

AUXILIARY ORGANIZATIONS
CALIFORNIA STATE UNIVERSITY,
SAN MARCOS

Audit Report 13-03
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CONTENTS

Executive Summary	1
Introduction.....	6
Background	6
Purpose.....	8
Scope and Methodology	9

OBSERVATIONS, RECOMMENDATIONS, AND CAMPUS RESPONSES

CAMPUS

Trusts and Other Liabilities	12
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CALIFORNIA STATE UNIVERSITY SAN MARCOS FOUNDATION

Operating and Administrative Agreements	14
Fiscal Compliance.....	15
Operational Compliance	16
Fees, Revenues, and Receivables	17
Pledges Receivable	17
Matching Gifts	18
Donor System Reconciliation	20

SAN MARCOS UNIVERSITY CORPORATION

Operating and Administrative Agreements	22
Corporate Governance	22
Board of Directors	22
Bylaws.....	23
Fiscal Compliance.....	24
Reserves	24
Taxes	26
Cash Receipts and Handling.....	26
Petty Cash and Change Funds	27
Fees, Revenues, and Receivables	28
Accounts Receivable.....	28

CONTENTS

Reconciliation 29

UNIVERSITY AUXILIARY AND RESEARCH SERVICES CORPORATION

Operating and Administrative Agreements 31

Contracts and Grants..... 32

ASSOCIATED STUDENTS, INCORPORATED
CALIFORNIA STATE UNIVERSITY, SAN MARCOS

Fiscal Compliance..... 34

Purchasing and Accounts Payable 35

Property and Equipment 37

Trusts and Other Liabilities 39

APPENDICES

APPENDIX A:	Personnel Contacted
APPENDIX B:	Statement of Internal Controls
APPENDIX C:	Campus Response
APPENDIX D:	Chancellor's Acceptance

ABBREVIATIONS

AORMA	Auxiliary Organization Risk Management Authority
ASI	Associated Students, Incorporated California State University, San Marcos
CCF	Center for Children and Families
CCLC	Children's Creative Learning Center
CFO	Chief Financial Officer
Corporation	San Marcos University Corporation
CSU	California State University
CSURMA	California State University Risk Management Authority
CSUSM	California State University, San Marcos
EO	Executive Order
Foundation	California State University San Marcos Foundation
ICSUAM	Integrated California State University Administrative Manual
MOU	Memorandum of Understanding
RFIN	Resolution of the Committee on Finance
RM	Risk Management
The Clarke	M. Gordon Clarke Field House/University Student Union
UARSC	University Auxiliary and Research Services Corporation
UVA	University Village Apartments

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, San Marcos (CSUSM) 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 CSUSM campus and its auxiliary organizations from March 25, 2013, through May 2, 2013, and made a study and evaluation of the system of internal compliance/internal control in effect as of May 2, 2013. This report represents our triennial review.

In our opinion, the fiscal, operational, and administrative controls in effect at the *CSUSM campus* as of May 2, 2013, taken as a whole, were sufficient to meet the objectives stated above and in the "Purpose" section of this report.

In our opinion, except for the effect of the weaknesses described below, the fiscal, operational, and administrative controls at *California State University San Marcos Foundation* as of May 2, 2013, taken as a whole, were sufficient to meet the objectives stated above and in the "Purpose" section of this report. Areas of concern include: operating and administrative agreements, operational compliance, and fees, revenues, and receivables.

In our opinion, except for the effect of the weaknesses described below, the fiscal, operational, and administrative controls at *San Marcos University Corporation* as of May 2, 2013, taken as a whole, were

sufficient to meet the objectives stated above and in the “Purpose” section of this report. Areas of concern include: corporate governance, fiscal compliance, and fees, revenues, and receivables.

In our opinion, the fiscal, operational, and administrative controls in effect at *University Auxiliary and Research Services Corporation* as of May 2, 2013, taken as a whole, were sufficient to meet the objectives stated above and in the “Purpose” section of this report.

In our opinion, except for the effect of the weaknesses described below, the fiscal, operational, and administrative controls at *Associated Students, Incorporated California State University, San Marcos* as of May 2, 2013, taken as a whole, were sufficient to meet the objectives stated above and in the “Purpose” section of this report. Areas of concern include: purchasing and accounts payable, property and equipment, and trusts and other liabilities.

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

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

CAMPUS

TRUSTS AND OTHER LIABILITIES [12]

Campus administration of campus activity and program funds at University Auxiliary and Research Services Corporation (UARSC) and California State University San Marcos Foundation (Foundation) needed improvement. Specifically, the campus did not document the delegation of authority for the authorization of campus activity or program from the campus president or his/her designee, or campus policies and procedures regarding activities and programs that provide specific guidance in regard to campus centers and institutes, workshops and conferences, instructionally related events and activities, and documentation requirements. Additionally, the specific determination of whether the campus or the auxiliary was accountable and responsible for the funds and the advantages to the university and support of the university mission were not documented.

CALIFORNIA STATE UNIVERSITY SAN MARCOS FOUNDATION

OPERATING AND ADMINISTRATIVE AGREEMENTS [14]

The business services agreement between the Foundation and UARSC and a standard contractor agreement used by the Foundation did not include appropriate indemnification provisions.

FISCAL COMPLIANCE [15]

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

OPERATIONAL COMPLIANCE [16]

Foundation fundraising events with gross receipts greater than \$5,000 were not properly approved and reviewed.

FEES, REVENUES, AND RECEIVABLES [17]

Administration of Foundation pledges receivable needed improvement. For example, written policies and procedures had not been developed to address collection and follow-up activity for delinquent pledges receivable and the write-off of uncollectible pledges receivable, and collection and follow-up activity was not performed and documented to facilitate the collection or support account write-off of uncollectible pledges. Additionally, administration of matching gifts needed improvement. Specifically, written policies and procedures for the administration of matching gifts had not been developed, documentation was not on file showing that matching gifts were reviewed for eligibility, and a documented dual review of matching gifts was not performed during the acceptance process to ensure that funds were designated in accordance with donor intent. Further, the Foundation did not perform independent reconciliations between its donor database and the general ledger accounting system maintained by UARSC on a monthly and quarterly basis.

SAN MARCOS UNIVERSITY CORPORATION

OPERATING AND ADMINISTRATIVE AGREEMENTS [22]

A memorandum of understanding had not been established between University Village Apartments on behalf of the San Marcos University Corporation (Corporation) and WASH Laundry Service.

CORPORATE GOVERNANCE [22]

The Corporation did not have the required number of directors on its governing board. Additionally, the Corporation had not filed amended Bylaws with the chancellor's office in a timely manner.

FISCAL COMPLIANCE [24]

The Corporation did not maintain board-designated reserves in accordance with its reserves policy. Additionally, the Corporation did not obtain a seller's permit for the M. Gordon Clarke Field House/University Student Union (The Clarke).

CASH RECEIPTS AND HANDLING [26]

The Corporation did not maintain a list of individuals with access to the safe and the date the combination was last changed at The Clarke, and the safe combination was not changed after turnover in personnel with access to the safe.

PETTY CASH AND CHANGE FUNDS [27]

Periodic, independent cash counts were not conducted for Corporation petty cash and change funds for fiscal year 2012/13.

FEES, REVENUES, AND RECEIVABLES [28]

The Corporation did not perform and document collection and follow-up activity on delinquent accounts receivable. Additionally, certain Corporation bank account and accounts receivable reconciliations were not prepared and reviewed by management in a timely manner.

UNIVERSITY AUXILIARY AND RESEARCH SERVICES CORPORATION

OPERATING AND ADMINISTRATIVE AGREEMENTS [31]

The agreements between UARSC and the Children's Creative Learning Center, which operates the Center for Children and Families, were not executed in a timely manner and did not include the appropriate contracting parties.

CONTRACTS AND GRANTS [32]

Administration of UARSC sponsored projects required improvement. Specifically, UARSC did not obtain signed release forms or waivers from students traveling by air and did not include the transfer of ownership for equipment purchased with sponsored projects funds to the university after the project end date in its project close-out procedures (checklist).

ASSOCIATED STUDENTS, INCORPORATED **CALIFORNIA STATE UNIVERSITY, SAN MARCOS**

FISCAL COMPLIANCE [34]

The Associated Students, Incorporated California State University, San Marcos (ASI) reserve policy did not address or consider the following areas: minimum reserve requirements, board review of reserve levels, reserves for working capital and capital replacement, and the methodology used for the calculation of reserves.

PURCHASING AND ACCOUNTS PAYABLE [35]

Administration of ASI travel needed improvement. Specifically, ASI had not updated its written policies and procedures for travel to reflect current business practices; travel expense claim forms were not developed and completed subsequent to travel to document evidence of travel and related expenditures incurred; and ASI did not always obtain signed release forms or waivers from students traveling by air.

PROPERTY AND EQUIPMENT [37]

Administration of ASI property and equipment needed improvement. For example, written policies and procedures for an independent physical count of inventory had not been developed, certain assets lacked property identification tags, and property and equipment disposals were recorded to the fixed assets records once annually, instead of at the time of disposition or at least quarterly. In addition, proper approvals were not documented prior to disposal of fixed assets, and management review of monthly reconciliations of the fixed asset sub-ledger to the general ledger was not documented.

TRUSTS AND OTHER LIABILITIES [39]

Administration of ASI student club accounts needed improvement. Specifically, accounts with no activity within the past three years were not always closed in a timely manner, and certain student organization accounts had negative balances.

INTRODUCTION

BACKGROUND

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

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

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

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

This executive order requires that the Office of 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.

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

This executive order requires CSU auxiliary organizations to operate within the regulations and oversight of the campus. The campus president is responsible for ensuring the fiscal viability of auxiliary

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

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

California State University San Marcos Foundation

The California State University San Marcos Foundation (Foundation) was established in February 2009 as a non-profit public benefit corporation and the new philanthropic auxiliary primarily responsible for the development, use, and management of non-state-funded resources, including endowment and scholarship funds. Because the Foundation is the new philanthropic auxiliary, specific donor-funded assets previously held by the University Auxiliary and Research Services Corporation (UARSC) were transferred to the Foundation in July 2010 for administration beginning in fiscal year 2010/11. The Foundation now oversees all program and scholarship endowments and non-endowed scholarships and partners with public and private organizations to generate resources that help promote student success. The Foundation does not have employees and relies on UARSC and campus personnel for accounting and administrative support services. The Foundation is governed by a board of directors composed of representatives from the university administration, faculty, student body, and community.

San Marcos University Corporation

The San Marcos University Corporation (Corporation) was established in 2001 as a non-profit public benefit corporation for the purpose of developing, providing, and maintaining affordable housing and other related facilities and activities for the use and convenience of faculty, staff, and students of California State University, San Marcos (CSUSM). The Corporation owns the University Village Apartments but contracts with a third-party administrator for their operation and management. The Corporation is responsible for the operation of the M. Gordon Clarke Field House/University Student Union (The Clarke), including campus recreation programs and events and conference services. A new Student Union is currently under construction with anticipated occupancy beginning in January 2014. Ownership of the Center for Children and Families was transferred from the Corporation to UARSC in July 2011. The Corporation is governed by a board of directors composed of representatives from the university and auxiliary administration, faculty, student body, and community. The Corporation relies on

CSUSM business and financial services for accounting-related support services and UARSC for human resources and payroll services.

University Auxiliary and Research Services Corporation

UARSC was established in 1990 as a non-profit public benefit corporation under the name California State University, San Marcos Foundation. It was officially reincorporated and renamed UARSC in April 2009. It provides commercial services, including the bookstore and dining, on the CSUSM campus, but outsources bookstore and dining operations to a third party. In addition, UARSC administers sponsored programs and provides accounting and business administration services to programs and activities managed by UARSC, as well as to the other campus auxiliary organizations. Specific donor-funded assets previously held by UARSC, including endowment and scholarship funds, were transferred to the newly created Foundation in July 2010. Ownership of the Center for Children and Families, which is operated by Children's Creative Learning Center, was moved from the Corporation to UARSC in July 2011. UARSC is governed by a board of directors composed of representatives from the university administration, faculty, student body, and community. UARSC provides accounting services to the Foundation and human resources and payroll services to the Corporation and Associated Students, Incorporated California State University, San Marcos (ASI).

Associated Students, Incorporated California State University, San Marcos

ASI was established in 1991 as a non-profit public benefit corporation responsible for providing a means for participation in student government and an official voice through which students' opinions may be expressed; assisting in the protection of the rights and interests of the individual student and student body; delivering services and programs to meet the needs of the student and campus community; and stimulating the educational, social, physical, and cultural well-being of the CSUSM community. ASI operates the ASI Corporate Office, Campus Activities Board, LGBTQA Pride Center, and Gender Equity Center. In addition, ASI provides banking services to student organizations, additional funding for student organization events, and student participation in professional development opportunities. ASI is governed by a student board of directors, which is assisted by an advisory council composed of representatives from campus and ASI administration. ASI relies on campus personnel for accounting and administrative support services and on UARSC for human resources and payroll services.

PURPOSE

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

- ▶ Legal and regulatory requirements are complied with.
- ▶ Accounting data is provided in an accurate, timely, complete, or otherwise reliable manner.
- ▶ Assets are adequately safeguarded from loss, damage, or misappropriation.
- ▶ Duties are appropriately segregated consistent with appropriate control objectives.
- ▶ Transactions, accounting entries, or systems output is reviewed and approved.

- ▶ Management does not intentionally override internal controls to the detriment of control objectives.
- ▶ Accounting and fiscal tasks, such as reconciliations, are prepared properly and completed timely.
- ▶ Deficiencies in internal controls previously identified were corrected satisfactorily and timely.
- ▶ Management seeks to prevent or detect erroneous recordkeeping, inappropriate accounting, fraudulent financial reporting, financial loss, and exposure.

SCOPE AND METHODOLOGY

Our study and evaluation were conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing* issued by the Institute of Internal Auditors and included the audit tests we considered necessary in determining whether fiscal, operational, and administrative controls are in place and operative. The management review emphasized, but was not limited to, compliance with state and federal laws, Board of Trustee policies, and Office of the Chancellor policies, letters, and directives. For those audit tests that required annualized data, fiscal years 2010/11 and 2011/12 were the primary periods reviewed. In certain instances, we were concerned with representations of the most current data; in such cases, the test period was July 1, 2012, to May 2, 2013. Our primary focus was on internal compliance/internal control.

Specifically, we reviewed and tested:

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

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

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

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

California State University San Marcos Foundation

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

San Marcos University Corporation

- ▶ Operating and Administrative Agreements
- ▶ Facilities Agreements
- ▶ Corporate Governance
- ▶ Fiscal Compliance
- ▶ Operational Compliance
- ▶ Program Compliance
- ▶ 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
- ▶ Auxiliary Programs
- ▶ Information Technology

University Auxiliary and Research Services Corporation

- ▶ Operating and Administrative Agreements
- ▶ Facilities Agreements
- ▶ Corporate Governance
- ▶ Fiscal Compliance
- ▶ Operational Compliance
- ▶ Program Compliance
- ▶ Segregation of Duties
- ▶ Cash Receipts and Handling

University Auxiliary and Research Services Corporation (cont.)

- ▶ 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

Associated Students, Incorporated California State University, San Marcos

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

Campus

- ▶ Campus Oversight and Control
- ▶ Information Technology

We have not performed any auditing procedures beyond May 2, 2013. Accordingly, our comments are based on our knowledge as of that date. Since the purpose of our comments is to suggest areas for improvement, comments on favorable matters are not addressed.

OBSERVATIONS, RECOMMENDATIONS, AND CAMPUS RESPONSES

CAMPUS

TRUSTS AND OTHER LIABILITIES

Campus administration of campus activity and program funds at University Auxiliary and Research Services Corporation (UARSC) and California State University San Marcos Foundation (Foundation) needed improvement.

We reviewed ten UARSC and 15 Foundation campus activity and program funds, and we found that the campus did not document:

- ▶ The delegation of authority for the authorization of a campus activity or program from the campus president to his/her designee.
- ▶ Campus policies and procedures regarding activities and programs that provide specific guidance in regard to campus centers and institutes, workshops and conferences, instructionally related events and activities, and documentation requirements.
- ▶ The specific determination of whether the campus or the auxiliary was accountable and responsible for the funds.
- ▶ Advantages to the university and support of the university mission.

Integrated California State University Administrative Manual (ICSUAM) §13680.00, *Placement and Control of Receipts for Campus Activities and Programs*, dated September 29, 2011, states that only the campus presidents or their designees may authorize a campus activity or program. Delegation of this authority must be documented and implemented consistent with campus policies and practices. It further states that campus policies and procedures regarding activities and programs must provide specific guidance in regard to campus centers and institutes, workshops and conferences, instructionally related events and activities, and documentation requirement. As deemed by the president in the interest of the campus and the California State University (CSU), a determination must be made as to whether the university or an auxiliary organization will receive proprietorship over an activity or program, which includes acceptance of both risks and rewards associated with ownership. Receipts from university-owned activities and programs may not be accepted by an auxiliary organization, except when specifically authorized in writing by the campus president or his/her designee. Said authorization shall be granted judiciously and only when the president or designee deems it is advantageous to the university and supportive of the university mission. Specific advantage must be documented in a written agreement.

Executive Order (EO) 1059, *Utilization of Campus Auxiliary Organizations*, dated June 6, 2011, states that auxiliary organizations may accept or administer campus funds as an agent of the university when specifically authorized in writing by the campus president or his/her designee. Said

authorizations shall be granted judiciously and only when it is advantageous to the university and supportive of the university mission. The authorization should include the rationale for making this choice and clearly articulate the advantages to the university.

The university controller stated that the campus was unaware of the ICSUAM §13680.00 requirements.

Inadequate administration of campus activity and program funds increases the risk of non-compliance with relevant requirements and misunderstandings and miscommunication regarding rights and responsibilities.

Recommendation 1

We recommend that the campus document:

- a. The delegation of authority for the authorization of a campus activity or program from the campus president to his/her designee.
- b. Campus policies and procedures regarding activities and programs that provide specific guidance in regard to campus centers and institutes, workshops and conferences, instructionally related events and activities, and documentation requirements.
- c. The specific determination of whether the campus or the auxiliary is accountable and responsible for campus activity and program funds.
- d. Advantages to the university and support of the university mission.

Campus Response

We concur. Per the ICSUAM policy, the campus will document the delegation of authority of a campus activity from the campus president to his/her designee. In addition, the campus will also document campus policies and procedures regarding activities and programs that provide specific guidance in regard to campus centers and institutes, workshops and conferences, instructionally related events and activities, and documentation requirements; the specific determination of whether the campus or the auxiliary is accountable and responsible for campus activity and program funds; and advantages to the university and support of the university mission.

Anticipated date of completion: On or before October 31, 2013

CALIFORNIA STATE UNIVERSITY SAN MARCOS FOUNDATION

OPERATING AND ADMINISTRATIVE AGREEMENTS

The business services agreement between California State University San Marcos Foundation (Foundation) and UARSC and a standard contractor agreement used by the Foundation did not include appropriate indemnification provisions.

We found that:

- ▶ The business services agreement did not specifically indemnify the state of California, the Trustees of the CSU, and the campus.
- ▶ The underlying standard contractor agreement used for Foundation disbursements to two contractors indemnified UARSC instead of the Foundation.

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

EO 849, *California State University Insurance Requirements*, dated February 5, 2003, states that auxiliary organizations shall agree to indemnify, defend, and save harmless the state of California, the Trustees of the CSU, the campus, and the officers, employees, volunteers, and agents of each of them from any and all loss, damage, or liability that may be suffered or incurred by state, caused by, arising out of, or in any way connected with the operations of the auxiliary. Coded memorandum Risk Management (RM) 2012-01, *California State University Insurance Requirements*, dated June 1, 2012, replaced EO 849 and continues to require appropriate provisions for indemnification.

Coded memorandum RM 2012-01, *California State University Insurance Requirements*, dated June 1, 2012, states that many alternative hold harmless provisions are possible, with each alternative having a different purpose and potential risk transfer variant. Modification to hold harmless language in contract negotiation is a crucial part of the risk transfer process and should only be undertaken with appropriate review and counsel. In some instances, a no "hold harmless" clause approach may be appropriate for low liability activity and for activities critical to CSU.

The UARSC chief financial officer (CFO) stated that the business services agreement and the standard contractor agreement did not include appropriate indemnification provisions due to oversight.

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

Recommendation 2

We recommend that the Foundation:

- a. Amend the cited business services agreement with an appropriate indemnification provision.
- b. Amend the standard contractor agreement to indemnify the Foundation rather than UARSC.
- c. Reiterate to staff that all future agreements should include appropriate indemnification provisions with the correct contracting parties.

Campus Response

We concur. The business services agreement will be amended with an appropriate indemnification provision. The standard contractor agreement will be amended to indemnify the Foundation rather than UARSC. The Foundation will reiterate to staff that all future agreements should include appropriate indemnification provisions with correct contracting parties.

Anticipated date of completion: On or before December 1, 2013

FISCAL COMPLIANCE

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

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

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

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

The Foundation executive director stated that because the Foundation is a new auxiliary, it had not yet accumulated reserves and, therefore, had not established reserve policies and procedures.

Lack of written policies and procedures and adequate documentation, communication, and review for planning and analysis of reserves increases the risk of misunderstandings and miscommunication regarding available reserves, as well as the risk that the auxiliary will be unable to fund future needs.

Recommendation 3

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

Campus Response

We concur. The Foundation will develop and implement written policies and procedures for the management of reserves.

Anticipated date of completion: On or before December 1, 2013

OPERATIONAL COMPLIANCE

Foundation fundraising events with gross receipts greater than \$5,000 were not properly approved and reviewed.

We found that:

- ▶ Fundraising events held after July 1, 2012, with gross receipts greater than \$5,000 were not approved in writing by a delegated authority.
- ▶ There was no evidence on file to show that a delegated authority had reviewed event budgets, drafts of solicitation materials, and action plans for compliance with federal, state, and local regulations prior to the events.

ICSUAM §15701.00, *Fundraising Events*, dated July 1, 2012 states that fundraising events with gross receipts greater than \$5,000 must be approved in writing by a delegated authority when the fundraising event utilizes the university name, logo, or trademarks and represents that the university will benefit from the proceeds. It further states that prior to the event, the delegated authority shall review the fundraising event's budget, drafts of solicitation materials, and action plan for compliance with federal, state, and local regulations.

The campus director of alumni relations and annual giving stated that fundraising events with gross receipts greater than \$5,000 and corresponding event budgets, solicitation materials, and action plans were informally approved and reviewed for compliance with federal, state, and local regulations during committee planning meetings.

Insufficient administration of fundraising events increases the risk of misunderstandings and miscommunication regarding fundraising events and increases the risk of non-compliance with relevant regulations.

Recommendation 4

We recommend that the Foundation:

- a. Obtain written approval from a delegated authority for fundraising events with gross receipts greater than \$5,000.
- b. Maintain documentation showing that a delegated authority has reviewed event budgets, drafts of solicitation materials, and action plans for compliance with federal, state, and local regulations prior to each fundraising event.

Campus Response

We concur. The Foundation will obtain written approval from a delegated authority for fundraising events with gross receipts greater than \$5,000. The Foundation will also develop a policy on documentation and approval of fundraising event budgets, solicitation materials, and action plans.

Anticipated date of completion: On or before December 1, 2013

FEES, REVENUES, AND RECEIVABLES

PLEDGES RECEIVABLE

Administration of Foundation pledges receivable needed improvement.

We reviewed 11 pledges receivable from the pledges receivable reconciliation as of December 31, 2012, and we found that:

- ▶ Written policies and procedures had not been developed to address collection and follow-up activity for delinquent pledges receivable and the write-off of uncollectible pledges receivable.
- ▶ In all instances, collection and follow-up activity was not performed and documented to facilitate the collection or support the write-off of uncollectible pledges. These pledges receivable totaled \$5,042,202 and were outstanding from 172 to 4,502 days.

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

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

The campus director of prospect research and advancement services stated that the lack of collection and follow-up activity was due to a lack of formal policies and procedures for pledges receivable.

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

Recommendation 5

We recommend that the Foundation:

- a. Develop and implement written policies and procedures to address collection and follow-up activity for delinquent pledges receivable and the write-off of uncollectible pledges receivable.
- b. Perform and document collection and follow-up activity for delinquent pledges receivable to facilitate the collection or support the write-off of uncollectible pledges receivable.

Campus Response

We concur. The Foundation will develop and implement written policies and procedures for the management of pledges receivable, including write-off of uncollectible pledges receivable.

Anticipated date of completion: On or before December 1, 2013

MATCHING GIFTS

Administration of Foundation matching gifts needed improvement.

We reviewed eight corporate matching gifts received between July 2011 and April 2013, and we found that:

- ▶ Written policies and procedures for the administration of matching gifts had not been developed.
- ▶ Documentation was not on file showing that matching gifts were reviewed for eligibility.
- ▶ A documented dual review of matching gifts was not performed during the acceptance process to ensure that funds were designated in accordance with donor intent.

ICSUAM §15401.00, *Approving Authority Responsibility*, dated March 1, 2012, states that each campus is required to develop written procedures consistent with this policy. It requires the review and verification of all donor contributions for which matching gifts are to be requested to ensure that the gift conforms to the guidelines for donations to the recipient organization and the relevant matching gift program; any apparent questions should be resolved by appropriate inquiries before a matching gift is requested. Specifically, the approving authority should review any restrictions related to personal benefit provided to the donor; e.g., athletics tickets. Section 505, *Documentation*, further states that to substantiate the dual review process, 1) the recordkeeper may countersign the claim certification, 2) the approving authority and recordkeeper may both sign an affirmation, or 3) the process may be automated in a secure database that tracks the actions of both the approving authority and recordkeeper.

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

Title 5 §42401 and §42402 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 adequate administration of matching gifts.

The campus director of prospect research and advancement services stated that administration of matching gifts needed improvement due to a lack of formal policies and procedures for matching gifts.

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

Recommendation 6

We recommend that the Foundation:

- a. Develop and implement written policies and procedures for the administration of matching gifts.
- b. Maintain documentation showing that corporate matching gifts have been reviewed for eligibility.
- c. Perform a documented dual review of matching gifts during the acceptance process to ensure that funds are designated in accordance with donor intent.

Campus Response

We concur. The Foundation will develop and implement policies and procedures on administration, documentation, and review of matching gifts.

Anticipated date of completion: On or before December 1, 2013

DONOR SYSTEM RECONCILIATION

The Foundation did not perform independent reconciliations between its donor database and the general ledger accounting system maintained by UARSC on a monthly and quarterly basis.

Foundation *Donor Gift Reconciliation Procedures* states that gifts recorded in the university advancement database (Raiser's Edge) should be reconciled with the UARSC database (Cognos) on a monthly and quarterly basis.

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

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

The campus director of prospect research and advancement services stated that reconciliations between the donor database and general ledger were not performed as prescribed due to management oversight.

Inadequate administration of gift processing increases the risk of inconsistencies, misunderstandings, and loss or misappropriation of funds.

Recommendation 7

We recommend that the Foundation perform independent reconciliations between its donor database and the general ledger accounting system maintained by UARSC on a monthly and quarterly basis.

Campus Response

We concur. The Foundation will develop a standard protocol to perform independent reconciliations between its donor database and the UARSC general ledger accounting system on a monthly and quarterly basis.

Anticipated date of completion: On or before December 1, 2013

SAN MARCOS UNIVERSITY CORPORATION

OPERATING AND ADMINISTRATIVE AGREEMENTS

A memorandum of understanding (MOU) had not been established between University Village Apartments (UVA) on behalf of San Marcos University Corporation (Corporation) and WASH Laundry Service.

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.

The Corporation executive director stated that this contract should have been executed by the former director of UVA but had not been established due to management oversight and personnel transitions.

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

Recommendation 8

We recommend that UVA establish an MOU with WASH Laundry Service on behalf of the Corporation.

Campus Response

We concur. The MOU will be executed and maintained appropriately.

Anticipated date of completion: On or before August 30, 2013

CORPORATE GOVERNANCE

BOARD OF DIRECTORS

The Corporation did not have the required number of directors on its governing board.

Specifically, one director position, to be filled by a member of the community, university administration, or staff, was vacant for fiscal years 2011/12 and 2012/13.

The Corporation *Bylaws*, Article V, states that the authorized number of directors shall be not less than nine or more than 12. Further, the board of directors shall include the following two university-related designated directors: vice president for finance and administrative services and vice president for student affairs. The elected directors shall be up to three university students, two university faculty members, and one community member. Up to three additional directors may be from the community, university administration, or staff with staggered three-year terms.

The Corporation executive director stated that the Bylaws listed specific positions that were to be represented but also stated a numerical range of voting members. She further stated that management focused on filling the positions that were listed and did not realize that the minimum number in the numerical range had not been met.

Insufficient maintenance of mandated board composition violates statutory requirements and increases the risk that all views will not be adequately represented.

Recommendation 9

We recommend that the Corporation promptly fill the director vacancy.

Campus Response

We concur. The Bylaws, including Board composition, are being reviewed and will be updated. All positions will be promptly filled.

Anticipated date of completion: On or before September 30, 2013

BYLAWS

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

We found that amendments to the Bylaws made on June 30, 2011, had not been filed with the chancellor's office until January 3, 2012.

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 Contract Services and Procurement 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 executive director stated that the amended Bylaws were not submitted to the chancellor's office in a timely manner due to oversight during the transition of the Corporation and changes in personnel.

Untimely filing of amendments to Bylaws increases the risk of misunderstandings and may increase legal liability.

Recommendation 10

We recommend that the Corporation reiterate to staff that all future changes/amendments to Bylaws should be filed with the Contract Services and Procurement department at the Office of the Chancellor within 30 calendar days.

Campus Response

We concur. The Corporation will reiterate to staff that all future changes and/or amendments to the Bylaws should be filed with the Contract Services and Procurement department at the Office of the Chancellor within 30 calendar days.

Anticipated date of completion: On or before August 30, 2013

FISCAL COMPLIANCE

RESERVES

The Corporation did not maintain board-designated reserves in accordance with its reserves policy.

We found that the reserves were not designated by category in the accounting system, nor were they adequately funded or maintained as outlined in the Corporation reserves policy. Specifically:

- ▶ Working capital and current operations reserves did not contain at least six months of operating expenses each.
- ▶ Maintenance and repair reserves did not have the amount indicated in the current reserves analysis.
- ▶ Catastrophic reserves did not contain amounts sufficient to cover deductibles for two insurance claims in a given fiscal period.

The Corporation *Reserves Policy* lists reserve guidelines as: a) working capital and current operations – maintained at a level sufficient to provide for at least six months of operating expense for each program, b) maintenance and repair reserve – maintained at a level sufficient to replace furniture and worn carpet, and to accomplish small projects in properties operated by the Corporation; this reserve category should be tied closely to reserve analysis conducted on a periodic basis on each program’s facilities, and c) catastrophic reserve – maintained at a level sufficient to support the relocation of operations during a catastrophe. At a minimum, this reserve category should be sufficient to cover deductibles for two insurance claims in a given fiscal period at the highest level of deductible. All funding and expenditures from the above appropriations will be

reviewed by the board of directors. The board may at its discretion approve borrowing between program reserves when it is deemed financially prudent to do so, and with the express approval from the campus CFO.

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

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 8.9.9, *Reserves and Net Assets*, states, in part, that an auxiliary must implement financial standards, which will assure fiscal viability, including proper provision for professional management, adequate working capital, adequate reserve funds for current operations and capital replacements, and adequate provisions for new business requirements.

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 appropriate allocation of reserves into the designated reserve categories.

The Corporation executive director stated that specific reserves were identified in the policy and discussed with the board in particular categories but were not segregated in the accounting system into separate designated accounts due to management oversight. She further stated that the reserve levels had been established as targets for funding but had not yet been fully funded due to the restructuring of the auxiliary, staffing issues, and the addition of a department.

Inadequate reserve funding increases the risk of misunderstandings and miscommunication regarding available reserves, as well as the risk that the auxiliary will be unable to fund future needs.

Recommendation 11

We recommend that the Corporation designate reserves by category in the accounting system and develop a plan to adequately fund and maintain reserves as outlined in the Corporation reserves policy.

Campus Response

We concur. Reserves will be designated and segregated in accordance with adopted policy, and the Corporation will develop a plan to adequately fund and maintain reserves as outlined in the Corporation reserves policy.

Anticipated date of completion: On or before September 30, 2013

TAXES

The Corporation did not obtain a seller's permit for the M. Gordon Clarke Field House/University Student Union (The Clarke).

California Board of Equalization Publication 18, *Nonprofit Organizations*, dated April 2013, states that nonprofit organizations need a seller's permit if they make sales of goods or merchandise in California. This is true even if the sales are not taxable.

The Corporation executive director stated that a seller's permit had not been obtained because she thought that the permit was being processed by another department.

The absence of a seller's permit increases the risk of non-compliance with local, state, and federal regulations and could result in fines.

Recommendation 12

We recommend that the Corporation promptly obtain a seller's permit for The Clarke.

Campus Response

We concur. A seller's permit has been obtained and will be maintained in good standing.

CASH RECEIPTS AND HANDLING

The Corporation did not maintain a list of individuals with access to the safe and the date the combination was last changed at The Clarke, and the safe combination was not changed after turnover in personnel with access to the safe.

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 proper security over safe combinations.

The Corporation executive director stated that a safe combination listing with dates was not maintained at The Clarke and the combination was not changed after turnover in personnel due to

management oversight. She further stated that The Clarke was operated as a campus department until July 1, 2012.

Inadequate administration of safe combinations increases the risk of loss or misappropriation of funds.

Recommendation 13

We recommend that the Corporation maintain a list of individuals who have access to the safe at The Clarke, including the dates on which the safe combination is changed, and reiterate to staff that the safe combination should be changed whenever there is turnover in personnel with access to the safe.

Campus Response

We concur. A safe access log has been established, and the Corporation will reiterate to staff that the safe combination should be changed when personnel on the log have left or changed positions.

Anticipated date of completion: On or before August 30, 2013

PETTY CASH AND CHANGE FUNDS

Periodic, independent cash counts were not conducted for Corporation petty cash and change funds for fiscal year 2012/13.

ICSUAM §3103.11, *Petty Cash*, dated March 1, 2012, states that an announced cash count and reconciliation of petty cash funds must be performed on a periodic basis by someone other than the fund custodian.

ICSUAM §3102.10, *Change Funds*, dated April 1, 2011, states that an announced cash count and reconciliation of changes funds for which cashiers and cash handling employees are accountable must be performed on a periodic basis by someone other than the fund custodian.

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

The Corporation executive director stated that periodic, independent cash counts of petty cash and change funds were not conducted due to the transition of functions from the campus to the Corporation on July 1, 2012. She further stated that due to the re-establishment of funds under the campus auxiliary business unit, there was a lack of clarity as to who was responsible for the funds.

Inadequate administration of petty cash and change funds increases the risk of loss or misappropriation of funds.

Recommendation 14

We recommend that the Corporation conduct periodic, independent cash counts of all petty cash and change funds.

Campus Response

We concur. Procedures for independent counts and reconciliation of all petty cash and change funds have been established and are being conducted.

FEES, REVENUES, AND RECEIVABLES

ACCOUNTS RECEIVABLE

The Corporation did not perform and document collection and follow-up activity on delinquent accounts receivable.

We reviewed five delinquent accounts receivable from the accounts receivable aging report as of January 30, 2013, and found that collection and follow-up activity was not performed and documented to facilitate collection or support account write-off. These receivables were outstanding for more than 180 days.

The California State University, San Marcos *Accounts Receivable Collection Policy* states that a series of three letters are sent when accounts are past due, in intervals of 30 days. The first notice is sent 31-60 days past due, a second notice is sent 61-90 days past due, and a third notice is sent 91-120 days past due. Further, the policy states that accounts that are more than 90 days past due will be referred to the university controller for review and follow up with the organization owing the debt and the originating department. Accounts that are more than 120 days past due will be referred to the vice president/CFO and associate vice president, finance and business services, so the appropriate cabinet member can be involved in further action.

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

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

business practices. Sound business practice mandates adequate administration of delinquent accounts receivable.

The Corporation executive director stated that the campus did not perform and document collection and follow-up activity on delinquent accounts receivable because the accounts receivable process was not fully adopted due to management oversight and the transition of accounting personnel and functions.

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

Recommendation 15

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

Campus Response

We concur. Accounts receivable policy and procedures, including collection and follow-up activity, have been established and implemented.

RECONCILIATION

Certain Corporation bank account and accounts receivable reconciliations were not prepared and reviewed by management in a timely manner.

We found that:

- ▶ Two of the four bank account reconciliations from November 2012 to February 2013 were prepared and reviewed 76 and 90 days after the month-end.
- ▶ Four of the five accounts receivable reconciliations from November 2012 to March 2013 were prepared and reviewed on April 18, 2013.

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

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

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

The Corporation executive director stated that bank account and accounts receivable reconciliations were not prepared and reviewed in a timely manner due to the transition of accounting services providers on July 1, 2012, including integration into PeopleSoft. She further stated that there was additional transition in accounting staff during January 2012.

Untimely preparation and review of bank account and accounts receivable reconciliations limits the auxiliary's ability to detect errors and irregularities, increases the likelihood of loss of funds, and compromises accountability.

Recommendation 16

We recommend that the Corporation reiterate to staff that bank account and accounts receivable reconciliations are to be prepared and reviewed by management in a timely manner.

Campus Response

We concur. Bank account and accounts receivable reconciliations are now reviewed by Corporation management regularly, and staff have been reminded of the importance of timely completion.

UNIVERSITY AUXILIARY AND RESEARCH SERVICES CORPORATION

OPERATING AND ADMINISTRATIVE AGREEMENTS

The agreements between University Auxiliary and Research Services Corporation (UARSC) and the Children's Creative Learning Center (CCLC), which operates the Center for Children and Families (CCF), were not executed in a timely manner and did not include the appropriate contracting parties.

Specifically, we found that the transfer of CCF operations from the Corporation to UARSC occurred on June 30, 2011, but an amendment to the CCLC agreement was not executed until August 31, 2012. Additionally, another amendment, effective November 19, 2012, to February 28, 2013, was not signed by CCLC until January 29, 2013, and was executed between the Corporation and CCLC, rather than between UARSC and CCLC, as it should have been.

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 UARSC executive director stated that the delays were due to major contractual components being vetted for equitable outcomes for both organizations. She further stated that the agreement did not include the appropriate contracting parties due to oversight.

Untimely execution of written agreements and inclusion of incorrect contracting parties 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 UARSC reiterate to staff that all future agreements should be executed in a timely manner with the appropriate contracting parties.

Campus Response

We concur. UARSC will reiterate to staff that all future agreements should be executed in a timely manner with the appropriate contracting parties.

Anticipated date of completion: On or before August 30, 2013

CONTRACTS AND GRANTS

Administration of UARSC sponsored projects required improvement.

We found that UARSC did not:

- ▶ Obtain signed release forms or waivers from students traveling by air.
- ▶ Include the transfer of ownership for equipment purchased with sponsored projects funds to the university after the project end date in its project close-out procedures (checklist).

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

ICSUAM §11000.005, *Equipment and Property Management*, dated December 1, 2011, states that equipment records shall be maintained accurately and include the ultimate disposition data, including date of disposal and sales price or the method used to determine current fair market value where a recipient compensates the federal awarding agency for its share.

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 compliance with terms and conditions sponsors may have specified regarding the use of property and equipment.

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 over property and equipment.

The UARSC director of sponsored projects stated that sponsored projects personnel had misinterpreted EO 1041 to apply only to foreign travel or foreign carriers. He further stated that the project close-out procedures (checklist) did not include the transfer of equipment to the university after the project end date due to oversight.

The lack of release forms or waivers from students traveling by air increases the risk of legal liability, and the lack of procedures to transfer contracts and grants equipment increases the risk of non-compliance with CSU policy and misrepresentation in the financial statements.

Recommendation 18

We recommend that UARSC:

- a. Reiterate to staff that signed release forms or waivers are to be obtained from all students traveling by air.
- b. Update its project close-out procedures (checklist) to include the transfer of ownership for equipment purchased with sponsored projects funds to the university after the project end date.

Campus Response

We concur. Per CSU EO, UARSC will reiterate to staff that signed release forms or waivers are to be obtained from all students traveling by air, whether foreign or domestic. In addition, per the *Compilation of Policies and Procedures for CSU Auxiliary Organizations*, UARSC will update close-out procedures (checklist) to include the transfer of ownership of equipment purchased with sponsored projects funds to the university after the project end date.

Anticipated date of completion: On or before August 30, 2013

ASSOCIATED STUDENTS, INCORPORATED
CALIFORNIA STATE UNIVERSITY, SAN MARCOS

FISCAL COMPLIANCE

The Associated Students, Incorporated California State University, San Marcos (ASI) reserve policy needed improvement.

Specifically, the reserve policy did not address or consider the following areas:

- ▶ Minimum reserve requirements.
- ▶ Board review of reserve levels.
- ▶ Reserves for working capital and capital replacement.
- ▶ The methodology used for the calculation of reserves.

ASI *Corporate Reserves* policy states that corporate reserves are composed of two reserve funds with specific purpose as follows: 1) General: a funding account for unanticipated financial needs, and 2) Capital Expenditure/Depreciation: repairing, replacing, and purchasing capital equipment.

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

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

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 8.9.9, *Reserves and Net Assets*, states, in part, that an auxiliary must implement financial standards, which will assure fiscal viability, including proper provision for professional management, adequate working capital, adequate reserve funds for current operations and capital replacements, and adequate provisions for new business requirements.

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 that designated reserve funds be maintained.

The ASI executive director stated that the reserve policy did not cover the required areas due to oversight.

Inadequate reserve funding increases the risk of misunderstandings and miscommunication regarding available reserves, as well as the risk that the auxiliary will be unable to fund future needs.

Recommendation 19

We recommend that ASI update its reserve policy to address or consider the areas noted above.

Campus Response

We concur. Per the Education Code §89904(b), §89904.5 and §89905, the *Compilation of Policies and Procedures for CSU Auxiliary Organizations*, and Title 5, ASI will update its reserve policy addressing the areas noted.

Anticipated date of completion: On or before December 1, 2013

PURCHASING AND ACCOUNTS PAYABLE

Administration of ASI travel needed improvement.

We reviewed ten travel-related disbursements, and we found that:

- ▶ ASI had not updated its written policies and procedures for travel to reflect current business practices, such as per diem rates for meals and incidentals and mileage reimbursement rates.
- ▶ In all instances, travel expense claim forms were not developed and completed subsequent to travel to document evidence of travel and related expenditures incurred.
- ▶ In one instance, ASI did not obtain signed release forms or waivers from students traveling by air.

ASI *Travel Policy* states that travel expenses for travel longer than 24 hours include lodging (actual and reasonable cost), meals (\$41), and incidentals (\$5). Travel periods less than 24 hours or extensions beyond the 24-hour period include lodging (actual and reasonable cost), breakfast (\$9), lunch (\$12), and dinner (\$20). It further states that the current rate for miles used is \$0.345.

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 controls, with management review.

EO 1041, *California State University Student Travel Policy*, dated July 1, 2009, state that all students participating in CSU-affiliated programs that require air travel shall be required to acknowledge that they have been informed of the risks of air travel required by such programs and to sign a statement certifying that they have been informed of and undertake such air travel voluntarily with full

knowledge of such risks, and release and hold harmless the state of California, the CSU, the campus affiliated with the program requiring air travel, and each and every officer, agent, and employee of each of them, from any and all claims and causes of action that the student, or any person(s) claiming through the student, may have against any of the above institutions or persons, by reason of any accident, illness, or injuries, death, or other consequences resulting directly or indirectly from or in any manner arising out of, or in connection with, the student being a passenger on a flight.

Title 5 §42401 and §42402 indicate that the campus president shall require that auxiliary organizations operate in conformity with policy of the Board of Trustees and the campus. One of the objectives of the auxiliary organizations is to provide fiscal procedures and management systems that allow effective coordination of the auxiliary activities with the campus in accordance with sound business practices. Sound business practice mandates adequate administration of travel, including up-to-date policies and procedures, submission of travel expense claim forms to support all travel-related expenses, and signed release forms or waivers from each student traveling by air.

The ASI executive director stated that written travel policies were not updated to reflect current practices because a decision was made to delay revision until the implementation of the California State University, San Marcos Enterprise Risk Management process, which includes university-wide student travel policies. He further stated his belief that ASI had sufficient procedures in place for travel disbursements because advances were given for meals and mileage and other expenses were tracked through credit card receipts. He also stated that he was unaware of the requirement that students traveling by air were required to complete and sign release forms or waivers.

The absence of updated written policies and procedures and inadequate administration of travel increases the risk of errors, irregularities, and misappropriation of funds, while the absence of release forms or waivers from students traveling by air increases the risk of legal liability.

Recommendation 20

We recommend that ASI:

- a. Update its written policies and procedures for travel to reflect current business practices.
- b. Develop and implement a travel expense claim form to be completed subsequent to travel, as well as corresponding review and approval requirements.
- c. Reiterate to staff that signed release forms or waivers are to be obtained from all students traveling by air.

Campus Response

We concur. ASI will update its written policies and procedures for travel to reflect current business practices, including the development and implementation of a travel expense claim form to be completed subsequent to travel, as well as corresponding review and approval requirements; and ASI

will reiterate to staff that signed release forms or waivers are to be obtained from all students traveling by air.

Anticipated date of completion: On or before December 1, 2013

PROPERTY AND EQUIPMENT

Administration of ASI property and equipment needed improvement.

We found that:

- ▶ Written policies and procedures for an independent physical count of inventory had not been developed.
- ▶ Two of the five assets we reviewed lacked property identification tags.
- ▶ Property and equipment disposals were recorded to the fixed asset records once annually, instead of at the time of disposition or at least quarterly.
- ▶ Proper approvals were not documented prior to disposal of fixed assets.
- ▶ Management review of monthly reconciliations of the fixed asset sub-ledger to the general ledger was not documented.

The *ASI Fixed Assets Classification, Depreciation, Usage, and Disposition Policy* states that upon purchase and/or acquisition of fixed assets, the ASI manager of operations ensures that items are tagged, numbered, cost or value is recorded, and estimated useful life is calculated.

ICSUAM §3151.04, *Equipment*, dated October 6, 2011, states that a physical inventory of recorded property must be performed at least once every three years by a party who is not the custodian of the item, or more often as required by agreement or law, and must be reconciled to campus property inventory records. The completed reconciliation should receive management review and approval. Any discrepancies must be evaluated for further investigation and escalated to the appropriate authorities based on the specific situation and value of missing items.

The *Compilation of Policies and Procedures for California State University Auxiliary Organizations* sets sound business practice guidelines for auxiliary organizations operating within the CSU system. Section 8.9.7, *Property and Equipment*, states that the auxiliary should establish a written system that ensures proper recording of property and equipment when received and labeling of equipment and reconcile physical inventories to the general ledger on a timely basis with review by management.

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

allow effective coordination of the auxiliary activities with the campus in accordance with sound business practices. Sound business practice mandates sufficient administration of property and equipment.

The ASI executive director stated that policies and procedures for an independent physical count of inventory were not developed and property and equipment disposals were recorded only once annually due to oversight. He further stated his belief that the two selected assets without tags were considered to be isolated incidents and verbal approval was sufficient. In addition, he stated that university accounting management reviews of monthly reconciliations of the fixed asset subledger were not documented because he was unaware of the requirement to do so.

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

Recommendation 21

We recommend that ASI:

- a. Develop written policies and procedures for an independent physical count of inventory.
- b. Reiterate to staff that assets must be affixed with a property tag/ID number.
- c. Record property and equipment disposals to the fixed asset records at the time of disposition or at least quarterly.
- d. Document proper approval before disposing of fixed assets.
- e. Enforce management review of monthly reconciliations of the fixed asset sub-ledger to the general ledger.

Campus Response

We concur. ASI will develop a written policy and procedures that includes independent physical count of inventory. ASI will assure property tag ID numbers are affixed to fixed assets, record property and equipment disposals to the fixed asset records at the time of disposition, document proper approval before disposing of fixed assets, and enforce management review of the monthly reconciliation of the fixed asset sub-ledger to the general ledger.

Anticipated date of completion: On or before December 1, 2013

TRUSTS AND OTHER LIABILITIES

Administration of ASI student club accounts needed improvement.

We reviewed ten student club accounts, and we found that:

- ▶ In three instances, accounts with no activity within the past three years were not closed in a timely manner.
- ▶ As of February 12, 2013, seven student organization accounts had negative balances totaling \$1,052.

ASI Student Organization Accounts policies and procedures state that all officially recognized student organizations are required to maintain on-campus banking accounts with ASI. Student organization account deposits are to be completed at university cashiers and expenditures are processed on a reimbursement basis only and handled through the ASI corporate office.

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

The ASI executive director stated that the individual in charge of the student club accounts was not properly cross-trained subsequent to a change in personnel. Insufficient control over student club accounts increases the risk that errors, inconsistencies, misunderstandings, or misappropriation will occur.

Recommendation 22

We recommend that ASI:

- a. Review and close student club accounts with no activity in a timely manner.
- b. Review student club accounts for sufficient funds availability before expenditures are made.

Campus Response

We concur. ASI will review and close student club accounts with no activity in a timely manner and will review student club accounts for sufficient funds availability before expenditures are made.

Anticipated date of completion: On or before December 1, 2013

APPENDIX A: PERSONNEL CONTACTED

Name

Title

CAMPUS

Karen S. Haynes	President
Candace Bebee	Assistant to the Vice President
Tina Bell	Director, Resources Planning and Campaign Operations
Lori Brockett	Director, Alumni Relations and Annual Giving
Deborah Davis	Manager of Auxiliary Financial Services
Linda Hawk	Vice President, Finance and Administrative Services
Becky Henwood	Accounts Payable and Travel Lead
Neal Hoss	Vice President, University Advancement
Dana Reedy	Director, Prospect Research and Advancement Services
Katy Rees	Assistant Vice President, Administration
Greg Svatora	University Controller
Lynn Wellborn	Advancement Operations Coordinator

CALIFORNIA STATE UNIVERSITY SAN MARCOS FOUNDATION

Neal Hoss	Executive Director
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SAN MARCOS UNIVERSITY CORPORATION

Kim Clark	Executive Director
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UNIVERSITY AUXILIARY AND RESEARCH SERVICES CORPORATION

Jan Cushman	Sponsored Projects Administrator
Sarah Derho	Executive Assistant
Michelle Hinojosa	Director, Human Resources
Grant Hubbard	Director, Sponsored Projects
Patti Kastner	Sponsored Projects Analyst
Dora Knoblock	Executive Director
Lourdes Mendez	Payroll Specialist
Greg Svatora	Chief Financial Officer
Kathi Taylor-Elms	Human Resources Specialist

ASSOCIATED STUDENTS, INCORPORATED CALIFORNIA STATE UNIVERSITY, SAN MARCOS

Rodger D'Andreas	Executive Director
Ashley Fennell	Student Organization Accounts Assistant
Deborah Fristvold	Manager of Operations
Vikki Graboyes	Financial Assistant
Agnes Tobe	Accountant

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
SAN MARCOS

Finance &
Administrative
Services

Office of the Vice President California State University San Marcos 333 S. Twin Oaks Valley Road San Marcos, CA 92096-0001
Tel: 760.750.4950 www.csusm.edu/fas

July 25, 2013

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

RECEIVED
UNIVERSITY AUDITOR

JUL 25 2013

THE CALIFORNIA STATE
UNIVERSITY

Subject: Campus Response to Audit Report 13-03, Auxiliary Organizations
California State University San Marcos

Dear Mr. Mandel:

Enclosed is our campus response to the twenty two recommendations in Audit Report 13-03, Auxiliary Organizations. We anticipate sending our supporting evidence no later than December 1, 2013.

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

Sincerely,

A handwritten signature in cursive script, appearing to read "Linda Hawk".

Linda Hawk
Vice President
Finance and Administrative Services

Attachment

cc: President Karen S. Haynes

The California State University

Bakersfield | Channel Islands | Chico | Dominguez Hills | East Bay | Fresno | Fullerton | Humboldt | Long Beach | Los Angeles | Maritime Academy
Monterey Bay | Northridge | Pomona | Sacramento | San Bernardino | San Diego | San Francisco | San Jose | San Luis Obispo | San Marcos | Sonoma | Stanislaus

AUXILIARY ORGANIZATIONS
CALIFORNIA STATE UNIVERSITY,
SAN MARCOS

Audit Report 13-03

CAMPUS

TRUSTS AND OTHER LIABILITIES

Recommendation 1

We recommend that the campus document:

- a. The delegation of authority for the authorization of a campus activity or program from the campus president to his/her designee.
- b. Campus policies and procedures regarding activities and programs that provides specific guidance in regard to campus centers and institutes, workshops and conferences, instructionally related events and activities, and documentation requirements.
- c. The specific determination of whether the campus or the auxiliary is accountable and responsible for campus activity and program funds.
- d. Advantages to the university and support of the university mission.

Campus Response

We concur. Per the ICSUAM policy, the campus will document the delegation of authority of a campus activity from the campus president to his/her designee. In addition, the campus will also document campus policies and procedures regarding activities and programs that provide specific guidance in regard to campus centers and institutes, workshops and conferences, instructionally related events and activities, and documentation requirements; the specific determination of whether the campus or the auxiliary is accountable and responsible for campus activity and program funds; and advantages to the university and support of the university mission.

Anticipated date of completion: On or before October 31, 2013

CALIFORNIA STATE UNIVERSITY SAN MARCOS FOUNDATION

OPERATING AND ADMINISTRATIVE AGREEMENTS

Recommendation 2

We recommend that the Foundation:

- a. Amend the cited business services agreement with an appropriate indemnification provision.
- b. Amend the standard contractor agreement to indemnify the Foundation rather than UARSC.
- c. Reiterate to staff that all future agreements should include appropriate indemnification provisions with the correct contracting parties.

Campus Response

We concur. The business services agreement will be amended with an appropriate indemnification provision. The standard contractor agreement will be amended to indemnify the Foundation rather than UARSC. The Foundation will reiterate to staff that all future agreements should include appropriate indemnification provisions with correct contracting parties.

Anticipated date of completion: On or before December 1, 2013

FISCAL COMPLIANCE

Recommendation 3

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

Campus Response

We concur. The Foundation will develop and implement written policies and procedures for the management of reserves.

Anticipated date of completion: On or before December 1, 2013

OPERATIONAL COMPLIANCE

Recommendation 4

We recommend that the Foundation:

- a. Obtain written approval from a delegated authority for fundraising events with gross receipts greater than \$5,000.

- b. Maintain documentation showing that a delegated authority has reviewed event budgets, drafts of solicitation materials, and action plans for compliance with federal, state, and local regulations prior to each fundraising event.

Campus Response

We concur. The Foundation will obtain written approval from a delegated authority for fundraising events with gross receipts greater than \$5,000. The Foundation will also develop a policy on documentation and approval of fundraising event budgets, solicitation materials, and action plans.

Anticipated date of completion: On or before December 1, 2013

FEES, REVENUES, AND RECEIVABLES

PLEDGES RECEIVABLE

Recommendation 5

We recommend that the Foundation:

- a. Develop and implement written policies and procedures to address collection and follow-up activity for delinquent pledges receivable and the write-off of uncollectible pledges receivable.
- b. Perform and document collection and follow-up activity for delinquent pledges receivable to facilitate the collection or support the write-off of uncollectible pledges receivable.

Campus Response

We concur. Foundation will develop and implement written policies and procedures for the management of pledges receivable including write-off of uncollectible pledges receivable.

Anticipated date of completion: On or before December 1, 2013

MATCHING GIFTS

Recommendation 6

We recommend that the Foundation:

- a. Develop and implement written policies and procedures for the administration of matching gifts.
- b. Maintain documentation showing that corporate matching gifts have been reviewed for eligibility.
- c. Perform a documented dual review of matching gifts during the acceptance process to ensure that funds are designated in accordance with donor intent.

Campus Response

We concur. The Foundation will develop and implement policies and procedures on administration, documentation and review of matching gifts.

Anticipated date of completion: On or before December 1, 2013

DONOR SYSTEM RECONCILIATION

Recommendation 7

We recommend that the Foundation perform independent reconciliations between its donor database and the general ledger accounting system maintained by UARSC on a monthly and quarterly basis.

Campus Response

We concur. The Foundation will develop a standard protocol to perform independent reconciliations between its donor database and the UARSC general ledger accounting system on a monthly and quarterly basis.

Anticipated date of completion: On or before December 1, 2013

SAN MARCOS UNIVERSITY CORPORATION

OPERATING AND ADMINISTRATIVE AGREEMENTS

Recommendation 8

We recommend that UVA establish an MOU with WASH Laundry Service on behalf of the Corporation.

Campus Response

We concur. The MOU will be executed and maintained appropriately.

Anticipated date of completion: On or before August 30, 2013

CORPORATE GOVERNANCE

BOARD OF DIRECTORS

Recommendation 9

We recommend that the Corporation promptly fill the director vacancy.

Campus Response

We concur. The Bylaws, including Board composition, are being reviewed and will be updated. All positions will be promptly filled.

Anticipated date of completion: On or before September 30, 2013

BYLAWS

Recommendation 10

We recommend that the Corporation reiterate to staff that all future changes/amendments to Bylaws should be filed with the Contract Services and Procurement department at the Office of the Chancellor within 30 calendar days.

Campus Response

We concur. The Corporation will reiterate to staff that all future changes and/or amendments to the Bylaws should be filed with the Contract Services and Procurement department at the Office of the Chancellor within 30 calendar days.

Anticipated date of completion: On or before August 30, 2013

FISCAL COMPLIANCE

RESERVES

Recommendation 11

We recommend that the Corporation designate reserves by category in the accounting system and develop a plan to adequately fund and maintain reserves as outlined in the Corporation reserves policy.

Campus Response

We concur. Reserves will be designated and segregated in accordance with adopted policy and the Corporation will develop a plan to adequately fund and maintain reserves as outlined in the Corporation reserves policy.

Anticipated date of completion: On or before September 30, 2013

TAXES

Recommendation 12

We recommend that the Corporation promptly obtain a seller's permit for The Clarke.

Campus Response

We concur. A seller's permit has been obtained and will be maintained in good standing.

Anticipated date of completion: Completed

CASH RECEIPTS AND HANDLING

Recommendation 13

We recommend that the Corporation maintain a list of individuals who have access to the safe at The Clarke, including the dates on which the safe combination is changed, and reiterate to staff that the safe combination should be changed whenever there is turnover in personnel with access to the safe.

Campus Response

We concur. A safe access log has been established and the Corporation will reiterate to staff that the safe combination should be changed when personnel on the log have left or changed positions.

Anticipated date of completion: On or before August 30, 2013

PETTY CASH AND CHANGE FUNDS

Recommendation 14

We recommend that the Corporation conduct periodic, independent cash counts of all petty cash and change funds.

Campus Response

We concur. Procedures for independent counts and reconciliation of all petty cash and change funds have been established and are being conducted.

Anticipated date of completion: Completed

FEES, REVENUES, AND RECEIVABLES

ACCOUNTS RECEIVABLE

Recommendation 15

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

Campus Response

We concur. Accounts Receivable policy and procedures, including collection and follow up activity have been established and implemented.

Anticipated date of completion: Completed

RECONCILIATION

Recommendation 16

We recommend that the Corporation reiterate to staff that bank account and accounts receivable reconciliations are to be prepared and reviewed by management in a timely manner.

Campus Response

We concur. Bank account and accounts receivable reconciliations are now reviewed by Corporation management regularly and staff have been reminded of the importance of timely completion.

Anticipated date of completion: Completed

UNIVERSITY AUXILIARY AND RESEARCH SERVICES CORPORATION

OPERATING AND ADMINISTRATIVE AGREEMENTS

Recommendation 17

We recommend that UARSC reiterate to staff that all future agreements should be executed in a timely manner with the appropriate contracting parties.

Campus Response

We concur. UARSC will reiterate to staff that all future agreements should be executed in a timely manner with the appropriate contracting parties.

Anticipated date of completion: On or before August 30, 2013

CONTRACTS AND GRANTS

Recommendation 18

We recommend that UARSC:

- a. Reiterate to staff that signed release forms or waivers are to be obtained from all students traveling by air.
- b. Update its project close-out procedures (checklist) to include the transfer of ownership for equipment purchased with sponsored projects funds to the university after the project end date.

Campus Response

We concur. Per CSU Executive Order, UARSC will reiterate to staff that signed release forms or waivers are to be obtained from all students traveling by air, whether foreign or domestic. In addition, per the Compilation of Policies and Procedures for CSU Auxiliary Organizations, UARSC will update close-out procedures (checklist) to include the transfer ownership of equipment purchased with sponsored projects funds to the university after the project end date.

Anticipated date of completion: On or before August 30, 2013

ASSOCIATED STUDENTS, INCORPORATED
CALIFORNIA STATE UNIVERSITY, SAN MARCOS

FISCAL COMPLIANCE

Recommendation 19

We recommend that ASI update its reserve policy to address or consider the areas noted above.

Campus Response

We concur. Per the Education Code 89904(b), 89904.5 and 89905, the compilation of Policies and Procedures for CSU Auxiliary Organizations and Title 5, ASI will update its reserve policy addressing the areas noted.

Anticipated date of completion: On or before December 1, 2013

PURCHASING AND ACCOUNTS PAYABLE

Recommendation 20

We recommend that ASI:

- a. Update its written policies and procedures for travel to reflect current business practices.
- b. Develop and implement a travel expense claim form to be completed subsequent to travel, as well as corresponding review and approval requirements.
- c. Reiterate to staff that signed release forms or waivers are to be obtained from all students traveling by air.

Campus Response

We concur. ASI will update its written policies and procedures for travel to reflect current business practices, including the development and implementation of a travel expense claim form to be completed subsequent to travel, as well as corresponding review and approval requirements; and ASI will reiterate to staff that signed release forms or waivers are to be obtained from all students traveling by air.

Anticipated date of completion: On or before December 1, 2013

PROPERTY AND EQUIPMENT

Recommendation 21

We recommend that ASI:

- a. Develop written policies and procedures for an independent physical count of inventory.
- b. Reiterate to staff that assets must be affixed with a property tag/ID number.
- c. Record property and equipment disposals to the fixed asset records at the time of disposition or at least quarterly.
- d. Document proper approval before disposing of fixed assets.
- e. Enforce management review of monthly reconciliations of the fixed asset sub-ledger to the general ledger.

Campus Response

We concur. ASI will develop a written policy and procedures that includes independent physical count of inventory. ASI will assure property tag ID numbers are affixed to fixed assets, record property and equipment disposals to the fixed asset records at the time of disposition, document proper approval before disposing of fixed assets, and enforce management review of the monthly reconciliation of the fixed asset sub-ledger to the general ledger.

Anticipated date of completion: On or before December 1, 2013

TRUSTS AND OTHER LIABILITIES

Recommendation 22

We recommend that ASI:

- a. Review and close student club accounts with no activity in a timely manner.
- b. Review student club accounts for sufficient funds availability before expenditures are made.

Campus Response

We concur. ASI will review and close student club accounts with no activity in a timely manner and will review student club accounts for sufficient funds availability before expenditures are made.

Anticipated date of completion: On or before December 1, 2013

THE CALIFORNIA STATE UNIVERSITY
OFFICE OF THE CHANCELLOR



BAKERSFIELD

CHANNEL ISLANDS

August 2, 2013

CHICO

DOMINGUEZ HILLS

MEMORANDUM

EAST BAY

TO: Mr. Larry Mandel
University Auditor

FRESNO

FULLERTON

FROM: Timothy P. White
Chancellor

Handwritten signature of Timothy P. White in black ink.

HUMBOLDT

SUBJECT: Draft Final Report 13-03 on *Auxiliary Organizations*,
California State University, San Marcos

LONG BEACH

LOS ANGELES

MARITIME ACADEMY

In response to your memorandum of August 2, 2013, I accept the response as submitted with the draft final report on *Auxiliary Organizations*, California State University, San Marcos.

MONTEREY BAY

NORTHRIDGE

TPW/amd

POMONA

SACRAMENTO

SAN BERNARDINO

SAN DIEGO

SAN FRANCISCO

SAN JOSÉ

SAN LUIS OBISPO

SAN MARCOS

SONOMA

STANISLAUS