

**CSU AUXILIARY ORGANIZATIONS
SOUND BUSINESS PRACTICES GUIDELINES**

Rev 1.0

February 2014

CSU AUXILIARY ORGANIZATIONS SOUND BUSINESS PRACTICES GUIDELINES

CONTENTS

Purpose and Objective.....	2
Sound Business Practices.....	2
1.0 CASH AND CASH EQUIVALENTS.....	3
2.0 INVESTMENTS.....	3
3.0 DONATIONS, PROGRAM SERVICE FEES, OTHER INCOME.....	4
4.0 RECEIVABLES AND PLEDGES.....	4
5.0 PROCUREMENT AND ACCOUNTS PAYABLE.....	5
6.0 PERSONNEL/PAYROLL.....	5
7.0 PROPERTY AND EQUIPMENT.....	6
8.0 COMMERCIAL INVENTORY MANAGEMENT.....	6
9.0 DEBT AND OTHER LIABILITIES.....	6
10.0 RESERVES AND NET ASSETS.....	7
11.0 INFORMATION TECHNOLOGY.....	7

CSU AUXILIARY ORGANIZATIONS SOUND BUSINESS PRACTICES GUIDELINES

Purpose and Objective

Title 5 §42401 and §42402 requires that CSU auxiliary organizations operate in conformity with the policies of the CSU Board of Trustees and the campus. One of the objectives of an auxiliary organization is to provide fiscal procedures and management systems designed to protect its assets and interests in accordance with sound business practices along with those of the campus. These guidelines are designed to assist CSU auxiliary organizations in achieving this end.

Sound Business Practices

Sound business practices¹ are a set of protocol, standards, instructions, regimen, of practices that in the judgment of management contribute to achieving a targeted level of control or quality. They are not mandates as to specificity of implementation, but animate underlying control objectives and principles.

Guidelines Contact Information

Office of the Chancellor
California State University
Michael P. Redmond
Acting AVC HQ Budget, Security, and Strategic Initiatives
mredmond@calstate.edu
Office 562-951-4345

¹ California Code of Regulations § 42401 states that auxiliary organization activities are essential to the educational program of a campus, including service functions, and are an integral part of the campus program and are to provide fiscal procedures and management systems that allow effective coordination of the auxiliary activities with the campus in accordance with sound business practices. Authority cited: Sections 66600, 66606, 89030 and 89900, Education Code. Reference: Sections 89300 and 89900, Education Code.

CSU AUXILIARY ORGANIZATIONS

SOUND BUSINESS PRACTICES GUIDELINES

1.0 CASH AND CASH EQUIVALENTS

Internal Control Objectives:

Safeguard and properly account for the receipt, holding and disbursement of cash.

Examples of Sound Business Practices:

- (a) Signature Authority. Adopt and annually review governing board policy that identifies signature authority and provides for the receipt and disbursement of cash.
- (b) Segregation of Duties. Establish a written internal controls system that ensures cash receipt and disbursements are conducted with appropriate segregation of duties.
- (c) Control over the Receipt of Cash. Receive cash in a consistent manner utilizing systems that ensure integrity of existing internal controls, with annual management review.
- (d) Control over the Disbursement of Cash. Disburse cash in a consistent manner utilizing systems that ensure integrity of existing internal controls, with annual management review.
- (e) Control over Petty Cash and Change Funds. Establish a written system that ensures the proper use and documentation of petty cash and change funds, specifies dollar limits, and includes periodic, independent cash counts.
- (f) Revenue Reconciliation and Review. Reconcile revenue received and/or recorded in secondary systems to revenue recorded in the general ledger.
- (g) Bank Reconciliation and Reviews. Reconcile bank accounts on a timely basis with independent management review.

2.0 INVESTMENTS

Internal Control Objectives:

Protect and properly account for investments and investment income in accordance with source restrictions and other requirements.

Examples of Sound Business Practices:

- (a) Investment Policy. Adopt a written governing board approved investment policy that describes the investment objectives and limitations, and provides for practices to be used to meet the organization's business and fiduciary responsibilities.
- (b) Segregation of Duties. Establish a written internal controls system that ensures investment and income decisions and record keeping are conducted and reviewed by more than one person.
- (c) Recording Investment Income. Establish a written record-keeping system that ensures all investment income has been received and recorded in compliance with any source restrictions and other external or internal requirements.
- (d) Safekeeping Physical Assets. Provide a secure location for securities held by bonded or bonded-authorized persons or institutions.
- (e) Reconciliation and Reviews. Reconcile investment positions and investment income on a frequent basis with independent management reviews.

CSU AUXILIARY ORGANIZATIONS SOUND BUSINESS PRACTICES GUIDELINES

3.0 DONATIONS, PROGRAM SERVICE FEES, OTHER INCOME

Internal Control Objectives:

Properly record and account for donations, program service fees and other income in accordance with external and internal requirements.

Examples of Sound Business Practices:

- (a) Governing Board Policies. Adopt written governing board policy that describes allowable income-generation activities, including the solicitation and acceptance of gifts, and setting of program service fees or for other services.
- (b) Budgeting Sources of Income. Establish a written budgeting system that includes reasonable income estimates, the comparison of results, and analyzes significant differences.
- (c) Recording Donations. Establish a written record-keeping system that enables gifts to be properly received, recorded, and acknowledged in accordance with donor restrictions and other requirements.
See ICSUAM § 15401.00 Fundraising–Matching Gifts
- (d) Invoicing Sponsors. Establish a written system to properly record, invoice, and collect for costs to be reimbursed by third parties.
- (e) Allocating Reimbursable Costs. Establish written cost allocation processes that ensure reimbursable costs are properly allocated and billed.
See ICSUAM § 15701.00 Fundraising Events

4.0 RECEIVABLES AND PLEDGES

Internal Control Objectives:

Properly record and promptly collect receivables.

Examples of Sound Business Practices:

- (a) Segregation of Duties. Establish a written controls system that ensures billing, cash collection, customer inquiries, and subsidiary ledger reconciliations are conducted separately and with due regard for the receivable duties.
- (b) Recording Pledges. Record unconditional promises, such as donor pledges, at fair value and have verifiable documentation. FSAB Codification 958-31/GASB 33
- (c) Accounting for Receivables. Establish a written system to record receivables in a timely manner with proper documentation as to terms and conditions.
- (d) Collecting on Receivables. 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.
- (e) Receivable Aging Reports and Write-offs. Establish a written system that provides for receivable aging reports with review by management and ensures proper approval and documentation of accounts receivable write-offs.
- (f) Reconciliation and Review. Reconcile subsidiary receivables ledgers to the general ledger on a timely basis and conduct an independent review by management.

CSU AUXILIARY ORGANIZATIONS

SOUND BUSINESS PRACTICES GUIDELINES

5.0 PROCUREMENT AND ACCOUNTS PAYABLE

Internal Control Objectives:

Perform procurement activities in a consistent manner in accordance with external and internal requirements.

Examples of Sound Business Practices:

- (a) Segregation of Duties. Establish a written control system that requires purchase orders and service contracts to be prepared separately from receiving and shipping, payables and disbursements, and that identifies prohibited transactions, such as with governing board members.
- (b) Purchase and Service Contracts. 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.
- (c) Procurement Cards. Establish a written system that provides for card issuance approval, spending limits, usage controls, and a monthly review, reconciliation and approval process.
- (d) Purchasing in an Accurate and Consistent Manner. Establish a written system that ensures purchases and service contracts coding, classification, recording, and competitive bidding requirements are applied in a consistent manner.
- (e) Receiving Materials in an Accurate and Consistent Manner. Establish a written system that ensures materials are received in a consistent manner, and that they are properly inspected, recorded, and reported to the purchasing agent or equivalent.
- (f) Paying Vendors in an Accurate and Consistent Manner. Establish a written system that ensures accurate and timely payment of vendors after the determination of the receipt of goods or services or under the terms of the transaction.

6.0 PERSONNEL/PAYROLL

Internal Control Objectives:

Conduct personnel/payroll operations accurately and in compliance with external and internal requirements of an employer.

Examples of Sound Business Practices:

- (a) Segregation of Duties. Establish a written controls system that ensures payroll preparation is segregated from the general ledger function and other personnel/payroll functions such as hiring authorization, timekeeping, and distribution of checks.
- (b) Maintaining Accurate Personnel/Payroll Records. Establish a written system that ensures proper authorization, approval, documentation, and processing of new hires, terminations, changes in employment, salary and wage rates, and payroll deductions.
- (c) Payroll Preparation and Record-Keeping. Establish a written system that ensures accurate and timely collection of payroll information such as timecards, effort reporting, attendance records, and funding sources.
- (d) Distribution of Pay. Establish a written controls system that ensures proper payment of employees through direct deposit or by check, based upon submitted documentation.
- (e) Safekeeping Personnel/Payroll Records. Restrict access to personnel/payroll records in accordance with federal and state requirements.
- (f) Meeting Regulatory Requirements and Other Employer Responsibilities. Establish a written

CSU AUXILIARY ORGANIZATIONS

SOUND BUSINESS PRACTICES GUIDELINES

system that enables proper collection and timely remittance of payroll taxes and other withholdings for retirement and insurance programs, as well as all federal and state reporting requirements.

7.0 PROPERTY AND EQUIPMENT

Internal Control Objectives:

Properly account for and protect physical assets.

Examples of Sound Business Practices:

- (a) Segregation of Duties. Establish a written controls system that ensures employees maintaining fixed asset records are independent of those who maintain physical control inventory of property and equipment.
- (b) Compliance with Sponsor Requirements. Establish a written system that ensures compliance of terms and conditions sponsors may have specified regarding the use of property and equipment.
- (c) Recording Property and Equipment Acquisitions. Establish a written system that ensures proper recording of property and equipment when received and for labeling of equipment.
- (d) Property and Equipment Disposals. Establish a written system that ensures the proper approval, documentation, and recording of property and equipment disposals.
- (e) Conducting Physical Inventories. Establish a written system that ensures physical inspection of property and equipment on a service life schedule.
- (f) Reconciliation and Review. Reconcile physical inventories to the general ledger on a timely basis with review by management.

8.0 COMMERCIAL INVENTORY MANAGEMENT

Internal Control Objectives:

Properly account for and protect retail merchandise and commodity inventories.

Examples of Sound Business Practices:

- (a) Segregation of Duties. Establish a written controls system that ensures inventory acquisition, payment, sales, and accounting functions are conducted with appropriate segregation of duties.
- (b) Commodity Goods. Establish a written system that provides for proper accountability of food costs with monitoring and control of inventory waste, spoilage, and shortages.
- (c) Retail Goods. Establish a written system that provides for proper accountability of cost of goods sold with monitoring and control of damaged and defective goods and inventory shrinkage.
- (d) Inventory Control. Establish a written system that ensures materials are received, recorded, transferred, and stored in a controlled and secure manner.
- (e) Physical Inventories. Establish a written system that ensures an annual physical count of retail goods.

9.0 DEBT AND OTHER LIABILITIES

Internal Control Objectives: Properly record debt and other liabilities in compliance with restrictive covenants and other requirements.

CSU AUXILIARY ORGANIZATIONS

SOUND BUSINESS PRACTICES GUIDELINES

Examples of Sound Business Practices:

- (a) Governing Board Policy. Adopt a written governing board policy consistent with the CSU's debt issuance policies describing when debt may be incurred. The policy should be adjusted as needed as the CSU debt policies change.
- (b) Segregation of Duties. Establish a written controls system that ensures detailed accounting records, physical custodianship of debt instruments, and general ledger records are appropriately segregated.
- (c) Recording and Maintaining Accurate Records. Establish a written system that properly records all liabilities and their terms and conditions.
- (d) Complying with Restrictive Covenants. Establish a written compliance verification system that periodically reviews and analyzes restrictive covenants.
- (e) Trust Funds. Establish a written system that ensures agency or trust funds are controlled and administered in accordance with related agreements and CSU AUXILIARY ORGANIZATIONS COMPLIANCE MANUAL where appropriate. ICSUAM § 13680
- (f) Reconciliation and Review. Reconcile detailed liability records to the general ledger on a timely basis with review by management.

10.0 RESERVES AND NET ASSETS

Internal Control Objectives: Maintain reserves and net assets that will assure the financial viability of the organization, as well as comply with the legal obligations of donors and other third parties.

Examples of Sound Business Practices:

- (a) Governing Board Policies. Adopt written governing board policies that describe appropriate reserve requirements and provide for compliance with donor and other third party legal obligations.
- (b) Record-Keeping and Reporting. Establish a written system of record keeping and reporting that properly segregates and accounts, and complies with the legal obligations related to other third parties.
- (c) Maintain Financial Viability. 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.

11.0 INFORMATION TECHNOLOGY

Internal Control Objectives:

Manage and protect the confidentiality, integrity and availability of information assets.

Examples of Sound Business Practices:

- (a) Information Security Program. Establish and implement an information security program (in coordination with the campus) that contains administrative, technical and physical safeguards designed to protect information assets.
- (b) Information Security Risk Management. Establish and implement a risk management process that identifies, assesses, and monitors risks to information assets containing level 1

CSU AUXILIARY ORGANIZATIONS SOUND BUSINESS PRACTICES GUIDELINES

and level 2 data as defined in the CSU Data Classification Standard (See ICSUAM § 8065).

Identified risks to these information assets must be actively managed by data owners and/or appropriate administrators in order to prioritize resources and remediation efforts.

- (c) Information Technology Security. Establish written policies and practices to protect the confidentiality, integrity, and availability of information technology assets and protected data from threats.
- (d) Change Controls. Establish written policies and practices to manage changes to information technology assets.
- (e) Access Controls. Establish written policies and practices for granting access to information assets; separating duties of individuals who have access to information assets; conducting reviews of access rights to information assets; and modifying user access rights to information assets.
- (f) Data Entry Controls. Establish written policies and practices that define processing controls, specifically: transaction edit checks, integrity of data files, reconciliation requirements, and error logs.
- (g) Output Controls. Establish written policies and practices that define output controls, specifically: verification of accuracy, authorized access to data, and proper description of report information and its sources.
- (h) Physical Security. Establish written policies and practices that identify physical areas that must be protected from unauthorized physical access. Such areas would include data centers and other locations where information assets are stored.
- (i) Business Continuity and Disaster Recovery. Establish written policies and practices that define maintenance and potential restoration of operations through and after both minor and catastrophic disruptions. Campuses and auxiliaries must ensure that their information assets can, in the case of a catastrophic event, continue to operate and be appropriately accessible to users.