

AUXILIARY ORGANIZATIONS
SAN DIEGO STATE UNIVERSITY

Audit Report 10-01
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ABBREVIATIONS

AORMA	Auxiliary Organization Risk Management Authority
AS	Associated Students, San Diego State University
ATM	Automated Teller Machine
CFO	Chief Financial Officer
CSU	California State University
CSURMA	California State University Risk Management Authority
DRP	Disaster Recovery Plan
EO	Executive Order
IT	Information Technology
KPBS	KPBS Public Television and Radio
MBAC	Mission Bay Aquatic Center
OMB	Office of Management and Budget
Research Foundation	San Diego State University Research Foundation
RFIN	Resolution of the Committee on Finance
SDSU	San Diego State University
Shops	Aztec Shops, Ltd.

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.

San Diego State University (SDSU) 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 SDSU campus and its auxiliary organizations from January 25, 2010, through March 12, 2010, and made a study and evaluation of the system of internal compliance/internal control in effect as of March 12, 2010. This report represents our triennial review.

Our study and evaluation at *San Diego State University Research 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 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 March 12, 2010, taken as a whole, was sufficient to meet the objectives stated above.

Our study and evaluation at *The Campanile 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 fees, revenues and receivables. 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 March 12, 2010, taken as a whole, was sufficient to meet the objectives stated above.

Our study and evaluation at *Aztec Shops, Ltd.* 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 operational compliance. 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 March 12, 2010, taken as a whole, was sufficient to meet the objectives stated above.

Our study and evaluation at *Associated Students, San Diego State University* revealed certain conditions that, in our opinion, could result in errors and irregularities if not corrected. Specifically, the auxiliary did not maintain adequate control over segregation of duties 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 March 12, 2010, taken as a whole, was sufficient to meet the objectives stated above.

As a result of changing conditions and the degree of compliance with procedures, the effectiveness of controls changes over time. Specific limitations that may hinder the effectiveness of an otherwise adequate system of controls include, but are not limited to, resource constraints, faulty judgments, unintentional errors, circumvention by collusion, and management overrides. Establishing controls that would prevent all these limitations would not be cost-effective; moreover, an audit may not always detect these limitations.

The following summary provides management with an overview of conditions requiring their attention. Areas of review not mentioned in this section were found to be satisfactory. Numbers in brackets [] refer to page numbers in the report.

CAMPUS

INFORMATION TECHNOLOGY [11]

KPBS public radio and television (KPBS) lacked an information technology (IT) disaster recovery plan (DRP) for KPBS systems that they support independent of the campus and the Research Foundation. Further, the KPBS server room was not equipped with a fire extinguisher and an after-hours security alarm.

SAN DIEGO STATE UNIVERSITY RESEARCH FOUNDATION

OPERATING AND ADMINISTRATIVE AGREEMENTS [13]

Certain business arrangements between the San Diego State University Research Foundation (Research Foundation) and third parties did not include appropriate indemnification clauses. In addition, the

Research Foundation performed a function not authorized by its operating agreement with the CSU Trustees, specifically the acceptance of gifts, endowments, and gift annuities for the campus and at KPBS public television and radio.

CORPORATE GOVERNANCE [15]

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

PETTY CASH AND CHANGE FUNDS [16]

The Research Foundation had not performed independent cash counts of petty cash funds.

FEES, REVENUES, AND RECEIVABLES [17]

Research Foundation/KPBS 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.

TRUSTS AND OTHER LIABILITIES [17]

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

AUXILIARY PROGRAMS [20]

Research Foundation subaward agreements exceeding \$10,000 did not contain a provision that the contracting parties shall be subject to the examination and audit of the auxiliary and its agents.

INFORMATION TECHNOLOGY [21]

The Research Foundation did not ensure adequate accountability and security over computing equipment (computers, servers, etc.) obtained from grant funding that may have contained protected information.

THE CAMPANILE FOUNDATION

FEES, REVENUES, AND RECEIVABLES [23]

The Campanile Foundation did not perform independent reconciliations between its donor database and the general ledger accounting system maintained by the Research Foundation. In addition, the Campanile 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.

INFORMATION TECHNOLOGY [24]

The Campanile Foundation server room did not have a fire extinguisher, smoke detector, or an after-hours security alarm.

AZTEC SHOPS, LTD.

OPERATIONAL COMPLIANCE [26]

Aztec Shops, Ltd. (Shops) had not developed a written risk management policy. In addition, the Shops conflict of interest practice did not require annually signed acknowledgements by current board members that there were no new incidents of conflicts of interest from the previous calendar year.

SEGREGATION OF DUTIES [27]

Certain duties and responsibilities related to payroll processing were not adequately segregated at Shops.

CASH RECEIPTS AND HANDLING [28]

Accountability for certain cash transactions was not localized to a specific employee at Shops' dining services sales audit department.

INFORMATION TECHNOLOGY [29]

The Shops IT DRP did not contain specific details regarding the critical servers and network devices that would need to be restored.

ASSOCIATED STUDENTS, SAN DIEGO STATE UNIVERSITY

SEGREGATION OF DUTIES [31]

Certain duties and responsibilities related to accounts payable and payroll and personnel processing were not adequately segregated at Associated Students, San Diego State University (AS).

PURCHASING AND ACCOUNTS PAYABLE [33]

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

INFORMATION TECHNOLOGY [34]

The disposition process for AS computing equipment (computers, servers, etc) did not specifically require documentation that all hard drives were wiped to ensure the secure disposition of any protected data stored on the machines. In addition, the AS IT DRP did not sufficiently address the overall recovery

approach, including designation of a command center and alternate recovery sites. Further, backups for AS systems with protected data were not encrypted when stored locally or when in transit to the off-site storage facility managed by a third party.

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 San Diego State University Research Foundation (Research Foundation) was established in 1943 as a non-profit corporation for the purpose of furthering educational, research, and community services of San Diego State University (SDSU). The Research Foundation performs services that are vital to students, faculty, staff, and the entire campus community, including administration of grants and contracts; development and management of major centers, institutes, community partnerships, and programs; administration of student scholarships and loan funds; and financial management and investment of gifts, trusts, and endowments, most on behalf of The Campanile Foundation. The

Research Foundation also acquires, develops, and manages real property, enabling the provision of space for grant and contract activity and the leasing of property to the university and other commercial entities. Further, the Research Foundation has financial oversight of KPBS public broadcasting television and radio stations.

The Campanile Foundation was established in 1999 as a non-profit public benefit corporation to assist SDSU in the acquisition of gifts, the management of philanthropic gifts, and the investment of certain endowment gifts for the benefit of the university or other organizations having an official relationship with SDSU. The Campanile Foundation is governed by a board of directors comprised of community members, university administrators, faculty members, alumni, and a student representative. The Campanile Foundation does not have employees and relies on the university relations and development office and the Research Foundation for administrative and accounting support services.

Aztec Shops, Ltd. (Shops) was established in 1931 as a non-profit public benefit corporation to operate retail and commercial operations in support of the university's mission. Shops operates the SDSU Bookstore, which is one of the largest sales volume campus bookstores in the country, and is also responsible for all restaurants and other food service outlets on the SDSU campus, including the ID card and meal plan program, residence hall dining programs, franchised and individually branded restaurants, and convenience stores. Further, Shops operates a satellite bookstore at the SDSU branch campus in Calexico, CA; the Aztec Store in Fashion Valley Mall; the Elderhostel organization; University Towers; Montezuma Publishing; Aztec Shops Concessions at campus arenas, theatres, and stadiums; and ATM, vending machine, and pay telephone services on campus. Shops is governed by a board of directors comprised of representatives from campus administration, faculty, the student body, and the community.

Associated Students, San Diego State University (AS) was established in 1932 as a non-profit public benefit corporation primarily to create, promote, and fund social, cultural, and recreational programs and facilities both on campus and in the community; advocate for student interests; and participate in shared governance. AS operates the SDSU Children's Center, Viejas Arena, Aztec Recreation Center, Aztec Aquaplex, Aztec Center (student union), Open Air Theater, Scripps Cottage, and the Mission Bay Aquatic Center. AS also provides recreational, youth, and teambuilding classes and programs; cultural arts and special events; ticket sales and event planning services; legal and financial services; and study abroad scholarships. AS is governed by a student board of directors, which is assisted by an advisory council comprised of representatives from campus and AS administration, faculty, and the community.

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 March 12, 2010. 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:

San Diego State University Research 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
- ▶ Personnel and Payroll
- ▶ Property and Equipment
- ▶ Trusts and Other Liabilities
- ▶ Auxiliary Programs
- ▶ Information Technology

The Campanile Foundation

- ▶ Operating and Administrative Agreements
- ▶ Facilities Agreements
- ▶ Corporate Governance
- ▶ Fiscal Compliance
- ▶ Operational Compliance
- ▶ Program Compliance
- ▶ Campus Oversight and Control
- ▶ Cash Receipts and Handling
- ▶ Investments
- ▶ Fees, Revenues, and Receivables
- ▶ Purchasing and Accounts Payable
- ▶ Trusts and Other Liabilities
- ▶ Endowment Administration
- ▶ Information Technology

Aztec Shops, Ltd.

- ▶ Operating and Administrative Agreements
- ▶ Facilities Agreements
- ▶ Corporate Governance
- ▶ Fiscal Compliance
- ▶ Operational Compliance
- ▶ Program Compliance
- ▶ Campus Oversight and Control
- ▶ Segregation of Duties

Aztec Shops, Ltd. (cont.)

- ▶ 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

Associated Students, San Diego State University

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

Campus

Campus Oversight and Control

We have not performed any auditing procedures beyond March 12, 2010. Accordingly, our comments are based on our knowledge as of that date. Since the purpose of our comments is to suggest areas for improvement, comments on favorable matters are not addressed.

OBSERVATIONS, RECOMMENDATIONS, AND CAMPUS RESPONSES

CAMPUS

INFORMATION TECHNOLOGY

DISASTER RECOVERY PLAN

KPBS public radio and television (KPBS) lacked an information technology (IT) disaster recovery plan (DRP) for KPBS systems that they support independent of the campus and the San Diego State University Research Foundation (Research Foundation).

The San Diego State University (SDSU) *Information Security Plan (version 2.3)* states that appropriate backup procedures and disaster recovery plans must be developed.

Executive Order (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 California State University (CSU) system. Section 8.10, *Computer Controls*, states that auxiliary organizations should establish written policies and practices that ensure computer operations, including backup and recovery mechanisms and disaster recovery programs.

The KPBS financial management director stated that most administrative systems are covered by the campus or Research Foundation IT disaster plan, but the donor system and broadcasting systems were managed independently. She added that the systems at KPBS are backed up nightly and the backup tape is sent to the Research Foundation off-site storage facility to enable KPBS to restore the data in accordance with recovery procedures.

The absence of a comprehensive IT DRP increases the risk that business and data processing operations may not be restored within a reasonable time frame in the event of an emergency or disaster.

Recommendation 1

We recommend that KPBS, the Research Foundation, and campus complete a comprehensive IT DRP, which is inclusive of all critical systems at KPBS.

Campus Response

We concur. A comprehensive IT disaster recovery plan will be completed by December 30, 2010.

SERVER ROOM CONTROLS

The KPBS server room was not equipped with a fire extinguisher and an after-hours security alarm.

We found that the server room lacked a fire extinguisher, and although the room contained door locks, it had a false drop-down ceiling, which connected to adjoining rooms.

The SDSU *Information Security Plan (version 2.3)* states that IT managers should ensure that fire extinguishment systems are located in the server room. It further states that physical access to the data center should be controlled, starting outside the entrance. The area around the data center should be considered a restricted access area.

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 that fire suppression equipment be maintained within the premises of server rooms at all times and physical access be adequately monitored.

The KPBS financial management director stated that KPBS is a campus department, but a majority of its financial operations run through the Research Foundation. She further stated that in this instance both the campus and the Research Foundation failed to ensure that KPBS was equipped with a fire extinguisher and an after-hours security alarm.

Failure to maintain appropriate fire suppression devices in the server room increases the risk of untimely fire suppression, which may expose employees to dangerous conditions and result in the loss of critical computing equipment and systems, while failure to monitor unauthorized entry to the server room increases the risk of security breaches and theft of computing equipment.

Recommendation 2

We recommend that KPBS install a fire suppression system or fire extinguisher in the server room, and also evaluate the feasibility of installing an after-hours security alarm to compensate for the false ceiling.

Campus Response

We concur. KPBS will install a fire extinguisher in the server room as well as evaluate the feasibility of installing a security alarm by September 30, 2010.

SAN DIEGO STATE UNIVERSITY RESEARCH FOUNDATION

OPERATING AND ADMINISTRATIVE AGREEMENTS

FACILITIES LEASING AND SERVICE AGREEMENTS

Certain business arrangements between the San Diego State University Research Foundation (Research Foundation) and third parties did not include appropriate indemnification clauses.

We found that:

- ▶ The indemnification provision in property management agreements did not specifically indemnify the CSU Trustees, the campus, and the State of California.
- ▶ The indemnification provisions in a facilities sublease agreement did not specifically indemnify the State of California.
- ▶ The indemnification provision in the vehicle donation program and telemarketing campaign contracts from KPBS did not specifically indemnify the CSU Trustees, the campus, and the State of California.
- ▶ Amendments to facilities sublease agreements did not add a proper indemnification clause.

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 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.

The Research Foundation chief financial officer (CFO) stated that management has earnestly attempted to include the required indemnification clauses in all contracts; however, conflicting direction for indemnification clause language between the CSU and CSURMA versions resulted in some deficiencies. She further stated that the service contracts with noted deficiencies were revenue contracts that were erroneously excluded from the Research Foundation's normal review procedures.

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

Recommendation 3

We recommend that the Research Foundation ensure that all future agreements include appropriate indemnification provisions.

Campus Response

We concur. Indemnification provisions have been provided to department heads to incorporate into future agreements as appropriate.

AUXILIARY FUNCTIONS

The Research Foundation performed a function not authorized by its operating agreement with the CSU Trustees, specifically the acceptance of gifts, endowments, and gift annuities for the campus and at KPBS.

Title 5 §42502 states that the operating agreement should specify the function or functions which the organization is to manage, operate, or administer.

The Research Foundation CFO stated that The Campanile Foundation was created in 1999 for the purpose of accepting gifts and endowments on behalf of the campus, and so accordingly, the Research Foundation's operating agreement was modified to remove the administration of gift funds. She further stated that the Research Foundation's practice of accepting KPBS gifts continued, as the majority of KPBS operations flow through the Research Foundation. She also stated that the Research Foundation continued to administer gift annuities on behalf of the campus because of a requirement from the State of California Department of Insurance that entities must be at least ten years old to accept gift annuities into a pool. The Research Foundation CFO added that upon maturity of the gift annuities, the funds are transferred to The Campanile Foundation or to a KPBS fund within the Research Foundation depending on the original intent of the donor.

Failure to include all functions administered by the auxiliary in the operating agreement increases the risk of misunderstandings and miscommunication regarding rights and responsibilities.

Recommendation 4

We recommend that the Research Foundation amend its operating agreement to include the acceptance of gifts, endowments, and gifts annuities for the campus and at KPBS.

Campus Response

We concur. Although the Research Foundation does not amend its operating agreement, the university does so. The operating agreement will be amended by November 30, 2010, to include the acceptance of KPBS pledge donations and certain gift annuities for the university.

CORPORATE GOVERNANCE

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

We found an amendment to the Bylaws made on September 28, 2007, that had not been filed with the chancellor's office.

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

The Research Foundation CFO stated that the auxiliary failed to submit the amended copy of its Bylaws to the chancellor's office due to an oversight during the transition of senior officers.

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

Recommendation 5

We recommend that the Research Foundation promptly file the cited amendment with the Financing and Treasury department at the Office of the Chancellor and ensure that all future changes/amendments to Bylaws are filed within 30 calendar days.

Campus Response

We concur. The referenced amendment was filed in March 2010 with the Office of the Chancellor. Subsequent changes/amendments to the Bylaws will be filed as required.

PETTY CASH AND CHANGE FUNDS

The Research Foundation had not performed independent cash counts of petty cash funds.

We found that there was no documentation to support independent cash counts for 16 petty cash funds totaling \$9,825 and ranging from \$100 to \$2,100.

The Research Foundation *Policies and Procedures Related to Assets, Liabilities and Net Assets* state that all petty cash funds are subject to a periodic audit by the Research Foundation's finance and accounting manager.

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 petty cash, including periodic, independent cash counts.

The Research Foundation CFO stated that the auxiliary reviews all activity in the various petty cash funds for compliance with Research Foundation policy, such that if any funds are identified as problematic, the payment services manager contacts the fund administrator to discuss concerns and often a cash count is performed at this time. She further stated that the petty cash funds were not counted because management believed that these mitigating controls appeared adequate given the limited number and amount of petty cash funds that exist in comparison to the overall asset balance of the Research Foundation.

The absence of periodic independent cash counts of petty cash funds increases the risk of loss or misappropriation of funds.

Recommendation 6

We recommend that the Research Foundation conduct periodic independent cash counts of all petty cash funds.

Campus Response

Although the petty cash account in question totaled \$9,000 and was thus not material in a \$150 million corporation, we will comply. Procedures have been revised to include periodic cash counts of petty cash funds.

FEES, REVENUES, AND RECEIVABLES

Research Foundation/KPBS 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 KPBS financial management director stated that KPBS has procedures to ensure that matching gifts are allocated to the programs directed by the donors. She further stated that gifts are sorted and entered into the accounting systems upon receipt and then reconciled in two different systems at that time, such that no additional review procedures were considered necessary.

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 Research 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. Matching gift procedures relative to KPBS (which is what the finding addressed) will be revised to include a documented dual review to ensure that funds are administered in accordance with donor requirements by November 30, 2010.

TRUSTS AND OTHER LIABILITIES

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

The Research Foundation financial statements as of June 30, 2009, indicated that the Research Foundation administered and maintained 1,492 campus programs and projects accounts totaling \$26,245,922. We reviewed 50 of these accounts for which trust account agreements were available and found that state/campus operating revenue funds totaling \$1,145,681 may be inappropriately held by the Research Foundation in 37 of the 50 accounts reviewed.

Each CSU campus shall administer their General and non-General Fund receipts to ensure that the funds are held in proper accounts. 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.

The campus vice president for business and financial affairs stated that the campus and Research Foundation have a thorough, thoughtful ongoing process in place for reviewing the significant volume of campus programs activities being managed within the Research Foundation. She further stated that although substantial progress has been made to date to ensure individual programs are being managed in accordance with the applicable executive orders, there are still a number of funds scheduled to be reviewed in the coming year.

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

Recommendation 8

We recommend that the Research Foundation:

- a. Complete a review of all campus programs and projects accounts and determine, within 120 days, which accounts contain state/campus operating funds.
- b. Certify that none of the following specific and similar monies reside in Research Foundation accounts:
 - Contracts and grants awarded to the university.
 - Research 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 Research Foundation via contract with the campus.

- c. Submit to the Office of the University Auditor, within 120 days, a list of those accounts which have been deemed appropriate to remain in the custody of the Research Foundation and comprehensive documentation to support the sources of funds for those accounts.
- d. Develop a plan to move those state funds identified in “a” above to campus accounts within six months.
- e. Move those state funds identified in “a” above to campus accounts within 12 months.

Campus Response

We note that no policies or codes were cited in support of this finding. The university has followed all current published CSU policy and code regarding this matter. To the extent that the Trustees’ Auditor finds existing CSU policy to be deficient, the finding should be a chancellor’s office finding, not a SDSU finding. Further the university is responsible for the oversight of funds managed both by the campus and its auxiliaries. To the extent that the Trustees’ Auditor persists in making this a finding at SDSU, the audit recommendation should be directed to the university and identified as part of the campus oversight section of the report and not the Research Foundation. We will treat it as such. Finally, the university and Research Foundation’s competent staff review of program revenue accounts determined that only five accounts should be transferred to the university and not 37 as indicated by the auditor’s cursory review. Regarding the certification requested in (b), I will provide the certification but respectfully request a policy or legal citation that clearly states for each item the authority which prohibits retaining balances in the auxiliary.

The university and Research Foundation will:

- a. Continue and complete a review of all campus programs and project accounts and determine if accounts contain state operating funds. The review will be completed by November 30, 2010.
- b. Certify that none of the following monies reside in Research Foundation accounts:
 - Contracts and grants awarded to the university.
 - Research 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, corporate sponsorships, and licensing revenues.
 - 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. Examples of such reimbursements include public safety and utilities.
 - 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 Research Foundation via contract with the campus.
- c. Submit a list of accounts that will remain in the custody of the Research Foundation by November 30, 2010, along with applicable supporting documents.
- d. Develop a plan to move state funds identified in “a” to campus accounts by January 31, 2011.
- e. Move state funds identified in “a” to campus accounts by July 31, 2011, except when employment, debt covenants, or similar financial obligations prohibit movement within that time frame.

AUXILIARY PROGRAMS

Research Foundation subaward agreements exceeding \$10,000 did not contain a provision that the contracting parties shall be subject to the examination and audit of the auxiliary and its agents.

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 subaward agreements contain a right-to-audit provision.

The Research Foundation associate executive director of sponsored research services stated that the Research Foundation utilizes the Federal Demonstration Partnership boilerplate agreement when issuing a subaward to another university, typically when the prime funding is federal or federal pass-through funding. She further stated that this boilerplate agreement has been endorsed by the Office of Management and Budget (OMB) as a best practice. She added that the boilerplate agreement includes a requirement that the subrecipient complies with OMB Circular A-133 *Audits of States, Local Governments and Non-Profit Organizations*, and since A-133 already defines the pass-through entities responsibilities with regards to the audit of the subrecipient, an additional provision reiterating the audit access was not deemed necessary. She also added that the boilerplate agreement used for subrecipients that do not fall under A-133 audit requirements includes an audit provision.

The absence of a right-to-audit provision within a subaward agreement increases the risk of misunderstandings and miscommunication regarding rights and responsibilities and subjects the auxiliary and CSU to potential liability.

Recommendation 9

We recommend that the Research Foundation ensure that all future subaward agreements include a provision that the contracting parties shall be subject to the examination and audit of the auxiliary and its agents.

Campus Response

We concur. Subaward boilerplates have been revised to include a provision that contracting parties will be subject to an examination and audit of the Research Foundation and its agents.

INFORMATION TECHNOLOGY

The Research Foundation did not ensure adequate accountability and security over computing equipment (computers, servers, etc.) obtained from grant funding that may have contained protected information.

We found that the Research Foundation did not provide adequate oversight for computing equipment purchased with grant funding to ensure appropriate accountability and security. Further, the Research Foundation only tracked assets over \$1,500, which did not include all computer equipment that could contain protected information.

The SDSU *Information Security Plan (version 2.3)* states that each division and auxiliary must inventory and report the location of electronic and non-electronic storage of protected level 1 information annually to the IT security office. Further the SDSU self-assessment form, for which completion is required by IT management, requires a written process for securing, logging, and tracking controlled media.

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

The Research Foundation CFO stated that the Research Foundation currently tags all equipment over \$1,500, which does not necessarily include all computer equipment that might contain sensitive information. She added that the Research Foundation currently tracks all centrally managed computing equipment and oversees procurement of grant computing equipment, but did not monitor that equipment for adequate security after the initial training was provided because the equipment is not at their location and is operated by campus academic personnel that report organizationally to the campus.

Inadequate accountability of assets, especially those containing personal confidential information or with accessibility to such protected information, increases the risk of loss and inappropriate use of auxiliary resources, and increases exposure to information security breaches.

Recommendation 10

We recommend that the Research Foundation ensure the security of and maintain an inventory of all machines purchased by the Research Foundation, including those purchased via grant funding.

Campus Response

Research Foundation policies and procedures have been updated and expanded to ensure the security of its inventory, including equipment purchased via grant funding.

THE CAMPANILE FOUNDATION

FEES, REVENUES, AND RECEIVABLES

DONOR SYSTEM RECONCILIATION

The Campanile Foundation did not perform independent reconciliations between its donor database and the general ledger accounting system maintained by the Research Foundation.

We found that The Campanile Foundation gift processing staff entered gift receipt information into its donor database and created a custom export file from the database with itemized gift information for the month. The gift processing staff also compared and reconciled the export file with the corresponding individual deposit batches before transmitting the export file to the Research Foundation. The Research Foundation staff reconciled the export file with the corresponding individual deposit batches before importing the details of the export file into the general ledger cash subledger. However, The Campanile Foundation did not subsequently perform an independent reconciliation between its donor database and the general ledger accounting system maintained by the Research Foundation.

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

The Campanile Foundation CFO/treasurer stated his belief that the reconciliation of the export file with the corresponding individual deposit batches performed by Research Foundation staff before importing the details of the export file into the cash subledger was sufficient.

Inadequate administration of gift processing increases the risk of inconsistencies, misunderstandings, and loss or misappropriation of funds.

Recommendation 11

We recommend that The Campanile Foundation perform independent reconciliations of its donor database to the Research Foundation's general ledger accounting system.

Campus Response

We concur. Procedures will be developed by November 30, 2010, to ensure independent reconciliations of the donor database to the Research Foundation's general ledger accounting system.

MATCHING GIFTS

The Campanile 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 Campanile Foundation CFO/treasurer stated that the auxiliary was unaware of the requirement to perform dual review of matching gifts.

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

Recommendation 12

We recommend that The Campanile 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. Matching gift procedures will be revised by November 30, 2010, to include a documented dual review process.

INFORMATION TECHNOLOGY

The Campanile Foundation server room did not have a fire extinguisher, smoke detector, or an after-hours security alarm.

We found that the server room lacked a fire extinguisher and smoke detector; and although the room contained door locks, it had a false drop-down ceiling that connected to adjoining rooms.

The SDSU *Information Security Plan (version 2.3)* states that IT managers should ensure that fire extinguishment systems are located in the server room. It further states that physical access to the data center should be controlled, starting outside the entrance. The area around the data center should be considered a restricted access area.

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 that fire suppression equipment and smoke/fire detection devices be maintained within the premises of server rooms at all times and physical access be adequately monitored.

The Campanile Foundation CFO/treasurer indicated that the lack of fire suppression and detection devices and an after-hours security alarm was due to oversight.

Failure to maintain appropriate fire suppression and smoke detection devices in the server room increases the risk of untimely fire suppression and notification, which may expose employees to dangerous conditions and result in the loss of critical computing equipment and systems, while the failure to monitor unauthorized entry to the server room increases the risk of security breaches and theft of computing equipment.

Recommendation 13

We recommend that The Campanile Foundation install a fire and smoke detection/suppression system in the server room, and also evaluate the feasibility of installing an after-hours security alarm to compensate for the false ceiling.

Campus Response

We concur. A fire and smoke detection system has been installed in the server room. An evaluation will be made to determine the feasibility of installing an after-hours security alarm by November 30, 2010.

AZTEC SHOPS, LTD.

OPERATIONAL COMPLIANCE

RISK MANAGEMENT

Aztec Shops, Ltd. (Shops) had not developed a written risk management policy.

We found that Shops 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 that 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 Shops internal auditor and senior director of administrative services stated that the Shops environment consists of a risk management culture but they were unaware of the requirement to incorporate risk management practices into a formal policy.

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

Recommendation 14

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

Campus Response

We concur. Aztec Shops has developed and adopted a risk management policy.

CONFLICT OF INTEREST

The Shops conflict of interest practice did not require annually signed acknowledgements by current board members that there were no new incidents of conflicts of interest from the previous calendar year.

CSU *Conflict of Interest Handbook*, §2B, states that the Political Reform Act requires CSU to adopt a formal conflict of interest code. The CSU's code requires certain employees, who are most likely to be involved in university decision-making where potential conflicts may be present, to file an annual disclosure form.

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

The Shops chief executive officer stated that the current conflict of interest practice was considered sufficient during the previous audit and has been used as current practice for the last three years.

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

Recommendation 15

We recommend that Shops require each board member to annually acknowledge in written form whether or not any new conflicts of interest exist.

Campus Response

Although the existing policy was specifically found to be acceptable to the Trustees' Auditor three years ago, each board member will now sign an annual conflict of interest statement. Policies and procedures have been revised to reflect this change.

SEGREGATION OF DUTIES

Certain duties and responsibilities related to payroll processing were not adequately segregated at Shops.

We found that two employees performed the following incompatible duties:

- ▶ Processed payroll.
- ▶ Generated payroll checks.
- ▶ Distributed payroll checks to another department for final distribution.

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

The *Compilation of Policies and Procedures for California State University Auxiliary Organizations* sets sound business practice guidelines for auxiliary organizations operating within the CSU system. Section 8.9.6, *Payroll*, states that the auxiliary should establish a written internal controls system that ensures payroll preparation is segregated from the general ledger function and other payroll functions such as hiring authorization, timekeeping, and distribution of checks.

The Shops payroll manager stated that the lack of segregation of duties for the payroll technicians was a control oversight.

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

Recommendation 16

We recommend that Shops appropriately segregate certain payroll processing functions or institute mitigating procedures approved by the campus CFO.

Campus Response

We concur. Payroll processing functions have been appropriately reassigned and segregated.

CASH RECEIPTS AND HANDLING

Accountability for certain cash transactions was not localized to a specific employee at Shops' dining services sales audit department.

We found that multiple employees worked from the same cash drawer when making denomination exchanges and processing employee check-cashing transactions. These types of manually processed transactions were not part of the existing transaction log, receipt, or sign-off processes, which limited the accountability of the transaction to a specific employee.

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

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

business practices. Sound business practice mandates the accountability for cash or negotiable instruments to a specific employee from the time of receipt to deposit.

The Shops financial services director stated that the transactions referenced were infrequently performed and involved relatively small dollar amounts. She added her belief that sufficient controls were in place to mitigate any accountability concerns.

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

Recommendation 17

We recommend that Shops localize accountability over cash transactions when multiple employees operate the same cash drawer.

Campus Response

We concur. Procedures have been revised to accommodate multiple employees who infrequently may operate the same cash drawer.

INFORMATION TECHNOLOGY

The Shops IT DRP did not contain specific details regarding the critical servers and network devices that would need to be restored.

The SDSU *Information Security Plan (version 2.3)* states that appropriate backup procedures and disaster recovery plans must be developed.

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 that ensure computer operations, including backup and recovery mechanisms and disaster recovery programs.

The Shops IT director stated that he was unaware of the requirement to include that level of detail (servers and network devices) in the IT DRP.

The absence of a comprehensive IT DRP increases the risk that business and data processing operations may not be restored within a reasonable time frame in the event of an emergency or disaster.

Recommendation 18

We recommend that Shops update its IT DRP to include all critical systems.

Campus Response

We concur. The IT DRP has been updated to include all critical systems.

ASSOCIATED STUDENTS, SAN DIEGO STATE UNIVERSITY

SEGREGATION OF DUTIES

ACCOUNTS PAYABLE

Certain duties and responsibilities related to accounts payable processing were not adequately segregated or appropriately reviewed by management at Associated Students, San Diego State University (AS).

We found that the accounts payable supervisor performed the following incompatible duties:

- ▶ Added vendors to the vendor master list.
- ▶ Reviewed expenditures for supporting documentation and proper authorization.
- ▶ Created journal entries in the subsidiary ledgers.
- ▶ Posted journal entries.

In addition, AS had not performed a documented periodic management review of the vendor master list to ensure that there were no undetected errors or unauthorized changes to vendor information.

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 8.9.5, *Procurement*, states that the auxiliary should establish a written control system that provides purchase orders and service contracts are prepared separately from receiving and shipping, payables and disbursements, and that identifies unallowable transactions, such as with governing board members.

The AS associate executive director stated that mitigating control procedures are followed to allow the accounts payable supervisor to both add/edit the vendor data and post the accounts payable batch. She stated that the accounts payable supervisor is not an authorized budget manager and therefore does not initiate invoices or check requests for processing. She added that the accounts payable check run is reviewed by the AS accounting manager, AS controller, and the campus associate vice president for financial operations. She further added that an approved list of checks for processing is submitted by the accounting manager, via *Positive Pay*, directly to the bank.

Inadequate segregation of duties increases the risk that errors and irregularities will not be detected in a timely manner, while the absence of a management review of the vendor master list increases the risk of inappropriate modifications to vendor information.

Recommendation 19

We recommend that AS:

- a. Appropriately segregate certain accounts payable processing functions or institute mitigating procedures approved by the campus CFO.
- b. Perform a documented periodic management review of the vendor master list.

Campus Response

We concur. Although mitigating controls were and continue to be in place, AS has:

- a. Further appropriately segregated certain accounts payable processing functions.
- b. Performed a documented management review of the vendor master list.

PAYROLL AND PERSONNEL

Certain duties and responsibilities related to payroll and personnel processing were not adequately segregated or appropriately reviewed by management at AS.

We found that both the payroll supervisor and the payroll specialist performed the following duties:

- ▶ Added or changed personnel records to/in the payroll system.
- ▶ Posted payroll entries to the payroll system.

In addition, AS had not performed a documented periodic management review of the payroll system edit listing report to ensure that there were no undetected errors or unauthorized changes to employee salary and wage rates.

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

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

The AS associate executive director stated that mitigating controls were in place such that all changes to personnel records are posted based on an approved (via signature) *A.S. Payroll Change Request* form and budget managers review their budgets on an ongoing basis for payroll expense variances.

Inadequate segregation of duties increases the risk that errors and irregularities will not be detected in a timely manner, while the absence of a management review of the payroll system edit listing report to monitor pay rate changes increases the risk of inappropriate modifications to salary and wage rates.

Recommendation 20

We recommend that AS:

- a. Appropriately segregate certain payroll and personnel processing functions or institute mitigating procedures approved by the campus CFO.
- b. Perform a documented periodic management review of the payroll system edit listing report.

Campus Response

We concur. Although mitigating controls were and remain in place, AS has:

- a. Further appropriately segregated certain payroll and personnel processing functions.
- b. Performed a documented management review of the payroll system edit listing report.

PURCHASING AND ACCOUNTS PAYABLE

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

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

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

The AS associate executive director stated that documented travel request forms were not required because there is limited travel and staff members that do travel coordinate and receive approval from their immediate supervisors. She added that all travel expense reimbursements must be approved by the budget managers.

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

Recommendation 21

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

Campus Response

We concur. AS has implemented a process which requires prior documented review and approval for travel requests.

INFORMATION TECHNOLOGY

EQUIPMENT DISPOSITION

The disposition process for AS computing equipment (computers, servers, etc.) did not specifically require documentation that all hard drives were wiped to ensure the secure disposition of any protected data stored on the machines.

The SDSU *Information Security Plan (version 2.3)* requires methods and procedures of information and records storage, retrieval, disposition, and disposal to ensure compliance with information classification, legal, and operational requirements. It further states that IT support staff is responsible for ensuring that all information, operating systems, and other software (including all media) have been removed (sanitized) from the equipment sent to surplus. The IT security office recommends writing over the hard drive once to sanitize any remnants of information or software. Writing over the hard drive in this manner still leaves the drive usable. Media (hard drives, tapes, etc.), whether operable or inoperable, must be removed from systems and labeled for destruction so that material management can shred them to prevent access to information or licensed software. Media containing protected information which cannot be shredded immediately should be secured until disposed of according to approved procedures.

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

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

The AS associate executive director stated that computers are wiped before they are stored, reused, or disposed and stated that a list is maintained, although it is shredded once computers are wiped.

Inadequate control over equipment assets, especially those containing protected data, increases the risk of loss and inappropriate use of state resources, and increases campus exposure to information security breaches.

Recommendation 22

We recommend that AS implement a process to ensure that hard-drive wiping is performed and sufficiently documented to ensure the secure disposition of any protected data stored on computing equipment.

Campus Response

We concur. AS has revised its process to ensure that documents are retained to support the hard-drive wiping of protected data stored on computer equipment.

DISASTER RECOVERY PLAN

The AS IT DRP did not sufficiently address the overall recovery approach, including designation of a command center and alternate recovery sites.

The SDSU *Information Security Plan (version 2.3)* states that appropriate backup procedures and disaster recovery plans must be developed.

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 that ensure computer operations, including backup and recovery mechanisms and disaster recovery programs.

The AS associate executive director stated that, although not documented, the recovery approach was generally understood, and the designation of the command center and alternate recovery sites had been determined.

The absence of a comprehensive IT DRP increases the risk that business and data processing operations may not be restored within a reasonable timeframe in the event of an emergency or disaster.

Recommendation 23

We recommend that AS update its IT DRP to include a comprehensive recovery strategy including alternative site designation and escalation and notification procedures.

Campus Response

We concur. The IT DRP will be revised by September 30, 2010.

SYSTEM BACKUPS

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

The SDSU *Information Security Plan (version 2.3)* states that IT managers are responsible for ensuring that an appropriate backup plan is developed, and IT support staff implements the plan. The backup plan should include items such as the schedule for the backups, encryption of protected information, daily checking of the backup logs, regular verification of backed up information, excluding the quarantine directory, and regular testing of the restoration from backup media.

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

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

The AS associate executive director stated that encryption was not supported by prior versions of backup software, but was now available.

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

Recommendation 24

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

Campus Response

We concur. System backups have been encrypted and off-site transfer and storage is secure.

APPENDIX A: PERSONNEL CONTACTED

<u>Name</u>	<u>Title</u>
CAMPUS	
Stephen L. Weber	President
Jennifer Bagg	Director, Financial Management, KPBS
Jessie Brooks	Associate Vice President, University Relations and Development
Scott Burns	Associate Vice President, Financial Operations
Mary Ruth Carleton	Vice President, University Relations and Development
Valerie Carter	Director, Audit and Tax
John Denune	Technology Security Officer
Erin Jones	Senior Director, University Relations and Development
Lorretta Leavitt	University Controller
Crystal Little	Associate Budget Analyst
Leon Messenie	Director of Engineering and Information Technology, KPBS
Rich Pickett	Chief Information Officer
Ray Rainer	Director, Budget and Finance
Sally Roush	Vice President, Business and Financial Affairs
Felicia Vlahos	Information Security Officer

SAN DIEGO STATE UNIVERSITY RESEARCH FOUNDATION

Deb Beaulieu	Associate Director, Human Resources and Risk Management
Robert Brown	Director, Human Resources and Risk Management
Denise Carroll	Purchasing Manager and Small Business Liaison Officer
Norma Clark	Director, Facilities Planning and Management
Melinda Coil	Chief Financial Officer (CFO)
Erik Davison	Manager, Investment and Financial Reporting
Dan Gilbreath	Executive Director
Michele Goetz	Associate Executive Director, Sponsored Research Services
Katherine Ivko	Manager, Payment Services
Rachel Lancaster	Manager, Finance and Accounting
Renee Lechner	Director, Sponsored Research Administration
Rachel Raynoha	Director of Computing Services
Richard Rechif	Director, Finance and Accounting

THE CAMPANILE FOUNDATION

Keith Benton	Director of Gift Administration and Reporting
Mary Ruth Carleton	Chief Executive Officer
Greg Levin	CFO/Treasurer
Elizabeth Perl	Director of Advancement Services and Prospect Research
Jose Tagel	Programmer Analyst

AZTEC SHOPS, LTD.

Denise Allen	Assistant Manager, Sales Audit
Collen Bucci	Programs Administrator, Dining Services
Debbi Burchianti	Associate Director, Dining Services

AZTEC SHOPS, LTD. (CONT.)

Dina Callahan	Starbucks Senior Manager
Gayle Fernandez	Executive Assistant
Robert Isner	Associate Director, SDSU Dining
Jahan Jamshidi	Director, Information Technology
Jayne Laporta	Director, Merchandising
Gary Mansfield	Associate Director, Bookstore
Paul Melchoir	Associate Director, Dining Services
Leah Messenger	Payroll Manager
H. E. Reichert	Internal Auditor and Senior Director, Administrative Services
Tony Sanjume	Director, Course Materials
Cathy Schieffer	Controller
Martha Speck	Senior Director, Management Services
Dawn Stoebe	Information Technology Project Manager
Todd Summer	Director, Course Material and Montezuma Publishing
Donna Tusack	Chief Executive Officer
Barbara Van Meter	Director, Financial Services

ASSOCIATED STUDENTS, SAN DIEGO STATE UNIVERSITY

Ernest Arreola	Information Technology Manager
June Barreras	Viejas Arena Ticket Office Manager
Barbara Bowen	SDSU Children's Center Office Supervisor
Glen Brandenburg	Mission Bay Aquatic Center (MBAC) Director
Christina Brown	Associate Executive Director
Amanda Burgess	MBAC Office Supervisor
Dan Cornthwaithe	Executive Director
Donna Cook	Payroll Specialist
Jennifer Esquivel-Parker	Government Executive Affairs and Programs Coordinator
Rosie Garcia	Accounts Payable Supervisor
Israel Garza	Controller
Vicki Greene	Aztec Recreation Center Membership Services Coordinator
Fran Hasterok	Accounts Receivable Supervisor
Vic Ly	Systems Administrator
Jim Mitchell	Aztec Center Games Area Coordinator
Jacki Johnson	Aquaplex Coordinator
Ricky Padilla	Vault Cashier
Jill Pallulat	Accounts Payable Clerk
Patty Rea	Human Resources Manager
Rosie Ramos	Payroll Supervisor
Rico Salgado	Aztec Center Ticket Office Supervisor
Frankie Stahl	Daily Aztec Office Supervisor
Kevin Straw	MBAC Instructional Manager
Cathleen Till	Accounting Manager
Raven Tyson	Business Office and Risk Management Supervisor
Kevin Waldick	MBAC Programs Manager

STATEMENT OF INTERNAL CONTROLS

A. INTRODUCTION

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

B. INTERNAL CONTROL DEFINITION

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

1. Internal Accounting Controls

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

2. Operational Controls

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

C. INTERNAL CONTROL OBJECTIVES

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

D. INTERNAL CONTROL SYSTEMS LIMITATIONS

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



SAN DIEGO STATE
UNIVERSITY

Business and Financial Affairs
San Diego State University
5500 Campanile Drive
San Diego CA 92182-1620
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Email: sally.roush@sdsu.edu

Sally Roush
Vice President

August 27, 2010

RECEIVED
UNIVERSITY AUDITOR

AUG 30 2010

THE CALIFORNIA STATE
UNIVERSITY

Mr. Larry Mandel
University Auditor
The California State University
401 Golden Shore, 4th Floor
Long Beach, CA 90802

Dear Mr. Mandel:

Attached is San Diego State University's response to Audit Report 10-01, *Auxiliary Organizations*. Documentation of policy and control changes will follow under separate cover.

Should you have any questions or require additional information, please contact Valerie Carter, Audit and Tax Director, at 619-594-5901.

Sincerely,

Sally Roush
Vice President

Attachment

c: Stephen L. Weber, President
Mary Ruth Carleton, Vice President, University Relations and Development
Scott Burns, Associate Vice President, Financial Operations
Dan Cornthwaite, Executive Director, Associated Students
Dan Gilbreath, Executive Director, San Diego State University Research Foundation
Donna Tusack, Chief Executive Officer, Aztec Shops
Valerie Carter, Director, Audit and Tax

AUXILIARY ORGANIZATIONS
SAN DIEGO STATE UNIVERSITY
Audit Report 10-01

CAMPUS

INFORMATION TECHNOLOGY

DISASTER RECOVERY PLAN

Recommendation 1

We recommend that KPBS, the Research Foundation, and campus complete a comprehensive IT DRP, which is inclusive of all critical systems at KPBS.

Campus Response

We concur. A comprehensive IT disaster recovery plan will be completed by December 30, 2010.

SERVER ROOM CONTROLS

Recommendation 2

We recommend that KPBS install a fire suppression system or fire extinguisher in the server room, and also evaluate the feasibility of installing an after-hours security alarm to compensate for the false ceiling.

Campus Response

We concur. KPBS will install a fire extinguisher in the server room as well as evaluate the feasibility of installing a security alarm by September 30, 2010.

SAN DIEGO STATE UNIVERSITY RESEARCH FOUNDATION

OPERATING AND ADMINISTRATIVE AGREEMENTS

FACILITIES LEASING AND SERVICE AGREEMENTS

Recommendation 3

We recommend that the Research Foundation ensure that all future agreements include appropriate indemnification provisions.

Campus Response

We concur. Indemnification provisions have been provided to department heads to incorporate into future agreements as appropriate.

AUXILIARY FUNCTIONS

Recommendation 4

We recommend that the Research Foundation amend its operating agreement to include the acceptance of gifts, endowments, and gifts annuities for the campus and at KPBS.

Campus Response

We concur, although the Research Foundation does not amend its operating agreement; the University does so. The operating agreement will be amended by November 30, 2010 to include the acceptance of KPBS pledge donations and certain gift annuities for the University.

CORPORATE GOVERNANCE

Recommendation 5

We recommend that the Research Foundation promptly file the cited amendment with the Financing and Treasury department at the Office of the Chancellor and ensure that all future changes/amendments to Bylaws are filed within 30 calendar days.

Campus Response

We concur. The referenced amendment was filed in March 2010 with the Office of the Chancellor. Subsequent changes/amendments to the bylaws will be filed as required.

PETTY CASH AND CHANGE FUNDS

Recommendation 6

We recommend that the Research Foundation conduct periodic independent cash counts of all petty cash funds.

Campus Response

Although the petty cash account in question totaled \$9000 and was thus not material in a \$150 million corporation, we will comply. Procedures have been revised to include periodic cash counts of petty cash funds.

FEES, REVENUES, AND RECEIVABLES

Recommendation 7

We recommend that the Research 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. Matching gift procedures relative to KPBS (which is what the finding addressed) will be revised to include a documented dual review to ensure that funds are administered in accordance with donor requirements by November 30, 2010.

TRUSTS AND OTHER LIABILITIES

Recommendation 8

We recommend that the Research Foundation:

- a. Complete a review of all campus programs and projects accounts and determine, within 120 days, which accounts contain state/campus operating funds.
- b. Certify that none of the following specific and similar monies reside in Research Foundation accounts:
 - Contracts and grants awarded to the university.
 - Research 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 Research Foundation via contract with the campus.
- c. Submit to the Office of the University Auditor, within 120 days, a list of those accounts which have been deemed appropriate to remain in the custody of the Research Foundation and comprehensive documentation to support the sources of funds for those accounts.
- d. Develop a plan to move those state funds identified in “a” above to campus accounts within six months.
- e. Move those state funds identified in “a” above to campus accounts within 12 months.

Campus Response

We note that no policies or codes were cited in support of this finding. The University has followed all current published CSU policy and code regarding this matter. To the extent that the Trustees’ Auditor finds existing CSU policy to be deficient, the finding should be a Chancellor’s Office finding, not a San Diego State University finding. Further the University is responsible for the oversight of funds managed both by the campus and its auxiliaries. To the extent that the Trustees’ Auditor persists in making this a finding at SDSU, the audit recommendation should be directed to the University and identified as part of the campus oversight section of the report and not the Research Foundation. We will treat it as such. Finally, the University and Research Foundation’s competent staff review of program revenue accounts determined that only five accounts should be transferred to the University and not 37 as indicated by the auditor’s cursory review. Regarding the certification requested in (b), I will provide the certification but respectfully request a policy or legal citation that clearly states for each item the authority which prohibits retaining balances in the auxiliary.

The University and Research Foundation will:

- a. Continue and complete a review of all campus programs and project accounts and determine if accounts contain state operating funds. The review will be completed by November 30, 2010.
- b. Certify that none of the following monies reside in Research Foundation accounts:
1. Contracts and grants awarded to the university.
 2. Research Foundation net operating surplus designated for use by the campus.
 3. Fees for continuing education courses provided by the university.
 4. Fees for university events, workshops, conferences, institutes, special projects, and programs.
 5. Athletics funds/fees/revenues other than gifts/donations, corporate sponsorships, and licensing revenues.
 6. Investment income from state funds/fees/revenues.
 7. Reimbursements for services and products provided to auxiliary enterprises and organizations paid from General Fund and/or CSU operating fund monies. Examples of such reimbursements include Public Safety and utilities.

8. Rental fees for university facilities, except those facilities that have been leased to the auxiliary by the campus.
 9. Student fees and other general fees pursuant to the CSU student fee policy.
 10. Monies held by the Research Foundation via contract with the campus.
- c. Submit a list of accounts that will remain in the custody of the Research Foundation by November 30, 2010 along with applicable supporting documents.
 - d. Develop a plan to move state funds identified in “a” to campus accounts by January 31, 2011.
 - e. Move state funds identified in “a” to campus accounts by July 31, 2011 except when employment, debt covenants or similar financial obligations prohibit movement within that time frame.

AUXILIARY PROGRAMS

Recommendation 9

We recommend that the Research Foundation ensure that all future sub-award agreements include a provision that the contracting parties shall be subject to the examination and audit of the auxiliary and its agents.

Campus Response

We concur. Sub-award boilerplates have been revised to include a provision that contracting parties will be subject to an examination and audit of the Research Foundation and its agents.

INFORMATION TECHNOLOGY

Recommendation 10

We recommend that the Research Foundation ensure the security of and maintain an inventory of all machines purchased by the Research Foundation, including those purchased via grant funding.

Campus Response

SDSURF policies and procedures have been updated and expanded to ensure the security of its inventory, including equipment purchased via grant funding.

THE CAMPANILE FOUNDATION**FEES, REVENUES, AND RECEIVABLES****DONOR SYSTEM RECONCILIATION****Recommendation 11**

We recommend that The Campanile Foundation perform independent reconciliations of its donor database to the Research Foundation's general ledger accounting system.

Campus Response

We concur. Procedures will be developed by November 30, 2010 to ensure independent reconciliations of the donor database to the Research Foundation's general ledger accounting system.

MATCHING GIFTS**Recommendation 12**

We recommend that The Campanile 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. Matching gift procedures will be revised by November 30, 2010 to include a documented dual review process.

INFORMATION TECHNOLOGY**Recommendation 13**

We recommend that The Campanile Foundation install a fire and smoke detection/suppression system in the server room, and also evaluate the feasibility of installing an after-hours security alarm to compensate for the false ceiling.

Campus Response

We concur. A fire and smoke detection system has been installed in the server room. An evaluation will be made to determine the feasibility of installing an after-hours security alarm by November 30, 2010.

AZTEC SHOPS, LTD.

OPERATIONAL COMPLIANCE

RISK MANAGEMENT

Recommendation 14

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

Campus Response

We concur. Aztec Shops has developed and adopted a risk management policy.

CONFLICT OF INTEREST

Recommendation 15

We recommend that Shops require each board member to annually acknowledge in written form whether or not any new conflicts of interest exist.

Campus Response

Although the existing policy was specifically found to be acceptable to the Trustees' Auditor three years ago, each board member will now sign an annual conflict of interest statement. Policies and procedures have been revised to reflect this change.

SEGREGATION OF DUTIES

Recommendation 16

We recommend that Shops appropriately segregate certain payroll processing functions or institute mitigating procedures approved by the campus CFO.

Campus Response

We concur. Payroll processing functions have been appropriately reassigned and segregated.

CASH RECEIPTS AND HANDLING

Recommendation 17

We recommend that Shops localize accountability over cash transactions when multiple employees operate the same cash drawer.

Campus Response

We concur. Procedures have been revised to accommodate multiple employees who infrequently may operate the same cash drawer.

INFORMATION TECHNOLOGY

Recommendation 18

We recommend that Shops update its IT DRP to include all critical systems.

Campus Response

We concur. The IT disaster recovery plan has been updated to include all critical systems.

ASSOCIATED STUDENTS, SAN DIEGO STATE UNIVERSITY**SEGREGATION OF DUTIES****ACCOUNTS PAYABLE****Recommendation 19**

We recommend that AS:

- a. Appropriately segregate certain accounts payable processing functions or institute mitigating procedures approved by the campus CFO.
- b. Perform a documented periodic management review of the vendor master list.

Campus Response

We concur. Although mitigating controls were and continue in place, Associated Students has:

- a. Further appropriately segregated certain accounts payable processing functions.
- b. Performed a documented management review of the vendor master list.

PAYROLL AND PERSONNEL**Recommendation 20**

We recommend that AS:

- a. Appropriately segregate certain payroll and personnel processing functions or institute mitigating procedures approved by the campus CFO.
- b. Perform a documented periodic management review of the payroll system edit listing report.

Campus Response

We concur. Although mitigating controls were and remain in place, Associated Students has:

- a. Further appropriately segregated certain payroll and personnel processing functions.
- b. Performed a documented management review of the payroll system edit listing report.

PURCHASING AND ACCOUNTS PAYABLE**Recommendation 21**

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

Campus Response

We concur. Associated Students has implemented a process which requires prior documented review and approval for travel requests.

INFORMATION TECHNOLOGY

EQUIPMENT DISPOSITION

Recommendation 22

We recommend that AS implement a process to ensure that hard-drive wiping is performed and sufficiently documented to ensure the secure disposition of any protected data stored on computing equipment.

Campus Response

We concur. Associated Students has revised its process to ensure that documents are retained to support the hard-drive wiping of protected data stored on computer equipment.

DISASTER RECOVERY PLAN

Recommendation 23

We recommend that AS update its IT DRP to include a comprehensive recovery strategy including alternative site designation and escalation and notification procedures.

Campus Response

We concur. The IT disaster recovery plan will be revised by September 30, 2010.

SYSTEM BACKUPS

Recommendation 24

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

Campus Response

We concur. System backups have been encrypted and off-site transfer and storage is secure.

THE CALIFORNIA STATE UNIVERSITY
OFFICE OF THE CHANCELLOR

BAKERSFIELD

CHANNEL ISLANDS

October 25, 2010

CHICO

DOMINGUEZ HILLS

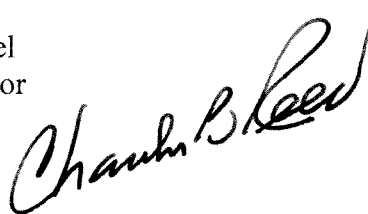
MEMORANDUM

EAST BAY

TO: Mr. Larry Mandel
University Auditor

FRESNO

FULLERTON

FROM: Charles B. Reed
Chancellor


HUMBOLDT

SUBJECT: Draft Final Report 10-01 on *Auxiliary Organizations*,
San Diego State University

LONG BEACH

LOS ANGELES

MARITIME ACADEMY

In response to your memorandum of October 25, 2010, I accept the response as submitted with the draft final report on *Auxiliary Organizations*, San Diego State University. My acceptance, however, should not be seen as an endorsement of the campus plan to retain state funds within the Research Foundation in support of employment or similar financial obligations for an indefinite period of time. As we discussed, the campus response to recommendation 8e will be subject to a further review after the work of the Review Committee on Auxiliaries has been presented to the CSU Board of Trustees.

MONTEREY BAY

NORTHRIDGE

POMONA

SACRAMENTO

SAN BERNARDINO

CBR/amd

SAN DIEGO

SAN FRANCISCO

SAN JOSÉ

SAN LUIS OBISPO

SAN MARCOS

SONOMA

STANISLAUS