

**AUXILIARY ORGANIZATIONS**  
**HUMBOLDT STATE UNIVERSITY**

**Report Number 04-53**  
**June 6, 2005**

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

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## **ABBREVIATIONS**

AS	Associated Students of Humboldt State University
CBORD	Cornell's Board Plan
C-card	Convenience Card
CFO	Chief Financial Officer
CSU	California State University
EO	Executive Order
Foundation	Humboldt State University Foundation
IT	Information Technology
OMB	Office of Management and Budget
RFIN	Resolution of the Committee on Finance
UC	Humboldt State University Center Board of Directors

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## EXECUTIVE SUMMARY

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

Humboldt State University 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 Humboldt State University campus and its auxiliary organizations from December 6, 2004, through January 21, 2005, and made a study and evaluation of the system of internal compliance/internal control in effect for the period July 2002 to January 2005. This report represents our triennial review.

Our study and evaluation at the *Humboldt State University Foundation*, which subsequently changed its name to the Humboldt State University Sponsored Programs 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 January 2005, taken as a whole, was sufficient to meet the objectives stated above. It should also be noted that in July 2004, the Humboldt State University Advancement Foundation was created to enhance the fund-raising activities of Humboldt State University and manage all endowments previously managed by the Humboldt State University Foundation.

Our study and evaluation at the *Humboldt State University Center Board of Directors* 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 January 2005, taken as a whole, was sufficient to meet the objectives stated above.

Our study and evaluation at the *Associated Students of Humboldt State University* 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 January 2005, 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**

### **OPERATING AND ADMINISTRATIVE AGREEMENTS [10]**

Two written agreements between the campus and the Humboldt State University Center Board of Directors (UC) were not executed in a timely manner.

### **FISCAL COMPLIANCE [10]**

A cost allocation plan for the reimbursement of facilities, goods, and services provided to the auxiliary organizations had not been executed in a timely manner.

### **SEGREGATION OF DUTIES [11]**

The campus housing department did not appropriately segregate certain cashiering services provided to the UC, primarily for the administration of the student meal plan. For example, the housing cashier performed cash-handling duties, prepared daily deposits, and could add, delete, transfer, and edit accounts in the CBORD system, including her own account.

## **HUMBOLDT STATE UNIVERSITY FOUNDATION**

### **OPERATING AND ADMINISTRATIVE AGREEMENTS [13]**

The Humboldt State University Foundation (Foundation) operating agreement with the campus did not specify real estate activities as part of its authorized functions, was not executed in a timely manner, and was not approved by the chancellor's office. Additionally, an administrative agreement with the campus to perform accounting and payroll activities for the First Street Art Gallery had not

been executed. Lastly, the ground lease for the construction of a cellular tower had not been approved by the chancellor's office.

### **OPERATIONAL COMPLIANCE [14]**

The dissolution clause in the Foundation's Articles of Incorporation was not in compliance with Title 5. Additionally, conflict-of-interest statements had not been obtained from certain Foundation board members for fiscal years 2002/03 and 2003/04. Lastly, the Foundation's fiscal year 2002/03 budget was not submitted to the campus president for formal approval, and its reserves were underfunded per the approved reserve policy.

### **SEGREGATION OF DUTIES [17]**

Duties and responsibilities related to the KHSU membership coordinator were not adequately segregated. For example, the membership coordinator received checks and cash, entered amounts received into the pledge database, and prepared daily deposit.

### **PURCHASING AND ACCOUNTS PAYABLE [18]**

Certain Foundation cash disbursements were not supported by sufficient and appropriate documentation and/or appropriate authorization. Specifically, disbursements were coded to an incorrect account in eight instances.

### **PROPERTY AND EQUIPMENT [19]**

The Foundation's current fixed assets policy did not ensure that fabricated and non-capitalized equipment under \$5,000 was consistently identified and tagged.

### **AUXILIARY PROGRAMS [20]**

The Foundation's oversight of contracts and grants was inadequate. A review disclosed that contract and grant proposal submissions lacked sufficient budgetary information and timely approvals. Also, the Foundation did not have procedures to address underfunding of contract and grant awards, to certify effort performed by university and Foundation employees on sponsored programs, and to ensure that technical and financial reports were submitted to the sponsoring agencies in a timely manner.

### **INFORMATION TECHNOLOGY [23]**

The Foundation computer room did not contain smoke detection or fire extinguishing equipment. Further, backup tapes were retained in the same building as the Foundation computer room.

## **HUMBOLDT STATE UNIVERSITY CENTER BOARD OF DIRECTORS**

### **OPERATING AND ADMINISTRATIVE AGREEMENTS [25]**

Certain written agreements among the Humboldt State University Center Board of Directors (UC) and other entities were incomplete.

### **FACILITIES AGREEMENTS [26]**

The service arrangement between the UC and the campus library to provide copiers and copy services was not supported by a fully executed written agreement.

### **OPERATIONAL COMPLIANCE [26]**

The dissolution clause in the UC Articles of Incorporation was not in compliance with Title 5.

### **PURCHASING AND ACCOUNTS PAYABLE [27]**

Certain UC cash disbursements were not supported by appropriate authorization.

### **INVENTORIES [28]**

Management accountability and reporting procedures over UC foodservice inventory required improvement. For example, reporting food loss and spoilage was inconsistent, and reports to perform variance analysis were not performed. Furthermore, procedures to identify food loss, spoilage, and theft were not in place, and production sheets were not consistently utilized to account for ingredients and quantity used to prepare meals.

### **PERSONNEL AND PAYROLL [29]**

UC payroll reports were not reviewed in a timely manner by an individual independent of the payroll process.

### **AUXILIARY PROGRAMS [30]**

The administration of the UC meal points program, through the CBORD system, required improvement. For example, write-offs of inactive C-card accounts were performed without documented preapproval. Also, the CBORD system was not automated to generate reports on denied transactions.

## **INFORMATION TECHNOLOGY [31]**

Systemwide security features and system access controls were inappropriately configured for the UC bookstore system. In addition, neither firewalls nor routers had been installed to prevent/control external intrusion to UC systems.

## **ASSOCIATED STUDENTS OF HUMBOLDT STATE UNIVERSITY**

## **OPERATING AND ADMINISTRATIVE AGREEMENTS [34]**

Service agreements between the Associated Students of Humboldt State University and third parties did not specifically indemnify the State of California and the CSU Trustees.

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## INTRODUCTION

### **BACKGROUND**

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

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

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

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

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

## **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 2001/02, 2002/03, and 2003/04 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 2004 to January 2005. 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:

Humboldt State University Foundation

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

Humboldt State University Center Board of Directors

- ▶ 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
- ▶ Investments
- ▶ Fees, Revenues, and Receivables
- ▶ Purchasing and Accounts Payables
- ▶ Personnel and Payroll
- ▶ Property and Equipment
- ▶ Auxiliary Programs

- ▶ Information Technology

Associated Students of Humboldt State University

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

We have not performed any auditing procedures beyond January 2005. Accordingly, our comments are based on our knowledge as of that date. Since the purpose of our comments is to suggest areas for improvement, comments on favorable matters are not addressed.

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## **OBSERVATIONS, RECOMMENDATIONS, AND CAMPUS RESPONSES**

### **CAMPUS**

#### **OPERATING AND ADMINISTRATIVE AGREEMENTS**

Two written agreements between the campus and the Humboldt State University Center Board of Directors (UC) were not executed in a timely manner.

Title 5 §42401 and §42402 indicate that the campus president shall require that auxiliary organizations operate in conformity with policy of the Board of Trustees and the campus. One of the objectives of the auxiliary organizations is to provide fiscal procedures and management systems that allow effective coordination of the auxiliary activities with the campus in accordance with sound business practices. Sound business practice mandates that business arrangements be supported by complete, written agreements and executed in a timely manner.

The assistant director of fiscal affairs stated that transition in campus staff led to this oversight.

The absence of complete, written agreements increases the risk of misunderstandings and miscommunication regarding rights and responsibilities.

#### **Recommendation 1**

We recommend that the campus, in coordination with the UC, execute agreements in a timely manner.

#### **Campus Response**

We concur. The university will, in coordination with the UC, implement steps to ensure timely execution of operating and administrative agreements.

Implementation will be completed by December 6, 2005.

#### **FISCAL COMPLIANCE**

The campus did not execute a cost allocation plan for the reimbursement of facilities, goods, and services provided to the auxiliary organizations in a timely manner.

California Government Code §11259 states that all money received by any state agency, other than the Regents of the University of California, for charges for work, services, materials, or equipment shall be deposited in the State Treasury and, except advances or transfers under Sections 11257 and 11258, credited by the State Controller to the fund or appropriation from which the cost of such work, services, materials, or equipment was or will be paid.

California Government Code §16301 states that except as otherwise provided by law, all money belonging to the state received from any source whatever by any state agency shall be accounted for to the Controller at the close of each month, or more frequently if required by the Controller or the Department of Finance, in such form as he prescribes, and on the order of the Controller be paid into the Treasury and credited to the General Fund, provided that amounts received as partial or full reimbursement for services furnished shall be credited to the applicable appropriation.

Executive Order (EO) 753, *Allocation of Costs to Auxiliary Enterprises*, dated July 28, 2000, established the responsibility for auxiliaries to pay allowable direct costs plus an allocable portion of indirect costs associated with facilities, goods, and services provided by the campus and funded by the General Fund.

The interim director of fiscal affairs stated that due to the PeopleSoft transition, the cost allocation plan was not executed timely.

Failure to execute a cost allocation plan in a timely manner could result in the General Fund not being properly reimbursed for facilities, goods, and services provided to auxiliary organizations.

### **Recommendation 2**

We recommend that the campus execute cost allocation plans in a timely manner.

### **Campus Response**

We concur. The university will establish timelines for the various tasks to ensure timely execution of campus cost allocation plans.

Implementation will be completed by December 6, 2005.

## **SEGREGATION OF DUTIES**

The campus housing department did not appropriately segregate cashiering services provided to the UC, primarily for the administration of the student meal plan.

We found that the housing cashier:

- ▶ Performed cash-handling duties.
- ▶ Prepared the daily deposits.
- ▶ Could add, delete, transfer, and edit accounts in the CBORD system, including her own account.
- ▶ Had access to a magnetic strip encoder.
- ▶ Processed canceled accounts and refunds.
- ▶ Processed new accounts.
- ▶ Reconciled daily cash receipts, refunds, and the CBORD system.

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

The director of housing stated that he was unaware that procedures needed to be modified to improve segregation of duties.

Inadequate segregation of duties increases the risk that errors and irregularities will not be detected in a timely manner.

### **Recommendation 3**

We recommend that the campus properly segregate cashiering services provided to the UC or institute mitigating procedures approved by the campus chief financial officer (CFO).

### **Campus Response**

We concur. The campus will segregate duties and/or institute mitigating procedures for those cashiering services provided to the UC.

Implementation will be completed by December 6, 2005.

## **HUMBOLDT STATE UNIVERSITY FOUNDATION**

### **OPERATING AND ADMINISTRATIVE AGREEMENTS**

Certain agreements among the Humboldt State University Foundation (Foundation), the campus, and third parties were incomplete or not executed in a timely manner.

We found that:

- ▶ The Foundation's operating agreement with the campus was not signed and submitted for chancellor's office approval in a timely manner. Specifically, the operating agreement dated July 2003 was not signed by the campus and the Foundation until October 2004.
- ▶ The Foundation's real estate activities were not specifically listed within the approved operating agreement with the campus.
- ▶ The Foundation's operating agreement and ground lease for the cellular tower had not been approved by the chancellor's office.
- ▶ The Foundation had not executed an administrative agreement with the campus to perform accounting and payroll activities for the First Street Art Gallery.

Title 5 §42501 states that a written agreement on behalf of the State of California by the Chancellor of the California State University (CSU) and the auxiliary organization is required for the performance by such auxiliary organization of any of the functions listed in §42500. Title 5 §42502 states that the operating agreement should specify the function or functions which the organization is to manage, operate, or administer.

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 completed, written agreements and executed in a timely manner.

The Foundation manager of business and compliance systems stated that the operating agreement was submitted to the chancellor's office in a timely manner, but later returned due to required changes in the agreement. Further, she stated her belief that campus facilities management department had submitted the agreement to the chancellor's office for review and approval. Also, she stated that failure to execute an agreement with the First Street Art Gallery was due to management oversight. The Foundation executive director stated her belief that since the Foundation did not plan to engage in any future real estate activities, the operating agreement did not need to be amended.

Operating in the absence of current and approved, written agreements increases the risk of misunderstandings and miscommunication regarding rights and responsibilities.

#### **Recommendation 4**

We recommend that the Foundation:

- a. Ensure that its operating agreement with the campus is completed and submitted to the chancellor's office for approval in a timely manner.
- b. Amend its operating agreement to include real estate activities as part of its authorized functions.
- c. Obtain approval from the chancellor's office for its operating agreement and ground lease for the cellular tower.
- d. Execute an administrative agreement with the campus for service provided to the First Street Art Gallery.

#### **Campus Response**

We concur.

- a. A signed operating agreement between the campus and the Foundation has been completed and submitted to the chancellor's office for approval.
- b. Necessary amendments to the operating agreement regarding real estate activities as part of the Foundation's authorized functions will be developed.
- c. The ground lease for the cellular tower will be submitted to the chancellor's office for approval.
- d. An operating agreement for services provided to the First Street Art Gallery has been developed and signed by the Foundation and the campus.

Implementation will be completed by December 6, 2005.

## **OPERATIONAL COMPLIANCE**

### **CONFLICT OF INTEREST**

Conflict-of-interest statements had not been obtained from certain Foundation board members for fiscal year 2002/03 and 2003/04.

The Foundation's conflict-of-interest policy requires that board members sign a policy statement to evidence that they had read, understood, and would abide by the policy.

Education Code §89906 states that no member of the governing board of an auxiliary organization shall be financially interested in any contract or other transaction entered into by the board of which he is a member, and any contract or transaction entered into in violation of this section is void.

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

The Foundation manager of business and compliance systems stated that signed conflict-of-interest statements were not obtained from all board members due to oversight.

Failure to obtain conflict-of-interest statements from all auxiliary board members increases liability for acts contrary to the code.

### **Recommendation 5**

We recommend that the Foundation ensure that conflict-of-interest statements are obtained from all board members.

### **Campus Response**

We concur. Conflict-of-interest statements will be obtained from all board members.

Implementation will be completed by October 31, 2005.

## **DISSOLUTION OF AUXILIARY**

The dissolution clause in the Foundation's Articles of Incorporation was not in compliance with Title 5.

We found that the Foundation Articles of Incorporation included a clause allowing the board of directors to select a successor upon dissolution of the organization.

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 Foundation manager of business and compliance systems stated that she was unaware that the dissolution clause was not in compliance with Title 5.

Failure to include a dissolution clause in accordance with Title 5 could result in net assets not being properly distributed in the event the corporation is dissolved.

### **Recommendation 6**

We recommend that the Foundation redraft its corporate dissolution clause in accordance with Title 5 and appropriately reflect the change in its Articles of Incorporation.

### **Campus Response**

We concur. The Foundation board of directors has approved a revised dissolution clause in accordance with Title 5 and will submit the change in its Articles of Incorporation to the Secretary of State.

Implementation complete pending acceptance by the Secretary of State.

### **BUDGET**

The Foundation did not formally submit its fiscal year 2002/03 annual budget to the campus president for approval.

Title 5 §42402 states that the president shall require that each auxiliary organization submit its programs and budgets for review at a time and in a manner specified by the president.

The Foundation manager of business and compliance systems stated that since the campus president sits on the board during budget review, the fiscal year 2002/03 budget was not submitted for formal approval.

The lack of proper budget approval by the campus president increases the risk of misunderstandings over the allocation of funds.

### **Recommendation 7**

We recommend that the Foundation formally submit its annual budgets to the campus president for approval.

### **Campus Response**

We concur. The annual budget for fiscal year 2005/06 has been submitted and approved by the campus president.

Implementation completed.

### **RESERVES**

Current reserve allocations were less than the minimum required by the Foundation's reserve policy.

The Foundation's reserve policy states that it shall maintain a reserve of \$2 million. Currently, the Foundation's reserves are approximately \$1.1 million.

Education Code §89904(b) states that the president shall 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.

The Foundation manager of business and compliance systems stated that various major, unexpected cash outlays over the past two years had resulted in reserves falling below minimum levels. She also stated that the board of directors had approved the use of reserves for these purposes and that the Foundation would rebuild the reserves to the required levels.

Insufficient reserve planning and analysis increase the auxiliary's risk to fund future needs.

### **Recommendation 8**

We recommend that the Foundation update its policy to allow the reserve to be spent for specific expenditures and continue to monitor its reserve levels to ensure that adequate working capital exists to fund future operations.

### **Campus Response**

We concur. The reserve policy will be updated to allow for specific expenditures and the board of directors will continue to monitor reserve levels to ensure that adequate working capital exists to fund future operations.

Implementation will be completed by January 31, 2006.

## **SEGREGATION OF DUTIES**

Duties and responsibilities related to the membership coordinator were not appropriately segregated at the Foundation KHSU radio station.

We found that the membership coordinator:

- ▶ Received incoming checks and cash.
- ▶ Entered amounts received into the pledge database.
- ▶ Prepared daily deposits.
- ▶ Prepared a report that truncates aged pledges.
- ▶ Prepared and signed acknowledgment and tax deduction letters to donors.

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

The KHSU development director stated that resource constraints did not allow for an appropriate segregation of duties for the membership coordinator.

Inadequate segregation of duties increases the risk that errors and irregularities will not be detected in a timely manner.

### **Recommendation 9**

We recommend that the Foundation properly segregate the KHSU membership coordinator functions or institute mitigating procedures approved by the campus CFO.

### **Campus Response**

We concur. The Foundation will work with the interim vice president of university advancement and the general manager of KHSU to ensure that membership coordinator functions are properly segregated.

Implementation will be completed by December 6, 2005.

## **PURCHASING AND ACCOUNTS PAYABLE**

Certain Foundation cash disbursements were not supported by sufficient and appropriate documentation and/or appropriate authorization.

Our review of 60 cash disbursements disclosed the following:

### Process Controls

- ▶ In eight instances, the disbursements were coded to an incorrect account.

### Processing Exceptions

- ▶ In six instances, a current specimen signature was not on file authorizing the disbursement.
- ▶ In three instances, one-up authorization for a disbursement had not been obtained.
- ▶ In three instances, payment was made without adequate supporting documentation.
- ▶ In one instance, the check was payable to cash.
- ▶ In one instance, the scholarship was not reported to financial aid.

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

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

The Foundation manager of business and compliance systems stated that the lack of appropriate supporting documentation and authorization for disbursements was due to oversight. She further stated that transactions were coded based upon the supporting documentation prepared by project staff, and were not reviewed due to oversight by the accounting staff.

Insufficient supporting documentation and/or lack of appropriate authorization increase the risk of errors, irregularities, and misappropriation of funds.

### **Recommendation 10**

We recommend that the Foundation:

- a. Ensure that disbursements are coded to the proper accounts.
- b. Reiterate to staff existing cash disbursement policies and procedures regarding sufficient and appropriate supporting documentation and authorization.

### **Campus Response**

We concur. Management will ensure that disbursements are coded to the proper accounts and will continue to reiterate to staff existing cash disbursement policies and procedures regarding sufficient and appropriate supporting documentation and authorization.

Implementation will be completed by December 6, 2005.

## **PROPERTY AND EQUIPMENT**

The Foundation's current fixed assets policy was inadequate.

We found that:

- ▶ Existing policies and procedures did not address the identification and tagging of fabricated equipment.
- ▶ Non-capitalized equipment under \$5,000 was not consistently identified and tagged.

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 fixed assets.

The Foundation manager of business and compliance systems stated that the lack of a policy and procedure related to the tagging of fabricated equipment was due to oversight. She further stated that

the accounts payable clerk was responsible for notifying the appropriate personnel to tag any items ordered without a purchase order.

Inadequate controls over fixed assets increase the risk that property may be lost or stolen.

### **Recommendation 11**

We recommend that the Foundation:

- a. Develop and implement policies and procedures to identify and tag all fabricated equipment.
- b. Institute controls to ensure that all non-capitalized controllable equipment under \$5,000 is consistently identified and tagged.

### **Campus Response**

We concur. Policies and procedures to identify and tag all fabricated equipment will be developed and incorporated into existing written property and equipment policies and procedures. Controls to ensure that all non-capitalized controllable equipment under \$5,000 is consistently identified and tagged will be implemented.

Implementation will be completed by December 6, 2005.

## **AUXILIARY PROGRAMS**

Certain Foundation contracts and grants policies and procedures required modifications and improvement.

### **Pre-Award Review and Approval**

We noted that two Foundation institutional budget and routing forms were signed after the contract and grant proposal was awarded.

The Foundation's policy titled *Administration of Externally Funded Grants and Contracts in Support of Sponsored Programs*, § II.A., requires that proposals for external funding shall not be submitted to a sponsoring agency without prior written approval by fully executing the institutional routing and authorization form. Proposal submission is not authorized until the final signatures by the authorized signers for the university and the Foundation have been obtained.

### **Fiscal Administration**

We noted that:

- ▶ In five of ten project files reviewed, budget data submitted with contract and grant proposals did not contain sufficient budgetary information. For example, the supplies line item was frequently

used for various unrelated expenses including, but not limited to, purchase of equipment and facility rental fees.

- ▶ The Foundation did not have formal policies and procedures to address the under funding of a contract or grant when specific reduction instructions were not provided by the sponsoring agency.

EO 890, *Administration of Grants and Contracts in Support of Sponsored Programs*, dated January 7, 2004, states that the sponsored program administrator shall be responsible for final certification of project budgets and budget change review procedures.

### **Effort Reporting**

We noted that the Foundation had not developed policies and procedures to certify effort performed on contract and grant projects.

Office of Management and Budget (OMB) Circular A-21, *Cost Principles for Educational Institutions*, §.J.10.b.(2)(b), states that the method of documenting the distribution of charges for personal services must recognize the principle of after-the-fact confirmation or determination so that costs distributed represent actual costs, unless a mutually satisfactory alternative agreement is reached. Direct cost activities and facilities and administration cost activities may be confirmed by responsible persons with suitable means of verification that the work was performed. Confirmation by the employee is not a requirement for either direct or facilities and administration cost activities if other responsible persons make appropriate confirmations.

### **Technical Report Submission**

The Foundation did not have policies and procedures to ensure that technical and financial reports were submitted to the sponsoring agencies in a timely manner.

OMB Circular A-110, *Uniform Administrative Requirements for Grants and Agreements With Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations Financial Reporting*, §.71(a), states that recipients shall submit, within 90 calendar days after the date of completion of the award, all financial, performance, and other reports as required by the terms and conditions of the award.

The Foundation executive director stated that in the past, pre- and post-award administration was not integrated due to personnel constraints, leading to a lack of proper oversight.

Failure to provide adequate sponsored program oversight increases the risk of non-compliance with OMB requirements, the risk that the auxiliary will operate in a manner inconsistent with the educational mission of the campus, the risk that contracts and grants will be inappropriately managed, and the risk of penalties and disallowances for non-compliance with contracts and grants terms.

### **Recommendation 12**

We recommend that the Foundation:

- a. Ensure that institutional budget and routing forms are signed by all required university and Foundation employees prior to submission of contract and grant proposals.
- b. Ensure that budget data submitted with contract and grant proposals contain sufficient budgetary information.
- c. Develop policies and procedures to address under funding of contract and grant awards.
- d. Develop policies and procedures to certify effort performed by university and Foundation employees on sponsored programs.
- e. Develop policies and procedures to ensure that technical and financial reports are submitted to the sponsoring agencies in a timely manner.

### **Campus Response**

We concur.

- a. The Foundation will continue to follow policies and procedures established by EO 890 to ensure that institutional budget and routing forms are signed by all required university and Foundation employees prior to submission of contracts and grant proposals.
- b. Budget data submitted with contract and grant proposals will contain sufficient budgetary information.
- c. Policies and procedures will be developed that will address under funding of contract and grant awards.
- d. Policies and procedures to certify efforts performed by Foundation and university employees on sponsored programs will be developed.
- e. Processes and procedures will be further developed to ensure that technical and financial reports are submitted to the sponsoring agencies in a timely manner.

Implementation will be completed by February 28, 2006.

## **INFORMATION TECHNOLOGY**

### **OFF-SITE DATA STORAGE**

Backup tapes were retained in the same building as the Foundation computer room.

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

The Foundation manager of business and compliance systems stated that the computer room had recently been relocated into Seimans Hall, and that an alternate backup storage location was still being evaluated.

Failure to store backup tapes in a separate physical location could inadvertently expose financial and donor information to theft or accidental disclosure, or possibly render it inaccessible.

#### **Recommendation 13**

We recommend that the Foundation improve security of backup tapes by storing them at an off-site facility.

#### **Campus Response**

We concur. Procedures have been changed and backup tapes are now being stored in the safe located in the Student and Business Services Building, room 349.

Implementation complete.

### **COMPUTER ROOM ENVIRONMENTAL CONTROLS**

The Foundation had not installed smoke detection or fire extinguishing equipment in its computer room.

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

The Foundation manager of business and compliance systems stated that the computer equipment had recently been moved into the current location, and that fire extinguishers and smokes detectors were an oversight.

Without appropriate physical safeguards over the facilities housing computer equipment, there is an increased risk of disruption of data processing services.

**Recommendation 14**

We recommend that the Foundation install smoke detection and fire extinguishing equipment in the computer room.

**Campus Response**

We concur. Smoke detectors and fire extinguishing equipment were installed in the computer room.

Implementation complete.

## **HUMBOLDT STATE UNIVERSITY CENTER BOARD OF DIRECTORS**

### **OPERATING AND ADMINISTRATIVE AGREEMENTS**

Certain written agreements among the Humboldt State University Center Board of Directors (UC) and other entities were incomplete.

We found that:

- ▶ A certificate of insurance obtained from an external party did not include the State of California and the CSU Trustees as additional insured.
- ▶ The indemnification provision in agreements between the UC and third-party performers did not include the CSU Trustees and the State of California.

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 and executed in a timely manner.

The UC executive director stated his belief that the additional insured under the certificate of insurance was complete.

The absence of complete, written agreements increases the risk of misunderstandings and miscommunication regarding rights and responsibilities.

#### **Recommendation 15**

We recommend that the UC:

- a. Ensure that certificates of insurance are appropriate and complete.
- b. Ensure that agreements include appropriate indemnification clauses.

#### **Campus Response**

We concur. The UC will implement steps to ensure that certificates of insurance are appropriate and complete and that all agreements include appropriate indemnification clauses.

Implementation will be completed by December 6, 2005.

## **FACILITIES AGREEMENTS**

The service arrangement between the UC and the campus library was not supported by a fully executed, written agreement.

We found that the UC continued to provide copiers and copy services in an office space located in the library under a written agreement that was not executed by the campus nor fully executed by the UC.

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 service arrangements be supported by complete, written agreements and executed in a timely manner.

The UC associate director stated that the UC continues to provide copiers and copy services in the library at the campus' request.

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

### **Recommendation 16**

We recommend that the UC execute a written agreement from the campus for services provided.

### **Campus Response**

We concur. The UC will, in coordination with the campus library, prepare and execute a written agreement for services provided.

Implementation will be completed by December 6, 2005.

## **OPERATIONAL COMPLIANCE**

The dissolution clause in the UC Articles of Incorporation was not in compliance with Title 5.

We found that the UC Articles of Incorporation included a clause allowing the board of directors to select a successor upon dissolution of the organization.

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 UC executive director stated that he was unaware that the dissolution clause was not in compliance with Title 5.

Failure to include an appropriate dissolution clause in accordance with Title 5 could result in net assets not being properly distributed in the event the corporation is dissolved.

**Recommendation 17**

We recommend that the UC redraft its corporate dissolution clause in accordance with Title 5 and appropriately reflect the change in its Articles of Incorporation.

**Campus Response**

We concur. The UC will redraft its corporate dissolution clause in accordance with Title 5 and appropriately reflect the changes in the Articles of Incorporation.

Implementation will be completed by December 6, 2005.

**PURCHASING AND ACCOUNTS PAYABLE**

Certain UC cash disbursements were not supported by appropriate authorization.

Our review of 60 disbursements disclosed that one-up signature authorization was not obtained in two instances.

Title 5 §42401 and §42402 indicate that the campus president shall require that auxiliary organizations operate in conformity with the 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 cash disbursements be properly authorized.

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

The UC executive director stated his belief that appropriate authorization was obtained for the check signature.

The lack of appropriate authorization increases the risk of errors, irregularities, and misappropriation of funds.

**Recommendation 18**

We recommend that the UC reiterate to staff existing cash disbursement policies and procedures regarding appropriate authorization.

### **Campus Response**

We concur. The UC will reiterate to staff existing cash disbursement policies and procedures regarding appropriate authorization.

Implementation will be completed by December 6, 2005.

## **INVENTORIES**

The UC had not developed procedures to properly address management accountability and reporting of foodservice inventory.

We noted that:

- ▶ Reporting food loss and spoilage was inconsistent. Financial statements from one of the dining facilities did not report any food loss and spoilage during fiscal year ended June 30, 2004.
- ▶ Management did not prepare reports to perform a variance analysis of inventory levels.
- ▶ Procedures to identify food loss, spoilage, and theft were not in place. Specifically, prepared foods remaining at the end of the day were disposed of without proper accountability. Additionally, monthly physical inventory counts were not reconciled to amounts on hand.
- ▶ Production sheets were not consistently utilized to account for ingredients and quantity used to prepare meals.

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 sufficient internal controls be maintained over inventory.

The UC associate director stated that management had previously researched various solutions to improve foodservice inventory controls and procedures; however, based on a cost-benefits analysis, an enhanced system had not been implemented.

The lack of proper procedures regarding accountability and reporting of inventory increases the risk that property may be lost or stolen and that accounting records could be misstated.

### **Recommendation 19**

We recommend that the UC develop procedures to fully address management accountability and reporting of foodservice inventory.

**Campus Response**

We concur. The UC will develop procedures to fully address management accountability and reporting of foodservice inventory.

Implementation will be completed by December 6, 2005.

**PERSONNEL AND PAYROLL**

UC payroll reports were not timely reviewed by an individual independent of the payroll process.

The *Compilation of Policies and Procedures for California State University Auxiliary Organizations* sets sound business practice guidelines for auxiliary organizations operating within the CSU system. Section 8.9.6, *Payroll*, states that the auxiliary should establish a written system that ensures proper authorization, approval, and documentation of new hires, changes in employment, salary and wage rates, and payroll deductions.

The UC associate director stated that she performed a monthly review of payroll expense and had access to the payroll register. She also stated that the department managers were responsible for reviewing payroll expense against the budget. However, she stated that the failure to perform a review of employee payroll information immediately following payroll processing was due to oversight.

Failure to perform a timely review of payroll-related data increases the risk that loss, errors, and misappropriation will not be detected in a timely manner.

**Recommendation 20**

We recommend that the UC perform timely, independent reviews of payroll to prevent unauthorized payroll transactions from occurring.

**Campus Response**

We concur. The UC will develop procedures to ensure timely, independent reviews of payroll to prevent unauthorized payroll transactions from occurring.

Implementation will be completed by December 6, 2005.

## AUXILIARY PROGRAMS

The administration of the UC meal points program, through the CBORD system, was in need of improvement.

We found that:

- ▶ Denied off-line transactions of meal points were not reviewed and investigated. Denied off-line transactions occurred when purchases were made with insufficient funds or points when the CBORD system was off-line. These transactions were applied to the respective accounts once the CBORD system was on-line; however, certain transactions were subsequently denied due to the lack of sufficient funds or points.
- ▶ The CBORD system was not automated to generate reports on denied transactions. Therefore, denied transactions have been undetected. Further, denied transactions that would have caused the account to become negative were not manually zeroed to cover a partial payment on the goods or services purchased.
- ▶ A magnetic strip card encoder, a device designed to write meal points data on the back of ID cards, was not adequately controlled, as it was in the possession of an individual who had add, delete, and edit capabilities in the CBORD system. Additionally, the encoder device did not have the capability to generate a transaction trail.
- ▶ Write-offs of inactive convenience card (C-card) accounts were not preapproved. A C-card that was not used for a 16-month period was subject to a maintenance fee of \$20 or the remaining balance, whichever was less. The information technology (IT) coordinator, who had full access to the CBORD system, annually identified and wrote off these accounts from the CBORD system. No one independent of the IT coordinator preapproved these inactive accounts prior to write-off.
- ▶ Periodic reviews of unusual C-card and J-points account transactions and account balances were not performed. Although daily reconciliations between the CBORD system and the general ledger were performed, the reconciliations did not include a periodic review of the detailed account transactions. Specifically, we found numerous unusual transactions that changed the card number associated with accounts and several individuals whose number of administrative and maintenance transactions appeared extremely excessive when compared to the average number of these types of transactions on all other 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 that sufficient internal controls be maintained over the dining meal points program.

The UC associate director stated that the methodology for accounting for both C-card and J-points transactions ensured all activity processed through the system was accounted for and properly reconciled. However, she also stated that the lack of report generation and review, safeguarding of the records, preapproval of write-offs of accounts, and periodic reviews of C-card and J-points accounts were due to oversight.

The lack of appropriate authorization and insufficient evidence of management oversight increases the risk of errors, irregularities, and misappropriation of funds.

### **Recommendation 21**

We recommend that the UC:

- a. Review and investigate denied off-line transactions of meal points.
- b. Automate the CBORD system to generate reports on denied transactions.
- c. Adequately control the magnetic strip card encoder.
- d. Preapprove write-offs of accounts.
- e. Perform periodic reviews of unusual C-card and J-points account transactions and account balances.

### **Campus Response**

We concur. The UC will refine the CBORD system procedures to address items identified in this recommendation.

Implementation will be completed by December 6, 2005.

## **INFORMATION TECHNOLOGY**

### **NETWORK SECURITY**

Neither firewalls nor routers had been installed to prevent/control external intrusion to UC systems.

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

The UC information technology coordinator stated that requests for permission to implement a firewall had been denied by the campus telecommunications and network services.

The lack of sufficient security devices to restrict network access increases the risk of external attempts to undermine the production systems.

### **Recommendation 22**

We recommend that the UC implement security devices to limit and control network access to production systems.

### **Campus Response**

We concur. The UC will work with the campus telecommunications department to develop a mutually agreeable and workable network security solution.

Implementation will be completed by December 6, 2005.

## **BOOKSTORE SYSTEM SECURITY**

All systemwide security features had not been set to provide effective security for the UC bookstore system.

We found that:

- ▶ The system's security level was set to low.
- ▶ Password syntax controls did not prevent the creation of simple passwords.

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

The UC information technology coordinator stated that the system security controls had not been changed from the vendor's original settings.

Without adequate settings of security parameters, there is no assurance that controls are operating as intended by management or that the system and its associated controls are not compromised.

### **Recommendation 23**

We recommend that the UC improve security features for its bookstore system by increasing the system security level, and implementing password syntax controls to require at least one digit, disallow consecutive characters, and disallow repeating characters.

### **Campus Response**

We concur. Operating system settings will be modified to improve the security features for the bookstore system.

Implementation will be completed by December 6, 2005.

## **BOOKSTORE SYSTEM ACCESS**

System access controls were inappropriately configured for the UC bookstore system.

We noted that:

- ▶ Unlimited access was granted to all users, allowing the capability to change any file or program on the system.
- ▶ Access to the operating system was granted to individuals who did not require such access to perform their job duties.

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

The UC information technology coordinator stated that management was not fully aware of the security provisions for that computer system.

The lack of appropriate system access controls increases the risk of unauthorized and inappropriate acts.

### **Recommendation 24**

We recommend that the UC limit access to the bookstore system to only those individuals requiring such access to perform their job duties.

### **Campus Response**

We concur. User profile definitions will be modified to limit access to the bookstore system to only those individuals requiring such access to perform their job duties.

Implementation will be completed by December 6, 2005.

## **ASSOCIATED STUDENTS OF HUMBOLDT STATE UNIVERSITY**

### **OPERATING AND ADMINISTRATIVE AGREEMENTS**

Service agreements between the Associated Students of Humboldt State University (AS) and third parties did not specifically indemnify the State of California and the CSU Trustees.

EO 849, *California State University Insurance Requirements*, dated February 5, 2003, states that hold harmless provisions should be modeled after agreements available at the CSU contract resource library. The model auxiliary operating agreement states that auxiliary organizations shall agree to indemnify, defend, and save harmless the State of California, the Trustees of the California State University, the campus, and the officers, employees, volunteers, and agents of each of them from any and all loss, damage, or liability that may be suffered or incurred by state, caused by, arising out of, or in any way connected with the operations of the auxiliary.

The AS general manager stated that the incomplete indemnification clause was due to oversight.

The absence of appropriate indemnification clauses in written agreements increases the risk of misunderstandings and miscommunication regarding rights and responsibilities.

#### **Recommendation 25**

We recommend that the AS ensure that service agreements with third parties specifically indemnify the State of California and the CSU Trustees.

#### **Campus Response**

We concur. The AS will ensure that service agreements with third parties specifically indemnify the State of California and the CSU Trustees.

Implementation complete.

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## **APPENDIX A: PERSONNEL CONTACTED**

### **Name**

### **Title**

#### **CAMPUS**

Rollin C. Richmond	President
John Capaccio	Director, Department of Housing
Carl Coffey	Vice President, Administrative Affairs
Rita Limmer	Cashier, Department of Housing
Paul Meyer	University Property Supervisor
Burt Nordstrom	Vice President for University Advancement
Lori Rudebock	Interim Director, Fiscal Affairs
Karen Suiker	Assistant Director, Fiscal Affairs

#### **HUMBOLDT STATE UNIVERSITY FOUNDATION**

Jack Bentley	Director, First Street Art Gallery
Joe Bonino	Payroll Supervisor
Glenda Carlberg	Membership Coordinator, KHSU
Julie Davy	Grant Analyst
Jeff DeMarck	Underwriting Coordinator, KHSU
Charles Horn	Development Director, KHSU
Dixie Johnson	Manager, Business and Compliance Systems
Doris Maire	Accounts Payable
Elizabeth McCrone	General Manager, KHSU
Theresa McLaren	Store Manager, Humboldt State University Natural History Museum
Donna Schafer	Executive Director
Debbie Stamper	Administrative Support Coordinator
Melissa Zielinski	Director, Humboldt State University Natural History Museum

#### **HUMBOLDT STATE UNIVERSITY CENTER BOARD OF DIRECTORS**

Eddie Aguilar	Depot Dining Manager
Silvia Andersen	College of the Redwoods Dining Manager
Heidi Chien	Associate Director
Andy Fidler	Accounting Technician, Bookstore
Scott Gerving	Information Technology Coordinator
Jon Greene	Director, Bookstore
Michelle Hadley	Account Clerk
Nancy Heller	Shipping and Receiving Supervisor, Bookstore
Melissa Hopper	Assistant Merchandise Department Manager, Bookstore
Debra Martin-Quigley	At-Your-Service Supervisor, Bookstore
Dave Nakamura	Director, Center Activities
Burt Nordstrom	Executive Director
Katie Pelascini	Cashier
Linda Pereira	Administrative Support Coordinator
Ron Rudebock	Director, Humboldt State University Dining Services
Wendy Sotomayor	Accountant
Jennifer Swift	Cashier Supervisor, Bookstore

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APPENDIX A: PERSONNEL CONTACTED

Mary Thomas	South Campus Marketplace Manager
Anita Trigeiro	Business Office Coordinator
Clarinda Van Horn	Textbook Department Manager, Bookstore
Arnold Waddler	“J” Dining Manager

**ASSOCIATED STUDENTS OF HUMBOLDT STATE UNIVERSITY**

Joan Tyson	General Manager
Samantha Williams Gray	President, Associated Students

## **STATEMENT OF INTERNAL CONTROLS**

### **A. INTRODUCTION**

Internal accounting and related operational controls established by the State of California, the CSU 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

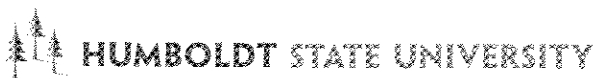
Operational controls comprise the plan of organization and all methods and procedures that are concerned mainly with operational efficiency and adherence to managerial policies and usually relate only indirectly to the financial records.

### **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.



Vice President of Administrative Affairs

RECEIVED  
UNIVERSITY AUDITOR  
AUG 12 2005  
THE CALIFORNIA STATE  
UNIVERSITY

August 12, 2005

Larry Mandel  
University Auditor  
The California State University  
401 Golden Shore  
Long Beach, CA 90802-4210

Re: Auxiliary Organizations Audit Report Number 04-53

*LARRY*  
Dear Mr. Mandel:

Please find enclosed Humboldt State University's response to Auxiliary Organizations Audit Report Number 04-53. We appreciate the effort you and your staff have made to indicate areas where our procedures could be strengthened. The campus is committed to addressing and resolving the issues noted in the audit report.

Questions regarding the responses may be directed to Lori Rudebock, Director of Internal Audits, at 707-826-5714 or [rudebock@humboldt.edu](mailto:rudebock@humboldt.edu).

Sincerely,

*Carl Coffey*  
Carl Coffey, Vice President  
Administrative Affairs

Enclosure

- cc: Rollin C. Richmond, President, w/o enclosure
- Donna Schafer, Executive Director, Sponsored Programs Foundation, w/enclosure
- Burt Nordstrom, Executive Director, University Center, w/enclosure
- Joan Tyson, Manager, Associated Students, w/enclosure
- Lori Rudebock, Director of Internal Audits, Administrative Affairs, w/enclosure

**AUXILIARY ORGANIZATIONS**  
**HUMBOLDT STATE UNIVERSITY**

**Report Number 04-53**  
**June 6, 2005**

**CAMPUS**

**OPERATING AND ADMINISTRATIVE AGREEMENTS**

**Recommendation 1**

We recommend that the campus, in coordination with the UC, execute agreements in a timely manner.

**Campus Response**

We concur. The University will, in coordination with the UC, implement steps to insure timely execution of operating and administrative agreements.

Implementation will be completed by December 6, 2005.

**FISCAL COMPLIANCE**

**Recommendation 2**

We recommend that the campus execute cost allocation plans in a timely manner.

**Campus Response**

We concur. The University will establish timelines for the various tasks to insure timely execution of campus cost allocation plans.

Implementation will be completed by December 6, 2005.

**SEGREGATION OF DUTIES**

**Recommendation 3**

We recommend that the campus properly segregate cashiering services provided to the UC or institute mitigating procedures approved by the campus chief financial officer (CFO).

**Campus Response**

We concur. The campus will segregate duties and/or institute mitigating procedures for those cashiering services provided to the UC.

Implementation will be completed by December 6, 2005.

## **HUMBOLDT STATE UNIVERSITY FOUNDATION**

### **OPERATING AND ADMINISTRATIVE AGREEMENTS**

#### **Recommendation 4**

We recommend that the Foundation:

- a. Ensure that its operating agreement with the campus is completed and submitted to the chancellor's office for approval in a timely manner.
- b. Amend its operating agreement to include real estate activities as part of its authorized functions.
- c. Obtain approval from the chancellor's office for its operating agreement and ground lease for the cellular tower.
- d. Execute an administrative agreement with the campus for service provided to the First Street Art Gallery.

#### **Campus Response**

We concur.

- a. A signed operating agreement between the Campus and the Foundation has been completed and submitted to the Chancellor's office for approval.
- b. Necessary amendments to the operating agreement regarding real estate activities as part of the Foundation's authorized functions will be developed.
- c. The ground lease for the cellular tower will be submitted to the Chancellor's Office for approval.
- d. An operating agreement for services provided to the First Street Art Gallery has been developed and signed by the Foundation and the Campus.

Implementation will be completed by December 6, 2005.

### **OPERATIONAL COMPLIANCE**

#### **CONFLICT OF INTEREST**

#### **Recommendation 5**

We recommend that the Foundation ensure that conflict-of-interest statements are obtained from all board members.

**Campus Response**

We concur. Conflict of interest statements will be obtained from all board members.

Implementation will be completed by October 31, 2005.

**DISSOLUTION OF AUXILIARY**

**Recommendation 6**

We recommend that the Foundation redraft its corporate dissolution clause in accordance with Title 5 and appropriately reflect the change in its Articles of Incorporation.

**Campus Response**

We concur. The HSU Sponsored Programs Foundation Board of Directors has approved a revised dissolution clause in accordance with Title 5 and will submit the change in its articles of incorporation to the Secretary of State.

Implementation complete pending acceptance by the Secretary of State.

**BUDGET**

**Recommendation 7**

We recommend that the Foundation formally submit its annual budgets to the campus president for approval.

**Campus Response**

We concur. The annual budget for fiscal year 2005-2006 has been submitted and approved by the campus President.

Implementation completed.

**RESERVES**

**Recommendation 8**

We recommend that the Foundation update its policy to allow the reserve to be spent for specific expenditures and continue to monitor its reserve levels to ensure that adequate working capital exists to fund future operations.

**Campus Response**

We concur. The reserve policy will be updated to allow for specific expenditures and the Board of Directors will continue to monitor reserve levels to ensure that adequate working capital exists to fund future operations.

Implementation will be completed January 31, 2006.

## SEGREGATION OF DUTIES

### Recommendation 9

We recommend that the Foundation properly segregate the KHSU membership coordinator functions or institute mitigating procedures approved by the campus CFO.

### Campus Response

We concur. The Foundation will work with the Interim Vice President of University Advancement and the General Manager of KHSU to ensure that membership coordinator functions are properly segregated.

Implementation will be completed December 6, 2005.

## PURCHASING AND ACCOUNTS PAYABLE

### Recommendation 10

We recommend that the Foundation:

- a. Ensure that disbursements are coded to the proper accounts.
- b. Reiterate to staff existing cash disbursement policies and procedures regarding sufficient and appropriate supporting documentation and authorization.

### Campus Response

We concur. Management will ensure that disbursements are coded to the proper accounts and will continue to reiterate to staff existing cash disbursement policies and procedures regarding sufficient and appropriate supporting documentation and authorization.

Implementation will be completed by December 6, 2005.

## PROPERTY AND EQUIPMENT

### Recommendation 11

We recommend that the Foundation:

- a. Develop and implement policies and procedures to identify and tag all fabricated equipment.
- b. Institute controls to ensure that all non-capitalized controllable equipment under \$5,000 is consistently identified and tagged.

**Campus Response**

We concur. Policies and procedures to identify and tag all fabricated equipment will be developed and incorporated into existing written property and equipment policies and procedures. Controls to ensure that all non-capitalized controllable equipment under \$5,000 is consistently identified and tagged will be implemented.

Implementation to be completed by December 6, 2005.

**AUXILIARY PROGRAMS****Recommendation 12**

We recommend that the Foundation:

- a. Ensure that institutional budget and routing forms are signed by all required university and Foundation employees prior to submission of contract and grant proposals.
- b. Ensure that budget data submitted with contract and grant proposals contain sufficient budgetary information.
- c. Develop policies and procedures to address under funding of contract and grant awards.
- d. Develop policies and procedures to certify effort performed by university and Foundation employees on sponsored programs.
- e. Develop policies and procedures to ensure that technical and financial reports are submitted to the sponsoring agencies in a timely manner.

**Campus Response**

We concur.

- a. HSU Sponsored Programs Foundation will continue to follow policies and procedures established by Executive Order 890 to ensure that institutional budget and routing forms are signed by all required University and Foundation employees prior to submission of contracts and grant proposals
- b. Budget data submitted with contract and grant proposals will contain sufficient budgetary information.
- c. Policies and procedures will be developed that will address under-funding of contract and grant awards.
- d. Policies and procedures to certify efforts performed by Foundation and University employees on sponsored programs will be developed.
- e. Processes and procedures will be further developed to ensure that technical and financial reports are submitted to the sponsoring agencies in a timely manner.

Implementation will be completed by February 28, 2006.

## **INFORMATION TECHNOLOGY**

### **OFF-SITE DATA STORAGE**

#### **Recommendation 13**

We recommend that the Foundation improve security of backup tapes by storing them at an off-site facility.

#### **Campus Response**

We concur. Procedures have been changed and back-up tapes are now being stored in the safe located in the Student and Business Services building, room 349.

Implementation complete.

### **COMPUTER ROOM ENVIRONMENTAL CONTROLS**

#### **Recommendation 14**

We recommend that the Foundation install smoke detection and fire extinguishing equipment in the computer room.

#### **Campus Response**

We concur. Smoke detectors and fire extinguishing equipment were installed in the computer room.

Implementation complete.

**HUMBOLDT STATE UNIVERSITY CENTER BOARD OF DIRECTORS**

**OPERATING AND ADMINISTRATIVE AGREEMENTS**

**Recommendation 15**

We recommend that the UC:

- a. Ensure that certificates of insurance are appropriate and complete.
- b. Ensure that agreements include appropriate indemnification clauses.

**Campus Response**

We concur. The University Center will implement steps to ensure that certificates of insurance are appropriate and complete and that all agreements include appropriate indemnification clauses.

Implementation will be completed by December 6, 2005.

**FACILITIES AGREEMENTS**

**Recommendation 16**

We recommend that the UC execute a written agreement from the campus for services provided.

**Campus Response**

We concur. The University Center will, in coordination with the campus library, prepare and execute a written agreement for services provided.

Implementation will be completed by December 6, 2005.

**OPERATIONAL COMPLIANCE**

**Recommendation 17**

We recommend that the UC redraft its corporate dissolution clause in accordance with Title 5 and appropriately reflect the change in its Articles of Incorporation.

**Campus Response**

We concur. The University Center will redraft its corporate dissolution clause in accordance with Title 5 and appropriately reflect the changes in the Articles of Incorporation.

Implementation will be completed by December 6, 2005.

## **PURCHASING AND ACCOUNTS PAYABLE**

### **Recommendation 18**

We recommend that the UC reiterate to staff existing cash disbursement policies and procedures regarding appropriate authorization.

### **Campus Response**

We concur. The University Center will reiterate to staff existing cash disbursement policies and procedures regarding appropriate authorization.

Implementation will be completed by December 6, 2005.

## **INVENTORIES**

### **Recommendation 19**

We recommend that the UC develop procedures to fully address management accountability and reporting of foodservice inventory.

### **Campus Response**

We concur. The University Center will develop procedures to fully address management accountability and reporting of foodservice inventory.

Implementation will be completed by December 6, 2005.

## **PERSONNEL AND PAYROLL**

### **Recommendation 20**

We recommend that the UC perform timely, independent reviews of payroll to prevent unauthorized payroll transactions from occurring.

### **Campus Response**

We concur. The University Center will develop procedures to ensure timely, independent reviews of payroll to prevent unauthorized payroll transactions from occurring.

Implementation will be completed by December 6, 2005.

## AUXILIARY PROGRAMS

### Recommendation 21

We recommend that the UC:

- a. Review and investigate denied off-line transactions of meal points.
- b. Automate the CBORD system to generate reports on denied transactions.
- c. Adequately control the magnetic strip card encoder.
- d. Preapprove write-offs of accounts.
- e. Perform periodic reviews of unusual C-card and J-points account transactions and account balances.

### Campus Response

We concur. The University Center will refine the CBORD system procedures to address items identified in this recommendation.

Implementation will be completed by December 6, 2005.

## INFORMATION TECHNOLOGY

### NETWORK SECURITY

#### Recommendation 22

We recommend that the UC implement security devices to limit and control network access to production systems.

#### Campus Response

We concur. The UC will work with the campus telecommunications department to develop a mutually agreeable and workable network security solution.

Implementation will be completed by December 6, 2005.

### BOOKSTORE SYSTEM SECURITY

#### Recommendation 23

We recommend that the UC improve security features for its bookstore system by increasing the system security level, and implementing password syntax controls to require at least one digit, disallow consecutive characters, and disallow repeating characters.

**Campus Response**

We concur. Operating system settings will be modified to improve the security features for the bookstore system.

Implementation will be completed by December 6, 2005.

**BOOKSTORE SYSTEM ACCESS**

**Recommendation 24**

We recommend that the UC limit access to the bookstore system to only those individuals requiring such access to perform their job duties.

**Campus Response**

We concur. User profile definitions will be modified to limit access to the bookstore system to only those individuals requiring such access to perform their job duties.

Implementation will be completed by December 6, 2005.

**ASSOCIATED STUDENTS OF HUMBOLDT STATE UNIVERSITY**

**OPERATING AND ADMINISTRATIVE AGREEMENTS**

**Recommendation 25**

We recommend that the AS ensure that service agreements with third parties specifically indemnify the State of California and the CSU Trustees.

**Campus Response**

We concur. The AS will ensure that service agreements with third parties specifically indemnify the State of California and the CSU Trustees.

Implementation complete.

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THE CALIFORNIA STATE UNIVERSITY  
OFFICE OF THE CHANCELLOR



BAKERSFIELD

September 6, 2005

CHANNEL ISLANDS

CHICO

**MEMORANDUM**

DOMINGUEZ HILLS

EAST BAY

TO: Mr. Larry Mandel  
University Auditor

FRESNO

FROM: Charles B. Reed  
Chancellor

FULLERTON

HUMBOLDT

SUBJECT: Draft Final Report Number 04-53 on *Auxiliary Organizations*,  
Humboldt State University

LONG BEACH

LOS ANGELES

MARITIME ACADEMY

In response to your memorandum of September 6, 2005, I accept the response as submitted with the draft final report on *Auxiliary Organizations*, Humboldt State University.

MONTEREY BAY

NORTHRIDGE

POMONA

CBR/jt

SACRAMENTO

Enclosure

SAN BERNARDINO

cc: Dr. Rollin C. Richmond, President

SAN DIEGO

SAN FRANCISCO

SAN JOSE

SAN LUIS OBISPO

SAN MARCOS

SONOMA

STANISLAUS