

**AUXILIARY ORGANIZATIONS**  
**CALIFORNIA STATE UNIVERSITY,**  
**EAST BAY**

**Audit Report 11-07**  
**January 17, 2012**

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

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## **ABBREVIATIONS**

AORMA	Auxiliary Organization Risk Management Authority
ARRA	American Recovery and Reinvestment Act
AS	Associated Students, California State University, East Bay
CFO	Chief Financial Officer
CFS	Common Financial System
CSU	California State University
CSUEB	California State University, East Bay
CSURMA	California State University Risk Management Authority
DSS	Data Security Standard
Ed Foundation	Cal State East Bay Educational Foundation
EO	Executive Order
Foundation	California State University, East Bay Foundation, Inc.
ICSUAM	Integrated California State University Administrative Manual
ORSP	Office of Research and Sponsored Programs
PCI	Payment Card Industry
PI	Principal Investigator
RFIN	Resolution of the Committee on Finance
SAQ	Self Assessment Questionnaire

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## EXECUTIVE SUMMARY

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

California State University, East Bay (CSUEB) 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 CSUEB campus and its auxiliary organizations from September 26, 2011, through October 20, 2011, and made a study and evaluation of the system of internal compliance/internal control in effect as of October 20, 2011. This report represents our triennial review.

Our study and evaluation at the *CSUEB campus* did not reveal any significant internal control problems or weaknesses that would be considered pervasive in their effects on the accounting and administrative controls. However, we did identify other reportable weaknesses that are described in the executive summary and in the body of the report. In our opinion, the accounting and administrative control in effect as of October 20, 2011, taken as a whole, was sufficient to meet the objectives stated above.

Our study and evaluation at *California State University, East Bay Foundation, 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 October 20, 2011, taken as a whole, was sufficient to meet the objectives stated above.

Our study and evaluation at *Cal State East Bay Educational 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 October 20, 2011, taken as a whole, was sufficient to meet the objectives stated above.

Our study and evaluation at *Associated Students, California State University, East Bay* revealed certain conditions that, in our opinion, could result in errors and irregularities if not corrected. Specifically, the auxiliary did not maintain adequate control over the following areas: fees, revenues, and receivables; purchasing and accounts payable; personnel and payroll; and property and equipment. These conditions, along with other weaknesses, are described in the executive summary and in the body of the report. In our opinion, except for the effect of the weaknesses described above, accounting and administrative control in effect as of October 20, 2011, taken as a whole, was sufficient to meet the objectives stated above.

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

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

## **CAMPUS**

### **INFORMATION TECHNOLOGY [11]**

Credit card information collected from the campus website was not stored in an encrypted format.

## **CALIFORNIA STATE UNIVERSITY, EAST BAY FOUNDATION, INC.**

### **OPERATING AND ADMINISTRATIVE AGREEMENTS [12]**

Agreements between the California State University, East Bay Foundation, Inc. (Foundation) and third parties or other auxiliaries did not always include appropriate provisions for indemnification and were not always fully executed in a timely manner. This is a repeat finding from the prior Auxiliary Organizations audit.

## **CORPORATE GOVERNANCE [13]**

The Foundation had not filed amended Articles of Incorporation and Bylaws with the chancellor's office in a timely manner.

## **FEES, REVENUES, AND RECEIVABLES [14]**

Administration of Foundation accounts receivable needed improvement. Specifically, collection activity and follow-up was not always performed and documented to facilitate collection or support account write-off.

## **AUXILIARY PROGRAMS [15]**

Administration of Foundation sponsored programs needed improvement. For example, the Foundation had not established a process to transfer ownership of any work product, record, or equipment to the campus subsequent to the sponsored program end date, and the campus office of research and sponsored programs' grants and contracts closeout policy and procedures were not updated.

## **CAL STATE EAST BAY EDUCATIONAL FOUNDATION**

### **OPERATIONAL COMPLIANCE [18]**

The Cal State East Bay Educational Foundation (Ed Foundation) had not developed a comprehensive written risk management policy.

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

Administration of Ed Foundation matching gifts needed improvement. Specifically, a documented dual review was not always performed, the purpose and intent of the donation was not always identified and documented, and gift acknowledgement letters for donations subject to a matching gift were not always sent to donors and/or matching corporations.

## **ASSOCIATED STUDENTS, CALIFORNIA STATE UNIVERSITY, EAST BAY**

### **OPERATING AND ADMINISTRATIVE AGREEMENTS [21]**

The operating agreement between Associated Students, California State University, East Bay (AS) and the California State University Trustees was not renewed in a timely manner, and a standard performance contract did not include appropriate provisions for indemnification.

## **CORPORATE GOVERNANCE [22]**

AS had not filed amended Bylaws with the chancellor's office in a timely manner. In addition, the AS audit committee had not been appointed by the board of directors and had not established a written

charter explaining the roles and responsibilities of the audit committee's members, nor had it maintained audit committee minutes.

### **FISCAL COMPLIANCE [23]**

AS had not developed written policies and procedures for reserves, and planning and analysis of reserves was not adequately documented, communicated, or reviewed.

### **CAMPUS OVERSIGHT AND CONTROL [24]**

The AS budgets for fiscal years 2010/11 and 2011/12 had not been approved by the campus president.

### **CASH RECEIPTS AND HANDLING [25]**

AS daily cash bags were not adequately safeguarded prior to deposit.

### **PETTY CASH AND CHANGE FUNDS [25]**

Administration of AS petty cash required improvement. Specifically, policies and procedures had not been developed to address the allowable and unallowable uses of petty cash, the specified dollar threshold for petty cash purchases, and periodic, independent cash counts of petty cash. Also, AS did not document periodic, independent counts of petty cash.

### **FEES, REVENUES, AND RECEIVABLES [26]**

AS had not completed bank account reconciliations for July and August 2011. Additionally, administration of AS accounts receivables needed improvement, as policies and procedures had not been documented for the monitoring of accounts receivable, collection of delinquent accounts, assessment for allowance of doubtful actions, and write-off of uncollectible accounts; collection activity and follow-up on delinquent accounts receivable was not adequate to ensure collection; reconciliations between the general ledger and the accounts receivable subsidiary ledger were not completed; and long outstanding receivables were not written off in a timely manner.

### **PURCHASING AND ACCOUNTS PAYABLE [29]**

AS had not developed written policies and procedures addressing the use of credit cards, and travel expense claim forms had not been submitted.

### **PERSONNEL AND PAYROLL [30]**

Administration of AS employee hiring needed improvement, as an expired I-9 form was sometimes used and the authorization to hire was not always obtained prior to the effective date of employment. Additionally, AS employee separation documentation was not always completed in a timely manner, and a check-out checklist was not utilized upon termination. Further, administration of AS employee salary



changes needed improvement; specifically, salary changes were not always authorized by the appropriate level of management, the salary change form did not always represent the actual salary rate change, and a pay rate edit listing report was not generated in each payroll cycle for management review. Also, supervisory pre-approval of AS overtime was not documented on employee timesheets. Finally, AS reconciliations of the payroll sub-ledger to the general ledger were not completed, and therefore not reviewed by management.

### **PROPERTY AND EQUIPMENT [34]**

Administration of AS property and equipment needed improvement. For example, annual physical inventories were not performed for fiscal years 2009/10 and 2010/11, assets were not always capitalized accurately, and reconciliation of the fixed assets sub-ledger to the general ledger was not reviewed by management.

### **TRUSTS AND OTHER LIABILITIES [36]**

Administration of AS student club accounts required improvement. Specifically, policies and procedures had not been developed to address accounts with outstanding balances, some accounts were erroneously credited, and notices for outstanding accounts were not always sent in a timely manner.

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## INTRODUCTION

### **BACKGROUND**

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

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

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

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

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

#### California State University, East Bay Foundation, Inc.

The California State University, East Bay Foundation, Inc. (Foundation) was established in 1959 as a non-profit public benefit corporation to provide programs and support for the California State University, East Bay (CSUEB) mission and goals. The Foundation provides and augments funding for educationally related services at CSUEB not otherwise available through or funded by the state university system.

The Foundation is governed by an independent board composed of representatives from the student body, university administration, faculty, alumni, and community and relies on both Foundation and campus personnel for administrative and accounting support services. It provides administrative and accounting support services for the Cal State East Bay Education Foundation and campus office of research and sponsored programs. Dining services and bookstore operations are outsourced to third-party service vendors.

#### Cal State East Bay Educational Foundation

The Cal State East Bay Educational Foundation (Ed Foundation) acts as the philanthropic auxiliary for the campus. Its sole function is to collect, invest, and administer all gifts, bequests, endowments, trusts, and similar funds received by the campus. The Ed Foundation does not have any employees; the vice president of university advancement provides campus oversight, and the Foundation provides accounting support services. The Ed Foundation is governed by a board of directors composed of representatives from the student body, university administration, faculty, and alumni. There have been no significant changes in operations or management since our last review in August 2008.

#### Associated Students, California State University, East Bay

Associated Students, California State University, East Bay (AS) is charged with operating the student body government and Union facilities. The mission of AS is to be the official voice of the students at CSUEB. AS represents and advocates on behalf of the interests, needs, and concerns of the diverse and dynamic student body, providing them with the services and resources to supplement and support their college experience. AS is governed by a board of directors composed of representatives from the student body. The president of AS is the chief executive of the auxiliary, although AS employs an executive director to manage day-to-day operations and provide consistency between student administrations.

## **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 2009/10 and 2010/11 were the primary periods reviewed. In certain instances, we were concerned with representations of the most current data; in such cases, the test period was July 1, 2010, to October 20, 2011. Our primary focus was on internal compliance/internal control.

Specifically, we reviewed and tested:

- ▶ Formation of the auxiliary.
- ▶ Functions the auxiliary performs on the campus.
- ▶ Creation and operation of the auxiliary's board.
- ▶ Establishment of policies and procedures based upon sound business practices.
- ▶ Maintenance of "arms-length" in business transactions between the auxiliary and the campus.
- ▶ Campus oversight of auxiliary operations.

Additionally, for the period reviewed, we examined other aspects of compliance of the campus and each auxiliary with the Education Code and Title 5 as they relate to the operation of CSU auxiliary organizations. Individual codes and regulations added to the scope of our review were identified through an assessment of risk. Similarly, internal controls were included within our scope based upon risk. Therefore, the scope of our review varied from auxiliary to auxiliary.

A preliminary survey of CSU auxiliaries at each campus was used to identify risks. Risk was defined as the probability that an event or action would adversely affect the auxiliary and/or the campus. Our assessment of risk was based upon a systematic process, using professional judgments on probable adverse conditions and/or events that became the basis for development of our final scope. We sought to assign higher review priorities to activities with higher risks. As a result, not all risks identified were included within the scope of our review.

Based upon this assessment of risks, we specifically included within the scope of our review the following:

California State University, East Bay Foundation, 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
- ▶ Cash Disbursement
- ▶ Petty Cash and Change Funds
- ▶ Investments
- ▶ Fees, Revenues, and Receivables
- ▶ Purchasing and Accounts Payable
- ▶ Personnel and Payroll
- ▶ Property and Equipment
- ▶ Retail Inventory
- ▶ Trusts and Other Liabilities
- ▶ Reserves
- ▶ Auxiliary Programs
- ▶ Contracts and Grants
- ▶ Information Technology

Cal State East Bay Educational 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
- ▶ Cash Disbursement

Cal State East Bay Educational Foundation (cont.)

- ▶ Investments
- ▶ Fees, Revenues, and Receivables
- ▶ Purchasing and Accounts Payable
- ▶ Trusts and Other Liabilities
- ▶ Reserves
- ▶ Endowment Administration
- ▶ Auxiliary Programs
- ▶ Information Technology

Associated Students, California State University, East Bay

- ▶ 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
- ▶ Cash Disbursement
- ▶ Petty Cash and Change Funds
- ▶ Investments
- ▶ Fees, Revenues, and Receivables
- ▶ Purchasing and Accounts Payable
- ▶ Personnel and Payroll
- ▶ Property and Equipment
- ▶ Reserves
- ▶ Information Technology

Campus

- ▶ Information Technology

We have not performed any auditing procedures beyond October 20, 2011. Accordingly, our comments are based on our knowledge as of that date. Since the purpose of our comments is to suggest areas for improvement, comments on favorable matters are not addressed.

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## OBSERVATIONS, RECOMMENDATIONS, AND CAMPUS RESPONSES

### CAMPUS

#### INFORMATION TECHNOLOGY

Credit card information collected from the campus website was not stored in an encrypted format.

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

ICSUAM §8065, *Information Asset Management*, states that campuses must maintain an inventory of information assets containing level 1 or level 2 data as defined in the California State University (CSU) Data Classification Standard. These assets must be categorized and protected throughout their entire life cycle, from origination to destruction.

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

The campus interim chief information officer and information security officer stated that the campus had identified the issue and was evaluating viable solutions to address the security of online donations.

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

#### **Recommendation 1**

We recommend that the campus encrypt credit card information collected from the campus website.

#### **Campus Response**

We agree. Testing has been completed using third-party software that encrypts credit card information. The web page will be released into production by April 15, 2012.

## **CALIFORNIA STATE UNIVERSITY, EAST BAY FOUNDATION, INC.**

### **OPERATING AND ADMINISTRATIVE AGREEMENTS**

Agreements between the California State University, East Bay Foundation, Inc. (Foundation) and third parties or other auxiliaries did not always include appropriate provisions for indemnification and were not always fully executed in a timely manner. This is a repeat finding from the prior Auxiliary Organizations audit.

We reviewed 27 agreements and found that:

- ▶ Six agreements with third-party vendors did not specifically indemnify the state of California, the Trustees of the California State University (CSU), the campus, and its officers, employees, volunteers, and agents.
- ▶ Three agreements with other auxiliaries were not fully executed in a timely manner. Final execution ranged between 56 and 264 days after the inception of the agreements.

The California State University Risk Management Authority (CSURMA) Auxiliary Organization Risk Management Authority (AORMA) Policy & Procedure L-5 states that it is the policy of the CSURMA AORMA Self-Insured Liability Program that member organizations will protect CSURMA program assets by fully implementing the guidelines found in the insurance requirements in the contracts manual prepared by CSURMA's program administrator. This means that auxiliary organizations will require third-party contractors and vendors to provide appropriate indemnification, insurance, and documentation of coverage.

EO 849, *California State University Insurance Requirements*, dated February 5, 2003, states that auxiliary organizations shall agree to indemnify, defend, and save harmless the State of California, the Trustees of the 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 executed in a timely manner.

The Foundation executive director stated that the Foundation did not have a formal review process for agreements.



The absence of appropriate indemnification provisions and failure to execute written agreements in a timely manner increases the risk of misunderstandings and miscommunication regarding rights and responsibilities and subjects the auxiliaries and CSU to potential liability.

### **Recommendation 2**

We recommend that the Foundation ensure that all future agreements include appropriate indemnification provisions and are fully executed in a timely manner.

### **Campus Response**

We agree. Procedures will be put in place prior to May 1, 2012, to ensure that agreements include appropriate indemnification provisions and are executed in a timely manner.

## **CORPORATE GOVERNANCE**

The Foundation had not filed amended Articles of Incorporation and Bylaws with the chancellor's office in a timely manner.

We found an amendment to the Articles of Incorporation made on February 19, 2009, and an amendment to the Bylaws made on June 10, 2010, that had not been filed with the chancellor's office.

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

The Foundation executive director stated that the updated Articles of Incorporation and Bylaws were not submitted in a timely manner due to management oversight.

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

**During our fieldwork, the Foundation provided documentation showing evidence that a complete amended copy of its Articles of Incorporation and Bylaws had been filed with the chancellor's office.**

## FEES, REVENUES, AND RECEIVABLES

Administration of Foundation accounts receivable needed improvement.

We reviewed 11 delinquent accounts receivable and found that in seven cases, collection activity and follow-up was not performed and documented to facilitate collection or support account write-off.

The California State University, East Bay (CSUEB) *Accounting Receivable Billing and Collection Procedures, Section II, Monitoring and collection of A/R – Commercial Operation*, and *Section III, Monitoring and collection of A/R – Sponsored Programs* state that each month, the accounting assistant responsible for the billing of receivables reviews the invoices that are still outstanding. It goes on to state that invoices 30 days past due require the accounting assistant to write a formal collection letter to the client indicating that the account must be made current.

The *Compilation of Policies and Procedures for California State University Auxiliary Organizations* sets sound business practice guidelines for auxiliary organizations operating within the CSU system. Section 8.9.4, *Receivables*, states that the auxiliary should establish a written system to invoice customers promptly, in a consistent manner, while exercising due diligence in the follow-up and collection of past-due accounts.

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 delinquent accounts receivable.

The Foundation executive director stated that collection efforts were overlooked due to a substantial turnover in management.

Inadequate control over accounts receivable increases the risk that receivables will not be properly controlled and accurately reflected in auxiliary financial statements, reduces the likelihood of collection, and negatively impacts cash flow.

### **Recommendation 3**

We recommend that the Foundation perform and document collection activity and follow-up of delinquent accounts receivable to facilitate collection or support account write-off.

### **Campus Response**

We agree. Procedures will be put in place prior to May 1, 2012, to document collection and follow-up of delinquent accounts.

## AUXILIARY PROGRAMS

Administration of Foundation sponsored programs needed improvement.

We reviewed 20 sponsored programs and found that:

- ▶ In all 20 instances, there was no documentation on file to confirm that the principal investigator (PI) or other individuals with responsibility for contracts and grants received formal training or an orientation prior to the commencement of work.
- ▶ In five instances, PI statement of economic interests forms were not completed and signed in a timely manner. Specifically, the forms were signed 56 to 658 days after the program start date.
- ▶ In one instance, a subcontract dated July 1, 2008, through December 31, 2009, was not executed in a timely manner. Specifically, the agreement was not signed until April 5, 2010, approximately 95 days after the program end date.
- ▶ The Foundation had not established a process to transfer ownership of any work product, record, or equipment to the campus subsequent to the sponsored program end date.
- ▶ The office of research and sponsored programs (ORSP) grants and contracts closeout policy and procedures were not updated.

The CSUEB *ORSP Management and Reporting of American Recovery and Reinvestment Act (ARRA) Funds Policies and Procedures* states that all staff involved in the management of ARRA funds should participate in webinars and training sessions related to appropriate management of ARRA funding.

The CSUEB *Policy for the Administration of Grants and Contracts In Support of Sponsored Programs, Section 3.3.5, Conflict of Interest*, states that PIs shall comply with the CSUEB Conflict of Interest Policy and file the statement of economic interests for PIs as required.

The CSUEB *Conflict of Interest Policy, Section 1A, Federal Requirements*, states that each investigator who submits a proposal to the National Science Foundation or an agency of the United States Department of Health and Human Services must, at the time of submission, complete a conflict of interest disclosure form. Section 1B, *State Requirements*, further states that all persons employed by the University of California or CSU who have principal responsibility for a research project funded or supported, in whole or in part, by a contract or grant (or other funds earmarked by the donor for a specific research project or for a specific researcher) from a nongovernmental entity must complete CSU Form 700U “statement of economic interests form” and disclose any financial interest.

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 are executed in a timely manner.

The CSUEB *Policy for the Administration of Grants and Contracts In Support of Sponsored Programs, Section 3.6.1, Work Product and Records Policy*, states that ownership of any work product, records, or equipment shall transfer to the university except where the contract or grant specifies otherwise. Section 3.5, *Fiscal Administration*, goes on to state that it is the responsibility of the PI and the sponsored program administrator to adhere to the fiscal terms and conditions of the contract or grant, to comply with the university and auxiliary policies and procedures, and to follow established controls to ensure sound fiscal management of sponsored programs.

The CSUEB ORSP *Closeout Policy* states that the closeout procedures should specifically address the reconciliation of cash receipts to final expenses in CFS and to the amount reported on the final report.

The Foundation executive director stated that the failure to maintain adequate administration over sponsored programs was due to substantial turnover in sponsored program management.

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

#### **Recommendation 4**

We recommend that the Foundation:

- a. Maintain documentation confirming that PIs and other individuals with responsibility for contracts and grants received formal training or an orientation prior to the commencement of work.
- b. Obtain statement of economic interests forms in a timely manner.
- c. Ensure that subcontracts are executed in a timely manner.
- d. Establish a process to transfer ownership of any work product, record, or equipment to the campus subsequent to the sponsored program end date.
- e. Update the grants and contracts closeout policy and procedures.

#### **Campus Response**

We agree. Prior to May 1, 2012, the Foundation and the university ORSP will conduct a mandatory training session for all PIs to review the statement of economic interests forms required and provide assistance in completing any outstanding forms, review processes for issuing subcontracts and

clarify the requirement that subcontracts are executed in a timely manner, review procedures regarding transfers of ownership and provide assistance to ensure that transfers are completed, and review updated policies and procedures regarding grants and contracts closeouts. Thereafter, mandatory quarterly policy and procedure training sessions will be held with PIs to review compliance challenges and refresh training as required.

## **CAL STATE EAST BAY EDUCATIONAL FOUNDATION**

### **OPERATIONAL COMPLIANCE**

The Cal State East Bay Educational Foundation (Ed Foundation) had not developed a comprehensive written risk management policy.

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

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

The *Compilation of Policies and Procedures for California State University Auxiliary Organizations* sets sound business practice guidelines for auxiliary organizations operating within the CSU system. Section 8.7, *Risk Management*, states that auxiliary organizations should develop programs to manage risk related to activities in which the organizations are engaged.

The Ed Foundation director of advancement services stated his belief that the Ed Foundation was included within the campus risk management policy.

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

#### **Recommendation 5**

We recommend that the Ed Foundation develop and adopt a comprehensive written risk management policy that includes procedures to actively identify, analyze, quantify, and manage risk.

#### **Campus Response**

We agree. At the April 12, 2012, meeting of the finance and investment committee, staff will recommend that the Ed Foundation formally adopt university risk management policies as revised to specifically address the Ed Foundation.

## FEES, REVENUES, AND RECEIVABLES

Administration of Ed Foundation matching gifts needed improvement.

We reviewed ten corporate matching gifts received between April 2010 and July 2011 and found that:

- ▶ In nine instances, the Ed Foundation did not perform a documented dual review to ensure that matching funds were directed to the appropriate university recipient and administered in accordance with corporate donor requirements.
- ▶ In three instances, the purpose and intent of the donation was not identified and documented.
- ▶ In seven instances, gift acknowledgement letters for donations subject to a matching gift were not sent to donors and/or matching corporations.

The Ed Foundation *Policy for Matching Gifts, section 7.2*, states that the matching gift coordinator will research and review the eligibility requirements, policies, guidelines, or rules of the respective company's matching gift program for compliance.

The Ed Foundation *Policy for Matching Gifts, section 7.3*, states that applications that comply with matching gift eligibility requirements will be completed by the matching gift coordinator and forwarded to the vice president, university advancement, for final approval. Once approved, the application will be submitted to the company.

The Ed Foundation *Policy for Matching Gifts, section 7.5*, states that upon receipt of the matching gift, the company will be issued a gift receipt indicating the purpose for the gift, with a copy to the donor/employee. If the gift purpose is different from the purpose of the donor/employee's gift due to matching gift restrictions, the donor will be informed.

The *Compilation of Policies and Procedures for California State University Auxiliary Organizations* sets sound business practice guidelines for auxiliary organizations operating within the CSU system. Section 8.9.3, *Donations, Program Service Fees, Other Income*, states that the auxiliary should establish a written recordkeeping system that enables gifts to be properly received, recorded, and acknowledged in accordance with donor restrictions and other requirements.

Title 5 §42401 and §42402 indicate that the campus president shall require that auxiliary organizations operate in conformity with policy of the Board of Trustees and the campus. One of the objectives of the auxiliary organizations is to provide fiscal procedures and management systems that allow effective coordination of the auxiliary activities with the campus in accordance with sound business practices. Sound business practice mandates that matching gifts undergo a documented dual review process to ensure that funds are appropriately deposited to an eligible recipient in accordance with corporate donor requirements.

The Ed Foundation director of advancement services stated that staff had not been properly trained and supervised regarding matching gift procedures.

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

**Recommendation 6**

We recommend that the Ed Foundation:

- a. Perform a documented dual review in accordance with the Ed Foundation *Policy for Matching Gifts*.
- b. Identify and document the purpose and intent of all donations.
- c. Send gift acknowledgement letters to donors and/or matching corporations for donations subject to a matching gift.

**Campus Response**

We agree. Prior to May 1, 2012, procedures will be implemented to ensure that a dual review is documented of all matching gifts, the purpose and intent of all donations is documented, and acknowledgement letters are sent to donors and matching corporations for donations subject to a matching gift.



## **ASSOCIATED STUDENTS, CALIFORNIA STATE UNIVERSITY, EAST BAY**

### **OPERATING AND ADMINISTRATIVE AGREEMENTS**

The operating agreement between Associated Students, California State University, East Bay (AS) and the CSU Trustees was not renewed in a timely manner, and a standard performance contract did not include appropriate provisions for indemnification.

We found that:

- ▶ The operating agreement expired on June 30, 2010, and had not been renewed.
- ▶ A standard entertainment contract did not indemnify the state of California, the Trustees of the CSU, the campus, and the officers, employees, volunteers, and agents of each of them.

Title 5 §42501 indicates that a written operating agreement on behalf of the state of California by the chancellor of the CSU and the auxiliary organization is required for the performance by such auxiliary organization of any functions listed in §42500.

The CSURMA AORMA Policy & Procedure L-5 states that it is the policy of the CSURMA AORMA Self-Insured Liability Program that member organizations will protect CSURMA program assets by fully implementing the guidelines found in the Insurance Requirements in the Contracts Manual prepared by CSURMA's program administrator. This means that auxiliary organizations will require third-party contractors and vendors to provide appropriate indemnification, insurance, and documentation of coverage.

EO 849, *California State University Insurance Requirements*, dated February 5, 2003, states that auxiliary organizations shall agree to indemnify, defend, and save harmless the state of California, the Trustees of the 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 operating agreement had not been renewed in a timely manner due to the transition of the chief financial officer (CFO) position. Additionally, he stated that the standard entertainment contract was believed to be valid, with the correct language, because it was reviewed by both CSURMA and campus risk management in 2011.

The absence of a current, written operating agreement and appropriate provisions for indemnification increase the risk of misunderstandings and miscommunication regarding rights and responsibilities and subjects the auxiliary and CSU to potential liability.

**During our fieldwork, AS provided documentation showing evidence that the standard entertainment contract had been amended with appropriate provisions for indemnification.**

### **Recommendation 7**

We recommend that AS promptly renew its operating agreement with the CSU Trustees and implement a process to ensure that future agreements are renewed in a timely manner.

### **Campus Response**

We agree. The operating agreement has been renewed, and effective July 1, 2012, responsibility for ensuring that agreements are renewed in a timely manner has been assigned to the university procurement office.

## **CORPORATE GOVERNANCE**

### **BYLAWS**

AS had not filed amended Bylaws with the chancellor's office in a timely manner.

We found that amendments made to the Bylaws on July 14, 2011, had not been filed with the chancellor's office until they were noted during fieldwork.

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

The AS executive director stated that he was unaware that the amended Bylaws had to be filed with the chancellor's office.

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

**During our fieldwork, AS provided documentation showing evidence that a complete amended copy of its Bylaws had been filed with the chancellor's office.**

### **AUDIT COMMITTEE**

The AS audit committee had not been appointed by the board of directors and had not established a written charter explaining the roles and responsibilities of the audit committee's members, nor had it maintained audit committee minutes.

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

Corporation Code §5215 states that the original, or a copy in writing, or in any other form capable of being converted into a clearly legible, tangible form 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 AS executive director stated that an audit committee had not been appointed by the board of directors and a written charter had not been established due to oversight. He further stated that prior management had not developed a clear methodology for keeping minutes.

Failure to ensure that the audit committee is appointed by the board of directors, establish a written charter, and maintain audit committee minutes in accordance with legal mandates increases the risk of misunderstandings and may increase legal liability.

### **Recommendation 8**

We recommend that AS ensure that the audit committee is appointed by the board of directors, establish a written charter explaining the roles and responsibilities of its members, and maintain audit committee minutes.

### **Campus Response**

We agree. At the March 14, 2012, meeting, amended Bylaws will be considered by the board of directors appointing members of the audit committee, establishing a written charter of roles and responsibilities for members of the audit committee, and requiring that minutes be maintained.

## **FISCAL COMPLIANCE**

AS had not developed written policies and procedures for reserves, and planning and analysis of reserves was not adequately documented, communicated, or reviewed.

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

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

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

The AS executive director stated that prior management had not developed written policies and procedures for documenting, monitoring, and reporting reserves to the Board.

Failure to develop written policies and procedures and adequately document, communicate, or review planning and analysis of reserves increases the risk of misunderstandings and miscommunication regarding available reserves, as well as the risk that the auxiliary will be unable to fund future needs.

### **Recommendation 9**

We recommend that AS develop written policies and procedures for reserves and adequately document, communicate, and review the planning and analysis of reserves.

### **Campus Response**

We agree. Written policies and procedures for reserves will be considered by the board of directors at the March 14, 2012, meeting.

## **CAMPUS OVERSIGHT AND CONTROL**

The AS budgets for fiscal years 2010/11 and 2011/12 had not been approved by the campus president.

Title 5 §42402 states that the campus president shall require that each auxiliary organization submit its programs and budgets for review at a time and in a manner specified by the president. Should the president determine that any program or appropriation planned by an auxiliary organization is not consistent with policy of the Board of Trustees and the campus, the program or appropriation shall not be implemented. Further, should a program or appropriation which had received approval, upon review, be determined by the president to be operating outside the acceptable policy of the Board of Trustees and the campus, then that program or appropriation shall be discontinued by direction of the president until further review is accomplished and an appropriate adjustment is made.

The AS executive director stated that requests for extensions had been made for budget revisions, but due to the transition of the CFO and AS executive director, budget revisions and approvals were delayed.

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

**During our fieldwork, AS provided documentation showing evidence that the campus president had approved the budget for fiscal years 2010/11 and 2011/12.**

## **CASH RECEIPTS AND HANDLING**

AS daily cash bags were not adequately safeguarded prior to deposit.

Specifically, we found that daily cash bags were stored in an unlocked cabinet that was regularly accessed by student assistants.

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

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

The AS executive director stated his belief that the business office manager was unaware of the inherent risk of using the cabinet, as opposed to the safe, for cash bag drops.

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

### **Recommendation 10**

We recommend that AS adequately safeguard daily cash bags prior to deposit.

### **Campus Response**

We agree. University policies regarding safeguarding of daily cash bags prior to deposit will be implemented prior to May 1, 2012.

## **PETTY CASH AND CHANGE FUNDS**

Administration of AS petty cash required improvement.

Specifically, we found that:

- ▶ Policies and procedures had not been developed to address the allowable and unallowable uses of petty cash, the specified dollar threshold for petty cash purchases, and periodic, independent cash counts of petty cash.
- ▶ Periodic, independent counts of petty cash were not documented.

Title 5 §42401 and §42402 indicate that the campus president shall require that auxiliary organizations operate in conformity with policy of the Board of Trustees and the campus. One of the objectives of the auxiliary organizations is to provide fiscal procedures and management systems that allow effective coordination of the auxiliary activities with the campus in accordance with sound business practices. Sound business practice mandates sufficient administration of petty cash and change funds, including written policies and procedures and periodic and independent cash counts.

The AS executive director stated that policies and procedures related to petty cash were not developed, documented, or implemented due to a change in management. The absence of written policies and procedures increases the risk that errors, inconsistencies, misunderstandings, or misappropriation of funds will occur, and the failure to document periodic independent cash counts of petty cash funds increases the risk of loss or misappropriation of funds.

#### **Recommendation 11**

We recommend that AS:

- a. Develop written policies and procedures to address the allowable and unallowable uses of petty cash, the specified dollar threshold for petty cash purchases, and periodic, independent cash counts of petty cash.
- b. Document periodic, independent counts of petty cash.

#### **Campus Response**

We agree. University policies and procedures regarding petty cash will be implemented prior to May 1, 2012.

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

### **REVENUE RECONCILIATION**

AS had not completed bank account reconciliations for July and August 2011.

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 that bank account reconciliations be prepared in a timely manner.

The AS executive director stated that the bank reconciliations were not performed due to oversight.

Failure to complete bank account reconciliations in a timely manner limits the auxiliary's ability to detect errors and irregularities, increases the likelihood of loss of funds, and compromises accountability.

### **Recommendation 12**

We recommend that AS perform bank account reconciliations for July and August 2011 and ensure that future bank reconciliations are completed in a timely manner.

### **Campus Response**

We agree. Bank reconciliations are current through January 31, 2012, and AS bank accounts have been closed. AS transactions are now processed by the university bank with monthly bank reconciliation performed by the university.

## **ACCOUNTS RECEIVABLE**

Administration of AS accounts receivable needed improvement.

We found that:

- ▶ Policies and procedures had not been documented for the monitoring of accounts receivable, collection of delinquent accounts, assessment for allowance of doubtful accounts, and write-off of uncollectible accounts.
- ▶ Collection activity and follow-up on delinquent accounts receivable was not adequate to ensure collection. AS had not documented collection correspondence and did not address further action to be taken on delinquent accounts. AS wrote off \$46,000 of bad debt for fiscal year 2010/11 and stated that the Early Childhood Center was closed in part due to unsuccessful collection efforts.
- ▶ Reconciliations between the general ledger and the accounts receivable subsidiary ledger were not completed, and therefore not reviewed by management.

- ▶ Long outstanding receivables were not written off in a timely manner.

The *Compilation of Policies and Procedures for California State University Auxiliary Organizations* sets sound business practice guidelines for auxiliary organizations operating within the CSU system. Section 8.9.4, *Receivables*, states that the auxiliary should establish a written controls system that ensures billing, cash collection, customer inquiries, and subsidiary ledger reconciliations are conducted separately and with due regard for the receivable duties; establish a written system to record receivables in a timely manner with proper documentation as to terms and conditions; establish a written system to invoice customers promptly, in a consistent manner, while exercising due diligence in the follow-up and collection of past due accounts; and reconcile subsidiary receivables ledgers.

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 accounts receivable.

The AS executive director stated that prior management had not developed written policies and procedures related to accounts receivable. In addition, he stated that collection activity and follow-up on delinquent accounts receivable, reconciliations, and write-offs of long outstanding receivables were not adequately performed due to changes in management.

The absence of written policies and procedures increases the risk that errors, inconsistencies, misunderstandings, or misappropriation will occur, while inadequate control over accounts receivable increases the risk that receivables will not be controlled and reflected in auxiliary financial statements, reduces the likelihood of collection, and negatively impacts cash flow.

### **Recommendation 13**

We recommend that AS:

- a. Document policies and procedures for the monitoring of accounts receivable, collection of delinquent accounts, assessment for allowance of doubtful accounts, and write-off of uncollectible accounts.
- b. Promptly pursue the collection of delinquent accounts receivable.
- c. Reconcile accounts receivable subsidiary ledgers to the general ledger, and ensure they are reviewed by management.
- d. Write off long outstanding receivables in a timely manner.



### **Campus Response**

We agree. Effective January 1, 2012, the university is responsible for managing accounts receivables on behalf of the AS, and existing university policies and procedures are applicable to the AS.

## **PURCHASING AND ACCOUNTS PAYABLE**

AS had not developed written policies and procedures addressing the use of credit cards, and travel expense claim forms had not been submitted.

We reviewed 12 credit card statement reconciliations and 15 travel-related expenditures and found that:

- ▶ Written policies and procedures were not developed for the administration of credit cards.
- ▶ Travel expense claim forms were not submitted for any travel-related expenditures.

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 supported by written policies and procedures and sufficient and appropriate documentation.

The AS *Accounts Payable Disbursement Procedures* states that within ten days of travel completion, a travel expense claim must be submitted with supporting original receipts to the AS accountant for review.

The AS executive director stated that prior management had not developed credit card policies and procedures, and although accounts payable disbursement procedures required the use of travel expense claim forms, no formal monitoring process was in place.

The absence of written policies and procedures to address the use of credit cards and the failure to maintain sufficient and appropriate supporting documentation for travel-related expenses increase the risk that errors, inconsistencies, misunderstandings, or misappropriation of funds will occur.

### **Recommendation 14**

We recommend that AS:

- a. Develop written policies and procedures for the administration of credit cards.
- b. Ensure that travel expense claim forms are submitted for any travel-related expenditures.

### **Campus Response**

We agree. Written policies and procedures regarding the administration of credit cards and travel claims will be developed prior to May 1, 2012.

## **PERSONNEL AND PAYROLL**

### **EMPLOYEE HIRING**

Administration of AS employee hiring needed improvement.

We reviewed 11 new-hire documents and found that:

- ▶ In five instances, an expired I-9 form was used.
- ▶ In one instance, the authorization to hire was obtained subsequent to the effective date of employment.

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 8.9.6, *Payroll*, states that the auxiliary should establish a written system that ensures proper authorization, approval, and documentation of new hires, changes in employment, salary and wage rates, and payroll deductions.

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

The AS executive director stated that the business manager was unaware that an expired I-9 form was used and the authorization to hire was obtained subsequent to the effective date of employment due to oversight.

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

### **Recommendation 15**

We recommend that AS:

- a. Use proper I-9 forms.
- b. Obtain authorization to hire prior to making an offer of employment.

### **Campus Response**

We agree. The AS has hired a third-party service provider to process payroll and develop a human resource administration manual, which will be completed prior to May 1, 2012.

### **EMPLOYEE SEPARATION**

AS employee separation documentation was not always completed in a timely manner, and a check-out checklist was not utilized upon termination.

We reviewed ten separation documents and found that:

- ▶ In six instances, AS completed separation documentation two to five months after the employee's last day of work.
- ▶ In all ten instances, AS did not use a check-out checklist to document separation procedures, such as removal of IT access and return of AS property.

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 8.9.6, *Payroll*, states that the auxiliary should establish a written system that ensures proper authorization, approval, and documentation of new hires, changes in employment, salary and wage rates, and payroll deductions.

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

The AS executive director stated that the failure to complete separation documentation for terminating employees in a timely manner and the failure to use a check-out checklist were due to the lack of a formal process.

Insufficient control over employee separations increases the risk of loss of auxiliary funds and inappropriate use of auxiliary resources.

### **Recommendation 16**

We recommend that AS:

- a. Complete all required employee separation documentation in a timely manner.
- b. Use a check-out checklist to document separation procedures.

### **Campus Response**

We agree. The AS has hired a third-party service provider to process payroll and develop a human resource administration manual, which will be completed prior to May 1, 2012.

### **EMPLOYEE SALARY CHANGES**

Administration of AS employee salary changes needed improvement.

We reviewed 30 salary changes and found that:

- ▶ In two instances, salary changes were not authorized by the appropriate level of management.
- ▶ In three instances, the salary change form did not represent the actual salary rate change.
- ▶ A pay rate edit listing report was not generated in each payroll cycle for management review.

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 8.9.6, *Payroll*, states that the auxiliary should establish a written system that ensures proper authorization, approval, and documentation of new hires, changes in employment, salary and wage rates, and payroll deductions.

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

The AS executive director stated that inadequate administration of employee salary changes was due to changes in management.

Insufficient control over employee salary changes and the absence of a pay rate edit listing report to monitor pay rate changes increases the risk of inappropriate modifications to salary and wage rates.

### **Recommendation 17**

We recommend that AS:

- a. Ensure that salary changes are authorized by the appropriate level of management.
- b. Ensure that salary change forms represent the actual salary rate changes.
- c. Generate a pay rate edit listing report in each payroll cycle for management review.

### **Campus Response**

We agree. The AS has hired a third-party service provider to process payroll and develop a human resource administration manual, which will be completed prior to May 1, 2012.

### **EMPLOYEE OVERTIME**

Supervisory pre-approval of AS overtime was not documented on employee timesheets. We reviewed 15 overtime payments, and none showed evidence of supervisory pre-approval.

The CSUEB AS *Human Resource Manual* states that all non-exempt employees must have supervisory written approval before working overtime.

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 8.9.6, *Payroll*, states that the auxiliary should establish a written system that ensures proper authorization, approval, and documentation of new hires, changes in employment, salary and wage rates, and payroll deductions.

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

The AS executive director stated that overtime was approved by supervisors orally, but supervisors were unaware that approval had to be documented.

Failure to monitor overtime payments increases the risk of errors, irregularities, and misappropriation of funds.

### **Recommendation 18**

We recommend that AS document supervisory pre-approval of overtime on employee timesheets.

### **Campus Response**

We agree. The AS has hired a third-party service provider to process payroll and develop a human resource administration manual, which will be completed prior to May 1, 2012.

### **RECONCILIATION**

AS reconciliations of the payroll sub-ledger to the general ledger were not completed, and therefore not reviewed by management.

Title 5 §42401 and §42402 indicate that the campus president shall require that auxiliary organizations operate in conformity with policy of the Board of Trustees and the campus. One of the objectives of the auxiliary organizations is to provide fiscal procedures and management systems that allow effective coordination of the auxiliary activities with the campus in accordance with sound business practices. Sound business practice mandates regular and timely account reconciliations that are reviewed and approved by management.

The AS executive director stated that payroll reconciliations were not completed by accounting staff because they were unaware of the need to complete these reconciliations.

Insufficient reconciliation of the payroll sub-ledger against the general ledger limits the auxiliary's ability to detect errors and irregularities, increases the likelihood of loss of funds, and compromises accountability.

### **Recommendation 19**

We recommend that AS perform reconciliations of the payroll sub-ledger to the general ledger, with review by management.

### **Campus Response**

We agree. The university, effective January 1, 2012, is responsible for reconciling payroll sub-ledger entries to the general ledger in accord with existing university policies and procedures.

## **PROPERTY AND EQUIPMENT**

Administration of AS property and equipment needed improvement.

We found that:

- ▶ AS had not performed an annual physical inventory for fiscal years 2009/10 and 2010/11.
- ▶ Six of the 15 assets selected for physical verification could not be located.
- ▶ Property and equipment disposals were only recorded once annually, instead of at the time of disposition.
- ▶ Four of the 12 assets were capitalized incorrectly based on the in-service date, and depreciation was understated, resulting in an immaterial overstatement of assets.
- ▶ Five of 15 assets selected for physical verification were not tagged.
- ▶ Reconciliation of the fixed assets sub-ledger to the general ledger was not reviewed by management.

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 labeling of equipment, establish a written system that ensures physical inspection of property and equipment on a service life schedule, and reconcile physical inventories to the general ledger on a timely basis with review by management.

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 AS executive director stated that policies and procedures related to property and equipment were not sufficiently developed, documented, or implemented; specifically, policies and procedures did not exist for annual physical inventories, tagging, disposals, and fixed assets reconciliations. He further stated that the inaccurate capitalization of assets was due to data-entry error and the inaccurate report of capital assets in the financial statements was due to oversight.

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

### **Recommendation 20**

We recommend that AS:

- a. Perform an independent physical inventory of property and equipment.
- b. Promptly locate the missing assets and adjust the property and equipment listing as necessary.
- c. Ensure timely recording of property and equipment disposals at the time of disposition.
- d. Ensure assets are accurately capitalized.
- e. Assigned fixed asset tag/ID numbers to all property and equipment.
- f. Ensure that management reviews the reconciliation of the fixed asset sub-ledger to the general ledger.

### **Campus Response**

We agree. The university has completed a complete physical inventory and tagging and is in the process of reconciling the inventory to the fixed asset sub-ledger. The reconciliation will be completed by April 1, 2012, and resulting adjustments will be posted upon approval by management.

## **TRUSTS AND OTHER LIABILITIES**

Administration of AS student club accounts required improvement.

We reviewed five student club accounts with outstanding balances and found that:

- ▶ Policies and procedures had not been developed to address accounts with outstanding balances.
- ▶ In two instances, accounts were erroneously credited.
- ▶ In two instances, notices for outstanding balances were not sent in a timely manner.

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 strong controls over trust accounts.

The AS executive director stated that although AS holds the student club accounts, student clubs are recognized and disciplined by the office of student life. He further stated that student life is responsible for developing policies and procedures and notifying the clubs with outstanding balances. Finally, he stated that two accounts were erroneously credited due to oversight.

Insufficient control over student club accounts increases the risk of inappropriate expenditures and misunderstandings about account operations.

### **Recommendation 21**

We recommend that AS work with student life to develop policies and procedures for student club accounts that address the handling of accounts with outstanding balances, as well as credit and follow-up procedures.

### **Campus Response**

We agree. Student club account management responsibility has been transferred to the university, and policies and procedures will be published prior to April 1, 2012.



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

Leroy M. Morishita	Interim President
Bob Burt	Vice President, University Advancement
Stan Hebert	Associate Vice President of Student Affairs
Lee Thompson	Interim Chief Information Officer/Information Security Officer
Brad Wells	Interim Vice President for Administration and Finance and Chief Financial Officer

**CALIFORNIA STATE UNIVERSITY, EAST BAY FOUNDATION, INC.**

Christopher Brown	Executive Director
Yashmeen Imroz	Senior Analyst, Office of Research and Sponsored Programs
Danielle Ortuno	Director of Human Resources
Rajnesh Prasad	Director, Office of Research and Sponsored Programs
Jayne Truong	Director of Fiscal Operations

**CAL STATE EAST BAY EDUCATIONAL FOUNDATION**

Kate Dillion	Constituent and Gift Record Technician
Tom Froehlich	Director, Advancement Services
Rebecca Olivera	Office Manager/Project Manager

**ASSOCIATED STUDENTS, CALIFORNIA STATE UNIVERSITY, EAST BAY**

Lil Brown-Parker	Executive Administrative Assistant
Margaret Daniel	Office Manager
Fe Inocencio	Lead Accountant
Doris Lagasaca	Accountant
Randy Saffold	Executive Director
Mohammed Salman	Building Operations Manager
Krista Smith	Recreation and Wellness Center Director

## **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**

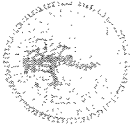
Operational controls comprise the plan of organization and all methods and procedures that are concerned mainly with operational efficiency and adherence to managerial policies and usually relate only indirectly to the financial records.

### **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.



CALIFORNIA STATE  
**UNIVERSITY**  
E A S T B A Y

Office of the President

25800 Carlos Bee Boulevard, Hayward, CA 94542-3001  
510.885.3877 • 510.885.3808 • www.csueastbay.edu

March 21, 2012

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

**RE:           Campus Responses to Recommendations:  
              Audit Report Number 11-07  
              Auxiliary Organizations, California State University, East Bay**

Dear Mr. Mandel,

Enclosed is our response to the recommendations in Audit Report 11-07, Auxiliary Organizations Audit, at California State University, East Bay.

Please let us know if you have any questions or need additional information.

Sincerely,

A handwritten signature in black ink, appearing to read "Leroy M. Morishita".

Dr. Leroy M. Morishita  
President

LM/bww

c:     Mr. Brad Wells, Vice President Administration and Finance/CFO

**AUXILIARY ORGANIZATIONS  
CALIFORNIA STATE UNIVERSITY,  
EAST BAY**

**Audit Report 11-07**

**CAMPUS**

**INFORMATION TECHNOLOGY**

**Recommendation 1**

We recommend that the campus encrypt credit card information collected from the campus website.

**Campus Response**

We agree. Testing has been completed using third-party software that encrypts credit card information. The web page will be released into production by April 15, 2012.

**CALIFORNIA STATE UNIVERSITY, EAST BAY FOUNDATION, INC.**

**OPERATING AND ADMINISTRATIVE AGREEMENTS**

**Recommendation 2**

We recommend that the Foundation ensure that all future agreements include appropriate indemnification provisions and are fully executed in a timely manner.

**Campus Response**

We agree. Procedures will be put in place prior to May 1, 2012, to ensure that agreements include appropriate indemnification provisions and are executed in a timely manner.

**FEES, REVENUES, AND RECEIVABLES**

**Recommendation 3**

We recommend that the Foundation perform and document collection activity and follow-up of delinquent accounts receivable to facilitate collection or support account write-off.

**Campus Response**

We agree. Procedures will be put in place prior to May 1, 2012, to document collection and follow-up of delinquent accounts.

**AUXILIARY PROGRAMS**

**Recommendation 4**

We recommend that the Foundation:

- a. Maintain documentation confirming that PIs and other individuals with responsibility for contracts and grants received formal training or an orientation prior to the commencement of work.
- b. Obtain statement of economic interests forms in a timely manner.
- c. Ensure that subcontracts are executed in a timely manner.
- d. Establish a process to transfer ownership of any work product, record, or equipment to the campus subsequent to the sponsored program end date.
- e. Update the grants and contracts closeout policy and procedures.

**Campus Response**

We agree. Prior to May 1, 2012, the Foundation and the University Office of Research and Sponsored Programs will conduct a mandatory training session for all principal investigators to review the statement of economic interests forms required and provide assistance in completing any outstanding forms, review processes for issuing subcontracts and clarify the requirement that subcontracts are executed in a timely manner, review procedures regarding transfers of ownership and provide assistance to ensure that transfers are completed, and review updated policies and procedures regarding grants and contracts closeouts. Thereafter, mandatory quarterly policy and procedure training sessions will be held with principal investigators to review compliance challenges and refresh training as required.

**CAL STATE EAST BAY EDUCATIONAL FOUNDATION****OPERATIONAL COMPLIANCE****Recommendation 5**

We recommend that the Ed Foundation develop and adopt a comprehensive written risk management policy that includes procedures to actively identify, analyze, quantify, and manage risk.

**Campus Response**

We agree. At the April 12, 2012, meeting of the Finance and Investment Committee, staff will recommend that the Education Foundation formally adopt University risk management policies as revised to specifically address the Education Foundation.

**FEEES, REVENUES, AND RECEIVABLES****Recommendation 6**

We recommend that the Ed Foundation:

- a. Perform a documented dual review in accordance with the Ed Foundation *Policy for Matching Gifts*.
- b. Identify and document the purpose and intent of all donations.
- c. Send gift acknowledgement letters to donors and/or matching corporations for donations subject to a matching gift.

**Campus Response**

We agree. Prior to May 1, 2012, procedures will be implemented to ensure that a dual review is documented of all matching gifts, the purpose and intent of all donations is documented, and acknowledgement letters are sent to donors and matching corporations for donations subject to a matching gift.



**ASSOCIATED STUDENTS, CALIFORNIA STATE UNIVERSITY, EAST BAY****OPERATING AND ADMINISTRATIVE AGREEMENTS****Recommendation 7**

We recommend that AS promptly renew its operating agreement with the CSU Trustees and implement a process to ensure that future agreements are renewed in a timely manner.

**Campus Response**

We agree. The operating agreement has been renewed and effective July 1, responsibility for ensuring that agreements are renewed in a timely manner has been assigned to the University Procurement Office.

**CORPORATE GOVERNANCE****AUDIT COMMITTEE****Recommendation 8**

We recommend that AS ensure that the audit committee is appointed by the board of directors, establish a written charter explaining the roles and responsibilities of its members, and maintain audit committee minutes.

**Campus Response**

We agree. At the March 14, 2012, meeting, amended bylaws will be considered by the board of directors appointing members of the Audit Committee, establishing a written charter of roles and responsibilities for members of the Audit Committee and requiring that minutes be maintained.

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

We recommend that AS develop written policies and procedures for reserves and adequately document, communicate, and review the planning and analysis of reserves.

**Campus Response**

We agree. Written policies and procedures for reserves will be considered by the board of directors at the March 14, 2012.

## CASH RECEIPTS AND HANDLING

### Recommendation 10

We recommend that AS adequately safeguard daily cash bags prior to deposit.

### Campus Response

We agree. University policies regarding safeguarding of daily cash bags prior to deposit will be implemented prior to May 1, 2012.

## PETTY CASH AND CHANGE FUNDS

### Recommendation 11

We recommend that AS:

- a. Develop written policies and procedures to address the allowable and unallowable uses of petty cash, the specified dollar threshold for petty cash purchases, and periodic, independent cash counts of petty cash.
- b. Document periodic, independent counts of petty cash.

### Campus Response

We agree. University policies and procedures regarding petty cash will be implemented prior to May 1, 2012.

## FEES, REVENUES, AND RECEIVABLES

### REVENUE RECONCILIATION

#### Recommendation 12

We recommend that AS perform bank account reconciliations for July and August 2011 and ensure that future bank reconciliations are completed in a timely manner.

#### Campus Response

We agree. Bank reconciliations are current through January 31, 2012 and AS bank accounts have been closed. AS transactions are now processed by the University bank with monthly bank reconciliation performed by the University.

## ACCOUNTS RECEIVABLE

### Recommendation 13

We recommend that AS:

- a. Document policies and procedures for the monitoring of accounts receivable, collection of delinquent accounts, assessment for allowance of doubtful accounts, and write-off of uncollectible accounts.
- b. Promptly pursue the collection of delinquent accounts receivable.
- c. Reconcile accounts receivable subsidiary ledgers to the general ledger, and ensure they are reviewed by management.
- d. Write off long outstanding receivables in a timely manner.

### Campus Response

We agree. Effective January 1, 2012, the University is responsible for managing accounts receivables on behalf of the AS and existing University policies and procedures are applicable to the AS.

## PURCHASING AND ACCOUNTS PAYABLE

### Recommendation 14

We recommend that AS:

- a. Develop written policies and procedures for the administration of credit cards.
- b. Ensure that travel expense claim forms are submitted for any travel-related expenditures.

### Campus Response

We agree. Written policies and procedures regarding the administration of credit cards and travel claims will be developed prior to May 1, 2012.

## PERSONNEL AND PAYROLL

### EMPLOYEE HIRING

#### Recommendation 15

We recommend that AS:

- a. Use proper I-9 forms.

- b. Obtain authorization to hire prior to making an offer of employment.

**Campus Response**

We agree. The AS has hired a third-party service provider to process payroll and develop a human resource administration manual, which will be completed prior to May 1, 2012.

**EMPLOYEE SEPARATION**

**Recommendation 16**

We recommend that AS:

- a. Complete all required employee separation documentation in a timely manner.
- b. Use a check-out checklist to document separation procedures.

**Campus Response**

We agree. The AS has hired a third-party service provider to process payroll and develop a human resource administration manual, which will be completed prior to May 1, 2012.

**EMPLOYEE SALARY CHANGES**

**Recommendation 17**

We recommend that AS:

- a. Ensure that salary changes are authorized by the appropriate level of management.
- b. Ensure that salary change forms represent the actual salary rate changes.
- c. Generate a pay rate edit listing report in each payroll cycle for management review.

**Campus Response**

We agree. The AS has hired a third-party service provider to process payroll and develop a human resource administration manual, which will be completed prior to May 1, 2012.

**EMPLOYEE OVERTIME**

**Recommendation 18**

We recommend that AS document supervisory pre-approval of overtime on employee timesheets.

**Campus Response**

We agree. The AS has hired a third-party service provider to process payroll and develop a human resource administration manual, which will be completed prior to May 1, 2012.

## RECONCILIATION

### Recommendation 19

We recommend that AS perform reconciliations of the payroll sub-ledger to the general ledger, with review by management.

### Campus Response

We agree. The University effective January 1, 2012, is responsible for reconciling payroll sub-ledger entries to the general ledger in accord with existing University policies and procedures.

## PROPERTY AND EQUIPMENT

### Recommendation 20

We recommend that AS:

- a. Perform an independent physical inventory of property and equipment.
- b. Promptly locate the missing assets and adjust the property and equipment listing as necessary.
- c. Ensure timely recording of property and equipment disposals at the time of disposition.
- d. Ensure assets are accurately capitalized.
- e. Assigned fixed asset tag/ID numbers to all property and equipment.
- f. Ensure that management reviews the reconciliation of the fixed asset sub-ledger to the general ledger.

### Campus Response

We agree. The University has completed a complete physical inventory and tagging and is in the process of reconciling the inventory to the fixed asset sub-ledger. The reconciliation will be completed by April 1, 2012, and resulting adjustments will be posted upon approval by management.

## TRUSTS AND OTHER LIABILITIES

### Recommendation 21

We recommend that AS work with student life to develop policies and procedures for student club accounts that address the handling of accounts with outstanding balances, as well as credit and follow-up procedures.

**Campus Response**

We agree. Student club account management responsibility has been transferred to the University and policies and procedures will be published prior to April 1, 2012.

THE CALIFORNIA STATE UNIVERSITY  
OFFICE OF THE CHANCELLOR

BAKERSFIELD

CHANNEL ISLANDS

April 5, 2012

CHICO

DOMINGUEZ HILLS

**MEMORANDUM**

EAST BAY

TO: Mr. Larry Mandel  
University Auditor

FRESNO

FULLERTON

FROM: Charles B. Reed  
Chancellor

HUMBOLDT

LONG BEACH

SUBJECT: Draft Final Report 11-07 on *Auxiliary Organizations*,  
California State University, East Bay

LOS ANGELES

MARITIME ACADEMY

In response to your memorandum of April 5, 2012, I accept the response as submitted with the draft final report on *Auxiliary Organizations*, California State University, East Bay.

MONTEREY BAY

NORTHRIDGE

CBR/amd

POMONA

SACRAMENTO

SAN BERNARDINO

SAN DIEGO

SAN FRANCISCO

SAN JOSÉ

SAN LUIS OBISPO

SAN MARCOS

SONOMA

STANISLAUS