

SPECIAL INVESTIGATION
CALIFORNIA STATE UNIVERSITY,
HAYWARD

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EXECUTIVE SUMMARY

ALLEGATIONS

During the course of an Office of the University Auditor scheduled audit of the CSU Hayward development function, we found that a computer system, purchased using Educational Foundation funds, could not be located on the campus. Further investigation indicated that an unknown University employee may have misappropriated funds in order to purchase the computer system for personal use.

INVESTIGATION RESULTS – ALLEGATIONS

Misappropriations and Misrepresentations Made by the Advancement Accountant

Various misappropriations and misrepresentations were made by the University Advancement Accountant (Accountant) within the scope of the authority and responsibility given to him by University Advancement (Advancement).

- The Accountant forged documents to purchase and misappropriate \$5,200 in personal computer equipment.
- Since 1997, the Accountant utilized means and authorities afforded him by Advancement management to direct for his personal benefit a total of over \$150,000 in CSU Hayward Educational Foundation (Educational Foundation) and CSU Hayward Foundation (CSUH Foundation) funds.
- The Accountant was able to misappropriate funds because duties were not sufficiently segregated.

INVESTIGATION RESULTS – ANCILLARY FINDINGS

Oversight and Control of Expenditures Administered by University Advancement

Advancement management/supervisory personnel did not exercise sufficient oversight of expenditures from accounts under its control.

- The Accountant had complete control over the procurement financial cycle at the Educational Foundation.
- The Accountant ordered and authorized more than \$25,000 in payments to contractors doing work at his home.
- Educational Foundation purchase order/requisition forms were authorized by Advancement management, leaving unused lines open for the insertion of additional purchases. The Accountant exploited the open lines by adding additional and fraudulent purchases to previously approved forms.
- In certain instances, Educational Foundation check requests were signed prior to the completion of supporting documentation.
- Educational Foundation check authorization procedures did not require dual authorization for checks over a certain threshold.
- Using a fictitious vendor he created as a payee, the Accountant received more than \$12,000.
- At both foundations, over \$55,000 in payments were made to the Accountant's personal credit card accounts.
- Portions of documents were erased by the Accountant with liquid paper, yet paid without question because the authorized signer was valid.
- The Accountant requested and picked up over thirty checks from the CSUH Foundation.

- The Advancement signature stamp was used by the Accountant to forge authorizations.

Oversight and Control Over Revenues Administered by University Advancement

The University did not exercise appropriate and sufficient oversight and control over revenues administered by Advancement.

- Cash handling and accounting duties and responsibilities assigned to the Accountant were not adequately segregated, managed, and controlled.
- Accounts/pledge receivable activity was not appropriately and independently reconciled to cash and accounts/pledge receivable totals.
- Individual fundraising records could be changed without leaving an audit trail.
- Records associated with matching gifts received prior to the Accountant's departure were inadequate.

Control of Cash and Investments

Advancement did not exercise appropriate and sufficient oversight and control over cash and investments at the Educational Foundation.

- Cash and investment accounting duties and responsibilities, assigned to the Accountant, were not adequately segregated, managed, and controlled.
- Because investment and bank account reconciliations were not appropriately and timely prepared for the Educational Foundation, a \$9,500 check was written to cash and used by the Accountant.

Oversight and Control Over Trust and Contract and Grant Funds Administered by University Advancement

Advancement did not exercise appropriate and sufficient oversight and control over trust and contract and grant funds administered by Advancement.

- Various trust fund agreements were improperly established at the Educational Foundation and the CSUH Foundation.
- Both foundations followed the fund signer's requests (rather than referring to the trust agreement), acting as a fiscal agent or bank rather than a trustee.
- Contract and grant funds were commingled into single project accounts associated with individual activity centers rather than being maintained by grant or contract.
- The Accountant transferred and redirected funds from designated accounts to general operating accounts from which he misappropriated funds.
- A forged document at the CSUH Foundation caused a quasi-endowment fund to be closed to an Advancement operating account.
- Educational Foundation investment income allocations were not appropriately and timely allocated to all trust and contract and grant funds.
- A repayment for over \$4,000 in reimbursable state support of the Alumni Association was made to an Advancement operating account at the CSUH Foundation rather than a CSU Hayward state account.

Control Over Equipment Purchased with University Advancement Funds

The University did not exercise appropriate and sufficient oversight and control over equipment purchased with funds under Advancement control.

- Property accounting duties and responsibilities were not adequately segregated, managed, and controlled for equipment purchased with funds from the various accounts under Advancement control.
- The Accountant was reimbursed over \$25,000 for the purchase of computers, scanners, printers, monitors, memory upgrades, disk drives, and a digital camera, all of which the campus was unable to locate.

Oversight and Control Over Accounting and Related Records

Advancement did not exercise appropriate and sufficient oversight and control over accounting and related records.

- The Accountant did not maintain Advancement physical accounting and related files in a manner consistent with University standards.
- Electronic accounting data for the Educational Foundation maintained on a personal computer was intentionally destroyed.
- Formal information system data backup and recovery procedures were lacking at the Educational Foundation.
- The Accountant had uncontrolled access to all aspects of the information system, including the Advancement network, the Educational Foundation accounting application, and the Advancement fundraising system.

Financial Reporting for Advancement Funds

Advancement did not sufficiently and appropriately report financial transactions for accounts maintained at the Educational Foundation.

- Various accounting transactions performed by the Accountant on behalf of the Educational Foundation, each having tax implications, were not reported to the appropriate taxing authorities.
- Advancement management had only limited knowledge of the activities of the accounts at the CSUH Foundation.

Follow-Up on External Auditor's Management Comments

Advancement did not take sufficient and suitable action upon the presentation of extensive external auditor management comments received with the audited Educational Foundation financial statements.

- Over one-third of the total misappropriated funds took place after the external auditor delivered the annual management letter to Advancement in September 2000.
- A specific and written plan of action was not created for each of the individual findings noted in the external audit of the Educational Foundation.

Organizational Structure of University Advancement

The organizational structure of Advancement resulted in insufficient and inappropriate oversight of the Accountant.

- The Vice President of Advancement delegated and assigned the extensive authority granted to the Accountant.
- Technical supervision of the Accountant fell to the Vice President of Advancement rather than a manager within the University Administration and Business Affairs Division.
- In the majority of the misappropriations, documents appeared to have been given only a perfunctory review by Advancement management even though this review was a key control.

INTRODUCTION

ALLEGATIONS

During the course of an Office of the University Auditor scheduled audit of the CSU Hayward development function, we found that certain controls over accounting records and disbursements appeared inadequate at the CSU Hayward Educational Foundation (Educational Foundation). Because of this, we expanded our audit testing of the disbursement of development funds housed at the Educational Foundation (a separately incorporated campus auxiliary organization). Our expanded examination found that a computer system, which could not be found on the campus, was purchased using Educational Foundation funds. The University President and campus public safety were informed of the facts and circumstances, which, in turn, led to the President making a formal request on June 26, 2001, to the Chancellor for an investigation. On that same day, the Chancellor asked that the University Auditor investigate the suspected improprieties.

BACKGROUND

Annually, based upon an assessment of risk, the Audit Committee of the Trustees of the California State University (CSU) calls for subject-oriented audits within the CSU's operations. At the January 2001 Audit Committee meeting, the Committee selected an audit of the CSU development function. In accordance with that directive, the University Auditor selected various campuses for the audit. The CSU Hayward development function was selected for review. We visited the University from May 21, 2001, through June 29, 2001, for that audit and audited the procedures in effect at that time. Our investigation encompassed that period and extended beyond it to its conclusion on September 27, 2001.

The Trustees of the California State University have called upon each of the system's presidents to seek augmentation of funds available for academic and student programs through local community and alumni support. At CSU Hayward, the President has placed responsibility for this effort with the Vice President (VP) for University Advancement (Advancement.) The Advancement VP is additionally responsible for administering the Educational Foundation, a nonprofit corporation and an officially recognized auxiliary organization. In addition to being responsible for administering financial operations of the Educational Foundation, the VP of Advancement also administers funds maintained at the CSU Hayward Foundation (CSUH Foundation). Finally, he is also responsible for the oversight of a state budget allocation for the function. Under the general supervision of the Advancement VP, an accountant was assigned to perform various fiscal and accounting functions for all Advancement funds. This Advancement accountant (Accountant) was given broad responsibility and authority over fiscal matters associated with the operation of Advancement.

Shortly after the commencement of our investigation, it became clear that the Accountant had misappropriated funds with respect to the computer as described in the allegations.

Upon presentation of these facts and circumstances to campus administration, immediate action was taken to affect the Accountant's release from employment. Upon presentation of those same facts and circumstances to campus police, a criminal investigation was commenced.

While our investigation was comprehensive, we believe that continued scrutiny of the Accountant's activities while at the campus should be continued. If additional potentially fraudulent activity is noted, it should be presented to the appropriate authorities.

We received excellent cooperation from both University and auxiliary management and staff during our investigation. Their knowledge of existing financial systems and records along with their dedication to the mission of the campus proved to be of immeasurable benefit and assistance during our investigation.

SCOPE AND METHOD OF INVESTIGATION

To investigate the allegations, we reviewed the activities and practices of the Accountant for the period of July 1996 to June 2001. This review included consideration of his accounting for Advancement funds as well as his control over related documents and official records. We examined available financial and nonfinancial records and documents as deemed appropriate. Additionally, we interviewed current and previous employees of the University, its auxiliaries, and certain other individuals associated with the University regarding their knowledge of the Advancement function and operation during the Accountant's employment by the University.

RESULTS OF INVESTIGATION

INVESTIGATION RESULTS – ALLEGATIONS

Misappropriations and Misrepresentations Made by the Advancement Accountant

Various misappropriations and misrepresentations were made by the University Advancement Accountant (Accountant) within the scope of the authority and responsibility given to him by University Advancement (Advancement). Funds impacted included those obtained through university and alumni fundraising and grant-seeking efforts, including funds obtained from private and public sources.

Documents Authorizing the Purchase of Equipment

The Accountant forged documents to purchase and misappropriate \$5,200 in personal computer equipment.

Forged documents found in Educational Foundation files were used to support the purchase of personal computer equipment.

The Accountant presented to our auditor a falsified document indicating the purchase of a computer system for a local grammar school under a grant arrangement established through the Educational Foundation. The grant enabled the purchase of computers for elementary schools within California. The forged documents included the fabricated name of a grammar school.

It is not clear whether grant funds were actually used because they were inadequately controlled and commingled with other funds. The Accountant was able to submit falsified documents attributing the purchase to the grant, thus enabling Advancement management to approve the purchase.

Fraudulent Disbursements

Since 1997, the Accountant utilized means and authorities afforded him by Advancement management to direct for his personal benefit a total of over \$150,000 in CSU Hayward Educational Foundation (Educational Foundation) and CSU Hayward Foundation (CSUH Foundation) funds.

In total, over 40 fraudulent disbursements were processed by the Accountant, ranging from less than \$300 to over \$17,000.

The Accountant's misappropriations included payments processed to:

- Cash.
- False commercial vendors.
- Contractors remodeling his house.
- Personal credit card accounts.
- Himself for purported business expenditures.

Support for these payments was lacking, though managerial approval for many was apparent, as evidenced by signed authorizations for transactions.

Analysis of Misappropriations

The Accountant was able to misappropriate funds because duties were not sufficiently segregated.

Generally, the following duties/responsibilities should be segregated:

- Cash receipts
- Bank deposits
- Bank reconciliation
- Cash disbursements

When any one individual has the authority to collect the cash, deposit the receipts, record that collection, and disburse company funds, the risk is high that fraud can occur. The Accountant had control over each of these duties; hence, the opportunity for the misappropriation of funds was clearly present.

During our final interview with the Accountant, and after previous presentations of various documents identified during our investigation, he indicated that, upon advice of counsel, he would not attempt to explain questionable transactions. The Accountant, however, attempted to justify his actions by indicating that he believed that his workload was “overwhelming” and that “no one seemed to care.”

INVESTIGATION RESULTS – ANCILLARY FINDINGS

Oversight and Control of Expenditures Administered by University Advancement

Advancement management/supervisory personnel did not exercise sufficient oversight of expenditures from accounts under its control. The Accountant had essentially unlimited control and access to cash and accounting records.

Procurement and Cash Disbursement Duties and Responsibilities

The Accountant had complete control over the procurement financial cycle.

Procurement and cash disbursement duties and responsibilities were not adequately segregated, managed, and controlled at the Educational Foundation.

The Accountant:

- Controlled and prepared purchase orders/requisitions.
- Placed orders with vendors.
- Received goods and verified receipt of items.
- Received and deposited remittances.
- Initiated or prepared check requests.
- Compared requests with authorizations and supporting documents.
- Prepared claim schedules.
- Had access to blank check stock.
- Prepared checks or input payment information to the automated system.
- Had access to a signature stamp.
- Compared invoices with certifications of receipt of merchandise.
- Recorded checks in the register.
- Posted disbursements.
- Received and mailed checks.
- Reconciled bank accounts.
- Authorized disbursements.

Authorization Controls for Purchase Orders/Requisitions and Invoices for Payment

Controls over the authorization of purchase orders/requisitions and invoices were inadequate for Advancement funds held at the Educational Foundation and at the CSUH Foundation.

We found that the Accountant could authorize a purchase order/requisition and corresponding payment at the CSUH Foundation. Advancement management formally granted that authority, giving the Accountant signature authority over funds at the CSUH Foundation. *Using this ability, he ordered and authorized more than \$25,000 in payments to contractors doing work at his home.*

We found that Educational Foundation purchase order/requisition forms, which allowed multiple and assorted purchases to be approved on one form, were authorized by Advancement management leaving unused lines open for the insertion of additional and fraudulent purchases. Advancement management had not anticipated that this might occur and did not cancel open lines. *We found five instances where the Accountant exploited the open lines by adding additional and fraudulent purchases to previously approved forms.*

We found that, in certain instances, Educational Foundation check requests were signed prior to the completion of supporting documentation. Advancement management had trusted the Accountant and believed that all such check requests were legitimate.

We found that Educational Foundation check authorization procedures did not require dual authorization for checks over a certain threshold. This common practice, where two managers review large payments, might have prevented the largest misappropriation we found that exceeded \$17,000.

Regardless of the Accountant's capability to control and alter accounting records, the authority granted to him with respect to requesting and authorizing purchases did, in itself, present sufficient opportunity for misappropriation.

Controls Over Vendor Payees

The management and control of vendor payees were inadequate at the Educational Foundation and the CSUH Foundation.

At both Foundations, vendor evaluation and selection were left to the authorized signer on the Advancement account.

As noted earlier, the Accountant created false vendors. One of these vendors included the last name of the Accountant and a year-end IRS Form 1099 mailing that was returned because the address was fabricated. *Using this fictitious vendor he created as a payee, the Accountant received more than \$12,000.*

In another instance, vendor information in Advancement files included a description which portrayed the vendor as a consulting firm, where, in fact, it was one of the construction firms that provided remodeling services to the Accountant's house.

Payments to Credit Card Companies and Financial Services Companies

Advancement's practice of allowing payments to credit card companies on behalf of employee personal accounts was inappropriate.

At both Foundations, over \$55,000 in payments were made to the Accountant's personal credit card accounts.

We noted over a dozen instances where the reimbursements/payments to the credit card company were made for the purchase of computer systems. In one case, the Accountant submitted a request to reimburse a campus employee for her purchase of a system to be paid through a private grant. The Accountant had fabricated certain documents, picked up the check, which was written in the name of the credit card company, and then used it to pay his personal credit card bill.

The practice at both foundations was to pay the employee's credit card company in lieu of reimbursing the employee. When one campus employee was questioned why underlying purchases were made using a credit card in lieu of procuring the computer from a designated vendor, the reason given was that frequent flyer miles could be obtained when a personal credit card was used.

Documentation to Support Disbursements

We found that supporting documents for disbursements were generally inadequate.

We noted over 25 instances where disbursements made for several thousands of dollars lacked support beyond a request for payment. In other instances, receipts and invoices were not appropriately maintained to support payments. Furthermore, contracts were missing as well as explanations for certain travel and entertainment/business reimbursement.

We found two of the fraudulent payments with obviously altered supporting documents. *Specifically, certain portions of documents were erased by the Accountant with liquid paper, yet paid without question because the authorized signer was valid.*

This was a more prevalent finding at the Educational Foundation; however, instances were also noted at the CSUH Foundation. This occurred because the practice at both foundations was to release payments based upon an authorized signer's approval.

Checks Returned to the Requester

The CSUH Foundation inappropriately returned checks to the staff member making the check request.

At the CSUH Foundation, common practice allowed checks to be returned to the requester rather than requiring that they be mailed to the vendor.

We found that the Accountant requested and picked up over thirty checks from the CSUH Foundation.

Controls Over Certain Check-Writing Processes

Certain Advancement check-writing processes were inadequate, which, compounded with other purchasing and disbursement control weaknesses, presented further risk of misappropriation.

Specifically, we noted that:

- A signature stamp for the VP of Advancement was not adequately secured or controlled by Advancement.
- Voided checks were not consistently retained and cancelled by the Educational Foundation.
- Explanations for manual checks were not documented at either foundation.

Our investigation disclosed that the Advancement signature stamp was used by the Accountant to forge authorizations.

We found that the Accountant did not always retain voided checks for the Educational Foundation. In one instance, he had filed an uncanceled check in Advancement files.

We found that a negotiable check for \$1,500 was filed with documentation directing that the check be voided, leaving it unsecured and vulnerable for theft.

The lack of explanations for manual checks increases the risk of mishandling because such disbursements can be prepared superseding all standard controls.

Oversight and Control Over Revenues Administered by University Advancement

The University did not exercise appropriate and sufficient oversight and control over revenues administered by Advancement. As previously noted, the Accountant possessed access to cash and accounting records.

Segregation of Duties

Cash handling and accounting duties and responsibilities, assigned to the Accountant, were not adequately segregated, managed, and controlled.

The Accountant:

- Opened mail in limited instances.
- Handled cash and checks in all instances.
- Handled credit card transactions in all instances.
- Prepared bank deposits.
- Recorded the collection of funds.
- Posted accounting records, including the general ledger.
- Remitted funds to the University.

Because duties were not segregated, the opportunity to misappropriate revenue and alter accounting records without detection was significant.

Cash Receipts Reconciliations

Accounts/pledge receivable activity was not appropriately and independently reconciled to cash and accounts/pledge receivable totals.

We found that fund receipt records entered into the Advancement fundraising system were agreed on a transactional level (i.e., copies of checks were compared to updates within the receipting system). However, updates within the receipting system were not reconciled to cash received according to general accounting records. Fundraising record postings were not batched and agreed to actual deposits even though the current fundraising computer system supports batch controls.

Totals for cash receipts within the accounting system were not reconciled to totals within the gift reporting system. Alterations or changes to existing fundraising records could be made ad hoc without specific procedures over permitted alterations/changes, approval, and documentation. *Individual fundraising records could be changed without leaving an audit trail.*

Matching Donations Control

Matching donations were neither administered nor accounted for properly.

Various corporations, employee associations, and unions offered donation-matching programs. We found that the Accountant was designated the Matching Gift Coordinator for the campus, which enabled him to submit requests for payment from donation-matching programs in his own name.

Records associated with matching gifts received prior to the Accountant's departure were inadequate.

An independent and appropriate reconciliation was not performed for matching program receipts, and payment requests were not recorded as accounts receivable.

Control of Cash and Investments

Advancement did not exercise appropriate and sufficient oversight and control over cash and investments at the Educational Foundation. Various policies, procedures, and practices were inappropriate or deficient.

Cash and Investment Accounting Duties and Responsibilities

Educational Foundation cash and investment accounting duties and responsibilities, assigned to the Accountant, were not adequately segregated, managed, and controlled.

The Accountant:

- Analyzed cash flows.
- Executed investment transactions.
- Reconciled investment accounts.

- Prepared reports used to evaluate investment performance.
- Posted and reviewed general ledger investment accounts.

Because cash and investment accounting duties and responsibilities were not appropriately segregated, the opportunity to misappropriate cash and investments was clear.

Investment and Banking Account Reconciliations

Because investment and banking account reconciliations were not appropriately and timely prepared for the Educational Foundation, a \$9,500 check was written to cash and used by the Accountant.

As noted, the Accountant was responsible for preparing bank reconciliations as well as controlling all other significant aspects of the accounting function. The bank account reconciliations provided to us were not timely and complete, nor did they reflect any evidence of Advancement management review. Investment reconciliations were not done.

During our investigation, we requested copies of banking and investment account statements, and we received original statements for all but one month. The Accountant indicated that an original was not available and provided us with a copy of that statement. We noted a check on the statement written to CSUH. We attempted to determine where this amount was deposited at CSUH and could not. We subsequently requested original statements from the investment company. Upon receipt of the statement, we noted that the check payable to CSUH was, in fact, a check to CASH, and our review of the cancelled check indicated that it had been negotiated by the Accountant.

A supervisory review of investment and banking statements as part of a typical reconciliation would have easily identified a \$9,500 check written to cash.

Oversight and Control Over Trust and Contract and Grant Funds Administered by University Advancement

Advancement did not exercise appropriate and sufficient oversight and control over trust and contract grant funds under their aegis. Various policies, procedures, and practices were inappropriate, deficient or non-existent.

Trust Fund Agreements

Most trust fund agreements were improperly established at the Educational Foundation and the CSUH Foundation.

We found that:

- Trust agreements were not clearly established in writing. Such agreements should specifically describe when and how funds deposited should be spent and controlled.
- Donor or other fund restrictions were not always clearly presented by account holders.
- Overhead charges were not always clearly defined in agreements.

- Specific accounting duties and responsibilities were not clearly defined in a memorandum of understanding between Advancement/Educational Foundation and the CSUH Foundation.

Both foundations followed the fund signer's requests (rather than referring to a trust agreement), acting as a fiscal agent or bank rather than a trustee.

Control and Administration of Contract and Grant Funds

Contract and grant funds were not sufficiently controlled and administered by the Educational Foundation.

The Educational Foundation handled a minimal number of contracts and grants, less than \$500,000 cumulative over the past several years. These contracts and grants were from federal, state, and local government agencies and national and international corporations.

We found that accounting records presented insufficient detail concerning contract and grant funds. We found that such funds were commingled into single project accounts associated with individual activity centers rather than being maintained by grant or contract.

Certain campus projects and centers were identified as being the source of funds from which misappropriations were exacted. This situation presented a serious concern to us as the sources of these funds prescribed significant consequences if they were misused. The unacceptable internal control and accounting practices of the Educational Foundation did not allow us to specifically and unequivocally conclude that certain governmental or corporate funds had been fraudulently taken. According to supporting documents, two misappropriated payments, totaling more than \$25,000, were associated with one of these projects.

Based upon our investigation, we could only conclude that funds were taken from a pool of money where federal, state, and local government agencies and national and international corporations funds were commingled; we could not conclude that funds were specifically taken from any one of these sources.

Contracts and grants were made in the name of the University, the Educational Foundation, and even an individual. Various requirements and liabilities accrue as a result of these arrangements.

Our investigation disclosed that policies and procedures had not been established for contracts and grants, which typically contain a number of specific covenants from reporting to fiscal management requirements.

While amounts involved were less significant as compared to the total of other funds administered by Advancement at the Educational Foundation, duties and responsibilities associated with these types of funding sources were quite significant to both the University and the Educational Foundation.

Accounting Fund Transfers

Controls over accounting fund transfers were inadequate for Advancement funds held at the Educational Foundation and at the CSUH Foundation.

Advancement management formally granted signature authority to the Accountant over funds at the CSUH Foundation. No specific requirement to verify support for transfers was officially or unofficially communicated to the CSUH Foundation.

Additionally, we found that transfers between Educational Foundation accounts could be done unchecked by the Accountant. His practice was to inappropriately deposit uncleared collections into an Advancement general operating account rather than a suspense account, placing them at risk of mishandling and misappropriation.

Transfers were not supported by official documents, board minutes, budget documents, or other specific documents evidencing the validity of amounts transferred. *Using his ability, the Accountant transferred and redirected funds from designated accounts to general operating accounts from which he misappropriated funds.*

Closure of Quasi-Endowment Account

A forged document in CSUH Foundation files caused a quasi-endowment fund to be closed to an Advancement operating account.

The Accountant forged a memo to effect the closure of a quasi-endowment account at the CSUH Foundation, with the proceeds transferred to the Foundation's operating account. This transaction increased available cash in the operating account from which the Accountant misappropriated funds. Because of his unchecked ability to change accounting records, the Accountant was able to reestablish the quasi-endowment account within the Educational Foundation from other funds in his control.

Income Allocations

Educational Foundation investment income allocations were not appropriately and timely allocated to all trust and contract and grant funds.

Endowments and quasi-endowments specifically presented in supplemental schedules to Educational Foundation financial statements received annual income postings as calculated by an external auditor. While these funds represented the majority of funds invested by the Educational Foundation, various other trust, contract, and grant funds did not receive an allocation of income.

The Accountant only posted allocations based upon the external auditor's year-end entries. It was the responsibility of the Accountant to allocate the remainder of income after the external auditor's calculations were completed.

Controls Over Alumni Funds

A payment for over \$4,000 in state support of the Alumni Association was made to an Advancement operating account at the CSUH Foundation rather than a CSUH state account.

We found that:

- Agreements to provide accounting duties noting respective responsibilities were not established between the Alumni Association and either foundation, although both were providing such services.
- Supporting documentation for reimbursements to Advancement accounts was insufficient.
- While an agreement regarding the investment of funds at the Educational Foundation did exist, no similar arrangement had been made with the CSUH Foundation.

Control Over Equipment Purchased with University Advancement Funds

The University did not exercise appropriate and sufficient oversight and control over equipment purchased with funds under Advancement control. Equipment purchases were expensed, and corresponding asset records were not adequately maintained.

Equipment Procurement Process

Advancement equipment purchased through accounts at the CSUH Foundation and at the Educational Foundation was not adequately controlled.

Property accounting duties and responsibilities were not adequately segregated, managed, and controlled for equipment purchased with funds from the various accounts under Advancement control.

The Accountant approved equipment purchase orders/requisitions, received property, and certified receipt. No one in Advancement or at either of the foundations took responsibility for typical equipment internal controls such as tagging and controlling property, recording purchases in subsidiary property and related general ledgers, taking physical inventories, and monitoring the disposal of such equipment.

During our investigation, we found that the Accountant was reimbursed over \$25,000 for the purchase of computers, scanners, printers, monitors, memory upgrades, disk drives, and a digital camera, all of which the campus is unable to locate.

The absence of sufficient controls over equipment purchases, as described above, increases the risk of misappropriation of assets.

Oversight and Control Over Accounting and Related Records

Advancement did not exercise appropriate and sufficient oversight and control over accounting and related records. Various records maintained by the Accountant were altered, incomplete, included unsupported transactions, and were found to be in general disarray.

Physical Accounting and Related Records

The Accountant did not maintain Advancement physical accounting and related files in a manner consistent with University standards.

Throughout our investigation, we noted instances of razed, forged, incomplete, and missing accounting related records. Advancement management did not fully understand the state of its records until our investigation commenced. Because of this, it is likely that our investigation did not disclose all instances of misrepresentation and misappropriation.

Information Systems Accounting Data

Electronic accounting data for the Educational Foundation, maintained on a personal computer, was intentionally destroyed.

Accounting records appeared to be intentionally and systematically erased. No global command would allow such data to be eliminated. Each record would have had to be accessed and erased individually.

Advancement was able to recover some of the data due to a preprogrammed backup that the individual destroying the records was not aware of. Through this recovery, various records could be examined during our investigation.

While we did not have evidence that the Accountant erased the data, no one else would have had access to the data within the computerized accounting system. This fact was verified when we asked for information and learned that only the Accountant knew the password to access the system.

Computer Disaster Recovery

Formal information system data backup and recovery procedures were lacking.

Educational Foundation accounting systems' policies and procedures had not been established for disaster recovery, including when, where, and how often data backups were to be accomplished.

Specifically, written instructions on how to recover data were unavailable. As noted previously, data was found to have been destroyed at the Educational Foundation. Advancement had to call in an outside expert in order to recover information.

Information Systems Accounting Duties and Responsibilities

Information systems accounting duties and responsibilities were not adequately segregated, managed, and controlled.

The Accountant had uncontrolled access to all aspects of the information system, including the Advancement network, the Educational Foundation accounting application, and the Advancement fundraising system.

Again, unchecked delegation of authority granted to the Accountant contributed to the increased risk of misappropriations of Advancement funds and damage to Advancement electronic data.

Financial Reporting for Advancement Funds

Advancement did not sufficiently and appropriately report financial transactions for accounts maintained at the Educational Foundation. Internal reporting of activity was lacking, and certain external reporting was not done in accordance with legal obligations.

Tax Reporting

Various accounting transactions performed by the Accountant on behalf of the Educational Foundation, each having tax implications, were not reported to the appropriate taxing authorities.

Through accounts maintained at the Educational Foundation, merchandise sales were transacted and contractors and employees were paid, including board of director authorized personal expense payments made on behalf of the President. Each of these types of transactions appeared valid. However, each had a potential tax reporting implication. The Accountant did not file tax reports to the IRS or to the state of California.

Our investigation indicated that it is likely that the majority of the transactions with tax implications were nominal. Regardless, appropriate tax reporting was a requirement for the Educational Foundation, and corrective measures are necessary.

Regular and Standard Reports

Monthly and other regularly required reports were not prepared by the Accountant for the Educational Foundation. Although ad hoc reports were prepared, they typically were compilations reformatted and rescheduled using a personal computer.

During our investigation, Advancement management was queried as to the presence of additional accounts at the CSUH Foundation. Management indicated that such accounts were nonexistent or insignificant. We found that these accounts, in fact, had significant activity and were the source of numerous misappropriations. *Advancement management had only limited knowledge of the activities of the accounts at the CSUH Foundation; they did not review fiscal reports for these accounts.*

The CSUH Foundation did prepare monthly and other regularly occurring reports, and a brief review of these would cause the reader to question certain expenditures. We noted that many of the misappropriations were significantly greater in amount than the typical expenditures through these accounts. These reports, however, went to the Accountant not to Advancement management.

Follow-Up on External Auditor's Management Comments

Advancement did not take sufficient and suitable action upon the presentation of extensive external auditor management comments received with their audit of the Educational Foundation financial statements.

System of Internal Control Comments

During our audit of Advancement, we requested copies of management letters prepared by the external auditor of the Educational Foundation. Advancement management did not recall that such letters had been prepared, but stated that no findings existed.

During the course of our investigation, we found that annual management letters were prepared outlining various weaknesses in the Educational Foundation system of internal control.

The external auditor of the Educational Foundation considered the internal control structure of the Educational Foundation in order to determine the audit scope for the purpose of expressing an opinion on its financial statements. While the external auditor's review of the internal control structure was not done in order to provide assurance as to the adequacy of the system, the auditor noted various weaknesses that operationally warranted action and additional scrutiny by Advancement management. Specifically, the external auditor noted that support for disbursements was inadequate.

The Vice President of Administration and Business Affairs stated that, in reaction to this management letter, the campus instituted a plan to move Educational Foundation accounting back to the CSUH Foundation as it had been done prior to 1997. Beyond this plan, however, we observed only limited additional corrective measures taken by Advancement management.

Over one-third of the total misappropriated funds took place after the external auditor delivered the annual management letter to Advancement in September 2000.

As a result of the external auditor's report, we believe that more immediate scrutiny of accounting by Advancement management was called for, especially with regard to disbursement transactions, (which were highlighted as an issue in the report).

Plans of Action in Response to External Audit Findings

A specific and written plan of action was not created for each of the individual findings noted in the external audit of the Educational Foundation.

Such a response is typical for the University and was done at the CSUH Foundation with respect to its external auditor's management letter.

Our review of prior year management letters regarding the Educational Foundation found that various useful comments were made, which, if formally implemented and made a priority by Advancement management, could have decreased the risk of misappropriation.

Organizational Structure of University Advancement

The organizational structure of Advancement resulted in insufficient and inappropriate oversight of the Accountant. The Accountant was supervised by Advancement administrative managers rather than by University fiscal managers.

Supervision of the Accountant

Supervision of the Accountant was inappropriately placed within the Advancement Division.

The VP of Advancement delegated and assigned the extensive authority granted to the Accountant.

We found that the Accountant was supervised by an operations manager within Advancement. However, the manager's role was to supervise the administrative aspects of the Accountant's duties and responsibilities, not to supervise technical accounting tasks. While such a relationship might be reasonable if the Accountant's role was that of a controller with a corresponding background, education, and training, it was not.

Technical supervision of the Accountant fell to the VP of Advancement rather than a manager within the Administration and Business Affairs Division.

The Accountant clearly acted to misrepresent payment transactions to the VP of Advancement. Delegation, however, does not mean abdication of responsibility, and clearly the VP of Advancement remained responsible. Delegation must be accompanied by accountability, where control and feedback mechanisms should have been in place.

Management and Oversight of Financial Resources

The financial resources under the authority of Advancement, including those at the Educational Foundation and the CSUH Foundation, were insufficiently managed.

We found that in the majority of the misappropriations, documents appeared to have been given only a perfunctory review by Advancement management even though this review was a key control.

Financial resources are best managed when a complete and strong system of internal control is in place. The objective of that system would be to identify potential mismanagement of funds and possible failures of internal control to prevent or detect errors and irregularities timely. The key to a strong system of internal control, however, ultimately rests in the control environment and system established by management and brought about by knowledgeable, trustworthy, and experienced financial staff. Advancement financial management controls were weakened due to its organizational structure. This fact, combined with the absence of a trustworthy employee, placed Advancement at risk for the misappropriations which were eventually uncovered.

RECOMMENDATIONS

Our investigation was administrative in nature. Conclusions drawn were made within that context. Recommendations, which would mitigate the recurrence of similar findings in the future, are presented below along with recommendations to effect specific corrective actions:

1. *Misappropriations and Misrepresentations Made by the Advancement Accountant*

1.1 Documents Authorizing the Purchase of Equipment

We recommend that the campus and its foundations:

- a. Establish more extensive policies and procedures regarding supporting documentation for property/equipment disbursements.
- b. Ensure that all property/equipment payments are supported by legitimate evidence and justification.

Campus Response

We concur. The foundations will establish more extensive policies and procedures, bringing records up to University standards for:

- a. Supporting documentation for property/equipment disbursements.
- b. Support and justification for property/equipment payments.

Anticipated Completion Date: March 31, 2002

1.2 Fraudulent Disbursements

We recommend that the:

- a. Campus establish standards for confirming and validating expenditures from accounts under Advancement's authority.
- b. Campus update policies and procedures regarding expenditures from accounts under Advancement's authority.
- c. Foundations review requests for reimbursement for reasonableness as to both substance and form.
- d. Campus increase oversight of expenditures requested by state employees at both foundations.

Campus Response

We concur. The campus will:

- a. Establish standards for confirming and validating accounts under Advancement's authority.
- b. Update policies and procedures regarding expenditures from accounts under Advancement's authority.
- c. Increase oversight of expenditures requested by state employees at both foundations.
- d. The foundations will review requests for reimbursement for reasonableness as to both substance and form.

Anticipated Completion Date: March 31, 2002

1.3 Analysis of Misappropriations

We recommend that the campus:

- a. Continue to scrutinize transactions and expenditures where the Accountant had access to funds and accounts for additional errors or irregularities.
- b. Establish a central point through which these transactions will be evaluated and corrective measures can be taken.
- c. Complete its plan to transition Educational Foundation accounting responsibilities and duties to the CSU Hayward Foundation.

Campus Response

We concur. Accounting responsibilities for the Educational Foundation have been transferred to the CSU Hayward Foundation. As part of the investigation, the campus scrutinized all transactions and expenditures for errors and irregularities where the Advancement Accountant had access to funds and accounts. Any additional errors or irregularities that are discovered will be brought to the attention of the Vice President for Administration and Business Affairs for evaluation and determination of the appropriate corrective measures.

Anticipated Completion Date: Completed

2. Oversight and Control of Expenditures Administered by University Advancement

2.1 Procurement and Cash Disbursement Duties and Responsibilities

We recommend that the duties and responsibilities associated with Advancement procurement and cash disbursements be segregated or that appropriate mitigating procedures be put in place to ensure campus assets are safeguarded.

Campus Response

We concur. Through the assistance of the University's Controllers Office, the duties and responsibilities associated with Advancement procurement and cash disbursements will be adequately segregated. Where possible or appropriate, mitigating procedures will be implemented to ensure campus assets are safeguarded.

Anticipated Completion Date: March 31, 2002

2.2 Authorization Controls for Purchase Orders/Requisitions and Invoices for Payment

We recommend that the:

- a. Campus and foundations ensure that accountants cannot both authorize a purchase order/requisition and authorize payment.
- b. Campus and foundations institute measures to ensure that unused lines on purchase orders/requisitions are cancelled in a manner to prevent the insertion of additional and fraudulent purchases.
- c. Campus ensure that checks are not signed prior to an appropriate review of supporting documentation.
- d. Educational Foundation establish a policy which requires dual authorization for checks over a certain threshold.

Campus Response

We concur. The foundations will strengthen or establish procedures to ensure that:

- a. Accountants cannot both authorize a purchase order/requisition and authorize payment.
- b. Unused lines on purchase orders/requisitions are cancelled in a manner to prevent the insertion of additional and fraudulent purchases.
- c. Checks are not signed prior to an appropriate review of supporting documentation.

- d. The Educational Foundation will establish a policy requiring dual authorization for checks over a certain threshold.

Anticipated Completion Date: March 31, 2002

2.3 Controls Over Vendor Payees

We recommend that the campus and both foundations:

- a. Establish more extensive policies and procedures regarding vendor selection.
- b. Ensure that all vendor payees are legitimate vendors.

Campus Response

We concur. The foundations will establish more extensive policies and procedures for:

- a. Vendor selection.
- b. Ensuring that all vendor payees are legitimate vendors.

Anticipated Completion Date: March 31, 2002

2.4 Payments to Credit Card Companies and Financial Services Companies

We recommend that the campus and its foundations prohibit payments to credit card companies for private accounts and institute additional controls with regard to payments to financial services companies.

Campus Response

We concur. The campus and its foundations will prohibit payments to credit card companies for private accounts and institute additional controls with regard to payments to financial services companies.

Anticipated Completion Date: March 31, 2002

2.5 Documentation to Support Disbursements

We recommend that the campus and its foundations ensure that all payments are supported by legitimate evidence and justification for the payments made.

Campus Response

We concur. The foundations will establish policies and procedures to bring documentation up to University standards, to ensure that all payments are supported by legitimate evidence and justification for the payments made.

Anticipated Completion Date: March 31, 2002

2.6 Checks Returned to the Requester

We recommend that the campus and its foundations prohibit the return of checks to those requesting such payments.

Campus Response

We concur. The campus and its foundations will generally prohibit the return of checks to those requesting such payments. Exceptions will be fully documented.

Anticipated Completion Date: March 31, 2002

2.7 Controls Over Certain Check-Writing Processes

We recommend that the campus and its foundations adequately control and administer signature stamps, voided checks, and manual checks.

Campus Response

We concur. The campus and its foundations will adequately control and administer signature stamps, voided checks, and manual checks.

Anticipated Completion Date: March 31, 2002

3. *Oversight and Control Over Revenues Administered by University Advancement*

3.1 Segregation of Duties

We recommend that the campus and its foundations appropriately segregate cash handling and accounting duties and responsibilities as they relate to Advancement funds.

Campus Response

We concur. Through the movement of the accounting function of the Advancement Office to the CSUH Foundation, the campus and the Educational Foundation have appropriately segregated cash handling and accounting duties and responsibilities as they relate to Advancement funds.

Anticipated Completion Date: Completed

3.2 Cash Receipts Reconciliations

We recommend that the campus ensure that:

- a. Updates within the receipting system are reconciled to cash received according to general accounting records.
- b. Totals for cash receipts within the accounting system are reconciled to totals within the gift reporting system.
- c. Changes in individual fundraising records are supported with an adequate audit trail.

Campus Response

We concur. The foundations will:

- a. Reconcile updates within the receipting system to cash received according to general accounting records.
- b. Reconcile totals for cash receipts within the accounting system to totals within the gift reporting system.
- c. Provide an adequate audit trail for support of changes in individual fundraising records.

Anticipated Completion Date: March 31, 2002

3.3 Matching Donations Control

We recommend that the campus:

- a. Mandate that matching donation payments not be made to individuals associated with Advancement programs.
- b. Establish policies and procedures to ensure appropriate processing and pursuit of matching payments.
- c. Ensure matching fund receivables are recorded and totals regularly reconciled to activity.
- d. Ensure sufficient documentation is maintained to evidence matching fund collections.

Campus Response

We concur. The campus and its foundations will strengthen or establish policies and procedures that:

- a. Direct matching gift donors to make payments payable to the Educational Foundation.
- b. Ensure appropriate processing and pursuit of matching payments.
- c. Ensure matching fund receivables are recorded and totals regularly reconciled to activity.
- d. Ensure sufficient documentation is maintained to evidence matching fund collections.

Anticipated Completion Date: March 31, 2002

4. Control of Cash and Investments

4.1 Cash and Investment Accounting Duties and Responsibilities

We recommend that the campus and Educational Foundation appropriately segregate cash and investment accounting duties and responsibilities as they relate to Advancement funds.

Campus Response

We concur. Through the movement of the accounting function of the Advancement Office to the CSUH Foundation, the campus and the Educational Foundation have appropriately segregated cash and investment accounting duties and responsibilities as they relate to Advancement funds.

Anticipated Completion Date: Completed

4.2 Investment and Banking Account Reconciliations

We recommend that the campus and Educational Foundation:

- a. Appropriately and timely prepare Educational Foundation investment and banking account reconciliations.
- b. Ensure a supervisory review of investment and banking statements, as part of a typical reconciliation review.

Campus Response

We concur. The campus and the Educational Foundation will:

- a. Appropriately and timely prepare Educational Foundation investment and banking account reconciliations.
- b. Ensure a supervisory review of Educational Foundation investment and banking statements, as part of a typical reconciliation review.

Anticipated Completion Date: March 31, 2002

5. *Oversight and Control Over Trust and Contract and Grant Funds Administered by University Advancement*

5.1 Trust Fund Agreements

We recommend that the campus and its foundations:

- a. Ensure that all trust fund agreements are suitably established.
- b. Ensure that donor and other fund restrictions be fully documented and available to all involved with the administration of accounts.
- c. Ensure that foundations act as trustees rather than as mere fiscal agents or banks.

Campus Response

We concur. The campus and its foundations will:

- a. Ensure that all trust fund agreements are suitably established.
- b. Ensure that donor and other fund restrictions be fully documented and available to all involved with the administration of accounts.
- c. Ensure that foundations act as trustees rather than as mere fiscal agents or banks.

Anticipated Completion Date: March 31, 2002

5.2 Control and Administration of Contract and Grant Funds

We recommend that the campus exercise appropriate and sufficient oversight and control over contract and grant funds administered by Advancement. Specifically:

- a. Accounting records should provide sufficient accounting detail with regard to contract and grant funds.
- b. Policies and procedures need to be established for contracts and grants.
- c. Accounting procedures should ensure that all contracts and grants administered by the Educational Foundation are made whole in accordance with agreement requirements.

Campus Response

We concur. The campus and its foundations will exercise appropriate and sufficient oversight and control over contract and grant funds administered by Advancement such that:

- a. Policies and procedures for contracts and grants will be established or strengthened.
- b. Accounting records will provide sufficient accounting detail with regard to Advancement contract and grant funds.
- c. All contracts and grants administered by the Educational Foundation are whole in accordance with agreement requirements.

Anticipated Completion Date: March 31, 2002

5.3 Accounting Fund Transfers

We recommend that the campus and its foundations:

- a. Improve controls over fund transfers.
- b. Ensure that fund transfers receive appropriate scrutiny by the University when restricted and fiduciary funds are involved.

Campus Response

We concur. The campus and its foundations will improve controls over fund transfers, such that they receive appropriate scrutiny by the University when restricted and fiduciary funds are involved.

Anticipated Completion Date: March 31, 2002

5.4 Closure of Quasi-Endowment Account

We recommend that the campus and its foundations develop a formal protocol addressing when and how alterations of trust agreements can be made and what events and circumstances allow for appropriate closure of such a fund.

Campus Response

We concur. The campus and its foundations will strengthen or establish policies and procedures for changing trust agreements or closing trust funds.

Anticipated Completion Date: March 31, 2002

5.5 Income Allocations

We recommend that the campus ensure that all Educational Foundation accounts receive an appropriate allocation of income.

Campus Response

We concur. The campus and its foundations will ensure that all Educational Foundation accounts receive an appropriate allocation of income.

Anticipated Completion Date: March 31, 2002

5.6 Controls Over Alumni Funds

We recommend that the campus and its foundations strengthen CSU Hayward Alumni Association, Inc., fund accounting controls, including ensuring appropriate repayment to state accounts.

Campus Response

We concur. The campus and its foundations will strengthen accounting controls, including ensuring appropriate repayment to state accounts is made from the CSU Hayward Alumni Association.

Anticipated Completion Date: March 31, 2002

6. *Control Over Equipment Purchased with University Advancement Funds*

6.1 Equipment Procurement Process

We recommend that the campus and its foundations appropriately segregate, manage, and control property accounting duties and responsibilities for equipment purchased with funds from the various accounts under Advancement control.

Campus Response

We concur. The campus and its foundations will appropriately segregate, manage, and control property accounting duties and responsibilities for equipment purchased with funds from the various accounts under Advancement control.

Anticipated Completion Date: March 31, 2002

7. Oversight and Control Over Accounting and Related Records

7.1 Physical Accounting and Related Records

We recommend that the campus and the CSU Hayward Foundation bring Educational Foundation physical accounting and related files up to University standards.

Campus Response

We concur. With the movement of the accounting responsibilities for the Educational Foundation to the CSUH Foundation, physical accounting and related files have been brought up to University standards.

Anticipated Completion Date: Completed

7.2 Information Systems Accounting Data

We recommend that the campus and the CSU Hayward Foundation continue efforts to recover electronic accounting data for the Educational Foundation, which was intentionally destroyed.

Campus Response

We concur. The campus and its external auditor have completed the recovery of electronic accounting data for the Educational Foundation.

Anticipated Completion Date: Completed

7.3 Computer Disaster Recovery

We recommend that the campus and the CSU Hayward Foundation improve Educational Foundation information system controls, including password access controls and formal data backup and recovery procedures.

Campus Response

We concur. The campus and its foundations will strengthen information system controls for the Educational Foundation, including password protection and formal data backup and recovery procedures.

Anticipated Completion Date: March 31, 2002

7.4 Information Systems Accounting Duties and Responsibilities

We recommend that the campus and the CSU Hayward Foundation appropriately segregate, manage, and control information system accounting duties and responsibilities for the Educational Foundation.

Campus Response

We concur. The movement of the accounting function to the CSUH Foundation has appropriately segregated, managed, and controlled information system accounting duties and responsibilities for the Educational Foundation.

Anticipated Completion Date: Completed

8. *Financial Reporting for Advancement Funds*

8.1 Tax Reporting

We recommend that the campus ensure appropriate tax reporting is made by the Educational Foundation and that appropriate corrective returns are filed.

Campus Response

We concur. The campus and its foundations will ensure that the Educational Foundation reports all tax information legally required and that corrective returns are filed where appropriate.

Anticipated Completion Date: March 31, 2002

8.2 Regular and Standard Reports

We recommend that the campus ensure Advancement management regularly reviews fiscal reports for all of its accounts.

Campus Response

We concur. The campus will ensure that Advancement management regularly reviews fiscal reports for all of its accounts.

Anticipated Completion Date: March 31, 2002

9. *Follow-Up on External Auditor's Management Comments*

9.1 System of Internal Control Comments

We recommend that the campus take sufficient and suitable action upon the presentation of extensive external auditor management comments given in association with their audit of Educational Foundation financial statements.

Campus Response

We concur. The campus and its foundations will review all external auditor comments and take sufficient and suitable action.

Anticipated Completion Date: March 31, 2002

9.2 Plans of Action in Response to External Audit Findings

We recommend that the campus prepare a specific and written plan of action for each of the individual findings included in the external audit internal control findings for the Educational Foundation.

Campus Response

We concur. The campus and its foundations will prepare written responses with specific action plans for each finding included in all internal and external audit reports.

Anticipated Completion Date: March 31, 2002

10. *Organizational Structure of University Advancement*

10.1 Supervision of the Accountant

We recommend that the campus evaluate the organizational structure of Advancement to ensure sufficient and appropriate oversight of fiscal administration.

Campus Response

We concur. Beginning May 1, 2001, the Controller of the CSUH Foundation became the Controller for the Educational Foundation and assumed, with her staff, responsibility for the accounting duties of the Educational Foundation thus eliminating the need for an Advancement Office Accountant. Beginning August 1, 2001, the University Advancement office established and appointed a new management position, Director of

Advancement Services, to oversee the establishment and implementation of Advancement policies and procedures and ensure that all appropriate documentation and reports are monitored and maintained.

Anticipated Completion Date: Completed

10.2 Management and Oversight of Financial Resources

We recommend that the campus continue in its plans to improve its oversight of financial resources under the authority of Advancement, including those at the Educational Foundation and the CSU Hayward Foundation.

Campus Response

We concur. The campus has completed its efforts to move the accounting responsibility to the CSUH Foundation and has taken the additional steps needed to improve its oversight of financial resources under the authority of Advancement, including those at the Educational Foundation and the CSU Hayward Foundation. These steps include linking management of the Controller's Office of all the foundations under one office with the oversight of the University Assistant Vice President for Business and Financial Services.

Anticipated Completion Date: Completed



Office of the President

Telephone: (510) 885-3877

Fax: (510) 885-3808

RECEIVED
University Auditor

OCT 13 2001

The California State
University

October 17, 2001

Mr. Larry Mandel
University Auditor
The California State University
401 Golden Shore
Long Beach, CA 90802

Subject: **Campus Response to Recommendations of Special Investigation 01-94
California State University, Hayward**

Dear Mr. Mandel:

Please find enclosed California State University, Hayward's response to the recommendations resulting from our special investigation, as outlined in audit report 01-94. For each recommendation, we have included a corrective action plan and an anticipated date for implementation.

We appreciate the efforts of you and your staff during the process and the professional manner in which the audit was performed.

Sincerely,

Norma S. Rees
President

Enclosure

Cc: Chancellor Reed
Vice President Metz
Vice President Eloie

1. *Misappropriations and Misrepresentations Made by the Advancement Accountant*

1.1 Documents Authorizing the Purchase of Equipment

We recommend that the campus and its foundations:

- a. Establish more extensive policies and procedures regarding supporting documentation for property/equipment disbursements.
- b. Ensure that all property/equipment payments are supported by legitimate evidence and justification.

Campus Response

We concur. The foundations will establish more extensive policies and procedures, bringing records up to University standards for:

- a. Supporting documentation for property/equipment disbursements; and
- b. Support and justification for property/equipment payments.

Anticipated Completion Date: March 31, 2002

1.2 Fraudulent Disbursements

We recommend that the:

- a. Campus establish standards for confirming and validating expenditures from accounts under Advancement's authority.
- b. Campus update policies and procedures regarding expenditures from accounts under Advancement's authority.
- c. Foundations review requests for reimbursement for reasonableness as to both substance and form.
- d. Campus increase oversight of expenditures requested by state employees at both foundations.

Campus Response

We concur. The campus will:

- a. Establish standards for confirming and validating accounts under Advancement's authority.
- b. Update policies and procedures regarding expenditures from accounts under Advancement's authority.
- c. Increase oversight of expenditures requested by state employees at both foundations.

The foundations will review requests for reimbursement for reasonableness as to both substance and form.

Anticipated Completion Date: March 31, 2002

1.3 Analysis of Misappropriations

We recommend that the campus:

- a. Continue to scrutinize transactions and expenditures where the Accountant had access to funds and accounts for additional errors or irregularities.
- b. Establish a central point through which these transactions will be evaluated and corrective measures can be taken.
- c. Complete its plan to transition Educational Foundation accounting responsibilities and duties to the CSU Hayward Foundation.

Campus Response

We concur. Accounting responsibilities for the Educational Foundation have been transferred to the CSU Hayward Foundation. As part of the investigation, the campus scrutinized all transactions and expenditures for errors and irregularities where the Advancement Accountant had access to funds and accounts. Any additional errors or irregularities that are discovered will be brought to the attention of the Vice President for Administration and Business Affairs for evaluation and determination of the appropriate corrective measures.

Anticipated Completion Date: Completed

2. *Oversight and Control of Expenditures Administered by University Advancement*

2.1 Procurement and Cash Disbursement Duties and Responsibilities

We recommend that the duties and responsibilities associated with Advancement procurement and cash disbursements be segregated or that appropriate mitigating procedures be put in place to ensure campus assets are safeguarded.

Campus Response

We concur. Through the assistance of the University's Controllars Office the duties and responsibilities associated with Advancement procurement and cash disbursements will be adequately segregated. Where possible or appropriate mitigating procedures will be implemented to ensure campus assets are safeguarded.

Anticipated Completion Date: March 31, 2002

2.2 Authorization Controls for Purchase Orders/Requisitions and Invoices for Payment

We recommend that the:

- a. Campus and foundations ensure that accountants cannot both authorize a purchase order/requisition and authorize payment.

- b. Campus and foundations institute measures to ensure that unused lines on purchase orders/requisitions are cancelled in a manner to prevent the insertion of additional and fraudulent purchases.
- c. Campus ensure that checks are not signed prior to an appropriate review of supporting documentation.
- d. Educational Foundation establish a policy, which requires dual authorization for checks over a certain threshold.

Campus Response

We concur. The foundations will strengthen or establish procedures to ensure that:

- a. Accountants cannot both authorize a purchase order/requisition and authorize payment.
- b. Unused lines on purchase orders/requisitions are cancelled in a manner to prevent the insertion of additional and fraudulent purchases.
- c. Checks are not signed prior to an appropriate review of supporting documentation.

The Educational Foundation will establish a policy requiring dual authorization for checks over a certain threshold.

Anticipated Completion Date: March 31, 2002

2.3 Controls Over Vendor Payees

We recommend that the campus and both foundations:

- a. Establish more extensive policies and procedures regarding vendor selection.
- b. Ensure that all vendor payees are legitimate vendors.

Campus Response

We concur. The foundations will establish more extensive policies and procedures for:

- a. Vendor selection; and
- b. Ensuring that all vendor payees are legitimate vendors.

Anticipated Completion Date: March 31, 2002

2.4 Payments to Credit Card Companies and Financial Services Companies

We recommend that the campus and its foundations prohibit payments to credit card companies for private accounts and institute additional controls with regard to payments to financial services companies.

Campus Response

We concur. The campus and its foundations will prohibit payments to credit card companies for private accounts and institute additional controls with regard to payments to financial services companies.

Anticipated Completion Date: March 31, 2002

2.5 Documentation to Support Disbursements

We recommend that the campus and its foundations ensure that all payments are supported by legitimate evidence and justification for the payments made.

Campus Response

We concur. The foundations will establish policies and procedures to bring documentation up to University standards, to ensure that all payments are supported by legitimate evidence and justification for the payments made.

Anticipated Completion Date: March 31, 2002

2.6 Checks Returned to the Requester

We recommend that the campus and its foundations prohibit the return of checks to those requesting such payments.

Campus Response

We concur. The campus and its foundations will generally prohibit the return of checks to those requesting such payments. Exceptions will be fully documented.

Anticipated Completion Date: March 31, 2002

2.7 Controls Over Certain Check-Writing Processes

We recommend that the campus and its foundations adequately control and administer signature stamps, voided checks, and manual checks.

Campus Response

We concur. The campus and its foundations will adequately control and administer signature stamps, voided checks, and manual checks.

Anticipated Completion Date: March 31, 2002

3. *Oversight and Control Over Revenues Administered by University Advancement*

3.1 Segregation of Duties

We recommend that the campus and its foundations appropriately segregate cash handling and accounting duties and responsibilities as they relate to Advancement funds.

Campus Response

We concur. Through the movement of the accounting function of the Advancement Office to the CSUH Foundation, the campus and the Educational Foundation have appropriately segregated cash handling and accounting duties and responsibilities as they relate to Advancement funds.

Anticipated Completion Date: Completed

3.2 Cash Receipts Reconciliations

We recommend that the campus ensure that:

- a. Updates within the receipting system are reconciled to cash received according to general accounting records.
- b. Totals for cash receipts within the accounting system are reconciled to totals within the gift reporting system.
- c. Changes in individual fundraising records are supported with an adequate audit trail.

Campus Response

We concur. The foundations will:

- a. Reconcile updates within the receipting system to cash received according to general accounting records.
- b. Reconcile totals for cash receipts within the accounting system to totals within the gift reporting system.
- c. Provide an adequate audit trail for support of changes in individual fundraising records.

Anticipated Completion Date: March 31, 2002

3.3 Matching Donations Control

We recommend that the campus:

- a. Mandate that matching donation payments not be made to individuals associated with Advancement programs.
- b. Establish policies and procedures to ensure appropriate processing and pursuit of matching payments.
- c. Ensure matching fund receivables are recorded and totals regularly reconciled to activity.
- d. Ensure sufficient documentation is maintained to evidence matching fund collections.

Campus Response

We concur. The campus and its foundations will strengthen or establish policies and procedures that:

- a. Direct matching gift donors to make payments payable to the Educational Foundation.
- b. Ensure appropriate processing and pursuit of matching payments.
- c. Ensure matching fund receivables are recorded and totals regularly reconciled to activity.
- d. Ensure sufficient documentation is maintained to evidence matching fund collections.

Anticipated Completion Date: March 31, 2002

4. Control of Cash and Investments

4.1 Cash and Investment Accounting Duties and Responsibilities

We recommend that the campus and Educational Foundation appropriately segregate cash and investment accounting duties and responsibilities as they relate to Advancement funds.

Campus Response

We concur. Through the movement of the accounting function of the Advancement Office to the CSUH Foundation, the campus and the Educational Foundation have appropriately segregated cash and investment accounting duties and responsibilities as they relate to Advancement funds.

Anticipated Completion Date: Completed

4.2 Investment and Banking Account Reconciliations

We recommend that the campus and Educational Foundation:

- a. Appropriately and timely prepare Educational Foundation investment and banking account reconciliations.
- b. Ensure a supervisory review of investment and banking statements, as part of a typical reconciliation review.

Campus Response

We concur. The campus and the Educational Foundation will:

- a. Appropriately and timely prepare Educational Foundation investment and banking account reconciliations.
- b. Ensure a supervisory review of Educational Foundation investment and banking statements, as part of a typical reconciliation review.

Anticipated Completion Date: March 31, 2002

5. Oversight and Control Over Trust and Contract and Grant Funds Administered by University Advancement

5.1 Trust Fund Agreements

We recommend that the campus and its foundations:

- a. Ensure that all trust fund agreements are suitably established.
- b. Ensure that donor and other fund restrictions be fully documented and available to all involved with the administration of accounts.
- c. Ensure that foundations act as trustees rather than as mere fiscal agents or banks.

Campus Response

We concur. The campus and its foundations will:

- a. Ensure that all trust fund agreements are suitably established.
- b. Ensure that donor and other fund restrictions be fully documented and available to all involved with the administration of accounts.
- c. Ensure that foundations act as trustees rather than as mere fiscal agents or banks.

Anticipated Completion Date: March 31, 2002

5.2 Control and Administration of Contract and Grant Funds

We recommend that the campus exercise appropriate and sufficient oversight and control over contract and grant funds administered by Advancement. Specifically:

- a. Accounting records should provide sufficient accounting detail with regard to contract and grant funds.
- b. Policies and procedures need to be established for contracts and grants.
- c. Accounting procedures should ensure that all contracts and grants administered by the Educational Foundation are made whole in accordance with agreement requirements.

Campus Response

We concur. The campus and its foundations will exercise appropriate and sufficient oversight and control over contract and grant funds administered by Advancement such that:

- a. Policies and procedures for contracts and grants will be established or strengthened.
- b. Accounting records will provide sufficient accounting detail with regard to Advancement contract and grant funds.

All contracts and grants administered by the Educational Foundation are whole in accordance with agreement requirements.

Anticipated Completion Date: March 31, 2002

5.3 Accounting Fund Transfers

We recommend that the campus and its foundations:

- a. Improve controls over fund transfers.
- b. Ensure that fund transfers receive appropriate scrutiny by the University when restricted and fiduciary funds are involved.

Campus Response

We concur. The campus and its foundations will improve controls over fund transfers, such that they receive appropriate scrutiny by the University when restricted and fiduciary funds are involved.

Anticipated Completion Date: March 31, 2002

5.4 Closure of Quasi-Endowment Account

We recommend that the campus and its foundations develop a formal protocol addressing when and how alterations of trust agreements can be made and what events and circumstances allow for appropriate closure of such a fund.

Campus Response

We concur. The campus and its foundations will strengthen or establish policies and procedures for changing trust agreements or closing trust funds.

Anticipated Completion Date: March 31, 2002

5.5 Income Allocations

We recommend that the campus ensure that all Educational Foundation accounts receive an appropriate allocation of income.

Campus Response

We concur. The campus and its foundations will ensure that all Educational Foundation accounts receive an appropriate allocation of income.

Anticipated Completion Date: March 31, 2002

5.6 Controls Over Alumni Funds

We recommend that the campus and its foundations strengthen CSU Hayward Alumni Association, Inc., fund accounting controls, including ensuring appropriate repayment to state accounts.

Campus Response

We concur. The campus and its foundations will strengthen accounting controls, including ensuring appropriate repayment to state accounts is made from the CSU Hayward Alumni Association.

Anticipated Completion Date: March 31, 2002

6. Control Over Equipment Purchased with University Advancement Funds

6.1 Equipment Procurement Process

We recommend that the campus and its foundations appropriately segregate, manage, and control property accounting duties and responsibilities for equipment purchased with funds from the various accounts under Advancement control.

Campus Response

We concur. The campus and its foundations will appropriately segregate, manage, and control property accounting duties and responsibilities for equipment purchased with funds from the various accounts under Advancement control.

Anticipated Completion Date: March 31, 2002

7. Oversight and Control Over Accounting and Related Records

7.1 Physical Accounting and Related Records

We recommend that the campus and the CSU Hayward Foundation bring Educational Foundation physical accounting and related files up to University standards.

Campus Response

We concur. With the movement of the accounting responsibilities for the Educational Foundation to the CSUH Foundation, physical accounting and related files have been brought up to University standards.

Anticipated Completion Date: Completed

7.2 Information Systems Accounting Data

We recommend that the campus and the CSU Hayward Foundation continue efforts to recover electronic accounting data for the Educational Foundation, which was intentionally destroyed.

Campus Response

We concur. The campus and its external auditor have completed the recovery of electronic accounting data for the Educational Foundation.

Anticipated Completion Date: Completed

7.3 Computer Disaster Recovery

We recommend that the campus and the CSU Hayward Foundation improve Educational Foundation information system controls, including password access controls and formal data backup and recovery procedures.

Campus Response

We concur. The campus and its foundations will strengthen information system controls for the Educational Foundation, including password protection and formal data backup and recovery procedures.

Anticipated Completion Date: March 31, 2002

7.4 Information Systems Accounting Duties and Responsibilities

We recommend that the campus and the CSU Hayward Foundation appropriately segregate, manage, and control information system accounting duties and responsibilities for the Educational Foundation.

Campus Response

We concur. The movement of the accounting function to the CSUH Foundation has appropriately segregated, managed, and controlled information system accounting duties and responsibilities for the Educational Foundation.

Anticipated Completion Date: Completed

8. *Financial Reporting for Advancement Funds*

8.1 Tax Reporting

We recommend that the campus ensure appropriate tax reporting is made by the Educational Foundation and that appropriate corrective returns are filed.

Campus Response

We concur. The campus and its foundations will ensure that the Educational Foundation reports all tax information legally required and that corrective returns are filed where appropriate.

Anticipated Completion Date: March 31, 2002

8.2 Regular and Standard Reports

We recommend that the campus ensure Advancement management regularly reviews fiscal reports for all of its accounts.

Campus Response

We concur. The campus will ensure that Advancement management regularly reviews fiscal reports for all of its accounts.

Anticipated Completion Date: March 31, 2002

9. *Follow-Up on External Auditor's Management Comments*

9.1 System of Internal Control Comments

We recommend that the campus take sufficient and suitable action upon the presentation of extensive external auditor management comments given in association with their audit of Educational Foundation financial statements.

Campus Response

We concur. The campus and its foundations will review all external auditor comments and take sufficient and suitable action.

Anticipated Completion Date: March 31, 2002

9.2 Plans of Action in Response to External Audit Findings

We recommend that the campus prepare a specific and written plan of action for each of the individual findings included in the external audit internal control findings for the Educational Foundation.

Campus Response

We concur. The campus and its foundations will prepare written responses with specific action plans for each finding included in all internal and external audit reports.

Anticipated Completion Date: March 31, 2002

10. *Organizational Structure of University Advancement*

10.1 Supervision of the Accountant

We recommend that the campus evaluate the organizational structure of Advancement to ensure sufficient and appropriate oversight of fiscal administration.

Campus Response

We concur. Beginning May 1, 2001, the Controller of the CSUH Foundation became the Controller for the Educational Foundation and assumed, with her staff, responsibility for the accounting duties of the Educational Foundation thus eliminating the need for an Advancement Office Accountant. Beginning August 1, 2001, the University Advancement office established and appointed a new management position, Director of Advancement Services, to oversee the establishment and implementation of Advancement policies and procedures and ensure that all appropriate documentation and reports are monitored and maintained.

Anticipated Completion Date: Completed

10.2 Management and Oversight of Financial Resources

We recommend that the campus continue in its plans to improve its oversight of financial resources under the authority of Advancement, including those at the Educational Foundation and the CSU Hayward Foundation.

Campus Response

We concur. The campus has completed its efforts to move the accounting responsibility to the CSUH Foundation and has taken the additional steps needed to improve its oversight of financial resources under the authority of Advancement, including those at the Educational Foundation and the CSU Hayward Foundation. These steps include linking management of the Controller's Office of all the foundations under one office with the oversight of the University Assistant Vice President for Business and Financial Services.

Anticipated Completion Date: Completed

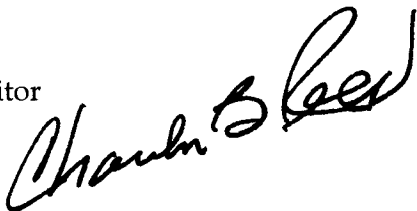
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SAN DIEGO
SAN FRANCISCO
SAN JOSE
SAN LUIS OBISPO
SAN MARCOS
SONOMA
STANISLAUS

October 22, 2001

MEMORANDUM

TO: Larry Mandel
University Auditor

FROM: Charles B. Reed
Chancellor 

SUBJECT: Draft Final Report Number 01-94 on *Special Investigation*,
California State University, Hayward

In response to your memorandum of October 22, 2001, I accept the response as submitted with the draft final report on *Special Investigation*, California State University, Hayward.

CBR/amd

Enclosure

cc: Norma S. Rees, President
Richard Metz, Vice President, Administration and Business Affairs