

AUXILIARY ORGANIZATIONS
CALIFORNIA STATE UNIVERSITY,
SAN BERNARDINO

Audit Report 09-15
October 12, 2009

Members, Committee on Audit

Melinda Guzman, Chair
Raymond W. Holdsworth, Vice Chair
Herbert L. Carter Carol R. Chandler
Kenneth Fong Margaret Fortune
George G. Gowgani William Hauck
Henry Mendoza

Staff

University Auditor: Larry Mandel
Senior Director: Janice Mirza
Audit Manager: Gary Miller
Senior Auditor: Ken Tsui
Internal Auditors: Jamarr Johnson and Salesian Yuen

BOARD OF TRUSTEES
THE CALIFORNIA STATE UNIVERSITY

CONTENTS

Executive Summary	1
Introduction.....	6
Background	6
Purpose.....	7
Scope and Methodology	7

OBSERVATIONS, RECOMMENDATIONS, AND CAMPUS RESPONSES

CAMPUS

Operating and Administrative Agreements	11
Segregation of Duties.....	12
Property and Equipment	13
Information Technology	14
Password Security.....	14
Information Security Training	15

FOUNDATION FOR THE CALIFORNIA STATE UNIVERSITY, SAN BERNARDINO

Program Compliance	17
Trusts and Other Liabilities	18
Auxiliary Programs.....	19
Information Technology	21
Payment Card Industry Data Security Standard	21
Protected Data Assessment.....	23
User Access.....	24
Password and Data Security	26
System Backups	27

ASSOCIATED STUDENTS CALIFORNIA STATE UNIVERSITY, SAN BERNARDINO

Corporate Governance	29
Dissolution of Auxiliary	29
Board of Directors	29
Bylaws.....	30

CONTENTS

Operational Compliance 31

Purchasing and Accounts Payable 32

 Disbursements 32

 Travel Authorization 33

Personnel and Payroll 33

SANTOS MANUEL STUDENT UNION OF
CALIFORNIA STATE UNIVERSITY, SAN BERNARDINO

Operating and Administrative Agreements 35

Facilities Agreements 36

Corporate Governance 37

 Audit Committee 37

 Bylaws 38

Operational Compliance 38

 Policies and Procedures 38

 Conflict of Interest 39

Campus Oversight and Control 40

Cash Receipts and Handling 41

Purchasing and Accounts Payable 42

Personnel and Payroll 43

APPENDICES

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

ABBREVIATIONS

AS	Associated Students California State University, San Bernardino
CFO	Chief Financial Officer
CMS	Common Management Systems
CSU	California State University
CSUSB	California State University, San Bernardino
EO	Executive Order
Foundation	Foundation for the California State University, San Bernardino
FY	Fiscal Year
MOU	Memorandum of Understanding
OMB	Office of Management and Budget
PCI DSS	Payment Card Industry Data Security Standard
POS	Point-of-Sale
RFIN	Resolution of the Committee on Finance
SAQ	Self-Assessment Questionnaire
Union	Santos Manuel Student Union of California State University, San Bernardino

EXECUTIVE SUMMARY

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

California State University, San Bernardino (CSUSB) 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 CSUSB campus and its auxiliary organizations from May 26, 2009, through June 25, 2009, and made a study and evaluation of the system of internal compliance/internal control in effect as of June 25, 2009. This report represents our triennial review.

Our study and evaluation at the *Foundation for the California State University, San Bernardino* revealed certain conditions that, in our opinion, could result in errors and irregularities if not corrected. Specifically, the auxiliary did not maintain adequate control over information technology. These conditions, along with other weaknesses, are described in the executive summary and in the body of the report. In our opinion, except for the effect of the weaknesses described above, accounting and administrative control in effect as of June 25, 2009, taken as a whole, was sufficient to meet the objectives stated above.

Our study and evaluation at *Associated Students California State University, San Bernardino* 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 June 25, 2009, taken as a whole, was sufficient to meet the objectives stated above.

Our study and evaluation at *Santos Manuel Student Union of California State University, San Bernardino* 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 June 25, 2009, 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 [11]

Certain business arrangements among the campus, auxiliaries, and a third-party vendor were not supported by complete and/or written agreements.

SEGREGATION OF DUTIES [12]

Certain duties and responsibilities related to payroll and personnel processing provided by the campus to the Associated Students California State University, San Bernardino (AS) and Santos Manuel Student Union of California State University, San Bernardino (Union) were not adequately segregated.

PROPERTY AND EQUIPMENT [13]

Campus administration of AS and Union property and equipment did not provide for timely disposition because property and equipment dispositions were only recorded once annually instead of at the time of disposition.

INFORMATION TECHNOLOGY [14]

Password security parameters were not always adequate for campus systems also used by the auxiliaries. In addition, Foundation for the California State University, San Bernardino, AS, and Union personnel

with access to protected data were not required to complete information security awareness training, unless they had also been granted access to the Common Management Systems.

FOUNDATION FOR THE CALIFORNIA STATE UNIVERSITY, SAN BERNARDINO

PROGRAM COMPLIANCE [17]

The Foundation for the California State University, San Bernardino (Foundation) did not report to the campus financial aid office stipends paid to student interns through the AS research stipend fund.

TRUSTS AND OTHER LIABILITIES [18]

Certain campus program revenues were inappropriately deposited to, and held in custody by, the Foundation.

AUXILIARY PROGRAMS [19]

Sub-recipient monitoring and effort certification reporting were not always adequate at the Foundation.

INFORMATION TECHNOLOGY [21]

The Foundation had not fully addressed Payment Card Industry Data Security Standard requirements; and did not perform a periodic, detailed assessment and inventory of protected information residing on its systems. Further, user access to Foundation systems was not adequately reviewed or administered, and password controls and data security were not always adequate for Foundation systems. In addition, backups for Foundation systems with protected data were not encrypted when stored locally or when in transit to the off-site storage facility managed by a third-party.

ASSOCIATED STUDENTS CALIFORNIA STATE UNIVERSITY, SAN BERNARDINO

CORPORATE GOVERNANCE [29]

The Associated Students California State University, San Bernardino (AS) Articles of Incorporation included an improper dissolution clause; it allowed the AS board to select a successor. Further, AS did not have the required number of directors on its governing board for fiscal year (FY) 2008/09. This is a repeat finding from the prior Auxiliary Organizations audit. In addition, AS had not filed amended Bylaws with the chancellor's office in a timely manner.

OPERATIONAL COMPLIANCE [31]

AS had not developed policies and procedures to address the accounting and processing of accounts receivable.

PURCHASING AND ACCOUNTS PAYABLE [32]

Certain AS cash disbursements were not supported by sufficient and appropriate documentation. In addition, AS did not require staff to complete a travel request form prior to travel to document approval of travel and related expenditures to be incurred.

PERSONNEL AND PAYROLL [33]

The AS did not perform a detailed, documented reconciliation of timesheets against ADP payroll records processed by campus accounting.

SANTOS MANUEL STUDENT UNION OF CALIFORNIA STATE UNIVERSITY, SAN BERNARDINO

OPERATING AND ADMINISTRATIVE AGREEMENTS [35]

Certain written agreements among the Santos Manuel Student Union of California State University, San Bernardino (Union), the campus, and third parties were not fully or timely executed, or had expired. This is a repeat finding from the prior Auxiliary Organizations audit.

FACILITIES AGREEMENTS [36]

Certain lease agreements between the Union, the campus, and other entities were not fully or timely executed, and a vending machine cost reimbursement agreement had not been established with the Foundation.

CORPORATE GOVERNANCE [37]

The Union had neither implemented an audit committee nor established a written charter explaining the roles and responsibilities of the committee's members. In addition, the Union had not filed amended bylaws with the chancellor's office in a timely manner.

OPERATIONAL COMPLIANCE [38]

The Union had not developed policies and procedures to address the accounting and processing of accounts receivable. In addition, the Union had not obtained annual conflict-of-interest statements from all board and committee members nor did Union policy specifically require their completion. This is a repeat finding from the prior Auxiliary Organizations audit.

CAMPUS OVERSIGHT AND CONTROL [40]

The Union's FY 2008/09 budget was not approved by the campus president.

CASH RECEIPTS AND HANDLING [41]

Administration of stamp sales and certain ticket sales at the Union was not adequate.

PURCHASING AND ACCOUNTS PAYABLE [42]

The Union did not require staff to complete a travel request form prior to travel to document approval of travel and related expenditures to be incurred.

PERSONNEL AND PAYROLL [43]

The Union had not performed a detailed, documented reconciliation of timesheets against ADP payroll records processed by campus accounting.

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.

The Foundation for the California State University San Bernardino (Foundation) was established in 1962 as a non-profit corporation for the purpose of promoting and assisting California State University, San Bernardino (CSUSB) in furthering its educational programs. The Foundation supports CSUSB through fundraising and is responsible for the post-award administration of contract and grants, and management of the campus' endowment portfolio as well as several trusts. The Foundation also provides accounting services to numerous campus programs, workshops and entities, and oversees the service agreements with third parties for dining service and bookstore operations.

Associated Students California State University, San Bernardino (AS) was established in 1988 as a non-profit public benefit corporation for the specific and primary purpose of operating a charitable and educational organization. AS is charged with operating the student body government, the ticket box office, and the College Legal Clinic, and providing grants to support the campus mission. AS also provides the campus community with social, cultural, educational, and entertainment opportunities. AS is governed by the Student Board of Directors; employs an executive director, program coordinator, and an administrative support coordinator to manage daily operations; and outsources fiscal functions to the campus.

Santos Manuel Student Union of California State University, San Bernardino (Union) was established in 1977 as a non-profit corporation with the specific and primary purpose of financing, constructing, and operating a campus union facility in order to promote and assist CSUSB in furthering its educational programs. The Union provides student resources through various programs and centers including the Adult Re-entry Program, the Cross Cultural Center, the Women's Resource Center, Pride Center, and the Program Board. The Union also provides various services including graphic design, notary, and Recreation Center. In addition, space is leased to the Foundation for dining and vending operations. The Union's fiscal and administrative functions are handled by the campus.

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 2006/07 and 2007/08 were the primary periods reviewed. In certain instances, we were concerned with representations of the most current data;

in such cases, the test period was July 1, 2008, to June 25, 2009. 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:

Foundation for the California State University, San Bernardino

- ▶ 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 Payable
- ▶ Personnel and Payroll
- ▶ Property and Equipment

Foundation for the California State University, San Bernardino (cont.)

- ▶ Trusts and Other Liabilities
- ▶ Endowment Administration
- ▶ Auxiliary Programs
- ▶ Information Technology

Associated Students California State University, San Bernardino

- ▶ 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 Payable
- ▶ Personnel and Payroll
- ▶ Property and Equipment

Santos Manuel Student Union of California State University, San Bernardino

- ▶ 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 Payable
- ▶ Personnel and Payroll
- ▶ Property and Equipment

Campus

- ▶ Campus Oversight and Control
- ▶ Purchasing and Accounts Payable
- ▶ Personnel and Payroll
- ▶ Property and Equipment

Campus (cont.)

▶ Information Technology

We have not performed any auditing procedures beyond June 25, 2009. Accordingly, our comments are based on our knowledge as of that date. Since the purpose of our comments is to suggest areas for improvement, comments on favorable matters are not addressed.

OBSERVATIONS, RECOMMENDATIONS, AND CAMPUS RESPONSES

CAMPUS

OPERATING AND ADMINISTRATIVE AGREEMENTS

Certain business arrangements among the campus, auxiliaries, and a third-party vendor were not supported by complete and/or written agreements.

We found that:

- ▶ The memorandum of understanding (MOU) for the campus to provide accounting services to the Associated Students California State University, San Bernardino (AS) and the Santos Manuel Student Union of California State University, San Bernardino (Union) was not fully executed until after performance. We found that the MOU for accounting services provided for fiscal year (FY) 2008/09 was not signed until December 10, 2008.
- ▶ The campus' arrangement with a third-party service provider for auxiliary payroll services was not supported by a written agreement. Further, the ADP payroll system, which contains protected employee data for AS and Union payroll, was hosted off-site by the service provider. The lack of a service agreement for this off-site hosting service also resulted in information security and confidentiality terms not being addressed.

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

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

The campus director of accounting stated that she did not realize there was a requirement that the MOU be prepared and approved at the beginning of the new fiscal year. She further stated that the campus had an approved sales order on file from the payroll service provider, which she believed was sufficient.

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

information security and confidentiality terms for services involving protected data subjects the auxiliaries and CSU to potential liability.

Recommendation 1

We recommend that the campus:

- a. Ensure that all future agreements are executed prior to inception.
- b. Establish a written agreement with the payroll service provider; and for all vendor service agreements relating to access to protected records or data, consider using the CSU General Provisions for Information Technology Acquisitions, which includes references for information security responsibilities and the confidentiality of data.

Campus Response

The campus concurs with the recommendation.

- a. The accounting department will ensure that all future accounting MOUs are signed and executed prior to inception.
- b. The campus will establish a written agreement with ADP payroll system to include language pertaining to information security and confidentiality of terms provided. We will work with the purchasing department to make this part of any future contracts.

Completion Date: January 29, 2010

SEGREGATION OF DUTIES

Certain duties and responsibilities related to payroll and personnel processing provided by the campus to the AS and Union were not adequately segregated.

We found that all three campus payroll technicians:

- ▶ Added or changed personnel records to/in the ADP payroll system.
- ▶ Posted payroll entries to the ADP payroll system.
- ▶ Performed reconciliations of payroll checks paid to ADP payroll system reports.

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

The *Compilation of Policies and Procedures for California State University Auxiliary Organizations* sets sound business practice guidelines for auxiliary organizations operating within the CSU system.

Section 8.9.6, *Payroll*, states that the auxiliary should establish a written controls system that ensures payroll preparation is segregated from the general ledger function and other payroll functions such as hiring authorization, timekeeping, and distribution of checks.

The campus director of accounting stated that duties and responsibilities related to payroll and personnel processing were not properly segregated due to oversight.

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

Recommendation 2

We recommend that the campus appropriately segregate certain payroll and personnel processing functions or institute mitigating procedures approved by the campus chief financial officer (CFO).

Campus Response

The campus concurs with the recommendation. The accounting department will implement mitigating procedures approved by the CFO to decrease the risk that errors and irregularities will not be detected in a timely manner. The general accounting manager will run monthly audit reports and review changes on employee data including new employees and changes in pay rates. This procedure will be put in place starting in January 2010.

Completion Date: January 29, 2010

PROPERTY AND EQUIPMENT

Campus administration of AS and Union property and equipment did not provide for timely disposition because property and equipment dispositions were only recorded once annually instead of at the time of disposition.

The *Compilation of Policies and Procedures for California State University Auxiliary Organizations* sets sound business practice guidelines for auxiliary organizations operating within the CSU system. Section 8.9.7, *Property and Equipment*, states that the auxiliary should establish a written system that ensures proper recording of property and equipment when received and for labeling of equipment.

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

The campus director of accounting stated that the disposition of property and equipment has been processed once per year because calculation of depreciation is performed by its external auditors once a year.

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

Recommendation 3

We recommend that the campus record the disposition of AS and Union property and equipment at the time of disposition.

Campus Response

The campus concurs with the recommendation. Disposition of AS and Union property and equipment will be recorded on a monthly basis on the general ledger effective immediately.

Completion Date: January 29, 2010

INFORMATION TECHNOLOGY

PASSWORD SECURITY

Password security parameters were not always adequate for campus systems also used by the auxiliaries.

Password security parameters were inadequate for the Identity Manager System, as there were no password complexity requirements, the maximum number of failed login attempts was 20, and the minimum password length was six characters.

The California State University, San Bernardino (CSUSB) *Password Controls for CMS* states that password controls have been installed to secure the environment. Passwords must be at least eight characters, two of which must be numeric. Further, after three failed attempts, an account will be locked out.

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

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

The campus information security officer stated that these password and login parameters were considered sufficient when the Identity Manager System was implemented, but had not been reassessed for security adequacy since implementation.

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

Recommendation 4

We recommend that the campus set effective password security parameters for the Identity Manager System in accordance with campus and leading information security industry guidelines and perform an assessment of password security parameters for all other campus systems.

Campus Response

The campus concurs with the recommendation. New password controls consisting of a minimum of eight characters, at least two numeric, at least one upper and lower case letter, and at least one special character has been implemented on all administrative access accounts to the Common Management Systems (CMS) through the Identity Manager System. An assessment of password security parameters will be conducted on all other campus administrative systems.

Completion Date: January 29, 2010

INFORMATION SECURITY TRAINING

Foundation for the California State University, San Bernardino, AS, and Union personnel with access to protected data were not required to complete information security awareness training, unless they had also been granted access to CMS.

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

Title 5 §42401 and §42402 indicate that the campus president shall require that auxiliary organizations operate in conformity with policy of the Board of Trustees and the campus. One of the objectives of the auxiliary organizations is to provide fiscal procedures and management systems that allow effective coordination of the auxiliary activities with the campus in accordance with sound business practices. Sound business practice mandates periodic information security awareness training for all employees with access to systems with protected data.

The campus information security officer stated that the campus had developed and implemented an information security awareness program for campus and auxiliary personnel granted access to CMS, but had not considered the need to provide this training to auxiliary personnel granted access to systems other than CMS.

Failure to provide employees with information security awareness training increases the risk of mismanagement of protected data, which increases auxiliary and campus exposure to security breaches and could compromise compliance with statutory information security requirements.

Recommendation 5

We recommend that the auxiliaries develop and implement an action plan for providing information security awareness training to all auxiliary employees with access to systems with protected data.

Campus Response

The campus concurs with the recommendation. All auxiliary employees are now required to complete the campus information security awareness training as part of the procedure to grant access to all auxiliary systems containing protected information.

Completion Date: January 29, 2010

**FOUNDATION FOR THE
CALIFORNIA STATE UNIVERSITY, SAN BERNARDINO**

PROGRAM COMPLIANCE

The Foundation for the California State University, San Bernardino (Foundation) did not report to the campus financial aid office stipends paid to student interns through the AS research stipend fund.

We found that for the period January 1, 2008, through December 31, 2008, the Foundation paid stipends totaling \$73,897 to 142 students. However, these payments were not reported to the campus financial aid office.

Title 5 §42500(d) states that a record of financial assistance, such as student loans, scholarships, stipends, and grants-in-aid shall be forwarded on a timely basis to the campus financial aid office and shall be documented on student financial aid recipient records in that office.

The Foundation general manager stated that stipends were not reported to financial aid due to oversight.

Failure to report student intern stipends to the campus financial aid office may result in an overpayment of financial aid funds and increases the risk of fines and penalties.

Recommendation 6

We recommend that the Foundation report all student intern stipends to the campus financial aid office.

Campus Response

The Foundation concurs with the recommendation. The accounting department staff has been reminded of this requirement. In addition, the Foundation's Stipend Payment Request form has been rewritten to include a checklist which includes the statement; *"If recipient is a CSUSB student, CSUSB Financial Aid Office must be notified in writing and attached to request."* Detailed instructions on the back of the form state that; *"All stipends must be reviewed by Financial Aid before payment can be processed."* The addition of this language to the payment form will ensure that all student stipends will be reported properly.

Completion Date: January 29, 2010

TRUSTS AND OTHER LIABILITIES

Certain campus program revenues were inappropriately deposited to, and held in custody by, the Foundation.

The Foundation financial statements as of June 30, 2009, indicated that the Foundation administered and maintained 275 custodial trust accounts totaling \$1,267,231. We reviewed 229 accounts for which trust account agreements and deposit records were available and found that nearly all accounts contained state revenue funds that were being inappropriately held by the Foundation.

EO 919, *Policy Governing Non-General Fund Receipts*, dated October 15, 2004, states that each CSU campus shall administer their non-General Fund receipts to ensure that the funds are held in proper accounts. The EO also states that, as a matter of CSU policy, auxiliaries may not accept state funds with the intent of administering them as an agent of the university. Payment for services is the only instance where state funds may be accepted into an auxiliary organization's account. Further, the entity that is responsible for any losses that might arise from the event or activity that generated the receipts shall be the entity wherein receipts are held.

Although EO 1000, *Delegation of Fiscal Authority and Responsibility*, dated July 1, 2007, indicates that it supersedes EO 919, the areas noted above are acknowledged by systemwide administrators to still be in effect and will be addressed by the forthcoming Integrated CSU Administrative Manual.

The Foundation general manager stated her belief that the accounts maintained in the Foundation were appropriate based on the source of revenue being deposited. She added that the type of activity generated by these accounts was in alignment with the Foundation's mission statement and purpose.

The campus' required oversight of state funds is limited when funds are deposited outside the custody of the CFO.

Recommendation 7

We recommend that the Foundation:

- a. Complete a review of all custodial trust accounts reflected as "deposits held for others" on its financial statements and determine, within 60 days, which accounts contain state funds.
- b. Certify that none of the following specific and similar monies reside in Foundation trust accounts:
 - Gifts to the university, its units and programs.
 - Contracts and grants awarded to the university.
 - Pre-award indirect cost recovery reimbursements.
 - Foundation net operating surplus designated for use by the campus.
 - Fees for continuing education courses provided by the university.

- Fees for university events, workshops, conferences, institutes, special projects, and programs.
 - Reimbursements for services and products provided to auxiliary enterprises and organizations paid from General Fund and/or CSU operating fund monies.
 - Rental fees for university facilities, except those facilities that have been leased to the auxiliary by the campus.
 - Student fees and other general fees pursuant to the CSU student fee policy.
 - Monies held by the Foundation via contract with the campus.
- c. Submit to the Office of the University Auditor, within 60 days, a list of those trust accounts which have been deemed appropriate to remain in the custody of the Foundation and comprehensive documentation to support the sources of funds for those trust accounts.
- d. Move those state funds identified in “a” above to campus accounts within six months.

Campus Response

The Foundation concurs with the recommendation.

- a. A review of accounts has been completed with the assistance of the chancellor’s office audit manager.
- b. All trust accounts have been thoroughly reviewed, and those accounts that have been deemed “inappropriate” have been identified.
- c. All trust accounts will be moved to the state unless funded by Foundation grants or gifts. Any exceptions have been discussed and agreed upon with the chancellor’s office audit manager.
- d. The Foundation is currently working with state accounting and purchasing personnel to effect the transfer of the accounts. In some cases, the Foundation may still administer some of the accounts due to the nature of the transactions. However, funds generated by these accounts will be turned over to the state on a regular basis, (monthly in most cases). MOUs will be put in place for those accounts that the Foundation will continue to administer.

Completion Date: December 11, 2009

AUXILIARY PROGRAMS

Sub-recipient monitoring and effort certification reporting were not always adequate at the Foundation.

We reviewed ten sponsored projects files and found that:

- ▶ The Foundation lacked written policies and procedures to monitor sub-recipient awards.
- ▶ A-133 reports had not been received and reviewed for all three files that included sub-awards.
- ▶ Required financial and technical reports were not contained in two of the three files that included sub-awards.
- ▶ Six of seven federal grants reviewed lacked adequate evidence of effort certification reporting.

Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, §320, states that auditees that are also sub-recipients shall submit to each pass-through entity one copy of the reporting package described in paragraph (c) of this section for each pass-through entity when the schedule of findings and questioned costs disclosed audit findings relating to federal awards that the pass-through entity provided or the summary schedule of prior audit findings reported the status of any audit findings relating to federal awards that the pass-through entity provided.

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

OMB Circular A-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.

The Foundation director of sponsored programs administration acknowledged that there were no formal written policies or procedures for sub-recipient monitoring but stated that he had been working with the chancellor’s office to develop a systemwide policy as part of its Integrated CSU Administrative Manual initiative. He further stated that over the years boilerplate sub-award contracts had been modified and the financial and technical reporting requirements were deleted from some of the templates. He added that effort for staff paid 100 percent by the Foundation was certified on the individual’s timesheet; however, payroll documents were maintained by the payroll office and were not readily available as evidence of effort certification.

Failure to sufficiently monitor sub-recipient awards and maintain evidence effort certification increases the risk of reduced reimbursements, non-compliance with OMB requirements, and increased regulatory scrutiny.

Recommendation 8

We recommend that the Foundation:

- a. Establish and implement written policies and procedures to monitor sub-recipient awards.
- b. Ensure that A-133 reports are received and reviewed from sub-recipients when required.
- c. Ensure that required financial and technical reports are received and maintained in sponsored projects files.
- d. Ensure that evidence of effort certification for all faculty and staff members is maintained in all sponsored projects files.

Campus Response

The Foundation concurs with the recommendation.

- a. The Foundation board of directors approved a policy for monitoring sub-recipient awards on September 24, 2009, and the policy has already been implemented.
- b. Written procedures on ensuring that A-133 reports are received, reviewed, and properly filed were also approved.
- c. Procedures ensuring that required financial and technical reports are received and maintained in sponsored projects files shall be implemented.
- d. Procedures for ensuring evidence of effort certification within sponsored projects files are currently being drafted and shall be implemented.

Completion Date: January 29, 2010

INFORMATION TECHNOLOGY

PAYMENT CARD INDUSTRY DATA SECURITY STANDARD

The Foundation had not fully addressed Payment Card Industry (PCI) Data Security Standard (DSS) requirements.

We found that:

- ▶ Roles and responsibilities for PCI DSS compliance were not adequately defined between the campus and the auxiliary.

- ▶ A compliance risk assessment was not fully completed or well documented to determine comprehensive compliance obligations for credit card data maintained on auxiliary servers and transmitted throughout the campus network, and stored manually in local files.
- ▶ An annual PCI DSS Self-Assessment Questionnaire (SAQ) was not completed.

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

The PCI DSS is a set of comprehensive requirements for enhancing payment account data security, which was developed by the founding payment brands of the PCI Security Standards Council, including American Express, Discover Financial Services, JCB International, MasterCard Worldwide and Visa Inc. International, to help facilitate the broad adoption of consistent data security measures on a global basis. The PCI DSS is a multifaceted security standard that includes requirements for security management, policies, procedures, network architecture, software design, and other critical protective measures. This comprehensive standard is intended to help organizations proactively protect customer account data. According to payment brand rules, all merchants and their service providers are required to comply with the PCI DSS in its entirety.

The PCI DSS SAQ is a validation tool intended to assist merchants and service providers in self-evaluating their compliance with the PCI DSS. The PCI DSS SAQ consists of the following two components: (1) Questions correlating to the PCI DSS requirements, appropriate to service providers and merchants; and (2) An attestation of compliance which attests to an organization's certification of eligibility to perform and have performed the appropriate self-assessment.

The campus information security officer stated that the campus and Foundation were aware of PCI DSS requirements and had made some progress towards PCI DSS compliance, but had not fully addressed the collective union of campus and auxiliary roles and responsibilities for PCI DSS assessment, and had planned to complete the PCI DSS compliance project during the summer of 2009.

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

Recommendation 9

We recommend that the Foundation:

- a. Work with the campus to define and document roles and responsibilities for PCI DSS compliance between the campus and the auxiliary.

- b. Conduct and fully document a risk assessment of comprehensive compliance obligations for credit card data maintained on auxiliary servers and transmitted throughout the campus network and stored manually in local files.
- c. Complete an annual SAQ to include all credit card merchants on campus, whether completed jointly or separate from the auxiliary.

Campus Response

The Foundation concurs with the recommendation.

- a. The Foundation and campus information security officer are working together to define and document the roles and responsibilities for PCI DSS compliance to include the migration of all credit card processing to a separate and distinct campus subnet with restricted firewall settings.
- b. The Foundation and campus information security officer are working together to conduct and document a risk assessment of comprehensive compliance obligations for credit card data maintained on the Foundation's Micros POS server and transmitted throughout the campus network.
- c. The Foundation is completing an annual SAQ to include all credit card merchants utilized.

Completion Date: January 29, 2010

PROTECTED DATA ASSESSMENT

The Foundation did not perform a periodic, detailed assessment and inventory of protected information residing on its 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.

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 periodic assessment and inventory of protected information residing on auxiliary systems.

The Foundation information technology consultant stated that management was unaware of the requirement to complete such detailed assessments of protected information.

Inadequate accountability over information assets, especially those containing critical and/or personal confidential information or with accessibility to such protected information, increases the

risk of loss and inappropriate use of auxiliary resources and exposure to information security breaches.

Recommendation 10

We recommend that the Foundation perform an initial, and then annual, assessment and inventory of protected data on all systems to determine the existence of any protected data and the need for appropriate logical and physical security measures.

Campus Response

The Foundation concurs with the recommendation. The Foundation is completing an initial, and then subsequent annual, assessment and inventory of protective data on all systems to determine the need for logical and physical security measures.

Completion Date: January 29, 2010

USER ACCESS

User access to Foundation systems was not adequately reviewed or administered.

We found that:

- ▶ The Foundation did not perform periodic, documented management reviews of user access privileges within all non-CMS systems and applications containing protected data.
- ▶ Account provisioning and maintenance within the Millennium M3 payroll system was deficient, as there were three user accounts which were either generic or for employees/consultants no longer requiring access.

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

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

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

privileges within all systems and applications containing protected data, and strong controls over user account administration.

The Foundation information technology consultant stated that management reviews of user access privileges were completed on an informal ad hoc basis, but were not consistently documented. He further stated that the user account provisioning process had not restricted the use of such generic accounts, and added that the account maintenance process was informal and did not always ensure timely removal of user accounts no longer in use.

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

Recommendation 11

We recommend that the Foundation:

- a. Conduct periodic, documented management reviews of user access for all systems containing protected data, at least annually.
- b. Disable generic accounts and develop a formal process for disabling user accounts for employees/consultants that no longer require access to systems.

Campus Response

The Foundation concurs with the recommendation. Foundation managers and department supervisors are establishing a quarterly review process of all user access to include:

- Job duties as related to the level of database access needed.
- The disabling of user accounts for terminated employees.
- The removing of inactive accounts that no longer require access to the system. All Foundation user access profiles have been reviewed and updated for the Odyssey PCS One Card system, the Micros POS system, and the Millennium M3 payroll system.

Completion Date: January 29, 2010

PASSWORD AND DATA SECURITY

Password controls and data security were not always adequate for Foundation systems.

We found that:

- ▶ Password security parameters were inadequate for the Millennium M3 payroll system, as there were no minimum character and complexity requirements, no password expiration, no restrictions for reuse of passwords or access after repeated failed attempts, and no automatic sign-off of users after a period of no use.
- ▶ Password security parameters were inadequate for the Odyssey PCS One Card system, as there were no complexity requirements or password expiration, and the minimum password length was six characters instead of the minimum eight characters required by campus password controls for CMS and leading information security industry guidelines.
- ▶ Password security parameters were inadequate for the Micros POS system, as passwords did not expire for administrator accounts.
- ▶ The Millennium M3 payroll and the Odyssey PCS One Card systems, which stored protected and/or sensitive data, were not encrypted.

The California State University, San Bernardino *Password Controls for CMS* states that password controls have been installed to secure the environment. Passwords must be at least eight characters, two of which must be numeric. Further, passwords must be changed every 90 days, and after three failed attempts, an account will be locked out. Also, an account will be logged off the application after 15 minutes of inactivity.

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

Title 5 §42401 and §42402 indicate that the campus president shall require that auxiliary organizations operate in conformity with policy of the Board of Trustees and the campus. One of the objectives of the auxiliary organizations is to provide fiscal procedures and management systems that allow effective coordination of the auxiliary activities with the campus in accordance with sound business practices. Sound business practice mandates strong password and login parameters and encryption of any protected/sensitive data residing on auxiliary systems.

The Foundation information technology consultant stated that the password and login parameters set in the Millennium M3 payroll and the Odyssey PCS One Card systems were mostly the default settings that had not been changed, and the Micros POS system setting for non-expiration of administrator accounts was set for operational efficiency. He added that encryption was not known to be available for the Millennium M3 payroll and the Odyssey PCS One Card systems, although requests were made to the vendors for security upgrades.

Inadequate password and login parameters may compromise the authentication credentials of user account privileges that are embedded into applications and operating systems, which increase the risk of unauthorized access to auxiliary systems and confidential data. Failure to encrypt protected and/or sensitive data could require the auxiliary to notify all affected parties in the event of a breach of security and potentially damage the auxiliary's reputation.

Recommendation 12

We recommend that the Foundation:

- a. Set effective password and login security parameters for the Millennium M3 payroll, Odyssey PCS One Card, and Micros POS systems in accordance with campus and leading information security industry guidelines and perform an assessment of password security parameters for all other Foundation systems.
- b. Apply encryption controls to the Millennium M3 payroll and the Odyssey PCS One Card systems and all other Foundation computers, databases, and file servers that house protected and/or sensitive data.

Campus Response

The Foundation concurs with the recommendation.

- a. Effective password and login security parameters for the Millennium M3 payroll, Odyssey PCS One Card, Micros POS, and all other Foundation systems have been assessed and set in accordance with campus and security industry guidelines to include a minimum number of eight characters with accompanying complexity requirements, password expiration dates, restrictions on the reuse of passwords, no access after repeated failed attempts, and an automatic sign-off of users after a period of none use.
- b. Software versions have been upgraded to a level of full database encryption on the Micros POS and Millennium M3 payroll systems.

Completion Date: January 29, 2010

SYSTEM BACKUPS

Backups for Foundation systems with protected data were not encrypted when stored locally or when in transit to the off-site storage facility managed by a third-party.

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

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

The Foundation information technology consultant stated that the Foundation had not encrypted backups because the security risks had not been fully considered.

Inadequate security of system backups increases the risk of inappropriate access to protected data and the possible ramifications of required public notifications should backups be lost when unencrypted.

Recommendation 13

We recommend that the Foundation encrypt system backups with protected data and ensure that the off-site transfer and storage of backups is secure.

Campus Response

The Foundation concurs with the recommendation. The Foundation tape backups with protected data that are transferred to off-site storage are now fully encrypted using the Professional version of P-Encryption Suite.

Completion Date: January 29, 2010

ASSOCIATED STUDENTS
CALIFORNIA STATE UNIVERSITY, SAN BERNARDINO

CORPORATE GOVERNANCE

DISSOLUTION OF AUXILIARY

The Associated Students California State University, San Bernardino (AS) Articles of Incorporation included an improper dissolution clause; it allowed the AS board to select a successor.

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

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

Recommendation 14

We recommend that AS update its Articles of Incorporation to reflect a proper dissolution clause.

Campus Response

AS concurs with the recommendation. Any changes to the Articles of Incorporation must go to the students in an election process. Due to the expense of conducting a special election to approve a revised dissolution clause as required, AS will place the revised dissolution clause on the ballot for the AS elections to be conducted in April/May 2010.

Completion Date: May 14, 2010

BOARD OF DIRECTORS

AS did not have the required number of directors on its governing board for FY 2008/09. This is a repeat finding from the prior Auxiliary Organizations audit.

We found that 8 of the 14 student voting director positions were currently vacant.

The AS Bylaws, Article III §2(a) and (b) requires 14 voting directors and seven ex-officio non-voting directors to assume positions as board members.

Title 5 §42602 (a) requires specifically that the governing board of student body organizations shall consist primarily of students.

The AS executive director stated that proper board representation was not maintained due to recruitment difficulties.

Failure to maintain mandated board composition violates statutory requirements and increases the risk that all views will not be adequately represented.

Recommendation 15

We recommend that AS promptly fill student director vacancies and increase its efforts to ensure that appropriate board representation is maintained.

Campus Response

AS concurs with this recommendation. In April of 2009, AS's board of directors amended the Bylaws to require that students maintain a minimum GPA of 2.5 in order to run for, and maintain, office. It is AS's desire to ensure that our students are sufficiently involved in their academics to support their continued activity in AS. In addition, AS will take more aggressive action to advertise and inform students of AS board of director vacancies.

Completion Date: January 29, 2010

BYLAWS

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

We found amendments to the Bylaws made on April 7, 2009, that had not been filed with the chancellor's office until noted during our review.

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

The AS executive director stated that the failure to submit the amended Bylaws to the chancellor's office was due to oversight.

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

Recommendation 16

We recommend that AS promptly file the cited amendments with the chancellor's office and develop a procedure to ensure that all future changes/amendments to Bylaws are timely filed with the chancellor's office.

Campus Response

AS concurs with the recommendation. This finding was corrected during the audit visit; it will be the AS executive director's responsibility to ensure that all future Bylaw changes/ amendments are filed with the chancellor's office in a timely manner.

Completion Date: January 29, 2010

OPERATIONAL COMPLIANCE

AS had not developed policies and procedures to address the accounting and processing of accounts receivable.

Specifically, policies and procedures had not been developed to address:

- ▶ Creation of invoices.
- ▶ Aging and collection of past-due accounts receivable.
- ▶ Valuation of allowance for doubtful accounts receivable.
- ▶ Write-off of uncollectible accounts receivable.

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

The AS executive director stated that the lack of policies and procedures was due to oversight.

The absence of written policies and procedures increases the risk that errors, inconsistencies, misunderstandings, or misappropriation will occur.

Recommendation 17

We recommend that AS develop written policies and procedures to address the accounting and processing of accounts receivable.

Campus Response

AS concurs with the recommendation. While AS does have procedures for preparing, logging and receiving payments, procedures are being developed to address the valuation of allowance for doubtful accounts receivable and write-off of uncollectable accounts receivable. We anticipate that a revised policy will be presented to the AS board of directors in late November or early December 2009.

Completion Date: January 29, 2010

PURCHASING AND ACCOUNTS PAYABLE

DISBURSEMENTS

Certain AS cash disbursements were not supported by sufficient and appropriate documentation.

We found that invoice payments with related purchase orders lacked acknowledgement of the receipt of goods or services.

The *Compilation of Policies and Procedures for California State University Auxiliary Organizations* sets sound business practice guidelines for auxiliary organizations operating within the CSU system. Section 8.9.5, *Procurement*, states that the auxiliary should 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.

The AS executive director stated that the authorization of purchase orders was considered to be adequate authorization for the payment of invoices for the related goods or services.

The lack of sufficient supporting documentation for the receipt of goods and services increases the risk of errors, irregularities, and misappropriation of funds.

Recommendation 18

We recommend that AS implement procedures to sufficiently document the receipt of goods and services prior to invoice payment.

Campus Response

AS concurs with this finding. We will amend our financial policies to require sufficient documentation of goods and services prior to invoice payment. This will be done in addition to our current process which includes prior signing of a Disbursement Authorization form by the executive director.

Completion Date: January 29, 2010

TRAVEL AUTHORIZATION

AS did not require staff to complete a travel request form prior to travel to document approval of travel and related expenditures to be incurred.

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

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

The AS executive director stated that travel expenses were approved in the AS annual budget by the campus president.

Failure to sufficiently document travel approval increases the risk of errors, irregularities, and misappropriation of funds.

Recommendation 19

We recommend that AS implement a process to require completion of travel request forms prior to travel and to ensure that travel requests are properly reviewed and approved.

Campus Response

AS concurs with this finding. We have addressed this recommendation and have already made changes to our financial policies and procedures to address the concern.

Completion Date: January 29, 2010

PERSONNEL AND PAYROLL

AS did not perform a detailed, documented reconciliation of timesheets against ADP payroll records processed by campus accounting.

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

The *Compilation of Policies and Procedures for California State University Auxiliary Organizations* sets sound business practice guidelines for auxiliary organizations operating within the CSU system. Section 8.9.6, *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 AS executive director stated that the insufficient reconciliation of timesheets against ADP payroll records processed by campus accounting was due to oversight.

Insufficient reconciliation between timesheets and ADP payroll records limits the auxiliary's ability to detect errors and irregularities, increases the likelihood of loss of funds, and compromises accountability.

Recommendation 20

We recommend that AS perform detailed, documented reconciliations of timesheets against ADP payroll records processed by campus accounting.

Campus Response

AS concurs with this finding. We will be working in conjunction with auxiliary/general accounting to perform detailed, documented reconciliations of timesheets against ADP payroll records.

Completion Date: January 29, 2010

SANTOS MANUEL STUDENT UNION OF
CALIFORNIA STATE UNIVERSITY, SAN BERNARDINO

OPERATING AND ADMINISTRATIVE AGREEMENTS

Certain written agreements among the Santos Manuel Student Union of California State University, San Bernardino (Union), the campus, and third parties were not fully or timely executed, or had expired. This is a repeat finding from the prior Auxiliary Organizations audit.

We reviewed 17 agreements and found that:

- ▶ Three agreements between the Union and the campus did not include all required approval signatures, and seven agreements were not executed in a timely manner.
- ▶ One agreement between the Union and a third-party for copy machine services had expired on June 30, 2007, and had not been renewed.
- ▶ One agreement between the Union and a third-party for phone services had expired on May 31, 2007, and had not been renewed.

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

The Union interim executive director stated that the missing or late signatures were generally due to the Union not having control over the receipt of agreements from other parties. The recreational sports director was unaware that the two agreements with third parties for copy machine and phone services had ending dates, and thus did not get renewal agreements.

The absence of complete and current, written agreements increases the risk of misunderstandings and miscommunication regarding rights and responsibilities and subjects the auxiliary and CSU to potential liability.

Recommendation 21

We recommend that the Union:

- a. Ensure that all future agreements are fully and timely executed.
- b. Promptly renew the agreements with the noted service providers.

Campus Response

The Union concurs with the recommendation. We will ensure that:

- a. All future agreements are executed fully and in a timely manner.
- b. Agreements will be renewed promptly with noted service providers.

Completion Date: January 29, 2010

FACILITIES AGREEMENTS

Certain lease agreements between the Union, the campus, and other entities were not fully or timely executed, and a vending machine cost reimbursement agreement had not been established with the Foundation.

We found that:

- ▶ Two of ten sublease agreements reviewed did not include all required approval signatures, and six of the sublease agreements were not executed in a timely manner.
- ▶ A lease agreement between the Union and the Foundation for vending machine cost reimbursement had not been established.

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

The Union interim executive director stated that the missing or late signatures were generally due to the Union not having control over the receipt of agreements from other parties. She further stated that in 2006, two subleases were approved by the board before June 30th but were not fully executed until August due to staffing changes. She added that the missing agreement was due to oversight.

The absence of complete and current, written agreements increases the risk of misunderstandings and miscommunication regarding rights and responsibilities and subjects the auxiliary and CSU to potential liability.

Recommendation 22

We recommend that the Union:

- a. Ensure that all future agreements are fully and timely executed.

- b. Promptly establish an agreement with the Foundation for vending machine cost reimbursement.

Campus Response

The Union concurs with the recommendation. We will ensure that:

- a. All future agreements are executed fully and in a timely manner.
- b. The executive directors of the Union and the Foundation will establish an agreement for vending machine cost reimbursements.

Completion Date: January 29, 2010

CORPORATE GOVERNANCE

AUDIT COMMITTEE

The Union had neither implemented an audit committee nor established a written charter explaining the roles and responsibilities of the committee's members.

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

The Union interim executive director stated that an audit committee had not been established because the Union assumed that the finance & contracts committee filled that role.

Failure to implement an audit committee in accordance with legal mandates increases the risk of misunderstandings and may increase legal liability.

Recommendation 23

We recommend that the Union implement an audit committee and establish a written charter explaining the roles and responsibilities of its members.

Campus Response

The Union concurs with the recommendation. Draft language for the audit committee has been submitted to the Union board of directors for the first reading, as this constitutes a Bylaws change. The second reading and approval will take place on November 12.

Completion Date: January 29, 2010

BYLAWS

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

We found an amendment to the Bylaws made on November 29, 2007, that had not been filed with the chancellor's office until noted during our review.

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

The Union interim executive director stated that she recalled submission of the amended Bylaws to the chancellor's office by a staff member who retired in 2008, but the Union was unable to find any documentation of that submission.

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

Recommendation 24

We recommend that the Union promptly file the cited amendments with the chancellor's office and develop a procedure to ensure that all future changes/amendments to Bylaws are timely filed with the chancellor's office.

Campus Response

The Union concurs with the recommendation. The Bylaws amendment was forwarded to Finance & Treasury. Management will ensure future compliance.

Completion Date: January 29, 2010

OPERATIONAL COMPLIANCE

POLICIES AND PROCEDURES

The Union had not developed policies and procedures to address the accounting and processing of accounts receivable.

Specifically, policies and procedures had not been developed to address:

- ▶ Creation of invoices.

- ▶ Aging and collection of past-due accounts receivable.
- ▶ Valuation of allowance for doubtful accounts receivable.
- ▶ Write-off of uncollectible accounts receivable.

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

The Union interim executive director stated that the Union has had procedures in place for accounts receivable for over 20 years; however, the procedures were not in writing.

The absence of written policies and procedures increases the risk that errors, inconsistencies, misunderstandings, or misappropriation will occur.

Recommendation 25

We recommend that the Union develop written policies and procedures to address the accounting and processing of accounts receivable.

Campus Response

The Union concurs with the recommendation. Written policies and procedures have been developed to address the accounting and processing of accounts receivable and have been incorporated into the financial policies manual. The Union board of directors approved the changes at its meeting on October 8, 2009.

Completion Date: January 29, 2010

CONFLICT OF INTEREST

The Union had not obtained annual conflict-of-interest statements from all board and committee members nor did Union policy specifically require their completion. This is a repeat finding from the prior Auxiliary Organizations audit.

We found that 6 of the 13 board members and 10 of the 21 committee members had not signed a conflict-of-interest statement for FY 2007/08. In addition, the Union's *Conflict of Interest/Conflict of Commitment Policy* did not specifically require the completion of conflict-of-interest statements by all board and committee members, but only required written disclosure of possible conflicts affirmed by that board or committee member.

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

mandates establishing conflict-of-interest policies and procedures and compliance with existing policies and procedures.

The Union interim executive director stated that the failure of board and committee members to sign current conflict-of-interest statements and the incomplete policy were due to oversight. The office manager stated her belief that only student representatives on the board had to sign a conflict-of-interest/commitment statement.

Failure to obtain annual conflict-of-interest statements from all auxiliary board member and committee members and maintain specific completion requirements increases liability for acts contrary to code.

Recommendation 26

We recommend that the Union:

- a. Update its *Conflict of Interest/Conflict of Commitment Policy* to require annual completion of conflict-of-interest statements by all board and committee members.
- b. Ensure that annual conflict-of-interest statements are obtained from all board and committee members.

Campus Response

The Union concurs with the recommendation.

- a. The *Conflict of Interest/Conflict of Commitment Policy* is being updated and the changes will be presented to the Union board of directors before the end of the calendar year.
- b. Conflict-of-interest statements will be obtained from all board and committee members at the first meeting of the academic year and as new board or committee members are appointed.

Completion Date: January 29, 2010

CAMPUS OVERSIGHT AND CONTROL

The Union's FY 2008/09 budget was not approved by the campus president.

Title 5 §42402 indicates that the president is responsible for the entire campus program and shall require that auxiliary organizations operate in conformity with policy of the Board of Trustees and the campus. Further, the campus president shall require the auxiliary organizations to submit its programs and budgets for review at a time and in a manner specified by the president.

The Union interim executive director stated that the budget was submitted to the university's budget office and verbal confirmation was received that the budget was approved by the president; however, written approval was not received.

Lack of adequate budget review and approval by the campus president increases the risk that auxiliary programs and appropriations planned by the auxiliary will be inconsistent with Board of Trustees and campus policy.

Recommendation 27

We recommend that the Union ensure its annual budgets are reviewed and approved by the campus president.

Campus Response

The Union concurs with the recommendation. The Union will ensure that the annual budgets are reviewed and approved by the campus president, in writing, and documents kept on file.

Completion Date: January 29, 2010

CASH RECEIPTS AND HANDLING

Administration of stamp sales and certain ticket sales at the Union was not adequate.

We found that:

- ▶ Stamp sales were not logged or recorded, and there was no independent reconciliation of stamp inventory purchased and sold to cash receipts.
- ▶ Ticket sale receipts delivered to the administration office by the Pride Center were not logged, and there was no independent reconciliation of ticket inventory produced and sold to cash receipts.

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

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

The Union interim executive director stated that the failure to appropriately record and reconcile stamp and ticket inventories and with cash sales/receipts was due to management oversight.

Inadequate administration of stamp and ticket sales increases the risk of loss or misappropriation of funds.

Recommendation 28

We recommend that the Union:

- a. Record all stamp sales and perform an independent reconciliation of stamp inventory purchased and sold to cash receipts.
- b. Log all ticket sale receipts delivered to the administration office and perform an independent reconciliation of ticket inventory produced and sold to cash receipts.

Campus Response

The Union concurs with the recommendation.

- a. Procedures have been developed to record all stamp sales and to perform independent reconciliation of stamp inventory purchased and sold to cash receipts.
- b. All ticket sale receipts delivered will be logged, and an independent reconciliation will be conducted.

Completion Date: January 29, 2010

PURCHASING AND ACCOUNTS PAYABLE

The Union did not require staff to complete a travel request form prior to travel to document approval of travel and related expenditures to be incurred.

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

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

The Union interim executive director stated her belief that travel approvals were not required unless a travel advance was requested.

Failure to sufficiently document travel approval increases the risk of errors, irregularities, and misappropriation of funds.

Recommendation 29

We recommend that the Union implement a process to require completion of travel request forms prior to travel and to ensure that travel requests are properly reviewed and approved.

Campus Response

The Union concurs with the recommendation. Staff has been notified that all travel must have the proper approvals and that travel request forms must be submitted before travel begins even if no travel advance is requested.

Completion Date: January 29, 2010

PERSONNEL AND PAYROLL

The Union had not performed a detailed, documented reconciliation of timesheets against ADP payroll records processed by campus accounting.

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

The *Compilation of Policies and Procedures for California State University Auxiliary Organizations* sets sound business practice guidelines for auxiliary organizations operating within the CSU system. Section 8.9.6, *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 Union executive director stated that the insufficient reconciliation of timesheets against ADP payroll records processed by campus accounting was because Union staff routinely reconciled personnel and payroll records between PeopleSoft and spreadsheets it maintained, but were unaware that they should be reconciling with ADP as well.

Insufficient reconciliation between timesheets and ADP payroll records limits the auxiliary's ability to detect errors and irregularities, increases the likelihood of loss of funds, and compromises accountability.

Recommendation 30

We recommend that the Union perform detailed, documented reconciliations of timesheets against ADP payroll records processed by campus accounting.

Campus Response

The Union concurs with the recommendation. The Union budget analyst now performs detailed, documented reconciliations of timesheets against ADP payroll records processed by campus accounting.

Completion Date: January 29, 2010

APPENDIX A: PERSONNEL CONTACTED

Name

Title

CAMPUS

Albert K. Karnig	President
Del Anderson	Director, Accounting
Laura Carrizales	Information Security Analyst
Matias Farre	General Accounting Manager
Robert Gardner	Vice President, Administration and Finance
Melissa Spagnuolo	Confidential Administrative Support
Javier Torner	Information Security Officer
Carla Williamson	Accountant
Robert Wilson	Associate Vice President, Budget and Financial Operations

FOUNDATION FOR THE CALIFORNIA STATE UNIVERSITY, SAN BERNARDINO

Debbie Burns	General Manager
Crystal Henderson	Gift Processor
Judy Hoosier	Research Administrator
Lisa Iannolo	Finance Manager
Maria Iporac	Cashier Office Supervisor
Melinda Jensen	Accounts Payable Supervisor
Holly Konecny	Accountant, Accounts Receivable Supervisor
April Meinzer	Research Administrator
Paulina Mendoza	Payroll Technician
Yolanda Meyer	Accounts Payable Technician
Siska Purnawan	Payroll Supervisor
Rick Rasmussen	Information Technology Consultant
Mallory Ruiz	Accounting Clerk
Charles Stanley	Director, Sponsored Programs Administration
Diane Trujillo	Senior Research Administrator
Julie Wessel	Research Administrator
Cristia Williams	Senior Human Resources Representative
Brian Wittenberg	Human Resources Manager

ASSOCIATED STUDENTS

CALIFORNIA STATE UNIVERSITY, SAN BERNARDINO

Patrick Areff	Executive Director
Shannon Stratton	Program Coordinator
Dacia Woods	Administration Support Coordinator

SANTOS MANUEL STUDENT UNION OF CALIFORNIA STATE UNIVERSITY, SAN BERNARDINO

Aaron Burgess	Associate Director of Operations
Rick Craig	Recreational Sports Director
Christine Grott	Office Manager
Helga Kray	Interim Executive Director
Maria Najera-Neri	Budget Analyst

STATEMENT OF INTERNAL CONTROLS

A. INTRODUCTION

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

B. INTERNAL CONTROL DEFINITION

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

1. Internal Accounting Controls

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

2. Operational Controls

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

C. INTERNAL CONTROL OBJECTIVES

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

D. INTERNAL CONTROL SYSTEMS LIMITATIONS

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

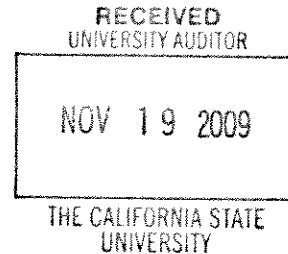
State of California


California State University, San Bernardino
5500 University Parkway
San Bernardino, California 92407-2397

MEMORANDUM

DATE: November 16, 2009

TO: Larry Mandel
University Auditor
The California State University



FROM:  Bob Gardner, Vice President
for Administration and Finance

SUBJECT: **Campus Response to *Auxiliary Organizations Audit – Report No. 09-15***
California State University, San Bernardino

Enclosed is the campus response to CSUSB's *Auxiliary Organizations Audit – Report No. 09-15*

Please contact me with any questions you may have. Thank you.

- c: Al Karnig
Bob Wilson
Helga Kray
Del Anderson
Patrick Areffi
Debbie Burns
Mark Day
Javier Torner

Enclosure

AUXILIARY ORGANIZATIONS
CALIFORNIA STATE UNIVERSITY,
SAN BERNARDINO

Audit Report 09-15

CAMPUS

OPERATING AND ADMINISTRATIVE AGREEMENTS

Recommendation 1

We recommend that the campus:

- a. Ensure that all future agreements are executed prior to inception.
- b. Establish a written agreement with the payroll service provider; and for all vendor service agreements relating to access to protected records or data, consider using the CSU General Provisions for Information Technology Acquisitions, which includes references for information security responsibilities and the confidentiality of data.

Campus Response

The campus concurs with the recommendation.

- a. The Accounting department will ensure that all future accounting Memorandums of Understanding (MOU's) are signed and executed prior to inception.
- b. Campus will establish a written agreement with ADP payroll system to include language pertaining to information security and confidentiality of terms provided. We will work with the Purchasing department to make this part of any future contracts.

Completion Date: January 29, 2010

SEGREGATION OF DUTIES

Recommendation 2

We recommend that the campus appropriately segregate certain payroll and personnel processing functions or institute mitigating procedures approved by the campus chief financial officer (CFO).

Campus Response

The campus concurs with the recommendation. The Accounting department will implement mitigating procedures approved by the CFO to decrease the risk that errors and irregularities will not

be detected in a timely manner. The General Accounting manager will run monthly audit reports and review changes on employee data including new employees and changes in pay rates. This procedure will be put in place starting in January 2010.

Completion Date: January 29, 2010

PROPERTY AND EQUIPMENT

Recommendation 3

We recommend that the campus record the disposition of AS and Union property and equipment at the time of disposition.

Campus Response

The campus concurs with the recommendation. Disposition of ASI and SMSU property and equipment will be recorded on a monthly basis on the general ledger effective immediately.

Completion Date: January 29, 2010

INFORMATION TECHNOLOGY

PASSWORD SECURITY

Recommendation 4

We recommend that the campus set effective password security parameters for the Identity Manager System in accordance with campus and leading information security industry guidelines and perform an assessment of password security parameters for all other campus systems.

Campus Response

The campus concurs with the recommendation. New password controls consisting of a minimum of eight characters, at least two numeric, at least one upper and lower case letter, and at least one special character has been implemented on all administrative access accounts to CMS through the Identity Management System. An assessment of password security parameters will be conducted on all other campus administrative systems.

Completion Date: January 29, 2010

INFORMATION SECURITY TRAINING

Recommendation 5

We recommend that the auxiliaries develop and implement an action plan for providing information security awareness training to all auxiliary employees with access to systems with protected data.

Campus Response

The campus concurs with the recommendation. All auxiliary employees are now required to complete the campus Information Security Awareness Training as part of the procedure to grant access to all auxiliary systems containing protected information.

Completion Date: January 29, 2010

**FOUNDATION FOR THE
CALIFORNIA STATE UNIVERSITY, SAN BERNARDINO**

PROGRAM COMPLIANCE

Recommendation 6

We recommend that the Foundation report all student intern stipends to the campus financial aid office.

Campus Response

The Foundation concurs with the recommendation. The accounting department staff has been reminded of this requirement. In addition, the Foundation's *Stipend Payment Request* form has been re-written to include a checklist which includes the statement; *"If recipient is a CSUSB student, CSUSB Financial Aid Office must be notified in writing and attached to request."* Detailed instructions on the back of the form state that; *"All stipends must be reviewed by Financial Aid before payment can be processed."* The addition of this language to the payment form will ensure that all student stipends will be reported properly.

Completion Date: January 29, 2010

TRUSTS AND OTHER LIABILITIES

Recommendation 7

We recommend that the Foundation:

- a. Complete a review of all custodial trust accounts reflected as "deposits held for others" on its financial statements and determine, within 60 days, which accounts contain state funds.
- b. Certify that none of the following specific and similar monies reside in Foundation trust accounts:
 - Gifts to the university, its units and programs.
 - Contracts and grants awarded to the university.
 - Pre-award indirect cost recovery reimbursements.
 - Foundation net operating surplus designated for use by the campus.
 - Fees for continuing education courses provided by the university.
 - Fees for university events, workshops, conferences, institutes, special projects, and programs.
 - Reimbursements for services and products provided to auxiliary enterprises and organizations paid from General Fund and/or CSU operating fund monies.
 - Rental fees for university facilities, except those facilities that have been leased to the auxiliary by the campus.
 - Student fees and other general fees pursuant to the CSU student fee policy.
 - Monies held by the Foundation via contract with the campus.

- c. Submit to the Office of the University Auditor, within 60 days, a list of those trust accounts which have been deemed appropriate to remain in the custody of the Foundation and comprehensive documentation to support the sources of funds for those trust accounts.
- d. Move those state funds identified in “a” above to campus accounts within six months.

Campus Response

The Foundation concurs with the recommendation.

- a. A review of accounts has been completed with the assistance of the Chancellor’s office audit manager.
- b. All trust accounts have been thoroughly reviewed and those accounts that have been deemed “inappropriate” have been identified.
- c. All trust accounts will be moved to the State unless funded by Foundation grants or gifts. Any exceptions have been discussed and agreed upon with the Chancellor’s Office audit manager.
- d. The Foundation is currently working with State accounting and purchasing personnel to effect the transfer of the accounts. In some cases, the Foundation may still administer some of the accounts due to the nature of the transactions. However, funds generated by these accounts will be turned over to the State on a regular basis, (monthly in most cases). Memorandums of Understanding will be put in place for those accounts that the Foundation will continue to administer.

Completion Date: December 11, 2009

AUXILIARY PROGRAMS

Recommendation 8

We recommend that the Foundation:

- a. Establish and implement written policies and procedures to monitor sub-recipient awards.
- b. Ensure that A-133 reports are received and reviewed from sub-recipients when required.
- c. Ensure that required financial and technical reports are received and maintained in sponsored projects files.
- d. Ensure that evidence of effort certification for all faculty and staff members is maintained in all sponsored projects files.

Campus Response

The Foundation concurs with the recommendation.

- a. The Foundation Board of Directors approved a policy for monitoring sub-recipient awards on September 24, 2009 and the policy has already been implemented.

- b. Also approved were written procedures on ensuring that A-133 reports are received, reviewed, and properly filed.
- c. Procedures ensuring that required financial and technical reports are received and maintained in sponsored projects files shall be implemented.
- d. Procedures for ensuring evidence of effort certification within sponsored projects files are currently being drafted and shall be implemented.

Completion Date: January 29, 2010

INFORMATION TECHNOLOGY

PAYMENT CARD INDUSTRY DATA SECURITY STANDARD

Recommendation 9

We recommend that the Foundation:

- a. Work with the campus to define and document roles and responsibilities for PCI DSS compliance between the campus and the auxiliary.
- b. Conduct and fully document a risk assessment of comprehensive compliance obligations for credit card data maintained on auxiliary servers and transmitted throughout the campus network and stored manually in local files.
- c. Complete an annual SAQ to include all credit card merchants on campus, whether completed jointly or separate from the auxiliary.

Campus Response

The Foundation concurs with the recommendation.

- a. The Foundation and campus ISO are working together to define and document the roles and responsibilities for PCI DSS compliance to include the migration of all credit card processing to a separate and distinct campus subnet with restricted firewall settings.
- b. The Foundation and campus ISO are working together to conduct and document a risk assessment of comprehensive compliance obligations for credit card data maintained on the Foundation's Micros POS server, and transmitted throughout the campus network.
- c. The Foundation is completing an annual SAQ to include all credit card merchants utilized.

Completion Date: January 29, 2010

PROTECTED DATA ASSESSMENT

Recommendation 10

We recommend that the Foundation perform an initial, and then annual, assessment and inventory of protected data on all systems to determine the existence of any protected data and the need for appropriate logical and physical security measures.

Campus Response

The Foundation concurs with the recommendation. The Foundation is completing an initial and then subsequent annual assessment and inventory of protective data on all systems to determine the need for logical and physical security measures.

Completion Date: January 29, 2010

USER ACCESS

Recommendation 11

We recommend that the Foundation:

- a. Conduct periodic, documented management reviews of user access for all systems containing protected data, at least annually.
- b. Disable generic accounts and develop a formal process for disabling user accounts for employees/consultants that no longer require access to systems.

Campus Response

The Foundation concurs with the recommendation. Foundation managers and department supervisors are establishing a quarterly review process of all user access to include:

- a. Job duties as related to the level of database access needed
- b. The disabling of user accounts for terminated employees
- c. The removing of inactive accounts that no longer require access to the system. All Foundation user access profiles have been reviewed and updated for the Odyssey PCS One Card system, the Micros POS system, and the Millennium M3 Payroll system.

Completion Date: January 29, 2010

PASSWORD AND DATA SECURITY

Recommendation 12

We recommend that the Foundation:

- a. Set effective password and login security parameters for the Millennium M3 payroll, Odyssey PCS One Card, and Micros POS systems in accordance with campus and leading information security industry guidelines and perform an assessment of password security parameters for all other Foundation systems.
- b. Apply encryption controls to the Millennium M3 payroll and the Odyssey PCS One Card systems and all other Foundation computers, databases, and file servers that house protected and/or sensitive data.

Campus Response

The Foundation concurs with the recommendation.

- a. Effective password and login security parameters for the Millennium M3 Payroll, Odyssey PCS One Card, Micros POS, and all other Foundation systems have been assessed and set in accordance with campus and security industry guidelines to include a minimum number of eight (8) characters with accompanying complexity requirements, password expiration dates, restrictions on the reuse of passwords, no access after repeated failed attempts, and an automatic signoff of users after a period of none use.
- b. Software versions have been upgraded to a level of full database encryption on the Micros POS, and Millennium M3 Payroll systems.

Completion Date: January 29, 2010

SYSTEM BACKUPS

Recommendation 13

We recommend that the Foundation encrypt system backups with protected data and ensure that the off-site transfer and storage of backups is secure.

Campus Response

The Foundation concurs with the recommendation. The Foundation tape backups with protected data that are transferred to off-site storage are now fully encrypted using the Professional version of P-Encryption Suite.

Completion Date: January 29, 2010

ASSOCIATED STUDENTS
CALIFORNIA STATE UNIVERSITY, SAN BERNARDINO

CORPORATE GOVERNANCE

DISSOLUTION OF AUXILIARY

Recommendation 14

We recommend that AS update its Articles of Incorporation to reflect a proper dissolution clause.

Campus Response

ASI concurs with the recommendation. Any changes to the articles of incorporation must go to the students in an election process. Due to the expense of conducting a special election to approve a revised dissolution clause as required, ASI will place the revised dissolution clause on the ballot for the ASI elections to be conducted in April/May 2010.

Completion Date: May 14, 2010

BOARD OF DIRECTORS

Recommendation 15

We recommend that AS promptly fill student director vacancies and increase its efforts to ensure that appropriate board representation is maintained.

Campus Response

ASI concurs with this recommendation. In April of 2009, ASI's Board of Directors amended the bylaws to require that students maintain a minimum GPA of 2.5 in order to run for, and maintain, office. It is ASI's desire to ensure that our students are sufficiently involved in their academics to support their continued activity in ASI. In addition, ASI will take more aggressive action to advertise and inform students of ASI Board of Director vacancies.

Completion Date: January 29, 2010

BYLAWS

Recommendation 16

We recommend that AS promptly file the cited amendments with the chancellor's office and develop a procedure to ensure that all future changes/amendments to Bylaws are timely filed with the chancellor's office.

Campus Response

ASI concurs with the recommendation. This finding was corrected during the audit visit; it will be the ASI Executive Director's responsibility to ensure that all future Bylaw changes/ amendments are filed with the Chancellor's Office in a timely manner.

Completion Date: January 29, 2010

OPERATIONAL COMPLIANCE

Recommendation 17

We recommend that AS develop written policies and procedures to address the accounting and processing of accounts receivable.

Campus Response

ASI concurs with the recommendation. While ASI does have procedures for preparing, logging and receiving payments, procedures are being developed to address the valuation of allowance for doubtful accounts receivable and write-off of uncollectable accounts receivable. We anticipate that a revised policy will be presented to the ASI Board of Directors in late November or early December 2009.

Completion Date: January 29, 2010

PURCHASING AND ACCOUNTS PAYABLE

DISBURSEMENTS

Recommendation 18

We recommend that AS implement procedures to sufficiently document the receipt of goods and services prior to invoice payment.

Campus Response

ASI concurs with this finding. We will amend our Financial Policies to require sufficient documentation of goods and services prior to invoice payment. This will be done in addition to our current processes prior signing of Disbursement Authorization form by the Executive Director.

Completion Date: January 29, 2010

TRAVEL AUTHORIZATION

Recommendation 19

We recommend that AS implement a process to require completion of travel request forms prior to travel and to ensure that travel requests are properly reviewed and approved.

Campus Response

ASI concurs with this finding. We have addressed this recommendation and have already made changes to our Financial Policies and Procedures to address the concern.

Completion Date: January 29, 2010

PERSONNEL AND PAYROLL

Recommendation 20

We recommend that AS perform detailed, documented reconciliations of timesheets against ADP payroll records processed by campus accounting.

Campus Response

ASI concurs with this finding. We will be working in conjunction with Auxiliary/General Accounting to perform detailed, documented reconciliations of timesheets against ADP payroll records.

Completion Date: January 29, 2010

**SANTOS MANUEL STUDENT UNION OF
CALIFORNIA STATE UNIVERSITY, SAN BERNARDINO**

OPERATING AND ADMINISTRATIVE AGREEMENTS

Recommendation 21

We recommend that the Union:

- a. Ensure that all future agreements are fully and timely executed.
- b. Promptly renew the agreements with the noted service providers.

Campus Response

The Santos Manuel Student Union (SMSU) concurs with the recommendation. We will ensure that:

- a. All future agreements are executed fully and in a timely manner.
- b. Agreements will be renewed promptly with noted service providers.

Completion Date: January 29, 2010

FACILITIES AGREEMENTS

Recommendation 22

We recommend that the Union:

- a. Ensure that all future agreements are fully and timely executed.
- b. Promptly establish an agreement with the Foundation for vending machine cost reimbursement.

Campus Response

The Santos Manuel Student Union (SMSU) concurs with the recommendation. We will ensure that:

- a. All future agreements are executed fully and in a timely manner.
- b. The Executive Directors of the SMSU and the Foundation for CSUSB will establish an agreement for vending machine cost reimbursements.

Completion Date: January 29, 2010

CORPORATE GOVERNANCE

AUDIT COMMITTEE

Recommendation 23

We recommend that the Union implement an audit committee and establish a written charter explaining the roles and responsibilities of its members.

Campus Response

The Santos Manuel Student Union (SMSU) concurs with the recommendation. Draft language for the Audit Committee has been submitted to the SMSU Board of Directors for the first reading as this constitutes a bylaws change. The second reading and approval will take place on November 12.

Completion Date: January 29, 2010

BYLAWS

Recommendation 24

We recommend that the Union promptly file the cited amendments with the chancellor's office and develop a procedure to ensure that all future changes/amendments to Bylaws are timely filed with the chancellor's office.

Campus Response

The Santos Manuel Student Union (SMSU) concurs with the recommendation. The bylaw amendment was forwarded to Finance & Treasury. Management will ensure future compliance.

Completion Date: January 29, 2010

OPERATIONAL COMPLIANCE

POLICIES AND PROCEDURES

Recommendation 25

We recommend that the Union develop written policies and procedures to address the accounting and processing of accounts receivable.

Campus Response

The Santos Manuel Student Union (SMSU) concurs with the recommendation. Written policies and procedures have been developed to address the accounting and processing of accounts receivable and have been incorporated into the Financial Policies Manual. The SMSU Board of Directors approved the changes at its meeting on October 8, 2009.

Completion Date: January 29, 2010

CONFLICT OF INTEREST

Recommendation 26

We recommend that the Union:

- a. Update its *Conflict of Interest/Conflict of Commitment Policy* to require annual completion of conflict-of-interest statements by all board and committee members.
- b. Ensure that annual conflict-of-interest statements are obtained from all board and committee members.

Campus Response

The Santos Manuel Student Union (SMSU) concurs with the recommendation.

- a. The Conflict of Interest/Conflict of Commitment Policy is being updated and the changes will be presented to the SMSU Board of Directors before the end of the calendar year.
- b. Conflict of interest statements will be obtained from all board and committee members at the first meeting of the academic year and as new board or committee members are appointed.

Completion Date: January 29, 2010

CAMPUS OVERSIGHT AND CONTROL

Recommendation 27

We recommend that the Union ensure its annual budgets are reviewed and approved by the campus president.

Campus Response

The Santos Manuel Student Union (SMSU) concurs with the recommendation. The SMSU will ensure that the annual budgets are reviewed and approved by the campus president, in writing, and documents kept on file.

Completion Date: January 29, 2010

CASH RECEIPTS AND HANDLING

Recommendation 28

We recommend that the Union:

- a. Record all stamp sales and perform an independent reconciliation of stamp inventory purchased and sold to cash receipts.

- b. Log all ticket sale receipts delivered to the administration office and perform an independent reconciliation of ticket inventory produced and sold to cash receipts.

Campus Response

The Santos Manuel Student Union (SMSU) concurs with the recommendation.

- a. Procedures have been developed to record all stamp sales and to perform independent reconciliation of stamp inventory purchased and sold to cash receipts.
- b. All ticket sale receipts delivered will be logged and an independent reconciliation will be conducted.

Completion Date: January 29, 2010

PURCHASING AND ACCOUNTS PAYABLE

Recommendation 29

We recommend that the Union implement a process to require completion of travel request forms prior to travel and to ensure that travel requests are properly reviewed and approved.

Campus Response

The Santos Manuel Student Union (SMSU) concurs with the recommendation. Staff has been notified that all travel must have the proper approvals and that travel request forms must be submitted before travel begins even if no travel advance is requested.

Completion Date: January 29, 2010

PERSONNEL AND PAYROLL

Recommendation 30

We recommend that the Union perform detailed, documented reconciliations of timesheets against ADP payroll records processed by campus accounting.

Campus Response

The Santos Manuel Student Union (SMSU) concurs with the recommendation. The SMSU Budget Analyst now performs detailed and documents reconciliations of timesheets against ADP payroll records processed by campus accounting.

Completion Date: January 29, 2010

THE CALIFORNIA STATE UNIVERSITY
OFFICE OF THE CHANCELLOR



BAKERSFIELD

December 9, 2009

CHANNEL ISLANDS

CHICO

MEMORANDUM

DOMINGUEZ HILLS

EAST BAY

TO: Mr. Larry Mandel
University Auditor

FRESNO

FROM: Charles B. Reed
Chancellor

A handwritten signature in black ink that reads "Charles B. Reed". The signature is written in a cursive style and is positioned to the right of the printed name and title.

FULLERTON

HUMBOLDT

SUBJECT: Draft Final Report 09-15 on *Auxiliary Organizations*,
California State University, San Bernardino

LONG BEACH

LOS ANGELES

In response to your memorandum of December 9, 2009, I accept the response as submitted with the draft final report on *Auxiliary Organizations*, California State University, San Bernardino.

MARITIME ACADEMY

MONTEREY BAY

NORTHRIDGE

CBR/amd

POMONA

SACRAMENTO

SAN BERNARDINO

SAN DIEGO

SAN FRANCISCO

SAN JOSÉ

SAN LUIS OBISPO

SAN MARCOS

SONOMA

STANISLAUS