

**AUXILIARY ORGANIZATIONS**  
**CALIFORNIA STATE UNIVERSITY,**  
**FULLERTON**

**Audit Report 12-01**  
**June 6, 2012**

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## **ABBREVIATIONS**

AORMA	Auxiliary Organization Risk Management Authority
AS Corporation	Associated Students California State University, Fullerton, Inc. CSU, Fullerton, Auxiliary Services Corporation
CFO	Chief Financial Officer
CSU	California State University
CSUF	California State University, Fullerton
CSURMA	California State University Risk Management Authority
DSS	Data Security Standard
EO	Executive Order
Foundation	CSU Fullerton Philanthropic Foundation
Housing Authority	CSU Fullerton Housing Authority
ICSUAM	Integrated California State University Administrative Manual
IRS	Internal Revenue Service
IT	Information Technology
OMB	Office of Management and Budget
PCI	Payment Card Industry
PI	Principal Investigator
RFIN	Resolution of the Committee on Finance
UBI	Unrelated Business Income

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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, Fullerton (CSUF) 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 CSUF campus and its auxiliary organizations from January 17, 2012, through February 17, 2012, and made a study and evaluation of the system of internal compliance/internal control in effect as of February 17, 2012. This report represents our triennial review.

Our study and evaluation at the *CSUF 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 February 17, 2012, taken as a whole, was sufficient to meet the objectives stated above.

Our study and evaluation at *CSU, Fullerton, Auxiliary Services Corporation* 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: contracts and grants, and information technology. 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 February 17, 2012, taken as a whole, was sufficient to meet the objectives stated above.

Our study and evaluation at the *CSU Fullerton Philanthropic Foundation* did not reveal any significant internal control problems or weaknesses that would be considered pervasive in their effects on the accounting and administrative controls. However, we did identify other reportable weaknesses that are described in the executive summary and in the body of the report. In our opinion, the accounting and administrative control in effect as of February 17, 2012, taken as a whole, was sufficient to meet the objectives stated above.

Our study and evaluation at *Associated Students California State University, Fullerton, Inc.* did not reveal any significant internal control problems or weaknesses that would be considered pervasive in their effects on the accounting and administrative controls. However, we did identify other reportable weaknesses that are described in the executive summary and in the body of the report. In our opinion, the accounting and administrative control in effect as of February 17, 2012, taken as a whole, was sufficient to meet the objectives stated above.

Our study and evaluation at *CSU Fullerton Housing Authority* 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 area: fiscal compliance. 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 February 17, 2012, 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**

### **FISCAL COMPLIANCE [11]**

The annual campus cost allocation plan to recover direct and indirect costs incurred by the California State University (CSU) operating fund for services, products, and facilities provided to auxiliary organizations needed improvement. Specifically, the plan did not describe the practices and methodologies utilized in determining the basis for allocating costs or document the factors that were taken into consideration in determining cost recovery.

## **CSU, FULLERTON, AUXILIARY SERVICES CORPORATION**

### **CORPORATE GOVERNANCE [13]**

The CSU Fullerton Auxiliary Services Corporation (Corporation) had not filed amended Bylaws with the chancellor's office in a timely manner.

### **OPERATIONAL COMPLIANCE [13]**

The Corporation had not obtained statement of economic interest forms from principal investigators involved with contracts and grants. In addition, the Corporation had not developed a comprehensive written risk management policy.

### **PERSONNEL AND PAYROLL [15]**

Corporation employee separation documentation was not always on file or complete.

### **PROPERTY AND EQUIPMENT [16]**

The Corporation's administration of property and equipment needed improvement. Specifically, one disposed asset was not reported to the Corporation financial services department for removal from the fixed asset system, and three disposed assets were reported but not removed from the fixed assets system.

### **COMMERCIAL OPERATIONS [17]**

Administration of the Corporation catering services required improvement. For example, catering agreements were not properly executed and catering services were rendered at an event despite the fact that payment had not been received.

### **CONTRACTS AND GRANTS [18]**

The Corporation closeout procedures for contracts and grants needed improvement. For example, the Corporation had not established a process to transfer ownership of any work product, record, or equipment to the university subsequent to a sponsored project end date. Additionally, cost share and effort reports were not always prepared at the Corporation, a repeat finding from the prior Auxiliary Organizations audit. Further, the Corporation did not always provide orientation to principal investigators and other individuals involved in Corporation contracts and grants, and periodic technical and performance reports were not always maintained on file. Finally, administration of Corporation sub-recipient awards required improvement. Specifically, the Corporation did not have written policies and procedures to monitor sub-recipient awards; sub-recipient award agreements exceeding \$10,000 did not contain a provision stating that parties shall be subject to examination and audit; and sub-recipient agreements were not always signed in a timely manner.

## **INFORMATION TECHNOLOGY [24]**

The Corporation bookstore system contained accounts that were shared by multiple individuals. In addition, the Corporation did not ensure that credit card information was stored and transmitted in compliance with Payment Card Industry Data Security Standard requirements. Further, password security controls for the bookstore system used by the Corporation were inadequate. Finally, the Corporation did not perform a periodic, documented management review of user accounts created in UNIX.

## **CSU FULLERTON PHILANTHROPIC FOUNDATION**

### **OPERATING AND ADMINISTRATIVE AGREEMENTS [28]**

Agreements between the CSU Fullerton Philanthropic Foundation (Foundation) and the campus, other auxiliaries, and third parties were not always fully executed in a timely manner or supported by written agreements.

### **CORPORATE GOVERNANCE [29]**

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

### **OPERATIONAL COMPLIANCE [30]**

Foundation administration of annual conflict-of-interest statements needed improvement. Specifically, the Foundation had not obtained annual conflict-of-interest statements from all board members in a timely manner, and it had not developed a comprehensive conflict-of-interest policy.

### **CASH RECEIPTS AND HANDLING [31]**

Cashiering operations at Foundation satellite locations needed improvement. Specifically, Foundation cash receipt policies and procedures were not communicated and distributed to all satellite locations, monthly account reconciliations were not documented, and checks received were not logged.

### **PURCHASING AND ACCOUNTS PAYABLE [32]**

Foundation procurement cards were not reconciled in a timely manner.

### **ENDOWMENT ADMINISTRATION [33]**

Administration of Foundation holding accounts needed improvement. For example, policies and procedures had not been developed and reconciliations were not performed in a timely manner.



**ASSOCIATED STUDENTS CALIFORNIA STATE UNIVERSITY, FULLERTON, INC.**

**FACILITIES AGREEMENTS [34]**

Certain lease and service agreements between the Associated Students California State University, Fullerton, Inc. (AS) and the Corporation did not always include appropriate indemnification provisions.

**CORPORATE GOVERNANCE [35]**

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

**OPERATIONAL COMPLIANCE [35]**

The AS had not developed a comprehensive written risk management policy.

**PROPERTY AND EQUIPMENT [36]**

Administration of AS property and equipment needed improvement. For example, review of monthly reconciliations of the fixed assets sub-ledger to the general ledger was not documented, and property and equipment disposals were only recorded once annually, instead of at the time of disposition or at least quarterly.

**CSU FULLERTON HOUSING AUTHORITY**

**FACILITIES AGREEMENTS [38]**

The standard lease agreement between the CSU Fullerton Housing Authority (Housing Authority) and third-party lessees did not include an indemnification provision.

**FISCAL COMPLIANCE [39]**

The Housing Authority was not operating on a self-sufficient basis. Specifically, the Housing Authority had incurred significant losses from the operation of the University Heights housing project that have resulted in a net capital deficiency, which raises substantial doubt about its ability to be financially self-supporting in the future. The continued operation and management of the University Heights housing project may result in the Housing Authority being unable to meet its obligations to the Corporation and other creditors. Further, the Housing Authority had not properly accounted for or tracked unrelated business income (UBI) from homes leased to community members, and it had not determined whether such revenue should be reported as UBI on the Internal Revenue Service Form 990T for calendar years 2008, 2009, and 2010.

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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.

#### CSU, Fullerton, Auxiliary Services Corporation

The CSU, Fullerton, Auxiliary Services Corporation (Corporation) was established in 1959 as a non-profit public benefit corporation for the purpose of promoting and assisting CSU Fullerton (CSUF) in fulfilling its mission. The Corporation is responsible for commercial operations, including bookstore and dining services, post-award administration of sponsored programs, and fiscal administration of numerous campus programs, such as centers and institutes. Further, the Corporation administers the College Park building to provide additional offices and classrooms for the campus. The Corporation is governed by a

Board of Directors consisting of students, faculty, administrators and prominent leaders from the surrounding community.

#### CSU Fullerton Philanthropic Foundation

The CSU Fullerton Philanthropic Foundation (Foundation) was established in 1998 as a tax-exempt, charitable and educational organization. The Foundation supports CSUF through fundraising, acceptance of donor gifts, and management of endowments. The Foundation also works closely with and is supported in its fundraising efforts by University Advancement. The Foundation works with alumni and the community to secure gifts and to generate funds that allow CSUF to continue its educational mission. The Foundation is governed by a board of directors composed of community members, faculty, students, alumni, and the campus president.

#### Associated Students California State University, Fullerton, Inc.

Associated Students California State University, Fullerton, Inc. (AS) is a non-profit auxiliary corporation incorporated in September 1975 and was formed for the specific and primary purpose of operating a charitable and educational organization. The AS is charged with operating the student body government, the Children's Center, the Titan Student Union, and the Student Recreation Center, as well as providing the campus community with social, cultural, educational, and entertainment opportunities. AS is governed by the Student Board of Directors and employs an executive director and numerous management and staff personnel to manage daily operations.

#### CSU Fullerton Housing Authority

The CSU Fullerton Housing Authority (Housing Authority) is a non-profit public benefit corporation responsible for the development, provision, and maintenance of affordable housing and other related facilities and activities for the use and convenience of faculty and staff of the university, in order to foster an academic community and environment on or near the campus, and to attract and retain the highest quality faculty and staff at the university. The Housing Authority is a single-purpose auxiliary with no dedicated employees. Property management services have been outsourced to Encore Property Management, and all administrative and accounting services are provided by the Corporation. The Housing Authority oversees the rental program and the construction, financing, sales, and re-sales of the for-sale program, plus community/property management. The Housing Authority is independently managed, and governance is provided by a nine member board of directors composed of campus management and staff, faculty, non-campus personnel, and students.

### **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, 2011, to February 17, 2012. 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:

CSU, Fullerton, Auxiliary Services Corporation

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

CSU Fullerton Philanthropic Foundation

- ▶ Operating and Administrative Agreements
- ▶ Corporate Governance
- ▶ Fiscal Compliance
- ▶ Operational Compliance
- ▶ Program Compliance
- ▶ Campus Oversight and Control
- ▶ Segregation of Duties
- ▶ Cash Receipts and Handling
- ▶ Cash Disbursement
- ▶ Investments
- ▶ Purchasing and Accounts Payable
- ▶ Endowment Administration
- ▶ Information Technology

Associated Students California State University, Fullerton, Inc.

- ▶ Operating and Administrative Agreements
- ▶ Facilities Agreements
- ▶ Corporate Governance
- ▶ Fiscal Compliance
- ▶ Operational Compliance

Associated Students California State University, Fullerton, Inc. (cont.)

- ▶ Program Compliance
- ▶ Campus Oversight and Control
- ▶ Segregation of Duties
- ▶ Cash Receipts and Handling
- ▶ Cash Disbursement
- ▶ Petty Cash and Change Funds
- ▶ Fees, Revenues, and Receivables
- ▶ Purchasing and Accounts Payable
- ▶ Personnel and Payroll
- ▶ Property and Equipment
- ▶ Trusts and Other Liabilities
- ▶ Auxiliary Programs
- ▶ Information Technology

CSU Fullerton Housing Authority

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

Campus

- ▶ Fiscal Compliance

We have not performed any auditing procedures beyond February 17, 2012. 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

#### FISCAL COMPLIANCE

The annual campus cost allocation plan to recover direct and indirect costs incurred by the California State University (CSU) operating fund for services, products, and facilities provided to auxiliary organizations needed improvement.

We reviewed auxiliary cost allocation plan documentation for fiscal years 2008/09, 2009/10, and 2010/11 and found that:

- ▶ The plan did not describe the practices and methodologies utilized in determining the basis for allocating costs.
- ▶ The factors that were taken into consideration in determining cost recovery were not documented.

Integrated California State University Administrative Manual (ICSUAM) §3552.01, *Cost Allocation/Reimbursement Plans for the CSU Operation Fund*, dated April 1, 2011, states that a university's cost allocation/reimbursement plan must articulate the practices and methodologies utilized in determining the basis for allocating costs. Due consideration must be given to the relative benefits received, the materiality of costs, and the amount of time and effort necessary to make such an allocation/reimbursement. The plan will also specifically identify direct and indirect costs requiring reimbursement. And, while there are different methodologies available for allocating costs that a university might use, the methodology used should result in a justifiable distribution of costs as determined by the campus chief financial officer (CFO). Detailed documentation that demonstrates the factors that were taken into consideration in determining cost recovery are to be included as part of the plan.

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

The campus controller stated that the new standard, ICSUAM §3552.01, was recently issued and the campus was currently reviewing its cost allocation plan in accordance with the new requirements.

Inadequate documentation of practices, methodologies, and factors for direct and indirect costs increases the risk of non-compliance with relevant requirements and misunderstandings and miscommunication regarding direct and indirect costs.

**Recommendation 1**

We recommend that the campus ensure that future cost allocation plans adhere to the requirements of ICSUAM §3552.01, dated April 1, 2011.

**Campus Response**

We concur. Future campus cost allocation plans will adhere to the requirements of ICSUAM §3552.01. Anticipated completion date is November 30, 2012.



## **CSU, FULLERTON, AUXILIARY SERVICES CORPORATION**

### **CORPORATE GOVERNANCE**

The CSU, Fullerton, Auxiliary Services Corporation (Corporation) had not filed amended Bylaws with the chancellor's office in a timely manner.

We found an amendment to the Bylaws made on December 10, 2009, that had not been filed with the chancellor's office until it was noted during fieldwork, and another made on December 16, 2010, that was not filed with the chancellor's office until March 21, 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 11.6.1, *Reporting Changes in Articles of Incorporation (or Constitution) 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 Corporation CFO stated that the Bylaws were not submitted in a timely manner due to oversight.

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

#### **Recommendation 2**

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

#### **Campus Response**

We concur. All Corporation Bylaw changes/amendments have now been filed with the chancellor's office. Any future changes/amendments will be filed with the chancellor's office within 30 calendar days.

### **OPERATIONAL COMPLIANCE**

#### **CONFLICT OF INTEREST**

The Corporation had not obtained statement of economic interest forms from Principal Investigators (PI) involved with contracts and grants.

We reviewed ten current and ten closed contracts and grants and found that statement of economic interest forms for PIs, where applicable, were not on file.

The Corporation *Project Director's Handbook, Conflict of Interest, Section F* states that the Corporation follows campus policy for reporting conflicts of interest. The Office of Grants and Contracts oversees the completion of the conflict-of-interest forms in the initial stages of proposal preparation; the Office of Sponsored Programs keeps current conflict-of-interest forms once the award arrives.

CSU *Conflict of Interest Handbook*, §2B, states that the Political Reform Act requires CSU to adopt a formal conflict-of-interest code. The CSU's code requires certain employees, who are most likely to be involved in university decision-making where potential conflicts may be present, to file an annual disclosure form.

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

The Corporation director of sponsored programs stated that statement of economic interest forms were not obtained due to oversight.

Failure to obtain statement of economic interest forms from all PIs increases the risk of non-compliance with federal and state regulations and jeopardizes the future of the Corporation's grant programs.

### **Recommendation 3**

We recommend that the Corporation obtain economic interest forms from all PIs involved with contracts and grants and maintain forms on file.

### **Campus Response**

We concur. An updated conflict-of-interest policy is being developed that is in compliance with ICSUAM. Conflict-of-interest forms will be required for all non-governmental projects (not exempt from the Fair Political Practices Commission), as well as the National Science Foundation and National Institute of Health, and will be maintained in the project files. Anticipated completion date is September 1, 2012.

### **RISK MANAGEMENT**

The Corporation had not developed a comprehensive written risk management policy.

We found that the Corporation 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 Corporation CFO stated that although there is no written risk management policy, there is a current practice for risk management issues that is incorporated into management's daily decision-making process. He further stated that risk-related issues are elevated to upper management, the executive committee, and the board of directors.

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

#### **Recommendation 4**

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

#### **Campus Response**

We concur. A risk management and casualty insurance policy was developed and adopted by the Corporation board of directors on March 15, 2012.

## **PERSONNEL AND PAYROLL**

Corporation employee separation documentation was not always on file or complete.

We reviewed 12 recent employee separations and found that:

- ▶ In three instances, separation documentation was not on file.
- ▶ In three other instances, separation documentation was not complete.

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 separations.

The Corporation human resources director stated that separation procedures had not been consistently followed due to turnover in key personnel during the past two years.

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

#### **Recommendation 5**

We recommend that the Corporation ensure that employee separation documents are:

- a. Maintained on file.
- b. Completed in full, with all of the required information.

#### **Campus Response**

We concur. The Corporation will ensure that employee separation documents are completed in full, including all of the required information such as company property clearance and updated contact information. Beginning fiscal year 2012, the Corporation's human resources department will conduct quarterly audits to ensure that all separation documents are complete and maintained on file.

## **PROPERTY AND EQUIPMENT**

The Corporation's administration of property and equipment needed improvement.

We reviewed ten capitalized assets for physical verification, and we found that:

- ▶ One disposed asset was not reported to the Corporation financial services department for removal from the fixed asset system.
- ▶ Three disposed assets were reported but not removed from the fixed assets system.

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 Corporation CFO stated that the assets were not reported to the financial services department or removed from the fixed assets system due to oversight.

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

### **Recommendation 6**

We recommend that the Corporation ensure that:

- a. Disposed capital assets are reported to the Corporation financial services department.
- b. Reported disposals are removed from the fixed asset system.

### **Campus Response**

We concur. On July 9, 2012, the Corporation's policy regarding the reporting of fixed asset disposals was reiterated to all fixed asset custodians. The Corporation will ensure all reported property disposals will be removed from the fixed asset system in a timely manner.

## **COMMERCIAL OPERATIONS**

Administration of the Corporation's catering services required improvement.

We reviewed 15 catering agreements from July 2010 to December 2011 and found that:

- ▶ In all 15 instances, the agreements were not properly executed, as they were not signed and dated by the client.
- ▶ In ten instances, catering services were rendered at an event despite the fact that payment had not been received. Payments were received four to 82 days after the event date.

The OC Choice *Catering Policy* states that for all groups, the payment in full is expected one week prior to the event.

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 properly executed agreements and that payments be received prior to services being rendered.

The Corporation dining services director stated that the catering office's intent was to confirm and execute orders via email, and this would have potentially eliminated the need for obtaining signatures on catering work orders or contract agreements. He further stated that in the instances where catering services were rendered at an event despite the fact that payment had not been received, the organization hosting the event may not have had funds available at the time. Additionally, he stated that catering management felt it was in the organization's best interest to move forward with the events, rather than canceling them.

Inadequate administration of catering services increases the risk of misunderstanding and miscommunication regarding rights and responsibilities and revenue loss and subjects the auxiliary and CSU to potential liability.

### **Recommendation 7**

We recommend that the Corporation:

- a. Ensure that all catering agreements are properly executed.
- b. Obtain payment for catering services in accordance with executed agreements.

### **Campus Response**

We concur. By November 30, 2012, the Corporation will develop a formalized process to ensure that all future agreements are properly executed and that payments are received in accordance with the executed agreements.

## **CONTRACTS AND GRANTS**

### **CLOSEOUT PROCEDURES**

The Corporation closeout procedures for contracts and grants needed improvement.

We reviewed ten closed contracts and grants and found that:

- ▶ The Corporation had not established a process to transfer ownership of any work product, record, or equipment to the university subsequent to a sponsored project's end date.
- ▶ In nine instances, the closeout process was not completed in a timely manner. Projects were closed between five months and six years after the project end date.
- ▶ In one instance, the final fiscal report was submitted 115 days after the project end date.
- ▶ In one federally funded project, an invention disclosure form was not on file.

Office of Management and Budget (OMB) Circular A-110, *Uniform Administrative Requirements for Grants and Other Agreements with Institutions of Higher Education, Hospitals and Other Non-Profit Organizations*, §C.21, states that the recipient's financial management systems shall provide for effective control over and accountability for all funds, property, and other assets, and accounting records that are supported by source documentation.

The Corporation *Project Director's Handbook, Grant/Contract Closeout, Section S* states that project accounts cannot be closed until all paperwork is complete. The Corporation sends closeout notices 90, 60, and 30 days prior to the end date. These notices request that the PI take certain actions to facilitate the close of the project. It further states that the final invention statement is required for closeout.

The Corporation director of sponsored programs stated that closeout procedures were not appropriately performed due to oversight.

Inadequate administration of closeout of contracts and grants increases the risk of non-compliance with relevant federal and state regulations and exposes the auxiliary organization to penalties and disallowances for non-compliance with contracts and grants terms.

### **Recommendation 8**

We recommend that the Corporation:

- a. Establish a process to transfer ownership of any work product, record, or equipment to the university subsequent to a sponsored project's end date.
- b. Close projects in a timely manner.
- c. Submit the final fiscal report in a timely manner.
- d. Complete the closeout invention disclosure form when projects are federally funded.

### **Campus Response**

We concur. The project closeout checklist was updated in May 2012 to address requirements regarding the transfer of ownership of any work product, record or equipment to the university, as well as the submission of final reports and invention disclosures. We are also in the process of closing out all old projects and will be monitoring future closed projects to ensure timely closeout.

## **COST SHARE AND EFFORT REPORTING**

Cost-share and effort reports were not always prepared at the Corporation. This is a repeat finding from the prior Auxiliary Organization audit.

We reviewed ten sponsored project files and found that:

- ▶ Two of the four grants with a cost-sharing component did not have cost match documentation on file.
- ▶ In eight instances, adequate evidence of effort certification reporting was not on file.

The Corporation *Project Director's Handbook, Cost-Sharing, Section N* states that requests for cost-sharing documentation will be made to the PI each quarter. Sponsored programs will provide forms and suggestions for adequate cost-sharing documentation. The “certification of cost share” report is the means of tracking and documenting the cost-share obligations.

EO 890, *Administration of Grants and Contracts in Support of Sponsored Programs*, dated January 7, 2004, states that when there is cost-sharing or matching in connection with a sponsored program, the sponsored program administrator, in conjunction with the PI, must document actual costs shared or matching contributions in a manner consistent with the campus cost allocation plans, sponsor requirements, and in the case of federal contracts and grants, requirements as stated in OMB Circular A-110.

The Corporation *Sponsored Programs Policies and Procedures for Effort Certification* states that effort certification must be included with every time sheet submitted for staff and non-professorial employees. The office of sponsored programs will distribute faculty effort reports to the project director on each account at the end of each semester.

The Corporation director of sponsored programs stated that cost share and effort reporting were not obtained due to oversight.

Failure to complete cost share and effort certification reports increases the risk of reduced reimbursements, non-compliance with OMB requirements, and increased regulatory scrutiny.

### **Recommendation 9**

We recommend that the Corporation prepare cost share and effort certification reports.

### **Campus Response**

We concur. We are planning to implement a new effort reporting system and subsequent certification that is more automated than the current system. This should eliminate the difficulty in receiving effort reports from faculty. We will also elevate tardy effort reports to the dean or chair of the faculty member in question. A similar process is being implemented for cost sharing certification. Anticipated completion date is November 1, 2012.

### **TRAINING**

The Corporation did not always provide orientation to PIs and other individuals involved in Corporation contracts and grants.



We reviewed ten current and closed contracts and grants files, and we found eight instances in which evidence or acknowledgement of orientation was not on file.

The Corporation *Project Director's Handbook, Orientation Meeting, Section E*, states that once award notification is received, the PI will be scheduled to attend an orientation meeting with the Corporation. There are several purposes for this meeting: to review and distribute the PI handbook; to inform the PI about university and Corporation policies and procedures; to review the terms and conditions of the award; to review and adjust the project budget; to establish the PI signature record; and to provide an account number to the PI. The orientation should include the PI and any other staff that will have significant involvement in the administration of the award. The director of sponsored programs is the Corporation's official orientation leader and will typically conduct the orientation session. The orientation is mandatory and must take place prior to the expenditure of grant funds.

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 PIs and other individuals involved in the contracts and grants receive orientation.

The Corporation director of sponsored programs stated that evidence and acknowledgement of orientation were not always on file due to oversight.

Failure to provide PI orientation increases the risk of non-compliance with federal and state regulations, as well as the risk that errors, inconsistencies, misunderstandings, or misappropriation may occur.

### **Recommendation 10**

We recommend that the Corporation ensure that PIs and other individuals involved in contracts and grants attend orientation and maintain evidence or acknowledgement of orientation on file.

### **Campus Response**

We concur. The new award orientation form was updated June 2012 and orientation is now mandatory for each new award. The forms are now being filed in the project file instead of a binder, which will help identify deficiencies.

## **PERFORMANCE REPORTING**

The Corporation did not always maintain periodic technical and performance reports on file.

We reviewed ten current and ten closed contracts and grants and found that in seven instances, evidence of periodic technical and performance reports was not on file.

The Corporation *Project Director's Handbook, Technical Progress/Performance Reports, Section Q*, states that PIs must submit copies of all reports and transmittal letters to the office of sponsored programs. If the report is too long to submit a complete copy to the office of sponsored programs, PIs must provide a copy of the table of contents and executive summary, as well as the transmittal letter.

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 periodic technical and/or performance reports be maintained on file.

The Corporation director of sponsored programs stated that periodic technical and performance reports were not always maintained due to oversight.

Failure to maintain technical and performance reports increases the risk of reduced reimbursements, non-compliance with OMB requirements, and increased regulatory scrutiny.

### **Recommendation 11**

We recommend that the Corporation maintain evidence of periodic technical and performance reports on file.

### **Campus Response**

We concur. The project closeout checklist was updated in May 2012 and now requires verification of both technical and performance reports.

## **SUB-RECIPIENT AWARDS**

Administration of Corporation sub-recipient awards required improvement.

We reviewed ten current and ten closed contracts and grants and found that:

- ▶ The Corporation did not have written policies and procedures to monitor sub-recipient awards. Specifically, the Corporation did not have a formal process to document its review of A-133 documents received to evaluate and ensure adequate resolution and escalation of audit findings.
- ▶ Sub-recipient award agreements exceeding \$10,000 did not contain a provision stating that the contracting parties shall be subject to the examination and audit of the auxiliary and its agents.
- ▶ In three instances, sub-recipient award agreements were not signed in a timely manner. The agreements were signed five to nine months after the project start date.

OMB Circular A-110, *Uniform Administrative Requirements for Grants and Agreements With Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations*, §.51(a), states that recipients are responsible for managing and monitoring each project, program, sub-award, function, or activity supported by the award. It also states that recipients shall monitor sub-awards to ensure sub-recipients have met the audit requirements, defined in OMB Circular A-133.

OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, §320, states that auditees that are also sub-recipients shall submit to each pass-through entity one copy of the required reporting package when the schedule of findings and questioned costs disclosed audit findings relating to federal awards that the pass-through entity provided.

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 sub-recipients be monitored, sub-award agreements contain a right-to-audit provision, and sub-award agreements be executed in a timely manner.

The Corporation director of sponsored programs stated that the Corporation did not have written policies and procedures to monitor sub-award agreements, agreements did not contain right-to-audit provisions, and sub-recipient award agreements were not signed in a timely manner due to oversight.

Failure to sufficiently monitor sub-recipient awards increases the risk of reduced reimbursements, non-compliance with OMB requirements, and increased regulatory scrutiny. In addition, the absence of a right-to-audit provision within a sub-award agreement and the lack of timely execution of sub-award agreements increases the risk of misunderstandings and miscommunication regarding rights and responsibilities and subjects the auxiliary and CSU to potential liability.

### **Recommendation 12**

We recommend that the Corporation:

- a. Establish written policies and procedures for the monitoring of sub-recipient awards.
- b. Ensure that sub-recipient award agreements greater than \$10,000 include a provision that the contracting parties shall be subject to the examination and audit of the auxiliary and its agents.
- c. Sign sub-recipient award agreements in a timely manner.

### **Campus Response**

We concur. A procedure is being written for the monitoring of sub-recipient awards. A template has been developed to track all sub-recipient requests and follow up as required. The \$10,000 provision

has been added on to the sub-award template. Sub-recipient award agreements will be executed as soon as received. Anticipated completion date is July 31, 2012.

## **INFORMATION TECHNOLOGY**

### **ACCOUNTING SYSTEM ACCESS**

The Corporation bookstore system contained access accounts that were shared by multiple individuals.

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

The *Compilation of Policies and Procedures for California State University Auxiliary Organizations* sets sound business practice guidelines for auxiliary organizations operating within the CSU system. Section 8.10, *Computer Controls*, states that auxiliary organizations should establish written policies and practices creating levels of security linked to job responsibilities and data sensitivity.

Title 5 §42401 and §42402 indicate that the campus president shall require that auxiliary organizations operate in conformity with policy of the Board of Trustees and the campus. One of the objectives of the auxiliary organizations is to provide fiscal procedures and management systems that allow effective coordination of the auxiliary activities with the campus in accordance with sound business practices. Sound business practice mandates a periodic, documented review of user access privileges within all systems and applications containing protected data.

The Corporation information technology (IT) director stated that he had recently been appointed to the position, and due to other system and security priorities, he had not yet evaluated the purpose or necessity of the shared access accounts, but that he thinks they are for inquiry only.

Failure to assign individual accountability to each user account increases the risk of inappropriate access, compromised production systems, and potential disclosure of confidential data, and prevents individual recourse for inappropriate activity from such accounts.

### **Recommendation 13**

We recommend that the Corporation conduct a management review of shared access accounts and either remove or document management approval for them.

### **Campus Response**

We concur. We will develop and implement formal procedures with regard to the management review and documented approval of shared access accounts. This review will be conducted on a quarterly basis. Anticipated completion date is November 30, 2012.

## **PAYMENT CARD INDUSTRY DATA SECURITY STANDARD COMPLIANCE**

The Corporation did not ensure that credit card information was stored and transmitted in compliance with Payment Card Industry (PCI) Data Security Standard (DSS) requirements. Specifically, we found that credit card information, including full card number, expiration date, cardholder name, and work affiliation, was collected and stored in an unencrypted format on a computer in the catering office.

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

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

The PCI DSS is a set of comprehensive requirements for enhancing payment account data security, which was developed by the founding payment brands of the PCI Security Standards Council, including American Express, Discover Financial Services, JCB International, MasterCard Worldwide, and Visa Inc. International, to help facilitate the broad adoption of consistent data security measures on a global basis. The PCI DSS is a multifaceted security standard that includes requirements for security management, policies, procedures, network architecture, software design, and other critical protective measures. This comprehensive standard is intended to help organizations proactively protect customer account data. According to payment brand rules, all merchants and their service providers are required to comply with the PCI DSS in its entirety. PCI DSS prohibits the unencrypted storage of full credit card numbers, cardholder names, service codes, and expiration dates; and prohibits any storage, whether encrypted or not, of the three-digit security codes.

The Corporation dining services director stated that credit card information was collected and stored on a computer in the catering office for customers who ordered services often, and the information was not encrypted due to oversight.

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

### **Recommendation 14**

We recommend that the Corporation encrypt sensitive confidential data stored in electronic format.

### **Campus Response**

We concur. The one case of electronically stored data that was not in an encrypted format was remedied. We are moving the payment processing to an external system to remove the need for storage of the PCI data. Anticipated completion date is November 30, 2012.

### **PASSWORD SECURITY**

Password security controls for the bookstore system used by the Corporation were inadequate.

We found that password security parameters could be overridden, and certain accounts had either no password expiration or expiration parameters that did not adhere to CSU policy.

ICSUAM §8045.100, *Information Technology Security*, dated April 19, 2010, 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.

The Corporation IT director stated that the password security settings had been in place for a long time and had not been reviewed for compliance with revised campus policy.

Inadequate password security parameters may compromise the authentication credentials of user account privileges that are embedded into applications and operating systems, which in turn may increase the risk of unauthorized access to systems and confidential data.

### **Recommendation 15**

We recommend that the Corporation set password expiration parameters for the bookstore system that adhere with campus policy.

### **Campus Response**

We concur. As of July 2012, password expiration parameters for all accounts in the bookstore system are now set in accordance with campus policy.

### **USER ACCESS REVIEWS**

The Corporation did not perform a periodic, documented management review of user accounts created in UNIX.

We found that the Corporation created UNIX accounts for CSU Fullerton Philanthropic Foundation (Foundation) employees who needed access to the accounting system, but did not always remove the accounts when access was no longer required.

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

The *Compilation of Policies and Procedures for California State University Auxiliary Organizations* sets sound business practice guidelines for auxiliary organizations operating within the CSU system. Section 8.10, *Computer Controls*, states that auxiliary organizations should establish written policies and practices creating levels of security linked to job responsibilities and data sensitivity.

Title 5 §42401 and §42402 indicate that the campus president shall require that auxiliary organizations operate in conformity with policy of the Board of Trustees and the campus. One of the objectives of the auxiliary organizations is to provide fiscal procedures and management systems that allow effective coordination of the auxiliary activities with the campus in accordance with sound business practices. Sound business practice mandates a periodic, documented review of user access privileges within all systems and applications containing protected data.

The Corporation IT director stated that the Foundation notified the Corporation to establish access to the system, but because the Foundation created and removed access to the accounting system, he had no way to determine whether he was consistently notified to remove the corresponding operating system level accounts.

Failure to periodically perform a documented review of user access to critical systems and applications containing protected data increases the risk of inappropriate access, compromised production systems, and potential disclosure of confidential data.

### **Recommendation 16**

We recommend that the Corporation coordinate with the Foundation to conduct periodic, documented management reviews of user accounts created in UNIX.

### **Campus Response**

We concur. We will coordinate with the Foundation and develop and implement formal procedures with regard to the documented management review of user accounts in UNIX. This review will be conducted on a quarterly basis. Anticipated completion date is November 30, 2012.

## **CSU FULLERTON PHILANTHROPIC FOUNDATION**

### **OPERATING AND ADMINISTRATIVE AGREEMENTS**

Agreements between the CSU Fullerton Philanthropic Foundation (Foundation) and the campus, other auxiliaries, and third parties were not always fully executed in a timely manner or supported by written agreements.

We reviewed six agreements and found that:

- ▶ Three agreements between the Foundation and the campus or other auxiliaries were not fully executed in a timely manner. Final execution ranged between 70 and 435 days after the inception of the agreements.
- ▶ A business arrangement between the Foundation and a third party for in-kind services was not documented in a written agreement.
- ▶ A business arrangement between the Foundation and the Alumni Association for accounting and financial services was not documented in a written agreement.

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 *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 8.9.5, *Procurement*, states, in part, that the auxiliary should establish a written system that provides for purchases and service contracts to be made within governing board policies, source restrictions, funds availability, and other applicable requirements.

The Foundation CFO stated that the agreements were not fully executed in a timely manner due to management oversight. He further stated that he was unaware of the in-kind services received from the third party. Finally, he stated that he was unaware that a written agreement was required for services provided to the Alumni Association.

Failure to properly execute written agreements increases the risk of misunderstandings and miscommunication regarding rights and responsibilities and subjects the auxiliaries and CSU to potential liability.



### **Recommendation 17**

We recommend that the Foundation:

- a. Establish written agreements with the third-party in-kind service provider and the Alumni Association.
- b. Ensure all future business arrangements are documented in a written agreement that is executed in a timely manner.

### **Campus Response**

We concur. The Foundation will establish written agreements for third-party in-kind service providers and with the Alumni Association by September 30, 2012. In addition, we will ensure all future business arrangements are executed in a timely manner.

## **CORPORATE GOVERNANCE**

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

We found that amendments made to the Bylaws in September 2009 and April 2010 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* 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 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 Foundation CFO stated that the amended Bylaws were not filed with the chancellor's office due to oversight.

Failure to file amendments to 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 Bylaws had been filed with the chancellor's office.**

## OPERATIONAL COMPLIANCE

Foundation administration of annual conflict-of-interest statements needed improvement.

We found that:

- ▶ None of the board members had signed their conflict-of-interest statements for fiscal year 2010/11 or 2011/12 in a timely manner. Additionally, one board member had not signed a conflict-of-interest statement for fiscal year 2010/11.
- ▶ A comprehensive conflict-of-interest policy had not been developed.

CSU *Conflict of Interest Handbook*, §2B, states that the Political Reform Act requires CSU to adopt a formal conflict-of-interest code. The CSU's code requires certain employees, who are most likely to be involved in university decision-making where potential conflicts may be present, to file an annual disclosure form.

Title 5 §42401 and §42402 indicate that the campus president shall require that auxiliary organizations operate in conformity with policy of the Board of Trustees and the campus. One of the objectives of the auxiliary organizations is to provide fiscal procedures and management systems that allow effective coordination of the auxiliary activities with the campus in accordance with sound business practices. Sound business practice mandates establishing conflict-of-interest policies and procedures and maintaining compliance with existing policies and procedures.

The Foundation CFO stated that the untimely collection of statements and missing conflict-of-interest statements were due to management oversight. He also stated that the current conflict-of-interest policy was being reviewed and a comprehensive policy was to be presented to the Foundation's Board of Governors at their February meeting.

Failure to obtain conflict-of-interest statements from all auxiliary board members and officers annually and to establish written policies and procedures increases liability for acts contrary to the code.

### **Recommendation 18**

We recommend that the Foundation:

- a. Ensure that conflict-of-interest statements are obtained from all board members and officers in a timely manner.
- b. Develop and adopt a comprehensive conflict-of-interest policy.

### **Campus Response**

We concur. The Foundation adopted a revised comprehensive conflict-of-interest policy at its February meeting. The Foundation will ensure all conflict-of-interest statements are obtained in a timely manner by July 31, 2012.

## **CASH RECEIPTS AND HANDLING**

Cashiering operations at Foundation satellite locations needed improvement.

We found that:

- ▶ Foundation cash receipt policies and procedures were not communicated and distributed to all satellite locations. Specifically, three of the five locations were unaware of the cash receipt policies and procedures.
- ▶ Monthly account reconciliations were not documented at any of the five satellite locations.
- ▶ Checks received at satellite locations were not logged.

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 the 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 administration of cash receipts.

The Foundation CFO stated that cash receipt policies and procedures had been distributed to all account signers via e-mail, but there was no acknowledgement process at that time. He further stated that account statements are distributed monthly in order to facilitate the monthly reconciliation by the account supervisors and that he was unaware these individuals were not reviewing the documents

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

### **Recommendation 19**

We recommend that the Foundation:

- a. Communicate and distribute cash receipt policies and procedures to all satellite locations.
- b. Document monthly account reconciliations at satellite locations.

- c. Log checks received at satellite locations.

**Campus Response**

We concur. The Foundation will develop and distribute cash receipt policies and procedures for all satellite locations with particular attention to monthly account reconciliations and deposit logs and provide copies of the policies and procedures to all sites by November 30, 2012.

**PURCHASING AND ACCOUNTS PAYABLE**

Foundation procurement cards were not reconciled in a timely manner.

We reviewed 13 procurement card reconciliations and found that:

- ▶ In nine instances, reconciliations were performed 3 to 13 days after payments were made.
- ▶ In one instance, the reconciliation was not dated.

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

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 properly reconciled in a timely manner.

The Foundation CFO stated that no formal deadlines had been set for the monthly reconciliations by cardholders.

Failure to reconcile procurement card statements in a timely manner increases the risk of errors, irregularities, and misappropriation of funds.

**Recommendation 20**

We recommend that the Foundation reconcile procurement card statements in a timely manner.

**Campus Response**

We concur. The Foundation will adopt processes to ensure the timely reconciliation of the procurement card statements by September 30, 2012.

## ENDOWMENT ADMINISTRATION

Administration of Foundation holding accounts needed improvement.

We found that:

- ▶ Policies and procedures had not been developed for the administration of holding accounts.
- ▶ Holding account reconciliations were not performed in a timely manner and were not signed or dated.

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 administration of holding accounts.

The Foundation CFO stated that he reviewed the holding account balance on a monthly basis but that no formal reconciliation document of this review was maintained.

Inadequate administration of holding accounts increases the risk of loss or misappropriation of funds.

### Recommendation 21

We recommend that Foundation:

- a. Develop written policies and procedures for the administration of holding accounts.
- b. Perform holding account reconciliations in a timely manner, and ensure that they are signed and dated.

### Campus Response

We concur. The Foundation will develop written policies and procedures for the administration and reconciliation of the holding accounts by September 30, 2012.

**ASSOCIATED STUDENTS**  
**CALIFORNIA STATE UNIVERSITY, FULLERTON, INC.**

**FACILITIES AGREEMENTS**

Certain lease and service agreements between the Associated Students California State University, Fullerton, Inc. (AS) and the Corporation did not include appropriate indemnification provisions.

We noted that three agreements between the AS and the Corporation did not specifically indemnify the state of California, CSU Trustees, the campus, and the officers, employees, volunteers, and agents of each of them.

The California State University Risk Management Authority (CSURMA)/Auxiliary Organizations 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, arising out of, or in any way connected with the operations of the auxiliary.

The AS executive director stated that the agreements did not include the proper indemnification clauses due to oversight.

The absence of appropriate indemnification provisions increases the risk of misunderstanding and miscommunication regarding rights and responsibilities and subjects the auxiliary and CSU to potential liability.

**Recommendation 22**

We recommend that the AS:

- a. Amend the cited agreements with appropriate indemnification provisions.
- b. Ensure all future agreements include appropriate indemnification provisions.

**Campus Response**

We concur. By September 30, 2012, all cited agreements will contain the required indemnification provisions. In addition, all future agreements will contain these provisions, as well.

## **CORPORATE GOVERNANCE**

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

We found that five amendments made to the Bylaws between June 9, 2009, and March 8, 2011, 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 programs operating within the CSU system. Section 11.6.1, *Reporting Changes in Articles of Incorporation (or Constitution) 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 amendments to the Bylaws had to be sent to the chancellor's office within 30 days.

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

### **Recommendation 23**

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

### **Campus Response**

We concur. This was addressed during the audit. The executive director transmitted all changes and Bylaws in February 2012. Since that time, all changes or amendments have been filed with the Office of the Chancellor within 30 calendar days.

## **OPERATIONAL COMPLIANCE**

The AS had not developed a comprehensive written risk management policy.

We found that AS did not have a comprehensive written risk management policy that addressed an ongoing process to proactively identify risks, analyzed the frequency and severity of identified risks, and implemented a risk mitigation program that coordinated 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 AS executive director stated that due consideration was given to risk management and related issues on a departmental basis. He also stated his belief that a comprehensive document was not needed.

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

#### **Recommendation 24**

We recommend that AS develop and adopt a comprehensive written risk management policy, including procedures to actively identify, analyze, assess, and manage risk.

#### **Campus Response**

We concur. Our comprehensive risk management policy was presented and approved by the board on May 8, 2012.

## **PROPERTY AND EQUIPMENT**

Administration of AS property and equipment needed improvement.

We found that:

- ▶ Review of monthly reconciliations of the fixed assets sub-ledger to the general ledger was not documented.
- ▶ Duties and responsibilities related to the reconciliation of fixed assets were not adequately segregated. The accounting manager recorded acquisitions and disposals to the fixed assets sub-ledger and performed the monthly fixed assets reconciliations.
- ▶ Property and equipment disposals were recorded only once annually, instead of at the time of disposition or at least quarterly.

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. It further states that the auxiliary should reconcile physical inventories to the general ledger on a timely basis with review by management.

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.

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 director of fiscal services stated her belief that an annual reconciliation within the fiscal year was timely. In addition, she was unaware of the immediate requirement for quarterly or monthly recording and reconciliation. She also stated her belief that fixed assets duties were sufficiently segregated for accounting control.

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

### **Recommendation 25**

We recommend that AS:

- a. Document review of monthly reconciliations of the fixed assets sub-ledger to the general ledger.
- b. Appropriately segregate the recording of acquisitions and disposals to the fixed asset sub-ledger from the performance of monthly fixed assets reconciliations.
- c. Record property and equipment disposals to the fixed assets records at the time of disposal, or at least quarterly.

### **Campus Response**

We concur. During the months of May and June 2012, we revised policies and procedures to perform monthly reconciliations from the fixed asset ledger to the general ledger and segregate asset acquisition and disposition functions within this process. This revised process includes monthly recording of disposals.

## **CSU FULLERTON HOUSING AUTHORITY**

### **FACILITIES AGREEMENTS**

The standard lease agreement between the CSU Fullerton Housing Authority (Housing Authority) and third-party lessees did not include an appropriate indemnification provision.

We found that the standard residential lease agreement between the Housing Authority and the lessee did not include an appropriate indemnification provision to indemnify the state of California, the Trustees of the California State University (CSU), the campus, and the officers, employees, volunteers, and agents of each of them.

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 Housing Authority manager stated that the absence of an indemnification provision was due to oversight.

The absence of appropriate indemnification provisions increases the risk of misunderstandings and miscommunication regarding rights and responsibilities and subjects the auxiliary and CSU to potential liability.

#### **Recommendation 26**

We recommend that the Housing Authority:

- a. Amend the cited agreements with appropriate indemnification provisions.
- b. Ensure all future agreements include appropriate indemnification provisions.

#### **Campus Response**

We concur. As of May 2012, the cited agreements have been updated to include appropriate indemnification provisions and are being utilized for all new and renewal leases.

## FISCAL COMPLIANCE

### OPERATING LOSSES

The Housing Authority was not operating on a self-sufficient basis.

We found that the Housing Authority had incurred significant losses from the operation of the University Heights housing project that have resulted in a net capital deficiency, which raises substantial doubt about its ability to be financially self-supporting in the future. The continued operation and management of the University Heights housing project may result in the Housing Authority being unable to meet its obligations to the Corporation and other creditors.

We noted that:

- ▶ The Housing Authority had a net deficit of \$931,000, \$530,000, \$437,000, and \$681,000 for fiscal years 2008, 2009, 2010, and 2011, respectively.
- ▶ Loan payments may increase on the financing obtained from the Trustees by the Corporation on behalf of the Housing Authority, as the loan is subject to interest rate adjustments.
- ▶ The Housing Authority has not paid any principal or interest for a line of credit of \$1.25 million obtained from the Corporation.
- ▶ The Housing Authority and the Corporation have not recognized administrative costs, currently about \$75,000 per quarter, as a long-term liability.
- ▶ The Housing Authority's mission to provide and maintain affordable housing and related facilities for California State University, Fullerton faculty, staff, and other educators was not met for the University Heights project. Specifically, 14 out of 27 homes were being leased to community members who were not educators.

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 17.2, *Self-Supporting*, states that service or commercial operations are required to be self-supporting.

Title 5 §42401 and §42402 indicate that the campus president shall require that auxiliary organizations operate in conformity with policy of the Board of Trustees and the campus. One of the objectives of the auxiliary organizations is to provide fiscal procedures and management systems that allow effective coordination of the auxiliary activities with the campus in accordance with sound business practices. Sound business practice mandates that an auxiliary operate on a self-sufficient basis and that controls be in place to ensure revenues exceed or equal expenditures.

The Housing Authority executive director stated that due to the downturn in the housing market, the Housing Authority has not been able to sell the majority of the homes in the University Heights

development. He further stated that the Housing Authority has taken steps to mitigate the financial loss by leasing the homes during the housing downturn, but has been unable to completely offset the debt service and operating costs.

A net capital deficiency raises substantial doubt about an auxiliary's ability to be financially self-supporting in the future and to meet its obligations to creditors, and the failure to fulfill its mission exposes the auxiliaries, campus, and the CSU system to regulatory and legal consequences.

### **Recommendation 27**

We recommend that the Housing Authority conduct a formal assessment of its long-term fiscal viability and its ability to fulfill its mission.

### **Campus Response**

We concur. The assessment process was ongoing during the period of the audit and will continue until a long-term solution is identified. In the interim, existing mitigation strategies (leasing of unsold homes) will continue. By November 30, 2012, the Housing Authority, in collaboration with the Auxiliary Services Corporation and the university, will develop a formal plan to address its long-term fiscal viability and its ability to fulfill its mission.

## **UNRELATED BUSINESS INCOME**

The Housing Authority had not properly accounted for or tracked unrelated business income (UBI) from homes leased to community members, and it had not determined whether such revenue should be reported as UBI on the Internal Revenue Service (IRS) Form 990T for calendar years 2008, 2009, and 2010.

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

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

The Housing Authority manager stated that due to the housing market downturn, the Housing Authority had to expand its target market to the general public. He further stated that UBI was not tracked or accounted for because he had expected to have all homes occupied by faculty and staff by now, but the housing market downturn had lasted longer than anticipated.

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

**Recommendation 28**

We recommend that the Housing Authority account for and track UBI earned from homes leased to community members and file federal income tax returns as appropriate.

**Campus Response**

We concur. By November 30, 2012, a process to account for and track UBI will be in place. In addition, tax returns will be filed as appropriate.

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## **APPENDIX A: PERSONNEL CONTACTED**

<u>Name</u>	<u>Title</u>
<b>CAMPUS</b>	
Mildred Garcia	President (Currently)
Willie Hagan	Interim President (At time of review)
Bill Barrett	Interim Vice President for Administration/Chief Financial Officer
Naomi Goodwin	Interim Chief of Staff/Staff Assistant to the President
Brian Jenkins	Associate Vice President of Finance
Steven Yim	Controller

### **CSU, FULLERTON, AUXILIARY SERVICES CORPORATION**

Kimberly Ball	Senior Manager Textbooks, Bookstore
Denise Bell	Director, Sponsored Programs
Rosario Borromeo	Human Resources Director
Raul Castenada	Senior Accountant
Mike Clemons	Senior Manager, Operations, Bookstore
Rick Deitrick	Senior Manager, Financial Analyst, Bookstore
Angie Dulay	Senior Manager, Tech Center, Bookstore
Chuck Kissel	Bookstore Director
Tony Lynch	Dining Services Director
Mike Marcinkevicz	IT Director
Tariq Marji	Chief Financial Officer
Hanna Mengesha	Vault Manager
Lance Meredith	Senior Systems Administrator
Frank Mumford	Executive Director
Sid Patel	Catering Manager, OC Choice
Peter Poon	Associate Director, Bookstore

### **CSU FULLERTON PHILANTHROPIC FOUNDATION**

Betty Chavis	Chair, Department of Accounting, MCBE
Greg Dymont	Director, Fullerton Arboretum
Jerri Freeman	Administrative Support, Women's Center
Ed Hart	Director, Family Business Council, MCBE
Grace Johnson	Director, Guardian Scholars Program
Guilii Kraemer	Administrative Support, Guardian Scholars Program
Susan Leavey	Director, Women's Center
Ira Unterman	Chief Financial Officer

### **ASSOCIATED STUDENTS CALIFORNIA STATE UNIVERSITY, FULLERTON, INC.**

Kurt Borsting	Director, Titan Student Union
Bev Brier	Cashier
Laura Brown	Director, Human Resources
Bex Conran-Dunham	Assistant Director, Titan Recreation
Jeff Fehr	Manager, University Conference Center
Lusia Komala	Accounting Supervisor

**ASSOCIATED STUDENTS CALIFORNIA STATE UNIVERSITY, FULLERTON, INC.  
(CONT.)**

Scott Macleod	Membership Services Coordinator, Titan Recreation
Jeannie Mollenauer	Director, Fiscal Services
Ron Morris	Manager, Information Technology
Anthony Ragazzo	Director, Leader and Program Development
Fred Sanchez	Executive Director
Pam Skawin	Information and Services Manager
Jana Snook	Office Coordinator
Jenny Taylor	Director, Children's Center
Steve Udell	Accounting Manager
Beverly Vargish	Assistant Director, Children's Center
Andrea Willer	Director, Titan Recreation

**CSU FULLERTON HOUSING AUTHORITY**

James Alexander	Director, Property Development
Bill Herbert	Manager
Frank Mumford	Executive 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, FULLERTON

*Office of the Vice President of Administration and Finance and Chief Financial Officer*

800 N. State College Boulevard, Fullerton, CA 92834-9480 / T (657)278-3456 / F (657)278-2649

July 20, 2012

Larry Mandel, University Auditor  
Office of the University Auditor  
The California State University  
400 Golden Shore, Suite 210  
Long Beach, CA 90802-4210

RECEIVED  
UNIVERSITY AUDITOR

JUL 20 2012

THE CALIFORNIA STATE  
UNIVERSITY

**SUBJECT:** Campus Responses to Recommendations of Auxiliary Organization Audit,  
Report 12-01

Dear Mr. Mandel:

Please find enclosed California State University, Fullerton's official response to the twenty-eight (28) recommendations contained in the Auxiliary Organizations Audit Report 12-01.

We would like to thank the University Auditor and his staff for conducting the audit in a professional manner and identifying areas where our procedures or internal controls could be strengthened. The campus is committed to addressing the issues identified in the audit report.

If you have any questions or require additional information, please contact Steven Yim, Controller, at (657) 278-4075 or [syim@fullerton.edu](mailto:syim@fullerton.edu).

Sincerely,

William C. Barrett  
Interim Vice President for Administration & Finance/  
Chief Financial Officer

## Attachments

cc: Mildred García, President  
Frank Mumford, Executive Director, CSU Fullerton Auxiliary Services Corporation and  
CSU Fullerton Housing Authority  
Fred Sanchez, Executive Director, Associated Students CSU Fullerton, Inc.  
Ira Unterman, Chief Financial Officer, CSU Fullerton Philanthropic Foundation  
Brian Jenkins, Associate Vice President of Finance  
Steven Yim, Controller

THE CALIFORNIA STATE UNIVERSITY

**AUXILIARY ORGANIZATIONS  
CALIFORNIA STATE UNIVERSITY,  
FULLERTON**

**Audit Report 12-01**

**CAMPUS**

**FISCAL COMPLIANCE**

**Recommendation 1**

We recommend that the campus ensure that future cost allocation plans adhere to the requirements of ICSUAM §3552.01, dated April 1, 2011.

**Campus Response**

We concur. Future campus cost allocation plans will adhere to the requirements of ICSUAM §3552.01. Anticipated completion date is November 30, 2012.

**CSU, FULLERTON, AUXILIARY SERVICES CORPORATION**

**CORPORATE GOVERNANCE**

**Recommendation 2**

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

**Campus Response**

We concur. All Corporation Bylaw changes/amendments have now been filed with the chancellor's office. Any future changes/amendments will be filed with the chancellor's office within 30 calendar days.

**OPERATIONAL COMPLIANCE**

**CONFLICT OF INTEREST**

**Recommendation 3**

We recommend that the Corporation obtain economic interest forms from all PIs involved with contracts and grants and maintain forms on file.

**Campus Response**

We concur. An updated conflict-of-interest policy is being developed that is in compliance with ICSUAM. Conflict-of-interest forms will be required for all non-governmental projects (not exempt from FPPC) as well as NSF and NIH and will be maintained in the project files. Anticipated completion date is September 1, 2012.

**RISK MANAGEMENT**

**Recommendation 4**

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

**Campus Response**

We concur. A Risk Management and Casualty Insurance Policy was developed and adopted by the Corporation Board of Directors on March 15, 2012.

## PERSONNEL AND PAYROLL

### Recommendation 5

We recommend that the Corporation ensure that employee separation documents are:

- a. Maintained on file.
- b. Completed in full, with all of the required information.

### Campus Response

We concur. The Corporation will ensure that employee separation documents are completed in full, including all of the required information such as company property clearance and updated contact information. Beginning fiscal year 2012, the Corporation's Human Resources department will conduct quarterly audits to ensure that all separation documents are complete and maintained on file.

## PROPERTY AND EQUIPMENT

### Recommendation 6

We recommend that the Corporation ensure that:

- a. Disposed capital assets are reported to the Corporation financial services department.
- b. Reported disposals are removed from the fixed asset system.

### Campus Response

We concur. On July 9, 2012, the Corporation's policy regarding the reporting of fixed asset disposals was reiterated to all fixed asset custodians. ASC will ensure all reported property disposals will be removed from the fixed asset system in a timely manner.

## COMMERCIAL OPERATIONS

### Recommendation 7

We recommend that the Corporation:

- a. Ensure that all catering agreements are properly executed.
- b. Obtain payment for catering services in accordance with executed agreements.

### Campus Response

We concur. By November 30, 2012, the Corporation will develop a formalized process to ensure that all future agreements are properly executed and that payments are received in accordance with the executed agreements.

## CONTRACTS AND GRANTS

### CLOSEOUT PROCEDURES

#### Recommendation 8

We recommend that the Corporation:

- a. Establish a process to transfer ownership of any work product, record, or equipment to the university subsequent to a sponsored project's end date.
- b. Close projects in a timely manner.
- c. Submit the final fiscal report in a timely manner.
- d. Complete the closeout invention disclosure form when projects are federally funded.

#### Campus Response

We concur. The Project Closeout Check List was updated in May 2012 to address requirements regarding the transfer of ownership of any work product, record or equipment to the university as well as the submission of final reports and invention disclosures. We are also in the process of closing out all old projects and will be monitoring future closed projects to ensure timely closeout.

### COST SHARE AND EFFORT REPORTING

#### Recommendation 9

We recommend that the Corporation prepare cost share and effort certification reports.

#### Campus Response

We concur. We are planning to implement a new effort reporting system and subsequent certification that is more automated than the current system. This should eliminate the difficulty in receiving effort reports from faculty. We will also elevate tardy effort reports to the dean or chair of the faculty member in question. A similar process is being implemented for cost sharing certification. Anticipated completion date is November 1, 2012.

### TRAINING

#### Recommendation 10

We recommend that the Corporation ensure that PIs and other individuals involved in contracts and grants attend orientation and maintain evidence or acknowledgement of orientation on file.

**Campus Response**

We concur. The New Award Orientation form was updated June 2012 and orientation is now mandatory for each new award. The forms are now being filed in the project file instead of a binder, which will help identify deficiencies.

**PERFORMANCE REPORTING**

**Recommendation 11**

We recommend that the Corporation maintain evidence of periodic technical and performance reports on file.

**Campus Response**

We concur. The Project Closeout Check List was updated in May 2012 and now requires verification of both technical and performance reports.

**SUB-RECIPIENT AWARDS**

**Recommendation 12**

We recommend that the Corporation:

- a. Establish written policies and procedures for the monitoring of sub-recipient awards.
- b. Ensure that sub-recipient award agreements greater than \$10,000 include a provision that the contracting parties shall be subject to the examination and audit of the auxiliary and its agents.
- c. Sign sub-recipient award agreements in a timely manner.

**Campus Response**

We concur. A procedure is being written for the monitoring of sub-recipient awards. A template has been developed to track all sub-recipient requests and follow up as required. The \$10,000 provision has been added onto the sub-award template. Sub-recipient award agreements will be executed as soon as received. Anticipated completion date is July 31, 2012.

**INFORMATION TECHNOLOGY**

**ACCOUNTING SYSTEM ACCESS**

**Recommendation 13**

We recommend that the Corporation conduct a management review of shared access accounts and either remove or document management approval for them.

**Campus Response**

We concur. We will develop and implement formal procedures with regards to the management review and documented approval of shared access accounts. This review will be conducted on a quarterly basis. Anticipated completion date is November 30, 2012.

**PAYMENT CARD INDUSTRY DATA SECURITY STANDARD COMPLIANCE**

**Recommendation 14**

We recommend that the Corporation encrypt sensitive confidential data stored in electronic format.

**Campus Response**

We concur. The one case of electronically stored data which was not in an encrypted format was remedied. We are moving the payment processing to an external system to remove the need for storage of the PCI data. Anticipated completion date is November 30, 2012.

**PASSWORD SECURITY**

**Recommendation 15**

We recommend that the Corporation set password expiration parameters for the bookstore system that adhere with campus policy.

**Campus Response**

We concur. As of July 2012, password expiration parameters for all accounts in the bookstore system are now set in accordance with campus policy.

**USER ACCESS REVIEWS**

**Recommendation 16**

We recommend that the Corporation coordinate with the Foundation to conduct periodic, documented management reviews of user accounts created in UNIX.

**Campus Response**

We concur. We will coordinate with the Foundation and develop and implement formal procedures with regards to the documented management review of user accounts in UNIX. This review will be conducted on a quarterly basis. Anticipated completion date is November 30, 2012.



**CSU FULLERTON PHILANTHROPIC FOUNDATION**

**OPERATING AND ADMINISTRATIVE AGREEMENTS**

**Recommendation 17**

We recommend that the Foundation:

- a. Establish written agreements with the third-party in-kind service provider and the Alumni Association.
- b. Ensure all future business arrangements are documented in a written agreement that is executed in a timely manner.

**Campus Response**

We concur. The Philanthropic Foundation will establish written agreements for third-party in-kind service providers and with the Alumni Association by September 30, 2012. In addition, we will ensure all future business arrangements are executed in a timely manner.

**OPERATIONAL COMPLIANCE**

**Recommendation 18**

We recommend that the Foundation:

- a. Ensure that conflict-of-interest statements are obtained from all board members and officers in a timely manner.
- b. Develop and adopt a comprehensive conflict-of-interest policy.

**Campus Response**

We concur. The Philanthropic Foundation adopted a revised comprehensive conflict-of-interest policy at their February meeting. The Philanthropic Foundation will ensure all conflict-of-interest statements are obtained in a timely manner by July 31, 2012.

**CASH RECEIPTS AND HANDLING**

**Recommendation 19**

We recommend that the Foundation:

- a. Communicate and distribute cash receipt policies and procedures to all satellite locations.
- b. Document monthly account reconciliations at satellite locations.
- c. Log checks received at satellite locations.

**Campus Response**

We concur. The Philanthropic Foundation will develop and distribute cash receipt policies and procedures for all satellite locations with particular attention to monthly account reconciliations and deposit logs and provide copies of the policies and procedures to all sites, by November 30, 2012.

**PURCHASING AND ACCOUNTS PAYABLE**

**Recommendation 20**

We recommend that the Foundation reconcile procurement card statements in a timely manner.

**Campus Response**

We concur. The Philanthropic Foundation will adopt processes to ensure the timely reconciliation of the procurement card statements by September 30, 2012.

**ENDOWMENT ADMINISTRATION**

**Recommendation 21**

We recommend that Foundation:

- a. Develop written policies and procedures for the administration of holding accounts.
- b. Perform holding account reconciliations in a timely manner, and ensure that they are signed and dated.

**Campus Response**

We concur. The Philanthropic Foundation will develop written policies and procedures for the administration and reconciliation of the holding accounts by September 30, 2012.

**ASSOCIATED STUDENTS**  
**CALIFORNIA STATE UNIVERSITY, FULLERTON, INC.**

**FACILITIES AGREEMENTS**

**Recommendation 22**

We recommend that the AS:

- a. Amend the cited agreements with appropriate indemnification provisions.
- b. Ensure all future agreements include appropriate indemnification provisions.

**Campus Response**

We concur. By September 30, 2012, all cited agreements will contain the required indemnification provisions. In addition, all future agreements will contain these provisions as well.

**CORPORATE GOVERNANCE**

**Recommendation 23**

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

**Campus Response**

We concur. This was addressed during the audit. The Executive Director transmitted all changes and Bylaws February 2012. Since that time all changes or amendments have been filed with the Office of the Chancellor within 30 calendar days.

**OPERATIONAL COMPLIANCE**

**Recommendation 24**

We recommend that AS develop and adopt a comprehensive written risk management policy, including procedures to actively identify, analyze, assess, and manage risk.

**Campus Response**

We concur. Our comprehensive risk management policy was presented and approved by the Board on May 8, 2012.

## PROPERTY AND EQUIPMENT

### Recommendation 25

We recommend that AS:

- a. Document review of monthly reconciliations of the fixed assets sub-ledger to the general ledger.
- b. Appropriately segregate the recording of acquisitions and disposals to the fixed asset sub-ledger from the performance of monthly fixed assets reconciliations.
- c. Record property and equipment disposals to the fixed assets records at the time of disposal, or at least quarterly.

### Campus Response

We concur. During the months of May and June 2012 we revised policies and procedures to perform monthly reconciliations from the fixed asset ledger to the general ledger and segregate asset acquisition and disposition functions within this process. This revised process includes monthly recording of disposals.

**CSU FULLERTON HOUSING AUTHORITY**

**FACILITIES AGREEMENTS**

**Recommendation 26**

We recommend that the Housing Authority:

- a. Amend the cited agreements with appropriate indemnification provisions.
- b. Ensure all future agreements include appropriate indemnification provisions.

**Campus Response**

We concur. As of May 2012, the cited agreements have been updated to include appropriate indemnification provisions and are being utilized for all new and renewal leases.

**FISCAL COMPLIANCE**

**OPERATING LOSSES**

**Recommendation 27**

We recommend that the Housing Authority conduct a formal assessment of its long-term fiscal viability and its ability to fulfill its mission.

**Campus Response**

We concur. The assessment process was ongoing during the period of the audit and will continue until a long-term solution is identified. In the interim, existing mitigation strategies (leasing of unsold homes) will continue. By November 30, 2012 the Housing Authority, in collaboration with the Auxiliary Services Corporation and the University, will develop a formal plan to address its long-term fiscal viability and its ability to fulfill its mission.

**UNRELATED BUSINESS INCOME**

**Recommendation 28**

We recommend that the Housing Authority account for and track UBI earned from homes leased to community members and file federal income tax returns as appropriate.

**Campus Response**

We concur. By November 30, 2012, a process to account for and track UBI will be in place. In addition, tax returns will be filed as appropriate.

THE CALIFORNIA STATE UNIVERSITY  
OFFICE OF THE CHANCELLOR



BAKERSFIELD

CHANNEL ISLANDS

August 13, 2012

CHICO

**MEMORANDUM**

DOMINGUEZ HILLS

EAST BAY

TO: Mr. Larry Mandel  
University Auditor

FRESNO

FULLERTON

FROM: Charles B. Reed  
Chancellor

HUMBOLDT

SUBJECT: Draft Final Report 12-01 on *Auxiliary Organizations*,  
California State University, Fullerton

LONG BEACH

LOS ANGELES

In response to your memorandum of August 13, 2012, I accept the response as submitted with the draft final report on *Auxiliary Organizations*, California State University, Fullerton.

MARITIME ACADEMY

MONTEREY BAY

CBR/amd

NORTHRIDGE

POMONA

SACRAMENTO

SAN BERNARDINO

SAN DIEGO

SAN FRANCISCO

SAN JOSÉ

SAN LUIS OBISPO

SAN MARCOS

SONOMA

STANISLAUS