

AUXILIARY ORGANIZATIONS
CALIFORNIA STATE UNIVERSITY,
CHANNEL ISLANDS

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ABBREVIATIONS

AS	Associated Students of California State University, Channel Islands
CSU	California State University
CSUCI	California State University, Channel Islands
DSS	Data Security Standards
EO	Executive Order
Foundation	California State University, Channel Islands Foundation
ICSUAM	Integrated California State University Administrative Manual
IRS	Internal Revenue Service
PCI	Payment Card Industry
RFIN	Resolution of the Committee on Finance
SAQ	Self-Assessment Questionnaire
UBI	Unrelated Business Income
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 (CSUCI) 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 CSUCI 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 of the *CSUCI 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 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, 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 June 9, 2011, 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 June 9, 2011, 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 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

OPERATIONAL COMPLIANCE [10]

The auxiliaries did not have comprehensive written risk management policies that addressed an ongoing process to proactively identify risks, analyze the frequency and severity of identified risks, and implement a risk mitigation program that coordinates with the campus' risk assessment and mitigation plan.

INFORMATION TECHNOLOGY [11]

The campus did not ensure that the auxiliaries or other campus departments had fully addressed Payment Card Industry Data Security Standard requirements. Also, password controls and data security were not adequate for certain campus systems used by the auxiliary organizations.

CALIFORNIA STATE UNIVERSITY, CHANNEL ISLANDS FOUNDATION

FEES, REVENUES, AND RECEIVABLES [15]

California State University, Channel Islands Foundation (Foundation) 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, and written policies and procedures for the administration of matching gifts had not been developed.

PURCHASING AND ACCOUNTS PAYABLE [16]

Foundation credit card holders did not always reconcile their purchases to the Monthly Bank Card report, and the Monthly Bank Card report was not always approved by the appropriate personnel.

UNIVERSITY GLEN CORPORATION

OPERATING AND ADMINISTRATIVE AGREEMENTS [18]

The University Glen Corporation's (UGC) operating agreement with the California State University Trustees and the articles of incorporation had not been amended to reflect the new commercial services function that was added in March 2010.

FISCAL COMPLIANCE [19]

The UGC reserve policy did not include the reserves of the current commercial services operation, and unrelated business income was not always accounted for/reported by UGC.

OPERATIONAL COMPLIANCE [21]

UGC had not developed policies and procedures to address accounting and processing of cash receipts. In addition, UGC had not obtained annual conflict of interest statements from all board members, a repeat finding from the prior Auxiliary Organizations audit.

SEGREGATION OF DUTIES [23]

Certain duties and responsibilities related to cash receipts processing for lease payments were not adequately segregated at UGC.

PETTY CASH AND CHANGE FUNDS [23]

UGC did not conduct periodic, independent cash counts of commercial changes funds totaling \$3,600.

PERSONNEL AND PAYROLL [24]

UGC did not perform an independent, detailed, and documented reconciliation of salary changes against ADP payroll records.

RETAIL AND COMMODITY INVENTORY [25]

Administration of UGC retail and commodity inventory needed improvement. Specifically, policies and procedures had not been developed for management and/or control of inventory waste, spoilage, and shrinkage related to dining services, and transfer reports were not utilized for food items transferred from the central location to a remote location.

ASSOCIATED STUDENTS OF CALIFORNIA STATE UNIVERSITY, CHANNEL ISLANDS

CORPORATE GOVERNANCE [27]

The Associated Students of California State University, Channel Islands had not filed amended Bylaws with the chancellor's office in a timely manner.

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, Channel Islands Foundation

California State University, Channel Islands Foundation (Foundation) was established in 1996 as a non-profit public benefit corporation to promote and assist the educational programs of California State University, Channel Islands (CSUCI). The mission of the Foundation is to support and encourage the university's strategic agenda and institutional mission. The Foundation procures gifts and endowment income to provide immediate and long-term support of CSUCI. The Foundation is governed by an independent board of directors composed of representatives from the student body, university

administration, faculty, alumni, and community. The Foundation does not have employees and relies on campus personnel from university advancement and campus financial services for administrative and accounting support services.

University Glen Corporation

University Glen Corporation (UGC), part of the CSUCI Site Authority, was established in 2002 as a non-profit public benefit corporation. It is responsible for the development, provision, and maintenance of affordable housing and other related facilities for the use and convenience of university faculty and staff, as well as local residents. UGC oversees the rental program and the construction, financing, sales, and re-sales of the for-sale program, plus community/property management. In 2009, the UGC assumed responsibility for the campus dining, catering, and residential dining programs. UGC also provides payroll services to Associated Students of California State University, Channel Islands; however, UGC relies on campus financial services for administrative and accounting support services. UGC is governed by a board of directors composed of student, faculty, university administration, and community members.

Associated Students of California State University, Channel Islands

Associated Students of California State University, Channel Islands (AS) was established in 2003 as a non-profit public benefit corporation to promote the establishment of, and provide the means for effective avenues of, student input into the governance of the campus; provide an official voice through which student opinion may be expressed; provide an opportunity for students to gain experience and training in responsible political participation and community leadership; assist in the protection of the rights and interests of individual students; and stimulate the educational, social, physical, and cultural well-being of the university community. In addition, AS implements sound business practices that uphold the fiduciary responsibility associated with the management of student fees and funds the operation and facility of the CSUCI Student Union. AS is governed by a board of directors composed of representatives from the student body and relies on campus personnel 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, Channel Islands Foundation

- ▶ Operating and Administrative Agreements
- ▶ Facilities Agreements
- ▶ Corporate Governance

California State University, Channel Islands Foundation (cont.)

- ▶ Fiscal Compliance
- ▶ Operational Compliance
- ▶ Program Compliance
- ▶ Campus Oversight and Control
- ▶ Segregation of Duties
- ▶ Cash Receipts and Handling
- ▶ Accounts/Pledges Receivables
- ▶ Fees, Revenues, and Receivables
- ▶ Purchasing and Accounts Payable
- ▶ Investments
- ▶ Endowment Administration
- ▶ Auxiliary Programs
- ▶ Information Technology

University Glen Corporation

- ▶ Operating and Administrative 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
- ▶ Personnel and Payroll
- ▶ Retail and Commodity Inventory
- ▶ Auxiliary Programs
- ▶ Information Technology

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
- ▶ 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.

OBSERVATIONS, RECOMMENDATIONS, AND CAMPUS RESPONSES

CAMPUS

OPERATIONAL COMPLIANCE

The auxiliaries did not have comprehensive written risk management policies that addressed an ongoing process to proactively identify risks, analyze the frequency and severity of identified risks, and implement a risk mitigation program that coordinates with the campus' risk assessment and mitigation plan.

Executive Order (EO) 715, *California State University Risk Management Policy*, dated October 27, 1999, delegated authority and responsibility to the campus president to implement campus risk management policies consistent with the California State University (CSU) Risk Management Policy guidelines. This includes an ongoing process to identify risks, analyze the frequency and severity of the potential risks, and select the best management techniques to manage the risks.

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 8.7, *Risk Management*, states that auxiliary organizations should develop programs to manage risk related to activities in which the organizations are engaged.

The campus associate vice president of finance and administration stated that the auxiliary operations were included within the oversight of the campus risk management function and were charged for such services within the cost allocation plan. She further stated that the campus risk management plan did not specifically address the comprehensive operation and enterprises of all auxiliary units because the campus was unaware of this requirement.

The absence of a comprehensive risk management policy increases the likelihood that all current risk-related activities may not be adequately evaluated.

Recommendation 1

We recommend that the campus ensure that each of the auxiliaries develops and adopts comprehensive written risk management policies that address an ongoing process to proactively identify risks, analyze the frequency and severity of identified risks, and implement a risk mitigation program that coordinates with the campus' risk assessment and mitigation plan.

Campus Response

We concur. Each auxiliary is developing risk management policies. The risk management office and the executive directors of the auxiliaries will ensure potential risks are identified and develop a review plan. The risk management plan for the University Glen Corporation has been completed, vetted by the campus risk management office, and approved by the board of directors. Associated

Students of California State University, Channel Islands and California State University, Channel Islands Foundation plans will be completed by the third quarter of fiscal year 2011/12.

INFORMATION TECHNOLOGY

PAYMENT CARD INDUSTRY DATA SECURITY STANDARD COMPLIANCE

The campus did not ensure that the auxiliaries or other campus departments had fully addressed Payment Card Industry (PCI) Data Security Standard (DSS) requirements.

We found that:

- ▶ Roles and responsibilities for PCI DSS compliance were not adequately defined between the campus and auxiliaries.
- ▶ A risk assessment had not been fully completed and documented to determine comprehensive compliance obligations for credit card data maintained on auxiliary servers, transmitted throughout the campus network, and stored manually in local files.
- ▶ An annual PCI DSS Self Assessment Questionnaire (SAQ) was not completed by all auxiliaries (or consolidated into one SAQ for all university-wide transactions), as is required by PCI DSS of all level one, two, and three vendors, and recommended for all level four vendors.

The 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.

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 PCI DSS SAQ is a validation tool intended to assist merchants and service providers in self-evaluating their compliance with the PCI DSS. The PCI DSS SAQ consists of the following two components: (1) Questions correlating to the PCI DSS requirements, appropriate to service providers and merchants; and (2) An attestation of compliance which attests to an organization's certification of eligibility to perform the appropriate self-assessment.

The campus chief information officer stated that the campus and auxiliaries were aware of PCI DSS requirements and had made some progress toward PCI DSS compliance, but they had not fully addressed the campus and auxiliary roles and responsibilities for PCI DSS assessment, nor had they completed the required SAQ and risk assessment documentation.

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

Recommendation 2

We recommend that the campus and auxiliaries:

- a. Define and document roles and responsibilities for PCI DSS compliance between the campus and the auxiliaries.
- b. Conduct and fully document a risk assessment of comprehensive compliance obligations for credit card data maintained on auxiliary servers, transmitted throughout the campus network, and stored manually in local files.
- c. Complete an annual PCI DSS SAQ that includes all credit card merchants on campus, either jointly or separately.

Campus Response

We concur. A team has been created, with liaisons from two sister campuses, to define and develop roles and responsibilities, conduct a risk assessment, and complete the annual PCI DSS SAQ by June 30, 2012.

PASSWORD AND DATA SECURITY

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

We found that:

- ▶ Password security parameters were inadequate for the QuickBooks accounting system and the Yardi Voyager housing system, both of which contained protected data. There was no minimum password length required, 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.

- ▶ Protected data (Social Security numbers and employer identification numbers) was not encrypted when stored in the QuickBooks accounting system.

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.

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 campus chief information officer stated that the password security deficiencies were due to oversight. He further stated that the protected data was stored in QuickBooks without encryption because the system was not equipped with advanced security. He added that the QuickBooks system was being replaced by PeopleSoft in July 2011 and would be decommissioned so that it was only available for archival purposes.

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. Failure to ensure that all sensitive information has been identified and properly secured increases the auxiliary's exposure to information security breaches and could result in the violation of legal statutes that could result in financial penalties and loss of public trust.

Recommendation 3

We recommend that the campus:

- a. Set password security parameters for the QuickBooks accounting system and Yardi Voyager housing systems in accordance with campus policy.
- b. Encrypt protected and/or sensitive data stored in the QuickBooks accounting system.

Campus Response

We concur.

- a. QuickBooks is no longer used for day-to-day accounting processes. On July 1, 2011, all auxiliaries moved into PeopleSoft, which has the same security parameters as the campus. As of June 1, 2011, the Yardi Voyager housing system requires an eight-character minimum, with one

character uppercase and one character a symbol. Additionally, the password will be changed every 90 days.

- b. The campus has stopped using QuickBooks for day-to-day accounting transactions, and it will be completely decommissioned by June 30, 2012.

CALIFORNIA STATE UNIVERSITY, CHANNEL ISLANDS FOUNDATION

FEES, REVENUES, AND RECEIVABLES

Administration of matching gifts at the California State University, Channel Islands Foundation (Foundation) required improvement.

We found that:

- ▶ A documented dual review was not performed during the matching gift acceptance process to ensure that funds were administered in accordance with corporate donor requirements.
- ▶ Written policies and procedures for the administration of matching gifts had not been developed.

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

The campus financial reporting supervisor stated that the Foundation adopted the CSU systemwide policy, and stated his belief that the policy was sufficient.

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

Recommendation 4

We recommend that the Foundation:

- a. Require that a documented dual review be performed during the matching gift acceptance process to ensure that funds are administered in accordance with corporate donor requirements.
- b. Develop written policies and procedures for the administration of matching gifts.

Campus Response

We concur.

- a. The Foundation staff has created a policy that requires documented dual review. This has been vetted and approved by the Foundation board of trustees during the July 19, 2011, quarterly meeting.
- b. This new policy was reviewed and approved during the July 19, 2011, meeting.

PURCHASING AND ACCOUNTS PAYABLE

Foundation credit card policies were not always adequately enforced.

We reviewed credit card statements for January 2011 and February 2011 and found that:

- ▶ Two credit card holders did not individually reconcile their purchases to the Monthly Bank Card report for both months.
- ▶ The Monthly Bank Card reports were not properly approved by appropriate personnel.

The CSU, Channel Islands *Procurement Policy* states that it is the cardholder's responsibility to reconcile transactions in a timely and accurate fashion, verifying the date of the credit card charge, description of purchase, shipping/handling, vendor's name, account number to be charged, and dollar amounts including tax, and enter the correct account, fund, department, program, and project codes.

The CSU, Channel Islands *Procurement Policy* states that it is the approving official's responsibility to review all charges, ensure all purchases are appropriate, and approve the cardholder's monthly purchases.

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

The campus financial reporting supervisor stated that credit card holders did not properly reconcile purchases to the monthly statement due to lack of training, and that monthly bank reports were not approved due to oversight.

Failure to properly reconcile and approve credit card statements increases the risk of errors, irregularities, and misappropriation of funds.

Recommendation 5

We recommend that the Foundation enforce existing credit card policies to ensure that:

- a. All credit card holders reconcile their purchases to the Monthly Bank Card report.
- b. Monthly Bank Card reports are properly approved by the appropriate personnel.

Campus Response

We concur.

- a. Credit card holders have reviewed the written policy for cardholder responsibilities to ensure that purchases are reconciled to the Monthly Bank Card report. Also, in the second quarter of fiscal year 2011/12, the Foundation will be using a new ProCard, and this will require holders to reconcile their purchases within PeopleSoft.
- b. Approvers have been reviewed to ensure the correct separation of duties.

UNIVERSITY GLEN CORPORATION

OPERATING AND ADMINISTRATIVE AGREEMENTS

The University Glen Corporation's (UGC) operating agreement with the CSU Trustees and articles of incorporation had not been amended to reflect the new commercial services function that was added in March 2010.

Title 5 §42502 states that the operating agreement should specify the function or functions that the organization is to manage, operate, or administer.

EO 1059, *Utilization of Campus Auxiliary Organizations*, dated June 6, 2011, states that auxiliary organizations shall not perform any of the functions listed in Section 42500 unless the function has been specifically assigned in the operating agreement with the campus. The campus shall review, at least every five years, the auxiliary organizations to ensure that written operating agreements are current and that auxiliary organization activities are in compliance with those agreements.

Corporations Code §5814 states that, upon adoption of an amendment, the corporation shall file a certificate of amendment. "Filed" is defined by Corporations Code §5051 as filed in the office of the Secretary of State, unless otherwise expressly provided. Corporations Code §5817 states that upon the filing of the certificate of amendment, the articles shall be amended in accordance with the certificate, and a copy of the certificate, certified by the Secretary of State, is prima facie evidence of the performance of the conditions necessary to the adoption of the amendment.

The UGC executive director stated that the failure to include the new commercial services function in the operating agreement and the articles of incorporation was due to oversight.

Failure to include all functions administered by the auxiliary in the operating agreement and the articles of incorporation increases the risk of misunderstandings and miscommunication regarding rights and responsibilities.

Recommendation 6

We recommend that UGC:

- a. Amend its operating agreement to include the operation of commercial services as a function.
- b. Amend its articles of incorporation to include the operation of commercial services as a function, and file them with the Secretary of State.

Campus Response

We concur.

- a. This operating agreement was amended to include the operation of commercial services and was approved and filed in the fourth quarter of fiscal year 2010/11.
- b. The articles of incorporation have been amended to include the operation of commercial services. This document has been approved and filed in the first quarter of fiscal year 2011/12.

FISCAL COMPLIANCE

RESERVES

UGC reserve policy did not include the reserves of the current commercial services operation.

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.

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 UGC executive director stated his belief that the existing reserve policy was sufficient to cover the operation of commercial services.

Failure to include the reserves of the current operation of commercial services in the reserve policy 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 7

We recommend that UGC amend its reserve policy to address the current commercial services operation.

Campus Response

We concur. The reserve policy has been reviewed and amended to address the commercial services operations, effective as of the first quarter of fiscal year 2011/12.

UNRELATED BUSINESS INCOME

Unrelated business income (UBI) was not always accounted for/reported by UGC.

We found that UGC had not accounted for or tracked UBI earned from catering, event services, and food sales to community members at Islands Café.

Internal Revenue Code §512 through §514 defines an unrelated trade or business of an exempt organization as any trade or business, the conduct of which is not substantially related to the exercise or performance of its tax-exempt purpose. UBI in excess of \$1,000 must be reported to the Internal Revenue Service (IRS), whether or not a tax liability is incurred. In addition, the organization's tax-exempt status may be jeopardized if too large a portion of its revenue is derived from UBI.

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

The UGC executive director stated his belief that, due to the limited number of sales to community members, UBI did not need to be accounted for or tracked.

Failure to properly account for, document, and report UBI increases the auxiliary's exposure to potential penalties and actions by the IRS.

Recommendation 8

We recommend that UGC account for and track UBI earned from catering, event services, and food sales to community members at Islands Café and file federal tax returns as appropriate.

Campus Response

We concur. A new policy has been written, effective September 14, 2011, that ensures that UGC accounts for and tracks UBI earned from commercial services.

OPERATIONAL COMPLIANCE

POLICIES AND PROCEDURES

UGC had not developed policies and procedures to address accounting and processing of cash receipts.

Specifically, we found that policies and procedures had not been developed to address:

- ▶ Cash register opening and closing, including the establishment of accountability when multiple cashiers use the same register.
- ▶ Sales returns.
- ▶ Sales reconciliations.
- ▶ Cash shortages and/or overages, including mitigation, investigation, and recovery.

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

The UGC executive director stated that UGC added commercial services in March 2010 and did not have the opportunity to develop new policies and procedures for cash receipts and handling.

The absence of written policies and procedures increases the risk that errors, inconsistencies, misunderstandings, or misappropriation of funds will occur.

Recommendation 9

We recommend that UGC develop written policies and procedures to address the bulleted items noted above regarding accounting and processing of cash receipts.

Campus Response

We concur. UGC has written and implemented three new policies to address cash shortages, register open and closing, and sales return transactions. These policies are effective September 19, 2011, September 19, 2011, and September 14, 2011, respectively.

CONFLICT OF INTEREST

UGC had not obtained annual conflict of interest statements from all board members. This is a repeat finding from the prior Auxiliary Organizations audit.

We found that:

- ▶ None of the seven board members had signed a conflict of interest statement for fiscal year 2008/09.
- ▶ Four of the seven board members had not signed a conflict of interest statement for fiscal year 2009/10.

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 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 establishing conflict of interest policies and procedures and maintaining compliance with existing policies and procedures.

The UGC executive director stated that the annual conflict of interest statements were not obtained from all board members 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 10

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

Campus Response

We concur. This item is now a standing agenda item at the spring quarterly board of directors meetings. The policy is reviewed and the forms are given out for members to sign. The board's executive director is responsible for ensuring that the forms are collected in a timely manner and kept on file.

SEGREGATION OF DUTIES

Certain duties and responsibilities related to cash receipts processing for lease payments were not adequately segregated at UGC.

We found that one employee performed the following incompatible duties:

- ▶ Received the checks.
- ▶ Endorsed the checks.
- ▶ Entered and posted receipts into the housing system.
- ▶ Prepared the deposits.
- ▶ Created, deleted, or changed charges as necessary.
- ▶ Wrote off accounts receivables from the housing system.

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

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

The UGC executive director stated that duties and responsibilities related to cash receipts for lease payments were not properly segregated due to limited resources.

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

Recommendation 11

We recommend that UGC appropriately segregate certain duties and responsibilities related to cash receipts processing of lease payments, or institute mitigating procedures approved by the campus chief financial officer.

Campus Response

We concur. The chief financial officer and the executive director of UGC have been working together to develop a specific plan to address the appropriate segregation of duties. This plan is expected to be finalized and implemented by November 2011.

PETTY CASH AND CHANGE FUNDS

UGC did not conduct periodic, independent cash counts of commercial change funds totaling \$3,600.

We found that independent cash counts of change funds held at the Lighthouse Café and Islands Café were not conducted.

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 change funds, including periodic, independent cash counts.

The UGC executive director stated that periodic, independent cash counts were not performed due to oversight.

Inadequate administration of change funds increases the risk of loss or misappropriation of funds.

Recommendation 12

We recommend that UGC conduct independent cash counts of all commercial change funds on a periodic basis.

Campus Response

We concur. The campus has an employee who is responsible for all the cash funds around campus. Monthly reviews/counts of each of these cash funds at UGC commercial services began in June 2011. These are reviewed by the associate vice president for finance and budget. In addition, a new policy has been written and implemented that addresses audits and variances.

PERSONNEL AND PAYROLL

UGC did not perform an independent, detailed, and documented reconciliation of salary changes against ADP payroll records.

We reviewed five salary changes from February 2011 to April 2011 and found that:

- ▶ The effective date on one salary change document did not correspond to pay records. The salary increase was effective March 1, 2011, but the increase was reflected in the prior pay period, resulting in a \$17 overpayment.
- ▶ The pay rate in another salary change document did not correspond to the pay records, resulting in a \$625 overpayment.

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 independent, detailed, and documented reconciliations of payroll changes.

The UGC executive director stated that reconciliations of salary changes against ADP payroll records were not performed due to limited resources.

Insufficient reconciliation between salary changes and ADP payroll records limits the auxiliary's ability to detect errors and irregularities, increases the likelihood of loss of funds, and compromises accountability.

Recommendation 13

We recommend that UGC perform independent, detailed, and documented reconciliations of payroll changes against ADP payroll records.

Campus Response

We concur. A new policy has been established as of August 16, 2011, and requires the review of each payroll change report, and that it be signed off to ensure that changes are accurately reflected in the ADP payroll system.

RETAIL AND COMMODITY INVENTORY

Administration of UGC retail and commodity inventory needed improvement.

We found that:

- ▶ Policies and procedures had not been not developed for management and/or control of inventory waste, spoilage, and shrinkage related to dining services.
- ▶ Transfer reports were not utilized for food items transferred from the central location to a remote location.

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

The UGC executive director stated that UGC added commercial services in March 2010 and did not have the opportunity to develop new policies and procedures for management of inventory waste,

spoilage, and shrinkage related to dining services. He further stated that transfer reports were not utilized due to oversight.

Insufficient administration of retail and commodity inventory increases the risk that inventory may be lost or stolen or misrepresented in the financial statements.

Recommendation 14

We recommend that UGC:

- a. Develop policies and procedures to manage and/or control inventory waste, spoilage, and shrinkage related to dining services.
- b. Utilize transfer reports for food items transferred from the central location to a remote location.

Campus Response

We concur.

- a. A new policy was written and implemented on September 19, 2011, and addresses how to manage and control inventory.
- b. A new policy was written and implemented on September 12, 2011, that addresses procedures for the transference of food items from the central location to a remote location.

ASSOCIATED STUDENTS OF
CALIFORNIA STATE UNIVERSITY, CHANNEL ISLANDS

CORPORATE GOVERNANCE

The Associated Students of California State University, Channel Islands (AS) had not filed amended Bylaws with the chancellor's office in a timely manner.

We found amendments to the Bylaws made on December 17, 2009, October 7, 2010, and March 10, 2011, that had not been filed with the chancellor's office.

The *Compilation of Policies and Procedures for California State University Auxiliary Organizations* sets sound business practice guidelines for auxiliary organizations operating within the CSU system. Section 11.6.1, *Reporting Changes in Articles of Incorporation and Bylaws*, states that when an auxiliary organization makes changes to its Articles of Incorporation or Bylaws, a complete amended copy is to be submitted to Financing and Treasury at the Office of the Chancellor within 30 calendar days. The submission should indicate the date the changes were approved by the governing board and/or members.

The campus financial reporting supervisor stated that updated Bylaws were not submitted in a timely manner due to lack of knowledge of this requirement.

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

Recommendation 15

We recommend that the AS promptly file the cited amendments to the Bylaws with the Financing and Treasury department at the Office of the Chancellor and ensure that all future changes/amendments to Bylaws are filed within 30 calendar days.

Campus Response

We concur. The updated Bylaws were submitted as required during the fourth quarter of fiscal year 2010/11, and all future changes/amendments of the Bylaws will be filed within 30 calendar days.

APPENDIX A: PERSONNEL CONTACTED

Name

Title

CAMPUS

Richard R. Rush	President
Herbert Aquino	Manager, Information Technology Infrastructure
Michael Berman	Interim Vice President, Finance and Administration and Chief Information Officer (Currently)
Stephanie Bracamontes	Financial Reporting Supervisor
Joanne Coville	Vice President, Finance and Administration (At time of review)
Missy Jarnagin	Associate Vice President, Finance and Budget
Jennifer Schweisinger	Financial Analyst, Finance and Budget

CALIFORNIA STATE UNIVERSITY, CHANNEL ISLANDS FOUNDATION

Tome Forelich	Advancement Database Specialist
Nichole Ipach	Assistance Vice President, University Development
Dianne Wei	Finance Coordinator, University Advancement

UNIVERSITY GLEN CORPORATION

Emma Ashley	Leasing Manager
Erik Blaine	Executive Director
Angelo Heredia	Administrative and Marketing Coordinator
Roxanne Herlien	Foods Services Manager
Rick Houser	Catering Manager, Islands Café
Peter Maher	Executive Manager, Islands Café
Mike McConnell	Director of Facility Services
Dave Nirenberg	Director of Commercial Services

ASSOCIATED STUDENTS OF CALIFORNIA STATE UNIVERSITY, CHANNEL ISLANDS

Genevieve Evans Taylor	Executive Director, Associated Students
Christine Thompson	Budget Analyst and Facilities Specialist

STATEMENT OF INTERNAL CONTROLS

A. INTRODUCTION

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

B. INTERNAL CONTROL DEFINITION

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

1. Internal Accounting Controls

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

2. Operational Controls

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

C. INTERNAL CONTROL OBJECTIVES

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

D. INTERNAL CONTROL SYSTEMS LIMITATIONS

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

AUXILIARY ORGANIZATIONS
CALIFORNIA STATE UNIVERSITY,
CHANNEL ISLANDS

Audit Report 11-05

CAMPUS

OPERATIONAL COMPLIANCE

Recommendation 1

We recommend that the campus ensure that each of the auxiliaries develops and adopts comprehensive written risk management policies that address an ongoing process to proactively identify risks, analyze the frequency and severity of identified risks, and implement a risk mitigation program that coordinates with the campus' risk assessment and mitigation plan.

Campus Response

We concur. Each auxiliary is developing risk management policies. The risk management office and the Executive Directors of the auxiliaries will ensure potential risks are identified and develop a review plan. The Risk Management plan for the University Glen Corporation has been completed, vetted by the campus Risk Management Office, and approved by the Board of Directors. ASI and the Foundation plans will be completed by the 3rd quarter FY 2011/2012.

INFORMATION TECHNOLOGY

PAYMENT CARD INDUSTRY DATA SECURITY STANDARD COMPLIANCE

Recommendation 2

We recommend that the campus and auxiliaries:

- a. Define and document roles and responsibilities for PCI DSS compliance between the campus and the auxiliaries.
- b. Conduct and fully document a risk assessment of comprehensive compliance obligations for credit card data maintained on auxiliary servers, transmitted throughout the campus network, and stored manually in local files.
- c. Complete an annual PCI DSS SAQ that includes all credit card merchants on campus, either jointly or separately.

Campus Response

We concur. A team has been created, with liaisons from two sister campuses, to define and develop roles and responsibilities, conduct a risk assessment, and complete the annual PCI DSS SAQ by 6/30/12.

PASSWORD AND DATA SECURITY**Recommendation 3**

We recommend that the campus:

- a. Set password security parameters for the QuickBooks accounting system and Yardi Voyager housing systems in accordance with campus policy.
- b. Encrypt protected and/or sensitive data stored in the QuickBooks accounting system.

Campus Response

- a. We concur. QuickBooks is no longer used for day-to-day accounting processes. On July 1, 2011 all auxiliaries moved into PeopleSoft, which has the same security parameters as the campus. As of June 1, 2011 the Yardi Voyager housing system requires an eight character minimum, with one character uppercase and one character a symbol. Additionally, the password will be changed every 90 days.
- b. We concur. The campus has stopped using QuickBooks for day-to-day accounting transactions, and will be completely decommissioned by 6/30/2012.

CALIFORNIA STATE UNIVERSITY, CHANNEL ISLANDS FOUNDATION**FEES, REVENUES, AND RECEIVABLES****Recommendation 4**

We recommend that the Foundation:

- a. Require that a documented dual review be performed during the matching gift acceptance process to ensure that funds are administered in accordance with corporate donor requirements.
- b. Develop written policies and procedures for the administration of matching gifts.

Campus Response

- a. We concur. The Foundation staff has created a policy that requires documented dual review. This has been vetted and approved by the Foundation Board of Trustees during the July 19, 2011 quarterly meeting
- b. We concur. This new policy was reviewed and approved during the July 19, 2011 meeting.

PURCHASING AND ACCOUNTS PAYABLE**Recommendation 5**

We recommend that the Foundation enforce existing credit card policies to ensure that:

- a. All credit card holders reconcile their purchases to the Monthly Bank Card report.
- b. Monthly Bank Card reports are properly approved by the appropriate personnel.

Campus Response

- a. We concur. Credit card holders have reviewed the written policy for cardholder responsibilities to ensure that purchases are reconciled to the Monthly Bank Card report. Also, in the 2nd quarter of FY 2011/2012, the Foundation will be using a new ProCard, and this will require holders to reconcile their purchases within PeopleSoft.
- b. We concur. Approvers have been reviewed to ensure the correct separation of duties.

UNIVERSITY GLEN CORPORATION

OPERATING AND ADMINISTRATIVE AGREEMENTS

Recommendation 6

We recommend that UGC:

- a. Amend its operating agreement to include the operation of commercial services as a function.
- b. Amend its articles of incorporation to include the operation of commercial services as a function, and file them with the Secretary of State.

Campus Response

- a. We concur. This operating agreement was amended to include the operation of commercial services and was approved and filed in the 4th quarter of FY 2010/2011.
- b. We concur. The articles of incorporation have been amended to include the operation of commercial services. This document has been approved and filed in the 1st quarter of FY 2011/2012.

FISCAL COMPLIANCE

RESERVES

Recommendation 7

We recommend that UGC amend its reserve policy to address the current commercial services operation.

Campus Response

We concur. The reserve policy has been reviewed and amended to address the commercial services operations, effective 1st quarter FY 2011/2012.

UNRELATED BUSINESS INCOME

Recommendation 8

We recommend that UGC account for and track UBI earned from catering, event services, and food sales to community members at Islands Café and file federal tax returns as appropriate.

Campus Response

We concur. A new policy has been written, effective 9/14/2011, that ensures that UGC accounts for and tracks UBI earned from commercial services.

OPERATIONAL COMPLIANCE

POLICIES AND PROCEDURES

Recommendation 9

We recommend that UGC develop written policies and procedures to address the bulleted items noted above regarding accounting and processing of cash receipts.

Campus Response

We concur. University Glen Corp has written and implemented three new policies to address cash shortages, register open and closing, and sales return transactions. These policies are effective 9/19/2011, 9/19/2011/ and 9/14/2011 respectively.

CONFLICT OF INTEREST

Recommendation 10

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

Campus Response

We concur. This item is now a standing agenda item at the Spring quarterly Board of Directors meetings. The policy is reviewed and the forms are given out for members to sign. The Board's Executive Director is responsible for ensuring that the forms are collected in a timely manner and kept on file.

SEGREGATION OF DUTIES

Recommendation 11

We recommend that UGC appropriately segregate certain duties and responsibilities related to cash receipts processing of lease payments, or institute mitigating procedures approved by the campus chief financial officer.

Campus Response

We concur. The CFO and the Executive Director of UGC have been working together to develop a specific plan to address the appropriate segregation of duties. This plan is expected to be finalized and implemented by November of 2011.

PETTY CASH AND CHANGE FUNDS

Recommendation 12

We recommend that UGC conduct independent cash counts of all commercial change funds on a periodic basis.

Campus Response

We concur. The campus has an employee who is responsible for all the cash funds around campus. Monthly reviews/counts of each of these cash funds at UGC commercial services began in June, 2011. These are reviewed by the AVP for Finance & Budget. In addition, a new policy has been written and implemented which addresses audits and variances.

PERSONNEL AND PAYROLL

Recommendation 13

We recommend that UGC perform independent, detailed, and documented reconciliations of payroll changes against ADP payroll records.

Campus Response

We concur. A new policy has been established as of 8/16/2011, and requires the review of each payroll change report, and that it be signed off to ensure that changes are accurately reflected in the ADP payroll system.

RETAIL AND COMMODITY INVENTORY

Recommendation 14

We recommend that UGC:

- a. Develop policies and procedures to manage and/or control inventory waste, spoilage, and shrinkage related to dining services.
- b. Utilize transfer reports for food items transferred from the central location to a remote location.

Campus Response

- a. We concur. A new policy was written and implemented on 9/19/2011, and addresses how to manage and control inventory.
- b. We concur. A new policy was written and implemented on 9/12/2011 that addresses procedures for the transference of food items from the central location to a remote location.

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

CORPORATE GOVERNANCE

Recommendation 15

We recommend that the AS promptly file the cited amendments to the Bylaws with the Financing and Treasury department at the Office of the Chancellor and ensure that all future changes/amendments to Bylaws are filed within 30 calendar days.

Campus Response

We concur. The updated Bylaws were submitted as required during the 4th quarter of FY 2010/2011, and all future changes/amendments of the Bylaws will be filed within 30 calendar days.

THE CALIFORNIA STATE UNIVERSITY
OFFICE OF THE CHANCELLOR

BAKERSFIELD

CHANNEL ISLANDS

November 14, 2011

CHICO

MEMORANDUM

DOMINGUEZ HILLS

EAST BAY

TO: Mr. Larry Mandel
University Auditor

FRESNO

FULLERTON

FROM: Charles B. Reed
Chancellor



HUMBOLDT

SUBJECT: Draft Final Report 11-05 on *Auxiliary Organizations*,
California State University, Channel Islands

LONG BEACH

LOS ANGELES

In response to your memorandum of November 14, 2011, I accept the response as submitted with the draft final report on *Auxiliary Organizations*, California State University, Channel Islands.

MARITIME ACADEMY

MONTEREY BAY

CBR/amd

NORTH RIDGE

POMONA

SACRAMENTO

SAN BERNARDINO

SAN DIEGO

SAN FRANCISCO

SAN JOSÉ

SAN LUIS OBISPO

SAN MARCOS

SONOMA

STANISLAUS