

**AUXILIARY ORGANIZATIONS**  
**CALIFORNIA STATE UNIVERSITY,**  
**BAKERSFIELD**

**Audit Report 11-04**  
**September 29, 2011**

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

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## **ABBREVIATIONS**

AS	Associated Students
CSU	California State University
CSUB	California State University, Bakersfield
EO	Executive Order
DSS	Data Security Standard
Foundation	California State University Bakersfield Foundation
IRS	Internal Revenue Service
PCI	Payment Card Industry
MOU	Memorandum of Understanding
RFIN	Resolution of the Committee on Finance
SPA	California State University, Bakersfield Auxiliary for Sponsored Programs Administration
Union	California State University, Bakersfield Student Union
UBI	Unrelated Business Income

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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, Bakersfield (CSUB) 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 CSUB campus and its auxiliary organizations from May 9, 2011, through June 9, 2011, and made a study and evaluation of the system of internal compliance/internal control in effect as of June 9, 2011. This report represents our triennial review.

Our study and evaluation at the *CSUB campus* 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 weaknesses that are described in the executive summary and in the body of the report. In our opinion, except for the effect of the weaknesses described above, accounting and administrative control in effect as of June 9, 2011, taken as a whole, was sufficient to meet the objectives stated above.

Our study and evaluation at *California State University Bakersfield Foundation* revealed certain conditions that, in our opinion, could result in errors and irregularities if not corrected. Specifically, the auxiliary did not maintain adequate control over the following areas: operating and administrative agreements; cash receipts and handling; petty cash and change funds; fees, revenues, and receivables; and property and equipment. These conditions, along with other weaknesses, are described in the executive

summary and in the body of the report. In our opinion, except for the effect of the weaknesses described above, accounting and administrative control in effect as of June 9, 2011, taken as a whole, was sufficient to meet the objectives stated above.

Our study and evaluation at *California State University, Bakersfield Auxiliary for Sponsored Programs and Administration* 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 June 9, 2011, taken as a whole, was sufficient to meet the objectives stated above.

Our study and evaluation at *California State University, Bakersfield Student Union* 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 June 9, 2011, taken as a whole, was sufficient to meet the objectives stated above.

Our study and evaluation at *Associated Students, California State University, Bakersfield, Inc.* 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 June 9, 2011, 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**

### **PERSONNEL AND PAYROLL [11]**

The campus did not always complete separation documentation for auxiliary employees.

## **INFORMATION TECHNOLOGY [12]**

Password security controls were not adequate for certain campus systems used by the auxiliary organizations. Also, University Advancement's method of transmitting, storing, and managing donor credit card information via a third-party service provider was not in compliance with Payment Card Industry (PCI) Data Security Standard (DSS) requirements.

## **CALIFORNIA STATE UNIVERSITY BAKERSFIELD FOUNDATION**

### **OPERATING AND ADMINISTRATIVE AGREEMENTS [16]**

The parent agreement between the California State University Bakersfield Foundation (Foundation) children's center and its patrons did not include an appropriate indemnification provision.

### **CASH RECEIPTS AND HANDLING [16]**

Administration of Foundation checks returned by the bank required improvement. Specifically, documentation was not on file to support that the returned items were being reviewed, investigated, or pursued for recovery.

### **PETTY CASH AND CHANGE FUNDS [18]**

The Foundation children's center's petty cash fund was inappropriately used as a change fund and mixed with fund-raising proceeds.

### **FEES, REVENUES, AND RECEIVABLES [19]**

Administration of Foundation corporate matching gifts needed improvement, as matching gifts were not always directed to a program deemed eligible by the donor's matching gift requirements, and corporate matching gift procedures did not require that a documented dual review be performed.

### **PROPERTY AND EQUIPMENT [21]**

Administration of Foundation property and equipment needed improvement. For example, approximately \$20,075 worth of artwork could not be located in an administrative office, and two assets were not in the location noted in the fixed asset records. Additionally, fixed asset disposals were not always approved.

### **ENDOWMENT ADMINISTRATION [22]**

The Foundation's standard endowment worksheets did not address administrative fees.

**CALIFORNIA STATE UNIVERSITY, BAKERSFIELD**  
**AUXILIARY FOR SPONSORED PROGRAMS AND ADMINISTRATION**

**OPERATING AND ADMINISTRATIVE AGREEMENTS [24]**

The memorandum of understanding for the campus to provide services to the California State University, Bakersfield Auxiliary for Sponsored Programs and Administration (SPA) was not fully executed at the time of the audit.

**FISCAL COMPLIANCE [24]**

SPA had not developed written policies and procedures to designate the allocation of surplus net assets into the following reserve categories: working capital, current operations, capital replacement, and planned future operations.

**CAMPUS OVERSIGHT AND CONTROL [26]**

The SPA 2010/11 fiscal year budget was not approved by the campus president.

**CALIFORNIA STATE UNIVERSITY, BAKERSFIELD STUDENT UNION**

**OPERATIONAL COMPLIANCE [27]**

The California State University, Bakersfield Student Union (Union) had not obtained annual conflict-of-interest statements from all board members.

**FEES, REVENUES, AND RECEIVABLES [28]**

Revenue reconciliations were not performed between the union reservation shadow system and PeopleSoft.

**AUXILIARY PROGRAMS [29]**

Administration of the Union's facilities reservations program required improvement. In three instances, invoices were not generated in a timely manner; in two instances, payment for services was not received; in one instance, the facility use agreement was not completed; and long-outstanding uncollectible balances were not written off.

**ASSOCIATED STUDENTS,**  
**CALIFORNIA STATE UNIVERSITY, BAKERSFIELD, INC.**

**CORPORATE GOVERNANCE [31]**

The Associated Students, California State University Bakersfield, Inc. (AS) had not implemented an audit committee.

**PROPERTY AND EQUIPMENT [31]**

Administration of AS property and equipment needed improvement. Specifically, AS could not provide a comprehensive listing of capitalized assets at the start of fieldwork and had not performed an independent physical inventory of all its property and equipment during the last three years.

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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.

#### California State University Bakersfield Foundation

California State University Bakersfield Foundation (Foundation) was established in 1969 as a non-profit benefit corporation. The Foundation's mission is to support California State University, Bakersfield (CSUB) by advocating for the university to government and to the community, fund-raising for university programs and activities, managing the finances of the Foundation and the university endowment, and advising the administrations of CSU and CSUB. The Foundation is governed by an appointed board of directors and relies on the campus for administrative and accounting support services.

California State University, Bakersfield Auxiliary for Sponsored Programs and Administration

California State University, Bakersfield Auxiliary for Sponsored Programs and Administration (SPA) was established in 2009 as a non-profit public benefit corporation to manage post-award administration of grants and contracts for university research. SPA's mission is to assist faculty, administrators, and staff in the administration of externally funded activities related to academic affairs while promoting an environment of cooperation, problem-solving, and ethical behavior to ensure that all applicable policies, procedures, and regulations, as well as sponsor requirements, have been met at the optimal level. SPA is governed by a board of directors composed of student, faculty, university administration, and community members and relies on the campus for administrative and accounting support services.

California State University, Bakersfield Student Union

California State University, Bakersfield Student Union (Union) was established in 1994 as a non-profit public benefit corporation. The Union houses a variety of organizations and offices that benefit the campus by serving students, staff, and faculty and operates the student recreation center facilities (including playing fields) and programs. It is governed by a board of directors composed of student, alumni, faculty, and staff members and relies on the campus for administrative and accounting support services.

Associated Students, California State University, Bakersfield, Inc.

Associated Students, California State University, Bakersfield, Inc. (AS) was established in 1987 as a non-profit public benefit corporation to provide support to student government, clubs and organizations, activities, services, athletics, and the children's center. In addition to the student body president and vice presidents, the AS is governed by a board composed of directors from each school, class level, and dorm. The AS relies on the campus for administrative and accounting support services.

## **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 2008/09 and 2009/10 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, 2010, to June 9, 2011. 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 Bakersfield 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
- ▶ Fees, Revenues, and Receivables
- ▶ Investments
- ▶ Fixed Assets
- ▶ Purchasing and Accounts Payable
- ▶ Personnel and Payroll
- ▶ Endowment Administration
- ▶ Auxiliary Programs
- ▶ Information Technology

California State University, Bakersfield Auxiliary for Sponsored Programs and Administration

- ▶ 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
- ▶ Fees, Revenues, and Receivables
- ▶ Purchasing and Accounts Payable
- ▶ Auxiliary Programs

California State University, Bakersfield Student Union

- ▶ Operating and Administrative Agreements

California State University, Bakersfield Student Union (cont.)

- ▶ Facilities Agreements
- ▶ Corporate Governance
- ▶ Fiscal Compliance
- ▶ Operational Compliance
- ▶ Program Compliance
- ▶ Campus Oversight and Control
- ▶ Segregation of Duties
- ▶ Cash Receipts and Handling
- ▶ Fees, Revenues, and Receivables
- ▶ Purchasing and Accounts Payable

Associated Students, California State University, Bakersfield, Inc.

- ▶ 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
- ▶ Fees, Revenues, and Receivables
- ▶ Purchasing and Accounts Payable

Campus

- ▶ Campus Oversight and Control
- ▶ Information Technology

We have not performed any auditing procedures beyond June 9, 2011. 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**

### **CAMPUS**

#### **PERSONNEL AND PAYROLL**

The campus did not always complete separation documentation for auxiliary employees.

We reviewed ten recent employee separations, four from the California State University, Bakersfield Auxiliary for Sponsored Programs and Administration (SPA) and six from the California State University, Bakersfield Foundation (Foundation), and we found that separation documentation was not on file in seven instances. Moreover, documentation for the three remaining separations was incomplete.

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 employee separations.

The campus payroll manager stated that the failure to complete separation documentation for auxiliary employees was due to the lack of a formal process.

Failure to sufficiently document employee separations increases the risk of loss of auxiliary funds and inappropriate use of auxiliary resources.

#### **Recommendation 1**

We recommend that the campus complete separation documentation for all auxiliary employees.

#### **Campus Response**

We concur. The campus will establish procedures whereby all auxiliaries use separation documentation for employees that separate.

Corrective action has been implemented.

## INFORMATION TECHNOLOGY

### PASSWORD SECURITY

Password security controls were not adequate for certain campus systems used by the auxiliary organizations.

We found that:

- ▶ Password security parameters were inadequate for the campus Active Directory system, as the minimum password length was four characters and there was no password expiration or automatic sign-off of users after a period of no use, nor were there complexity requirements or restrictions for reuse of passwords or access after repeated failed attempts.
- ▶ Password security parameters were inadequate for the campus Evolution payroll system, as the minimum password length was four characters and there was no automatic sign-off of users after a period of no use, nor were there complexity requirements or restrictions for reuse of passwords.

California State University, Bakersfield (CSUB) *Campus Password Policy* states that systems that contain confidential and/or personal information require the use of stronger passwords. These systems have the following password requirements: minimum password length of six characters; at least one number and one letter; passwords expire every 90 days; can't reuse the same password for six months; account locks after six login attempts.

Integrated California State University Administrative Manual (ICSUAM) §8045.100, *Information Technology Security*, states that campuses must develop and implement appropriate technical controls to minimize risks to their information technology infrastructure. Each campus must take reasonable steps to protect the confidentiality, integrity, and availability of its critical assets and protected data from threats.

The campus associate vice president of information technology stated that the Active Directory and Evolution password settings were inadequate due to oversight. He also stated that there were some vendor limitations on the settings in the Evolution system.

Inadequate password security parameters may compromise the authentication credentials of user account privileges that are embedded into applications and operating systems, which in turn may increase the risk of unauthorized access to systems and confidential data.

#### **Recommendation 2**

We recommend that the campus:

- a. Set password security parameters for the Active Directory and Evolution systems in accordance with campus policy.

- b. Perform an assessment of password security parameters for all other campus systems used by auxiliary organizations.

### **Campus Response**

We concur.

- a. The campus will establish parameters for active directory and evolution systems in accordance with campus policy.

Corrective action has been implemented.

- b. Information technology will collaborate with auxiliary organizations to perform an assessment of password security parameters for campus systems these organizations use.

Expected completion date is March 30, 2012.

### **PAYMENT CARD INDUSTRY DATA SECURITY STANDARD COMPLIANCE**

University Advancement's method of transmitting, storing, and managing donor credit card information via a third-party service provider was not in compliance with Payment Card Industry (PCI) Data Security Standard (DSS) requirements.

We found that:

- ▶ Donor credit card information was transmitted via unencrypted emails. Information that was keyed into the online giving web form at [www.csubfoundation.org](http://www.csubfoundation.org) was collected by a third-party service provider, Hosting.com, and emailed without encryption to Foundation/University Advancement management for entry into the Raiser's Edge system, and to university cashiers for processing. An external assessor noted this issue in December 2009 and recommended corrective action, but campus implementation of this action was not formally documented; rather, each business office with deficiencies (athletics, University Advancement/Foundation, and extended university) was responsible for implementation on its own without oversight from campus information technology.
- ▶ Hosting.com stored full, unencrypted credit card data for two months pending any customer queries or issues.
- ▶ There was no contractual agreement with Hosting.com, and therefore the necessary terms and conditions for information security and confidentiality were not addressed.

ICSUAM §8045.100, *Information Technology Security*, states that campuses must develop and implement appropriate technical controls to minimize risks to their information technology infrastructure. Each campus must take reasonable steps to protect the confidentiality, integrity, and availability of its critical assets and protected data from threats.

Executive Order (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 PCI DSS is a set of comprehensive requirements for enhancing payment account data security, which was developed by the founding payment brands of the PCI Security Standards Council, including American Express, Discover Financial Services, JCB International, MasterCard Worldwide, and Visa Inc. International, to help facilitate the broad adoption of consistent data security measures on a global basis. The PCI DSS is a multifaceted security standard that includes requirements for security management, policies, procedures, network architecture, software design, and other critical protective measures. This comprehensive standard is intended to help organizations proactively protect customer account data. According to payment brand rules, all merchants and their service providers are required to comply with the PCI DSS in its entirety.

The campus vice president of university advancement stated that she was unaware that this deficiency still existed. She further stated her belief that the implementation of certain security technologies, including obtaining an SSL certificate for the online giving form, had corrected all PCI deficiencies.

Failure to comply with PCI DSS requirements exposes the auxiliaries and campus to potential financial penalties and credit card usage restrictions, which could include termination of the entities' ability to accept credit cards.

### **Recommendation 3**

We recommend that the campus:

- a. Ensure that donor credit card information is not transmitted via unencrypted emails.
- b. Require Hosting.com to encrypt archived credit card information and purge the data when it is no longer needed.
- c. Execute a contractual agreement with Hosting.com that, at a minimum, delineates the necessary terms and conditions for information security and confidentiality.

### **Campus Response**

We concur.

- a. The campus will ensure that the Foundation terminates its use of emails to transmit donor credit card information.

Corrective action has been implemented.

- b. The Foundation will either require Hosting.com to encrypt archived credit card information and purge the data when it is no longer needed or cease using Hosting.com.

Corrective action has been implemented.

- c. We concur. The Foundation will execute a contract that delineates the necessary terms and conditions for information security and confidentiality or cease using Hosting.com.

Expected completion date is March 30, 2012.

## **CALIFORNIA STATE UNIVERSITY BAKERSFIELD FOUNDATION**

### **OPERATING AND ADMINISTRATIVE AGREEMENTS**

The parent agreement between the California State University Bakersfield Foundation children's center and its patrons did not include an appropriate indemnification provision.

We found that the parent agreement indemnification provision did not indemnify the Foundation, the campus, and its officers, employees, and volunteers.

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

The campus assistant vice president of fiscal services stated that the lack of an appropriate indemnification provision within the parent agreement was due to oversight.

The absence of an appropriate indemnification provision increases the risk of misunderstandings and miscommunication regarding rights and responsibilities and subjects the auxiliary and CSU to potential liability.

#### **Recommendation 4**

We recommend that the Foundation ensure that all future parent agreements include an appropriate indemnification provision.

#### **Campus Response**

We concur. The Foundation will amend its current parent agreements to include appropriate indemnification provisions.

Expected completion date is March 30, 2012.

### **CASH RECEIPTS AND HANDLING**

Administration of Foundation checks returned by the bank required improvement.

We reviewed 11 checks returned by the bank from December 4, 2008, to March 7, 2011, due to insufficient funds and/or stop payment and found that:

- ▶ For six checks totaling \$1,759, there was no documentation on file indicating that the returned items were being reviewed, investigated, or pursued for recovery.
- ▶ Six unrecovered checks were not accounted for and could not be located during the audit.
- ▶ Five recovered items had not been redeemed with a different method of payment, and the check maker had not been charged a recovery fee.
- ▶ Several long-outstanding items had not been written off.
- ▶ The Foundation did not have a cash-handling policy that defined the Foundation's roles and responsibilities in the handling of cash equivalents returned by the bank.

The CSU Cashiering policy, Section XIII, *Returned Item Processing*, dated May 18, 2009, states that cash equivalents returned to the campus must be controlled during the process of attempting to collect on the returned amount. It further states that a returned cash equivalent must be redeemed by a new payment, and physical security and accountability for returned cash equivalents must be maintained from the time of receipt of the returned item until final disposition.

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

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 accountability for cash or negotiable instruments to a specific employee from the time of receipt to deposit.

The campus assistant vice president of fiscal services stated his belief that the Foundation did not follow up on cash equivalents returned by the bank because duties and responsibilities were not clearly communicated and a specific procedure was not in place. He also stated that the lack of a specific Foundation procedure for handling returned items was due to oversight.

Inadequate control over cash transactions increases exposure to loss from inappropriate acts.

### **Recommendation 5**

We recommend that the Foundation:

- a. Document and maintain a file of returned checks that are being reviewed, investigated, or pursued for recovery.

- b. Physically secure all checks returned by the bank.
- c. Recover returned checks with a different method of payment, and charge the check maker a recovery fee.
- d. Write off long-outstanding checks that have not been recovered.
- e. Establish a cash-handling policy that defines the Foundation's roles and responsibilities in the handling of cash equivalents returned by the bank.

### **Campus Response**

We concur.

- a. The campus, on behalf of the Foundation, will document and maintain a file of returned checks being reviewed, investigated, or pursued for recovery.
- b. The campus, on behalf of the Foundation, will ensure that all checks returned by the bank are secured.
- c. The campus, on behalf of the Foundation, will ensure that returned checks are recovered with a different method of payment and charge the check maker for recovery when it is deemed appropriate.
- d. The campus will ensure the Foundation writes off long-outstanding checks that have not been recovered.
- e. The campus, in collaboration with the Foundation, will establish a cash-handling policy that defines roles and responsibilities in the handling of cash equivalents returned by the bank.

Expected completion date for Recommendations a through e is January 30, 2012.

### **PETTY CASH AND CHANGE FUNDS**

The Foundation children's center's petty cash fund was inappropriately used as a change fund and mixed with fund-raising proceeds.

Specifically, we found that:

- ▶ The children's center was neither issued a change fund nor set up as a satellite cashiering location to conduct cash transactions. As a result, the children's center used its petty cash fund as a change fund supplement.

- ▶ The petty cash fund was mixed with cash collected from fund-raising proceeds, and the general ledger record of children's center cash on hand would not reconcile to the actual cash on hand during fund-raising periods.

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 petty cash.

The children's center director stated that she was unaware of the process for setting up a separate cash fund.

Inadequate administration of petty cash increases the risk of loss or misappropriation of funds.

### **Recommendation 6**

We recommend that the Foundation children's center ensure that its petty cash fund is not used as a change fund and is not mixed with fund-raising proceeds.

### **Campus Response**

We concur. The Foundation's children center will ensure that its petty cash fund is not used as a change fund and is not mixed with fund-raising proceeds.

Expected completion date is January 31, 2012.

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

Administration of Foundation corporate matching gifts needed improvement.

We reviewed ten corporate matching gifts and the related policy and procedures and found that:

- ▶ Corporate matching gifts were not always directed to a program deemed eligible by the donor's matching gift requirements. In three instances from June 2010 to August 2010, matching gifts totaling \$7,100 were directed to the athletics program, even though the donor's matching gift requirements prohibited matches to non-scholastic collegiate programs or activities (athletic scholarships, athletic facilities, or special events). Additionally, the Foundation did not maintain documentation showing that corporate matching gifts were evaluated for matching eligibility before the transaction was processed.
- ▶ Corporate matching gift procedures did not require that a documented dual review be performed to ensure that funds were administered in accordance with corporate donor requirements.

EO 676, *Delegation of Gift Evaluation and Acceptance to Campuses*, dated February 1, 1998, delegated authority to campus presidents to evaluate and accept gifts, bequests, and donations of personal property to campuses. Campus presidents may further delegate this authority in whole or in part to campus officers and employees. Henceforth, campuses will evaluate potential campus gifts, bequests, and donations and accept and receipt campus gifts, bequests, and donations in accordance with the requirements of the California Education Code Sections 89720 and 66010.4(b).

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 state 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 matching gifts undergo a documented dual review process to ensure that funds are appropriately deposited to an eligible recipient in accordance with corporate donor requirements.

The campus assistant vice president of fiscal services stated that the deficiencies were a direct result of having a matching gift policy that did not speak to these controls, and the lack of control points within the policy was due to management oversight.

Insufficient administration of matching gifts increases the likelihood that funds will be misdirected and the campus will be exposed to liabilities from non-compliance with corporate donor policies.

### **Recommendation 7**

We recommend that the Foundation:

- a. Ensure that corporate matching gifts are directed to a program deemed eligible by the donor's matching gift requirements, and maintain documentation showing that corporate matching gifts have been evaluated for matching eligibility before they are processed.
- b. Update matching gift procedures to require that a documented dual review be performed to ensure that funds are administered in accordance with corporate donor requirements.

### **Campus Response**

We concur.

- a. The Foundation will ensure that corporate matching gifts are directed to a program deemed eligible by the donor's matching gift requirements and maintain documentation showing that corporate matching gifts have been evaluated for matching eligibility before being processed.
- b. The Foundation will update its matching gift procedures to require that a documented dual review is performed to ensure that funds are administered in accordance with corporate donor requirements.

Expected completion date for Recommendations a and b is March 30, 2012.

### **PROPERTY AND EQUIPMENT**

Administration of Foundation property and equipment needed improvement.

We reviewed ten assets and ten disposals and found that:

- ▶ Approximately \$20,075 worth of artwork could not be located in an administrative office at the time of the audit.
- ▶ Two assets were not in the location noted in the fixed asset records. However, we identified two assets in a different location that matched the description of the missing assets, but lacked identification tags.
- ▶ Fixed asset disposals were not always approved. Seven of the ten disposals we reviewed were physically transferred to the state on June 30, 2009, but had not been approved for transfer and/or carried over to the state side.

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.

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 campus assistant vice president of fiscal services stated that the missing artwork was distributed throughout the campus and that the Foundation did not keep a record of where the artwork was relocated. Additionally, he stated that the asset tags of the two missing assets may have fallen off in transit. He stated that the failure to properly transfer the assets was due to oversight.

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

### **Recommendation 8**

We recommend that the Foundation:

- a. Perform an inventory inspection to locate the missing assets noted above.
- b. Ensure that property and equipment additions, disposals, and transfers are promptly recorded in the fixed assets records at the time of receipt/disposal/transfer, or at least quarterly, and that all property and equipment is tagged.
- c. Approve fixed asset disposals.

### **Campus Response**

We concur.

- a. The Foundation will perform an inventory to locate the missing items noted above.
- b. The campus, on behalf of the Foundation, will ensure that property and equipment additions, disposals, and transfers are promptly recorded in the fixed assets records at the time of receipt, disposal, or transfer quarterly and that all property is tagged.
- c. The Foundation will ensure that approvals occur for all fixed asset disposals.

Expected completion date for Recommendations a through c is March 30, 2012.

## **ENDOWMENT ADMINISTRATION**

The Foundation's standard endowment worksheet did not address administrative fees.

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 administration of endowments. The Foundation executive director stated that the failure to delineate administrative fees on the endowment fund worksheet was due to oversight.

Failure to address administrative fees within the endowment worksheet inhibits transparency and increases auxiliary exposure to liability.

**Recommendation 9**

We recommend that the Foundation update its standard endowment worksheet to address administrative fees.

**Campus Response**

We concur. The Foundation will update its standard endowment worksheet to address administrative fees.

Expected completion date is March 30, 2012.

**CALIFORNIA STATE UNIVERSITY, BAKERSFIELD**  
**AUXILIARY FOR SPONSORED PROGRAMS AND ADMINISTRATION**

**OPERATING AND ADMINISTRATIVE AGREEMENTS**

The memorandum of understanding (MOU) for the campus to provide services to the California State University, Bakersfield Auxiliary for Sponsored Programs and Administration (SPA) was not fully executed at the time of the 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 that business arrangements be supported by complete, written agreements executed in a timely manner.

The campus assistant vice president of fiscal services stated that the lack of an agreement between SPA and the campus was due to oversight.

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

**Recommendation 10**

We recommend that SPA promptly execute an MOU with the campus and execute all future agreements prior to providing or receiving services.

**Campus Response**

We concur. SPA will execute an agreement with the campus and execute all future agreements prior to providing or receiving services.

Expected completion date is December 31, 2011.

**FISCAL COMPLIANCE**

SPA had not developed written policies and procedures to designate the allocation of surplus net assets into the following reserve categories:

- ▶ Working capital.
- ▶ Current operations.
- ▶ Capital replacement.

▶ Planned future operations.

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

The *Compilation of Policies and Procedures for California State University Auxiliary Organizations* sets sound business practice guidelines for auxiliary organizations operating within the CSU system. Section 8.1.1.2 A-2, *Basis for Financial Standards and Fiscal Viability – Financial Statements*, states that annually each auxiliary governing board shall review the fiscal viability of the auxiliary organization to include an evaluation of the need for reserves in the following areas: a) working capital, b) current operations, c) capital replacement, and d) planned future operations.

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

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 designated reserve funds be maintained.

The SPA director of grants management operations stated that a reserve policy had not yet been developed because the auxiliary had only recently been established, in August 2010.

Failure to maintain adequate reserve funding increases the risk of misunderstandings and miscommunication regarding available reserves, as well as the risk that the auxiliary will be unable to fund future needs.

### **Recommendation 11**

We recommend that SPA develop written policies and procedures to designate the allocation of surplus funds into the reserve categories noted above.

### **Campus Response**

We concur. SPA will develop written policies and procedures to designate the allocation of surplus funds into appropriate reserve categories noted above.

Expected completion date is March 30, 2012.

## **CAMPUS OVERSIGHT AND CONTROL**

The SPA 2010/11 fiscal year budget was not approved by the campus president.

Title 5 §42402 indicates that the president is responsible for the entire campus program and shall require that auxiliary organizations operate in conformity with policy of the Board of Trustees and the campus. Further, the campus president shall require the auxiliary organizations to submit its programs and budgets for review at a time and in a manner specified by the president.

The SPA director of grants management operations stated that the SPA budget was not approved by the campus president due to oversight.

Lack of adequate budget review and approval by the campus president increases the risk that auxiliary programs and appropriations planned by the auxiliary will be inconsistent with Board of Trustees and campus policy.

### **Recommendation 12**

We recommend that SPA ensure that its annual budgets are approved by the campus president.

### **Campus Response**

We concur. SPA will ensure that its annual budgets are approved by the campus president.

Expected completion date is March 30, 2012.

## **CALIFORNIA STATE UNIVERSITY, BAKERSFIELD STUDENT UNION**

### **OPERATIONAL COMPLIANCE**

The California State University, Bakersfield Student Union (Union) had not obtained annual conflict-of-interest statements from all board members.

We found that:

- ▶ None of the 18 board members had signed a conflict of interest statement for fiscal years 2008/09 and 2009/10.
- ▶ Two of the 19 board members had not signed a conflict of interest statement for fiscal year 2010/11.

CSUB Student Union *Conflict of Interest Policy and Procedures* state that Union board of directors will be required to complete a Statement of Economic Interests (Form 700) annually at the start of the academic year and/or whenever a new member is brought on to fill an existing vacancy created by the resignation or removal of a board of directors member.

CSU *Conflict of Interest Handbook*, §2B, states that the Political Reform Act requires CSU to adopt a formal conflict of interest code. The CSU's code requires certain employees, who are most likely to be involved in university decision-making where potential conflicts may be present, to file an annual disclosure form.

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 Union executive director stated that the absence of annual conflict of interest statements in fiscal years 2008/09 and 2009/10 was due to transition and turnover in personnel and management leave of absence during a portion of this period. She further stated that the two missing 2010/11 conflict of interest statements were due to one board member starting mid-year, and the other member needing additional time to research potential conflicts.

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

### **Recommendation 13**

We recommend that the Union obtain annual conflict of interest statements from all board members.

### **Campus Response**

We concur. The Union will ensure that current and future conflict of interest statements are obtained from all board members.

Expected completion date is December 31, 2011.

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

Revenue reconciliations were not performed between the Union reservation shadow system and PeopleSoft.

We found that querying limitations within the PeopleSoft system prevented the Union from accurately reconciling facility rental revenue received to revenue recorded in the general ledger.

The *Compilation of Policies and Procedures for California State University Auxiliary Organizations* sets sound business practice guidelines for auxiliary organizations operating within the CSU system. Section 8.9.1, *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 revenue to be properly received, recorded, and acknowledged in accordance with 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 assistant vice president of fiscal services stated that revenue is recorded on an accrual basis, and as a result, departments do not see the payment activity associated with revenue generated. He further stated that aging reports are now being distributed to the Union each month.

Failure to perform reconciliations of facilities rental revenue and accounting records increases the risk of reporting errors and/or misappropriations of funds.

### **Recommendation 14**

We recommend that the Union perform revenue reconciliations between its reservation shadow system and PeopleSoft.

### **Campus Response**

We concur. The campus, on behalf of the Union, will perform revenue reconciliations.

Expected completion date is March 30, 2012.

## **AUXILIARY PROGRAMS**

Administration of the Union's facilities reservations program required improvement.

We reviewed 15 facilities reservations from October 2008 to April 2011 and found that:

- ▶ In three instances, invoices were not generated in a timely manner. The invoices were generated approximately 45 to 101 days after the event.
- ▶ In two instances, payment for services was not received. A single vendor held an annual event in 2009 and 2010 and had not paid for services for either event. In addition, procedures were not in place to prevent and/or limit services to patrons with outstanding balances.
- ▶ In one instance, the facility use agreement was not completed.
- ▶ Long-outstanding uncollectible balances were not written off.

The *Compilation of Policies and Procedures for California State University Auxiliary Organizations* sets sound business practice guidelines for auxiliary organizations operating within the CSU system. Section 8.9.4, *Receivables*, states that the auxiliary should establish a written system to record receivables in a timely manner with proper documentation as to terms and conditions; invoice customers promptly, in a consistent manner, while exercising due diligence in the follow-up and collection of past due accounts; and reconcile subsidiary receivables ledgers to the general ledger on a timely basis with independent management review.

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

CSUB *Scheduling University Facilities for Non-Instructional Events* policy, dated September 2010, states that all faculty, staff, students, departments, recognized student organizations, auxiliary organizations, affiliated organizations, and off-campus organizations and individuals utilizing university facilities for CSUB events are required without exception to fill out a Facility Use Application/Agreement. It further states that prior unpaid event charges must be paid in full before any subsequent request for use of facilities by the same group will be approved.

The campus assistant vice president of fiscal services stated that staff turnover, accompanied by delays in getting completed paperwork from departments, contributed to the issues surrounding facilities reservations. In addition, he stated that vendor staffing changes contributed to slow collection.

Inadequate administration of the facilities reservations program increases the risk of misunderstanding and miscommunication regarding rights and responsibilities and revenue loss and subjects the auxiliary and CSU to potential liability.

**Recommendation 15**

We recommend that the Union:

- a. Ensure invoices are generated in a timely manner.
- b. Ensure that payment for services is received, and implement procedures to prevent and/or limit services to patrons with outstanding account balances.
- c. Complete facility use agreements for all facility rentals.
- d. Write off long-outstanding uncollectible balances.

**Campus Response**

We concur.

- a. The campus, on behalf of the Union, will ensure that invoices are generated in a timely manner.
- b. The Union, in collaboration with the campus, will ensure that payment for services is received and implement procedures to prevent and/or limit services to patrons with outstanding account balances.
- c. The Union will ensure that facility use agreements are completed for all facility rentals.
- d. The campus, in collaboration with and on behalf of the Union, will ensure long-outstanding uncollectible balances are written off.

Expected completion date for Recommendations a through d is March 30, 2012.

**ASSOCIATED STUDENTS,**  
**CALIFORNIA STATE UNIVERSITY, BAKERSFIELD, INC.**

## **CORPORATE GOVERNANCE**

The Associated Students, California State University, Bakersfield, Inc. (AS) had not implemented an audit committee.

Government Code §12586(e) states that every charitable corporation that receives or accrues in any fiscal year gross revenue of \$2 million or more shall have an audit committee appointed by the board of directors.

The AS executive director stated that an audit committee was not in place because she was unaware of the requirement.

Failure to implement an audit committee in accordance with legal mandates increases the risk of misunderstandings and may increase legal liability.

**During our fieldwork, the AS provided documentation showing that an audit committee had recently been established by the board of directors.**

## **PROPERTY AND EQUIPMENT**

Administration of AS property and equipment needed improvement.

We found that:

- ▶ AS could not provide a comprehensive listing of capitalized assets at the start of fieldwork. An asset listing was generated during fieldwork; however, it did not include pertinent asset details, such as asset tag identification numbers.
- ▶ AS had not performed an independent physical inventory of all its property and equipment during the past three years to ensure that all AS assets were accounted for and non-existent assets were removed from inventory records. Campus asset management physically verified assets but used its own capitalization threshold of \$5,000, rather than AS's capitalization threshold of \$2,500. Therefore, assets with an original value between \$2,500 and \$5,000 were not included in the annual physical verification, and as such, were not properly disposed of.

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 reconcile physical inventories to the general ledger on a timely basis with review by management. It further states that the auxiliary should establish a written system that ensures physical inspection of property and equipment on a

service life schedule, proper recording of property and equipment when received, and labeling of equipment.

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

The campus assistant vice president of fiscal services stated that auxiliary fixed assets are managed manually in an Excel database. He further stated that a comprehensive listing was not created due to oversight. Finally, he stated that all assets were not physically verified due to the lack of a comprehensive listing and communication between fiscal services and campus asset management.

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

#### **Recommendation 16**

We recommend that AS:

- a. Maintain a comprehensive listing of capitalized assets with all pertinent asset details, such as asset tag identification numbers.
- b. Perform an independent physical inventory of all property and equipment to ensure that all AS assets are accounted for and non-existent assets are removed from inventory records.

#### **Campus Response**

We concur.

- a. The AS, in collaboration with the campus, will maintain a comprehensive list of capitalized assets with all pertinent asset details, including asset tag identification numbers.
- b. The AS, in collaboration with the campus, will perform an independent physical inventory of all property and equipment to ensure that all AS assets are accounted for and non-existent assets are removed from inventory records.

Expected completion date for Recommendations a and b is March 30, 2012.

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**APPENDIX A:  
PERSONNEL CONTACTED****Name****Title****CAMPUS**

Horace Mitchell	President
Beverly Byl	Vice President, University Advancement
Lizeth Gamez	Accounting Supervisor
John Hultsman	Vice President, Student Affairs
Suzanne Muller	General Accounting Manager
Michael Neal	Vice President, Business and Administrative Services
Clarke Sanford	Associate Vice President of Information Technology Services
Johnny Villasenor	Accountant I
Doug Wade	Assistant Vice President, Fiscal Services
Tina Williams	Payroll Manager

**CALIFORNIA STATE UNIVERSITY BAKERSFIELD FOUNDATION**

Beverly Byl	Executive Director
Christie Howell	Children's Center Director

**CALIFORNIA STATE UNIVERSITY, BAKERSFIELD  
AUXILIARY FOR SPONSORED PROGRAMS ADMINISTRATION**

Julio Blanco	Associate Provost for Grants, Resource Management and Planning
Laramie Lyda-Craft	Chief Grants Analyst
Vincent Oragwam	Director of Grants Management Operations

**CALIFORNIA STATE UNIVERSITY, BAKERSFIELD STUDENT UNION**

Laura Catherman	Executive Director
Mark Harriman	Director, Student Recreation Center
Martie Martinez	Administrative Support Coordinator
Emily Poole	Assistant Director

**ASSOCIATED STUDENTS, CALIFORNIA STATE UNIVERSITY, BAKERSFIELD, INC.**

Taren Mulhause	Executive Director
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## **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.



# CSU Bakersfield

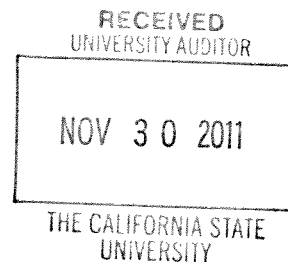
Business and Administrative Services

Office of the Vice President

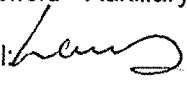
Mail Stop: 38 ADM  
9001 Stockdale Highway  
Bakersfield, California 93311-1022  
(661) 654-2287  
(661) 654-6923 FAX  
[www.csub.edu/bas](http://www.csub.edu/bas)

November 30, 2011

Mr. Larry Mandel  
University Auditor  
Office of the Chancellor  
California State University  
401 Golden Shore 4<sup>th</sup> Floor  
Long Beach CA 90802-4210



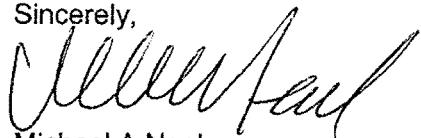
Re: University Response to Recommendations Contained in Report Number 11-04  
CSU Bakersfield - Auxiliary Organizations

Dear Mr. Mandel: 

Attached are the University's responses to the recommendations contained in Report  
Number 11-04, Auxiliary Organizations.

If you have any questions or concerns, please contact my office at (661) 654-2287.

Sincerely,



Michael A Neal  
Vice President for Business  
and Administrative Services

cc: Horace Mitchell, CSUB President

**AUXILIARY ORGANIZATIONS**  
**CALIFORNIA STATE UNIVERSITY,**  
**BAKERSFIELD**

**Audit Report 11-04**

**CAMPUS**

**PERSONNEL AND PAYROLL**

**Recommendation 1**

We recommend that the campus complete separation documentation for all auxiliary employees.

**Campus Response**

We concur. The campus will establish procedures whereby all auxiliaries use separation documentation for employees that separate.

Corrective action has been implemented.

**INFORMATION TECHNOLOGY**

**PASSWORD SECURITY**

**Recommendation 2**

We recommend that the campus:

- a. Set password security parameters for the Active Directory and Evolution systems in accordance with campus policy.
- b. Perform an assessment of password security parameters for all other campus systems used by auxiliary organizations.

**Campus Response**

- a. We concur. The campus will establish parameters for active directory and evolution systems in accordance with campus policy. Corrective action has been implemented.

- b. We concur. Information Technology will collaborate with auxiliary organizations to perform an assessment of password security parameters for campus systems these organizations use. Expected completion date is March 30, 2012.

## **PAYMENT CARD INDUSTRY DATA SECURITY STANDARD COMPLIANCE**

### **Recommendation 3**

We recommend that the campus:

- a. Ensure that donor credit card information is not transmitted via unencrypted emails.
- b. Require Hosting.com to encrypt archived credit card information and purge the data when it is no longer needed.
- c. Execute a contractual agreement with Hosting.com that, at a minimum, delineates the necessary terms and conditions for information security and confidentiality.

### **Campus Response**

- a. We concur. The campus will ensure that the Foundation terminates its use of emails to transmit donor credit card information. Corrective action has been implemented.
- b. We concur. The Foundation will either require Hosting.com to encrypt archived credit card information and purge the data when it is no longer needed or cease using Hosting.com. Corrective action has been implemented.
- c. We concur. The Foundation will execute a contract that delineates the necessary terms and conditions for information security and confidentiality or cease using Hosting.com. Expected completion date is March 30, 2012.

## **CALIFORNIA STATE UNIVERSITY BAKERSFIELD FOUNDATION**

### **OPERATING AND ADMINISTRATIVE AGREEMENTS**

#### **Recommendation 4**

We recommend that the Foundation ensure that all future parent agreements include an appropriate indemnification provision.

#### **Campus Response**

We concur. The Foundation will amend its current parent agreements to include appropriate indemnification provisions.

Expected completion date is March 30, 2012.

### **CASH RECEIPTS AND HANDLING**

#### **Recommendation 5**

We recommend that the Foundation:

- a. Document and maintain a file of returned checks that are being reviewed, investigated, or pursued for recovery.
- b. Physically secure all checks returned by the bank.
- c. Recover returned checks with a different method of payment, and charge the check maker a recovery fee.
- d. Write off long-outstanding checks that have not been recovered.
- e. Establish a cash-handling policy that defines the Foundation's roles and responsibilities in the handling of cash equivalents returned by the bank.

#### **Campus Response**

- a. We concur. The campus, on behalf of the Foundation, will document and maintain a file of returned checks being reviewed, investigated, or pursued for recovery.
- b. We concur. The campus, on behalf of the Foundation, will ensure that all checks returned by the bank are secured.
- c. We concur. The campus, on behalf of the Foundation, will ensure that returned checks are recovered with a different method of payment and charge the check maker for recovery when it is deemed appropriate.

- d. We concur. The campus will ensure the Foundation writes off long outstanding checks that have not been recovered.
- e. We concur. The campus, in collaboration with the Foundation, will establish a cash handling policy that defines roles and responsibilities in the handling of cash equivalents returned by the bank.

Expected completion date for Recommendations a through e is January 30, 2012.

## **PETTY CASH AND CHANGE FUNDS**

### **Recommendation 6**

We recommend that the Foundation children's center ensure that its petty cash fund is not used as a change fund and is not mixed with fund-raising proceeds.

### **Campus Response**

We concur. The Foundation's children center will ensure that its petty cash fund is not used as a change fund and is not mixed with fund raising proceeds.

Expected completion date is January 31, 2012.

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

We recommend that the Foundation:

- a. Ensure that corporate matching gifts are directed to a program deemed eligible by the donor's matching gift requirements, and maintain documentation showing that corporate matching gifts have been evaluated for matching eligibility before they are processed.
- b. Update matching gift procedures to require that a documented dual review be performed to ensure that funds are administered in accordance with corporate donor requirements.

### **Campus Response**

- a. We concur. The Foundation will ensure that corporate matching gifts are directed to a program deemed eligible by the donor's matching gift requirements and maintain documentation showing that corporate matching gifts have been evaluated for matching eligibility before being processed.
- b. We concur. The Foundation will update its matching gift procedures to require that a documented dual review is performed to ensure that funds are administered in accordance with corporate donor requirements.

Expected completion date for Recommendations a and b is March 30, 2012.

## PROPERTY AND EQUIPMENT

### Recommendation 8

We recommend that the Foundation:

- a. Perform an inventory inspection to locate the missing assets noted above.
- b. Ensure that property and equipment additions, disposals, and transfers are promptly recorded in the fixed assets records at the time of receipt/disposal/transfer, or at least quarterly, and that all property and equipment is tagged.
- c. Approve fixed asset disposals.

### Campus Response

- a. We concur. The Foundation will perform an inventory to locate the missing items noted above.
- b. We concur. The campus, on behalf of the Foundation, will ensure that property and equipment additions, disposals, and transfers are promptly recorded in the fixed assets records at the time of receipt, disposal, or transfer quarterly and that all property is tagged.
- c. We concur. The Foundation will ensure that approvals occur for all fixed asset disposals.

Expected completion date for Recommendations a through c is March 30, 2012.

## ENDOWMENT ADMINISTRATION

### Recommendation 9

We recommend that the Foundation update its standard endowment worksheet to address administrative fees.

### Campus Response

We concur. The Foundation will update its standard endowment worksheet to address administrative fees.

Expected completion date is March 30, 2012.

**CALIFORNIA STATE UNIVERSITY, BAKERSFIELD**  
**AUXILIARY FOR SPONSORED PROGRAMS AND ADMINISTRATION**

**OPERATING AND ADMINISTRATIVE AGREEMENTS**

**Recommendation 10**

We recommend that SPA promptly execute an MOU with the campus and execute all future agreements prior to providing or receiving services.

**Campus Response**

We concur. SPA will execute an agreement with the campus and execute all future agreements prior to providing or receiving services.

Expected completion date is December 31, 2011.

**FISCAL COMPLIANCE**

**Recommendation 11**

We recommend that SPA develop written policies and procedures to designate the allocation of surplus funds into the reserve categories noted above.

**Campus Response**

We concur. SPA will develop written policies and procedures to designate the allocation of surplus funds into appropriate reserve categories noted above.

Expected completion date is March 30, 2012.

**CAMPUS OVERSIGHT AND CONTROL**

**Recommendation 12**

We recommend that SPA ensure that its annual budgets are approved by the campus president.

**Campus Response**

We concur. SPA will ensure that its annual budgets are approved by the campus president.

Expected completion date is March 30, 2012.

**CALIFORNIA STATE UNIVERSITY, BAKERSFIELD STUDENT UNION**

**OPERATIONAL COMPLIANCE**

**Recommendation 13**

We recommend that the Union obtain annual conflict of interest statements from all board members.

**Campus Response**

We concur. The Union will ensure that current and future conflict of interest statements are obtained from all board members.

Expected completion date is December 31, 2011.

**FEES, REVENUES, AND RECEIVABLES**

**Recommendation 14**

We recommend that the Union perform revenue reconciliations between its reservation shadow system and PeopleSoft.

**Campus Response**

We concur. The campus on behalf of the Union will perform revenue reconciliations.

Expected completion date is March 30, 2012.

**AUXILIARY PROGRAMS**

**Recommendation 15**

We recommend that the Union:

- a. Ensure invoices are generated in a timely manner.
- b. Ensure that payment for services is received, and implement procedures to prevent and/or limit services to patrons with outstanding account balances.
- c. Complete facility use agreements for all facility rentals.
- d. Write off long outstanding uncollectible balances.

**Campus Response**

- a. We concur. The campus, on behalf of the Union, will ensure that invoices are generated in a timely manner.
- b. We concur. The Union, in collaboration with the campus, will ensure that payment for services is received and implement procedures to prevent and/or limit services to patrons with outstanding account balances.
- c. We concur. The Union will ensure that facility use agreements are completed for all facility rentals.
- d. We concur. The campus, in collaboration with and on behalf of the Union, will ensure long outstanding uncollectible balances are written off.

Expected completion date for Recommendations a through d is March 30, 2012.

**ASSOCIATED STUDENTS,**  
**CALIFORNIA STATE UNIVERSITY, BAKERSFIELD, INC.**

**PROPERTY AND EQUIPMENT**

We recommend that AS:

- a. Maintain a comprehensive listing of capitalized assets with all pertinent asset details, such as asset tag identification numbers.
- b. Perform an independent physical inventory of all property and equipment to ensure that all AS assets are accounted for and non-existent assets are removed from inventory records.

**Campus Response**

- a. We concur. The AS, in collaboration with the campus, will maintain a comprehensive list of capitalized assets with all pertinent asset details, including asset tag identification numbers.
- b. We concur. The AS, in collaboration with the campus, will perform an independent physical inventory of all property and equipment to ensure that all AS assets are accounted for and non-existent assets are removed from inventory records.

Expected completion date for Recommendations a and b is March 30, 2012.

THE CALIFORNIA STATE UNIVERSITY  
OFFICE OF THE CHANCELLOR

BAKERSFIELD

CHANNEL ISLANDS

December 8, 2011

CHICO

DOMINGUEZ HILLS

**MEMORANDUM**

EAST BAY

TO: Mr. Larry Mandel  
University Auditor

FRESNO

FULLERTON

FROM: Charles B. Reed  
Chancellor

HUMBOLDT

LONG BEACH

SUBJECT: Draft Final Report 11-04 on *Auxiliary Organizations*,  
California State University, Bakersfield

LOS ANGELES

MARITIME ACADEMY

In response to your memorandum of December 8, 2011, I accept the response as submitted with the draft final report on *Auxiliary Organizations*, California State University, Bakersfield.

MONTEREY BAY

NORTHRIDGE

CBR/amd

POMONA

SACRAMENTO

SAN BERNARDINO

SAN DIEGO

SAN FRANCISCO

SAN JOSÉ

SAN LUIS OBISPO

SAN MARCOS

SONOMA

STANISLAUS