

AUXILIARY ORGANIZATIONS
CALIFORNIA STATE UNIVERSITY,
LOS ANGELES

Audit Report 10-06
February 2, 2011

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ABBREVIATIONS

| | |
|------------|--|
| AORMA | Auxiliary Organizations Risk Management Authority |
| ASI | Associated Students of California State University Los Angeles, Inc. |
| CSU | California State University |
| CSULA | California State University, Los Angeles |
| CSURMA | California State University Risk Management Authority |
| EO | Executive Order |
| Foundation | California State Los Angeles Foundation |
| FY | Fiscal Year |
| IRS | Internal Revenue Service |
| IT | Information Technology |
| RFIN | Resolution of the Committee on Finance |
| UAS | Cal State L.A. University Auxiliary Services, Inc. |
| UBI | Unrelated Business Income |
| Union | University-Student Union Board, California State University, Los Angeles |

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, Los Angeles (CSULA) 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 CSULA campus and its auxiliary organizations from September 27, 2010, through October 22, 2010, and made a study and evaluation of the system of internal compliance/internal control in effect as of October 22, 2010. This report represents our triennial review.

Our study and evaluation at the *California State Los Angeles Foundation* did not reveal any significant internal control problems or weaknesses that would be considered pervasive in their effects on the accounting and administrative controls. However, we did identify other reportable weaknesses that are described in the executive summary and in the body of the report. In our opinion, the accounting and administrative control in effect as of October 22, 2010, taken as a whole, was sufficient to meet the objectives stated above.

Our study and evaluation at *Cal State L.A. University Auxiliary Services, Inc.* revealed certain conditions that, in our opinion, could result in errors and irregularities if not corrected. Specifically, the auxiliary did not maintain adequate control over the following areas: corporate governance and fiscal compliance. These conditions, along with other weaknesses, are described in the executive summary and in the body of the report. In our opinion, except for the effect of the weaknesses described above, accounting and

administrative control in effect as of October 22, 2010, taken as a whole, was sufficient to meet the objectives stated above.

Our study and evaluation at the *University-Student Union Board, California State University, Los Angeles* did not reveal any significant internal control problems or weaknesses that would be considered pervasive in their effects on the accounting and administrative controls. However, we did identify other reportable weaknesses that are described in the executive summary and in the body of the report. In our opinion, the accounting and administrative control in effect as of October 22, 2010, taken as a whole, was sufficient to meet the objectives stated above.

Our study and evaluation at the *Associated Students of California State University Los Angeles, Inc.* did not reveal any significant internal control problems or weaknesses that would be considered pervasive in their effects on the accounting and administrative controls. However, we did identify other reportable weaknesses that are described in the executive summary and in the body of the report. In our opinion, the accounting and administrative control in effect as of October 22, 2010, taken as a whole, was sufficient to meet the objectives stated above.

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

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

CAMPUS

INFORMATION TECHNOLOGY [10]

Password security controls were not adequate for campus systems used by the auxiliary organizations.

CALIFORNIA STATE LOS ANGELES FOUNDATION

FEES, REVENUES, AND RECEIVABLES [11]

California State Los Angeles Foundation matching gifts procedures did not require that a dual review be documented to ensure that funds were administered in accordance with corporate donor requirements.

CAL STATE L.A. UNIVERSITY AUXILIARY SERVICES, INC.

OPERATING AND ADMINISTRATIVE AGREEMENTS [12]

Certain agreements between Cal State L.A. University Auxiliary Services, Inc. (UAS) and third parties did not include appropriate indemnification provisions.

CORPORATE GOVERNANCE [13]

The dissolution clause in the UAS Articles of Incorporation was not in compliance with Title 5, as it did not state that a successor must be approved by the president of the campus and the Board of Trustees. Further, UAS had not filed amended Bylaws with the chancellor's office in a timely manner.

FISCAL COMPLIANCE [14]

Planning and analysis of reserves at UAS were not adequately documented, communicated, or reviewed; and established reserves were neither adequately funded nor accurately reflected in the general ledger. In addition, unrelated business income for the Anna Bing Arnold Children's Center was not correctly accounted for/reported by UAS.

FEES, REVENUES, AND RECEIVABLES [17]

Administration of UAS contracts and grants accounts receivable required improvement. Outstanding invoices lacked adequate collection activity and follow-up to ensure collection; erroneously billed invoices had not been voided, which is a repeat finding from the prior Auxiliary Organizations audit; sponsored program account reconciliations had not been completed; and the contracts and grants accounts receivable procedure was outdated.

PURCHASING AND ACCOUNTS PAYABLE [19]

UAS was not in compliance with the Code of Civil Procedure Title 10, as it had not escheated unclaimed checks to the state in a timely manner and had not established written policies and procedures for such action.

PROPERTY AND EQUIPMENT [20]

Administration of UAS property and equipment required improvement. Seven of 14 assets selected for physical inspection from the June 30, 2010, UAS property and equipment listing could not be located, and a physical inventory had not been conducted since April 2007.

AUXILIARY PROGRAMS [21]

UAS had not developed written policies and procedures for oversight of sales activities of outsourced bookstore operations and did not periodically review sales revenues from those operations to verify that

sales commissions paid by the bookstore management firm were in accordance with contractual requirements.

UNIVERSITY-STUDENT UNION BOARD,
CALIFORNIA STATE UNIVERSITY, LOS ANGELES

CORPORATE GOVERNANCE [23]

The University-Student Union Board, California State University, Los Angeles had not filed amended Bylaws with the chancellor's office in a timely manner and had not appointed audit committee members to an audit committee that was established in May 2009.

ASSOCIATED STUDENTS OF
CALIFORNIA STATE UNIVERSITY LOS ANGELES, INC.

OPERATING AND ADMINISTRATIVE AGREEMENTS [25]

Certain agreements between Associated Students of California State University Los Angeles, Inc. and third parties did not include appropriate indemnification and insurance provisions or were not terminated properly.

INTRODUCTION

BACKGROUND

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

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

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

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

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

California State Los Angeles Foundation

The California State Los Angeles Foundation (Foundation) was established in 1985 as a non-profit public benefit corporation to promote and assist the educational programs of California State University, Los Angeles (CSULA). The Foundation provides and augments funding for educational-related services at CSULA not otherwise available through or funded by the state university system. The Foundation provides CSULA with the expertise, oversight, and advocacy to increase private giving and manage the

philanthropic assets of the university. The Foundation is governed by an independent board of directors comprised of representatives from the student body, university administration, faculty, alumni, and community. The Foundation does not have employees and relies on campus personnel from institutional advancement and financial services for administrative and accounting support services.

Cal State L.A. University Auxiliary Services, Inc.

Cal State L.A. University Auxiliary Services, Inc. (UAS) was established in 1985 as a non-profit public benefit corporation responsible for the operation of commercial services in support of the university's educational mission. The UAS operates the Golden Eagle Building, a venue used for food services, meetings, catering, and other events; the University Club, an on-campus dining service; the Anna Bing Arnold Children's Center; and the Metro convenience store. The UAS outsources the operations of the University Bookstore to Barnes & Noble and the operations of the food court restaurants to several national brand vendors in exchange for commissions on the revenues generated by these enterprises. The UAS also operates and administers sponsored programs and various campus programs. The UAS is governed by a board of directors comprised of representatives from university and auxiliary administration, faculty, the student body, and the community. UAS relies on campus personnel for certain accounting and business administration services.

University-Student Union Board, California State University, Los Angeles

The University-Student Union Board, California State University, Los Angeles (Union) was established in 1975 as a non-profit public benefit corporation to provide a setting for the encouragement of broad social, cultural, recreational, and informal educational programming for the university and its surroundings. The Union operates the University-Student Union building, which includes the Center for Student Involvement, the Cross Cultural Center, the Xtreme Fitness Center, the Pit, and meeting and event services. The Union is governed by a board of directors comprised of representatives from the student body, university administration, faculty, and alumni. The Union provides payroll services to Associated Students of California State University Los Angeles, Inc. and the Institutional Advancement Office of Annual Giving in conjunction with its own payroll process and relies on campus personnel for other administrative and accounting support services.

Associated Students of California State University Los Angeles, Inc.

Associated Students of California State University Los Angeles, Inc. (ASI) was established in 1959 as a non-profit public benefit corporation to promote the establishment of, and provide the means for, effective avenues of student input into the governance of the campus; provide an official voice through which student opinion may be expressed; provide an opportunity where students may gain experience and training in responsible political participation and community leadership; assist in the protection of the rights and interests of individual students; and stimulate the educational, social, physical, and cultural well-being of the university community. ASI resides within the University-Student Union building and operates the book exchange program, laptop and printer rentals, book voucher program, student service center, and advocacy and outreach program. ASI is governed by a board of directors comprised of representatives from the student body, university administration, faculty, and alumni. ASI relies on

campus personnel for administrative and accounting support services and relies on the Union for 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 that accounting and administrative controls are in place and operative. The management review emphasized, but was not limited to, compliance with state and federal laws, Board of Trustee policies, and Office of the Chancellor policies, letters, and directives. For those audit tests that required annualized data, fiscal years 2008/09 and 2009/10 were the primary periods reviewed. In certain instances, we were concerned with representations of the most current data; in such cases, the test period was July 1, 2010, to October 22, 2010. 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 Los Angeles Foundation

- ▶ Operating and Administrative Agreements
- ▶ Corporate Governance
- ▶ Fiscal Compliance
- ▶ Operational Compliance
- ▶ Program Compliance
- ▶ Campus Oversight and Control
- ▶ Segregation of Duties
- ▶ Cash Receipts and Handling
- ▶ Investments
- ▶ Fees, Revenues, and Receivables
- ▶ Purchasing and Accounts Payable
- ▶ Endowment Administration

Cal State L.A. University Auxiliary Services, Inc.

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

University-Student Union Board, California State University, Los Angeles

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

Associated Students of California State University Los Angeles, Inc.

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

Campus

- ▶ Campus Oversight
- ▶ Information Technology

We have not performed any auditing procedures beyond October 22, 2010. 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

INFORMATION TECHNOLOGY

Password security controls were not adequate for campus systems used by the auxiliary organizations.

We found that password security parameters were inadequate for the campus Active Directory authentication and PeopleSoft accounting systems, as the minimum password length was six characters and there were no complexity requirements or restrictions for reuse of passwords.

California State University, Los Angeles *Password Standard ITS-2008-S* states that users are required to construct their passwords based on the requirements and restrictions indicated and subject to the constraints of the systems where those passwords reside. Passwords should be a minimum of eight characters, with at least one character from each of the following: uppercase letters, lowercase letters (A-Z), numeric characters (0-9), and non-alphanumeric characters. Passwords should not be reused.

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

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

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

Recommendation 1

We recommend that the campus set password security parameters for the Active Directory and PeopleSoft accounting systems in accordance with campus policy and perform an assessment of password security parameters for all other campus systems used by auxiliary organizations.

Campus Response

ITS corrected the password security parameter for the Active Directory and PeopleSoft financial system and provided the documentation to the Office of the University Auditor on October 18, 2010.

CALIFORNIA STATE LOS ANGELES FOUNDATION

FEES, REVENUES, AND RECEIVABLES

California State Los Angeles Foundation (Foundation) matching gifts procedures did not require that a dual review be documented to ensure that funds were administered in accordance with corporate donor requirements.

The *Compilation of Policies and Procedures for California State University Auxiliary Organizations* sets sound business practice guidelines for auxiliary organizations operating within the California State University (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 that matching gifts undergo a documented dual review process to ensure that funds are appropriately deposited to an eligible recipient in accordance with corporate donor requirements.

The Foundation executive director stated that a dual review process was in place but that the review was not documented prior to the deposit of matching funds.

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 2

We recommend that the Foundation update matching gift procedures to require that a documented dual review be maintained to ensure that funds are administered in accordance with corporate donor requirements.

Campus Response

The Foundation will update its procedures to require documentation of the dual review process of matching gifts. Anticipated completion date is February 28, 2011.

CAL STATE L.A. UNIVERSITY AUXILIARY SERVICES, INC.

OPERATING AND ADMINISTRATIVE AGREEMENTS

Certain agreements between Cal State L.A. University Auxiliary Services, Inc. (UAS) and third parties did not include appropriate indemnification provisions.

We found that the indemnification provisions in six service agreements with third parties, including a web-based management firm, bank, bookstore management firm, educational institute, and two food service vendors, did not specifically indemnify the CSU Trustees, the campus, and the State of California.

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.

Executive Order (EO) 849, *California State University Insurance Requirements*, dated February 5, 2003, states that auxiliary organizations shall agree to indemnify, defend, and save harmless the State of California, the Trustees of the CSU, the campus, and the officers, employees, volunteers, and agents of each of them from any and all loss, damage, or liability that may be suffered or incurred by state, caused by, arising out of, or in any way connected with the operations of the auxiliary.

The UAS associate executive director stated that indemnification clauses were not used consistently in the past.

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

Recommendation 3

We recommend that UAS:

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

Campus Response

UAS will amend the cited agreements to include the indemnification language and will ensure that future agreements include appropriate indemnification provisions. Anticipated completion date is March 31, 2011.

CORPORATE GOVERNANCE

DISSOLUTION OF AUXILIARY

The dissolution clause in the UAS Articles of Incorporation was not in compliance with Title 5, as it did not state that a successor must be approved by the president of the campus and the Board of Trustees.

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

The UAS associate executive director stated that the dissolution clause was not in compliance with Title 5 due to oversight.

Failure to include a dissolution clause in accordance with Title 5 increases the risk that net assets will not be properly distributed in the event the corporation is dissolved.

Recommendation 4

We recommend that UAS update its Articles of Incorporation so that the dissolution clause is in compliance with Title 5.

Campus Response

UAS has updated its Articles of Incorporation and will file the Articles of Incorporation with the chancellor's office. Anticipated completion date is March 31, 2011.

BYLAWS

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

We found that three amendments to the Bylaws made from 2007 to 2009 had not been filed with the chancellor's office until they were noted during our review.

The Compilation of Policies and Procedures for California State University Auxiliary Organizations Section 11.6.1, *Reporting Changes in Articles of Incorporation (or Constitutions) and Bylaws*, states that when an auxiliary organization makes changes to its Articles of Incorporation (or Constitution)

or Bylaws, a complete amended copy is to be submitted to Financing and Treasury at the Office of the Chancellor within 30 calendar days. The submission should indicate the date the changes were approved by the governing board and/or members.

The UAS associate executive director stated that the amended Bylaws were not submitted to the chancellor's office due to oversight.

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

Recommendation 5

We recommend that UAS promptly file the cited amendments with the chancellor's office and develop a procedure to ensure that all future changes/amendments to Bylaws are filed within 30 calendar days.

Campus Response

UAS has filed the cited amendments with the chancellor's office, and management will communicate to staff to ensure that all future changes/amendments to Bylaws are filed within 30 calendar days. Anticipated completion date is February 28, 2011.

FISCAL COMPLIANCE

RESERVES

Planning and analysis of reserves at UAS were not adequately documented, communicated, or reviewed; and established reserves were neither adequately funded nor accurately reflected in the general ledger.

We found that the UAS plan to build and maintain appropriate reserves had not been submitted to the campus president each year for review as part of the annual budget. On August 30, 2010, the UAS general ledger reserves account showed a balance of \$2,558,503, accumulated from 1998 to 2003, when UAS was operating at a surplus and monies were allocated to fund the reserves. After 2003, UAS experienced operating deficits, and the reserves were used to ensure the fiscal viability of its operations. However, prior management failed to record the journal entries necessary to clear the reserve balances, and therefore this erroneous balance remained in the general ledger. Further, documentation was not maintained to substantiate prior management's use of these reserves.

The UAS *Reserves Policy*, Sections 5.1 and 5.2, state that annually, the UAS Board of Directors shall review the fiscal viability of the organization to include the establishment or revision of reserves and their funding levels in accordance with evaluations of working capital, current operations, capital replacement, and planned future operations. Further, Section 5.3 states that the submission of the

UAS annual budget is presented to the Board of Directors for approval. The university vice president for administration and finance shall present the approved budget to the university president.

Education Code §89904(b), §89904.5, and §89905 state 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-4, *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 the submission of a report annually to the president, which includes a plan to build and maintain appropriate reserves. Such a report may be a part of the annual budget submission. 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 reserves should be appropriately monitored by the board and accurately reflected in the general ledger.

The university controller stated that UAS had not documented an analysis of reserves nor communicated reserve balances for the annual budget review due to oversight and significant turnover of key management. He further stated that as a result of UAS operating deficits, the established reserves were not adequately funded and insufficient management review of the reserve balances resulted in erroneous presentation on the general ledger.

The absence of adequate documentation, communication, and review of reserve planning and analysis, inadequate reserve funding, and erroneous reserve balances 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 6

We recommend that UAS:

- a. Promptly perform a review of its reserves, submit a plan to fund and maintain appropriate reserves to the campus president, and record the journal entries necessary to clear the reserve balances.
- b. Ensure that a documented review of reserves and their funding levels is performed annually and submitted to the campus president as part of the annual budget.

Campus Response

UAS has completed the review of its reserves and adjusted its books and will submit a reserve plan to the campus president. UAS will ensure that a documented review of reserves and their funding levels is performed annually and submitted to the campus president as part of the annual budget. Anticipated completion date is March 31, 2011.

UNRELATED BUSINESS INCOME

Unrelated business income (UBI) for the Anna Bing Arnold Children's Center was not correctly accounted for/reported by UAS.

We found that UAS had not accounted for or tracked UBI for childcare services provided to community members within a five-mile radius of the Children's Center. These revenues, which totaled \$97,341 for fiscal years (FY) 2007/08 and 2008/09, were not reported to the Internal Revenue Service (IRS) or included in the IRS Form 990T for those years.

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

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

The UAS associate executive director stated that prior management had implemented the UBI tracking requirements based on their understanding that community member services within the five-mile radius were exempt from UBI tax.

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

Recommendation 7

We recommend that UAS:

- a. Account for and track UBI earned from childcare services provided to all community members and file federal income tax returns as appropriate.

- b. File amended federal income tax returns for FY 2007/08 and FY 2008/09 to include the UBI earned for childcare services provided to community members within a five-mile radius of the Children's Center.

Campus Response

UAS will account for and track UBI earned from childcare services provided to all community members and will file amended federal income tax returns for FY 2007/08 and FY 2008/09. Anticipated completion date is March 31, 2011.

FEES, REVENUES, AND RECEIVABLES

Administration of UAS contracts and grants accounts receivable required improvement.

We reviewed ten outstanding invoices from the contracts and grants accounts receivable aging schedule as of August 31, 2010, and found that:

- ▶ Six outstanding invoices totaling \$29,449 lacked adequate collection activity and follow-up to ensure collection. UAS had not pursued collection at sufficient intervals (60, 90, and more than 120 days) and did not address further action to be taken on delinquent accounts. These invoices ranged from 246 to 591 days past due, and a commitment to pay or communication from the sponsoring agencies had not been obtained.
- ▶ Two erroneously billed invoices totaling \$20,186, dated February 27, 2009, and August 17, 2009, had not been voided as of the date of our review. The invoices had been on the aging schedule for 602 and 431 days, respectively. This is a repeat finding from the prior Auxiliary Organizations audit.
- ▶ Sponsored program account reconciliations had not been completed since 2009 for the two accounts with erroneously billed invoices.
- ▶ The contracts and grants accounts receivable procedure was outdated. Specifically, the procedure assigned certain tasks to positions that had been eliminated and therefore reflected processes that were not being conducted.

UAS Contracts & Grants Collections Desk Procedures state that balances over 60 days require the financial analyst in charge of collections to send a first notice to the funding agency. Balances over 90 days require the financial analyst to send a second notice and follow up with a phone call to the funding agency. Balances over 120 days require the contracts and grants general ledger supervisor to e-mail/contact the principal investigator and funding agency. If payment is still outstanding, then the supervisor turns the invoices over to the contracts and grants director for future collections. The director contacts the funding agency and alerts the Office of Research and Sponsored Programs Pre-Award function of the situation with the funding agency and the possibility of not accepting future awards if payment of current grants are not received. The director notifies the UAS executive

director of any balances that are still not collected. The UAS executive director makes a final attempt to collect before seeking legal collection 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 properly record and collect receivables in a consistent manner utilizing systems that ensure integrity of existing internal controls. It also 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. It further states that subsidiary ledgers should be reconciled to the general ledger on a timely basis and reviewed independently by management.

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 established procedures for the recording and collection of accounts receivables.

The UAS associate executive director stated that contracts and grants personnel worked closely with sponsors and funding agencies to ensure collection of invoices; however, the efforts were not consistently documented. She further stated that various funding agencies have suffered funding cuts as a result of the economic downturn, causing delays in the collection of invoices. She added that controls were in place for contracts and grants receivables, but the erroneous billings and failure to void invoices and complete sponsored program account reconciliations in a timely manner were due to human error and the challenges of working within a manual system. She also stated that as a result of the UAS reorganization, an updated procedure had not been formalized.

Inadequate administration over contracts and grants 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 8

We recommend that UAS:

- a. Ensure that collection activity of delinquent accounts receivable is performed and documented in order to facilitate collection or to support account write-off.
- b. Void erroneous invoices in a timely manner.
- c. Complete monthly reconciliations of sponsored programs' account activity.

- d. Update the contracts and grants accounts receivable procedures to include the current staffing responsibilities and ensure adequate monitoring of accounts receivable, collection of delinquent accounts and/or write-off, and reconciliation of accounts receivable accounts.

Campus Response

UAS will update its procedures to ensure adequate administration of UAS contracts and grants accounts receivable. Anticipated completion date is March 31, 2011.

PURCHASING AND ACCOUNTS PAYABLE

UAS was not in compliance with the Code of Civil Procedure Title 10, as it had not escheated unclaimed checks to the state in a timely manner and had not established written policies and procedures for such action.

We found that 362 unclaimed checks from July 2002 to September 2008 totaling \$187,005 were not escheated to the state and properly disposed of (i.e., voided and a liability created). Further, UAS lacked written policies and procedures for escheatment of unclaimed checks.

Code of Civil Procedure Title 10, *Unclaimed Property*, Chapter 7, *Unclaimed Property Law*, Article 2, §1510 and §1511 state that property held by a business association escheats to the state, subject to various requirements and limitations.

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

The university controller stated that the campus had recently taken over the UAS accounting function. He further stated that he was unaware of whether UAS accounting had properly reported unclaimed monies to the state or whether UAS had developed policies and procedures for such action.

Failure to escheat unclaimed property to the state or perform the duties specified in the unclaimed property law could result in fines.

Recommendation 9

We recommend that UAS promptly remit the cited unclaimed checks to the state and develop and implement written policies and procedures to ensure timely escheatment of unclaimed checks to the state in accordance with the Code of Civil Procedure.

Campus Response

UAS will review, remit, and ensure timely escheatment of unclaimed checks to the state in accordance with the Code of Civil Procedure. Anticipated completion date is April 15, 2011.

PROPERTY AND EQUIPMENT

Administration of UAS property and equipment required improvement.

We noted that we were unable to locate 7 of 14 assets selected for physical inspection from the June 30, 2010, UAS property and equipment listing. In addition, a physical inventory had not been conducted since April 2007.

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 physical inspection of property and equipment on a service life schedule and proper recording of property and equipment.

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 sufficient administration of property and equipment, including periodic, independent physical inventory of all property and equipment.

The university controller stated that the campus had recently taken over the UAS accounting function and not all property and equipment records had fully transitioned to the campus accounting system. He added that a physical inventory was scheduled for the end of this year.

Insufficient administration of property and equipment increases the risk of misstated property records and theft or loss of auxiliary property.

Recommendation 10

We recommend that UAS:

- a. Promptly resolve disposition of the missing assets and adjust the property and equipment listing as necessary.
- b. Ensure completion of the scheduled physical inventory.

Campus Response

UAS will complete the physical inventory and will review and adjust the property and equipment listing. Anticipated completion date is April 15, 2011.

AUXILIARY PROGRAMS

UAS had not developed written policies and procedures for oversight of sales activities of outsourced bookstore operations and did not periodically review sales revenues from those operations to verify that sales commissions paid by the bookstore management firm were in accordance with contractual requirements.

The *Compilation of Policies and Procedures for California State University Auxiliary Organizations* sets sound business practice guidelines for auxiliary organizations operating within the CSU system. Section 8.9.5, *Procurement*, states, in part, that the auxiliary should establish a written system that provides for purchases and service contracts to be made within governing board policies, source restrictions, funds availability, and other applicable requirements.

Title 5 §42401 and §42402 state that the campus president shall require that auxiliary organizations operate in conformity with policy of the Board of Trustees and the campus. One of the objectives of the auxiliary organizations is to provide fiscal procedures and management systems that allow effective coordination of the auxiliary activities with the campus in accordance with sound business practices. Sound business practice mandates the periodic review of sales revenues and verification of sales commissions from outsourced operations.

The university controller stated that the campus had not documented procedures for oversight of sales activities of outsourced bookstore operations nor performed a review of sales revenues to verify sales commissions from those operations due to oversight.

The absence of written policies and procedures for oversight of sales activities of outsourced operations and the failure to periodically review sales revenues and verify sales commissions from those operations increases the risk that errors, inconsistencies, misunderstandings, or misappropriation of funds will occur.

Recommendation 11

We recommend that UAS develop and implement written procedures for the oversight of sales activities of outsourced bookstore operations. Such oversight should require the submission of vendor sales reports and performance of a documented sales audit to verify that sales commissions paid by the bookstore management firm are in accordance with contractual requirements.

Campus Response

UAS will establish and implement procedures for the oversight of sales activities of outsourced bookstore operations. Anticipated completion date is March 31, 2011.

UNIVERSITY-STUDENT UNION BOARD,
CALIFORNIA STATE UNIVERSITY, LOS ANGELES

CORPORATE GOVERNANCE

The University-Student Union Board, California State University, Los Angeles (Union) had not filed amended Bylaws with the chancellor's office in a timely manner and had not appointed audit committee members to an audit committee that was established in May 2009.

We found that an amendment to the Bylaws to establish an audit committee made on May 8, 2009, had not been filed with the chancellor's office. In addition, the Union had appointed the audit committee members on the last day of our audit fieldwork.

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

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

The Union executive director stated that the amended Bylaws had not been filed with the chancellor's office in a timely manner and audit committee members had not been appointed due to oversight.

Failure to file amendments to Bylaws in a timely manner and to appoint audit committee members in accordance with legal mandates increases the risk of misunderstandings and may increase legal liability.

Recommendation 12

We recommend that the Union:

- a. Promptly file the cited amendment with the chancellor's office and develop a procedure to ensure that all future changes/amendments to Bylaws are filed within 30 calendar days.
- b. Ensure that all future audit committee members are appointed in a timely manner.

Campus Response

The Union filed the cited amendment with the chancellor's office in October 2010. Staff has been reminded to ensure that all future changes/amendments to Bylaws are filed within 30 calendar days and that future audit committee members are appointed in a timely manner.

ASSOCIATED STUDENTS OF
CALIFORNIA STATE UNIVERSITY LOS ANGELES, INC.

OPERATING AND ADMINISTRATIVE AGREEMENTS

Certain agreements between Associated Students of California State University Los Angeles, Inc. (ASI) and third parties did not include appropriate indemnification and insurance provisions or were not terminated properly.

We found that:

- ▶ Four service agreements for digital copying and student health insurance did not contain an indemnification provision.
- ▶ Three service agreements for digital copying and student health insurance did not contain an insurance provision.
- ▶ One service agreement with the Union for graphic services was terminated without written notice, which was required by the terms of the agreement.

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

EO 849, *California State University Insurance Requirements*, dated February 5, 2003, states that auxiliary organizations shall agree to indemnify, defend, and save harmless the State of California, the Trustees of the CSU, the campus, and the officers, employees, volunteers, and agents of each of them from any and all loss, damage, or liability that may be suffered or incurred by state, caused by, arriving out of, or in any way connected with the operations of the auxiliary.

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 business arrangements be terminated properly in accordance with agreement terms.

The ASI executive director stated that the agreements did not include appropriate indemnification and insurance provisions or were not terminated properly due to oversight.

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

Recommendation 13

We recommend that ASI:

- a. Amend the cited agreements with appropriate indemnification and insurance provisions.
- b. Ensure that all future agreements include appropriate indemnification and insurance provisions.
- c. Ensure that all future agreements are terminated in accordance with agreement terms.

Campus Response

ASI will amend the cited agreements to include the indemnification language and insurance provisions. Staff has been reminded to ensure that future agreements include appropriate indemnification and insurance provisions and that the agreements are terminated in accordance with agreement terms. Anticipated completion date is March 31, 2011.

APPENDIX A: PERSONNEL CONTACTED

| <u>Name</u> | <u>Title</u> |
|--------------------------|---|
| CAMPUS | |
| James M. Rosser | President |
| Kyle Button | Vice President, Institutional Advancement |
| Bill Chang | Director, CMS and Enterprise Systems |
| Lisa Chavez | Vice President, Administration and Finance and Chief Financial Officer |
| Bob Hoffman | Assistant Director, Network Operations Center |
| Tanya Ho | University Internal Auditor |
| Thomas Leung | University Controller |
| Sheryl Okuno | Director, Information Technology (IT) Security and Compliance |
| Michael O'Neal-Petterson | IT Coordinator, Administrative Technology |
| Chris Rapp | Director, IT Infrastructure Services |
| Sal Rodriguez | Senior Internal Auditor |

CALIFORNIA STATE LOS ANGELES FOUNDATION

| | |
|-------------------|---|
| Kyle Button | Executive Director |
| Barbara Contreras | Administrative Assistant, Institutional Advancement |
| Susana Moreno | Fiscal Coordinator, Institutional Advancement |

CAL STATE L.A. UNIVERSITY AUXILIARY SERVICES, INC.

| | |
|------------------|---|
| Violeta Alvarado | Food and Beverage Coordinator |
| Felipe Arevalo | University Club and Sales Manager |
| Luis De La Garza | Conference and Events Manager |
| Lynne Duong | Compliance Support Manager |
| Jose A. Gomez | Interim Executive Director |
| Jim Goodrich | Assistant Director, Anna Bing Children's Center |
| Daniel Keenan | Executive Chef/Director of Commercial Services |
| Maria Nunez | Human Resource Coordinator |
| Alma Sahagun | Associate Executive Director |
| Patricia Ulloa | Director, Anna Bing Children's Center |
| Dorothy Wu | Payroll/Benefits Manager |

UNIVERSITY-STUDENT UNION BOARD, CALIFORNIA STATE UNIVERSITY, LOS ANGELES

| | |
|-----------------|--|
| Joseph Aguirre | Executive Director |
| Michelle Hooper | Administrative Services Coordinator |
| Cheryl Jose | Accounting Technician |
| John Ortiz | Director, Operations |
| Joseph Sedlacek | Assistant to the Executive Director |
| Rowena Tran | Assistant Director, Financial Services |
| Lena Zeng | Accounting Technician |

**ASSOCIATED STUDENTS OF
CALIFORNIA STATE UNIVERSITY LOS ANGELES, INC.**

| | |
|----------------|--------------------------------|
| Michelle Lobo | Student Service Center Manager |
| Rainee Redmond | Assistant Director |
| Intef W. Weser | Executive Director |

STATEMENT OF INTERNAL CONTROLS

A. INTRODUCTION

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

B. INTERNAL CONTROL DEFINITION

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

1. Internal Accounting Controls

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

2. Operational Controls

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

C. INTERNAL CONTROL OBJECTIVES

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

D. INTERNAL CONTROL SYSTEMS LIMITATIONS

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



CALIFORNIA STATE UNIVERSITY, LOS ANGELES

OFFICE OF THE PRESIDENT

February 17, 2011

Mr. Larry Mandel, University Auditor
 Office of the University Auditor
 Office of the Chancellor – The California State University
 401 Golden Shore, 4th Floor
 Long Beach, CA 90802-4210

RECEIVED
UNIVERSITY AUDITOR

FEB 22 2011

THE CALIFORNIA STATE
UNIVERSITY

Re: *University's Response to Recommendations Contained in Report Number 10-06
 Auxiliary Organizations*

Dear Mr. Mandel:

Attached are the University's responses to the recommendations contained in Report Number 10-06,
 Auxiliary Organizations audit.

Please contact Tanya Ho, University Internal Auditor, at (323) 343-5102, if you wish to discuss any matter
 contained herein.

Sincerely,

James M. Rosser
 President

Attachment

cc: (with attachments)
 Lisa Chavez, Vice-President for Administration and Chief Financial Officer
 Tanya Ho, University Internal Auditor
 Jill Carnahan, University Compliance Officer

AUXILIARY ORGANIZATIONS
CALIFORNIA STATE UNIVERSITY,
LOS ANGELES

Audit Report 10-06

CAMPUS

INFORMATION TECHNOLOGY

Recommendation 1

We recommend that the campus set password security parameters for the Active Directory and PeopleSoft accounting systems in accordance with campus policy and perform an assessment of password security parameters for all other campus systems used by auxiliary organizations.

Campus Response

ITS corrected the password security parameter for the Active Directory and PeopleSoft financial system and provided the documentation to the CO auditor on October 18, 2010.

CALIFORNIA STATE LOS ANGELES FOUNDATION

FEES, REVENUES, AND RECEIVABLES

Recommendation 2

We recommend that the Foundation update matching gift procedures to require that a documented dual review be maintained to ensure that funds are administered in accordance with corporate donor requirements.

Campus Response

The Foundation will update its procedures to require documentation of the dual review process of matching gifts. Anticipated completion date is February 28, 2011.

CAL STATE L.A. UNIVERSITY AUXILIARY SERVICES, INC.

OPERATING AND ADMINISTRATIVE AGREEMENTS

Recommendation 3

We recommend that UAS:

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

Campus Response

UAS will amend the cited agreements to include the indemnification language and will ensure that future agreements include appropriate indemnification provisions. Anticipated completion date is March 31, 2011.

CORPORATE GOVERNANCE

DISSOLUTION OF AUXILIARY

Recommendation 4

We recommend that UAS update its Articles of Incorporation so that the dissolution clause is in compliance with Title 5.

Campus Response

UAS has updated its Articles of Incorporation and will file the Article of Incorporation with the Chancellor's Office. Anticipated completion date is March 31, 2011.

BYLAWS

Recommendation 5

We recommend that UAS promptly file the cited amendments with the chancellor's office and develop a procedure to ensure that all future changes/amendments to Bylaws are filed within 30 calendar days.

Campus Response

UAS has filed the cited amendments with the Chancellor's Office and management will communicate to staff to ensure that all future changes/amendments to bylaws are filed within 30 calendar days. Anticipated completion date is February 28, 2011.

FISCAL COMPLIANCE

RESERVES

Recommendation 6

We recommend that UAS:

- a. Promptly perform a review of its reserves, submit a plan to fund and maintain appropriate reserves to the campus president, and record the journal entries necessary to clear the reserve balances.
- b. Ensure that a documented review of reserves and their funding levels is performed annually and submitted to the campus president as part of the annual budget.

Campus Response

UAS has completed the review of its reserves and adjusted its books, and will submit a reserve plan to the campus president. UAS will ensure that a documented review of reserves and their funding levels is performed annually and submitted to the campus president as part of the annual budget. Anticipated completion date is March 31, 2011.

UNRELATED BUSINESS INCOME

Recommendation 7

We recommend that UAS:

- a. Account for and track UBI earned from childcare services provided to all community members and file federal income tax returns as appropriate.
- b. File amended federal income tax returns for FY 2007/08 and FY 2008/09 to include the UBI earned for childcare services provided to community members within a five-mile radius of the Children's Center.

Campus Response

UAS will account and track UBI earned from childcare services provided to all community members and will file amended federal income tax returns for FY 2007/08 and FY 2008/09. Anticipated completion date is March 31, 2011.

FEES, REVENUES, AND RECEIVABLES

Recommendation 8

We recommend that UAS:

- a. Ensure that collection activity of delinquent accounts receivable is performed and documented in order to facilitate collection or to support account write-off.
- b. Void erroneous invoices in a timely manner.
- c. Complete monthly reconciliations of sponsored programs' account activity.
- d. Update the contracts and grants accounts receivable procedures to include the current staffing responsibilities and ensure adequate monitoring of accounts receivable, collection of delinquent accounts and/or write-off, and reconciliation of accounts receivable accounts.

Campus Response

UAS will update its procedures to ensure adequate administration of UAS contracts and grants accounts receivable. Anticipated completion date is March 31, 2011.

PURCHASING AND ACCOUNTS PAYABLE

Recommendation 9

We recommend that UAS promptly remit the cited unclaimed checks to the state and develop and implement written policies and procedures to ensure timely escheatment of unclaimed checks to the state in accordance with the Code of Civil Procedure.

Campus Response

UAS will review, remit, and ensure timely escheatment of unclaimed checks to the state in accordance with the Code of Civil Procedure. Anticipated completion date is April 15, 2011.

PROPERTY AND EQUIPMENT

Recommendation 10

We recommend that UAS:

- a. Promptly resolve disposition of the missing assets and adjust the property and equipment listing as necessary.
- b. Ensure completion of the scheduled physical inventory.

Campus Response

UAS will complete the physical inventory and will review and adjust the property and equipment listing. Anticipated completion date is April 15, 2011.

AUXILIARY PROGRAMS

Recommendation 11

We recommend that UAS develop and implement written procedures for the oversight of sales activities of outsourced bookstore operations. Such oversight should require the submission of vendor sales reports and performance of a documented sales audit to verify that sales commissions paid by the bookstore management firm are in accordance with contractual requirements.

Campus Response

UAS will establish and implement procedures for the oversight of sales activities of outsourced bookstore operations. Anticipated completion date is March 31, 2011.

UNIVERSITY-STUDENT UNION BOARD,
CALIFORNIA STATE UNIVERSITY, LOS ANGELES

CORPORATE GOVERNANCE

Recommendation 12

We recommend that the Union:

- a. Promptly file the cited amendment with the chancellor's office and develop a procedure to ensure that all future changes/amendments to Bylaws are filed within 30 calendar days.
- b. Ensure that all future audit committee members are appointed in a timely manner.

Campus Response

USU filed the cited amendment with the Chancellor's Office in October 2010. Staff has been reminded to ensure that all future changes/amendments to bylaws are filed within 30 calendar days and that future audit committee members are appointed in a timely manner.

**ASSOCIATED STUDENTS OF
CALIFORNIA STATE UNIVERSITY LOS ANGELES, INC.**

OPERATING AND ADMINISTRATIVE AGREEMENTS

Recommendation 13

We recommend that ASI:

- a. Amend the cited agreements with appropriate indemnification and insurance provisions.
- b. Ensure that all future agreements include appropriate indemnification and insurance provisions.
- c. Ensure that all future agreements are terminated in accordance with agreement terms.

Campus Response

ASI will amend the cited agreements to include the indemnification language and insurance provisions. Staff has been reminded to ensure that future agreements include appropriate indemnification and insurance provisions and that the agreements are terminated in accordance with agreement terms. Anticipated completion date is March 31, 2011.

THE CALIFORNIA STATE UNIVERSITY
OFFICE OF THE CHANCELLOR

BAKERSFIELD

CHANNEL ISLANDS

March 18, 2011

CHICO

DOMINGUEZ HILLS

MEMORANDUM

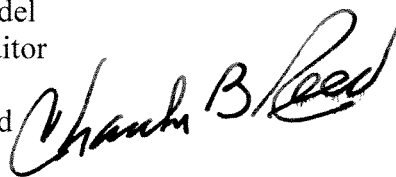
EAST BAY

TO: Mr. Larry Mandel
University Auditor

FRESNO

FULLERTON

FROM: Charles B. Reed
Chancellor



HUMBOLDT

SUBJECT: Draft Final Report 10-06 on *Auxiliary Organizations*,
California State University, Los Angeles

LONG BEACH

LOS ANGELES

MARITIME ACADEMY

In response to your memorandum of March 18, 2011, I accept the response as submitted with the draft final report on *Auxiliary Organizations*, California State University, Los Angeles.

MONTEREY BAY

NORTHRIDGE

POMONA

CBR/amd

SACRAMENTO

SAN BERNARDINO

SAN DIEGO

SAN FRANCISCO

SAN JOSÉ

SAN LUIS OBISPO

SAN MARCOS

SONOMA

STANISLAUS