AUXILIARY ORGANIZATIONS

CALIFORNIA STATE UNIVERSITY
OFFICE OF THE CHANCELLOR

Audit Report 13-06
February 5, 2014

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BOARD OF TRUSTEES
THE CALIFORNIA STATE UNIVERSITY
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ABBREVIATIONS

CFO
CO
CSU
EO
Foundation
FY
ICSUAM
Institute
RFIN
SPA

Chief Financial Officer  Office of the Chancellor  California State University
Executive Order  California State University Foundation  Fiscal Year
Integrated California State University Administrative Manual  California State University Institute
Resolution of the Committee on Finance  Sponsored Programs Administration
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 Audit and Advisory Services 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.

Office of the Chancellor (CO) 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 adequately safeguarded against loss from unauthorized use or disposition.
- Transactions 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 CO and its auxiliary organizations from September 23, 2013, through October 25, 2013, and made a study and evaluation of the system of internal compliance/internal control in effect as of October 25, 2013. This report represents our triennial review.

In our opinion, the fiscal, operational, and administrative controls in effect at the Office of the Chancellor as of October 25, 2013, taken as a whole, were sufficient to meet the objectives stated above and in the “Purpose” section of this report.

In our opinion, the fiscal, operational, and administrative controls in effect at California State University Foundation as of October 25, 2013, taken as a whole, were sufficient to meet the objectives stated above and in the “Purpose” section of this report.

In our opinion, the fiscal, operational, and administrative controls in effect at California State University Institute as of October 25, 2013, taken as a whole, were sufficient to meet the objectives stated above and in the “Purpose” section of this report.
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.

**OFFICE OF THE CHANCELLOR**

**FISCAL COMPLIANCE** [8]

The annual Office of the Chancellor (CO) cost allocation plan to recover direct and indirect costs incurred by the California State University Institute (Institute) needed improvement. Specifically, the plan did not describe the practices and methodologies utilized to determine the basis for allocating costs and there was no process to ensure that the CO chief financial officer or designee approved the plan on an annual basis.

**CALIFORNIA STATE UNIVERSITY FOUNDATION**

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

The California State University Foundation (Foundation) did not perform a documented dual review of matching gifts during the acceptance process to ensure that funds were designated in accordance with donor intent. Additionally, administration of Foundation gifts-in-kind required improvement. For example, the Foundation had not developed written procedures to address the accountability, acceptable usage, and distribution of gifts-in-kind that could be subsequently exchanged for services and had not established a process to inventory, log, and reconcile gifts-in-kind. Also, air travel vouchers received as gifts-in-kind were awarded to California State University students who were not required to complete and sign release forms or waivers to acknowledge that they were informed of risks of air travel, undertook such air travel voluntarily, and released and held harmless the Foundation and its affiliates.

**CONTRACTS AND GRANTS** [13]

Administration of Foundation contracts and grants needed improvement. Specifically, signed proposal clearance forms were not always on file, the final closeout process was not completed in a timely manner, and the closeout checklist was not utilized for any of the closed contracts and grants.
CALIFORNIA STATE UNIVERSITY INSTITUTE

OPERATIONAL COMPLIANCE [15]

Annual statement of economic interest forms completed by Institute governing board members did not list each member’s board positions.
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 (EO) 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 Audit and Advisory Services 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.

EO 1059, Utilization of Campus Auxiliary Organizations, dated June 6, 2011, also represents policy of the Trustees addressing appropriate use of CSU auxiliary organizations. CSU auxiliary organizations are required to comply with Board of Trustee policy (California Code of Regulations, Title 5, §42401 and §42500 and Education Code §89720, §89756, and §89900).

This executive order requires CSU auxiliary organizations to operate within the regulations and oversight of the campus. The campus president is responsible for ensuring the fiscal viability of auxiliary organizations.
organizations and compliance with applicable CSU policies. The campus chief financial officer is responsible for administrative compliance and fiscal oversight of auxiliary organizations. The campus, with the approval of the chancellor (or designee), may assign certain functions to auxiliary organizations pursuant to the California Code of Regulations, Title 5, §42500. A written operating agreement is established detailing the functions that auxiliary organizations can perform. The campus may assign responsibility for an activity or program to auxiliary organizations, and the acceptance of the responsibility requires the assumption of the associated legal obligation and liabilities, fiscal liabilities, and fiduciary responsibilities by auxiliary organizations. Auxiliary organizations shall ensure that fiscal procedures and management systems are in place, consistent with California Code of Regulations, Title 5, §42401.

The Integrated California State University Administrative Manual §13680.00, Placement and Control of Receipts for Campus Activities and Programs, dated September 29, 2011, states that accountability and responsibility for campus activities and programs should be clearly established, and that related receipts are appropriately placed and controlled in university or auxiliary organization accounts. This policy guides campuses as to the administration of such receipts and instructs as to their proper placement in accordance with legal and regulatory requirements.

The California State University Foundation
The California State University Foundation (Foundation) was established as a non-profit benefit corporation in 1962 to enhance the educational excellence of the CSU system in teaching, learning, community service, and applied research. The Foundation serves the Office of the Chancellor (CO) and exists to promote the national, state, and regional interests of the CSU. The Foundation is governed by a board of directors that represents a cross-section of business, community, cultural, and educational leaders with a shared commitment to upholding and advancing the mission and goals of the university system, the chancellor, the associate vice chancellor of systemwide advancement, and the director of Foundation programs and services. The Foundation does not have employees and relies on personnel from the CO for administrative and accounting support services.

The California State University Institute
The California State University Institute (Institute) was established as a non-profit benefit corporation in 1993 to assist the CSU with the administration of various educationally related functions, special programs, and other activities. The Institute’s main function is to issue commercial paper and facilitate lease revenue bonds on behalf of the CSU’s 23 campuses, thus raising capital and expediting major projects throughout the university system. The Institute is governed by a board of directors composed of the chancellor, the executive vice chancellor/chief financial officer, and the executive vice chancellor/chief academic officer. The Institute does not have employees and relies on personnel from the CO 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 whether fiscal, operational, 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 2011/2012 and 2012/2013 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, 2012, to October 25, 2013. 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 Foundation
- Operating and Administrative Agreements
- Facilities Agreements
- Corporate Governance
- Fiscal Compliance
- Operational Compliance
- Program Compliance
- Segregation of Duties
- Cash Receipts and Handling
- Investments
- Fees, Revenues, and Receivables
- Purchasing and Accounts Payable
- Trusts and Other Liabilities
- Contracts and Grants
- Auxiliary Programs
- Information Technology

California State University Institute
- Operating and Administrative Agreements
- Facilities Agreements
- Corporate Governance
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- Fees, Revenues, and Receivables
- Purchasing and Accounts Payable
- Trusts and Other Liabilities
- Auxiliary Programs
- Information Technology

Office of the Chancellor
- Auxiliary Support Services
- Information Technology

We have not performed any auditing procedures beyond October 25, 2013. 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.
FISCAL COMPLIANCE

The annual Office of the Chancellor (CO) cost allocation plan to recover direct and indirect costs incurred by the California State University Institute (Institute) needed improvement.

We reviewed Institute cost allocation plan documentation for fiscal years (FY) 2011/12, 2012/13, and 2013/14, and we found that:

- The plan did not describe the practices and methodologies utilized to determine the basis for allocating costs.
- There was no process to ensure that the CO chief financial officer (CFO) or designee approved the plan on an annual basis.

Integrated California State University Administrative Manual (ICSUAM) §3552.01, Cost Allocation/Reimbursement Plans for the California State University Operating Fund, dated April 1, 2011, states that a university’s cost allocation/reimbursement plan must articulate the practices and methodologies utilized in determining the basis for allocating costs.

Executive Order (EO) 1000, Delegation of Fiscal Authority and Responsibility, dated July 1, 2007, states that the campus president shall ensure that costs incurred by the California State University (CSU) Operating Fund for services, products, and facilities provided to other CSU funds and to auxiliary organizations are properly and consistently recovered with cash and/or a documented exchange of value. Allowable direct costs incurred by the CSU Operating Fund shall be allocated and recovered based on actual costs incurred. Allowable and allocable indirect costs shall be allocated and recovered according to a cost allocation plan that utilizes a documented and consistent methodology including identification of indirect costs and a basis for allocation. The campus CFO, or designee, shall annually approve and implement the cost allocation plan.

The CO associate director of financial services and accounting stated that the auxiliary operated under the assertion that the form and degree of content within the cost allocation plans were sufficient and justifiable. She further stated that the cost allocation plan amounts were included in the budget, which was approved by the board at the spring meetings, and that the memo from the board to the CFO’s designee regarding approval of the budget was considered acceptance of the plan.

Inadequate documentation of practices and methodologies and the absence of a formally approved cost allocation plan increase the risk of non-compliance with relevant requirements and misunderstandings and miscommunication regarding direct and indirect costs, and increase the risk that the CO Operating Fund will not be fully compensated for support provided to auxiliary enterprises.
Recommendation 1

We recommend that the CO:

a. Update its cost allocation plan to describe the practices and methodologies utilized to determine the basis for allocating costs.

b. Develop a process to ensure that the CFO or designee approves the cost allocation plan on an annual basis.

Management Response

We concur. The CO will update its cost allocation plan to describe the practices and methodologies utilized to determine the basis for allocating costs and ensure CFO approval of cost allocation plans.

This recommendation will be implemented by April 2014.
CALIFORNIA STATE UNIVERSITY FOUNDATION

FEES, REVENUES, AND RECEIVABLES

MATCHING GIFTS

The California State University Foundation (Foundation) did not perform a documented dual review of matching gifts during the acceptance process to ensure that funds were designated in accordance with donor intent.

We reviewed five matching gifts received from June 2011 to April 2013, and we found that none had a signed matching gift claim form or online confirmation instructions, along with the buck slip outlining the procedures used to evaluate the eligibility requirements, to indicate completion of a dual review.

The Foundation Matching Gift Policy and Procedure states that all matching gift claim forms will be signed by the Foundation vice president. It further states that the procedure used to evaluate the eligibility requirements will be outlined in a buck slip and signed by the director of Foundation programs and services. Lastly, it requires the qualified claim forms or online confirmation instructions to be forwarded with the buck slip to the Foundation vice president for final confirmation to complete a dual review procedure.

ICSUAM §15401.00, Fundraising-Matching Gifts, dated March 1, 2012, states that the purpose of this policy is to establish proper internal controls for the acceptance of matching gifts, which includes a dual review process. Approving authority responsibilities shall be segregated from the recordkeeping function and include, among other duties, the review and verification of all donor contributions for which matching gifts are requested. Recordkeeping responsibilities may be assigned to one or more staff members and should include: 1) maintaining records of donor contributions and matching gifts in such a manner that there is a clear record of the individual contribution, the related matching gift claim, and compliance with the matching gift program; and 2) maintaining a record documenting that the matching gift purpose mirrors the purpose of the original donor gift and is consistent with representations to the matching gift program. To substantiate the dual review process: 1) the recordkeeper may countersign the claim certification; 2) the approving authority and recordkeeper may both sign an affirmation; or 3) the process may be automated in a secure database that tracks the actions of both the approving authority and recordkeeper.

The Foundation vice president stated that the matching gift company’s process was completed appropriately and the funds were used for approved purposes for all five matching gifts noted. She also stated that three of the five gifts were recurring matches with prior documentation showing that the funder had been contacted to verify eligibility. She further stated that for one gift, the donor gave a gift to a company foundation, which was matched and forwarded to the Foundation, such that no action was required by the Foundation. In addition, she stated that another gift included documentation between the director of Foundation programs and services and the donor and was
certified by the Foundation vice president. She added that the only failure in each case was not retaining a buck slip with two signatures for audit purposes, per Foundation policy.

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

**Recommendation 2**

We recommend that the Foundation perform a documented dual review of all matching gifts during the acceptance process to ensure that funds are designated in accordance with donor intent.

**Management Response**

We concur. The Foundation will ensure matching funds are designated in accordance with donor intent and in compliance with dual review standards when applicable.

This recommendation will be implemented by August 2014.

**GIFTS-IN-KIND**

Administration of Foundation gifts-in-kind required improvement.

We found that:

- The Foundation had not developed written procedures to address the accountability, acceptable usage, and distribution of gifts-in-kind that could be subsequently exchanged for services.

- The Foundation had not established a process to inventory, log, and reconcile gifts-in-kind. Consequently, one of the 20 travel vouchers received as a gift-in-kind in FY 2011/12 could not be accounted for.

- Air travel vouchers received as gifts-in-kind were awarded to CSU students who were not required to complete and sign release forms or waivers to acknowledge that they were informed of the risks of air travel, undertook such air travel voluntarily, and released and held harmless the Foundation and its affiliates.

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 the development of procedures to address accountability and distribution of goods, as well and proper safeguarding of inventory and assets.

EO 1041, *California State University Student Travel Policy*, dated July 1, 2009, states that all students participating in CSU-affiliated programs that require air travel shall be required to acknowledge that they have been informed of the risks of air travel required by such programs and to sign a statement certifying that they have been informed of and undertake such air travel voluntarily with full knowledge of such risks, and release and hold harmless the state of California, the CSU, the campus affiliated with the program requiring air travel, and each and every officer, agent, and employee of each of them, from any and all claims and causes of action that the student, or any person(s) claiming through the student, may have against any of the above institutions or persons, by reason of any accident, illness, or injuries, death, or other consequences resulting directly or indirectly from or in any manner arising out of, or in connection with, the student being a passenger on a flight.

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 release forms or signed waivers be obtained from each student traveling by air.

The Foundation vice president stated that the issues with gifts-in-kind may be attributed to insufficient inventory procedures and a lack of awareness regarding the requirements of student travel.

Insufficient administration of gifts-in-kind increases the likelihood of misdirected gifts and the risk that gifts will be handled contrary to the expectations of the donors and that errors and irregularities may occur.

**Recommendation 3**

We recommend that the Foundation:

a. Develop written procedures to address the accountability, acceptable usage, and distribution of gifts-in-kind that could be subsequently exchanged for services.

b. Establish a process to inventory, log, and reconcile gifts-in-kind.

c. Obtain signed release forms or waivers from all students traveling by air.
Management Response

We concur. The CO will document procedures addressing the accountability, acceptable usage, and distribution of gifts-in-kind that could be subsequently exchanged for services. In addition, a process will be documented regarding the inventory, log, and reconciliation of gifts-in-kind. Further, signed release forms or waivers will be obtained from all students traveling by air.

This recommendation will be implemented by August 2014.

CONTRACTS AND GRANTS

Administration of Foundation contracts and grants needed improvement.

We reviewed ten active and ten closed contracts and grants, and we found that:

- Signed proposal clearance forms were not on file for three active contracts and grants.

- The final closeout process was not completed in a timely manner and the closeout checklist was not utilized for any of the closed contracts and grants. Final closeout ranged from approximately 16 to 29 months after the project end date.

The Sponsored Programs Administration (SPA) process requires principal investigators to initiate the proposal/clearance process with the principal investigator’s department and SPA for proper proposal clearance and approval prior to submitting the proposal to the sponsor.

The CO Project Closeout Procedure states that awards are considered completed when all work is finished or on the date on which the award expires or terminates. If, at the end of the project period, the principal investigator has not secured a renewal, supplement, or no-cost extension, closeout must be conducted.

The CO SPA director stated that the lack of proposal clearance forms may be attributed to a lack of resources available to follow up on completion of the clearance process. She further stated that the closeout process suffered in prior periods because the department had to prioritize its tasks to meet its core objectives. She added that once core objectives were met, a mass closeout process was performed, and a request to closeout funds and projects was submitted in June 2013; thus, the delay in closeout procedures did not have a financial impact on the sponsored programs.

Inadequate administration of contracts and grants increases the risk of non-compliance with relevant requirements and exposes the auxiliary organization to penalties and disallowances for non-compliance with contracts and grants terms.
Recommendation 4

We recommend that the Foundation:

a. Obtain signed proposal clearance forms for all future contracts and grants.

b. Complete final closeout of contracts and grants in a timely manner, and utilize the closeout checklist.

Management Response

We concur. As appropriate, the CO will obtain signed proposal clearance forms for all future contracts and grants. In addition, a simple process will be developed to ensure final closeout of contracts and grants is done in a timely manner.

This recommendation will be implemented by May 2014.
OPERATIONAL COMPLIANCE

Annual statement of economic interest forms completed by California State University Institute (Institute) governing board members did not list each member’s board positions.

CSU Conflict of Interest Handbook §2B, dated August 2009, 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.

The Internal Revenue Service, Governance and Related Topics 501(c)(3), dated February 4, 2008, and Return of Organization Exempt from Income Tax, Form 900, encourages a charity’s board of directors to adopt and regularly evaluate a written conflict-of-interest policy that requires directors and staff to act solely in the interests of the charity without regard for personal interests; includes written procedures for determining whether a relationship, financial interest, or business affiliation results in a conflict of interest; and prescribes a course of action in the event a conflict of interest is identified.

The Fair Political Practices Commission Form 700, Statement of Economic Interest, states, in part, that members filing for multiple positions must fully disclose all positions within the form or on a separate attachment.

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 including all board positions held by Institute board members on annual statement of economic interest forms.

The CO associate director of financial services and accounting stated that CO staff, who filled out the forms on behalf of the board members, were not fully informed of the requirement to list all board member positions held by the Institute board members.

Incomplete disclosure of board positions held by Institute board members on annual statement of economic interest forms increases liability for acts contrary to the code.

Recommendation 5

We recommend that the Institute include all board positions on board members’ annual statement of economic interest forms.
Management Response

We concur. The Institute will comply with legal requirements regarding board member conflicts of interest.

This recommendation will be implemented by May 2014.
## APPENDIX A:
### PERSONNEL CONTACTED

<table>
<thead>
<tr>
<th>Name</th>
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<tbody>
<tr>
<td><strong>OFFICE OF THE CHANCELLOR</strong></td>
<td></td>
</tr>
<tr>
<td>Benjamin F. Quillian</td>
<td>Executive Vice Chancellor and Chief Financial Officer (At time of review)</td>
</tr>
<tr>
<td>Sally Roush</td>
<td>Interim Vice Chancellor for Business and Finance (At time of review)</td>
</tr>
<tr>
<td>Amy Ahearn</td>
<td>Financial Information Systems Administrator</td>
</tr>
<tr>
<td>George Ashkar</td>
<td>Assistant Vice Chancellor/Controller, Financial Services</td>
</tr>
<tr>
<td>Garrett Ashley</td>
<td>Executive Vice Chancellor, University Advancement</td>
</tr>
<tr>
<td>Sean Berry</td>
<td>Administrative Assistant, Systemwide Advancement</td>
</tr>
<tr>
<td>Lorissa Cheney</td>
<td>Financial Information Systems Specialist</td>
</tr>
<tr>
<td>Kelly Cox</td>
<td>Associate Director, Financial Services, Accounting</td>
</tr>
<tr>
<td>Sue DeRosa</td>
<td>Director, Sponsored Programs Administration</td>
</tr>
<tr>
<td>Robert Eaton</td>
<td>Senior Director, Financing and Treasury</td>
</tr>
<tr>
<td>Syrus En</td>
<td>Senior Financial Manager, Short Term and Structured Finance, Financing and Treasury</td>
</tr>
<tr>
<td>Jean Gill</td>
<td>Assistant Controller, Financial Services Accounting</td>
</tr>
<tr>
<td>Cindy Gong</td>
<td>Systemwide Accountant</td>
</tr>
<tr>
<td>Edward Hudson</td>
<td>Information Security Director</td>
</tr>
<tr>
<td>Alice Kim</td>
<td>Senior Financial Reporting Manager, Financial Services Accounting</td>
</tr>
<tr>
<td>Sylvia Olivas</td>
<td>Manager, Sponsored Programs Administration</td>
</tr>
<tr>
<td>William Perry</td>
<td>Chief Information Management and Security Officer</td>
</tr>
<tr>
<td>Lori Redfearn</td>
<td>Assistant Vice Chancellor, Systemwide Advancement</td>
</tr>
<tr>
<td>Mike Redmond</td>
<td>Acting Assistant Vice Chancellor, Headquarters Building Security and Strategic Initiatives</td>
</tr>
<tr>
<td>Lauri Reilly</td>
<td>Accounts Payable Manager</td>
</tr>
<tr>
<td>Robert Schiller</td>
<td>Auxiliary Operations Accountant/General Accountant</td>
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<thead>
<tr>
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<tbody>
<tr>
<td>Garrett Ashley</td>
<td>President</td>
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<tr>
<td>Anne Brown</td>
<td>Director, Foundation Programs and Services</td>
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<tr>
<td>Lori Redfearn</td>
<td>Vice President</td>
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<tr>
<td>Robert Schiller</td>
<td>Auxiliary Operations Accountant/General Accountant</td>
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<tr>
<th>Name</th>
<th>Title</th>
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<tbody>
<tr>
<td>Benjamin F. Quillian</td>
<td>Executive Vice Chancellor and Chief Financial Officer (At time of review)</td>
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<tr>
<td>Kelly Cox</td>
<td>Associate Director, Financial Services, Accounting</td>
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<tr>
<td>Cindy Gong</td>
<td>Systemwide Accountant</td>
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<tr>
<td>Alice Kim</td>
<td>Senior Financial Reporting Manager, Financial Services, Accounting</td>
</tr>
</tbody>
</table>
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 Vice Chancellor and Chief Audit Officer, 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.
MEMORANDUM

DATE: April 11, 2014

TO: Larry Mandel
Vice Chancellor and Chief Audit Officer

FROM: Sally Roush
Interim Vice Chancellor

SUBJECT: Audit Report # 13-06 Auxiliary Organizations – CSU Office of the Chancellor

In response to the “Incomplete Draft” report dated February 5, 2014, we are providing the enclosed management response.

Should you have any questions, please feel free to contact me.

SFR: mpr

Attachment

c: Garrett Ashley, Executive Vice Chancellor, University Advancement
   Lori Redfearn, Assistant Vice Chancellor, Systemwide Advancement
   George Ashkar, Assistant Vice Chancellor and Controller, Financial Services
   Michael Redmond, Acting Assistant Vice Chancellor, Headquarters Budget, Security, and Strategic Initiatives

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CSU Campuses
Bakersfield
Channel Islands
Chico
Dominguez Hills
East Bay
Fresno
Fullerton
Humboldt
Long Beach
Los Angeles
Maritime Academy
Montarey Bay
Northridge
Pomona
Sacramento
San Bernardino
San Diego
San Francisco
San José
San Luis Obispo
San Marcos
Sonoma
Stanislaus
AUXILIARY ORGANIZATIONS

CALIFORNIA STATE UNIVERSITY,
OFFICE OF THE CHANCELLOR

Audit Report 13-06

OFFICE OF THE CHANCELLOR

FISCAL COMPLIANCE

Recommendation 1

We recommend that the CO:

a. Update its cost allocation plan to describe the practices and methodologies utilized to determine the basis for allocating costs.

b. Develop a process to ensure that the CFO or designee approves the cost allocation plan on an annual basis.

Management Response

We concur. The CO will update its cost allocation plan to describe the practices and methodologies utilized to determine the basis for allocating costs and ensure CFO approval of cost allocation plans.

This recommendation will be implemented by April 2014.
MATCHING GIFTS

Recommendation 2

We recommend that the Foundation perform a documented dual review of all matching gifts during the acceptance process to ensure that funds are designated in accordance with donor intent.

Management Response

We concur. The Foundation will ensure matching funds are designated in accordance with donor intent and in compliance with dual review standards when applicable.

This recommendation will be implemented by August 2014.

GIFTS-IN-KIND

Recommendation 3

We recommend that the Foundation:

a. Develop written procedures to address the accountability, acceptable usage, and distribution of gifts-in-kind that could be subsequently exchanged for services.

b. Establish a process to inventory, log, and reconcile gifts-in-kind.

c. Obtain signed release forms or waivers from all students traveling by air.

Management Response

We concur. The chancellor’s office will document procedures addressing the accountability, acceptable usage, and distribution of gifts-in-kind that could be subsequently exchanged for services. In addition, a process will be documented regarding the inventory, log, and reconciliation of gifts-in-kind. Further, signed release forms or waivers will be obtained from all students traveling by air.

This recommendation will be implemented by August 2014.

CONTRACTS AND GRANTS

Recommendation 4

We recommend that the Foundation:

a. Obtain signed proposal clearance forms for all future contracts and grants.
b. Complete final closeout of contracts and grants in a timely manner, and utilize the closeout checklist.

Management Response

We concur. As appropriate, the chancellor’s office will obtain signed proposal clearance forms for all future contracts and grants. In addition, a simple process will be developed to ensure final closeout of contracts and grants is done in a timely manner.

This recommendation will be implemented by May 2014.
OPERATIONAL COMPLIANCE

Recommendation 5

We recommend that the Institute include all board positions on board members’ annual statement of economic interest forms.

Management Response

We concur. The Institute will comply with legal requirements regarding board member conflicts of interest.

This recommendation will be implemented by May 2014.
May 1, 2014

MEMORANDUM

TO: Mr. Larry Mandel
   Vice Chancellor and Chief Audit Officer

FROM: Timothy P. White
       Chancellor

SUBJECT: Draft Final Report 13-06 on Auxiliary Organizations, California State University, Office of the Chancellor

In response to your memorandum of May 1, 2014, I accept the response as submitted with the draft final report on Auxiliary Organizations, California State University, Office of the Chancellor.

TPW/amd