND ADMINISTRATIVE AGREEMENTS [9]**

Arrangements between the campus and its auxiliary organizations for the provision of accounting and administrative services were not supported by written agreements.

## **CALIFORNIA STATE UNIVERSITY, CHANNEL ISLANDS FOUNDATION**

### **OPERATIONAL COMPLIANCE [10]**

The California State University, Channel Islands Foundation (Foundation) had neither obtained annual conflict-of-interest statements from all board members for fiscal year 2007/08 nor provided an annual conflict-of-interest compliance report to the campus associate vice president of human resources for the prior two fiscal years.

### **FEES, REVENUES, AND RECEIVABLES [10]**

The Foundation had not completed a monthly revenue reconciliation between the donor database and general ledger accounting systems in a timely manner. This is a repeat finding from the prior auxiliary organizations audit. Specifically, a reconciliation had not been completed since January 2008.

## **ENDOWMENT ADMINISTRATION [11]**

Certain Foundation endowment files lacked agreements delineating the investment and distribution of funds. Three of the ten endowment files reviewed did not contain agreements stating how the endowed funds would be invested and distributed. As of January 31, 2008, the three endowments had balances totaling \$1,451,444.

## **UNIVERSITY GLEN CORPORATION**

### **OPERATIONAL COMPLIANCE [13]**

The University Glen Corporation (UGC) had not obtained annual conflict-of-interest statements from any of its board members for fiscal year 2007/08.

### **FEES, REVENUES, AND RECEIVABLES [13]**

Administration of UGC delinquent accounts receivable required improvement. The UGC had not collected or otherwise resolved two four-year-old delinquent accounts receivable from the California State University, Channel Islands Site Authority (Site Authority) totaling \$173,813.

### **PURCHASING AND ACCOUNTS PAYABLE [14]**

Certain UGC disbursements were not supported by sufficient and appropriate documentation. A review of 60 disbursements disclosed that 33 lacked a request for goods and services form and approved purchase order, and three lacked a disbursement check request.

### **PERSONNEL AND PAYROLL [15]**

The UGC memorandum of understanding (MOU) with the campus designating all UGC staff as campus employees was outdated. In 2005, UGC executed a MOU with the campus stating that UGC employees would become university employees on July 1, 2005. At that time, there were three employees. UGC had since hired 12 additional staff. However, it was unclear which positions and/or employees were designated as university or UGC staff, as the MOU had not been updated.

### **TRUSTS AND OTHER LIABILITIES [16]**

Site Authority revenue was misclassified as UGC revenue. Specifically, \$4,000 of commission income from the leasing of space for the operation of an automatic teller machine by a third-party vendor was collected and misclassified as UGC revenue.

**ASSOCIATED STUDENTS OF  
CALIFORNIA STATE UNIVERSITY, CHANNEL ISLANDS**

**FACILITIES AGREEMENTS [17]**

A facilities agreement between the Associated Students of California State University, Channel Islands and the campus pertaining to space for the University Hub had not been established.

---

## 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 was July 1, 2006 to April 29, 2008. 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, Channel Islands 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
- ▶ Investments
- ▶ Fees, Revenues, and Receivables
- ▶ Purchasing and Accounts Payable
- ▶ Trusts and Other Liabilities
- ▶ Endowment Administration
- ▶ Auxiliary Programs

University Glen Corporation

- ▶ 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

University Glen Corporation (cont.)

- ▶ Personnel and Payroll
- ▶ Property and Equipment
- ▶ Trusts and Other Liabilities
- ▶ Auxiliary Programs

Associated Students of California State University, Channel Islands

- ▶ 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
- ▶ Property and Equipment
- ▶ Trusts and Other Liabilities
- ▶ Auxiliary Programs

Campus

Campus Oversight and Control

We have not performed any auditing procedures beyond April 29, 2008. Accordingly, our comments are based on our knowledge as of that date. Since the purpose of our comments is to suggest areas for improvement, comments on favorable matters are not addressed.

---

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

### **CAMPUS**

#### **OPERATING AND ADMINISTRATIVE AGREEMENTS**

Arrangements between the campus and its auxiliary organizations for the provision of accounting and administrative services were not supported by written agreements.

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 vice president of finance and administration stated that the absence of agreements between the campus and its auxiliary organizations was due to oversight.

The absence of a written agreement for the provision of accounting and administrative services increases the risk of misunderstandings and miscommunication regarding rights and responsibilities.

#### **Recommendation 1**

We recommend that the campus establish a written agreement with each of its auxiliary organizations regarding the provision of accounting and administrative services.

#### **Campus Response**

We concur. The campus has established written agreements with each auxiliary organization, which outline the services that are provided by the campus.

## **CALIFORNIA STATE UNIVERSITY, CHANNEL ISLANDS FOUNDATION**

### **OPERATIONAL COMPLIANCE**

The California State University, Channel Islands Foundation (Foundation) had neither obtained annual conflict-of-interest statements from all board members for fiscal year 2007/08 nor provided an annual conflict-of-interest compliance report to the campus associate vice president of human resources for the prior two fiscal years.

The Foundation's *Conflict of Interest Policy Section V*, dated August 1, 2005, states, in part, that the Foundation shall provide the campus associate vice president of human resources with a report of compliance with the conflict-of-interest policy by June 15<sup>th</sup> annually.

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 Foundation director of advancement and operations stated that failure to obtain the annual conflict-of-interest statements from board members and provide the required compliance report was due to oversight.

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

#### **Recommendation 2**

We recommend that the Foundation ensure that annual conflict-of-interest statements are obtained from all board members and a conflict-of-interest compliance report is submitted to the campus associate vice president of human resources annually.

#### **Campus Response**

We concur. In May 2008, the Foundation collected the annual conflict-of-interest statements and a compliance report was submitted. This will now be an annual requirement.

### **FEES, REVENUES, AND RECEIVABLES**

The Foundation had not completed a monthly revenue reconciliation between the donor database and general ledger accounting systems in a timely manner. This is a repeat finding from the prior auxiliary organizations audit.

Specifically, a reconciliation had not been completed since January 2008.

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.

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.

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 regular and timely revenue reconciliations.

The campus vice president of finance and administration stated that monthly reconciliations between donor and accounting records were not timely completed due to staffing constraints.

Untimely reconciliations of donor and accounting records increase the risk of reporting errors and/or misappropriations of funds.

### **Recommendation 3**

We recommend that the Foundation complete monthly revenue reconciliations between the donor database and general ledger accounting systems in a timely manner.

### **Campus Response**

We concur. The Foundation, effective immediately, will complete monthly reconciliations. These reconciliations will be a part of the regular month-end close and review process.

## **ENDOWMENT ADMINISTRATION**

Certain Foundation endowment files lacked agreements delineating the investment and distribution of funds.

We found that three of the ten endowment files reviewed did not contain agreements stating how the endowed funds would be invested and distributed. As of January 31, 2008, the three endowments had balances totaling \$1,451,444.

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.

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

The Foundation director of advancement and operations stated that the lack of documentation in the endowment files was due to oversight.

The absence of sufficient documentation to delineate the investment and distribution of endowed funds increases the risk that donor expectations will not be met and inappropriate expenditures will occur.

#### **Recommendation 4**

We recommend that the Foundation establish agreements to delineate the investment and distribution of endowed funds for the three noted endowment files and ensure that sufficient supporting documentation is maintained for future endowment accounts.

#### **Campus Response**

We concur. The Foundation will establish agreements to reflect how endowments will be invested and distributed by September 2008.

## **UNIVERSITY GLEN CORPORATION**

### **OPERATIONAL COMPLIANCE**

The University Glen Corporation (UGC) had not obtained annual conflict-of-interest statements from any of its board members for fiscal year 2007/08.

The UGC's *Conflict of Interest Policy* states, in part, that each director will annually acknowledge by his or her signature that he or she is in accordance with the letter and spirit of the conflict-of-interest policy.

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 UGC executive director stated that the failure to obtain the annual conflict-of-interest statements from board members was due to oversight.

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

#### **Recommendation 5**

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

#### **Campus Response**

We concur. In May 2008, the UGC collected the annual conflict-of-interest statements from each board member. The conflict-of-interest policy has been revised and approved by the UGC board of directors. This item will appear on their annual meeting agenda each May.

### **FEES, REVENUES, AND RECEIVABLES**

Administration of UGC delinquent accounts receivable required improvement.

The UGC had not collected or otherwise resolved two four-year-old delinquent accounts receivable from the California State University, Channel Islands Site Authority (Site Authority) totaling \$173,813.

The *Compilation of Policies and Procedures for California State University Auxiliary Organizations* sets sound business practice guidelines for auxiliary organizations operating within the CSU system.

Section 8.9.4, *Receivables*, states that the auxiliary should properly record and promptly collect receivables in a consistent manner, while exercising due diligence in the follow-up and collection of past-due accounts.

The UGC executive director stated that numerous attempts had been made to seek collection, including multiple billings and follow-up. He added that regardless of their actions, the Site Authority continued to ignore the past-due invoices and would not reimburse the UGC.

Inadequate administration of delinquent accounts receivable reduces the likelihood of collection and negatively impacts cash flow.

### **Recommendation 6**

We recommend that the UGC promptly pursue the collection of the delinquent Site Authority accounts receivable.

### **Campus Response**

We concur. The UGC had made numerous attempts to collect; however, in May 2008, the UGC was able to collect the entire balance of the receivable from the Site Authority.

## **PURCHASING AND ACCOUNTS PAYABLE**

Certain UGC disbursements were not supported by sufficient and appropriate documentation.

Our review of 60 disbursements disclosed that 33 lacked a request for goods and services form and approved purchase order, and three lacked a disbursement check request.

The UGC *Procurement Policy* states, in part, that purchasing materials, equipment and supplies from one vendor with a total cost (excluding shipping, handling, tax and freight) that exceeds \$1,000 and purchasing services should be requested using a request for goods and services form, except for travel, retention of artists, entertainers, catering and speakers.

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 UGC executive director stated that the failure to use a request for goods and services form and the lack of approved purchase orders and disbursement check requests was due to oversight during the transition from third-party property management to self-operation.

Lack of sufficient and appropriate supporting documentation increases the risk of errors, irregularities, and misappropriation of funds.

### **Recommendation 7**

We recommend that the UGC reiterate to staff existing cash disbursement policies and procedures regarding the use of request for goods and services forms, purchase orders, and check requests.

### **Campus Response**

We concur. Effective July 1, 2007, the UGC assumed responsibility of all operating aspects of UGC leasing operations which had been previously managed by a third-party property management agreement. The staff of the third-party property management company had continued using prior contracts and vendor arrangements, not realizing that UGC had different policies and procedures. The UGC staff has reviewed disbursement policies and procedures and will receive more training with purchasing and accounts payable staff by September 2008.

## **PERSONNEL AND PAYROLL**

The UGC memorandum of understanding (MOU) with the campus designating all UGC staff as campus employees was outdated.

In 2005, UGC executed a MOU with the campus stating that UGC employees would become university employees on July 1, 2005. At that time, there were three employees. UGC had since hired 12 additional staff. However, it was unclear which positions and/or employees were designated as university or UGC staff, as the MOU had not been updated.

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 properly maintained and current.

The UGC executive director stated that the failure to update the MOU to reflect current UGC staffing was due to oversight.

Failure to maintain current business arrangements regarding personnel increases the risk of misunderstandings and miscommunication regarding rights and responsibilities.

### **Recommendation 8**

We recommend that the UGC update the MOU with the campus to reflect the current designation of auxiliary staffing.

**Campus Response**

We concur. A revised MOU was written and signed in April 2008.

**TRUSTS AND OTHER LIABILITIES**

Site Authority revenue was misclassified as UGC revenue.

Specifically, \$4,000 of commission income from the leasing of space for the operation of an automatic teller machine by a third-party vendor was collected and misclassified as UGC revenue.

The *Operating Agreement between Site Authority and UGC* states, in part, that the auxiliary agrees to perform services on behalf of Site Authority, including managing sales and leasing of University Glen rental and for-sale units and assisting Site Authority with timely collection of proceeds.

Executive Order 919, *Policy Governing Non-General Fund Receipts*, dated October 15, 2004, states that each CSU campus shall administer their non-General Fund receipts to ensure that the funds are held in proper accounts.

The UGC executive director stated that Site Authority revenue was misclassified as UGC revenue due to oversight.

Misclassification of state funds in auxiliary accounts increases the risk that funds will be expended for inappropriate purposes and of misrepresentation in the financial statements.

**Recommendation 9**

We recommend that the UGC immediately transfer the Site Authority revenue to the campus.

**Campus Response**

We concur. The revenues were adjusted within the accounting records in May 2008.

**ASSOCIATED STUDENTS OF**  
**CALIFORNIA STATE UNIVERSITY, CHANNEL ISLANDS**

**FACILITIES AGREEMENTS**

A facilities agreement between the Associated Students of California State University, Channel Islands (AS) and the campus pertaining to space for the University Hub had not been established.

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

The campus vice president of finance and administration stated that she was unaware an agreement was required for this space.

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

**Recommendation 10**

We recommend that the AS execute a facilities lease agreement with the campus pertaining to office space for the University Hub.

**Campus Response**

We concur. A lease agreement was signed in July 2008.

---

## **APPENDIX A: PERSONNEL CONTACTED**

### **Name**

### **Title**

#### **CAMPUS**

Richard R. Rush	President
Stephanie Bracamontes	Financial Reporting Supervisor
Maribeth Bradberry	Accounting Supervisor
Joanne Coville	Vice President, Finance and Administration
Emily Deakin	University Controller
Theresa Hernandez	Accountant
Melissa Klep	Director of Budget, Procurement and Support Services
Cheryl Peckham	Cashier
Michelle Willinsky	Billing Analyst

#### **CALIFORNIA STATE UNIVERSITY, CHANNEL ISLANDS FOUNDATION**

Marti De La O	Director, Advancement and Foundation Operations
---------------	---

#### **UNIVERSITY GLEN CORPORATION**

Emma Ashley	Associate Director, Rental housing
Stephanie Barbabosa	Director, Rental Housing
Erik Blaine	Executive Director
Coleen Keen	Accounting Technician

#### **ASSOCIATED STUDENTS OF CALIFORNIA STATE UNIVERSITY, CHANNEL ISLANDS**

Deanne Ellison	Support Coordinator
Cris Powell	President

## **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**

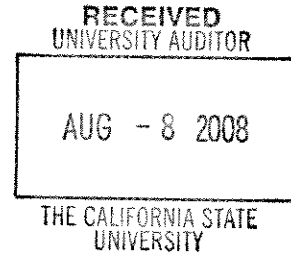
The objective of internal accounting and related operational control is to provide reasonable, but not absolute, assurance as to the safeguarding of assets against loss from unauthorized use or disposition, and the reliability of financial records for preparing financial statements and maintaining accountability 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.



August 11, 2008



Mr. Larry Mandel  
University Auditor  
401 Golden Shore, 4<sup>th</sup> Floor  
Long Beach, CA 90802-4200

Dear Larry:

On behalf of President Rush, I am submitting the campus response to the recommendations of Audit Report 08-48, Auxiliary Organizations at California State University Channel Islands. This response has also been forwarded via email to [adouglas@calstate.edu](mailto:adouglas@calstate.edu).

Please contact me for additional information and follow up.

Very truly yours,

A handwritten signature in cursive script that reads 'Joanne Coville'.

Joanne Coville  
Vice President for Finance  
and Administration

JC/rt  
Enclosure

cc: Richard R. Rush, President

**AUXILIARY ORGANIZATIONS**  
**CALIFORNIA STATE UNIVERSITY,**  
**CHANNEL ISLANDS**

**Audit Report 08-48**

**CAMPUS**

**OPERATING AND ADMINISTRATIVE AGREEMENTS**

**Recommendation 1**

We recommend that the campus establish a written agreement with each of its auxiliary organizations regarding the provision of accounting and administrative services.

**Campus Response**

We concur. The campus has established written agreements with each auxiliary organization, which outline the services that are provided by the campus.

**CALIFORNIA STATE UNIVERSITY, CHANNEL ISLANDS FOUNDATION**

**OPERATIONAL COMPLIANCE**

**Recommendation 2**

We recommend that the Foundation ensure that annual conflict-of-interest statements are obtained from all board members and a conflict-of-interest compliance report is submitted to the campus associate vice president of human resources annually.

**Campus Response**

We concur. In May 2008, the Foundation collected the annual conflict-of-interest statements and a compliance report was submitted. This will now be an annual requirement.

**FEES, REVENUES, AND RECEIVABLES**

**Recommendation 3**

We recommend that the Foundation complete monthly revenue reconciliations between the donor database and general ledger accounting systems in a timely manner.

**Campus Response**

We concur. The Foundation, effective immediately, will complete monthly reconciliations. These reconciliations will be a part of the regular month end close and review process.

**ENDOWMENT ADMINISTRATION**

**Recommendation 4**

We recommend that the Foundation establish agreements to delineate the investment and distribution of endowed funds for the three noted endowment files and ensure that sufficient supporting documentation is maintained for future endowment accounts.

**Campus Response**

We concur. The Foundation will establish agreements to reflect how endowments will be invested and distributed by September 2008.

**UNIVERSITY GLEN CORPORATION**

**OPERATIONAL COMPLIANCE**

**Recommendation 5**

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

**Campus Response**

We concur. In May 2008, the UGC collected the annual conflict-of-interest statements from each Board Member. The conflict-of-interest policy has been revised and approved by the UGC Board of Directors. This item will appear on their annual meeting agenda each May.

**FEES, REVENUES, AND RECEIVABLES**

**Recommendation 6**

We recommend that the UGC promptly pursue the collection of the delinquent Site Authority accounts receivable.

**Campus Response**

We concur. The UGC had made numerous attempts to collect; however, in May 2008, the UGC was able to collect the entire balance of the receivable from the Site Authority.

**PURCHASING AND ACCOUNTS PAYABLE**

**Recommendation 7**

We recommend that the UGC reiterate to staff existing cash disbursement policies and procedures regarding the use of request for goods and services forms, purchase orders, and check requests.

**Campus Response**

We concur. Effective July 1, 2007, University Glen Corporation assumed responsibility of all operating aspects of University Glen Corporation leasing operations which had been previously managed by a third party property management agreement. The staff of the third party property management company had continued using prior contracts and vendor arrangements, not realizing that UGC had different policies and procedures. The UGC staff has reviewed disbursement policies and procedures and will receive more training with Purchasing and Accounts Payable staff by September 2008.

## **PERSONNEL AND PAYROLL**

### **Recommendation 8**

We recommend that the UGC update the MOU with the campus to reflect the current designation of auxiliary staffing.

### **Campus Response**

We concur. A revised MOU was written and signed in April 2008.

## **TRUSTS AND OTHER LIABILITIES**

### **Recommendation 9**

We recommend that the UGC immediately transfer the Site Authority revenue to the campus.

### **Campus Response**

We concur. The revenues were adjusted within the accounting records in May 2008.

**ASSOCIATED STUDENTS OF  
CALIFORNIA STATE UNIVERSITY, CHANNEL ISLANDS**

**FACILITIES AGREEMENTS**

**Recommendation 10**

We recommend that the AS execute a facilities lease agreement with the campus pertaining to office space for the University Hub.

**Campus Response**

We concur. A lease agreement was signed in July 2008.

THE CALIFORNIA STATE UNIVERSITY  
OFFICE OF THE CHANCELLOR



BAKERSFIELD

August 15, 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 08-48 on *Auxiliary Organizations*,  
California State University, Channel Islands

LOS ANGELES

MARITIME ACADEMY

In response to your memorandum of August 15, 2008, I accept the response as submitted with the draft final report on *Auxiliary Organizations*, California State University, Channel Islands.

MONTEREY BAY

NORTHRIDGE

POMONA

CBR/jt

SACRAMENTO

Enclosure

SAN BERNARDINO

cc: Ms. Joanne M. Coville, Vice President, Finance and Administration  
Dr. Richard R. Rush, President

SAN DIEGO

SAN FRANCISCO

SAN JOSÉ

SAN LUIS OBISPO

SAN MARCOS

SONOMA

STANISLAUS