

AUXILIARY ORGANIZATIONS

SONOMA STATE UNIVERSITY

Audit Report 09-18

March 5, 2010

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ABBREVIATIONS

AORMA	Auxiliary Organizations Risk Management Authority
AS	Associated Students of Sonoma State University
ASP	Associated Students Productions
CMS	Common Management Systems
CSU	California State University
CSURMA	California State University Risk Management Authority
DMZ	Demilitarized Zone
IRS	Internal Revenue Service
RFIN	Resolution of the Committee on Finance
EO	Executive Order
SSE	Sonoma State Enterprises, Inc.
Foundation	Sonoma State University Academic Foundation Inc.
SSU	Sonoma State University
Union	Sonoma Student Union Corporation
UBI	Unrelated Business Income

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.

Sonoma State University (SSU) 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 SSU campus and its auxiliary organizations from September 29, 2009, through October 23, 2009, and made a study and evaluation of the system of internal compliance/internal control in effect as of October 23, 2009. This report represents our triennial review.

Our study and evaluation at *Sonoma State University Academic Foundation Inc.* did not reveal any significant internal control problems or weaknesses that would be considered pervasive in their effects on the accounting and administrative controls. However, we did identify other reportable weaknesses that are described in the executive summary and in the body of the report. In our opinion, the accounting and administrative control in effect as of October 23, 2009, taken as a whole, was sufficient to meet the objectives stated above.

Our study and evaluation at *Sonoma State Enterprises, Inc.* did not reveal any significant internal control problems or weaknesses that would be considered pervasive in their effects on the accounting and administrative controls. However, we did identify other reportable weaknesses that are described in the executive summary and in the body of the report. In our opinion, the accounting and administrative control in effect as of October 23, 2009, taken as a whole, was sufficient to meet the objectives stated above.

Our study and evaluation at the *Sonoma Student Union Corporation* did not reveal any significant internal control problems or weaknesses that would be considered pervasive in their effects on the accounting and administrative controls. However, we did identify other reportable weaknesses that are described in the executive summary and in the body of the report. In our opinion, the accounting and administrative control in effect as of October 23, 2009, taken as a whole, was sufficient to meet the objectives stated above.

Our study and evaluation at *Associated Students of Sonoma State University* 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 October 23, 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, ADMINISTRATIVE, AND FACILITIES AGREEMENTS [9]

Certain business arrangements among the auxiliaries and third-party entities or independent contractors did not include appropriate indemnification and/or insurance provisions.

INFORMATION TECHNOLOGY [11]

Auxiliary personnel with access to critical systems or protected data were not always required to complete information security awareness training or sign data confidentiality forms.

SONOMA STATE UNIVERSITY ACADEMIC FOUNDATION INC.

FEES, REVENUES, AND RECEIVABLES [13]

Administration of matching gifts at the Sonoma State University Academic Foundation Inc. did not include a requirement that a documented dual review be performed to ensure that funds are administered in accordance with corporate donor requirements.

SONOMA STATE ENTERPRISES, INC.

OPERATING AND ADMINISTRATIVE AGREEMENTS [14]

A business arrangement between Sonoma State Enterprises, Inc. (SSE) and a third-party vendor was not supported by a current written agreement.

FEES, REVENUES, AND RECEIVABLES [14]

SSE concession inventory counts at events were not adequately performed, all products were not adequately accounted for, and concession sales were not always reconciled to cash receipts and revenues recorded in the general ledger.

SONOMA STUDENT UNION CORPORATION

CORPORATE GOVERNANCE [17]

The Sonoma Student Union Corporation (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.

CASH RECEIPTS AND HANDLING [18]

Accountability for cash receipts was not always localized at the Union.

ASSOCIATED STUDENTS OF SONOMA STATE UNIVERSITY

FISCAL COMPLIANCE [20]

Unrelated business income for concert ticket sales by the Associated Students Productions to community members was not accounted for/reported by Associated Students of Sonoma State University (AS).

OPERATIONAL COMPLIANCE [21]

AS had not developed policies to address the accounting and processing of student club accounts.

INFORMATION TECHNOLOGY [22]

Password controls and data security were not always adequate for AS systems. In addition, the service agreement between AS and a third-party service provider for payroll services did not contain adequate terms for data confidentiality, and lacked terms for information security and system backups, as well as relevant terms for additional services provided by the vendor.

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 Sonoma State University Academic Foundation Inc. (Foundation) was established in 1974 as a non-profit public benefit corporation responsible for engaging in activities furthering and enhancing the educational effectiveness of Sonoma State University (SSU) including, but not limited to: obtaining private financial aid for the university, its faculty and students; promoting community interest in the university; promoting community financial aid and service to the university, its faculty and students; and operating university connected enterprises and research projects. The Foundation is governed by a board of directors committed to developing philanthropic resources to support the university's mission. The

Foundation is authorized to receive and process gifts, bequests, endowments, trusts, and other gifts, and to acquire and develop real property. It currently owns ten townhouses and ten acres of land, which are leased to the university. The Foundation does not have employees and relies on university personnel for accounting and administrative support services.

Sonoma State Enterprises, Inc. (SSE) was formed as a non-profit corporation and auxiliary organization of the CSU in 1961 to support the mission of SSU by providing goods and services for the campus community and their invited guests. SSE outsources the bookstore operations to a third party and is responsible for operating central campus dining services, faculty and staff housing, residence hall dining services, vending, and the Zinfandel Marketplace convenience store. SSE does not have employees and relies on university personnel for accounting and administrative support services.

The Sonoma Student Union Corporation (Union) was established in 1975 as a non-profit public benefit corporation to promote and furnish facilities for the educational development and academic services of SSU. The Union's first and foremost role is to serve as a focal point for student life outside the classroom. The Union strives to enhance the student's university experience by offering programs that contribute to the student's emotional and physical well-being and to his/her intellectual and social development outside the context of the formal instruction program. These programs include student activities, intramural athletics, recreation and fitness, and student organizations. The Union does not have employees and relies on university personnel for accounting and administrative support services.

Associated Students of Sonoma State University (AS) was established in 1962 as a non-profit auxiliary corporation with the specific and primary purpose of operating a charitable and educational organization. AS is responsible for operating services for students and student clubs including Associated Students Productions, Join Us making Progress, and the Children's School. AS is governed by the Student Board of Directors and employs an executive director, a business manager and staff personnel to manage daily operations. AS relies on the university's financial services unit for accounting and administrative support services.

PURPOSE

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

- ▶ Legal and regulatory requirements are complied with.
- ▶ Accounting data is provided in an accurate, timely, complete, or otherwise reliable manner.
- ▶ Assets are adequately safeguarded from loss, damage, or misappropriation.
- ▶ Duties are appropriately segregated consistent with appropriate control objectives.
- ▶ Transactions, accounting entries, or systems output is reviewed and approved.
- ▶ Management does not intentionally override internal controls to the detriment of control objectives.
- ▶ Accounting and fiscal tasks, such as reconciliations, are prepared properly and completed timely.
- ▶ Deficiencies in internal controls previously identified were corrected satisfactorily and timely.
- ▶ Management seeks to prevent or detect erroneous recordkeeping, inappropriate accounting, fraudulent financial reporting, financial loss, and exposure.

SCOPE AND METHODOLOGY

Our study and evaluation were conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing* issued by the Institute of Internal Auditors, and included the audit tests we considered necessary in determining that accounting and administrative controls are in place and operative. The management review emphasized, but was not limited to, compliance with state and federal laws, Board of Trustee policies, and Office of the Chancellor policies, letters, and directives. For those audit tests that required annualized data, fiscal years 2007/08 and 2008/09 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, 2009 to October 23, 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:

Sonoma State University Academic Foundation Inc.

- ▶ Operating and Administrative Agreements
- ▶ Facilities Agreements
- ▶ Corporate Governance
- ▶ Fiscal Compliance
- ▶ Operational Compliance

Sonoma State University Academic Foundation Inc. (cont.)

- ▶ Program Compliance
- ▶ Campus Oversight and Control
- ▶ Segregation of Duties
- ▶ Cash Receipts and Handling
- ▶ Investments
- ▶ Fees, Revenues, and Receivables
- ▶ Purchasing and Accounts Payable
- ▶ Trusts and Other Liabilities
- ▶ Endowment Administration
- ▶ Auxiliary Programs
- ▶ Information Technology

Sonoma State Enterprises, Inc.

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

Sonoma Student Union Corporation

- ▶ 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

Sonoma Student Union Corporation (cont.)

- ▶ Property and Equipment
- ▶ Auxiliary Programs

Associated Students of Sonoma State University

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

Campus

- ▶ Campus Oversight and Control

We have not performed any auditing procedures beyond October 23, 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, ADMINISTRATIVE, AND FACILITIES AGREEMENTS

Certain business arrangements among the auxiliaries and third-party entities or independent contractors did not include appropriate indemnification and/or insurance provisions.

We found that:

- ▶ The service agreement between the Sonoma State University Academic Foundation Inc. (Foundation) and a third-party investment advisor did not include an appropriate indemnification clause. The indemnification provision did not specifically indemnify the Foundation, campus, the California State University (CSU) Trustees, and the State of California.
- ▶ The lease agreements between the Foundation and third parties for the ten faculty/staff housing units did not include appropriate indemnification clauses. The indemnification provisions did not specifically indemnify the campus, the CSU Trustees, and the State of California.
- ▶ The agreement between Sonoma State Enterprises, Inc. (SSE) and a third-party vendor for food vending on campus did not include an indemnification provision to specifically indemnify the campus, the CSU Trustees, and the State of California. This is a repeat finding from the prior Auxiliary Organizations audit.
- ▶ The sublease agreement between SSE and a bank for the operation of an automated teller machine on campus did not specifically indemnify the campus, the CSU Trustees, and the State of California. This is a repeat finding from the prior Auxiliary Organizations audit.
- ▶ An agreement between Associated Students of Sonoma State University (AS) and a local hotel for emergency hotel services did not contain proper insurance and indemnification provisions.
- ▶ All six independent contractor agreements reviewed at AS did not contain proper insurance provisions and indemnification provisions.

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

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

The associate vice president for administration and finance and Foundation chief operating officer stated that the absence of appropriate indemnification provisions was due to oversight. The SSE chief operating officer stated that the food vending agreement did not include the CSU-required indemnification provision due to oversight and the auxiliary signed the vendor's standard facilities lease agreement for the automated teller machine that did not include the CSU-required indemnification provision. The AS executive director stated that failure to include the proper insurance and indemnification provisions in the hotel and independent contractor agreements was due to oversight.

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

Recommendation 1

We recommend that the auxiliaries:

- a. Amend the cited agreements with appropriate indemnification and/or insurance clauses where necessary.
- b. Ensure that all future agreements include appropriate indemnification and/or insurance provisions where necessary.

Campus Response

- a. We agree. We will amend the cited agreements and add the appropriate indemnification and/or insurance clauses where necessary.
- b. We agree to evaluate each future agreement for inclusion of appropriate indemnification and/or insurance provisions where necessary.

Expected completion date: June 30, 2010

INFORMATION TECHNOLOGY

Auxiliary personnel with access to critical systems or protected data were not always required to complete information security awareness training or sign data confidentiality forms.

We found that Foundation, SSE, and AS personnel with access to critical systems and/or protected data were not required to complete information security awareness training, unless they had also had been granted access to the Common Management Systems (CMS). Further, SSE and AS personnel with access to critical systems and/or protected data were not required to complete data confidentiality forms.

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 and signed data confidentiality forms for all employees with access to critical systems or protected data.

The executive management of each auxiliary stated that management was unaware of any requirement to conduct training and had not considered the need for signed data confidentiality forms for all personnel with access to critical systems or protected data.

Failure to provide employees with information security awareness training increases the risk of mismanagement of protected data, while the lack of signed data confidentiality forms increases the risk of inappropriate disclosure of data and auxiliary exposure to liability for any such disclosures.

Recommendation 2

We recommend that the auxiliaries:

- a. Develop and implement an action plan for providing information security awareness training to all auxiliary employees with access to critical systems or protected data.
- b. Establish a policy requiring data confidentiality forms from all auxiliary employees prior to granting them access to critical systems and protected data and obtain completed forms from employees who currently have access to such data.

Campus Response

- a. We agree. The CSU-developed Information Security Awareness Training (ISAT) has been rolled out and is required for all university and auxiliary organizations staff.
- b. We agree. CMS will work with employment services and the auxiliaries to get the data confidentiality training included as a part of the new employee sign-ups going forward. We will also ensure that all current employees with access to auxiliary systems will complete the confidentiality agreement.

Expected completion date: June 30, 2010

SONOMA STATE UNIVERSITY ACADEMIC FOUNDATION INC.

FEES, REVENUES, AND RECEIVABLES

Administration of matching gifts at the Sonoma State University Academic Foundation Inc. (Foundation) required improvement.

We found that matching gift procedures did not require that a documented dual review be performed to ensure that funds are administered in accordance with corporate donor requirements.

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

Title 5 §42401 and §42402 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 matching gifts undergo a documented dual review process to ensure that funds are appropriately deposited to an eligible recipient in accordance with corporate donor requirements.

The Foundation chief financial officer stated that the dual review of matching gifts was not performed due to oversight.

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

Recommendation 3

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

Campus Response

We concur. An update to the matching gift policies and procedures has been developed to implement a dual review process to ensure that funds are administered in accordance with corporate donor requirements.

Action has been completed.

SONOMA STATE ENTERPRISES, INC.

OPERATING AND ADMINISTRATIVE AGREEMENTS

A business arrangement between Sonoma State Enterprises, Inc. (SSE) and a third-party vendor was not supported by a current written agreement.

We found that the arrangement with a third-party vendor for the exclusive supply of soft drinks for dining operations was not supported by a current written agreement. The prior agreement expired on June 30, 2009; however, the existing business arrangement had continued without a holdover clause.

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

The SSE chief operating officer stated that a current written agreement was sent to the soft drink vendor for execution, but the agreement was not signed and returned to the auxiliary.

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

Recommendation 4

We recommend that SSE establish a current written agreement with the soft drink vendor.

Campus Response

We agree. The agreement has been updated and signed by both parties.

Action has been completed.

FEES, REVENUES, AND RECEIVABLES

SSE concession inventory counts at events were not adequately performed, all products were not adequately accounted for, and concession sales were not always reconciled to cash receipts and revenues recorded in the general ledger.

We reviewed concessions for two events that occurred in May 2009 and found that:

- ▶ Inventory counts were not conducted for all concession products at the start of sale or for all remaining products at the end of the events, and products added to the inventory during the events were also not accounted for.
- ▶ A reconciliation of concession inventory sold to concession cash receipts and sales recorded in the general ledger was not completed for events other than soccer games.

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

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

The associate director of conferences, events and catering services stated that the process only required a formal reconciliation of inventory to cash receipts at soccer venues (but not other events) where cash registers were not used.

Inadequate administration of concession inventories, sales, and cash receipts increases the risk of a loss or misappropriation of funds.

Recommendation 5

We recommend that SSE:

- a. Perform inventory counts for all concession products at the start of sale and for all remaining products at the end of the events, also accounting for any products added to the inventory during the events.
- b. Complete a reconciliation of concession inventory to cash receipts and sales recorded to the general ledger for all concession events.

Campus Response

- a. We agree. We have implemented procedures to perform inventory counts before and after events as well as for added inventory during a concession activity.

- b. We agree. We have implemented procedures to reconcile inventory with sales for all concessions.

Expected completion date of documentation: June 30, 2010

SONOMA STUDENT UNION CORPORATION

CORPORATE GOVERNANCE

AUDIT COMMITTEE

The Sonoma Student Union Corporation (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 executive director stated his interpretation that the Union's gross revenues did not exceed the \$2-million threshold.

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

Recommendation 6

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

Campus Response

We agree. The Union board of directors discussed the creation of an audit committee at the October 2009 board meeting and passed a resolution creating an audit committee at the November 2009 board meeting. Roles and responsibilities of the audit committee were discussed and adopted as outlined in the CSU Auxiliary Organizations & Affiliated Nonprofit Entities Compliance Manual.

Action has been completed.

BYLAWS

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

We found amendments to the Bylaws made on April 24, 2009, that had not been filed with the chancellor's office.

The *Compilation of Policies and Procedures for California State University Auxiliary Organizations* Section 11.6.1, *Reporting Changes in Articles of Incorporation and Bylaws*, states that when an auxiliary organization makes changes to its Articles of Incorporation or 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 executive director stated that he was unaware of this requirement.

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

Recommendation 7

We recommend that the Union file amendments to the Bylaws with the Financing and Treasury department at the Office of the Chancellor within 30 calendar days.

Campus Response

We agree. Union Bylaws were transmitted to the Financing and Treasury Office on December 23, 2009.

Action has been completed.

CASH RECEIPTS AND HANDLING

Accountability for cash receipts was not always localized at the Union.

We found that separate logon and close-out procedures were not used to establish accountability when multiple cashiers used the same cash register at the Union information desk.

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

Title 5 §42401 and §42402 indicate that the campus president shall require that auxiliary organizations operate in conformity with policy of the Board of Trustees and the campus. One of the objectives of the auxiliary organizations is to provide fiscal procedures and management systems that allow effective coordination of the auxiliary activities with the campus in accordance with sound business practices. Sound business practice mandates the accountability for cash or negotiable instruments to a specific employee from the time of receipt to deposit.

The Union executive director stated that because the cashiers are not employees of the Union, he did not believe that he had responsibility for their procedures.

Inadequate control over cash receipts increases exposure to loss from inappropriate acts.

Recommendation 8

We recommend that the Union localize accountability over cash receipts when multiple cashiers operate the same cash register.

Campus Response

We agree. Logon and close-out procedures have been implemented by the conference & events services office with the 2010 spring semester.

Expected completion date of documentation: June 30, 2010

ASSOCIATED STUDENTS OF SONOMA STATE UNIVERSITY

FISCAL COMPLIANCE

Unrelated business income (UBI) for concert ticket sales by Associated Students Productions (ASP) to community members was not accounted for/reported by Associated Students of Sonoma State University (AS).

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

Title 5 §42401 and §42402 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 establishment of a system to track and account for UBI.

The AS executive director stated that they were unaware that concert ticket sales by ASP to community members needed to be accounted for/tracked for UBI purposes.

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

Recommendation 9

We recommend that AS account for and track UBI for concert ticket sales by ASP to community members, and file federal income tax returns as appropriate.

Campus Response

We agree. AS will begin to track and record ticket sales made to community members and file the appropriate tax documentation if the related revenue meets the threshold.

Expected completion date: June 30, 2010

OPERATIONAL COMPLIANCE

AS had not developed policies to address the accounting and processing of student club accounts.

Specifically, policies had not been developed to address the following for student club accounts:

- ▶ Negative account balances.
- ▶ Deposits and expenditures.
- ▶ Reconciliations.

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 student club accounts.

The AS executive director stated that AS follows the university's policy and did not think it was necessary to create a separate policy.

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

Recommendation 10

We recommend that AS develop written policies to address the accounting and processing of student club accounts, specifically for negative account balances, deposits and expenditures, and reconciliations.

Campus Response

We agree. AS management, in consultation with the university, will develop policies and procedures to specifically address negative account balances, deposits, and expenditures and reconciliations for the club accounts, and submit these policies to the AS senate for approval.

Expected completion date: June 30, 2010

INFORMATION TECHNOLOGY

PASSWORD AND DATA SECURITY

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

We reviewed the Microsoft Dynamics GP accounting system and found that:

- ▶ Password security and login parameters were inadequate, as there were no minimum character and complexity requirements, no password expiration, no restrictions for reuse of passwords, no restrictions for access after repeated failed attempts, and no automatic sign-off of users after a period of no use.
- ▶ The GP workstation was stored in the AS business office, which did not provide for adequate physical security.
- ▶ The GP accounting system contained protected data that was not encrypted. Furthermore, this system was located within the same network segment as Internet-accessible devices. Normally, these Internet-accessible devices are segmented into a demilitarized zone (DMZ) such that if these devices are compromised, there is separation among other internal network resources.
- ▶ Backups for the GP accounting system contained protected data and were not encrypted when stored locally or when in transit to the off-site storage facility managed by a third party.
- ▶ A certain systems administrator account was setup with the default password of “dynamics.”

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, adequate physical security of systems containing protected data, encryption of any protected data residing on auxiliary systems contained on auxiliary backups, and adequate security administration of privileged accounts.

The AS executive director stated that the GP accounting system security had not been fully evaluated nor were improved security controls feasible to implement due to resource constraints.

Insufficient password/login parameters and privileged account administration may compromise the authentication credentials of user account privileges that are embedded into applications and

operating systems, while inadequate physical security and unencrypted storage of protected data increases the risk of unauthorized access to auxiliary systems and confidential data.

Recommendation 11

We recommend that AS:

- a. Set effective password and login security parameters for the Microsoft Dynamics GP accounting system in accordance with leading information security industry guidelines.
- b. Secure the AS business office to prohibit unauthorized access, ensure that the GP workstation is physically secured, and evaluate the feasibility of implementing a separate server for the Microsoft Dynamics GP accounting system in the campus data center or hosting the application on another server within the data center.
- c. Remove protected data and secure the protected data in a locked cabinet, or apply encryption controls to the Microsoft Dynamics GP accounting system and backups, and ensure that this system is properly segmented from other Internet-accessible devices on the network.
- d. Strengthen security controls for administrator user accounts to ensure that these accounts are not set up with default passwords, at minimum.

Campus Response

- a. We agree. We will add the Rocktron software that implements secure account management to the Great Plains software.
- b. We agree. The AS business office has locked doors and a split door to prevent unauthorized access. The GP workstation will be locked to the desk according to the Sonoma State University standard after rejecting the implementation of various data center options.
- c. We agree. We will remove the protected data from the Microsoft Dynamics GP accounting system and secure the data in a locked cabinet
- d. We agree. The administrator accounts have been changed to strong passwords, and the policy on the computer has been set to only allow strong passwords and meets the password policy of the university.

Expected completion date: June 30, 2010

VENDOR SERVICE AGREEMENT

The service agreement between AS and a third-party service provider for payroll services did not contain adequate terms for data confidentiality, and lacked terms for information security and system backups, as well as relevant terms for additional services provided by the vendor.

We found that the IBS payroll system, which contains protected employee data for AS payroll, was hosted off-site by the service provider, but the service agreement did not contain adequate contractual terms for data confidentiality and lacked terms for information security, specifically, IBS responsibility for data breaches. Also, the service agreement did not address system backups, which were presumed to be done by IBS. Further, the Webtime timekeeping system services provided by IBS (via another third party) at additional cost subsequent to the original agreement were not included within any documented agreement.

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

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

The AS executive director stated that an IBS Business Continuity Plan, although not included within the terms of the service agreement, did mention that IBS performs full system backups on a daily basis. He further stated that the inadequate provisions for information security and privacy responsibilities and indemnification were due to using the other party's contract instead of using the standard campus agreement. He added that the Webtime services were added to the services bundle provided by IBS, but not formally added to the service agreement due to oversight.

The absence of adequate information security and data confidentiality responsibilities, specific terms for critical services such as data backup, and terms for additional services provided, subjects the auxiliary and CSU to potential liability, increases exposure to security breaches, increases the likelihood of misunderstandings for services provided and could compromise compliance with statutory information security requirements.

Recommendation 12

We recommend that AS:

- a. Amend the cited service agreement with appropriate provisions for information security, data confidentiality, and system backup responsibilities, and also include terms for the additional services provided by the vendor.
- b. Consider using the CSU General Provisions for Information Technology Acquisitions, which includes references for information security responsibilities (the most recent revision dated July 24, 2006, also includes a Section 42 for the confidentiality of data) for all vendor service agreements relating to access to protected records or data, or update its own standard agreement to include such references.

Campus Response

- a. We concur. The AS will amend the cited service agreement to contain appropriate provisions for information security, data confidentiality, and additional services provided by the vendor.
- b. We concur. The AS will work with the campus procurement and information security office to develop AS General Provisions for Information Technology Acquisitions of goods and services involving protected data, which will include appropriate provisions for information security and data confidentiality, similar to the CSU General Provisions for Information Technology Acquisitions.

Expected completion date: June 30, 2010

APPENDIX A: PERSONNEL CONTACTED

Name

Title

CAMPUS

Ruben Armiñana	President
Barry Blackburn	Information Security Officer
Letitia Coate	Associate Vice President, Administration and Finance
Michelle Covington	Development Operations Manager
Joe Dupre	Information Security Analyst
Ryan Ernst	Director, Marketing and General Services
Laurence Furukawa-Schlereth	Vice President, Administration and Finance
Paul Greenblatt	Development Services Manager
Janet Hankes	Gift Processing Coordinator
Ian Hannah	University Associate Treasurer
Bill Ingels	University Treasurer
Kurt Koehle	Director, Internal Operations Analysis and Review
Neil Markley	Senior Director, Entrepreneurial Activities
Ruth McDonnell	Deputy Controller, Contracts and Procurement, Payables
Patricia McNeill	Vice President, Development
Rebecca Olsen	Administrative Analyst/Specialist II
Anna Reynolds-Smith	Administrative Project Manager
Sue Riley	Assistant to the Vice President
Diane Psota	Administrative Analyst/Specialist II
Mary Trimble	Accountant II, Lead Cashier
Amanda Visser	Deputy Controller, Auxiliaries
Jessica Way	Director, Conference and Event Services

SONOMA STATE UNIVERSITY ACADEMIC FOUNDATION INC.

Letitia Coate	Secretary/Chief Financial Officer
Laurence Furukawa-Schlereth	Chief Operating Officer

SONOMA STATE UNIVERSITY ENTERPRISES

Lisa A. Andresen	Director, University Dining Services
Neil Markley	Chief Operating Officer
Dan O'Brien	Associate Director, Dining Services
Tracy Ramsdell	Assistant Director, Dining Services
Talmadge Savage	Assistant Director, Board Operations
Patricia Sinclair	Associate Director, Conferences, Events and Catering Services

SONOMA STUDENT UNION CORPORATION

Ryan Fitzpatrick	Recreation Center Fitness Coordinator
Ryan Hammes	Recreation Center Outdoor Fitness Coordinator
Peter Neville	Executive Director
Pamela Su	Campus Recreation Director

SONOMA STUDENT UNION CORPORATION (CONT.)

Jerry Uhlig	Technical Services Director
Jessica Way	Events Director

SONOMA STATE UNIVERSITY ASSOCIATED STUDENTS

Bruce Berkowitz	Program Coordinator
Michael Crump	Student Government Coordinator
Erik Dickson	Executive Director
Lia Thompson-Clark	Children's School Director
Linda Williams	Accountant/Business Manager

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.



1801 East Cotati Avenue
Rohnert Park, CA 94928-3609

OFFICE OF THE CHIEF FINANCIAL OFFICER AND
VICE PRESIDENT FOR ADMINISTRATION AND FINANCE

707.664.2035 • Fax 707.664.2080

May 19, 2010

MEMORANDUM

TO: Larry Mandel
University Auditor
California State University
401 Golden Shore, 4th Floor
Long Beach, California 90802-4200

FROM: Larry Furukawa-Schlereth
Chief Financial Officer and
Vice President for Administration and Finance

SUBJECT: Auxiliary Organizations Audit Report # 09-18, Campus Response

RECEIVED
UNIVERSITY AUDITOR

MAY 19 2010

THE CALIFORNIA STATE
UNIVERSITY

On behalf of President Armiñana, I am submitting the initial campus response to the recommendations of Audit Report *Number 09-18, Auxiliary Organizations at Sonoma State University*.

The response will also be forwarded to your staff electronically.

We will provide documentation to demonstrate completion of corrective actions for each recommendation.

Enclosure

c: President Ruben Armiñana
Patricia McNeill, Vice President, Development
Letitia Coate, Associate Vice President, Administration and Finance
Jason Wenrick, Acting Chief Information Officer
Neil Markley, Senior Director for Entrepreneurial Activities
Ian Hannah, Acting University Treasurer
Erik Dickson, Executive Director, Associated Students, Inc.
Peter Neville, Executive Director, Sonoma State Union Corporation
Barry Blackburn, Information Security Officer
Joe Dupre, Information Security Analyst
Amanda Visser, Deputy Controller, Auxiliaries
Ruth McDonnell, Deputy Controller, Contract and Procurement, Payables
Peter Flores, Director of CMS Support Services
Brian Orr, Internal Auditor
Kurt Koehle, Internal Operations & Analysis

THE CALIFORNIA STATE UNIVERSITY

**AUXILIARY ORGANIZATIONS
SONOMA STATE UNIVERSITY**

Audit Report 09-18

CAMPUS

OPERATING, ADMINISTRATIVE, AND FACILITIES AGREEMENTS

Recommendation 1

We recommend that the auxiliaries:

- a. Amend the cited agreements with appropriate indemnification and/or insurance clauses where necessary.
- b. Ensure that all future agreements include appropriate indemnification and/or insurance provisions where necessary.

Campus Response

- a. We agree. We will amend the cited agreements and add the appropriate indemnification and/or insurance clauses where necessary.
- b. We agree to evaluate each future agreement for inclusion of appropriate indemnification and/or insurance provisions where necessary.

Expected completion date: June 30, 2010

INFORMATION TECHNOLOGY

Recommendation 2

We recommend that the auxiliaries:

- a. Develop and implement an action plan for providing information security awareness training to all auxiliary employees with access to critical systems or protected data.
- b. Establish a policy requiring data confidentiality forms from all auxiliary employees prior to granting them access to critical systems and protected data and obtain completed forms from employees who currently have access to such data.

Campus Response

- a. We agree. The CSU developed Information Security Awareness Training (ISAT) has been rolled out and is required for all University and Auxiliary Organizations staff.
- b. We agree. CMS will work with Employment Services and the auxiliaries to get the data confidentiality training included as a part of the new employee sign-ups going forward. We will also insure that all current employees with access to auxiliary systems will complete the confidentiality agreement.

Expected completion date: June 30, 2010

SONOMA STATE UNIVERSITY ACADEMIC FOUNDATION INC.

FEEES, REVENUES, AND RECEIVABLES

Recommendation 3

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

Campus Response

We concur. An update to the matching gift policies and procedures has been developed to implement a dual review process to ensure that funds are administered in accordance with corporate donor requirements.

Action has been completed.

SONOMA STATE ENTERPRISES, INC.

OPERATING AND ADMINISTRATIVE AGREEMENTS

Recommendation 4

We recommend that SSE establish a current written agreement with the soft drink vendor.

Campus Response

We agree. The agreement has been updated and signed by both parties.

Action has been completed.

FEES, REVENUES, AND RECEIVABLES

Recommendation 5

We recommend that SSE:

- a. Perform inventory counts for all concession products at the start of sale and for all remaining products at the end of the events, also accounting for any products added to the inventory during the events.
- b. Complete a reconciliation of concession inventory to cash receipts and sales recorded to the general ledger for all concession events.

Campus Response

- a. We agree. We have implemented procedures to perform inventory counts before and after events as well as for added inventory during a concession activity.
- b. We agree. We have implemented procedures to reconcile inventory with sales for all concessions.

Expected completion date of documentation: June 30, 2010

SONOMA STUDENT UNION CORPORATION

CORPORATE GOVERNANCE

AUDIT COMMITTEE

Recommendation 6

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

Campus Response

We agree. The SSUC Board of Directors discussed the creation of an audit committee at the October 2009 board meeting and passed a resolution creating an audit committee at the November 2009 board meeting. Roles and responsibilities of the audit committee were discussed and adopted as outlined in the CSU Auxiliary Organizations & Affiliated Nonprofit Entities Compliance Manual.

Action has been completed.

BYLAWS

Recommendation 7

We recommend that the Union file amendments to the Bylaws with the Financing and Treasury department at the Office of the Chancellor within 30 calendar days.

Campus Response

We agree. SSUC Bylaws were transmitted to the Financing and Treasury Office on December 23, 2009.

Action has been completed.

CASH RECEIPTS AND HANDLING

Recommendation 8

We recommend that the Union localize accountability over cash receipts when multiple cashiers operate the same cash register.

Campus Response

We agree. Logon and close-out procedures have been implemented by the Conference & Events Services Office with the 2010 Spring Semester.

Expected completion date of documentation: June 30, 2010

ASSOCIATED STUDENTS OF SONOMA STATE UNIVERSITY

FISCAL COMPLIANCE

Recommendation 9

We recommend that AS account for and track UBI for concert ticket sales by ASP to community members, and file federal income tax returns as appropriate.

Campus Response

We agree. AS will begin to track and record tickets sales made to community members and file the appropriate tax documentation if the related revenue meets the threshold.

Expected completion date: June 30, 2010

OPERATIONAL COMPLIANCE

Recommendation 10

We recommend that AS develop written policies to address the accounting and processing of student club accounts, specifically for negative account balances, deposits and expenditures, and reconciliations.

Campus Response

We agree. AS management, in consultation with the University, will develop policies and procedures to specifically address negative account balances, deposits and expenditures and reconciliations for the club accounts, and submit these policies to the AS Senate for approval.

Expected completion date: June 30, 2010

INFORMATION TECHNOLOGY

PASSWORD AND DATA SECURITY

Recommendation 11

We recommend that AS:

- a. Set effective password and login security parameters for the Microsoft Dynamics GP accounting system in accordance with leading information security industry guidelines.

- b. Secure the AS business office to prohibit unauthorized access, ensure that the GP workstation is physically secured, and evaluate the feasibility of implementing a separate server for the Microsoft Dynamics GP accounting system in the campus data center or hosting the application on another server within the data center.
- c. Remove protected data and secure the protected data in a locked cabinet, or apply encryption controls to the Microsoft Dynamics GP accounting system and backups, and ensure that this system is properly segmented from other Internet-accessible devices on the network.
- d. Strengthen security controls for administrator user accounts to ensure that these accounts are not set up with default passwords, at minimum.

Campus Response

- a. We agree. We will add the Rocktron software that implements secure account management to the Great Plains software.
- b. We agree. The AS business office has locked doors and a split door to prevent unauthorized access. The GP workstation will be locked to the desk according to the SSU standard after rejecting the implementation of various data center options.
- c. We agree. We will remove the protected data from the Microsoft Dynamics GP accounting system and secure the data in a locked cabinet.
- d. We agree. The administrator accounts have been changed to strong passwords and the policy on the computer has been set to only allow strong passwords and meets the password policy of the university.

Expected completion date: June 30, 2010

VENDOR SERVICE AGREEMENT

Recommendation 12

We recommend that AS:

- a. Amend the cited service agreement with appropriate provisions for information security, data confidentiality, and system backup responsibilities, and also include terms for the additional services provided by the vendor.
- b. Consider using the CSU General Provisions for Information Technology Acquisitions, which includes references for information security responsibilities (the most recent revision dated July 24, 2006, also includes a Section 42 for the confidentiality of data) for all vendor service agreements relating to access to protected records or data, or update its own standard agreement to include such references.

Campus Response

- a. We concur. The AS will amend the cited service agreement to contain appropriate provisions for information security, data confidentiality and additional services provided by the vendor.
- b. We concur. The AS will work with campus Procurement and Information Security Office to develop AS General Provisions for Information Technology Acquisitions of goods and services involving protected data which will include appropriate provisions for information security and data confidentiality, similar to the CSU General Provisions for Information Technology Acquisitions.

Expected completion date: June 30, 2010

THE CALIFORNIA STATE UNIVERSITY
OFFICE OF THE CHANCELLOR



BAKERSFIELD

CHANNEL ISLANDS

July 2, 2010

CHICO

MEMORANDUM

DOMINGUEZ HILLS

EAST BAY

TO: Mr. Larry Mandel
University Auditor

FRESNO

FULLERTON

FROM: Charles B. Reed
Chancellor

HUMBOLDT

SUBJECT: Draft Final Report 09-18 on *Auxiliary Organizations*,
Sonoma State University

LONG BEACH

LOS ANGELES

MARITIME ACADEMY

In response to your memorandum of July 2, 2010, I accept the response as submitted with the draft final report on *Auxiliary Organizations*, Sonoma State University.

MONTEREY BAY

NORTHRIDGE

POMONA

CBR/amd

SACRAMENTO

SAN BERNARDINO

SAN DIEGO

SAN FRANCISCO

SAN JOSÉ

SAN LUIS OBISPO

SAN MARCOS

SONOMA

STANISLAUS