

AUXILIARY ORGANIZATIONS
CALIFORNIA STATE UNIVERSITY,
FRESNO

Audit Report 11-02
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ABBREVIATIONS

Ag Foundation	The Agricultural Foundation of California State University, Fresno
AORMA	Auxiliary Organizations Risk Management Authority
AS	Associated Students California State University, Fresno
Athletic Corporation	The California State University, Fresno Athletic Corporation
Association	California State University, Fresno Association, Inc.
CFO	Chief Financial Officer
CSU	California State University
CSUF	California State University, Fresno
CSURMA	California State University Risk Management Authority
DMZ	Demilitarized Zone
DSS	Data Security Standards
EO	Executive Order
Foundation	California State University, Fresno Foundation
ICSUAM	Integrated California State University Administrative Manual
Library	The Henry Madden Library
MOU	Memorandum of Understanding
PCI	Payment Card Industry
PFC	Fresno State Programs for Children, Inc.
RFIN	Resolution of the Committee on Finance
SAQ	Self-Assessment Questionnaire

EXECUTIVE SUMMARY

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

California State University, Fresno (CSUF) 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 CSUF campus and its auxiliary organizations from March 14, 2011, through April 14, 2011, and made a study and evaluation of the system of internal compliance/internal control in effect as of April 14, 2011. This report represents our triennial review.

Our study and evaluation of the *CSUF campus* oversight of the auxiliary organizations revealed certain conditions that, in our opinion, could result in errors and irregularities if not corrected. Specifically, the campus 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 April 14, 2011, taken as a whole, was sufficient to meet the objectives stated above.

Our study and evaluation at *California State University, Fresno Foundation* did not reveal any significant internal control problems or weaknesses that would be considered pervasive in their effects on the accounting and administrative controls. However, we did identify other reportable weaknesses that are described in the executive summary and in the body of the report. In our opinion, the accounting and

administrative control in effect as of April 14, 2011, taken as a whole, was sufficient to meet the objectives stated above.

Our study and evaluation at the *California State University, Fresno Association, Inc.* 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 April 14, 2011, taken as a whole, was sufficient to meet the objectives stated above.

Our study and evaluation at *The Agricultural Foundation of California State University, Fresno* did not reveal any significant internal control problems or weaknesses that would be considered pervasive in their effects on the accounting and administrative controls. However, we did identify other reportable weaknesses that are described in the executive summary and in the body of the report. In our opinion, the accounting and administrative control in effect as of April 14, 2011, taken as a whole, was sufficient to meet the objectives stated above.

Our study and evaluation at *The California State University, Fresno Athletic Corporation* did not reveal any significant internal control problems or weaknesses that would be considered pervasive in their effects on the accounting and administrative controls. However, we did identify other reportable weaknesses that are described in the executive summary and in the body of the report. In our opinion, the accounting and administrative control in effect as of April 14, 2011, taken as a whole, was sufficient to meet the objectives stated above.

Our study and evaluation at *Fresno State Programs for Children, Inc.* did not reveal any significant internal control problems or weaknesses that would be considered pervasive in their effects on the accounting and administrative controls. However, we did identify other reportable weaknesses that are described in the executive summary and in the body of the report. In our opinion, the accounting and administrative control in effect as of April 14, 2011, taken as a whole, was sufficient to meet the objectives stated above.

Our study and evaluation at *Associated Students California State University, Fresno* did not reveal any significant internal control problems or weaknesses that would be considered pervasive in their effects on the accounting and administrative controls. However, we did identify other reportable weaknesses that are described in the executive summary and in the body of the report. In our opinion, the accounting and administrative control in effect as of April 14, 2011, 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

FISCAL COMPLIANCE [14]

The campus had not required full reimbursement or documentation of offsetting costs from the auxiliaries for indirect costs incurred by the campus on behalf of the auxiliaries.

OPERATIONAL COMPLIANCE [15]

The campus risk management policies did not specifically address auxiliary organizations and operations.

INFORMATION TECHNOLOGY [16]

The campus did not ensure that the auxiliaries or other campus departments had fully addressed Payment Card Industry Data Security Standard requirements. Also, protected and/or sensitive data stored in the donor database and system backups for the donor database stored off-site were not encrypted, a repeat finding from our Information Security audit conducted in February 2009. Further, the campus advancement network had not placed Internet-accessible web servers on a separate network segment from the donor database, a repeat finding from our Information Security audit conducted in February 2009.

CALIFORNIA STATE UNIVERSITY, FRESNO FOUNDATION

FACILITIES AGREEMENTS [21]

Certain sublease agreements between California State University, Fresno Foundation (Foundation) and third parties did not include appropriate indemnification provisions.

CORPORATE GOVERNANCE [22]

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

INFORMATION TECHNOLOGY [22]

The Foundation did not track any computing equipment valued under \$5,000.

CALIFORNIA STATE UNIVERSITY, FRESNO ASSOCIATION, INC.

PURCHASING AND ACCOUNTS PAYABLE [24]

Certain California State University, Fresno Association, Inc. (Association) dining services cash disbursements were not properly authorized.

PROPERTY AND EQUIPMENT [25]

Association administration of property and equipment needed improvement. For example, four of the ten capitalized assets we selected for physical inspection from the Association property and equipment listing could not be located, and two capitalized assets that were scrapped in 2007 and 2008 were not approved for disposal until February 2011.

INFORMATION TECHNOLOGY [26]

Protected and/or sensitive data was not encrypted when stored in the Association financial and payroll systems or in system backups, and the Association did not perform an assessment and inventory of protected data residing on an administrative file server. Also, the Association network did not place Internet-accessible web servers on a separate network segment from other production servers, and the bookstore server room lacked a smoke detection device.

THE AGRICULTURAL FOUNDATION OF CALIFORNIA STATE UNIVERSITY, FRESNO

OPERATING AND ADMINISTRATIVE AGREEMENTS [30]

Agreements between the Agricultural Foundation of California State University, Fresno (Ag Foundation) and third parties did not always include appropriate provisions for insurance and indemnification, nor were they always fully executed in a timely manner. Specifically, two service agreements with third-party vendors did not contain insurance or indemnification provisions to specifically indemnify the state of California, CSU Trustees, the campus, and the auxiliary, and one service agreement for pistachio processing was not fully executed/signed until April 2011, approximately nine months after its August 2010 inception date.

CASH RECEIPTS AND HANDLING [31]

Cashiering controls needed improvement at the Ag Foundation's dairy unit, orchard unit, meats lab, winery, floral unit, and nursery. For example, checks received at the dairy unit, orchard unit, meats lab, and winery were not restrictively endorsed immediately upon receipt; the cash register at the floral unit was not closed out on a nightly basis and accountability for cash receipts was not always localized; and cash receipts at the meats lab were not forwarded to the association business office for deposit in a timely manner, a repeat finding from the prior Auxiliary Organizations audit.

PROPERTY AND EQUIPMENT [33]

The Ag Foundation's storage room at the Gibson Market was not adequately secured.

AUXILIARY PROGRAMS [34]

The Ag Foundation's management of inventory transfers needed improvement. Specifically, the Ag Foundation did not have procedures to account for goods transferred from the nursery to the Gibson Farm Market.

THE CALIFORNIA STATE UNIVERSITY, FRESNO ATHLETIC CORPORATION

FISCAL COMPLIANCE [35]

The California State University, Fresno Athletic Corporation (Athletic Corporation) had not developed written policies and procedures to designate the allocation of surplus net assets into the following reserve categories: working capital, current operations, capital replacement, and planned future operations.

OPERATIONAL COMPLIANCE [36]

The Athletic Corporation had not obtained annual conflict of interest statements from all board members.

SEGREGATION OF DUTIES [36]

Certain duties and responsibilities related to the processing of cash disbursements were not adequately segregated at the Athletic Corporation.

FRESNO STATE PROGRAMS FOR CHILDREN, INC.

FISCAL COMPLIANCE [38]

Fresno State Programs for Children, Inc. (PFC) had not developed written policies and procedures to designate the allocation of surplus net assets into the following reserve categories: working capital, current operations, capital replacement, and planned future operations.

SEGREGATION OF DUTIES [39]

Duties and responsibilities over purchasing of food and linens for the childcare centers were not adequately segregated at PFC. This is a repeat finding from the prior Auxiliary Organizations audit.

FEES, REVENUES, AND RECEIVABLES [40]

PFC collections procedures were incomplete, and delay notifications were not sent in a timely manner.

PROPERTY AND EQUIPMENT [41]

PFC had not developed written policies and procedures to periodically perform an independent physical inventory of food and linens.

ASSOCIATED STUDENTS CALIFORNIA STATE UNIVERSITY, FRESNO

OPERATING AND ADMINISTRATIVE AGREEMENTS [43]

The standard performance agreement between Associated Students California State University, Fresno (AS) and artists/performers did not include appropriate provisions for indemnification. In addition, the memorandum of understanding between AS and the Henry Madden Library was not supported by a fully executed written agreement.

FISCAL COMPLIANCE [44]

AS fiscal policy did not designate the allocation of surplus net assets into the following reserve categories: working capital, current operations, capital replacement, and planned future operations.

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.

California State University, Fresno Foundation

The California State University, Fresno Foundation (Foundation) was established in 1931 as a non-profit public benefit corporation to provide services in support of the California State University, Fresno (CSUF) mission and goals. The Foundation provides and augments funding for educationally related services at CSUF not otherwise available through or funded by the state university system. It also gives CSUF the expertise, oversight, and advocacy to increase private giving and manage the philanthropic assets of the university and offers assistance to faculty and staff with the administration of grants,

contracts, and trust accounts. The Foundation is governed by an independent board composed of representatives from the student body, university administration, faculty, alumni, and community. The Foundation relies on campus personnel from institutional advancement for the collection of philanthropic gifts and on the California State University, Fresno Association, Inc. for administrative and accounting support services.

California State University, Fresno Association, Inc.

The California State University, Fresno Association, Inc. (Association) was established in 1961 and was initially incorporated as the Fresno State College Association, Inc. to provide a legal body to administer the bookstore, food services, and student body activities. The breadth of operations has expanded since incorporation, and the Association is currently composed of the following operating units: Kennel Bookstore, Student Recreation Center, University Dining Services, University Courtyard, University Student Union, and Save Mart Center. The Association also provides management, accounting, information services, legal services, and professional services to other campus auxiliary organizations and operations, including the Foundation; the Agricultural Foundation of California State University, Fresno; Associated Students California State University, Fresno; and Fresno State Programs for Children, Inc. The Association is governed by a board of directors composed of staff, faculty, students, and community members.

The Agricultural Foundation of California State University, Fresno

The Agricultural Foundation of California State University, Fresno (Ag Foundation) was established in 1954 as a non-profit benefit corporation. The Ag Foundation provides the financial resources, land, animals, orchards, and vineyards for students to receive practical experience in the field of agriculture that reinforces their classroom instruction. The Ag Foundation is governed by an appointed board of directors, which is composed of university administrators and leaders from the valley's agricultural community. The Ag Foundation relies on the Association personnel for administrative and accounting support services.

The California State University, Fresno Athletic Corporation

The California State University, Fresno Athletic Corporation (Athletic Corporation) was established in 1982 as a non-profit public benefit corporation to provide services in support of the CSUF mission and goals. The Athletic Corporation provides educational and life-skill development programs for young men and women with exceptional athletic abilities. In addition, it helps in the regional development of the campus community and in the pursuit of national recognition and prestige for CSUF. The Athletic Corporation is governed by an independent board of directors composed of representatives from the student body, university administration, faculty, alumni, and community. The Athletic Corporation relies on campus personnel for administrative and accounting support services.

Fresno State Programs for Children, Inc.

Fresno State Programs for Children, Inc. (PFC) was established in 1996 as a non-profit public benefit corporation to provide campus-affiliated children's programs. PFC provides services to the children of

CSUF students, and to a limited extent, faculty, staff, and the larger community. Funded by the State Department of Education, PFC is committed to giving priority to those student families meeting state eligibility requirements. PFC runs three centers: campus children's infant/toddler center, campus children's preschool center, and Huggins center. PFC is governed by a board of directors composed of the executive director and representatives from the student body, university administration, faculty, and community. PFC relies on the Association for administrative and accounting support services.

Associated Students California State University, Fresno

Associated Students California State University, Fresno (AS) was established in 1986 as a non-profit public benefit corporation to provide a means for effective student participation in the governance of the university, to foster the awareness of student opinions on campus issues, to assist in the protection of student rights, and to provide programs and services to meet the needs of the students and campus community. AS is governed by a board of directors composed of representatives from the student body and relies on the Association for administrative and accounting support services.

PURPOSE

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

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

SCOPE AND METHODOLOGY

Our study and evaluation were conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing* issued by the Institute of Internal Auditors, and included the audit tests we considered necessary in determining that accounting and administrative controls are in place and operative. The management review emphasized, but was not limited to, compliance with state and federal laws, Board of Trustee policies, and Office of the Chancellor policies, letters, and directives. For those audit tests that required annualized data, fiscal years 2008/09 and 2009/10 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, 2010, to April 14, 2011. Our primary focus was on internal compliance/internal control.

Specifically, we reviewed and tested:

- ▶ Formation of the auxiliary.
- ▶ Functions the auxiliary performs on the campus.
- ▶ Creation and operation of the auxiliary's board.
- ▶ Establishment of policies and procedures based upon sound business practices.
- ▶ Maintenance of "arms-length" in business transactions between the auxiliary and the campus.
- ▶ Campus oversight of auxiliary operations.

Additionally, for the period reviewed, we examined other aspects of compliance of the campus and each auxiliary with the Education Code and Title 5 as they relate to the operation of CSU auxiliary organizations. Individual codes and regulations added to the scope of our review were identified through an assessment of risk. Similarly, internal controls were included within our scope based upon risk. Therefore, the scope of our review varied from auxiliary to auxiliary.

A preliminary survey of CSU auxiliaries at each campus was used to identify risks. Risk was defined as the probability that an event or action would adversely affect the auxiliary and/or the campus. Our assessment of risk was based upon a systematic process, using professional judgments on probable adverse conditions and/or events that became the basis for development of our final scope. We sought to assign higher review priorities to activities with higher risks. As a result, not all risks identified were included within the scope of our review.

Based upon this assessment of risks, we specifically included within the scope of our review the following:

California State University, Fresno 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
- ▶ Investments
- ▶ Fees, Revenues, and Receivables
- ▶ Purchasing and Accounts Payable
- ▶ Endowment Administration
- ▶ Information Technology

California State University, Fresno Association, Inc.

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

The Agricultural Foundation of California State University, Fresno

- ▶ 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
- ▶ Fees, Revenues, and Receivables
- ▶ Purchasing and Accounts Payable
- ▶ Property and Equipment
- ▶ Auxiliary Programs
- ▶ Information Technology

The California State University, Fresno Athletic Corporation

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

Fresno State Programs for Children, Inc.

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

Fresno State Programs for Children, Inc. (cont.)

- ▶ Investments
- ▶ Fees, Revenues, and Receivables
- ▶ Purchasing and Accounts Payable
- ▶ Property and Equipment
- ▶ Information Technology

Associated Students California State University, Fresno

- ▶ 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
- ▶ Investments
- ▶ Fees, Revenues, and Receivables
- ▶ Purchasing and Accounts Payable
- ▶ Property and Equipment
- ▶ Trusts and Other Liabilities
- ▶ Information Technology

Campus

- ▶ Campus Oversight and Control
- ▶ Information Technology

We have not performed any auditing procedures beyond April 14, 2011. 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

FISCAL COMPLIANCE

The campus had not required full reimbursement or documentation of offsetting costs from the auxiliaries for indirect costs incurred by the campus on behalf of the auxiliaries.

We found that the campus did not have documentation of auxiliary reimbursements or offsetting costs for fiscal years 2007/08, 2008/09, and 2009/10.

The California State University, Fresno (CSUF) *Cost Allocation Plan* states that the indirect charges calculated in the Indirect Cost Determination Worksheet can be reduced or offset by like kind services or benefits provided to the university. Any offset to the indirect charges will be negotiated with the Office of Budget and Treasury Management and documented in a memo.

Executive Order (EO) 1000, *Delegation of Fiscal Authority and Responsibility*, dated July 1, 2007, states that the campus president shall ensure that costs incurred by the CSU operating fund for services, products, and facilities provided to other CSU funds and to auxiliary organizations are properly and consistently recovered with cash and/or a documented exchange of value. Allowable direct costs incurred by the CSU operating fund shall be allocated and recovered based on actual costs incurred. Allowable and allocable indirect costs shall be allocated and recovered according to a cost allocation plan that utilizes a documented and consistent methodology including identification of indirect costs and a basis for allocation. The campus chief financial officer, or designee, shall annually approve and implement the cost allocation plan.

The campus associate vice president for financial services stated that auxiliary reimbursement was generally not necessary due to recognition of offsetting costs, but that the campus had not required documentation of these offsetting costs due to oversight.

Failure to require auxiliary reimbursement of indirect costs incurred by the campus increases the risk that the campus operating fund will not be fully compensated for support provided to auxiliary enterprises.

Recommendation 1

We recommend that the campus require full reimbursement or document offsetting costs from the auxiliaries for indirect costs incurred by the campus on behalf of the auxiliaries.

Campus Response

We concur. The university will complete an indirect cost allocation plan for fiscal year 2011/12. The campus will consider offsetting costs from the auxiliaries and determine the appropriate amounts to be reimbursed to the campus by December 31, 2011.

OPERATIONAL COMPLIANCE

The campus risk management policies did not specifically address auxiliary organizations and operations.

In addition, we found that the auxiliaries did not have comprehensive written risk management policies that addressed an ongoing process to proactively identify risks, analyze the frequency and severity of identified risks, and 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 campus associate vice president for financial services stated that the auxiliary operations were included within the oversight of the campus risk management function and were charged for such services within the cost allocation plan. He further stated that the campus risk management plan did not specifically address the comprehensive operations and enterprises of all auxiliary units because the campus was unaware of this requirement.

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

Recommendation 2

We recommend that the campus update its risk management policy to specifically address campus auxiliary organizations and operations.

Campus Response

We concur. The university will have a revised risk management policy, approved by the campus chief financial officer by November 1, 2011, that will specifically address campus auxiliary organizations and operations.

INFORMATION TECHNOLOGY

PAYMENT CARD INDUSTRY DATA SECURITY STANDARD

The campus did not ensure that the auxiliaries or other campus departments had fully addressed Payment Card Industry (PCI) Data Security Standard (DSS) requirements.

Although some assessment of PCI DSS compliance for the auxiliaries had been conducted, we found that:

- ▶ Roles and responsibilities for PCI DSS compliance were not adequately defined between the campus and auxiliaries.
- ▶ A compliance risk assessment was not fully completed and documented to determine comprehensive compliance obligations for credit card data maintained on auxiliary servers, transmitted throughout the campus network, and stored manually in local files.
- ▶ An annual PCI DSS Self Assessment Questionnaire (SAQ) was not completed by all auxiliaries (or consolidated into one SAQ for all university-wide transactions) as is required by PCI DSS of all level one, two, and three vendors, and recommended for all level four vendors.
- ▶ PCI DSS compliance deficiencies were noted at several of the campus and auxiliary business units.

Integrated California State University Administrative Manual (ICSUAM) §8045.100, *Information Technology Security*, states that campuses must develop and implement appropriate technical controls to minimize risks to their information technology infrastructure. Each campus must take reasonable steps to protect the confidentiality, integrity, and availability of its critical assets and protected data from threats.

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

The PCI DSS is a set of comprehensive requirements for enhancing payment account data security, which was developed by the founding payment brands of the PCI Security Standards Council, including American Express, Discover Financial Services, JCB International, MasterCard

Worldwide, and Visa Inc. International, to help facilitate the broad adoption of consistent data security measures on a global basis. The PCI DSS is a multifaceted security standard that includes requirements for security management, policies, procedures, network architecture, software design, and other critical protective measures. This comprehensive standard is intended to help organizations proactively protect customer account data. According to payment brand rules, all merchants and their service providers are required to comply with the PCI DSS in its entirety.

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

The campus associate director of security, service desk, and systems stated that the campus and auxiliaries were aware of PCI DSS requirements and had made some progress toward PCI DSS compliance, but they had not fully addressed the campus and auxiliary roles and responsibilities for PCI DSS assessment nor completed the required SAQ and risk assessment documentation.

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

Recommendation 3

We recommend that the campus and auxiliaries:

- a. Define and document roles, responsibilities, and legal determination for PCI DSS compliance between the campus and the auxiliaries.
- b. Conduct and fully document a risk assessment of comprehensive compliance obligations for credit card data maintained on auxiliary servers, transmitted throughout the campus network, and stored manually in local files.
- c. Complete an annual PCI DSS SAQ that includes all credit card merchants on campus, either jointly or separately.
- d. Develop a plan to remediate all known PCI DSS compliance deficiencies, as well as any noted during the risk assessment project.

Campus Response

We concur. We will take the following steps to implement these recommendations:

- a. We will define a campus standard for the secure handling of credit card data that defines the roles and responsibilities of any college, department, entity, or individual at CSUF and all

auxiliaries that handle this data. This standard will establish the requirement that the campus, all departments, and all auxiliaries that process this data comply with PCI DSS. This will be completed by December 1, 2011.

- b. We will conduct and fully document a risk assessment of comprehensive compliance obligations based on the approach documented in PCI DSS version 2.0. This will be completed by February 1, 2012.
- c. We will complete an annual PCI DSS SAQ document that includes all credit card merchants on campus. This will be completed by February 1, 2012.
- d. In this process, we will document all known PCI DSS compliance deficiencies, as well as any noted during the risk assessment process, and develop a plan to remediate these. This will be completed by February 1, 2012.

PROTECTED DATA

Protected and/or sensitive data stored in the donor database and system backups for the donor database stored off-site were not encrypted. This is a repeat finding from our Information Security audit conducted in February 2009.

ICSUAM §8045.100, *Information Technology Security*, states that campuses must develop and implement appropriate technical controls to minimize risks to their information technology infrastructure. Each campus must take reasonable steps to protect the confidentiality, integrity, and availability of its critical assets and protected data from threats.

ICSUAM §8065, *Information Asset Management*, states that campuses must maintain an inventory of information assets containing level 1 or level 2 data as defined in the CSU Data Classification Standard. These assets must be categorized and protected throughout their entire life cycle, from origination to destruction.

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 campus associate director of security, service desk, and systems stated that encryption of the donor database was not supported by the vendor and that the campus had determined that backup encryption was not necessary.

Failure to ensure that all sensitive information has been properly secured increases the campus' exposure to information security breaches and could result in the violation of legal statutes that could result in financial penalties and loss of public trust.

Recommendation 4

We recommend that the campus encrypt protected and/or sensitive data stored on the donor database and system backups of the donor database stored off-site.

Campus Response

Work is underway to replace the current donor database system with a system that will allow us to implement this recommendation. The current schedule is for that project to be completed by March 30, 2012. Until that time, the university agrees to accept the risk inherent in not encrypting the protected or sensitive data stored on the donor database and system backups of the donor database stored off-site. The risk of exposures to the data stored off-campus are limited since the company performing the service is secure and bonded.

NETWORK SECURITY

The campus advancement network had not placed Internet-accessible web servers on a separate network segment from the donor database. This is a repeat finding from our Information Security audit conducted in February 2009.

ICSUAM §8045.100, *Information Technology Security*, states that campuses must develop and implement appropriate technical controls to minimize risks to their information technology infrastructure. Each campus must take reasonable steps to protect the confidentiality, integrity, and availability of its critical assets and protected data from threats.

ICSUAM §8045.300, *Network Security*, states that campuses must appropriately design their networks—based on risk, data classification, and access—in order to ensure the confidentiality, integrity, and availability of their information assets. Each campus must implement and regularly review a documented process for transmitting data over the campus network. This process must include the identification of critical information systems and protected data that is transmitted through the campus network or is stored on campus computers. Campus processes for transmitting or storing critical assets and protected data must ensure confidentiality, integrity, and availability.

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 network segmentation to logically separate any protected data residing on internal auxiliary systems from Internet-accessible devices.

The campus associate director of security, service desk, and systems stated that network segmentation, including a demilitarized zone (DMZ) to protect the donor database, was in the beginning phases but had not been completed due to competing projects with higher priority.

Failure to segment Internet-accessible devices increases the risk of internal network exposure to security compromises and inadequate security over information assets with protected data.

Recommendation 5

We recommend that the campus place Internet-accessible web servers on a separate network segment from other production servers.

Campus Response

The campus worked with the chancellor's office ITRP2 team on the server farm firewall plan. The first phase of this project, which was completed in December 2010, determined the appropriate segmentation of the network topology on the campus. Completion of the project that provides appropriate network segmentation for the campus advancement network will be completed by March 15, 2012.

CALIFORNIA STATE UNIVERSITY, FRESNO FOUNDATION

FACILITIES AGREEMENTS

Certain sublease agreements between the California State University, Fresno Foundation (Foundation) and third parties did not include appropriate indemnification provisions.

We found that the indemnification provisions in sublease agreements for two sponsored programs did not specifically indemnify the auxiliary, state of California, CSU Trustees, and campus.

The California State University Risk Management Authority (CSURMA)/Auxiliary Organizations 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.

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

The campus associate vice president for auxiliary operations stated that the sublease agreements did not include the proper indemnification clauses due to oversight.

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

Recommendation 6

We recommend that the Foundation:

- a. Amend the cited agreements (still in effect) with appropriate indemnification provisions.
- b. Ensure that all future agreements include appropriate indemnification provisions.

Campus Response

We concur. The California State University, Fresno Association, Inc.'s (Association) in-house staff counsel will use best efforts and industry practice to secure appropriate indemnification provisions in existing and future agreements for the Foundation by February 1, 2012. The Association has

requested cooperation from the Foundation's unit enterprise managers to submit agreements timely for review and execution prior to commencing any work or services.

CORPORATE GOVERNANCE

The Foundation had not filed amended Bylaws with the chancellor's office in a timely manner. We found that amendments to the Bylaws made on March 27, 2008, December 1, 2009, and, December 9, 2010, had not been filed with the chancellor's office until they were noted during fieldwork.

The *Compilation of Policies and Procedures for California State University Auxiliary Organizations* Section 11.6.1, *Reporting Changes in Articles of Incorporation (or Constitutions) and Bylaws*, states that when an auxiliary organization makes changes to its Articles of Incorporation (or Constitution) 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 campus associate vice president for auxiliary operations stated that the amended Bylaws were not submitted to the chancellor's office due to oversight.

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

During our fieldwork, the Foundation provided documentation showing evidence that a complete amended copy of its Bylaws had been filed with the chancellor's office.

INFORMATION TECHNOLOGY

The Foundation did not track any computing equipment valued under \$5,000.

Specifically, we found that computing equipment purchased by sponsored programs was not always included in the periodic inventory and security assessment process.

ICSUAM §8065, *Information Asset Management*, states that campuses must maintain an inventory of information assets containing level 1 or level 2 data as defined in the CSU Data Classification Standard. These assets must be categorized and protected throughout their entire life cycle, from origination to destruction.

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

The campus associate vice president for auxiliary operations stated that the Foundation's policies only required capitalization and tracking of items over \$5,000 in value and had not considered the need to require tracking of sensitive technology assets valued less than \$5,000.

Inadequate accountability of assets, especially those that contain personal confidential information or have access to such protected information, increases the risk of loss and inappropriate use of auxiliary resources and increases exposure to information security breaches.

Recommendation 7

We recommend that the Foundation include all computing equipment purchased by sponsored programs in the periodic inventory and security assessment process.

Campus Response

We concur. Effective October 1, 2011, the Foundation will track all purchases from sponsored program accounts and include them in campus security assessment process.

CALIFORNIA STATE UNIVERSITY, FRESNO ASSOCIATION, INC.

PURCHASING AND ACCOUNTS PAYABLE

Certain California State University, Fresno Association, Inc. (Association) cash disbursements were not properly authorized.

We reviewed 35 cash disbursements and found that:

- ▶ In three instances, the invoice was not signed to show evidence that the inventory received was accurate and payment was authorized.
- ▶ In five instances, the invoice was not authorized for payment by an appropriate level of management.

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

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

The campus associate vice president for auxiliary operations stated that all dining services invoices approved for payment require manager approval in addition to any inventory receipt sign-offs, and that the lack of compliance in these instances was due to oversight.

The lack of appropriate authorization of cash disbursements increases the risk of misappropriation of funds.

Recommendation 8

We recommend that the designated Association manager or supervisor properly authorize all cash disbursements.

Campus Response

We concur. The executive director has sent a written communication to all dining services managers advising them of this required procedure in accordance with the Association's Accounts Payable Policy.

PROPERTY AND EQUIPMENT

Association administration of property and equipment needed improvement.

We found that:

- ▶ Four of the ten capitalized assets we selected for physical inspection from the Association property and equipment listing could not be located.
- ▶ Six of ten capitalized assets at The Agricultural Foundation of California State University, Fresno (Ag Foundation), which is managed by the Association, were not tagged. This is a repeat finding from the prior Auxiliary Organizations audit. Further, capitalized assets purchased by the Ag Foundation after 2008 had not been assigned fixed asset tags/ID numbers by the Association.
- ▶ Two capitalized assets that were scrapped in 2007 and 2008 were not approved for disposal until February 2011. Moreover, the journal entries recording the disposition of the property and equipment were not processed until February 28, 2011.

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

The Ag Foundation *Fixed Assets Policy and Procedures* state that all Ag Foundation assets which have a service life of one year or more remaining and an estimated current value of \$5,000 or more shall be assigned an ID number by the Association. A listing of ID numbers, asset description, model/serial number, purchase price, estimated life, and annual depreciation record will be maintained by the Association.

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

The campus associate vice president for auxiliary operations stated that the insufficient administration of property and equipment was due to the transition in the auxiliary's controller position.

Insufficient administration of property and equipment increases the risk that property may be lost or stolen or misrepresented in the financial statements.

Recommendation 9

We recommend that the Association:

- a. Promptly locate the missing assets and adjust the property and equipment listing as necessary.
- b. Assigned fixed asset tag/ID numbers to all of the Ag Foundation's capitalized assets.
- c. Approve the disposition of capitalized assets in a timely manner and record the disposition of the Ag Foundation's property and equipment at the time of disposition.

Campus Response

We concur. Recommendations (a) and (b) have been completed. Recommendation (c) has been communicated to the director of agricultural operations, and an annual review will occur by the Association's controller.

INFORMATION TECHNOLOGY

DATA SECURITY AND ASSESSMENT

Protected and/or sensitive data was not encrypted when stored in the Association financial and payroll systems or in system backups, and the Association did not perform an assessment and inventory of protected data residing on an administrative file server.

We found that:

- ▶ The JD Edwards financial and payroll systems and the campus Blackboard ID card system contained protected data that was not encrypted. Daily and weekly backups for these systems also were not encrypted.
- ▶ An administrative file server with shared drives for administrative, accounting, human resources/payroll, and sponsored programs was not encrypted. Moreover, the Association had not conducted an assessment and inventory of protected data on the server.

ICSUAM §8045.100, *Information Technology Security*, states that campuses must develop and implement appropriate technical controls to minimize risks to their information technology infrastructure. Each campus must take reasonable steps to protect the confidentiality, integrity, and availability of its critical assets and protected data from threats.

ICSUAM §8065, *Information Asset Management*, states that campuses must maintain an inventory of information assets containing level 1 or level 2 data as defined in the CSU Data Classification Standard. These assets must be categorized and protected throughout their entire life cycle, from origination to destruction.

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 Association director of management information systems stated that the current versions of the JD Edwards and Odyssey applications, as well as the iSeries platform, do not support data encryption. She further stated that the system backups were not encrypted due to lack of adequate storage space on existing tapes and lack of software that includes encryption capabilities. She also stated that previous attempts to utilize software tools to scan for confidential and/or sensitive data resulted in extremely high rates of false positives, and it was labor-intensive for staff to review all files.

Failure to ensure that all sensitive information has been identified and properly secured increases the auxiliary's exposure to information security breaches and could result in the violation of legal statutes that could result in financial penalties and loss of public trust.

Recommendation 10

We recommend that the Association:

- a. Apply encryption controls to protected data on the JD Edwards financial and payroll systems and campus Blackboard ID card system, and encrypt daily and weekly backups of both systems.
- b. Encrypt the administrative file server with shared drives for administrative, accounting, human resources/payroll, and sponsored programs, and conduct an assessment and inventory of protected data on the server.

Campus Response

We concur.

- a. Encryption controls for the JD Edwards financial and payroll systems, as well as the backups for these environments, are being evaluated as part of the upcoming upgrade of the Association's financial/HR system. The evaluation and decision controls are occurring during the 2011/12 fiscal year.

- b. This is handled by the university, not the Association. The Association will be submitting its Information Protection Plan to the university by October 15, 2011, which will include an assessment and inventory of data that resides on the servers. Evaluation of encryption software/tools for the file servers that house protected data will be completed by December 1, 2011, and the evaluation will identify costs, funding, and implementation timelines.

NETWORK SECURITY

The Association network did not place Internet-accessible web servers on a separate network segment from other production servers.

ICSUAM §8045.100, *Information Technology Security*, states that campuses must develop and implement appropriate technical controls to minimize risks to their information technology infrastructure. Each campus must take reasonable steps to protect the confidentiality, integrity, and availability of its critical assets and protected data from threats.

ICSUAM §8045.300, *Network Security*, states that campuses must appropriately design their networks—based on risk, data classification, and access—in order to ensure the confidentiality, integrity and availability of their information assets. Each campus must implement and regularly review a documented process for transmitting data over the campus network. This process must include the identification of critical information systems and protected data that is transmitted through the campus network or is stored on campus computers. Campus processes for transmitting or storing critical assets and protected data must ensure confidentiality, integrity, and availability.

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 network segmentation to logically separate any protected data residing on internal auxiliary systems from Internet-accessible devices.

The Association director of management information systems stated that the Association has complied with campus standards relating to network security, and that the Association was waiting for the implementation of a campus border firewall project that will include DMZ segmentation for Internet-accessible devices.

Failure to separate and protect internal auxiliary resources from Internet-accessible devices increases the risk of internal network exposure to security compromises and inadequate security over information assets with protected data.

Recommendation 11

We recommend that the Association place Internet-accessible web servers on a separate network segment from other production servers.

Campus Response

Evaluation of network segmentation to separate Internet-accessible and production servers will be completed in coordination with university central IT staff by December 1, 2011.

ENVIRONMENTAL CONTROLS

The Association's bookstore server room lacked a smoke detection device.

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 detection devices be maintained within the premises of server rooms.

The Association director of management information systems stated that she was unaware that a smoke detection device was required inside the bookstore server room, as there was a smoke detector just outside of the server room.

Failure to maintain an appropriate fire detection device in the server room increases the risk of unsuccessful or untimely detection of a fire, which may expose employees to dangerous conditions and result in the loss of critical systems.

Recommendation 12

We recommend that the Association install a smoke detection device inside the bookstore server room.

Campus Response

We concur. The smoke detector was installed on July 5, 2011.

**THE AGRICULTURAL FOUNDATION OF
CALIFORNIA STATE UNIVERSITY, FRESNO**

OPERATING AND ADMINISTRATIVE AGREEMENTS

Agreements between the Agricultural Foundation of California State University, Fresno (Ag Foundation) and third parties did not always include appropriate provisions for insurance and indemnification, nor were they always fully executed in a timely manner.

We reviewed 11 service agreements and found that:

- ▶ A service agreement for orchard pollination did not contain insurance and indemnification provisions to specifically indemnify the state of California, CSU Trustees, campus, and auxiliary.
- ▶ Service agreements for stallion semen shipment and the breeding of mares did not specifically indemnify the state of California, CSU Trustees, and campus.
- ▶ A service agreement for pistachio processing was not fully executed/signed until April 2011, approximately nine months after its August 2010 inception date.

The CSURMA 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.

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

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

The campus associate vice president for auxiliary operations stated that the lack of insurance and indemnification provisions was due to the enterprise unit's failure to submit the agreements to staff counsel for review. She also stated that the failure to execute the agreement in a timely manner may

be attributed to the enterprise unit's failure to submit the agreement to the business office in a timely manner.

The absence of appropriate insurance and indemnification provisions and timely execution of written agreements increases the risk of misunderstandings and miscommunication regarding rights and responsibilities and subjects the auxiliaries and CSU to potential liability.

Recommendation 13

We recommend that the Ag Foundation:

- a. Amend the cited agreements (still in effect) with appropriate insurance and indemnification provisions.
- b. Ensure that all future agreements include appropriate insurance and indemnification provisions.
- c. Ensure that all future agreements are fully executed/signed prior to inception.

Campus Response

We concur. The Association's in-house staff counsel will use best efforts and industry practice to secure appropriate insurance and indemnification provisions in future agreements for the Ag Foundation by February 1, 2012. The Association has requested cooperation from the Ag Foundation's unit enterprise managers to submit agreements timely for review and execution prior to commencing any work or services.

CASH RECEIPTS AND HANDLING

Cashiering controls needed improvement at the Ag Foundation's dairy unit, orchard unit, meats lab, winery, floral unit, and nursery.

We found that:

- ▶ Checks received at the dairy unit, orchard unit, meats lab, and winery were not restrictively endorsed immediately upon receipt.
- ▶ The cash register was not closed out on a nightly basis at the floral unit.
- ▶ Accountability over cash receipts was not always localized at the floral unit and nursery, as separate logon and close-out procedures were not used to establish accountability when multiple cashiers used the same cash register.
- ▶ Cash receipts at the meats lab were not forwarded to the association business office for deposit in a timely manner. This is a repeat finding from the prior Auxiliary Organizations audit.

The Ag Foundation *Cash Handling Policy and Procedures* state that all checks must be restrictively endorsed, i.e. for deposit only to the Agricultural Foundation of California State University, Fresno, immediately upon receipt. It further states that cash receipts must be deposited in a timely manner.

The Ag Foundation *Procedures for Sales Transactions at the Floral Lab* state that at the close of the business day, the cashier should run a Z tape total, count the cash, and prepare an Ag Foundation deposit slip for all cash receipts.

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

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

The campus associate vice president for auxiliary operations stated that cashiering processes had not been carried out according to policy due to the enterprise units' failure to abide by existing Board-approved policies.

Inadequate administration of cash receipts increases the risk of loss or misappropriation of funds, and failure to deposit checks in a timely manner negatively impacts cash flow.

Recommendation 14

We recommend that the Ag Foundation:

- a. Ensure that the dairy unit, orchard unit, meats lab, and winery restrictively endorse checks immediately upon receipt.
- b. Ensure that the floral unit closes out the cash register nightly.
- c. Ensure that the floral unit and nursery localize accountability over cash receipts when multiple cashiers use the same cash register, or institute mitigating controls as approved by the campus chief financial officer.
- d. Ensure that cash receipts at the meats lab are forwarded to the association business office for deposit in a timely manner.

Campus Response

We concur.

- a. The Association has provided endorsement stamps to every Ag Foundation unit enterprise manager.
- b. The Floral Unit staff has been directed in writing to close out the cash register each night.
- c. The Association will develop mitigating controls and obtain approval from the campus chief financial officer by December 1, 2011.
- d. The Meats Lab staff has been reminded to submit cash receipts timely for deposit in accordance with the Ag Foundation's Accounts Receivable Policy.

PROPERTY AND EQUIPMENT

The Ag Foundation's storage room at the Gibson Market was not adequately secured.

We found that the storeroom coolers and cellars remained unlocked during business hours. In addition, the back entrance to the storeroom was easily accessible to unauthorized individuals.

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

The Ag Foundation director of agricultural operations stated that the failure to lock the gate or storage units was due to oversight.

Failure to secure the storage room coolers and cellars increases the risk of unauthorized access or loss and may subject the auxiliaries and CSU to potential liability.

Recommendation 15

We recommend that the Ag Foundation adequately secure the storeroom during business hours.

Campus Response

We concur. The Gibson Farm Market manager has been directed to ensure that the storeroom is locked during business hours.

AUXILIARY PROGRAMS

The Ag Foundation's management of inventory transfers needed improvement.

We found that the Ag Foundation did not have procedures to account for goods transferred from the nursery to the Gibson Farm Market.

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

The Ag Foundation director of agricultural operations stated that transfers from the nursery to the Gibson Farm Market were made informally based on customer demand. He also stated that the Ag Foundation did not have an industrial scale that could weigh the crops prior to shipping them.

Failure to account for inventory transfers between enterprise units and failure to weigh goods prior to shipping increases the risk of errors, loss, or misappropriations.

Recommendation 16

We recommend that the Ag Foundation develop and implement procedures to account for goods transferred from the nursery to the Gibson Farm Market.

Campus Response

We concur. The director of agricultural operations will develop these procedures and ensure that the staff is trained on the procedures for how to account for and document the transfer of products between the units by December 1, 2011.

THE CALIFORNIA STATE UNIVERSITY, FRESNO ATHLETIC CORPORATION

FISCAL COMPLIANCE

The California State University, Fresno Athletic Corporation (Athletic Corporation) had not developed written policies and procedures to designate the allocation of surplus net assets into the following reserve categories:

- ▶ Working capital.
- ▶ Current operations.
- ▶ Capital replacement.
- ▶ Planned future operations.

Education Code §89904(b), §89904.5, and §89905 indicate that reserve planning is necessary.

The *Compilation of Policies and Procedures for California State University Auxiliary Organizations* sets sound business practice guidelines for auxiliary organizations operating within the CSU system. Section 8.1.1.2 A-2, *Basis for Financial Standards and Fiscal Viability – Financial Statements*, states that annually each auxiliary governing board shall review the fiscal viability of the auxiliary organization to include an evaluation of the need for reserves in the following areas: a) working capital, b) current operations, c) capital replacement, and d) planned future operations.

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

The campus associate athletic director stated that she was unaware that a reserve policy was required for the Athletic Corporation.

Failure to maintain adequate reserve funding increases the risk of misunderstandings and miscommunication regarding available reserves, as well as the risk that the auxiliary will be unable to fund future needs.

Recommendation 17

We recommend that the Athletic Corporation develop written policies and procedures to designate the allocation of surplus net assets into the reserve categories noted above.

Campus Response

We concur. A policy and procedure will be developed to designate the allocation of surplus net assets into an appropriate reserve category by October 14, 2011.

OPERATIONAL COMPLIANCE

The Athletic Corporation had not obtained annual conflict of interest statements from all board members.

We found that:

- ▶ Four of the twelve board members had not signed a conflict of interest statement for fiscal year 2009/10.
- ▶ Five of the thirteen board members had not signed a conflict of interest statement for fiscal year 2010/11.

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 campus associate athletic director stated that when the conflict of interest forms were not returned, the person responsible for obtaining the forms did not pursue the matter further.

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

Recommendation 18

We recommend that the Athletic Corporation obtain annual conflict of interest statements from all board members.

Campus Response

We concur. The Athletic Corporation will obtain annual conflict of interest statements from all board members by October 14, 2011.

SEGREGATION OF DUTIES

Certain duties and responsibilities related to the processing of cash disbursements were not adequately segregated at the Athletic Corporation.

We found that one employee performed the following duties:

- ▶ Created a request for travel approval/advance.
- ▶ Reviewed and approved documentation submitted for his own travel expenses.
- ▶ Authorized reimbursement of his own travel expenses.
- ▶ Posted the related journal entries.

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 8.9.1, *Cash Disbursement*, states that the auxiliary should establish a written control system that ensures cash receipt and disbursements are conducted with appropriate segregation of duties.

The campus associate athletic director stated that she was unaware that the individual was involved in all four steps.

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

Recommendation 19

We recommend that the Athletic Corporation adequately segregate certain duties and responsibilities related to the processing of cash disbursements or institute mitigating procedures approved by the campus chief financial officer (CFO).

Campus Response

We concur. We will review the procedures to ensure that proper segregation of duties is implemented relating to cash disbursements, review and approval, and posting of cash receipts to the general ledger by October 7, 2011. Travel applications will be approved by the associate athletic director for business operations for all applications issued to the athletic business operations manager. Review and approval of travel application reconciliation, including cash receipting or cash reimbursement, will be done by the athletic business office travel coordinator or the associate athletic director for business operations. Posting of travel reconciliations will be completed by the athletic business office administrative assistant.

FRESNO STATE PROGRAMS FOR CHILDREN, INC.

FISCAL COMPLIANCE

Fresno State Programs for Children, Inc. (PFC) had not developed written policies and procedures to designate the allocation of surplus net assets into the following reserve categories:

- ▶ Working capital.
- ▶ Current operations.
- ▶ Capital replacement.
- ▶ Planned future operations.

Education Code §89904(b), §89904.5, and §89905 indicate that reserve planning is necessary.

The *Compilation of Policies and Procedures for California State University Auxiliary Organizations* sets sound business practice guidelines for auxiliary organizations operating within the CSU system. Section 8.1.1.2 A-2, *Basis for Financial Standards and Fiscal Viability – Financial Statements*, states that annually each auxiliary governing board shall review the fiscal viability of the auxiliary organization to include an evaluation of the need for reserves in the following areas: a) working capital, b) current operations, c) capital replacement, and d) planned future operations.

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

The campus associate vice president for auxiliary operations stated that although PFC did not have its own reserve policy, its report on net assets delineated the requirement for unrestricted net assets to be maintained at a minimum level of \$300,000. She further stated her belief that it was not necessary to designate net assets surplus into different reserve categories given the small size of the auxiliary.

Failure to maintain adequate reserve funding increases the risk of misunderstandings and miscommunication regarding available reserves, as well as the risk that the auxiliary will be unable to fund future needs.

Recommendation 20

We recommend that the PFC develop written policies and procedures to designate the allocation of surplus net assets into the reserve categories noted above.

Campus Response

We concur. PFC will develop a written reserve policy for approval by the PFC board of directors by December 1, 2011.

SEGREGATION OF DUTIES

Duties and responsibilities over purchasing of food and linens for the childcare centers were not properly segregated at PFC. This is a repeat finding from the prior Auxiliary Organizations audit.

We found that one employee:

- ▶ Placed all food and linen orders.
- ▶ Received all food and linen orders.
- ▶ Maintained custodianship of food and linen stock.
- ▶ Approved vendor invoices for payment.

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, in part, that the auxiliary should establish a written internal controls system that provides purchase orders and service contracts are prepared separately from receiving and shipping and payables and disbursements.

The PFC program director stated that procedures were developed that required an administrator to receive the ordered items instead of kitchen staff. She further stated that due to a change in the PFC administrator position, the administrator was not always available to receive the items.

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

Recommendation 21

We recommend that PFC properly segregate the duties and responsibilities over purchasing of food and linens or institute mitigating procedures approved by the campus CFO.

Campus Response

We concur. The director of campus child care operations will develop procedures that will be approved by the campus chief financial officer to ensure segregation of duties regarding the purchase of food and linens by December 1, 2011.

FEES, REVENUES, AND RECEIVABLES

PFC collections procedures were incomplete, and delay notifications were not sent in a timely manner.

We reviewed six delinquent accounts receivable as of February 28, 2011, and found that:

- ▶ Policies and procedures had not been developed for the write-off of delinquent accounts receivable.
- ▶ Notices of action had not been sent for three delinquent accounts receivable.
- ▶ A notice of action was sent for one delinquent accounts receivable more than 60 days after the date the fees were due.

California Department of Education *Funding Terms and Conditions and Program Requirements for Child Development Programs* (Education Code 8268 and 5 California Code of Regulation 18114) indicate that for contractors providing direct services to children, fees shall be considered delinquent after seven calendar days from the date the fees were due. A notice of action, recipient of services shall be used to inform the family.

The *Compilation of Policies and Procedures for California State University Auxiliary Organizations* sets sound business practice guidelines for auxiliary organizations operating within the CSU system. Section 8.9.4, *Receivables*, states that the auxiliary should establish a written system to invoice customers promptly, in a consistent manner, while exercising due diligence in the follow-up and collection of past-due accounts.

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

The PFC program director stated that policies and procedures had not been developed for the write-off of delinquent accounts receivable due to oversight. She further stated that notices of action were not sent to delinquent accounts receivables because the office manager knew that the fees were going to be paid later.

The absence of written policies and procedures increases the risk that errors, inconsistencies, misunderstandings, or misappropriation may occur, while inadequate control over accounts receivable increases the risk that receivables will not be properly controlled and reflected in auxiliary financial statements, reduces the likelihood of collection, and negatively impacts cash flow.

Recommendation 22

We recommend that PFC:

- a. Develop policies and procedures for the write-off of delinquent accounts receivable.
- b. Send notices of action for the cited delinquent accounts receivable.
- c. Ensure that notices of action are promptly sent for future delinquent accounts receivable.

Campus Response

We concur. PFC will develop a written Accounts Receivable Policy for approval by the PFC board of directors by December 1, 2011. In addition, PFC management will ensure that notices of action are sent and sent timely in order to ensure collection of outstanding amount due.

PROPERTY AND EQUIPMENT

PFC had not developed written policies and procedures to periodically perform an independent physical inventory of food and linens.

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

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

The PFC program director stated that policies and procedures to periodically perform an independent physical inventory of food and linens had not been developed due to oversight.

Insufficient administration of property and equipment increases the risk that property may be lost or stolen and misrepresented in the financial statements.

Recommendation 23

We recommend that PFC develop written policies and procedures to periodically perform an independent physical inventory of food and linens.

Campus Response

We concur. The director of child care operations will develop and implement a procedure to ensure that a monthly, independent physical inventory occurs for all food and linens by December 1, 2011. A copy of these monthly inventories will be sent to the Association's controller.

ASSOCIATED STUDENTS CALIFORNIA STATE UNIVERSITY, FRESNO

OPERATING AND ADMINISTRATIVE AGREEMENTS

Agreements between Associated Students California State University, Fresno (AS) and third parties did not always include appropriate provisions for indemnification and were not always fully executed.

We found that:

- ▶ The standard performance agreement between AS and artists/performers did not indemnify the state of California, the Trustees of the CSU, and the campus, nor the officers, employees, volunteers, and agents of each of them.
- ▶ The memorandum of understanding (MOU) between AS and the Henry Madden Library (Library) was drafted in 2008 but was never fully executed.

The CSURMA 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.

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.

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

The campus associate vice president for auxiliary operations stated that the performance agreement did not include an appropriate indemnification provision due to oversight. She further stated that the MOU with the Library was not executed due to the transition of AS executive officers.

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

Recommendation 24

We recommend that AS:

- a. Amend the cited agreement with appropriate indemnification provisions.
- b. Ensure that all future agreements include appropriate indemnification provisions.
- c. Fully execute the MOU with the Library and ensure that all future agreements are executed prior to inception.

Campus Response

We concur. For recommendations (a) and (b), AS will seek assistance from counsel to ensure appropriate indemnification provisions are included in any current and future agreements. For recommendation (c), AS will execute an MOU with the university (Library) for use of computers leased by AS by December 1, 2011.

FISCAL COMPLIANCE

AS fiscal policy did not designate the allocation of surplus net assets into the following reserve categories:

- ▶ Working capital.
- ▶ Current operations.
- ▶ Capital replacement.
- ▶ Planned future operations.

AS *Fiscal Policy* states that reserve shall be maintained at a minimum level equal to the replacement value of all equipment assets or a minimum of \$200,000, whichever is greater.

Education Code §89904(b), §89904.5, and §89905 indicate that reserve planning is necessary.

The *Compilation of Policies and Procedures for California State University Auxiliary Organizations* sets sound business practice guidelines for auxiliary organizations operating within the CSU system. Section 8.1.1.2 A-2, *Basis for Financial Standards and Fiscal Viability – Financial Statements*, states that annually each auxiliary governing board shall review the fiscal viability of the auxiliary organization to include an evaluation of the need for reserves in the following areas: a) working capital, b) current operations, c) capital replacement, and d) planned future operations.

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

allow effective coordination of the auxiliary activities with the campus in accordance with sound business practices. Sound business practice mandates that designated reserve funds be maintained.

The campus associate vice president for auxiliary operations stated that AS was following its current fiscal policy. She further stated her belief that it was not necessary to designate net assets surplus into different reserve categories given the small size of the auxiliary.

Failure to maintain adequate reserve funding increases the risk of misunderstandings and miscommunication regarding available reserves, as well as the risk that the auxiliary will be unable to fund future needs.

Recommendation 25

We recommend that AS update its fiscal policy to designate the allocation of surplus net assets into the reserve categories noted above.

Campus Response

We concur. AS will develop a written reserve policy consistent with its approved bylaws and will have the AS Senate approve it by December 1, 2011.

APPENDIX A: PERSONNEL CONTACTED

<u>Name</u>	<u>Title</u>
CAMPUS	
John D. Welty	President
Deborah Abdishian-Astone	Associate Vice President for Auxiliary Operations
Ellen Jamra	Interim Associate Vice President of Development
Jim Michael	Associate Director, Security, Service Desk and Systems
Clinton Moffitt	Associate Vice President for Financial Services
Alex Perez	Director, Development Office
Cynthia Teniente-Matson	Vice President for Administration and Chief Financial Officer

CALIFORNIA STATE UNIVERSITY, FRESNO FOUNDATION

Keith Kompsi	Director of Financial Services
Elizabeth Sinor	Financial Accounting Supervisor

CALIFORNIA STATE UNIVERSITY, FRESNO ASSOCIATION, INC.

Erin Boele	Director, University Courtyard
Lauren Chalmers	Legal Assistant
Ron Durham	Director, Kennel Bookstore
Theresa Eurich	Director, Management Information Systems
Deborah Guill	Senior Manager, Dining Services
Erin Kent	Operations Services Coordinator, University Student Union
Nicole Lane	Human Resources Manager
Itzel Martinez	Office Manager, Dining Services
John Melikian	Staff Counsel
Mark Plattner	Network Manager
Sally Ramage	Director of Student Involvement
Megan Sarantos	Administrator Supervisor, Kennel Bookstore
Cathy Simpson	Assistant Manager, Dining Services
Russel Statham	Special Projects Coordinator
Patricia Thomason	Recreation Center Manager, University Student Union
Kate Tuckness	Controller
Humberto Yeverino	Computer Department Manager, Kennel Bookstore
Mehrzad Zarrin	Facilities Coordinator, University Student Union

THE AGRICULTURAL FOUNDATION OF CALIFORNIA STATE UNIVERSITY, FRESNO

Deborah Adishian-Astone	Executive Director
Dan Avila	Dairy Processing Manager
Elisa Castro	Floral Manager
Calliope Correia	Nursery Manager
Melinda Dresser-Oakes	Administrative Assistant
John Giannini	Winemaker
John Henson	Meats Lab Faculty Advisor

**THE AGRICULTURAL FOUNDATION OF
CALIFORNIA STATE UNIVERSITY, FRESNO (CONT.)**

Mike Mosinski	Coordinator of Farm Management and Department Safety
Jon Robison	Dairy Unit Enterprise
Anne Rodiek	Horse Unit Manager
Mark Salwasser	Orchard/Vineyard Manager
Jennifer Sobieralski	Enterprise Marketing and Gibson Farm Market Manager
Ganesan Srinivasan	Director of Agricultural Operations

THE CALIFORNIA STATE UNIVERSITY, FRESNO ATHLETIC CORPORATION

Diane Brock	General Manager, Bulldog Shop
Martina Buckley	Associate Athletic Director
Richard Enns	Business Operations Manager
Ryan Nelson	Information Systems Analyst
Cherie Weber	Accountant II

FRESNO STATE PROGRAMS FOR CHILDREN, INC.

Renee Benell	Assistant Director/ Site Supervisor, Huggins Early Education Center
Ellen Junn	Executive Director
Alma Major	Supervisor, Campus Children's Center
Annette Martinez	Head Cook
Catherine Mathis	Program Director
Anna Munoz	Office Manager, Huggins Early Education Center
Kathie Reid	Supervisor, Huggins Early Education Center

ASSOCIATED STUDENTS CALIFORNIA STATE UNIVERSITY, FRESNO

Cynthia Dolan	Office Manager
Selena Farnesi	Executive Vice President
Gary Nelson	Advisor
Tara Powers-Mead	Coordinator
Cesar Sanchez	Vice President of Finance
Pedro Ramirez	President

STATEMENT OF INTERNAL CONTROLS

A. INTRODUCTION

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

B. INTERNAL CONTROL DEFINITION

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

1. Internal Accounting Controls

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

2. Operational Controls

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

C. INTERNAL CONTROL OBJECTIVES

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

D. INTERNAL CONTROL SYSTEMS LIMITATIONS

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



CALIFORNIA
STATE
UNIVERSITY,
FRESNO

September 23, 2011

MEMORANDUM

To: Larry Mandel
University Auditor
Office of the Chancellor

From: Cynthia Teniente-Matson *Cynthia Matson*
Vice President for Administration and Chief Financial Officer

Subject: **Responses to Auxiliary Organizations Audit Report #11-02**

The University has reviewed the preliminary draft of the Auxiliary Organizations Audit Report #11-02. Attached are campus responses to the recommendations. Please let me know if you have any questions. Thank you.

Attachment

c: Dr. John D. Welty
Ms. Debbie Adishian-Astone
Mr. Clint Moffitt

Office of the
Vice President
for Administration and
Chief Financial Officer

Harold H. Haak Administrative Center
Henry Madden Library
5200 N. Barton Ave. M/S ML52
Fresno, CA 93740-8014

559.278.2083
Fax 559.278.2928



AUXILIARY ORGANIZATIONS
CALIFORNIA STATE UNIVERSITY,
FRESNO

Audit Report 11-02

CAMPUS

FISCAL COMPLIANCE

Recommendation 1

We recommend that the campus require full reimbursement or document offsetting costs from the auxiliaries for indirect costs incurred by the campus on behalf of the auxiliaries.

Campus Response

We concur. The University will complete an indirect cost allocation plan for Fiscal Year 2011-12. The campus will consider offsetting costs from the auxiliaries and determine the appropriate amounts to be reimbursed to the campus by December 31, 2011.

OPERATIONAL COMPLIANCE

Recommendation 2

We recommend that the campus update its risk management policy to specifically address campus auxiliary organizations and operations.

Campus Response

We concur. The University will have a revised risk management policy, approved by the campus CFO by November 1, 2011 that will specifically address campus auxiliary organizations and operations.

INFORMATION TECHNOLOGY

PAYMENT CARD INDUSTRY DATA SECURITY STANDARD

Recommendation 3

We recommend that the campus and auxiliaries:

- a. Define and document roles, responsibilities, and legal determination for PCI DSS compliance between the campus and the auxiliaries.
- b. Conduct and fully document a risk assessment of comprehensive compliance obligations for credit card data maintained on auxiliary servers, transmitted throughout the campus network, and stored manually in local files.
- c. Complete an annual PCI DSS SAQ that includes all credit card merchants on campus, either jointly or separately.
- d. Develop a plan to remediate all known PCI DSS compliance deficiencies, as well as any noted during the risk assessment project.

Campus Response

We concur. We will take the following steps to implement these recommendations:

- a. We will define a campus standard for the secure handling of credit card data that defines the roles and responsibilities of any college, department, entity or individual at Fresno State and all auxiliaries that handles this data. This standard will establish the requirement that the campus, all departments, and all auxiliaries that process this data comply with Payment Card Industry Data Security Standards (PCI DSS). This will be completed by December 1, 2011.
- b. We will conduct and fully document a risk assessment of comprehensive compliance obligations based on the approach documented in PCI DSS version 2.0. This will be completed by February 1, 2012.
- c. We will complete annual PCI DSS SAQ document that includes all credit card merchants on campus. This will be completed by February 1, 2012.
- d. In this process we will document all known PCI DSS compliance deficiencies, as well as any noted during the risk assessment process and develop a plan to remediate these. This will be completed by February 1, 2012.

PROTECTED DATA

Recommendation 4

We recommend that the campus encrypt protected and/or sensitive data stored on the donor database and system backups of the donor database stored off-site.

Campus Response

Work is underway to replace the current donor database system with a system that will allow us to implement this recommendation. The current schedule is for that project to be completed by March 30, 2012. Until that time the auxiliary agrees to accept the risk inherent in not encrypting the protected or sensitive data stored on the donor database and system backups of the donor database stored off-site. The risk of exposures to the data stored off-campus are limited since the company performing the service is secure and bonded.

NETWORK SECURITY**Recommendation 5**

We recommend that the campus place Internet-accessible web servers on a separate network segment from other production servers.

Campus Response

The campus worked with the Chancellor's Office ITRP2 team on the server farm firewall plan. The first phase of this project, which was completed in December 2010, determined the appropriate segmentation of the network topology on the campus. Completion of the project that provides appropriate network segmentation for the campus advancement network will be completed by March 15, 2012.

CALIFORNIA STATE UNIVERSITY, FRESNO FOUNDATION

FACILITIES AGREEMENTS

Recommendation 6

We recommend that the Foundation:

- a. Amend the cited agreements (still in effect) with appropriate indemnification provisions.
- b. Ensure that all future agreements include appropriate indemnification provisions.

Campus Response

We concur. The Association's in-house staff counsel will use best efforts and industry practice to secure appropriate indemnification provisions in existing and future agreements for the Foundation by February 1, 2012. The Association has requested cooperation from the Foundation's unit enterprise managers to submit agreements timely for review and execution prior commencing any work or services.

INFORMATION TECHNOLOGY

Recommendation 7

We recommend that the Foundation include all computing equipment purchased by sponsored programs in the periodic inventory and security assessment process.

Campus Response

We concur. Effective October 1, 2011, the Foundation will track all purchases from sponsored program accounts and include in campus security assessment process.

CALIFORNIA STATE UNIVERSITY, FRESNO ASSOCIATION, INC.**PURCHASING AND ACCOUNTS PAYABLE****Recommendation 8**

We recommend that the designated Association manager or supervisor properly authorize all cash disbursements.

Campus Response

We concur. The Executive Director has sent a written communication to all Dining Services managers advising them of this required procedure in accordance with the Association's Accounts Payable Policy.

PROPERTY AND EQUIPMENT**Recommendation 9**

We recommend that the Association:

- a. Promptly locate the missing assets and adjust the property and equipment listing as necessary.
- b. Assigned fixed asset tag/ID numbers to all of the Ag Foundation's capitalized assets.
- c. Approve the disposition of capitalized assets in a timely manner and record the disposition of the Ag Foundation's property and equipment at the time of disposition.

Campus Response

We concur. Items (a) and (b) have been completed. Item (c) has been communicated to the Director of Agricultural Operations and an annual review will occur by the Association's Controller.

INFORMATION TECHNOLOGY**DATA SECURITY AND ASSESSMENT****Recommendation 10**

We recommend that the Association:

- a. Apply encryption controls to protected data on the JD Edwards financial and payroll systems and campus Blackboard ID card system, and encrypt daily and weekly backups of both systems.

- b. Encrypt the administrative file server with shared drives for administrative, accounting, human resources/payroll, and sponsored programs, and conduct an assessment and inventory of protected data on the server.

Campus Response

We concur. Item (a) Encryption controls for the JD Edwards financial and payroll systems, as well as the backups for these environments are being evaluated as part of the upcoming upgrade of the Association's Financial/HR system. The evaluation and decision controls are occurring during the 2011-2012 fiscal year. Item (b) is handled by the University not the Association. Item (b) the Association will be submitting their Information Protection Plan to the University by October 15, 2011 which will include an assessment and inventory of data that resides on the servers. Evaluation of encryption software/tools for the file servers that house protected data will be completed by December 1, 2011, and the evaluation will identify costs, funding and implementation timelines.

NETWORK SECURITY

Recommendation 11

We recommend that the Association place Internet-accessible web servers on a separate network segment from other production servers.

Campus Response

Evaluation of network segmentation to separate internet-accessible and production servers will be completed in coordination with University central IT staff by December 1, 2011.

ENVIRONMENTAL CONTROLS

Recommendation 12

We recommend that the Association install a smoke detection device inside the bookstore server room.

Campus Response

We concur. The smoke detector was installed on July 5, 2011.

**THE AGRICULTURAL FOUNDATION OF
CALIFORNIA STATE UNIVERSITY, FRESNO**

OPERATING AND ADMINISTRATIVE AGREEMENTS

Recommendation 13

We recommend that the Ag Foundation:

- a. Amend the cited agreements (still in effect) with appropriate insurance and indemnification provisions.
- b. Ensure that all future agreements include appropriate insurance and indemnification provisions.
- c. Ensure that all future agreements are fully executed/signed prior to inception.

Campus Response

We concur. The Association's in-house staff counsel will use best efforts and industry practice to secure appropriate insurance and indemnification provisions in future agreements for the Agricultural Foundation by February 1, 2012. The Association has requested cooperation from the Agricultural Foundation's unit enterprise managers to submit agreements timely for review and execution prior commencing any work or services.

CASH RECEIPTS AND HANDLING

Recommendation 14

We recommend that the Ag Foundation:

- a. Ensure that the dairy unit, orchard unit, meats lab, and winery restrictively endorse checks immediately upon receipt.
- b. Ensure that the floral unit closes out the cash register nightly.
- c. Ensure that the floral unit and nursery localize accountability over cash receipts when multiple cashiers use the same cash register, or institute mitigating controls as approved by the campus chief financial officer.
- d. Ensure that cash receipts at the meats lab are forwarded to the association business office for deposit in a timely manner.

Campus Response

We concur. Item (a): the Association has provided endorsement stamps to every Ag Foundation unit enterprise manager. Item (b): The Floral Unit staff have been directed in writing to close out the cash register each night. Item (c): The Association will develop mitigating controls and obtain

approved from the campus CFO by December 1, 2011. Item (d) The Meats Lab staff have been reminded to submit cash receipts timely for deposit in accordance with the Agricultural Foundation's Accounts Receivable Policy.

PROPERTY AND EQUIPMENT

Recommendation 15

We recommend that the Ag Foundation adequately secure the storeroom during business hours.

Campus Response

We concur. The Gibson Farm Market Manager has been directed to ensure that the storeroom is locked during business hours.

AUXILIARY PROGRAMS

Recommendation 16

We recommend that the Ag Foundation develop and implement procedures to account for goods transferred from the nursery to the Gibson Farm Market.

Campus Response

We concur. The Director of Agricultural Operations will develop these procedures and ensure that staff are trained on the procedures for how to account for and document the transfer of products between the units by December 1, 2011.

THE CALIFORNIA STATE UNIVERSITY, FRESNO ATHLETIC CORPORATION**FISCAL COMPLIANCE****Recommendation 17**

We recommend that the Athletic Corporation develop written policies and procedures to designate the allocation of surplus net assets into the reserve categories noted above.

Campus Response

We concur. A policy and procedure will be developed to designate the allocation of surplus net assets into an appropriate reserve category by October 14, 2011.

OPERATIONAL COMPLIANCE**Recommendation 18**

We recommend that the Athletic Corporation obtain annual conflict of interest statements from all board members.

Campus Response

We concur. The Athletic Corporation will obtain annual conflict of interest statements from all board members by October 14, 2011.

SEGREGATION OF DUTIES**Recommendation 19**

We recommend that the Athletic Corporation adequately segregate certain duties and responsibilities related to the processing of cash disbursements or institute mitigating procedures approved by the campus chief financial officer (CFO).

Campus Response

We concur. We will review the procedures to ensure that proper segregation of duties are implemented relating to cash disbursements, review and approval, and posting of cash receipts to the general ledger by October 7, 2011. Travel applications will be approved by the Associate AD for Business Operations for all applications issued to the Athletic Business Operations Manager. Review and approval of travel application reconciliation including cash receipting or cash reimbursement will be done by the Athletic Business Office Travel Coordinator or the Associate AD for Business Operations. Posting of travel reconciliations will be completed by the Athletic Business Office Administrative Assistant.

FRESNO STATE PROGRAMS FOR CHILDREN, INC.**FISCAL COMPLIANCE****Recommendation 20**

We recommend that the PFC develop written policies and procedures to designate the allocation of surplus net assets into the reserve categories noted above.

Campus Response

We concur. PFC will develop a written reserve policy for approval by the PFC Board of Directors by December 1, 2011.

SEGREGATION OF DUTIES**Recommendation 21**

We recommend that PFC properly segregate the duties and responsibilities over purchasing of food and linens or institute mitigating procedures approved by the campus CFO.

Campus Response

We concur. The Director of Campus Child Care Operations will develop procedures that will be approved by the campus CFO to ensure segregation of duties regarding the purchase of food and linens by December 1, 2011.

FEES, REVENUES, AND RECEIVABLES**Recommendation 22**

We recommend that PFC:

- a. Develop policies and procedures for the write-off of delinquent accounts receivable.
- b. Send notices of action for the cited delinquent accounts receivable.
- c. Ensure that notices of action are promptly sent for future delinquent accounts receivable.

Campus Response

We concur. PFC will develop a written Accounts Receivable Policy for approval by the PFC Board of Directors by December 1, 2011. In addition, PFC management will ensure that notices of action are sent and sent timely in order to ensure collection of outstanding amount due.

PROPERTY AND EQUIPMENT

Recommendation 23

We recommend that PFC develop written policies and procedures to periodically perform an independent physical inventory of food and linens.

Campus Response

We concur. The Director of Child Care Operations will develop and implement a procedure to ensure that a monthly, independent physical inventory occurs for all food and linens by December 1, 2011. A copy of these monthly inventories will be sent to the Association's Controller.

ASSOCIATED STUDENTS CALIFORNIA STATE UNIVERSITY, FRESNO

OPERATING AND ADMINISTRATIVE AGREEMENTS

Recommendation 24

We recommend that AS:

- a. Amend the cited agreement with appropriate indemnification provisions.
- b. Ensure that all future agreements include appropriate indemnification provisions.
- c. Fully execute the MOU with the Library and ensure that all future agreements are executed prior to inception.

Campus Response

We concur. Item (a,b) ASI will seek assistance from counsel to ensure appropriate indemnification provisions are included in any current and future agreements. Item (c) ASI will execute an MOU with the University (Library) for use of computers leased by ASI by December 1, 2011.

FISCAL COMPLIANCE

Recommendation 25

We recommend that AS update its fiscal policy to designate the allocation of surplus net assets into the reserve categories noted above.

Campus Response

We concur. ASI will develop a written reserve policy consistent with its approved bylaws and will have the ASI Senate approve by December 1, 2011.

THE CALIFORNIA STATE UNIVERSITY
OFFICE OF THE CHANCELLOR

BAKERSFIELD

CHANNEL ISLANDS

October 11, 2011

CHICO

MEMORANDUM

DOMINGUEZ HILLS

EAST BAY

TO: Mr. Larry Mandel
University Auditor

FRESNO

FULLERTON

FROM: Charles B. Reed
Chancellor



HUMBOLDT

SUBJECT: Draft Final Report 11-02 on *Auxiliary Organizations*,
California State University, Fresno

LONG BEACH

LOS ANGELES

In response to your memorandum of October 11, 2011, I accept the response as submitted with the draft final report on *Auxiliary Organizations*, California State University, Fresno.

MARITIME ACADEMY

MONTEREY BAY

CBR/amd

NORTHRIDGE

POMONA

SACRAMENTO

SAN BERNARDINO

SAN DIEGO

SAN FRANCISCO

SAN JOSÉ

SAN LUIS OBISPO

SAN MARCOS

SONOMA

STANISLAUS