

**AUXILIARY ORGANIZATIONS**  
**CALIFORNIA STATE UNIVERSITY,**  
**DOMINGUEZ HILLS**

**Audit Report 09-20**  
**April 19, 2010**

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

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## **ABBREVIATIONS**

AS	Associated Students, California State University, Dominguez Hills
AORMA	Auxiliary Organizations Risk Management Authority
CFO	Chief Financial Officer
CSU	California State University
CSUDH	California State University, Dominguez Hills
CSURMA	California State University Risk Management Authority
EO	Executive Order
Foundation	California State University Dominguez Hills Foundation
GC	Government Code
https	Secure Hypertext Transfer Protocol
IFAS	Integrated Financial and Accounting System
OMB	Office of Management and Budget
RFIN	Resolution of the Committee on Finance
Telnet	Telecommunication Network
Union	Donald P. and Katherine B. Loker University Student Union, Incorporated

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## EXECUTIVE SUMMARY

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

California State University, Dominguez Hills (CSUDH) 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 CSUDH campus and its auxiliary organizations from November 16, 2009, through December 18, 2009, and made a study and evaluation of the system of internal compliance/internal control in effect as of December 18, 2009. This report represents our triennial review.

Our study and evaluation at *California State University Dominguez Hills Foundation* revealed certain conditions that, in our opinion, could result in errors and irregularities if not corrected. Specifically, the auxiliary did not maintain adequate control over the following areas: operating and administrative agreements, and 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 December 18, 2009, taken as a whole, was sufficient to meet the objectives stated above.

Our study and evaluation at *Associated Students, California State University, Dominguez Hills* 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 December 18, 2009, taken as a whole, was sufficient to meet the objectives stated above.

Our study and evaluation at *Donald P. and Katherine B. Loker University Student Union, Incorporated* 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 December 18, 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.

## **CALIFORNIA STATE UNIVERSITY DOMINGUEZ HILLS FOUNDATION**

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

Certain business arrangements between the California State University Dominguez Hills Foundation (Foundation) and third-party vendors were not supported by evidence of annual renewal, and did not include the right to inspect records or audit, and/or appropriate indemnification provisions. In addition, an agreement between the Foundation and a commercial fundraiser did not contain certain required provisions.

### **FISCAL COMPLIANCE [12]**

The Foundation did not record board-designated reserves within the general ledger in accordance with its reserves policy.

### **OPERATIONAL COMPLIANCE [13]**

The Foundation had not developed policies and procedures to address the operation of commercial services.

## **SEGREGATION OF DUTIES [14]**

Certain duties and responsibilities related to the processing of catering transactions and corresponding accounts receivable were not adequately segregated at the Foundation.

## **CASH RECEIPTS AND HANDLING [15]**

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

## **FEES, REVENUES, AND RECEIVABLES [16]**

Foundation 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.

## **PURCHASING AND ACCOUNTS PAYABLE [17]**

Release forms or signed waivers were not obtained from each student traveling by air on campus program sponsored trips at the Foundation.

## **TRUSTS AND OTHER LIABILITIES [18]**

The Foundation had not completed a review of its custodial trust accounts to determine the source of deposits, and therefore, certain campus program revenues were inappropriately deposited to, and held in custody by, the Foundation.

## **ENDOWMENT ADMINISTRATION [20]**

Foundation endowment agreements did not delineate management fees.

## **AUXILIARY PROGRAMS [21]**

Sub-recipient monitoring was not always adequate at the Foundation, as sub-recipient A-133 reports had not been timely requested in accordance with Foundation policy.

## **INFORMATION TECHNOLOGY [22]**

Password controls and data security were not always adequate for Foundation systems, and personnel with access to critical systems or protected data were not required to complete information security awareness training or sign data confidentiality forms. In addition, the Foundation did not perform a periodic, documented management review of user access privileges within all critical systems and applications containing protected data. Further, certain business arrangements between the Foundation and third-party systems vendors were not supported by complete and/or written agreements, and remote access to the Foundation accounting system server hosted off-site by a third-party service provider was not secure.

**ASSOCIATED STUDENTS, CALIFORNIA STATE UNIVERSITY, DOMINGUEZ HILLS**

**CORPORATE GOVERNANCE [30]**

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

**OPERATIONAL COMPLIANCE [30]**

AS had not developed a written risk management policy.

**CASH RECEIPTS AND HANDLING [31]**

AS could not evidence completion of unannounced inspections of the cash safe, and documentation of inspections were not specifically required by policy.

**FEES, REVENUES, AND RECEIVABLES [32]**

AS did not consistently document its monthly reconciliation of the Sage MIP accounting system sub-ledger records with campus PeopleSoft accounting system records, as the existing practice only provided for documented reconciliations on an exception basis.

**DONALD P. AND KATHERINE B. LOKER**  
**UNIVERSITY STUDENT UNION, INCORPORATED**

**OPERATIONAL COMPLIANCE [34]**

The Donald P. and Katherine B. Loker University Student Union, Incorporated (Union) had not developed a written risk management policy.

**AUXILIARY PROGRAMS [35]**

Administration of the Union's facilities reservation program required improvement, as verification forms and facility use agreements were not always obtained, signed and/or filed appropriately; required deposits were not always received; invoices were not always generated ten days prior to the event; full payment for services was not always received prior to the event; there was no system to establish receivables for services rendered prior to payment received; outstanding invoices were neither aged nor actively pursued for collection, and the event cancellation policy was not enforced.

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## INTRODUCTION

### **BACKGROUND**

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

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

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

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

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

The California State University Dominguez Hills Foundation (Foundation) was established in 1968 as a non-profit public benefit corporation for the purpose of promoting and assisting the educational programs of the university. The Foundation performs services that are vital to students, faculty, staff and the entire campus community, including self-operated dining and catering services; the oversight of outsourced vending, third-party food vendor, and bookstore operations; post-award administration of grants and contracts; endowment administration; and fiscal administration of educationally related functions, special programs, and specific campus accounts.

Associated Students, California State University, Dominguez Hills (AS) was established in 1989 as a non-profit public benefit corporation responsible for providing a means for participation in the governance of the campus and an official voice through which students' opinions may be expressed; assisting in the protection of the rights and interests of the individual student and the student body; and stimulating the educational, social, physical and cultural well-being of the university community. AS operates the Child Development Center, KDHR radio station, and a movie ticket sales desk. AS is governed by the student board of directors and an advisory Executive Council that includes university management; employs an executive director, associate director, program coordinator, and an executive assistant to manage daily operations; and outsources other fiscal and administrative functions to the campus.

The Donald P. and Katherine B. Loker University Student Union, Incorporated (Union) was established in 1992 as a non-profit public benefit corporation for the primary purpose of operating and maintaining the student union facility. As of fall 2009, functions performed by the Union included operation of the student union facility, conference and ballroom rentals, Toro productions, and a laptop checkout program. The Union is governed by a board of directors comprised of representatives from campus administration, faculty, the student body, and the community; and employs an executive director, associate director, assistant director, and supporting staff to manage its operations. The Union also relies on the Foundation for certain 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 December 18, 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:

California State University Dominguez Hills Foundation

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

California State University Dominguez Hills Foundation (cont.)

- ▶ Personnel and Payroll
- ▶ Property and Equipment
- ▶ Endowment Administration
- ▶ Trusts and Other Liabilities
- ▶ Auxiliary Programs
- ▶ Information Technology

Associated Students, California State University, Dominguez Hills

- ▶ 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

Donald P. and Katherine B. Loker University Student Union, Incorporated

- ▶ 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
- ▶ Auxiliary Programs
- ▶ Information Technology

Campus

▶ Campus Oversight and Control

We have not performed any auditing procedures beyond December 18, 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.

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

### **CALIFORNIA STATE UNIVERSITY DOMINGUEZ HILLS FOUNDATION**

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

##### **ADMINISTRATIVE SERVICE AGREEMENTS**

Certain business arrangements between the California State University Dominguez Hills Foundation (Foundation) and third-party vendors were not supported by evidence of annual renewal, and did not include the right to inspect records or audit and/or appropriate indemnification provisions.

We reviewed seven vendor agreements and found that:

- ▶ Annual renewal letters had not been obtained for two vendors, as required by the agreements. In addition, these vendor agreements did not include the right to inspect records or audit and lacked an indemnification provision to specifically indemnify the California State University (CSU) Trustees, the officers, employees, volunteers, and agents of each of them, and the State of California.
- ▶ Four vendor agreements did not include an indemnification provision to specifically indemnify the State of California.

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

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 Foundation director of commercial services stated that the agreements reviewed have been in place for several years and management was unaware of the requirements at the time the agreements were executed.

The absence of current written agreements that include the right to inspect records or audit and appropriate indemnification 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 Foundation:

- a. Promptly obtain the cited renewal letters for the third-party vendors and implement procedures to ensure annual renewals are performed, as required.
- b. Ensure that all future agreements include the right to inspect records or audit.
- c. Ensure that all future agreements include appropriate indemnification provisions.

### **Campus Response**

- a. Renewal letters for all third-party vendors and procedures to ensure annual renewals will be performed as required.
- b. The Foundation will ensure all future agreements will include the right to inspect records or audit.
- c. The Foundation will ensure appropriate indemnification is included in all future use agreements.

Corrective action on this issue is complete.

## **COMMERCIAL FUNDRAISER AGREEMENT**

An agreement between the Foundation and a commercial fundraiser did not contain certain required provisions.

Specifically, the agreement did not contain the following provisions, as required by the California Nonprofit Integrity Act of 2004 and codified in Government Code (GC) §12599 (i):

- ▶ If the commercial fundraiser will be paid a fixed fee, the amount of the fee and a good faith estimate of what percentage of the total contributions the fee will comprise. The contract must clearly set forth the assumptions on which the good faith estimate is based.
- ▶ The charitable organization controls and approves the content and frequency of any solicitation.

- ▶ The charitable organization has a right to cancel the contract without cost, penalty, or liability for ten days following the date the contract is executed.
- ▶ After the initial ten-day period, the charitable organization has a right to cancel the contract for any reason without liability if the commercial fundraiser or its agents make material misrepresentations, harm the charitable organization's reputation, or are found to have been convicted of a crime arising from charitable solicitations.

GC §12599 (i) states that for every solicitation campaign or event produced by a commercial fundraiser for a charitable organization, there must be a written contract between the fundraiser and the charitable organization. The written contract must contain or state certain provisions.

The campus executive director of development stated that management was unaware of the required provisions needed in agreements between the Foundation and commercial fundraisers.

Failure to execute agreements in accordance with legal mandates increases the risk of misunderstandings and miscommunication regarding rights and responsibilities and may increase legal liability.

## **Recommendation 2**

We recommend that the Foundation establish procedures to ensure that all future commercial fundraiser agreements are established in accordance with the Government Code.

## **Campus Response**

We concur. The director of procurement and contracts has been provided the requirements to ensure all future commercial fundraiser agreements are in accordance with the Government Code.

Corrective action on this issue is complete.

## **FISCAL COMPLIANCE**

The Foundation did not record board-designated reserves within the general ledger in accordance with its reserves policy.

The Foundation *Reserves Policy* states that appropriations are annual allocations of reserves to the following board-designated provisions: working capital and current operations, capital equipment acquisition, audit disallowance, commercial operations, and capital development.

The *Compilation of Policies and Procedures for California State University Auxiliary Organizations* sets sound business practice guidelines for auxiliary organizations operating within the CSU system. Section 8.1.1.2 A-2, *Basis for Financial Standards and Fiscal Viability – Financial Statements*, states that annually each auxiliary governing board shall review the fiscal viability of the auxiliary

organization to include an evaluation of the need for reserves in the following areas: a) Working capital, b) Current operations, c) Capital replacement, and d) Planned future operations.

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 a designated fund balance be recognized within an organization's general ledger.

The Foundation director of business and finance stated that due to an oversight in the evaluation and subsequent recording of board-designated reserves, all of these specific reserve accounts were not included in the budget package reviewed and approved by the board of directors.

Failure to record designated reserve amounts according to the reserves policy increases the risk of misunderstandings and miscommunication regarding available reserves.

### **Recommendation 3**

We recommend that the Foundation record designated reserves within the general ledger in accordance with its reserves policy.

### **Campus Response**

We concur. Designated reserves within the general ledger will be recorded in accordance with Foundation policy.

Expected completion date: July 2010

## **OPERATIONAL COMPLIANCE**

The Foundation had not developed policies and procedures to address the operation of commercial services.

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

- ▶ Cash handling at two convenient stores.
- ▶ Management and/or control of inventory waste, spoilage, and shrinkage related to dining 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 §8.9.1, *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 proper administration of inventory waste, spoilage and shrinkage.

The Foundation director of commercial services stated that policies and procedures were in place but had not been formalized.

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

#### **Recommendation 4**

We recommend that the Foundation develop written policies and procedures to address cash handling at convenience stores and the management and/or control of inventory waste, spoilage, and shrinkage related to dining services.

#### **Campus Response**

We concur. Foundation management has written policies and procedures to address cash handling at convenience stores and has developed a process to track inventory waste, spoilage, and shrinkage in relation to dining services.

Corrective action on this issue is complete.

## **SEGREGATION OF DUTIES**

Certain duties and responsibilities related to the processing of catering transactions and corresponding accounts receivable were not adequately segregated at the Foundation.

We noted that one employee:

- ▶ Recorded orders for catering services.
- ▶ Created and mailed accounts receivable invoices.
- ▶ Received accounts receivable payments.

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 8.9.4, *Receivables*, states that the auxiliary should establish a written internal controls system that ensures billing, cash collection, customer inquiries, and subsidiary reconciliations are conducted separately and with due regard for the receivable duties.

The Foundation director of commercial services stated that he was unaware that these duties for processing catering transactions and related accounts receivable were not adequately segregated.

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

### **Recommendation 5**

We recommend that the Foundation appropriately segregate the processing of catering transactions and related accounts receivable duties or institute mitigating procedures approved by the campus chief financial officer (CFO).

### **Campus Response**

We concur. The Foundation has segregated the process of catering transactions in relation to accounts receivable duties. Payments received by catering customers are now handled by the campus dining office manager and not the catering coordinator.

Corrective action on this issue is complete.

## **CASH RECEIPTS AND HANDLING**

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

The Foundation did not prepare a prelisting of checks received that were either erroneously addressed or intended for a different department and forwarded via inner campus mail for investigation. In addition, payments received via mail were transferred to campus departments without the use of transfer 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 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 cash receipts.

The Foundation director of business and finance stated that a check log is maintained for checks addressed to the Foundation, but she was unaware that checks received that were either erroneously addressed or intended for a different department were not recorded in the log and forwarded to the proper department without acknowledgement of receipt.

Inadequate administration of cash receipts increases the risk of loss or misappropriation of funds.

### **Recommendation 6**

We recommend that the Foundation:

- a. Prepare a prelisting of checks received in the mail that are either erroneously addressed or intended for a different department.
- b. Implement the use of transfer receipts when payments are transferred between locations.

### **Campus Response**

We concur.

- a. All checks that are received erroneously or intended for another department are recorded in the log of checks received.
- b. The log is now signed by the department picking up the check.

Corrective action on this issue is complete.

## **FEES, REVENUES, AND RECEIVABLES**

Foundation 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 campus executive director of development stated that management was unaware that matching gift procedures required a dual review.

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

### **Recommendation 7**

We recommend that the Foundation update its 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. The development office has updated the matching gift procedures to ensure that funds are administered in accordance with corporate donor requirements. This review is conducted by both the gift recorder and the director of advancement services so as to provide dual review.

Corrective action on this issue is complete.

## **PURCHASING AND ACCOUNTS PAYABLE**

Release forms or signed waivers were not obtained from each student traveling by air on campus program sponsored trips at the Foundation.

During our review of disbursements, we found a disbursement for athletic team travel airfare that was not supported by air travel release forms or signed waivers from the 30 student travelers.

EO 590, *California State University Systemwide Student Air Travel Policy*, dated March 26, 1992, and its successor EO 1041, *California State University Student Travel Policy*, dated July 1, 2009, state that all students participating in CSU-affiliated programs which require air travel shall be required to acknowledge that they have been informed of the risks of air travel required by such programs and to sign a statement certifying that they have been informed of and undertake such air travel voluntarily with full knowledge of such risks, and release and hold harmless the State of California, the CSU, the campus affiliated with the program requiring air travel, and each and every officer, agent, and employee of each of them, from any and all claims and causes of action that the student, or any person(s) claiming through the student, may have against any of the above institutions or persons, by reason of any accident, illness, or injuries, death, or other consequences resulting

directly or indirectly from or in any manner arising out of, or in connection with, the student being a passenger on a flight.

The Foundation director of business and finance stated that the Foundation was obtaining waivers for minors traveling on campus program sponsored trips but was unaware of the requirement to obtain signed waivers from all students traveling by air.

Lack of release forms or signed waivers for students traveling by air on campus program sponsored trips increases the risk of legal liability.

### **Recommendation 8**

We recommend that the Foundation obtain signed release forms/waivers from each student traveling by air.

### **Campus Response**

We concur. The Foundation will obtain signed release forms/waivers for all students traveling by air.

Expected completion date: August 2010

## **TRUSTS AND OTHER LIABILITIES**

The Foundation had not completed a review of its custodial trust accounts to determine the source of deposits, and therefore, 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 110 custodial trust accounts totaling \$1,977,356. We found that state/campus operating funds were being inappropriately held by the Foundation in 102 accounts in the amount of \$1,444,016.

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. EO 919 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 director of business and finance stated that the Foundation has maintained these custodial accounts for years and was unaware that these accounts and funds should be maintained in campus accounts.

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

### **Recommendation 9**

We recommend that the Foundation:

- a. Complete a review of all custodial trust accounts and determine, within 60 days, which accounts contain state/campus operating funds.
- b. Certify that none of the following specific and similar monies reside in Foundation trust accounts:
  - Contracts and grants awarded to the university.
  - 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.
  - Athletics funds/fees/revenues other than gifts/donations.
  - Investment income from state funds/fees/revenues.
  - 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**

We concur.

- a. A preliminary review of all custodial trust accounts has been undertaken and further analysis will continue until complete.

Expected completion date: July 2010

- b. A preliminary review of all Foundation trust accounts has been undertaken and further analysis will continue until complete.

Expected completion date: July 2010

- c. A list of trust accounts which are appropriate to remain in the custody of the Foundation will be submitted to the Office of the University Auditor along with documentation to support the source of funds.

Expected completion date: July 2010

- d. Those state funds identified in “a” above will be moved to campus accounts.

Expected completion date: November 2010

## **ENDOWMENT ADMINISTRATION**

Foundation endowment agreements did not delineate management fees.

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 sufficient administration of endowments.

The campus executive director of development stated that she was unaware that delineation of management fees was required.

Failure to delineate management fees within the endowment agreement increases auxiliary exposure to liability.

### **Recommendation 10**

We recommend that the Foundation revise its endowment agreement to specifically address the Foundation’s management fees.

### **Campus Response**

We concur. The endowment gift agreements now include a section that specifically addresses Foundation's management fees.

Corrective action on this issue is complete.

## **AUXILIARY PROGRAMS**

Sub-recipient monitoring was not always adequate at the Foundation.

We reviewed ten contracts and grants files and two corresponding sub-awards and found that A-133 reports had not been timely requested in accordance with Foundation policy.

The Foundation *Policy for Sub-recipient Monitoring* states that at the end of the fiscal year, the director, grants and contracts administration will initiate sending letters to sub-recipients, requesting sub-recipient A-133 compliance confirmation. This process will help ensure that the sub-recipient has not been found to have material weaknesses in its audit.

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.

The Foundation director of grants and contracts administration stated that the untimely request for sub-recipient A-133 reports was due to an oversight or the organization did not meet the federal expenditure criteria.

Failure to adequately monitor sub-recipient activities increases the risk of non-compliance with federal regulations and jeopardizes the future of the Foundation's grant programs.

### **Recommendation 11**

We recommend that the Foundation request sub-recipient A-133 reports in a timely manner.

### **Campus Response**

We concur. The Foundation will request A-133 reports in a timely manner.

Corrective action on this issue is complete.

## **INFORMATION TECHNOLOGY**

### **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 accounting system, as there were no minimum password length or complexity requirements, and no restrictions for reuse of passwords or access after repeated failed attempts.
- ▶ Password security parameters were inadequate for the payroll system, as the minimum password length was four characters instead of the minimum eight characters required by the campus and leading information security industry guidelines, and there were no 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 ordering/inventory system, as the system login screen did not require a user ID or password to be input for access into the system.
- ▶ Password security parameters were inadequate for the donor system, as there were no complexity requirements, the minimum password length was six characters instead of the minimum eight characters required by the campus and leading information security industry guidelines, and Internet protocol security was not enabled for improved login security.
- ▶ The donor system was hosted off-site and required web-accessible login by development employees to gain systems access. However, this login screen was not enabled with secure hypertext transfer protocol (https), and therefore, login credentials were not encrypted.
- ▶ Sensitive donor information on unencrypted report files downloaded into Excel from the donor system was locally stored on personal computers and the departmental server to which access was not adequately controlled and adequate network security was not employed.

The California State University, Dominguez Hills *Information Security Policy* states that the University Technology Advisory Council approved the following password rules, which all users of the university computing resources must observe:

- Password History = 10 passwords
- Password Age (Max) = 200 days
- Password Length = 8 characters
- Password Complexity = Yes, and requires any combination of three of the following four: upper case, lower case, numerals, and symbols
- Password lockout = 5 bad attempts
- Lockout duration = 30 minutes

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 director of business and finance stated that the default settings were in place for the accounting system and she was unaware that different settings could be implemented. She further stated that the payroll system only allows a specific number of characters. The Foundation director of commercial services stated that the ordering/inventory system originally did not require a user ID to access the system as a default setting. The campus executive director of development stated that the character limit in the donor system was the vendor's default setting. She further stated that the unsecure transmission of login credentials to the vendor-hosted system was a result of the vendor not providing a secure login option, and that not storing the downloaded sensitive data with adequate security was an oversight.

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 accounting, payroll, ordering/inventory, and donor 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. Ensure that web-accessible login to the donor system is done via https to ensure the encryption of user credentials.
- c. Properly secure sensitive donor information which may be locally stored on personal computers and the departmental server by implementing and enforcing access control restrictions and network segmentation; and also apply encryption controls to all other Foundation systems, computers, databases, and file servers that house protected and/or sensitive data.

### **Campus Response**

We concur.

- a. The Foundation has revised the required password length for the accounting system in accordance with campus guidelines. The payroll system remains behind campus login security requiring initial logon to the campus system as a mitigating security control. Campus dining has revised password and logon security parameters for ordering and inventory systems. University advancement has revised the requirements in accordance with campus guidelines.
- b. The web-accessible login has been moved so as to require https providing secure encryption of user credentials.
- c. A restricted area on the common share drive has been created so that no information is retained on personal computers or other non-secured locations.

Corrective action on this issue is complete.

### **INFORMATION SECURITY TRAINING AND DATA CONFIDENTIALITY FORMS**

Foundation personnel with access to critical systems or protected data were not required to complete information security awareness training or sign 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 Foundation director of business and finance stated that she was unaware of the requirement for employees with access to protected data and/or critical systems to complete information security awareness training and submit signed data confidentiality forms.

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 13**

We recommend that the Foundation:

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

### **Campus Response**

We concur.

- a. The Foundation will develop and implement a security awareness training plan for all employees with access to critical systems or protected data.

Expected completion date: July 2010

- b. The Foundation has developed a policy requiring data confidentiality forms from all employees prior to granting them access to critical systems or protected data.

Corrective action on this issue is complete.

- c. Completed Data Confidentiality Compliance Forms were obtained from personnel who currently have access to critical systems or protected data.

Corrective action on this issue is complete.

## **USER ACCESS REVIEW**

The Foundation did not perform a periodic, documented management review of user access privileges within all critical systems and applications containing protected data.

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.

The campus executive director of development stated that she was unaware of the requirement to perform periodic, documented management reviews of user access privileges within Foundation systems. The Foundation director of business and finance stated that the Foundation reviewed user access upon employee separation or job responsibility change; however, these reviews were only performed when changes were made and not on a regular, periodic basis.

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

### **Recommendation 14**

We recommend that the Foundation conduct periodic, documented management reviews of user access for all critical systems and applications containing protected data, at least annually.

### **Campus Response**

We concur. A documented review was performed of current user access, and in the future, this review will be performed annually.

Corrective action on this issue is complete.

## VENDOR SERVICE AGREEMENTS

Certain business arrangements between the Foundation and third-party systems vendors were not supported by complete and/or written agreements.

We found that:

- ▶ The business arrangement with a third-party service provider for payroll services was not supported by a written agreement. Further, the payroll system, which contains protected employee data for Foundation, Associated Students, California State University, Dominguez Hills, and Donald P. and Katherine B. Loker University Student Union, Incorporated 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. In addition, the lack of a service agreement resulted in system backups not being addressed, which were only presumed to be done by the service provider.
- ▶ The business arrangement with a third-party service provider for off-site hosting of the accounting system, which contained protected data, lacked appropriate terms for information security and data confidentiality.

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.

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.

The Foundation director of business and finance stated that the third-party payroll services provider uses sales orders instead of service agreements, which do not include specific security terms. She further stated that the Foundation has a signed agreement with the third-party service provider of accounting system services that has been in effect for several years. She added that at the time the sales order and agreement were written, she was unaware of the requirement to include information security and data confidentiality clauses.

The absence of complete, 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 auxiliary and CSU to potential liability.

### **Recommendation 15**

We recommend that the Foundation:

- a. Establish a written agreement with the third-party payroll services provider and amend the accounting system third-party service provider agreement with appropriate provisions for information security, data confidentiality, and system backup responsibilities.
- 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**

We concur.

- a. A written agreement will be established with the third-party payroll services provider and the Integrated Financial and Accounting System (IFAS) third-party service provider agreement will be amended with appropriate provisions for information security, data confidentiality, and system backup responsibilities.
- b. The CSU General Provisions for Information Technology Acquisitions will be utilized for future vendor service agreements relating to access to protected records or data.

Expected completion date: October 2010

### **REMOTE ACCESS SECURITY**

Remote access to the Foundation accounting system server hosted off-site by a third-party service provider was not secure.

We found that Telecommunication Network (Telnet), an unsecure remote access protocol that allows users to connect to remote computers and transmits data in clear text, was enabled to permit remote access by the Foundation.

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 securing remote access to auxiliary systems.

The Foundation director of business and finance stated that at the time remote access was implemented in 2002, Telnet provided the best network compatibility and was considered adequate at that time. She further stated that remote access security has not been evaluated since that 2002.

Failure to properly secure remote access to auxiliary servers increases the risk that an attacker who is able to monitor network traffic could capture sensitive information or authentication credentials and, therefore, gain access to network resources and exploit vulnerabilities that could lead to the loss of protected confidential information and the execution of malicious programs on the server that could disable additional network resources.

### **Recommendation 16**

We recommend that the Foundation replace Telnet remote access with a more secure remote access protocol (such as secure shell) or enforce internal firewall restrictions on Telnet such that it could only be accessed once a virtual private network connection has been established.

### **Campus Response**

We concur. The Foundation is currently upgrading the accounting system to a secure web-based application. Once the upgrade is completed, Telnet will no longer be used.

Expected completion date: October 2010

**ASSOCIATED STUDENTS,**  
**CALIFORNIA STATE UNIVERSITY, DOMINGUEZ HILLS**

**CORPORATE GOVERNANCE**

The Associated Students, California State University, Dominguez Hills (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 17**

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

**Campus Response**

We concur. Requisite documents will be filled with the Secretary of State to reflect a proper dissolution clause. AS is currently working with legal counsel for guidance in the matter.

Expected completion date: August 2010

**OPERATIONAL COMPLIANCE**

AS had not developed a written risk management policy.

We found that AS did not have a written risk management policy that addressed an ongoing process to proactively identify risks, analyze the frequency and severity of identified risks, and to implement a risk mitigation program which coordinates with the campus' risk assessment and mitigation plan.

EO 715, *California State University Risk Management Policy*, dated October 27, 1999, delegated authority and responsibility to the campus president to implement campus risk management policies consistent with the CSU Risk Management Policy guidelines. This includes an ongoing process to identify risks, analyze the frequency and severity of the potential risks, and select the best management techniques to manage the risks.

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 8.7, *Risk Management*, states that auxiliary organizations should develop programs to manage risk related to activities in which the organizations are engaged.

The AS executive director stated that AS had addressed risk management through acquiring insurance coverage to minimize risk exposures but never formally adopted its practices into policy.

The absence of a comprehensive risk management policy increases the risk that all current risk-related activities may not be adequately evaluated.

### **Recommendation 18**

We recommend that AS develop and adopt a written risk management policy, including procedures to actively identify, analyze, quantify, and manage risk.

### **Campus Response**

We concur. A draft policy has been created and is currently being reviewed through a committee of the board of directors. Once approved, the policy will be implemented.

Expected completion date: June 2010

## **CASH RECEIPTS AND HANDLING**

AS could not evidence completion of unannounced inspections of the cash safe, and documentation of inspections were not specifically required by policy.

The *AS Cash Handling Policy and Procedure* states that the AS executive director will make periodic unannounced inspections of the safe throughout the fiscal year.

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, with annual management review.

The AS executive director stated that insufficient documentation of unannounced inspections of the cash safe was due to oversight.

Insufficient documentation of unannounced inspections of the cash safe limits the auxiliary's ability to detect errors and irregularities, increases the likelihood of loss of funds, and compromises accountability.

**Recommendation 19**

We recommend that AS document its unannounced inspections of the cash safe and update its policy to require such documentation.

**Campus Response**

We concur. AS management has written procedures to document unannounced inspections and the policy will be updated to reflect these procedures.

Expected completion date: August 2010

**FEES, REVENUES, AND RECEIVABLES**

AS did not consistently document its monthly reconciliation of the Sage MIP accounting system sub-ledger records with campus PeopleSoft accounting system records, as existing practice only provided for documented reconciliations on an exception basis.

The *Compilation of Policies and Procedures for California State University Auxiliary Organizations* sets sound business practice guidelines for auxiliary organizations operating within the CSU system. Section 8.9.4, *Receivables*, states that subsidiary ledgers should be reconciled to the general ledger on a timely basis and reviewed independently by management.

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 reconciliations should be properly documented to assign accountability of work performed.

The AS executive director stated his belief that the documentation of reconciliations on an exception basis was deemed sufficient.

Insufficient reconciliation between internal auxiliary records and corresponding campus accounting 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 document its monthly reconciliation of Sage MIP sub-ledger records with campus PeopleSoft accounting records in a consistent manner.

**Campus Response**

We concur. AS management has written procedures to document monthly reconciliation of Sage MIP sub-ledger records with campus PeopleSoft accounting records and the policy will be updated to reflect these procedures.

Expected completion date: August 2010

**DONALD P. AND KATHERINE B. LOKER**  
**UNIVERSITY STUDENT UNION, INCORPORATED**

**OPERATIONAL COMPLIANCE**

The Donald P. and Katherine B. Loker University Student Union, Incorporated (Union) had not developed a written risk management policy.

We found that the Union did not have a written risk management policy that addressed an ongoing process to proactively identify risks, analyze the frequency and severity of identified risks, and to implement a risk mitigation program which coordinates with the campus' risk assessment and mitigation plan.

EO 715, *California State University Risk Management Policy*, dated October 27, 1999, delegated authority and responsibility to the campus president to implement campus risk management policies consistent with the CSU Risk Management Policy guidelines. This includes an ongoing process to identify risks, analyze the frequency and severity of the potential risks, and select the best management techniques to manage the risks.

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 8.7, *Risk Management*, states that auxiliary organizations should develop programs to manage risk related to activities in which the organizations are engaged.

The Union executive director stated that the Union has a risk management culture that is practiced but has never formally adopted its practices into policy.

The absence of a comprehensive risk management policy increases the risk that all current risk-related activities may not be adequately evaluated.

**Recommendation 21**

We recommend that the Union develop and adopt a written risk management policy, including procedures to actively identify, analyze, quantify, and manage risk.

**Campus Response**

We concur. A written risk management policy has been developed that addresses procedures for identifying, analyzing, quantifying, and managing risk. It was adopted by the board of directors in December 2009 and is now in practice.

Corrective action on this issue is complete.

## AUXILIARY PROGRAMS

Administration of the Union's facilities reservations program required improvement.

We reviewed ten confirmed facilities reservations and found that:

- ▶ Verification forms and facility use agreements were not obtained, signed, and/or filed appropriately in two instances.
- ▶ The required 25 percent deposit was not received in four instances.
- ▶ Invoices were not generated ten days prior to the event in two instances.
- ▶ Full payment for services was not received prior to the event in three instances. Further, a process had not been established to record receivables for services rendered prior to the receipt of payment.
- ▶ Outstanding invoices were neither aged nor actively pursued for collection in three instances, and an accounts receivable collection policy had not been established.
- ▶ The event cancellation policy was not enforced in three instances.

The Union's *Facility Reservation Policy* states, in part, that a verification form and/or request for meeting space form must be signed and returned to the administrative office of the Loker Student Union before it is considered a confirmed reservation. In doing so, the requestor agrees to all policies and guidelines for using meeting space in the Student Union. It also states that all groups scheduling meetings and activities must agree to and sign specific facility use agreements terms and conditions prior to facility use.

The Union's *Payment Policy* states that a deposit of 25 percent of all estimated charges is due at the time the reservation is made and must be submitted within ten days of the reservation request. It further states that full payment for services as estimated is due ten days prior to the date of the event. Failure to submit the required deposit within ten days may result in event cancellation. It also mentions that non-payment may result in the loss of the reservation.

The *Compilation of Policies and Procedures for California State University Auxiliary Organizations* sets sound business practice guidelines for auxiliary organizations operating within the CSU system. Section 8.9.4, *Receivables*, states that the auxiliary should establish a written system to record receivables in a timely manner with proper documentation as to terms and conditions; invoice customers promptly, in a consistent manner, while exercising due diligence in the follow-up and collection of past due accounts; and reconcile subsidiary receivables ledgers to the general ledger on a timely basis with independent management review.

The Union's *Cancellation Policy* states that cancellation of a reservation must be made by the primary contact or an authorized person designated at the time the reservation is originally requested.

Cancellations must be completed according to specific timelines that may require specific financial penalties and forfeiture of deposit balances.

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 the facilities reservations program.

The Union executive director stated that the facilities reservations program has experienced significant growth with the opening of the expanded student union and manual processes and existing systems are no longer adequate. She further stated that turnover in the reservations specialist position contributed to the breakdowns.

Inadequate administration of the facilities reservations program increases the risk of misunderstanding and miscommunication regarding rights and responsibilities and revenue loss, and subjects the auxiliary and CSU to potential liability.

### **Recommendation 22**

We recommend that the Union:

- a. Obtain and appropriately file verification forms and facility use agreements.
- b. Enforce collection of the 25 percent reservation deposits.
- c. Generate invoices at least ten days prior to the event.
- d. Ensure the receipt of full payment for services prior to the event and if full payment is not received then establish a process to record accounts receivable for any unpaid balances.
- e. Develop an accounts receivable collection policy and ensure adequate management of outstanding invoices, including active pursuit for collection.
- f. Enforce the event cancellation policy when applicable.

### **Campus Response**

We concur.

- a. New procedures have been implemented to ensure that documents are collected and appropriately filed for every event.

- b. Collection of the 25 percent reservation deposit is being enforced, or in cases where an exception is being granted, documentation is created.
- c. Staffing in the reservations area has been re-evaluated and additional part-time staff added to ensure timely processing of invoices at least ten days prior to the event.
- d. Staffing in the reservations area has been re-evaluated and additional part-time staff added to ensure timely collection of payments prior to the event. If payment is not received in full prior to the event, a receivable is recorded.
- e. New accounting software is being implemented internally that will allow for more effective tracking and monitoring of outstanding invoices. Policies on collection are being revised and implemented.
- f. Event cancellation policy is being reviewed and will be modified to ensure it can be consistently enforced.

An internal review of reservations policies and procedures is currently underway. At the completion of the review, files from the past three months will be reviewed to ensure consistent compliance with policies and procedures.

Expected completion date: August 2010

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## **APPENDIX A: PERSONNEL CONTACTED**

### Name

### Title

#### **CAMPUS**

Mildred Garcia	President
Ann Camp	Executive Director of Development
Mary Ann Rodriguez	Vice President, Administration and Finance
Karen Wall	Associate Vice President, Administration and Finance

#### **CALIFORNIA STATE UNIVERSITY DOMINGUEZ HILLS FOUNDATION**

Lauren Ansonge	Grants and Contracts Administrator
Clyde Bustamante	Receptionist/Clerical Assistant
Richard Chester	Director of Commercial Services
Rita Darcy	Grants and Contracts Administrator
Delia Diego	Office Manager, Campus Dining Services
Jim Egan	Payroll/Human Resources Officer
Melissa Gallagos	Catering Coordinator
Dan Hoang	Accounting Manager
Gloria Mendez	Director of Grants and Contracts Administration
Ricardo Mosqueda	Retail Operations and Purchasing Manager
Dawn Shimizu	Director of Business and Finance
Patty Young	Accounting Technician

#### **ASSOCIATED STUDENTS, CALIFORNIA STATE UNIVERSITY, DOMINGUEZ HILLS**

Nicole Gordon	Office Manager
Yvonne Green	Site Supervisor
Jessica Newkirk	Associate Director
Guy Witherspoon	Executive Director

#### **DONALD P. AND KATHERINE B. LOKER UNIVERSITY STUDENT UNION, INCORPORATED**

Kim Clark	Executive Director
Jaime Leal, Jr.	Assistant Director

## **STATEMENT OF INTERNAL CONTROLS**

### **A. INTRODUCTION**

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

### **B. INTERNAL CONTROL DEFINITION**

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

#### 1. Internal Accounting Controls

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

#### 2. Operational Controls

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

### **C. INTERNAL CONTROL OBJECTIVES**

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

#### **D. INTERNAL CONTROL SYSTEMS LIMITATIONS**

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



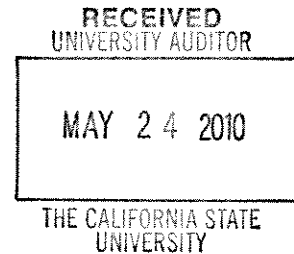
California State University  
**Dominguez Hills**

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Office of the Vice President for Administration and Finance  
1000 E. Victoria Street – WH B470 Carson, CA 90747 (310) 243-3750 FAX (310) 234-3869

May 24, 2010

Mr. Larry Mandel  
University Auditor  
The California State University  
401 Golden Shore, 4<sup>th</sup> Floor  
Long Beach, CA 90802-4210



Dear Mr. Mandel:

Enclosed, please find California State University, Dominguez Hills' responses to the Auxiliary Organizations Audit 09-20, dated April 19, 2010. The campus is committed to addressing and resolving the issues identified in the audit report.

If you have any questions or would like additional information, please contact me.

Sincerely,

A handwritten signature in cursive script, appearing to read "Mary Ann Rodriguez".

Mary Ann Rodriguez  
Vice President, Administration and Finance

Enclosure (1)

c: Mildred García, President  
Karen Wall, Associate Vice President, Administration and Finance

**AUXILIARY ORGANIZATIONS**  
**CALIFORNIA STATE UNIVERSITY,**  
**DOMINGUEZ HILLS**

**Audit Report 09-20**

**CALIFORNIA STATE UNIVERSITY DOMINGUEZ HILLS FOUNDATION**

**OPERATING AND ADMINISTRATIVE AGREEMENTS**

**ADMINISTRATIVE SERVICE AGREEMENTS**

**Recommendation 1**

We recommend that the Foundation:

- a. Promptly obtain the cited renewal letters for the third-party vendors and implement procedures to ensure annual renewals are performed, as required.
- b. Ensure that all future agreements include the right to inspect records or audit.
- c. Ensure that all future agreements include appropriate indemnification provisions.

**Campus Response**

We concur:

- a. Renewal letters for all third-party vendors and procedures to ensure annual renewals will be performed as required.
- b. The Foundation will ensure all future agreements will include the right to inspect records or audit.
- c. The Foundation will ensure appropriate indemnification is included in all future use agreements.

Corrective action on this issue is complete.

**COMMERCIAL FUNDRAISER AGREEMENT**

**Recommendation 2**

We recommend that the Foundation establish procedures to ensure that all future commercial fundraiser agreements are established in accordance with the Government Code.

**Campus Response**

We concur.

The director of procurement and contracts has been provided the requirements to ensure all future commercial fundraiser agreements are in accordance with the Government Code. Corrective action on this issue is complete.

**FISCAL COMPLIANCE**

**Recommendation 3**

We recommend that the Foundation record designated reserves within the general ledger in accordance with its reserves policy.

**Campus Response**

We concur.

Designated reserves within the general ledger will be recorded in accordance with Foundation policy.

Expected completion date: July 2010

**OPERATIONAL COMPLIANCE**

**Recommendation 4**

We recommend that the Foundation develop written policies and procedures to address cash handling at convenience stores and the management and/or control of inventory waste, spoilage, and shrinkage related to dining services.

**Campus Response**

We concur.

Foundation management has written policies and procedures to address cash handling at convenience stores, and has developed a process to track inventory waste, spoilage and shrinkage in relation to dining services. Corrective action on this issue is complete.

## SEGREGATION OF DUTIES

### Recommendation 5

We recommend that the Foundation appropriately segregate the processing of catering transactions and related accounts receivable duties or institute mitigating procedures approved by the campus chief financial officer (CFO).

### Campus Response

We concur.

The Foundation has segregated the process of catering transactions in relation to accounts receivable duties. Payments received by catering customers are now handled by Campus Dining Office Manager and not Catering Coordinator. Corrective action on this issue is complete.

## CASH RECEIPTS AND HANDLING

### Recommendation 6

We recommend that the Foundation:

- a. Prepare a prelisting of checks received in the mail that are either erroneously addressed or intended for a different department.
- b. Implement the use of transfer receipts when payments are transferred between locations.

### Campus Response

We concur.

- a. All checks that are received erroneously or intended for another department are recorded in the log of checks received.
- b. The log is now signed by the department picking up the check.

Corrective action on this issue is complete.

## FEES, REVENUES, AND RECEIVABLES

### Recommendation 7

We recommend that the Foundation update its 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.

The development office has updated the matching gift procedures to ensure that funds are administered in accordance with corporate donor requirements. This review is conducted by both the Gift Recorder and the Director of Advancement Services so as to provide dual review. Corrective action on this issue is complete.

**PURCHASING AND ACCOUNTS PAYABLE**

**Recommendation 8**

We recommend that the Foundation obtain signed release forms/waivers from each student traveling by air.

**Campus Response**

We concur.

The Foundation will obtain signed release forms/waivers for all students traveling by air.

Expected completion date: August 2010

**TRUSTS AND OTHER LIABILITIES**

**Recommendation 9**

We recommend that the Foundation:

- a. Complete a review of all custodial trust accounts and determine, within 60 days, which accounts contain state/campus operating funds.
- b. Certify that none of the following specific and similar monies reside in Foundation trust accounts:
  - Contracts and grants awarded to the university.
  - Indirect costs attributable to campus pre-award activities.
  - 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.
  - Athletics funds/fees/revenues other than gifts/donations.
  - Investment income from state funds/fees/revenues.

- 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**

We concur.

- a. A preliminary review of all custodial trust accounts has been undertaken and further analysis will continue until complete. Expected completion date: July 2010
- b. A preliminary review of all foundation trust accounts has been undertaken and further analysis will continue until complete. Expected completion date: July 2010
- c. A list of trust accounts which are appropriate to remain in the custody of the Foundation will be submitted to the Office of the University Auditor along with documentation to support the source of funds. Expected completion date: July 2010
- d. Those state funds identified in “a” above will be moved to campus accounts. Expected completion date: November 2010

**ENDOWMENT ADMINISTRATION**

**Recommendation 10**

We recommend that the Foundation revise its endowment agreement to specifically address the Foundation’s management fees.

**Campus Response**

We concur.

The endowment gift agreements now include a section that specifically addresses Foundation’s management fees. Corrective action on this issue is complete.

## AUXILIARY PROGRAMS

### Recommendation 11

We recommend that the Foundation request sub-recipient A-133 reports in a timely manner.

### Campus Response

We concur.

The Foundation will request A-133 reports in a timely manner. Corrective action on this issue is complete.

## INFORMATION TECHNOLOGY

### PASSWORD AND DATA SECURITY

#### Recommendation 12

We recommend that the Foundation:

- a. Set effective password and login security parameters for the accounting, payroll, ordering/inventory, and donor 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. Ensure that web-accessible login to the donor system is done via https to ensure the encryption of user credentials.
- c. Properly secure sensitive donor information which may be locally stored on personal computers and the departmental server by implementing and enforcing access control restrictions and network segmentation; and also apply encryption controls to all other Foundation systems, computers, databases, and file servers that house protected and/or sensitive data.

### Campus Response

We concur.

- a. The Foundation has revised the required password length for the accounting system in accordance with campus guidelines. The payroll system remains behind campus login security requiring initial logon to the campus system as a mitigating security control. Campus Dining has revised password and logon security parameters for ordering and inventory systems. University Advancement has revised the requirements in accordance with campus guidelines.
- b. The web-accessible login has been moved so as to require https providing secure encryption of user credentials.

- c. A restricted area on the common share drive has been created so that no information is retained on personal computers or other non-secured locations.

Corrective action on this issue is complete.

## **INFORMATION SECURITY TRAINING AND DATA CONFIDENTIALITY FORMS**

### **Recommendation 13**

We recommend that the Foundation:

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

### **Campus Response**

We concur.

- a. The Foundation will develop and implement a security awareness training plan for all employees with access to critical systems or protected data. Expected completion date: July 2010
- b. The Foundation has developed a policy requiring data confidentiality forms from all employees prior to granting them access to critical systems or protected data. Corrective action on this issue is complete.
- c. Completed “Data Confidentiality Compliance Forms” were obtained from personnel who currently have access to critical systems or protected data. Corrective action on this issue is complete.

## **USER ACCESS REVIEW**

### **Recommendation 14**

We recommend that the Foundation conduct periodic, documented management reviews of user access for all critical systems and applications containing protected data, at least annually.

### **Campus Response**

We concur.

A documented review was performed of current user access, and in the future, this review will be performed annually. Corrective action on this issue is complete.

## **VENDOR SERVICE AGREEMENTS**

### **Recommendation 15**

We recommend that the Foundation:

- a. Establish a written agreement with the third-party payroll services provider and amend the accounting system third-party service provider agreement with appropriate provisions for information security, data confidentiality, and system backup responsibilities.
- 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**

We concur.

- a. A written agreement will be established with third-party payroll services provider and the IFAS third-party service provider agreement will be amended with appropriate provisions for information security, data confidentiality, and system backup responsibilities.
- b. The CSU General Provisions for Information Technology Acquisitions will be utilized for future vendor service agreements relating to access to protected records or data.

Expected completion date: October 2010

## **REMOTE ACCESS SECURITY**

### **Recommendation 16**

We recommend that the Foundation replace Telnet remote access with a more secure remote access protocol (such as secure shell) or enforce internal firewall restrictions on Telnet such that it could only be accessed once a virtual private network connection has been established.

### **Campus Response**

We concur.

The Foundation is currently upgrading the accounting system to a secure web-based application. Once the upgrade is completed, Telnet will no longer be used.

Expected completion date: October 2010

**ASSOCIATED STUDENTS,**  
**CALIFORNIA STATE UNIVERSITY, DOMINGUEZ HILLS**

**CORPORATE GOVERNANCE**

**Recommendation 17**

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

**Campus Response**

We concur.

Requisite documents will be filled with the Secretary of State to reflect a proper dissolution clause. AS is currently working with legal counsel for guidance in the matter.

Expected completion date: August 2010

**OPERATIONAL COMPLIANCE**

**Recommendation 18**

We recommend that AS develop and adopt a written risk management policy, including procedures to actively identify, analyze, quantify, and manage risk.

**Campus Response**

We concur.

A draft policy has been created and is currently being reviewed through a committee of the Board of Directors. Once approved, the policy will be implemented.

Expected completion date: June 2010

**CASH RECEIPTS AND HANDLING**

**Recommendation 19**

We recommend that AS document its unannounced inspections of the cash safe and update its policy to require such documentation.

**Campus Response**

We concur.

AS management has written procedures to document unannounced inspections and the policy will be updated to reflect these procedures.

Expected completion date: August 2010

**FEES, REVENUES, AND RECEIVABLES**

**Recommendation 20**

We recommend that AS document its monthly reconciliation of Sage MIP sub-ledger records with campus PeopleSoft accounting records in a consistent manner.

**Campus Response**

We concur.

AS management has written procedures to document monthly reconciliation of Sage MIP sub-ledger records with campus PeopleSoft accounting records and the policy will be updated to reflect these procedures.

Expected completion date: August 2010

**DONALD P. AND KATHERINE B. LOKER**  
**UNIVERSITY STUDENT UNION, INCORPORATED**

**OPERATIONAL COMPLIANCE**

**Recommendation 21**

We recommend that the Union develop and adopt a written risk management policy, including procedures to actively identify, analyze, quantify, and manage risk.

**Campus Response**

We concur.

A written risk management policy has been developed that addresses procedures for identifying, analyzing, quantifying, and managing risk. It was adopted by the Board of Directors in December, 2009 and is now in practice. Corrective action on this issue is complete.

**AUXILIARY PROGRAMS**

**Recommendation 22**

We recommend that the Union:

- a. Obtain and appropriately file verification forms and facility use agreements.
- b. Enforce collection of the 25 percent reservation deposits.
- c. Generate invoices at least ten days prior to the event.
- d. Ensure the receipt of full payment for services prior to the event and if full payment is not received then establish a process to record accounts receivable for any unpaid balances.
- e. Develop an accounts receivable collection policy and ensure adequate management of outstanding invoices, including active pursuit for collection.
- f. Enforce the event cancellation policy when applicable.

**Campus Response**

We concur.

- a. New procedures have been implemented to ensure that documents are collected and appropriately filed for every event.

- b. Collection of the 25 percent reservation deposit is being enforced, or in cases where an exception is being granted, documentation is created.
- c. Staffing in the reservations area has been re-evaluated and additional part-time staff added to ensure timely processing of invoices at least 10 days prior to the event.
- d. Staffing in the reservations area has been re-evaluated and additional part-time staff added to ensure timely collection of payments prior to the event. If payment is not received in full prior to the event, a receivable is recorded.
- e. New accounting software is being implemented internally that will allow for more effective tracking and monitoring of outstanding invoices. Policies on collection are being revised and implemented.
- f. Event cancellation policy is being reviewed and will be modified to ensure it can be consistently enforced.

An internal review of reservations policies and procedures is currently underway. At the completion of the review, files from the past three months will be reviewed to ensure consistent compliance with policies and procedures.

Expected completion date: August 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 09-20 on *Auxiliary Organizations*,  
California State University, Dominguez Hills

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*, California State University, Dominguez Hills.

MONTEREY BAY

NORTHRIDGE

POMONA

CBR/amd

SACRAMENTO

SAN BERNARDINO

SAN DIEGO

SAN FRANCISCO

SAN JOSÉ

SAN LUIS OBISPO

SAN MARCOS

SONOMA

STANISLAUS