

AUXILIARY ORGANIZATIONS
CALIFORNIA STATE UNIVERSITY,
FULLERTON

Report Number 06-46
October 13, 2006

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THE CALIFORNIA STATE UNIVERSITY

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ABBREVIATIONS

| | |
|-------------------|--|
| AS | Associated Students California State University, Fullerton, Inc. |
| CFO | Chief Financial Officer |
| Corporation | California State University Auxiliary Services Corporation |
| CSU | California State University |
| EO | Executive Order |
| Foundation | Cal State Fullerton Philanthropic Foundation |
| Housing Authority | CSU, Fullerton Housing Authority |
| IRS | Internal Revenue Service |
| MIS | Management Information Systems |
| RFIN | Resolution of the Committee on Finance |
| UBI | Unrelated Business Income |

EXECUTIVE SUMMARY

In July 1981, the Board of Trustee policy concerning auxiliary organizations was adopted in the Resolution of the Committee on Finance (RFIN) 7-81-4. Executive Order 698, *Board of Trustees Policy for The California State University Auxiliary Organizations*, dated March 3, 1999, required that the Office of the University Auditor conduct internal compliance/internal control reviews of auxiliary organizations, and the Board of Trustees instructed that such reviews be conducted on a triennial basis pursuant to procedures established by the chancellor.

California State University, Fullerton management is responsible for establishing and maintaining an adequate system of internal compliance/internal control and assuring that each of its auxiliary organizations similarly establishes such a system. This responsibility, in accordance with California Code of Regulations, Title 5, Section 42402 et seq. and Executive Order 698, *Board of Trustees Policy for The California State University Auxiliary Organizations et seq.*, includes requiring the documentation of internal control, communicating requirements to employees, and assuring that its system of internal compliance/internal control is functioning as prescribed. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures.

The objectives of a system of internal compliance/internal control are to provide management with reasonable, but not absolute, assurance that:

- ▶ Auxiliary operations are conducted in accordance with policies and procedures established in the State Administrative Manual, Education Code, Title 5, and Trustee policy.
- ▶ Assets are adequately safeguarded against loss from unauthorized use or disposition.
- ▶ Transactions are executed in accordance with management's authorization and recorded properly to permit the timely preparation of reliable financial statements.

We visited the California State University, Fullerton campus and its auxiliary organizations from February 6, 2006, through March 10, 2006, and made a study and evaluation of the system of internal compliance/internal control in effect for the period May 2003 to March 2006. This report represents our triennial review.

Our study and evaluation at *California State University Auxiliary Services Corporation* did not reveal any significant internal control problems or weaknesses that would be considered pervasive in their effects on the accounting and administrative controls. However, we did identify other reportable weaknesses that are described in the executive summary and in the body of the report. In our opinion, the accounting and administrative control in effect as of March 2006, taken as a whole, was sufficient to meet the objectives stated above.

Our study and evaluation at *Cal State Fullerton Philanthropic Foundation* did not reveal any significant internal control problems or weaknesses that would be considered pervasive in their effects on the accounting and administrative controls. However, we did identify other reportable weaknesses that are described in the executive summary and in the body of the report. In our opinion, the accounting and administrative control in effect as of March 2006, taken as a whole, was sufficient to meet the objectives stated above.

Our study and evaluation at *Associated Students California State University, Fullerton, Inc.* did not reveal any significant internal control problems or weaknesses that would be considered pervasive in their effects on the accounting and administrative controls. However, we did identify other reportable weaknesses that are described in the executive summary and in the body of the report. In our opinion, the accounting and administrative control in effect as of March 2006, taken as a whole, was sufficient to meet the objectives stated above.

Our study and evaluation at *CSU, Fullerton Housing Authority* did not reveal any significant internal control problems or weaknesses that would be considered pervasive in their effects on the accounting and administrative controls. However, we did identify other reportable weaknesses that are described in the executive summary and in the body of the report. In our opinion, the accounting and administrative control in effect as of March 2006, taken as a whole, was sufficient to meet the objectives stated above.

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

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

CAMPUS

TRUSTS AND OTHER LIABILITIES [10]

State revenues were inappropriately held in trust accounts maintained at the California State University Auxiliary Services Corporation (Corporation), Cal State Fullerton Philanthropic Foundation, and Associated Students California State University, Fullerton, Inc.

AUXILIARY PROGRAMS [11]

Campus oversight of contracts and grants effort reporting was insufficient. Specifically, campus controls over faculty release time and overload were not well coordinated with the Corporation's tracking of effort reporting.

CALIFORNIA STATE UNIVERSITY AUXILIARY SERVICES CORPORATION

OPERATING AND ADMINISTRATIVE AGREEMENTS [12]

A written agreement between the California State University Auxiliary Services Corporation (Corporation) and the campus had not been executed for the Hungry Titan Store.

OPERATIONAL COMPLIANCE [12]

The Corporation had not performed an analysis of the comparability of salaries, wages, and benefits for its full-time employees in relation to those provided campus employees performing substantially similar positions.

FEES, REVENUES, AND RECEIVABLES [13]

Certain Corporation policies and procedures were not followed with respect to uncollected revenues and receivables.

PROPERTY AND EQUIPMENT [14]

Administration of Corporation property and equipment for sponsored programs was inadequate. Specifically, fixed assets were not consistently tagged, and physical inventory counts of fixed assets had not been regularly performed.

INFORMATION TECHNOLOGY [15]

The security features for the Corporation computer system hosting the financial application were not set to provide effective protection.

CAL STATE FULLERTON PHILANTHROPIC FOUNDATION

CORPORATE GOVERNANCE [16]

The Cal State Fullerton Philanthropic Foundation (Foundation) board and subcommittee minutes were not signed and approved by an appropriate official, and were not consistently maintained for the various subcommittees.

FISCAL COMPLIANCE [16]

The Foundation did not record board-designated reserves within its general ledger. Further, the Foundation had not fully reimbursed the General Fund for all direct and indirect costs associated with services provided by several state employees for fiscal years 2002/03, 2003/04, and 2004/05.

OPERATIONAL COMPLIANCE [18]

The Foundation did not consistently maintain or obtain annual conflict-of-interest statements from all board members and/or management for fiscal years 2003/04, 2004/05, and 2005/06.

SEGREGATION OF DUTIES [18]

Certain duties and responsibilities related to gift receipts processing were not appropriately segregated at the Foundation. Specifically, the accounting manager performed and approved donor

gift receipt batches, had access to manual gift receipt stock, and had the ability to print gift receipts without an independent review or mitigating controls.

CASH RECEIPTS AND HANDLING [19]

The Foundation did not maintain a log of incoming checks or cash prior to processing by accounts receivable staff.

FEES, REVENUES, AND RECEIVABLES [20]

The Foundation did not fully implement its written policy and procedure for the aging and write-off of pledges receivable.

ENDOWMENT ADMINISTRATION [21]

The Foundation endowment investment policy had not been updated to reflect board-approved weighting levels that were implemented in November 2005. Further, certain older Foundation endowments lacked sufficient documentation supporting their establishment, and endowment account reports for fiscal year 2004/05 were not sent to donors. Lastly, the Foundation had not developed complete, written procedures regarding the solicitation, acceptance, and processing of endowments.

ASSOCIATED STUDENTS CALIFORNIA STATE UNIVERSITY, FULLERTON, INC.

OPERATING AND ADMINISTRATIVE AGREEMENTS [25]

Certain written agreements among the Associated Students California State University, Fullerton, Inc. (AS) and other entities were incomplete. For example, the Open Gym Medical Release Form and University Conference Center Facility Use Agreement did not indemnify the campus.

FACILITIES AGREEMENTS [26]

Sublease agreements among the AS and third parties did not contain a provision indemnifying the state and/or campus.

CORPORATE GOVERNANCE [26]

The AS Articles of Incorporation included an improper dissolution clause; it only allowed a non-profit organization to be selected as successor. Further, the AS board of directors did not consistently include the total number of directors as required by AS bylaws.

FISCAL COMPLIANCE [28]

The AS had not accounted for or tracked unrelated business income for childcare services provided to community members nor did the AS file an Internal Revenue Service Form 990T.

SEGREGATION OF DUTIES [28]

Duties and responsibilities related to cash receipts processing were not adequately segregated at the AS Children's Center. Specifically, one individual prepared deposits and reconciled the Children's Center subsidiary ledger to the AS accounting general ledger.

CASH RECEIPTS AND HANDLING [29]

Administration of AS cash receipts and handling required improvement. For example, the recreation sports youth gymnastics office did not prepare a log of incoming checks nor maintain a custody transfer log of gymnastics cash receipts.

FEES, REVENUES, AND RECEIVABLES [30]

The AS did not perform reconciliations of the subsidiary receivables ledger to the general ledger.

PURCHASING AND ACCOUNTS PAYABLE [31]

Certain AS cash disbursements were not supported by sufficient and appropriate documentation and/or appropriate authorization. In 20 instances, checks were held for pickup and mailed by the AS business office.

CSU, FULLERTON HOUSING AUTHORITY

OPERATING AND ADMINISTRATIVE AGREEMENTS [33]

The property management agreement between the CSU, Fullerton Housing Authority (Housing Authority) and a third party did not contain the proper indemnification provision.

CORPORATE GOVERNANCE [34]

The Housing Authority board did not include a student representative for fiscal year 2005/06.

INVESTMENTS [34]

The Housing Authority did not develop procedures for the investment program as required by its investment policy.

PURCHASING AND ACCOUNTS PAYABLE [35]

The Housing Authority had not developed procurement policies and procedures.

INTRODUCTION

BACKGROUND

Education Code §89900 states, in part, that the operation of auxiliary organizations shall be conducted in conformity with regulations established by the Trustees.

Education Code §89904 states, in part, that the Trustees of the California State University (CSU) and the governing boards of the various auxiliary organizations shall:

- ▶ Institute a standard systemwide accounting and reporting system for businesslike management of the operation of such auxiliary organizations.
- ▶ Implement financial standards that will assure the fiscal viability of such various auxiliary organizations. Such standards shall include proper provision for professional management, adequate working capital, adequate reserve funds for current operations and capital replacements, and adequate provisions for new business requirements.
- ▶ Institute procedures to assure that transactions of the auxiliary organizations are within the educational mission of the state colleges.
- ▶ Develop policies for the appropriation of funds derived from indirect cost payments.

The Board of Trustee policy concerning auxiliary organizations was originally adopted in July 1981 in the Resolution of the Committee on Finance (RFIN) 7-81-4. Executive Order 698, *Board of Trustees Policy for The California State University Auxiliary Organizations*, dated March 3, 1999, represents policy of the Trustees addressing CSU auxiliary organization activity and governing the internal management of the system. CSU auxiliary organizations are required to comply with Board of Trustee policy (California Code of Regulations, Title 5, Section 42402 and Education Code, Section 89900).

This executive order requires that the Office of the University Auditor will perform an internal compliance/internal control review of auxiliary organizations. The review will be used to determine compliance with law, including statutes in the Education Code and rules and regulations of Title 5, and compliance with policy of the Board of Trustees and of the campus, including appropriate separation of duties, safeguarding of assets, and reliability and integrity of information. According to Board of Trustee instruction, each auxiliary organization shall be examined on a triennial basis pursuant to procedures established by the chancellor.

PURPOSE

The principal audit objectives were to determine compliance with the Education Code, Title 5, and directives of the Board of Trustees and the Office of the Chancellor and to assess the adequacy of controls and systems. Specifically, we sought assurances that:

- ▶ Legal and regulatory requirements are complied with.
- ▶ Accounting data is provided in an accurate, timely, complete, or otherwise reliable manner.
- ▶ Assets are adequately safeguarded from loss, damage, or misappropriation.
- ▶ Duties are appropriately segregated consistent with appropriate control objectives.
- ▶ Transactions, accounting entries, or systems output is reviewed and approved.
- ▶ Management does not intentionally override internal controls to the detriment of control objectives.
- ▶ Accounting and fiscal tasks, such as reconciliations, are prepared properly and completed timely.
- ▶ Deficiencies in internal controls previously identified were corrected satisfactorily and timely.
- ▶ Management seeks to prevent or detect erroneous recordkeeping, inappropriate accounting, fraudulent financial reporting, financial loss, and exposure.

SCOPE AND METHODOLOGY

Our study and evaluation were conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing* issued by the Institute of Internal Auditors, and included the audit tests we considered necessary in determining that accounting and administrative controls are in place and operative. The management review emphasized, but was not limited to, compliance with state and federal laws, Board of Trustee policies, and Office of the Chancellor policies, letters, and directives. For those audit tests that required annualized data, fiscal years 2003/04 and 2004/05 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 2005 to March 2006. 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 Auxiliary Services Corporation

- ▶ Operating and Administrative Agreements
- ▶ Facilities Agreements
- ▶ Corporate Governance
- ▶ Fiscal Compliance
- ▶ Operational Compliance
- ▶ Program Compliance
- ▶ Campus Oversight and Control
- ▶ Segregation of Duties
- ▶ Cash Receipts and Handling
- ▶ Petty Cash and Change Funds
- ▶ Investments
- ▶ Fees, Revenues, and Receivables
- ▶ Purchasing and Accounts Payable
- ▶ Personnel and Payroll
- ▶ Property and Equipment
- ▶ Trusts and Other Liabilities
- ▶ Auxiliary Programs
- ▶ Information Technology

Cal State Fullerton Philanthropic Foundation

- ▶ Operating and Administrative Agreements
- ▶ Facilities Agreements
- ▶ Corporate Governance
- ▶ Fiscal Compliance
- ▶ Operational Compliance
- ▶ Program Compliance
- ▶ Campus Oversight and Control
- ▶ Segregation of Duties
- ▶ Cash Receipts and Handling
- ▶ Petty Cash and Change Funds
- ▶ Investments
- ▶ Fees, Revenues, and Receivables
- ▶ Purchasing and Accounts Payable
- ▶ Trusts and Other Liabilities

Associated Students California State University, Fullerton, Inc.

- ▶ Operating and Administrative Agreements
- ▶ Facilities Agreements
- ▶ Corporate Governance
- ▶ Fiscal Compliance
- ▶ Operational Compliance
- ▶ Program Compliance
- ▶ Campus Oversight and Control
- ▶ Segregation of Duties
- ▶ Cash Receipts and Handling
- ▶ Petty Cash and Change Funds
- ▶ Investments
- ▶ Fees, Revenues, and Receivables
- ▶ Purchasing and Accounts Payable
- ▶ Personnel and Payroll
- ▶ Property and Equipment
- ▶ Trusts and Other Liabilities
- ▶ Information Technology

CSU, Fullerton Housing Authority

- ▶ Operating and Administrative Agreements
- ▶ Facilities Agreements
- ▶ Corporate Governance
- ▶ Fiscal Compliance
- ▶ Operational Compliance
- ▶ Program Compliance
- ▶ Campus Oversight and Control
- ▶ Segregation of Duties
- ▶ Cash Receipts and Handling
- ▶ Petty Cash and Change Funds
- ▶ Investments
- ▶ Fees, Revenues, and Receivables
- ▶ Purchasing and Accounts Payable
- ▶ Trusts and Other Liabilities

We have not performed any auditing procedures beyond March 2006. Accordingly, our comments are based on our knowledge as of that date. Since the purpose of our comments is to suggest areas for improvement, comments on favorable matters are not addressed.

OBSERVATIONS, RECOMMENDATIONS, AND CAMPUS RESPONSES

CAMPUS

TRUSTS AND OTHER LIABILITIES

State revenues were inappropriately held in trust accounts maintained at the California State University Auxiliary Services Corporation (Corporation), Cal State Fullerton Philanthropic Foundation (Foundation), and Associated Students California State University, Fullerton, Inc. (AS).

We noted that:

- ▶ State funds related to campus centers and institutes were held in trust accounts maintained at the Corporation.
- ▶ Ticket revenue for athletic events was held in a trust agency account maintained at both the Foundation and the AS.

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

The assistant vice president of administration and finance stated that trust accounts for state trust funds and other custodial funds were established by the auxiliaries prior to EO 919.

Insufficient oversight of custodial funds held in trust increases the risk that funds will be expended for inappropriate purposes.

Recommendation 1

We recommend that the campus ensure that all state revenues are maintained and administered in state trust accounts and that all state revenues currently residing in Corporation, Foundation, and AS accounts be transferred to the state.

Campus Response

We concur. The campus will review Corporation, Foundation, and AS accounts and transfer state revenues currently residing in auxiliary accounts by March 2007.

AUXILIARY PROGRAMS

Campus oversight of contracts and grants effort reporting was insufficient.

We found that campus controls over faculty release time and overload were not well coordinated with the Corporation's tracking of effort reporting.

Title 5 §42401, §42402, §42500 and Education Code §89900 establish a responsibility to operate in accordance with sound business practices in the interest of the campus. Sound business practices mandate policies and procedures to support tracking and monitoring of compliance requirements.

EO 890, *Administration of Grants and Contracts in Support of Sponsored Programs*, dated January 7, 2004, in part, states that each campus should establish necessary controls to ensure sound fiscal management of sponsored programs.

The vice president of administration and finance/chief financial officer (CFO) stated that the campus and the Corporation had been reviewing the faculty release and effort reporting process, but at the time of the audit had not addressed enhancements to procedures.

Insufficient coordination of efforts to control faculty release time, overload, and effort reporting increases the risk of non-compliance with contract and grant requirements.

Recommendation 2

We recommend that the campus work with the Corporation to ensure proper coordination of the effort reporting process and compliance with contract and grant requirements.

Campus Response

We concur. The campus will work with the Corporation to initiate action to ensure proper coordination of the effort reporting process and compliance with contract and grant requirements by March 2007.

CALIFORNIA STATE UNIVERSITY AUXILIARY SERVICES CORPORATION

OPERATING AND ADMINISTRATIVE AGREEMENTS

A written agreement between the California State University Auxiliary Services Corporation (Corporation) and the campus had not been executed for the Hungry Titan Store.

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

The Corporation director of finance and administration stated that an agreement had not been executed with the campus for the Hungry Titan Store due to oversight. However, during the audit fieldwork, she provided an unexecuted draft agreement.

The absence of current, written agreements increases the risk of misunderstandings and miscommunication regarding rights and responsibilities.

Recommendation 3

We recommend that the Corporation execute the agreement with the campus for the Hungry Titan Store.

Campus Response

We concur. The Corporation will execute the agreement with the campus for the Hungry Titan Store by November 2006.

OPERATIONAL COMPLIANCE

The Corporation had not performed an analysis of the comparability of salaries, wages, and benefits for its full-time employees in relation to those provided campus employees performing substantially similar positions.

Title 5 §42405 states that the governing board of each auxiliary organization shall provide salaries, working conditions, and benefits for its full-time employees which are comparable to those provided campus employees performing substantially similar services. For those full-time employees who perform services that are not substantially similar to the services performed by campus employees, the salaries established shall be at least equal to the salaries prevailing in other educational institutions in the area or commercial operations of like nature.

The Corporation executive director stated that a salaries and benefits comparability analysis was not performed because he did not believe it was required.

Failure to perform the comparative analysis of positions increases the risk that the auxiliary may be expending inappropriate amounts on salaries and benefits for employees who perform substantially similar services as employees for the campus.

Recommendation 4

We recommend that the Corporation perform and document an analysis of the comparability of salaries, wages, and benefits for its full-time employees in relation to those provided campus employees performing substantially similar services.

Campus Response

We concur. The Corporation will perform and document an analysis of the comparability of salaries, wages, and the benefits for its full-time employees in relation to those provided campus employees performing substantially similar services by February 2007.

FEES, REVENUES, AND RECEIVABLES

Certain Corporation policies and procedures were not followed with respect to uncollected revenues and receivables.

We found that:

- ▶ Timely action was not taken on a third-party agreement for collection of revenues.
- ▶ Sponsored program procedures to address aging receivables were not followed.

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 timely collection of revenues and following established procedures for accounts receivables.

The Corporation director of finance and administration stated that management was aware that the third-party agreement was not paid according to the contract, and a letter was obtained from the third party during fieldwork with an explanation for untimely revenues. Further, she stated that procedures were not followed for certain sponsored program's receivables due to management decision to take other means of actions for collections.

Failure to fully implement written policies and procedures increases the risk that inconsistencies and misunderstandings will occur.

Recommendation 5

We recommend that the Corporation follow its own policies and procedures addressing uncollected revenues and receivables.

Campus Response

We concur. The Corporation will revise its policies and procedures to include explicitly stated procedures for addressing exceptions by December 2006.

PROPERTY AND EQUIPMENT

Administration of Corporation property and equipment for sponsored programs was inadequate.

We found that:

- ▶ Fixed assets were not consistently tagged.
- ▶ Physical inventory counts of fixed assets had not been regularly performed.

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

The *Compilation of Policies and Procedures for California State University Auxiliary Organizations* sets sound business practice guidelines for auxiliary organizations operating within the CSU system. Section 8.9.7, *Property and Equipment*, states that the auxiliary should establish a written system that ensures proper recording of property and equipment when received and for labeling of equipment.

The Corporation director of finance and administration stated that proper administration of property and equipment had not been performed due to staff constraints and turnover.

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

Recommendation 6

We recommend that the Corporation sponsored programs:

- a. Ensure that all fixed assets are tagged.
- b. Perform biannual physical inventory counts of all fixed assets.

Campus Response

We concur. The Corporation sponsored programs will establish procedures to ensure all fixed assets are tagged and physical inventory counts of all fixed assets are performed on a biannual basis by January 2006.

INFORMATION TECHNOLOGY

The security features for the Corporation computer system hosting the financial application were not set to provide effective protection.

We found that:

- ▶ System services required additional security protection, such as disabling unnecessary services, TCP, and restricting remote access by the software vendor to only specific IP addresses.
- ▶ Password controls needed improvement, especially implementation of the shadow password file.

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

The Corporation MIS manager stated that the systems had undergone significant change over the past two years, that some suggested security changes had been implemented, and that at least one recommendation would require an upgrade to the operating system environment.

Without adequate settings of security parameters, there is no assurance that controls are operating as intended by management or that the system and its associated controls cannot be compromised.

Recommendation 7

We recommend that the Corporation implement security settings for the system parameters outlined above, and take appropriate measures to limit remote access to the system to specific IP addresses.

Campus Response

We concur. The Corporation will implement security settings for the system parameters outlined above, and take appropriate measures to limit remote access to the specific system IP addresses by January 2007.

CAL STATE FULLERTON PHILANTHROPIC FOUNDATION

CORPORATE GOVERNANCE

The Cal State Fullerton Philanthropic Foundation (Foundation) board and subcommittee minutes were not signed and approved by an appropriate official, and were not consistently maintained for the various subcommittees.

Corporations Code §5215 states that the original or a copy of the bylaws or of the minutes of any incorporators', members', directors', committee or other meeting or of any resolution adopted by the board or a committee thereof, or members, certified to be a true copy by a person purporting to be the secretary or an assistant secretary of the corporation, is prima facie evidence of the adoption of such bylaws or resolution or of the due holding of such meeting and of the matters stated therein.

The campus vice president of university advancement stated that the board and subcommittee minutes were not signed and maintained due to staff turnover and an increased volume of gifts.

Failure to maintain signed and approved board and subcommittee minutes increases the risk of misunderstandings and may increase legal liability.

Recommendation 8

We recommend that the Foundation take appropriate measures to ensure that its board and subcommittee minutes are signed and approved by an appropriate official and are maintained for the various subcommittees.

Campus Response

We concur. Board and subcommittee minutes will be signed by either the board secretary or subcommittee chair upon their approval by the board or subcommittee beginning in October 2006.

FISCAL COMPLIANCE

RESERVES

The Foundation did not record board-designated reserves within its general ledger.

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 a designated fund balance be recognized within an organization's general ledger.

The Foundation CFO stated that the current operations reserve was the remainder of the unrestricted fund balance, but the amount was not recognized within the general ledger.

Failure to appropriately record designated amounts increases the risk of misunderstandings and miscommunication regarding available reserves.

Recommendation 9

We recommend that the Foundation record board-designated reserves within its general ledger.

Campus Response

We concur. The Foundation recognizes the importance of an adequate operational reserve and is in compliance with its approved policy of maintaining annual operational reserves of no less than six months and no more than one year. On June 30, 2006, a separate operational reserves account was established, funded via a transfer from the Foundation's ending fund balance, and is identified in the general ledger.

COST REIMBURSEMENT

The Foundation had not fully reimbursed the General Fund for all direct and indirect costs associated with services provided by several state employees for fiscal years 2002/03, 2003/04, and 2004/05.

We noted that a \$37,400 payment by the Foundation to the campus for administrative services was not sufficient to cover the true costs.

EO 753, *Allocation of Costs to Auxiliary Enterprises*, dated July 28, 2000, established the responsibility for auxiliaries to pay allowable direct costs plus an allocable portion of indirect costs associated with facilities, goods, and services provided by the campus and funded by the General Fund.

The campus vice president of university advancement stated that the agreement outlining the services provided by state employees was outdated and did not reflect the current arrangement with the campus.

Failure to reimburse for all costs associated with state services could result in the General Fund not being properly reimbursed for services provided to the auxiliary organization.

Recommendation 10

We recommend that the Foundation reimburse the General Fund for all prior direct and indirect costs associated with services provided by state employees.

Campus Response

We concur. The university and the Foundation will review the agreement to contract for state employee and related services to determine whether reimbursement is necessary and make appropriate reimbursements as necessary by March 2007.

OPERATIONAL COMPLIANCE

The Foundation did not consistently maintain or obtain annual conflict-of-interest statements from all board members and/or management for fiscal years 2003/04, 2004/05, and 2005/06.

Education Code §89906 states that no member of the governing board of an auxiliary organization shall be financially interested in any contract or other transaction entered into by the board of which he is a member, and any contract or transaction entered into in violation of this section is void.

Title 5 §42401, §42402, and §42500 and Education Code §89900 establish a responsibility to operate in accordance with sound business practices in the interest of the campus. Sound business practice mandates establishing conflict-of-interest policies and procedures and compliance with existing policies and procedures.

The Foundation CFO stated that conflict-of-interest statements were not maintained or obtained due to staff turnover.

Failure to maintain or obtain conflict-of-interest statements from all auxiliary board members and/or management increases liability for acts contrary to the code.

Recommendation 11

We recommend that the Foundation ensure that annual conflict-of-interest statements are obtained from all board members and/or management and appropriately maintained on file.

Campus Response

We concur. The Foundation will ensure conflict-of-interest statements for fiscal year 2006/07 are obtained and on file by January 2007.

SEGREGATION OF DUTIES

Certain duties and responsibilities related to gift receipts processing were not appropriately segregated at the Foundation.

We found that the accounting manager:

- ▶ Performed and approved donor gift receipt batches.

- ▶ Had access to manual gift receipt stock.
- ▶ Had the ability to print gift receipts without an independent review or mitigating controls.

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

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

The Foundation CFO stated that staffing constraints did not allow for an appropriate segregation of duties for the accounting manager.

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

Recommendation 12

We recommend that the Foundation properly segregate certain accounting functions for gift receipts processing or institute mitigating procedures approved by the campus CFO.

Campus Response

We concur. Additional staff have been hired and procedures for gift receipts processing have been revised to ensure appropriate segregation of duties.

CASH RECEIPTS AND HANDLING

The Foundation did not maintain a log of incoming checks or cash prior to processing by accounts receivable staff.

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

The Foundation CFO stated that a log of incoming checks and cash was not maintained due to oversight.

Inadequate controls over cash receipts processing increase the risk of a loss or misappropriation of funds.

Recommendation 13

We recommend that the Foundation maintain a log of incoming checks and cash prior to processing by accounts receivable staff.

Campus Response

We concur. The Foundation has revised its gift recording procedures to include the logging of incoming checks and cash.

FEES, REVENUES, AND RECEIVABLES

The Foundation did not fully implement its written policy and procedure for the aging and write-off of pledges receivable.

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 sufficient internal controls over pledges receivable be fully implemented.

The Foundation CFO stated that the policy and procedure for pledges receivable was not fully implemented due to staffing constraints.

Failure to fully implement written policies and procedures increases the risk that inconsistencies and misunderstandings will occur.

Recommendation 14

We recommend that the Foundation fully implement its written policy and procedure for the aging and write-off of pledges receivable.

Campus Response

We concur. The Foundation has implemented the written procedures in its written Pledge Management Guidelines.

ENDOWMENT ADMINISTRATION

INVESTMENT POLICY

The Foundation endowment investment policy had not been updated to reflect board-approved weighting levels that were implemented in November 2005.

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 8.9.2, *Investments*, states that the auxiliary should adopt a written governing board investment policy that describes the investment objectives and limitations, and provides for practices to be used to meet its business and fiduciary responsibilities.

The Foundation CFO stated that the investment policy had not been updated due to oversight.

Failure to maintain a current, written investment policy increases the risk that misunderstandings and inconsistencies will occur.

Recommendation 15

We recommend that the Foundation amend its endowment investment policy to reflect current board-approved weighting levels.

Campus Response

We concur. The Foundation investment policy will be amended to reflect the board-approved modification to the investment asset allocation mix by February 2007.

DOCUMENTATION

Certain older Foundation endowments lacked sufficient documentation supporting their establishment.

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, Programs 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.

The Foundation executive director stated that the older endowment files had been transferred between several entities, compromising their completeness.

Failure to maintain sufficient supporting documentation for the establishment of endowments increases the risk that donor expectations will not be met.

Recommendation 16

We recommend that the Foundation ensure that sufficient documentation exists for all current endowment accounts (regardless of age) and document donor requirements.

Campus Response

We concur. The Foundation has reviewed every endowment account and completed principal balance reconciliations for each endowment. Many endowments were transferred to the Foundation after the Foundation was established in 1993. Based upon a review of available documentation, a record of donors to each endowment has been added to the endowment file.

DONOR REPORTING

Foundation endowment account reports for fiscal year 2004/05 were not sent to donors.

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 endowment activity reports be sent to donors at least annually.

The Foundation CFO stated that although it was campus practice to send annual endowment reports, staffing constraints prevented this process from occurring.

Failure to meet reporting requirements increases the risk that funds will be handled contrary to the expectations of the donors.

Recommendation 17

We recommend that the Foundation ensure that endowment account reports are sent to donors at least annually in accordance with Foundation standards.

Campus Response

We concur. The Foundation will ensure steps are taken to produce and deliver annual endowment reports to donors by March 2007.

SOLICITATION, ACCEPTANCE, AND PROCESSING

The Foundation had not developed complete, written procedures regarding the solicitation, acceptance, and processing of endowments.

Specifically, such procedures should address at least the following:

- ▶ Approval of gifts by auxiliary and/or campus officials, including the position of the appropriate official and timing of approval (i.e., before and after gift acceptance).
- ▶ Review of gift instruments by auxiliary and/or campus legal counsel.
- ▶ Timing in which monies are required to be deposited into the endowment investment pools.

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, Programs Service Fees, Other Income*, states that the auxiliary should establish a written recordkeeping system that enables gifts to be properly received, recorded, acknowledged in accordance with donor restrictions and other requirements. The compilation further states that the auxiliary should adopt written governing board policy that describes allowable income-generation activities, including the solicitation and acceptance of gifts, and setting of program service fees or for other services.

The Foundation CFO stated that standard procedures were used; however, written intake and processing procedures had not been developed due to oversight.

The absence of complete, written procedures increases the risk of misunderstandings and miscommunication regarding rights and responsibilities.

Recommendation 18

We recommend that the Foundation develop complete, written procedures regarding the solicitation, acceptance, and processing of endowments. Specifically, procedures should include at least the following:

- a. Approval of gifts by auxiliary and/or campus officials, including the position of the appropriate official and timing of approval (i.e., before and after gift acceptance).
- b. Review of gift instruments by auxiliary and/or campus legal counsel.
- c. Timing in which monies are required to be deposited into the endowment investment pools.

Campus Response

We concur. Current campus practice already includes gift approval at the highest appropriate level, legal review when needed, and that the timing of endowment investments is prescribed by the Common Fund, the Foundation's investment manager. Complete written procedures regarding the solicitation, acceptance, and processing of endowments will be developed to reflect these practices by January 2007.

ASSOCIATED STUDENTS
CALIFORNIA STATE UNIVERSITY, FULLERTON, INC.

OPERATING AND ADMINISTRATIVE AGREEMENTS

Certain written agreements among the Associated Students California State University, Fullerton, Inc. (AS) and other entities were incomplete.

We found that:

- ▶ The Open Gym Medical Release Form and University Conference Center Facility Use Agreement did not indemnify the campus.
- ▶ The Recreation Sports Intramural Waiver did not contain an indemnification clause.

EO 849, *California State University Insurance Requirements*, dated February 5, 2003, in part, states that hold harmless provisions should be modeled after agreements available at the CSU contract resource library. The model auxiliary operating agreement states that auxiliary organizations shall agree to indemnify, defend, and save harmless the State of California, the Trustees of the CSU, the campus, and the officers, employees, volunteers, and agents of each of them from any and all loss, damage, or liability that may be suffered or incurred by state, caused by, arising out of, or in any way connected with the operations of the auxiliary.

The AS director of financial operations and technology stated that the failure to provide for a complete indemnification provision for the Open Gym Medical Release Form and the University Facility Use Agreement was due to oversight. She further stated that failure to include an indemnification clause in the Recreation Sports Intramural Waiver was also due to oversight.

The absence of complete, written agreements increases the risk of misunderstandings and miscommunication regarding rights and responsibilities.

Recommendation 19

We recommend that the AS:

- a. Revise the Open Gym Medical Release Form and the University Facility Use Agreement to extend the indemnification clause to include the campus.
- b. Revise the Recreation Sports Intramural Waiver to include the proper indemnification clause.

Campus Response

We concur. The Open Gym Medical Release Form, the University Conference Center Facility Use Agreement, and the Recreation Sports Intramural Waiver have been updated to include the proper indemnification clause.

FACILITIES AGREEMENTS

Sublease agreements among the AS and third parties did not contain a provision indemnifying the state and/or the campus.

EO 849, *California State University Insurance Requirements*, dated February 5, 2003, in part, states that hold harmless provisions should be modeled after agreements available at the CSU contract resource library. The model auxiliary operating agreement states that auxiliary organizations shall agree to indemnify, defend, and save harmless the State of California, the Trustees of the CSU, the campus, and the officers, employees, volunteers, and agents of each of them from any and all loss, damage, or liability that may be suffered or incurred by state, caused by, arriving out of, or in any way connected with the operations of the auxiliary.

The AS executive director stated that the failure to include the proper indemnification provision in the sublease agreements was due to oversight.

The absence of complete, written agreements increases the risk of misunderstandings and miscommunication regarding rights and responsibilities.

Recommendation 20

We recommend that the AS ensure that third-party sublease agreements include appropriate indemnification provisions.

Campus Response

We concur. Existing third-party sublease agreements have been updated to include appropriate indemnification provisions. Third-party sublease agreements entered into following the preliminary audit report also include appropriate indemnification provisions.

CORPORATE GOVERNANCE

DISSOLUTION OF AUXILIARY

The AS Articles of Incorporation included an improper dissolution clause; it only allowed a non-profit organization to be selected as successor.

Title 5 §42600(b) states that upon dissolution of the organization, net assets, other than trust funds, shall be distributed to a successor approved by the president of the campus and by the Board of Trustees.

The AS executive director stated his belief that the current dissolution clause was in compliance with all regulations.

Failure to include a proper dissolution clause in accordance with Title 5 could result in net assets not being properly distributed in the event the corporation is dissolved.

Recommendation 21

We recommend that the AS redraft its corporate dissolution clause in accordance with Title 5 and appropriately reflect the change in its Articles of Incorporation.

Campus Response

We concur. A revised dissolution clause in accordance with Title 5 has been drafted and forwarded to the AS board of directors for approval. Following approval by the board of directors, the Articles of Incorporation will be amended through the required certification process with the Secretary of State. We anticipate this will occur by January 2007.

BOARD COMPOSITION

The AS board did not consistently include the total number of directors as required by AS bylaws.

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 an auxiliary ensure that it meets the requirements set forth in its bylaws.

The AS executive director stated that ensuring proper board composition was difficult due to the lack of interest in student government by campus groups required to participate.

Failure to maintain mandated board composition violates statutory requirements and increases the risk that all views will not be adequately represented.

Recommendation 22

We recommend that the AS ensure that appropriate board representation is maintained.

Campus Response

We concur. The AS board of directors has approved a change to its bylaws to ensure appropriate board representation is maintained.

FISCAL COMPLIANCE

The AS had not accounted for or tracked unrelated business income (UBI) for childcare services provided to community members nor did the AS file an Internal Revenue Service (IRS) Form 990T.

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

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

The AS director of financial operations and technology stated that the AS did not account for UBI for childcare services provided to community members due to oversight.

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

Recommendation 23

We recommend that the AS account for and track UBI for childcare services provided to community members, and file federal income tax returns as appropriate.

Campus Response

We concur. The AS is now tracking UBI for childcare services provided to community members and UBI will be reported in the 2005/06 Form 990T filing.

SEGREGATION OF DUTIES

Duties and responsibilities related to cash receipts processing were not adequately segregated at the AS Children's Center.

We found that one individual:

- ▶ Prepared deposits.
- ▶ Reconciled the Children's Center subsidiary ledger to the AS accounting general ledger.

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

The *Compilation of Policies and Procedures for California State University Auxiliary Organizations* sets sound business practice guidelines for auxiliary organizations operating within the CSU system. Section 8.9.1, *Cash*, states that the auxiliary should establish a written internal controls system that ensures cash receipts and disbursements are conducted with appropriate segregation of duties.

The AS executive director stated his belief that the proper controls were in place.

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

Recommendation 24

We recommend that the AS properly segregate certain accounting functions over cash receipts processing at the Children's Center or institute mitigating procedures approved by the campus CFO.

Campus Response

We concur. Accounting functions over cash receipts processing at the Children's Center have been segregated. Further enhancements will occur by December 2006 when a new computerized billing and accounts receivable system is operational.

CASH RECEIPTS AND HANDLING

Administration of AS cash receipts and handling required improvement.

We found that:

- ▶ The recreation sports youth gymnastics office did not prepare a log of incoming checks.
- ▶ The recreation sports youth gymnastics office and customer service did not maintain a custody transfer log of gymnastics cash receipts.
- ▶ The recreation sports membership coordinator was not escorted when transporting cash receipts to the AS accounting office.
- ▶ The AS did not have documentation of safe combination changes.

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

systems that ensure integrity of existing internal controls. The compilation further states that the auxiliary should reconcile bank accounts on a timely basis with independent management review.

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

The AS director of financial operations and technology stated her belief that the proper controls were in place. She further stated that he was unaware of the need to document safe combination changes.

Inadequate administration of cash receipts and handling increases the risk of a loss or misappropriation of funds.

Recommendation 25

We recommend that the AS:

- a. Maintain a log of incoming checks for the recreation sports youth gymnastics office.
- b. Maintain a custody transfer log of gymnastics cash receipts.
- c. Ensure that individuals transporting deposits from outlying areas are accompanied by security escort or otherwise safeguarded.
- d. Maintain documentation of safe combination changes.

Campus Response

We concur. Revised cash handling and safe combination procedures have been implemented, including maintaining a log of incoming checks for the recreation sports youth gymnastics office and of custody transfer of gymnastics cash receipts. Further, procedures have been established to ensure that individuals transporting deposits from outlying areas are accompanied by security escort or otherwise safeguarded. Appropriate documentation of safe combination changes is maintained.

FEES, REVENUES, AND RECEIVABLES

The AS did not perform reconciliations of the subsidiary receivables ledger to the general ledger.

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 reconciliation between the subsidiary receivables ledger and the general ledger.

The *Compilation of Policies and Procedures for California State University Auxiliary Organizations* sets sound business practice guidelines for auxiliary organizations operating within the CSU system. Section 8.9.4, *Receivables*, states that the auxiliary should reconcile subsidiary receivables ledgers to the general ledger on a timely basis and reviewed independently by management.

The AS executive director stated that an informal process was in place, but was not documented.

Failure to provide a documented reconciliation of revenues increases the risk that errors or misappropriation of funds will not be detected.

Recommendation 26

We recommend that the AS perform documented revenue reconciliations between the subsidiary receivables ledger and the general ledger.

Campus Response

We concur. The AS now performs documented revenue reconciliations between the subsidiary receivables ledger and the general ledger on a monthly basis.

PURCHASING AND ACCOUNTS PAYABLE

Certain AS cash disbursements were not supported by sufficient and appropriate documentation and/or appropriate authorization.

Our review of 106 cash disbursements disclosed the following:

Process Controls

- ▶ In 20 instances, checks were held for pickup and not mailed by the AS business office.

Processing Exceptions

- ▶ In 14 instances, payment was issued without an approved requisition or purchase order.
- ▶ In six instances, the AS could not provide supporting documentation.
- ▶ In four instances, the bid process was not followed.
- ▶ In two instances, payment was issued without an approved travel request.

Title 5 §42401 and §42402 indicate that the campus president shall require that auxiliary organizations operate in conformity with policy of the Board of Trustees and the campus. One of the objectives of the auxiliary organizations is to provide fiscal procedures and management systems that allow effective coordination of the auxiliary activities with the campus in accordance with sound

business practices. Sound business practice mandates that all cash disbursements be fully supported and properly authorized.

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

The AS executive director stated that the above-noted exceptions were due to oversight.

Insufficient supporting documentation and/or lack of appropriate authorization increase the risk of errors, irregularities, and misappropriation of funds.

Recommendation 27

We recommend that the AS:

- a. Establish a procedure to ensure that checks are mailed directly from the accounting office as appropriate.
- b. Reiterate to staff existing cash disbursement policies and procedures regarding sufficient and appropriate supporting documentation and authorization.

Campus Response

We concur. The AS will update its existing fiscal procedures to ensure checks are mailed directly from the accounting office except under specific conditions by November 2006 and will further reiterate existing cash disbursement policies and procedures to staff each semester.

CSU, FULLERTON HOUSING AUTHORITY

OPERATING AND ADMINISTRATIVE AGREEMENTS

The property management agreement between the CSU, Fullerton Housing Authority (Housing Authority) and a third party did not contain the proper indemnification provision.

EO 849, *California State University Insurance Requirements*, dated February 5, 2003, in part, states that hold harmless provisions should be modeled after agreements available at the CSU contract resource library. The model auxiliary operating agreement states that auxiliary organizations shall agree to indemnify, defend, and save harmless the State of California, the Trustees of the CSU, the campus, and the officers, employees, volunteers, and agents of each of them from any and all loss, damage, or liability that may be suffered or incurred by state, caused by, arriving out of, or in any way connected with the operations of the auxiliary.

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

The Housing Authority executive director stated that this agreement predates requirements for the current indemnification provision requirements and was not updated due to oversight.

The absence of complete, written agreements increases the risk of misunderstandings and miscommunication regarding rights and responsibilities.

Recommendation 28

We recommend that the Housing Authority ensure that third-party agreements include an appropriate indemnification provision.

Campus Response

We concur. The property management agreement will be amended to include an appropriate indemnification provision by November 2006.

CORPORATE GOVERNANCE

The Housing Authority board did not include a student representative for fiscal year 2005/06.

Title 5 §42602(b) specifically requires student representation on auxiliary organization boards.

The Housing Authority executive director stated that the campus was in the process of selecting a student representative.

Failure to maintain mandated board composition violates statutory requirements and increases the risk that all views will not be adequately represented.

Recommendation 29

We recommend that the Housing Authority ensure that appropriate board representation is maintained.

Campus Response

We concur. A student representative has been appointed to the board.

INVESTMENTS

The Housing Authority did not develop procedures for the investment program as required by its investment policy.

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

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 8.9.2, *Investments*, states that the auxiliary should adopt a written governing board investment policy that describes the investment objectives and limitations, and provides for practices to be used to meet its business and fiduciary responsibilities.

The Housing Authority executive director stated that procedures for the investment program were currently being developed.

The lack of written procedures increases the risk of misunderstandings and miscommunication regarding rights and responsibilities.

Recommendation 30

We recommend that the Housing Authority develop procedures for the investment program as required by its investment policy.

Campus Response

We concur. The Housing Authority will develop procedures for the investment program by November 2006.

PURCHASING AND ACCOUNTS PAYABLE

The Housing Authority had not developed procurement policies and procedures.

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 supporting significant procurement processes with written policies and procedures.

The *Compilation of Policies and Procedures for California State University Auxiliary Organizations* sets sound business practice guidelines for auxiliary organizations operating within the CSU system. Section 8.9.1, *Cash*, states that the auxiliary should disburse cash in a consistent manner utilizing systems that ensure integrity of existing internal controls, with annual management review. The compilation further states that the auxiliary should establish a written system that ensures purchases and service contracts' coding, classification, recording, and competitive bidding requirements are applied in a consistent manner.

The Housing Authority executive director stated that because the real estate industry was unique, it was difficult to follow a standard procurement policy.

The lack of written policies and procedures increases the risk of errors or misappropriation.

Recommendation 31

We recommend that the Housing Authority develop procurement policies and procedures. Specifically, procedures should address the following:

- a. Solicitation and/or receipt of proposals.
- b. Vendor selection processes.
- c. Verification of legal and contract provisions.

Campus Response

We concur. The Housing Authority will expand its Real Estate Acquisition, Development and Management Plan to include policies and procedures regarding solicitation and/or receipt of proposals, vendor selection processes, and verification of legal and contract provisions by November 2006.

APPENDIX A: PERSONNEL CONTACTED

Name

Title

CAMPUS

| | |
|------------------|--|
| Milton A. Gordon | President |
| Naomi Goodwin | Assistant Vice President, Administration and Finance |
| Willie Hagan | Vice President, Administration and Finance/Chief Financial Officer |
| Pamela Hillman | Vice President, University Advancement |
| Robert Palmer | Vice President, Student Affairs |

CALIFORNIA STATE UNIVERSITY AUXILIARY SERVICES CORPORATION

| | |
|-------------------------|--|
| Fred Ambrozak | System Administrator |
| Donna Baber | Administrative Assistant, Food and Vending |
| Raul Castaneda | Senior Accountant |
| Monica Castro | Accounts Payable Accountant |
| Shou-Yinn (Pearl) Cheng | Director, Finance and Administration |
| Michael Clemons | Bookstore Operations |
| William Dickerson | Executive Director |
| Angie Dulay | Titan Tech Manager |
| Judy Goberdhan | Accounts Receivable Accountant |
| Omar Iftikhar | MIS Manager |
| Chuck Kissel | Acting Director, Bookstore |
| Lusia Komala | Payroll Supervisor |
| Tony Lynch | Director, Food and Vending |
| Steve Magana | Text Manager |
| Tariq Marji | Accounting Manager |
| Christina Martinez | General Manager, Food Court |
| Hanna Mengesha | Vault Manager |
| David Mooberry | Compliance Coordinator |
| Isabel Moore | Data Entry Clerk |
| Peter Poon | Bookstore Merchandise |
| Gaby Quintanilla | Accounts Payable Accountant |
| Gerry Russo | Nutwood Café Manager |
| Pat Simms | Human Resource Manager |
| Sharlene Spicer | Receptionist |
| Tanya Thompson | Director of Sponsor Programs |
| Sharon Ting | Junior Accountant |

CAL STATE FULLERTON PHILANTHROPIC FOUNDATION

| | |
|-----------------|---|
| Tanya Abalos | Administrative Assistant/Gift Processor |
| Paul Carey | Chief Financial Officer |
| Susan Cervantes | Business Services Coordinator/Disbursements |
| Julie Chung | Accounting Manager/Gift Administrator |
| Tara Garcia | Director Business Services |
| Pam Hillman | Executive Director |
| Mary Jacobson | Board Relations |

ASSOCIATED STUDENTS CALIFORNIA STATE UNIVERSITY, FULLERTON, INC.

| | |
|-----------------|---|
| Kurt Borsting | Titan Student Director |
| Laura Brown | Human Resources Director |
| Cathy Busby | Executive Assistant |
| Mark Day | Associate Director |
| Marsha Farwick | Director, Financial Operations and Technology |
| Jeff Fehr | Event Planner |
| June Garbayo | Membership Coordinator |
| Betsy Gibbs | Director, Children's Center |
| Lydia Palacios | Office Coordinator, Children's Center |
| Tony Rigazzo | Director, ASI/Titan Student Union Office of Program Support |
| Fred Sanchez | Executive Director |
| Nancy Stover | Youth Gymnastics Director |
| Steve Udell | Accounting Manager |
| Juidith Valona | Executive Assistant |
| Andrea Willer | Director, Recreation Sports |
| Allison Wittwer | Assistant Director of Programs, Rec Sports |

CSU, FULLERTON HOUSING AUTHORITY

| | |
|-------------------------|--------------------------------------|
| Shou-Yinn (Pearl) Cheng | Director, Finance and Administration |
| Gary Del Fium | Manager Property Planning |
| William Dickerson | Executive Director |
| Bill Herbert | Program Manager |

STATEMENT OF INTERNAL CONTROLS

A. INTRODUCTION

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

B. INTERNAL CONTROL DEFINITION

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

1. Internal Accounting Controls

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

2. Operational Controls

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

C. INTERNAL CONTROL OBJECTIVES

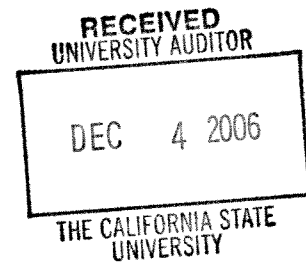
The objective of internal accounting and related operational control is to provide reasonable, but not absolute, assurance as to the safeguarding of assets against loss from unauthorized use or disposition, and the reliability of financial records for preparing financial statements and maintaining accountability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

D. INTERNAL CONTROL SYSTEMS LIMITATIONS

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



Office of the President
 (714) 278-3456 / Fax (714) 278-2649



DATE: November 30, 2006

TO: Larry Mandel
 University Auditor

FROM: Milton A. Gordon
 President *ma*

SUBJECT: Campus Response to Recommendations of Audit Report Number 06-46,
Auxiliary Organizations at California State University, Fullerton

Thank you for the report of the Office of the University Auditor's review of Auxiliary Organizations (Audit Report Number 06-46) at California State University, Fullerton.

Appropriate University administrative officers have reviewed the subject report. Our specific comments and planned corrective actions concerning the audit recommendations are attached.

Please contact Vice President Willie Hagan or Assistant Vice President Naomi Goodwin if you have questions or concerns.

Attachment

cc: Willie Hagan, Vice President, Administration & Finance/CFO
 Pam Hillman, Vice President, University Advancement
 Ephraim Smith, Vice President, Academic Affairs
 Robert Palmer, Vice President, Student Affairs
 Paul Carey, Associate Vice President, University Advancement
 Bill Dickerson, Executive Director, ASC and Housing Authority
 Brian Jenkins, Associate Vice President, Finance
 Naomi Goodwin, Assistant Vice President, Administration & Finance
 Fred Sanchez, Executive Director, ASI
 Steven Yim, Director, Internal Controls

AUXILIARY ORGANIZATIONS
CALIFORNIA STATE UNIVERSITY,
FULLERTON

Report Number 06-46
October 13, 2006

CAMPUS

TRUSTS AND OTHER LIABILITIES

Recommendation 1

We recommend that the campus ensure that all state revenues are maintained and administered in state trust accounts and that all state revenues currently residing in Corporation, Foundation, and AS accounts be transferred to the state.

Campus Response

We concur. The campus will review Corporation, Foundation, and AS accounts and transfer state revenues currently residing in auxiliary accounts by March 2007.

AUXILIARY PROGRAMS

Recommendation 2

We recommend that the campus work with the Corporation to ensure proper coordination of the effort reporting process and compliance with contract and grant requirements.

Campus Response

We concur. The campus will work with the Corporation to initiate action to ensure proper coordination of the effort reporting process and compliance with contract and grant requirements by March 2007.

CALIFORNIA STATE UNIVERSITY AUXILIARY SERVICES CORPORATION

OPERATING AND ADMINISTRATIVE AGREEMENTS

Recommendation 3

We recommend that the Corporation execute the agreement with the campus for the Hungry Titan Store.

Campus Response

We concur. The Corporation will execute the agreement with the campus for the Hungry Titan Store by November 2006.

OPERATIONAL COMPLIANCE

Recommendation 4

We recommend that the Corporation perform and document an analysis of the comparability of salaries, wages, and benefits for its full-time employees in relation to those provided campus employees performing substantially similar services.

Campus Response

We concur. The Corporation will perform and document an analysis of the comparability of salaries, wages, and the benefits for its full-time employees in relation to those provided campus employees performing substantially similar services by February 2007.

FEES, REVENUES, AND RECEIVABLES

Recommendation 5

We recommend that the Corporation follow its own policies and procedures addressing uncollected revenues and receivables.

Campus Response

We concur. The Corporation will revise its policies and procedures to include explicitly stated procedures for addressing exceptions by December 2006.

PROPERTY AND EQUIPMENT

Recommendation 6

We recommend that the Corporation sponsored programs:

- a. Ensure that all fixed assets are tagged.

- b. Perform biannual physical inventory counts of all fixed assets.

Campus Response

We concur. The Corporation sponsored programs will establish procedures to ensure all fixed assets are tagged and physical inventory counts of all fixed assets are performed on a bi-annual basis by January 2006.

INFORMATION TECHNOLOGY

Recommendation 7

We recommend that the Corporation implement security settings for the system parameters outlined above, and take appropriate measures to limit remote access to the system to specific IP addresses.

Campus Response

We concur. The Corporation will implement security settings for the system parameters outlined above and take appropriate measures to limit remote access to the specific system IP addresses by January 2007.

CAL STATE FULLERTON PHILANTHROPIC FOUNDATION**CORPORATE GOVERNANCE****Recommendation 8**

We recommend that the Foundation take appropriate measures to ensure that its board and subcommittee minutes are signed and approved by an appropriate official and are maintained for the various subcommittees.

Campus Response

We concur. Board and subcommittee minutes will be signed by either the Board Secretary or subcommittee chair upon their approval by the board or subcommittee beginning in October 2006.

FISCAL COMPLIANCE**RESERVES****Recommendation 9**

We recommend that the Foundation record board-designated reserves within its general ledger.

Campus Response

We concur. The CSFPF recognizes the importance of an adequate operational reserve and is in compliance with its approved policy of maintaining annual operational reserves of no less than six months and no more than one year. On June 30, 2006 a separate operational reserves account was established, funded via a transfer from the Foundation's ending fund balance, and is identified in the general ledger.

COST REIMBURSEMENT**Recommendation 10**

We recommend that the Foundation reimburse the General Fund for all prior direct and indirect costs associated with services provided by state employees.

Campus Response

We concur. The University and the CSFPF will review the agreement to contract for state employee and related services to determine whether reimbursement is necessary and make appropriate reimbursements as necessary by March 2007.

OPERATIONAL COMPLIANCE

Recommendation 11

We recommend that the Foundation ensure that annual conflict-of-interest statements are obtained from all board members and/or management and appropriately maintained on file.

Campus Response

We concur. CSFPF will ensure conflict of interest statement for FY 2006-07 are obtained and on file by January 2007.

SEGREGATION OF DUTIES

Recommendation 12

We recommend that the Foundation properly segregate certain accounting functions for gift receipts processing or institute mitigating procedures approved by the campus CFO.

Campus Response

We concur. Additional staff have been hired and procedures for gift receipts processing have been revised to ensure appropriate segregation of duties.

CASH RECEIPTS AND HANDLING

Recommendation 13

We recommend that the Foundation maintain a log of incoming checks and cash prior to processing by accounts receivable staff.

Campus Response

We concur. CSFPF has revised its gift recording procedures to include the logging of incoming checks and cash.

FEES, REVENUES, AND RECEIVABLES

Recommendation 14

We recommend that the Foundation fully implement its written policy and procedure for the aging and write-off of pledges receivable.

Campus Response

We concur. CSFPF has implemented the written procedures in its written Pledge Management Guidelines.

ENDOWMENT ADMINISTRATION

INVESTMENT POLICY

Recommendation 15

We recommend that the Foundation amend its endowment investment policy to reflect current board-approved weighting levels.

Campus Response

We concur. The CSFPF investment policy will be amended to reflect the board approved modification to the investment asset allocation mix by February 2007.

DOCUMENTATION

Recommendation 16

We recommend that the Foundation ensure that sufficient documentation exists for all current endowment accounts (regardless of age) and document donor requirements.

Campus Response

We concur. CSFPF has reviewed every endowment account and completed principal balance reconciliations for each endowment. Many endowments were transferred to the CSFPF after the CSFPF was established in 1993. Based upon a review of available documentation, a record of donors to each endowment has been added to the endowment file.

DONOR REPORTING

Recommendation 17

We recommend that the Foundation ensure that endowment account reports are sent to donors at least annually in accordance with Foundation standards.

Campus Response

We concur. The CSFPF will ensure steps are taken to produce and deliver annual endowment reports to donors by March 2007.

SOLICITATION, ACCEPTANCE, AND PROCESSING

Recommendation 18

We recommend that the Foundation develop complete, written procedures regarding the solicitation, acceptance, and processing of endowments. Specifically, procedures should include at least the following:

- a. Approval of gifts by auxiliary and/or campus officials, including the position of the appropriate official and timing of approval (i.e., before and after gift acceptance).

- b. Review of gift instruments by auxiliary and/or campus legal counsel.
- c. Timing in which monies are required to be deposited into the endowment investment pools.

Campus Response

We concur. Current campus practice already includes gift approval at the highest appropriate level, legal review when needed, and that the timing of endowment investments is prescribed by the Common Fund, CSFPF's investment manager. Complete written procedures regarding the solicitation, acceptance, and process of endowments will be developed to reflect these practices by January 2007.

ASSOCIATED STUDENTS
CALIFORNIA STATE UNIVERSITY, FULLERTON, INC.

OPERATING AND ADMINISTRATIVE AGREEMENTS

Recommendation 19

We recommend that the AS:

- a. Revise the Open Gym Medical Release Form and the University Facility Use Agreement to extend the indemnification clause to include the campus.
- b. Revise the Recreation Sports Intramural Waiver to include the proper indemnification clause.

Campus Response

We concur. The Open Gym Medical Release Form, the University Conference Center Facility Use Agreement, and the Recreation Sports Intramural Waiver have been updated to include the proper indemnification clause.

FACILITIES AGREEMENTS

Recommendation 20

We recommend that the AS ensure that third-party sublease agreements include appropriate indemnification provisions.

Campus Response

We concur. Existing third-party sublease agreements have been updated to include appropriate indemnification provisions. Third-party sublease agreements entered into following the preliminary audit report also include appropriate indemnification provisions.

CORPORATE GOVERNANCE

DISSOLUTION OF AUXILIARY

Recommendation 21

We recommend that the AS redraft its corporate dissolution clause in accordance with Title 5 and appropriately reflect the change in its Articles of Incorporation.

Campus Response

We concur. A revised dissolution clause in accordance with Title 5 has been drafted and forwarded to the ASI Board of Directors for approval. Following approval by the Board of Directors, the Articles of Incorporation will be amended through the required certification process with the Secretary of State. We anticipate this will occur by January 2007.

BOARD COMPOSITION

Recommendation 22

We recommend that the AS ensure that appropriate board representation is maintained.

Campus Response

We concur. The ASI Board of Directors has approved a change to its By-Laws to ensure appropriate board representation is maintained.

FISCAL COMPLIANCE

Recommendation 23

We recommend that the AS account for and track UBI for childcare services provided to community members, and file federal income tax returns as appropriate.

Campus Response

We concur. ASI is now tracking UBI for childcare services provided to community members and UBI will be reported in the 2005-06 Form 990T filing.

SEGREGATION OF DUTIES

Recommendation 24

We recommend that the AS properly segregate certain accounting functions over cash receipts processing at the Children's Center or institute mitigating procedures approved by the campus CFO.

Campus Response

We concur. Account functions over cash receipts processing at the Children's Center have been segregated. Further enhancements will occur by December 2006 when a new computerized billing and accounts receivable system is operational.

CASH RECEIPTS AND HANDLING

Recommendation 25

We recommend that the AS:

- a. Maintain a log of incoming checks for the recreation sports youth gymnastics office.
- b. Maintain a custody transfer log of gymnastics cash receipts.
- c. Ensure that individuals transporting deposits from outlying areas are accompanied by security escort or otherwise safeguarded.

- d. Maintain documentation of safe combination changes.

Campus Response

We concur. Revised cash handling and safe combination procedures have been implemented, including maintaining a log of incoming checks for the recreation sports youth gymnastics office and of custody transfer of gymnastics cash receipts. Further, procedures have been established to ensure that individuals transporting deposits from outlying areas are accompanied by security escort or otherwise safeguarded. Appropriate documentation of safe combination changes is maintained.

FEES, REVENUES, AND RECEIVABLES

Recommendation 26

We recommend that the AS perform documented revenue reconciliations between the subsidiary receivables ledger and the general ledger.

Campus Response

We concur. ASI now performs documented revenue reconciliations between the subsidiary receivables ledger and the general ledger on a monthly basis.

PURCHASING AND ACCOUNTS PAYABLE

Recommendation 27

We recommend that the AS:

- a. Establish a procedure to ensure that checks are mailed directly from the accounting office as appropriate.
- b. Reiterate to staff existing cash disbursement policies and procedures regarding sufficient and appropriate supporting documentation and authorization.

Campus Response

We concur. ASI will update its existing fiscal procedures to ensure checks are mailed directly from the accounting office except under specific conditions by November 2006 and will further reiterate existing cash disbursement policies and procedures to staff each semester.

CSU, FULLERTON HOUSING AUTHORITY

OPERATING AND ADMINISTRATIVE AGREEMENTS

Recommendation 28

We recommend that the Housing Authority ensure that third-party agreements include an appropriate indemnification provision.

Campus Response

We concur. The property management agreement will be amended to include an appropriate indemnification provision by November 2006.

CORPORATE GOVERNANCE

Recommendation 29

We recommend that the Housing Authority ensure that appropriate board representation is maintained.

Campus Response

We concur. A student representative has been appointed to the board.

INVESTMENTS

Recommendation 30

We recommend that the Housing Authority develop procedures for the investment program as required by its investment policy.

Campus Response

We concur. The Housing Authority will develop procedures for the investment program by November 2006.

PURCHASING AND ACCOUNTS PAYABLE

Recommendation 31

We recommend that the Housing Authority develop procurement policies and procedures. Specifically, procedures should address the following:

- a. Solicitation and/or receipt of proposals.
- b. Vendor selection processes.
- c. Verification of legal and contract provisions.

Campus Response

We concur. The Housing Authority will expand its Real Estate Acquisition, Development and Management Plan to include policies and procedures regarding solicitation and/or receipt of proposals; vendor selection processes; and verification of legal and contract provisions by November 2006.

THE CALIFORNIA STATE UNIVERSITY
OFFICE OF THE CHANCELLOR



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- CHICO
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- FULLERTON
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- LONG BEACH
- LOS ANGELES
- MARITIME ACADEMY
- MONTEREY BAY
- NORTHRIDGE
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- SAN DIEGO
- SAN FRANCISCO
- SAN JOSÉ
- SAN LUIS OBISPO
- SAN MARCOS
- SONOMA
- STANISLAUS

December 18, 2006

MEMORANDUM

TO: Mr. Larry Mandel
University Auditor

FROM: Charles B. Reed
Chancellor

SUBJECT: Draft Final Report Number 06-46 on *Auxiliary Organizations*,
California State University, Fullerton

In response to your memorandum of December 18, 2006, I accept the response as submitted with the draft final report on *Auxiliary Organizations*, California State University, Fullerton.

CBR/jt

Enclosure

cc: Dr. Milton A. Gordon, President
Mr. Willie J. Hagan, Vice President for Administration and Finance/CFO