AUXILIARY ORGANIZATIONS

CALIFORNIA STATE UNIVERSITY,
LONG BEACH

Audit Report 12-06
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BOARD OF TRUSTEES
THE CALIFORNIA STATE UNIVERSITY
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ABBREVIATIONS

49er Foundation CSULB 49er Foundation
AORMA Auxiliary Organization Risk Management Authority
AS Associated Students, California State University, Long Beach
AUP Acceptable Use Policy
CDC Child Development Center
CFO Chief Financial Officer
COO Chief Operating Officer
CSU California State University
CSURMA California State University Risk Management Authority
DRP Disaster Recovery Plan
DSS Data Security Standards
EO Executive Order
Foundation California State University, Long Beach Research Foundation
ICSUAM Integrated California State University Administrative Manual
IRS Internal Revenue Service
ISO Information Security Officer
IT Information Technology
OMB Office of Management and Budget
PCI Payment Card Industry
RFIN Resolution of the Committee on Finance
RM Risk Management
Shops The Forty-Niner Shops, Inc.
UBI Unrelated Business Income
EXECUTIVE SUMMARY

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

California State University, Long Beach (CSULB) 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 CSULB campus and its auxiliary organizations from September 17, 2012, through October 12, 2012, and made a study and evaluation of the system of internal compliance/internal control in effect as of October 12, 2012. This report represents our triennial review.

Our study and evaluation at the CSULB campus did not reveal any significant internal control problems or weaknesses that would be considered pervasive in their effects on the accounting and administrative controls. However, we did identify other reportable weaknesses that are described in the executive summary and in the body of the report. In our opinion, the accounting and administrative control in effect as of October 12, 2012, taken as a whole, was sufficient to meet the objectives stated above.

Our study and evaluation at CSULB 49er 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 October 12, 2012, taken as a whole, was sufficient to meet the objectives stated above.
INTRODUCTION

Our study and evaluation at California State University, Long Beach Research 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 October 12, 2012, taken as a whole, was sufficient to meet the objectives stated above.

Our study and evaluation at The Forty-Niner Shops, 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 the following areas: operational compliance; cash receipts and handling; fees, revenue and receivables; and commercial operations. These conditions, along with other weaknesses, are described in the executive summary and in the body of the report. In our opinion, except for the effect of the weaknesses described above, accounting and administrative control in effect as of October 12, 2012, taken as a whole, was sufficient to meet the objectives stated above.

Our study and evaluation at Associated Students, California State University, Long Beach did not reveal any significant internal control problems or weaknesses that would be considered pervasive in their effects on the accounting and administrative controls. However, we did identify other reportable weaknesses that are described in the executive summary and in the body of the report. In our opinion, the accounting and administrative control in effect as of October 12, 2012, taken as a whole, was sufficient to meet the objectives stated above.

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

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

CAMPUS

INFORMATION TECHNOLOGY [12]

Although the campus provided information security awareness training, it did not ensure that California State University, Long Beach Research Foundation (Foundation), Forty-Niner Shops, Inc. (Shops), and Associated Students, California State University, Long Beach (AS) employees with access to critical systems and/or protected data completed the required information security awareness training. Additionally, the campus did not ensure that the auxiliaries had fully addressed Payment Card Industry Data Security Standard requirements.
INTRODUCTION

CSULB 49ER FOUNDATION

OPERATIONAL COMPLIANCE [15]

The CSULB 49er Foundation did not have a written delegation of authority from the campus president to accept monetary gifts and sign gift acknowledgement agreements and letters.

CALIFORNIA STATE UNIVERSITY, LONG BEACH RESEARCH FOUNDATION

FEES, REVENUES, AND RECEIVABLES [16]

Administration and accounting of Foundation pledges receivable related to athletics needed improvement. Specifically, follow-up activity was not documented.

TRUSTS AND OTHER LIABILITIES [17]

The Foundation had not finalized procedures for the administration of campus activities and program funds with the campus.

AUXILIARY PROGRAMS [18]

The Foundation had not completed and certified effort certification reports for exempt faculty from the spring 2010 semester to the present.

INFORMATION TECHNOLOGY [19]

The Foundation data room door was marked with a descriptive label that could increase the risk of unauthorized entry.

THE FORTY-NINER SHOPS, INC.

OPERATING AND ADMINISTRATIVE AGREEMENTS [20]

Agreements between the Shops, third parties, and the campus did not always include appropriate provisions for indemnification, nor were they always supported by current written agreements.

FISCAL COMPLIANCE [22]

Shops had not adequately assessed or tracked unrelated business income from catering provided to community members, nor had it determined whether the revenue should be reported to the Internal Revenue Service on Form 990T.
OPERATIONAL COMPLIANCE [23]

Shops had not fully implemented its employee compensation policy, which was established to ensure that salaries, wages, and benefits for employees performing substantially similar services to those of campus employees were not in conflict with comparability requirements. This is related to a prior Auxiliary Organization audit finding that noted Shops’ revocation of post-retirement health benefits for full-time employees hired after January 1, 2009. Additionally, Shops had not developed written procedures to address the administration and processing of retiree health benefits.

CASH RECEIPTS AND HANDLING [25]

Shops had not completed bank reconciliations in a timely manner, nor had it voided long outstanding checks from the accounting system.

FEES, REVENUES, AND RECEIVABLES [26]

Shops accounts receivable collections needed improvement. For example, collection and follow-up activity was not always performed and documented and the collected payments were not always properly applied to the corresponding accounts receivable. Also, Shops accounts receivable write-offs needed improvement. Specifically, uncollectible receivables were not written off in a timely manner, and certain write-offs were for purchases made by students enrolled in rehabilitation programs, but the items bought were not on the California Department of Rehabilitation list of authorized purchases.

PURCHASING AND ACCOUNTS PAYABLE [30]

Shops had not escheated unclaimed checks to the state, nor had it established written policies and procedures for such action.

PERSONNEL AND PAYROLL [31]

Shops had not monitored student employee work hours or documented approval for student employees working more than 20 hours per week during the academic period.

COMMERCIAL OPERATIONS [32]

Administration of Shops catering services required improvement. For example, beer and wine clearance request forms, certificates of insurance, and signed catering contracts were not always on file. Additionally, administration of Shops special-event merchandise sales needed improvement. Specifically, inventory counts were not conducted for all merchandise at the start of sale or for all remaining merchandise at the end of the events, merchandise added to the inventory during the events was not accounted for, and a reconciliation of inventory sold to cash receipts and sales recorded in the general ledger was not completed. Further, Shops had not devised a system to formally calculate, identify, monitor, and mitigate factors contributing to the increases in inventory losses and shrinkage at its six convenience stores in fiscal years 2010/11 and 2011/12.
INFORMATION TECHNOLOGY [35]

Shops did not have a written IT DRP.

ASSOCIATED STUDENTS, CALIFORNIA STATE UNIVERSITY, LONG BEACH

OPERATIONAL COMPLIANCE [37]

AS had not obtained annual conflict-of-interest statements from all board members.

FEES, REVENUES, AND RECEIVABLES [38]

AS Child Development Center uncollectible accounts receivable were not written off and submitted to a collection agency in a timely manner.

PROPERTY AND EQUIPMENT [39]

AS had not properly recorded, capitalized, depreciated, and tagged Student Recreation and Wellness Center equipment. Additionally, AS did not have a review process to ensure that asset tag numbers were updated correctly in the inventory system.

INFORMATION TECHNOLOGY [40]

The AS acceptable use policy (AUP) had not been updated to include provisions for illegal file sharing and protection of copyrighted material, and employees were not required to sign an appropriate AUP statement. Additionally, AS termination procedures were not adequate to ensure that system access was removed from terminated and transferred employees in a timely manner, and AS did not have adequate backup power in place for the financial accounting or human resources systems, which are financially significant applications. Lastly, the AS data room contained unsecured windows that could potentially allow for unauthorized entry. AS accepted the risk inherent in not having adequate backup power for all financially significant applications and of the unsecured windows in the data room that could potentially allow for unauthorized entry.
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 (EO) 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.

EO 1059, Utilization of Campus Auxiliary Organizations, dated June 6, 2011, also represents policy of the Trustees addressing appropriate use of CSU auxiliary organizations. CSU auxiliary organizations are required to comply with Board of Trustee policy (California Code of Regulations, Title 5, §42401 and §42500 and Education Code §89720, §89756, and §89900).

This executive order requires CSU auxiliary organizations to operate within the regulations and oversight of the campus. The campus president is responsible for ensuring the fiscal viability of auxiliary
organizations and compliance with applicable CSU policies. The campus chief financial officer is responsible for administrative compliance and fiscal oversight of auxiliary organizations. The campus, with the approval of the chancellor (or designees), may assign certain functions to auxiliary organizations pursuant to the California Code of Regulations, Title 5, §42500. A written operating agreement is established detailing the functions that auxiliary organizations can perform. The campus may assign responsibility for an activity or program to auxiliary organizations, and the acceptance of the responsibility requires the assumption of the associated legal obligation and liabilities, fiscal liabilities, and fiduciary responsibilities by auxiliary organizations. Auxiliary organizations shall ensure that fiscal procedures and management systems are in place, consistent with California Code of Regulations, Title 5, §42401.

The California State University Administrative Manual §13680.00, Placement and Control of Receipts for Campus Activities and Programs, dated September 29, 2011, states that accountability and responsibility for campus activities and programs should be clearly established, and that related receipts are appropriately placed and controlled in university or auxiliary organization accounts. This policy guides campuses as to the administration of such receipts and instructs as to their proper placement in accordance with legal and regulatory requirements.

CSULB 49er Foundation

The CSULB 49er Foundation (49er Foundation) was established in 2012 as a non-profit public benefit corporation when the California State University, Long Beach Foundation was split into two auxiliaries, the 49er Foundation and California State University, Long Beach Research Foundation (Foundation), to better reflect a focus on philanthropic, corporate and auxiliary fiduciary matters. The 49er Foundation’s mission is to actively promote philanthropy and manage donated resources for the advancement of the university. The 49er Foundation advocates for the people and programs at CSULB through the management of private support and the stewardship of donors. It relies on the Foundation and university advancement for accounting and administrative support services and is governed by a board of directors composed of representatives from the university administration, faculty, student body, and community. The board is the primary conduit for all philanthropic support to the university and has fiduciary responsibility for the university’s endowment.

California State University, Long Beach Research Foundation

The Foundation was established in 2012, when the California State University, Long Beach Foundation was split into two auxiliaries to better reflect the focus on philanthropic, corporate and auxiliary fiduciary matters. The Foundation serves the university’s educational mission by supporting and engaging in research, entrepreneurship, community service, post-award administration of sponsored programs, and the acquisition of private resources. The Foundation is governed by a board of directors composed of representatives from university administration, faculty, students, and community members and provides accounting services to the 49er Foundation.
INTRODUCTION

The Forty-Niner Shops, Inc.

The Forty-Niner Shops, Inc. (Shops) was established in 1953 as a non-profit public benefit corporation. It engages in commercial operations, including main campus and satellite bookstores, campus and residential dining services, convenience stores, catering, and vending operations. It also builds, leases, or purchases buildings necessary to carry out its purposes, applies funds and property received to further the educational services of the university, and performs other functions related to university activities. Additionally, Shops operates the ID card services program for students via an agreement with the university. Shops is governed by a board of directors composed of representatives from university administration, faculty, students, and community members.

Associated Students, California State University, Long Beach

The Associated Students, California State University, Long Beach (AS) was established in 1949 as the associated student body organization and was later incorporated as a non-profit corporation in 1956 to provide programs and services integral to the campus’ educational mission. AS promotes and maintains student self-government and essential activities closely related to, but not normally included as a part of, the regular instruction program of the university. AS is charged with developing student leadership; fulfilling the recreational and social needs of the students; overseeing building, leasing, or purchasing of buildings; applying funds and property received to further the educational services and/or welfare of the students; and performing other functions related to university student activities. AS owns and operates the University Student Union and operates the Isabel Patterson Child Development Center, a recycling center, an intramural sports and wellness program, the Beach Pride Center, and several media outlets that provide students with experience in television and radio production and publishing. AS is governed by a board of directors composed of student representatives from the student body.

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.
INTRODUCTION

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 2010/11 and 2011/12 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, 2011 to October 12, 2012. 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:

CSULB 49er Foundation
- Operating and Administrative Agreements
- Facilities Agreements
- Corporate Governance
- Fiscal Compliance
- Operational Compliance
- Program Compliance
INTRODUCTION

CSULB 49er Foundation (cont.)
- Campus Oversight and Control
- Segregation of Duties
- Cash Receipts and Handling
- Investments
- Fees, Revenues, and Receivables
- Endowment Administration
- Auxiliary Programs
- Information Technology

California State University, Long Beach Research Foundation
- Operating and Administrative Agreements
- Facilities Agreements
- Corporate Governance
- Fiscal Compliance
- Operational Compliance
- Program Compliance
- Campus Oversight and Control
- Segregation of Duties
- Cash Receipts and Handling
- Cash Disbursement
- Petty Cash and Change Funds
- Investments
- Fees, Revenues, and Receivables
- Purchasing and Accounts Payable
- Personnel and Payroll
- Property and Equipment
- Trusts and Other Liabilities
- Auxiliary Programs
- Information Technology

The Forty-Niner Shops, 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
- Cash Disbursement
- Petty Cash and Change Funds
- Investments
- Fees, Revenues, and Receivables
INTRODUCTION

The Forty-Niner Shops, Inc. (cont.)
- Purchasing and Accounts Payable
- Personnel and Payroll
- Property and Equipment
- Trusts and Other Liabilities
- Auxiliary Programs
- Information Technology

Associated Students, California State University, Long Beach
- 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
- Cash Disbursement
- Petty Cash and Change Funds
- Investments
- Fees, Revenues, and Receivables
- Purchasing and Accounts Payable
- Personnel and Payroll
- Property and Equipment
- Trusts and Other Liabilities
- Endowment Administration
- Auxiliary Programs
- Information Technology

Campus
- Campus Oversight and Control
- Information Technology

We have not performed any auditing procedures beyond October 12, 2012. Accordingly, our comments are based on our knowledge as of that date. Since the purpose of our comments is to suggest areas for improvement, comments on favorable matters are not addressed.
OBSERVATIONS, RECOMMENDATIONS, AND CAMPUS RESPONSES

CAMPUS

INFORMATION TECHNOLOGY

INFORMATION SECURITY TRAINING

Although the campus provided information security awareness training, it did not ensure that California State University, Long Beach Research Foundation, Forty-Niner Shops, Inc., and Associated Students, California State University, Long Beach employees with access to critical systems and/or protected data completed the required information security awareness training.

Integrated California State University Administrative Manual (ICSUAM) §8035.0, Information Security Awareness and Training, dated April 19, 2010, states that each campus must implement a program for providing appropriate information security awareness and training to employees appropriate to their access to campus information assets. The campus information security awareness program must promote campus strategies for protecting information assets containing protected data. All employees with access to protected data and information assets must participate in appropriate information security awareness training. When appropriate, information security training must be provided to individuals whose job functions require specialized skill or knowledge in information security.

The campus director of internal auditing services/information security officer (ISO) stated that the campus did not ensure that auxiliary employees with access to critical systems and/or protected data completed the required information security awareness training because those duties were believed to be the responsibility of auxiliary management.

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

Recommendation 1

We recommend that the campus ensure that all auxiliary employees with access to critical systems and/or protected data complete required information security awareness training.

Campus Response

We concur. We will ensure that all auxiliary employees with access to critical systems and/or protected data complete required information security awareness training.

Corrective action on this item is complete.
PAYMENT CARD INDUSTRY DATA SECURITY STANDARD COMPLIANCE

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

Specifically, we found that the campus had not ensured that network scans were performed.

ICSUAM §8045.0, Information Technology Security, dated April 19, 2010, 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.

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

The 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 quarterly network scans are intended to identify vulnerabilities in operating systems, services, and devices that could be used by hackers to target the company's private network. The scans must be performed by an approved third-party vendor.

The director of internal auditing services/ISO stated that PCI DSS requirements had not been fully addressed because the campus was still in the process of contracting with a vendor to perform the quarterly network scans.

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

**Recommendation 2**

We recommend that the campus ensure that the auxiliaries fully address PCI DSS requirements, including the performance of network scans.
**Campus Response**

We concur. The campus is in the process of acquiring an approved scanning vendor for PCI DSS compliance.

Estimated date of completion is June 30, 2013.
OPERATIONAL COMPLIANCE

The CSULB 49er Foundation (49er Foundation) did not have a written delegation of authority from the campus president to accept monetary gifts and sign gift acknowledgement agreements and letters.

EO 676, *Delegation of Gift Evaluation and Acceptance to Campuses*, dated February 1, 1998, states that authority is delegated to campus presidents to evaluate and accept gifts, bequests, and donations to campuses. Campus presidents may further delegate this authority in whole or in part to campus officers and employees to ensure that all gifts accepted by the campus will aid in carrying out the primary functions of the campus and the California State University (CSU) system.

The 49er Foundation chief operating officer (COO) stated his belief that the delegation of authority was on file and available but had not been signed due to oversight.

Failure to obtain a documented delegation of authority for gift evaluation and acceptance responsibilities increases the risk that donations will be mishandled or misused.

During our fieldwork, the 49er Foundation provided documentation showing evidence that it had obtained a written delegation of authority from the campus president to accept monetary gifts and sign acknowledgement agreements and letters.
FEES, REVENUES, AND RECEIVABLES

Administration and accounting of California State University, Long Beach Research Foundation (Foundation) pledges receivable related to athletics needed improvement.

We reviewed six delinquent pledges from the pledges aging report as of June 30, 2012, and we found that follow-up activity was not documented for any of the pledges.

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 pledges receivable.

The Foundation COO stated that these receivables were associated with a particular campaign in the athletics department that was very limited in scope and was handled unlike other campaigns. He further stated that due to the special relationship with donors and the desire of the donors to fulfill these pledges, the pledges were allowed to remain outstanding for a longer period.

Inadequate administration of pledges receivable increases the risk that receivables will not be properly controlled and accurately reflected in auxiliary financial statements, reduces the likelihood of collection, and negatively impacts cash flow.

Recommendation 3

We recommend that the Foundation document follow-up activity for all delinquent pledges receivable.

Campus Response

We concur. A quarterly pledge receivable process was updated to include pledges in this category (less than $10,000). In this new process, the director of advancement services will review and document the follow-up activity of these pledges on a quarterly basis.
Corrective action on this item is complete.

TRUSTS AND OTHER LIABILITIES

The Foundation had not finalized procedures for administration of campus activities and program funds with the campus.

ICSUAM §13680.00, Placement and Control of Receipts for Campus Activities and Programs, dated September 29, 2011, states that legal and other mandates require the university to retain a certain amount of programmatic authority over all campus activities and programs, even when an auxiliary organization is considered accountable and responsible. First campus and auxiliary leadership must identify legal obligations, fiscal liabilities, and fiduciary responsibilities associated with a campus activity and program and assess options for managing these activities and programs and associated risks. Second, consideration must be made as to benefits of either the university or an auxiliary organization accepting responsibility for the specific activity or program being considered. Next, as deemed in the interest of the campus and the CSU, the president or designee will determine whether the university or an auxiliary organization will receive proprietorship over an activity or program, which includes acceptance of both risks and rewards associated with ownership. Finally, if an auxiliary is to own an activity or program, a clear understanding of rights and responsibilities is to be incorporated within existing written agreements (or separately acknowledged as deemed appropriate) between the university and that auxiliary.

The Foundation COO stated that over the past year, the procedures for the administration of campus activities and program funds were developed and reviewed with some campus constituents, but not all. He further stated that the consultation process was interrupted due to a recent financial system conversion.

Failure to finalize procedures for the administration of campus activities and program funds with the campus increases the risk of non-compliance with relevant requirements and misunderstandings and miscommunication regarding rights and responsibilities.

Recommendation 4

We recommend that the Foundation finalize procedures for administration of campus activities and program funds with the campus.

Campus Response

We concur. Procedures for administration of campus activities and program funds have been finalized and were communicated to the campus in February 2013.

Corrective action on this item is complete.
**AUXILIARY PROGRAMS**

The Foundation had not completed and certified effort certification reports for exempt faculty from the spring 2010 semester to the present.

The Foundation *Effort Reporting Policy* states that the Foundation grants and contracts office will be responsible for gathering and entering the appropriate information into the effort reporting system, in order to create accurate effort certification reports. All employees with effort devoted to a sponsored project (paid directly or cost-shared) will be required to certify their effort reports for the academic terms in which they performed that effort. A project director or responsible official with direct knowledge of an employee’s effort may sign if the employee has left the institution or is otherwise not available to sign.

Office of Management and Budget (OMB) Circular A-21, *Cost Principles for Educational Institutions*, Section J.8 §c(1)(e), requires that for professional and professional staff, the reports will be prepared each academic term, but no less frequently than every six months. For other employees, unless alternate arrangements are agreed to, the reports will be prepared no less frequently than monthly and will coincide with one or more pay periods.

The Foundation COO stated that reduction in post-award staffing due to budget shortfalls and a higher workload associated with the conversion of grants and contracts to a new financial system had resulted in a temporary delay in effort reporting since the spring of 2010.

Failure to complete effort certification reports in a timely manner increases the risk of reduced reimbursements, non-compliance with OMB requirements, and increased regulatory scrutiny.

**Recommendation 5**

We recommend that the Foundation:

a. Complete and certify effort certification reports from the spring 2010 semester to the present.

b. Ensure that future effort certification reports are completed in a timely manner for all faculty members.

**Campus Response**

We concur.

a. We will be current with exempt faculty effort certifications.

b. We will ensure that effort certification will be kept current in accordance with OMB Circular A-21 and campus policy thereafter.

Estimated date of completion is June 30, 2013.
The Foundation data room door was marked with a descriptive label that could increase the risk of unauthorized entry.

ICSUAM §8080.0, *Physical Security*, dated April 19, 2010, states that each campus must identify physical areas that must be protected from unauthorized physical access. Such areas would include data centers and other locations on the campus where information assets containing protected data are stored.

The Foundation associate director of information systems stated that the room was physically secured.

Failure to remove descriptive labels from computer room doors increases the risk of unauthorized access and theft of computing equipment.

**Recommendation 6**

We recommend that the Foundation remove the descriptive label from the data room door.

**Campus Response**

We concur. The descriptive label was removed from the data room door immediately during audit fieldwork.

Corrective action on this item is complete.
THE FORTY-NINER SHOPS, INC.

OPERATING AND ADMINISTRATIVE AGREEMENTS

Agreements between The Forty-Niner Shops, Inc. (Shops), third parties, and the campus did not always include appropriate provisions for indemnification, nor were they always supported by current written agreements.

We reviewed 15 agreements, and we found that:

- Two agreements with third-party service providers did not specifically indemnify the state of California, the Trustees of the CSU, the campus, and its officers, employees, volunteers, and agents, nor was there a documented analysis to support the business decision made to not include indemnification provisions. This is a repeat finding from the prior two Auxiliary Organizations audits.

- Three agreements with the campus for ID Card Services, the Art Store, and the Beach Hut had expired and had not been renewed. The agreements had expired between June 30, 2010, and April 1, 2012.

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

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.

Coded memorandum Risk Management (RM) 2012-01, California State University Insurance Requirements, dated June 1, 2012, states that many alternative hold harmless provisions are possible, with each alternative having a different purpose and potential risk transfer variant. Modification to hold harmless language in contract negotiation is a crucial part of the risk transfer process and should only be undertaken with appropriate review and counsel. In some instances, a no “hold harmless” clause approach may be appropriate for low liability activity and for activities critical to CSU.

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 current, written agreements executed in a timely manner.

The Shops controller/chief financial officer (CFO) stated that executed agreements were not always revisited to include the CSU indemnification. He further stated that the internal campus contracts had not been renewed because the parties planned to consolidate them into a single memorandum of understanding, which had not yet been finalized.

The absence of current, written agreements with appropriate indemnification provisions increases the risk of misunderstandings and miscommunications regarding rights and responsibilities and subjects the auxiliary and CSU to potential liability.

**Recommendation 7**

We recommend that Shops ensure that:

a. All future agreements include an appropriate indemnification provision, or an analysis is performed and documented with appropriate review and counsel to support the business decision made to not include an indemnification provision.

b. All future agreements are renewed prior to the term expiration date.

**Campus Response**

a. The above two findings included one contract (Wells Fargo ATM) that was a pre-existing agreement from the prior CSU audit. The Shops were unsuccessful in getting the vendor to modify the existing agreement for desired indemnification, while the second contract was a commercial textbook rental agreement with Chegg, which was terminated as of August 1, 2012. For future agreements, when faced with vendor resistance to include the desired CSU indemnification language, the Shops will consult with campus risk management and document the process according to technical letter RM 2012-01.

Corrective action on this item is complete.

b. The above expired campus agreements were awaiting renewal of the Shops CSU operating agreement, which authorizes services within the above. Upon renewal of the operating agreement, the two lease agreements were immediately executed, while the ID card agreement is in review with a campus team.

Estimated date of completion for the ID card agreement is April 12, 2013.
FISCAL COMPLIANCE

Shops had not adequately assessed or tracked unrelated business income (UBI) from catering provided to community members, nor had it determined whether the revenue should be reported to the Internal Revenue Service (IRS) on Form 990T.

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

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

The Shops controller/CFO stated that management had considered whether catering revenues should be classified as UBI; however, the interpretation of UBI had not been definitively determined.

Failure to properly assess or track and report UBI increases the auxiliary’s exposure to potential penalties and actions by the IRS.

Recommendation 8

We recommend that Shops assess or track UBI earned from catering to community members and determine whether the revenue should be reported to the IRS on Form 990T.

Campus Response

The Shops provides on-campus catering with limited access to community members. Each catering event is recorded via the custom catering and event management program Caterease. The Shops will be tracking (back to July 1, 2012) non-campus-initiated catering events for reporting sales on Form 990T for tax year 2012.

Corrective action on this item is complete.
OPERATIONAL COMPLIANCE

EMPLOYEES

Shops had not fully implemented its employee compensation policy, which was established to ensure that salaries, wages, and benefits for employees performing substantially similar services to those of campus employees were not in conflict with comparability requirements. This is related to a prior Auxiliary Organizations finding that noted Shops’ revocation of post-retirement health benefits for full-time employees hired after January 1, 2009.

The Shops, Employee Compensation Policy, dated May 21, 2010, states that the Shops shall develop and implement formal employee compensation plans by classification, consistent with this policy statement and budgetary authority. Such plans shall be reviewed by the board of directors. Such plans shall include base salary schedules, incentive compensation, benefits (employee and post-employment) and other reward programs, and working conditions.

Title 5 §42405 states that the governing board of each auxiliary organization shall provide salaries, working conditions, and benefits for its full-time employees that are comparable to those provided campus employees performing substantially similar services. For those full-time employees who perform services that are not substantially similar to the services performed by campus employees, the salaries established shall be at least equal to the salaries prevailing in other educational institutions in the area or commercial operations of like nature.

The Shops director of communications/human resources stated that four more phases needed to be completed before the compensation policy could be fully implemented. She further stated that the compensation study remains in progress with consultants, who are scheduled to meet with the Shops personnel committee.

Failure to implement an employee compensation policy increases the risk of expending inappropriate amounts on salaries, wages, and benefits for employees who perform substantially similar services to campus employees and may expose the auxiliary and campus to potential liability.

Recommendation 9

We recommend that Shops fully implement its compensation policy to ensure that salaries, wages, and benefits for employees performing substantially similar services to those of campus employees are not in conflict with comparability requirements.

Campus Response

The Shops have been actively implementing a formal compensation policy through a long-term multi-phase project plan. In 2011, the Shops partnered with the Employers Group to engage Meyer-Chatfield Compensation Advisors to conduct a compensation analysis. The scope of the analysis, including each individual phase of the project, was approved by the Forty-Niner Shops Board of Directors.
The compensation study is composed of four major phases with an anticipated implementation date of July 1, 2013. Phases and status of each are as follows:

a. Phase I: Completed
   • Provide a compensation and benefit overview of current base salaries in comparison to a multi-market environment, including campus, AOA, and local market.

b. Phase II: Completed
   • Develops a long-term compensation philosophy for the Forty-Niner Shops.

c. Phase III: Target completion date: March 15, 2013
   • Construct a Forty-Niner Shops market-based base salary and ranges positions by job classification and Fair Labor Standards Act exemption status.

d. Phase IV: Anticipated implementation date: July 1, 2013
   • Provides a pay-to-market gap analysis with recommendations for a two- to three-year strategy for action for individual and group compensation.

Estimated date of completion is July 1, 2013.

RETIREE HEALTH BENEFITS

Shops had not developed written procedures to address the administration and processing of retiree health benefits.

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

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 written procedures to address administration and processing of retiree health benefits.

The Shops chief executive officer/general manager stated that upon departure from the California Public Employees’ Retirement System in 2009, the Shops had been administering the health benefits in-house and had not finished setting up written procedures.
The absence of written procedures for the administration and processing of retiree health benefits increases the risk that errors, inconsistencies, misunderstandings, or misappropriation may occur.

**Recommendation 10**

We recommend that Shops develop and implement written procedures to address the administration and processing of retiree health benefits.

**Campus Response**

The Shops currently administers specific tasks for the processing and coordination of retiree health benefits with health care providers, insurance companies, and the Public Employees Retirement System. These existing practices will be documented into a single retiree benefit administrative procedure.

Estimated date of completion for this item is April 30, 2013.

**CASH RECEIPTS AND HANDLING**

Shops had not completed bank reconciliations in a timely manner, nor had it voided long outstanding checks from the accounting system.

We reviewed three recent bank reconciliations from April 2012 to June 2012, and we found that:

- The reconciliations were not completed in a timely manner. They were prepared and reviewed from 39 to 70 days after the month-end.

- Outstanding checks more than 180 days old were not voided from the accounting system. As of June 30, 2012, 49 checks totaling $13,477 were outstanding from 180 to 1,827 days.

ICSUAM §3102.09, *Bank Reconciliations*, dated April 1, 2011, states that bank accounts are reconciled at least monthly. Reconciliations must be in sufficient detail to determine components of outstanding reconciling items.

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. The compilation further states that the auxiliary should reconcile bank accounts on a timely basis with independent management review.

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

The Shops controller/CFO stated that Shops bank reconciliations were not prepared and reviewed in a timely manner due to limited resources. He further stated that the bank reconciliation process was lengthy and arduous and typically took around 40 hours, and in the last month of the quarter, the resources for this process were reallocated to address quarterly reporting. In addition, he stated that the outstanding checks more than 180 days old were not voided from the accounting system due to oversight.

Failure to complete and review bank account reconciliations and void long outstanding checks in a timely manner limits the auxiliary’s ability to detect errors and irregularities, increases the likelihood of loss of funds, and compromises accountability.

**Recommendation 11**

We recommend that Shops ensure that:

a. All future bank reconciliations are completed in a timely manner.
b. Any outstanding checks more than 180 days old are voided.

**Campus Response**

We concur.

a. The Shops updated its monthly closing guidelines, effective January 1, 2013, to include bank reconciliation completion prior to the next monthly closing cycle. Average cycle time for the last six months (excluding holiday closure) has been reduced to 28 days.

b. The Shops updated its Accounts Payable Procedure Manual to reflect that all outstanding checks over 180 days old are to be voided.

Corrective action on this item is complete.

**FEES, REVENUES, AND RECEIVABLES**

**COLLECTIONS**

Shops accounts receivable collections needed improvement.

We reviewed ten delinquent accounts receivable from the accounts receivable aging report as of June 30, 2012, and we found that:
In seven instances, collection and follow-up activity was not performed and documented to facilitate collection or support account write-off. The delinquent accounts receivable were outstanding from 1,253 to 2,320 days and were considered uncollectible.

In three instances, the collected payments were not properly applied to the corresponding accounts receivables.

The Shops Accounts Receivable Manual states that the aging report is the starting point for making collection efforts on all customers. It is an alphabetic list of all accounts with their balances as of the end of the previous accounting month. Employees will select accounts that are beyond their allotted payment deadline to review for any inconsistencies or exceptions and contact the appropriate person as described on the account. It also states that if an account becomes severely late, the information is taken to the accounting manager for review with the department director and/or general manager or controller for a possible suspension of charging privileges. If an account is requesting to negotiate a settlement, the information is taken and forwarded to the accounting manager for review and approval with the general manager or controller. If an account is refusing to pay, the information is taken and forwarded to the accounting manager for review with the general manager or controller. The general manager or controller must approve all write-offs from the accounts receivable system.

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 Shops controller/CFO stated that delinquent accounts receivable were the result of a historical philosophy that most accounts receivable should be collectible, and thus there was a limited oversight and review process. He further stated that the collected payments were not properly applied to the corresponding accounts receivables due to oversight.

Inadequate control over accounts receivable increases the risk that receivables will not be properly controlled and accurately reflected in auxiliary financial statements, reduces the likelihood of collection, and negatively impacts cash flow.

**Recommendation 12**

We recommend that Shops:
a. Perform and document collection and follow-up activity for delinquent accounts receivable to facilitate collection or support account write-off.

b. Ensure that collected payments are properly applied to the corresponding accounts receivables.

**Campus Response**

We concur.

a. The majority of items in question have already been written off to date. The Shops will improve procedures to document collection and follow-up activity to facilitate collection or support account write-off.

b. We will review our current separation of duties procedures to ensure consistency in accounts receivable postings.

Estimated date of completion is July 1, 2013.

**WRITE-OFFS**

Shops accounts receivable write-offs needed improvement.

We reviewed ten accounts receivable write-offs, and we found that:

- None had been written off in a timely manner. The receivables were outstanding from 883 to 2,867 days.

- In seven instances, the write-offs were for purchases made by students enrolled in rehabilitation programs, but the items bought were not on the California Department of Rehabilitation’s list of authorized purchases.

The Shops *Accounts Receivable Manual* states that if an account becomes severely late, the information is taken to the accounting manager for review with the department director and/or general manager or controller for a possible suspension of charging privileges. If an account is requesting to negotiate a settlement, the information is taken and forwarded to the accounting manager for review and approval with the general manager or controller. If an account is refusing to pay, the information is taken and forwarded to the accounting manager for review with the general manager or controller. The general manager or controller must approve all write-offs from the accounts receivable system.

ICSUAM §3132.01, *Write Off of Uncollectible Accounts Receivable*, dated April 1, 2011, states that procedures must provide that debt and accounts receivable balances determined to be uncollectible must be written off by the close of the fiscal year. Reserves for doubtful accounts should be
established based on type of outstanding debt and expectations of repayment. In general, any receivables that remain outstanding after one year should be written off the books.

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 Shops controller/CFO stated that delinquent accounts receivable write-offs were the result of a historical philosophy that most accounts receivable should be collectible, and thus there was a limited oversight and review process. He further stated that write-offs for the purchases made by the students enrolled in rehabilitation programs were due to the program accounts not being properly set up in the bookstore system.

Inadequate control over accounts receivable increases the risk that receivables will not be properly controlled and accurately reflected in auxiliary financial statements, reduces the likelihood of collection, and negatively impacts cash flow.

**Recommendation 13**

We recommend that Shops ensure that:

a. Long-outstanding accounts receivables are written off in a timely manner.

b. Only authorized items are purchased through rehabilitation program accounts.

**Campus Response**

We concur.

a. The Shops Accounts Receivable Procedures Manual has been updated to reflect specific time frames for initiating reviews of outstanding receivables in excess of 90 days, with a 365-day limit, before being written off.

b. This issue no longer exists and was a fallout from either the previous point-of-sale system and/or missing control fields for point-of-sale approval. The accounts have since been written off. When setting up new rehabilitation program accounts, current procedure calls for accounts receivable staff to establish/restrict items within the point-of-sale system via “DCC” codes. When confronted with an unauthorized transaction at the register, the customer is denied the transaction and redirected to the accounts receivable department for resolution with the program administrator. This procedure has been in effect prior to 2012.
PURCHASING AND ACCOUNTS PAYABLE

Shops had not escheated unclaimed checks to the state, nor had it established written policies and procedures for such action.

We found that 37 unclaimed checks from July 2007 to September 2009, totaling $8,178, were not escheated to the state.

Code of Civil Procedure Title 10, Unclaimed Property, and Chapter 7, Unclaimed Property Law, Article 2, §1510 and §1511 state that property held by a business association escheats to the state, subject to various requirements and limitations.

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

The Shops controller/CFO stated that unclaimed checks had not been appropriately addressed due to accounting oversight. He also stated that the unclaimed checks noted were carried over during a system upgrade and should have been voided or reissued. He further stated that written policies and procedures for escheatment of unclaimed checks had not been established due to oversight.

Failure to escheat unclaimed property to the state or perform the duties specified in the unclaimed property law could result in fines.

Recommendation 14

We recommend that Shops:

a. Promptly remit the cited unclaimed checks to the state.

b. Develop and implement written policies and procedures to ensure timely escheatment of unclaimed checks to the state in accordance with the Code of Civil Procedure.

Campus Response

We concur.

a. Upon further analysis by the Shops, the cited unclaimed checks included items carried over from an accounting system conversion, duplicate checks, checks that have been reissued, and mis-issued checks, as well as those that should have been voided. The latter comprised less than $1,500 and will be escheated to the state.
b. The Shops will approve a written escheatment policy pursuant to California unclaimed property law to ensure timely escheatment of unclaimed checks to the state. The policy will be in effect as of April 12, 2013.

Estimated date of completion is April 12, 2013.

PERSONNEL AND PAYROLL

Shops had not monitored student employee work hours or documented approval for student employees working more than 20 hours per week during the academic period.

We reviewed the pay periods ending February 7, 2011, and September 16, 2012, and noted that four students had worked from 58 to 82 hours in a two-week period, without documented approval.

The CSU 2012 Coded Memoranda Human Resources Letter, 2012-08, Revised Student Assistant Classification Standard (non-represented) and Guidelines for Student Assistants, states that student assistants may work up to, but not in excess of, 20 hours per week during academic periods and may work up to 40 hours per week during academic break periods.

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 monitoring and documenting proper approval of student employees working more than 20 hours per week.

The Shops controller/CFO stated that the failure to monitor student employee working hours or document approval for student employees working more than 20 hours per week was due to management oversight and/or lack of awareness of policy limits.

Failure to monitor and document approvals for student employee work hours increases the risk of non-compliance with CSU, local, state, and federal employment regulations.

Recommendation 15

We recommend that Shops monitor student employee work hours and document approval for any student employees working more than 20 hours per week during the academic period.

Campus Response

We concur. The Shops has reiterated its policy on student employee working hours through a human resources communication dated March 6, 2013. Effective as of this date, human resources will monitor student hours accordingly and review for exception.
Corrective action on this item is complete.

COMMERCIAL OPERATIONS

CATERING

Administration of Shops catering services required improvement.

We reviewed 20 catering contracts from March 2011 to June 2012, and we found that:

- In four of eight instances where alcoholic beverages were served, beer and wine clearance request forms were not on file.
- In three instances, certificates of insurance were not obtained for non-university events.
- In two instances, a signed catering contract was not on file.

The Shops Beach Catering Guidelines state that in order to have any alcohol or bar service on campus, a beer and wine clearance form is required and needs to be completed and returned to the catering office two weeks prior to the event.

ICSUAM §5230.0, Insurance Requirements, dated January 1, 2006, states that evidence of insurance is required for any campus or auxiliary organization contract involving any activity that puts the state, the CSU, or the campus at risk. It provides minimum insurance requirements for agreements where services are being performed on campus, for short-term licenses issued by the campus or auxiliary for on-campus events, and for contracts involving campus facilities and property leases. It further states that when insurance is required, vendors must be required to show evidence of insurance coverage by furnishing a certificate or certificates of insurance that include additional insured endorsements that meet specific requirements, including naming the state of California, the Trustees of the CSU, and the campus as additional insured.

EO 849, California State University Insurance Requirements, dated February 5, 2003, requires vendors to show evidence of adequate insurance coverage by furnishing a certificate of insurance and specifies minimum insurance coverage requirements. Coded memorandum RM 2012-01, California State University Insurance Requirements, dated June 1, 2012, replaced EO 849 and continues to require appropriate provisions for indemnification.

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 properly executed agreements.
The Shops controller/CFO stated that the dining services catering program was recently reinstated, in spring of 2011, and the catering contract documentation was incomplete or missing due to a new system implementation, e-mail migration, and management oversight. He further stated that the guidelines had not been updated to reflect the current practices.

Inadequate administration of catering services increases the risk of misunderstandings and miscommunication regarding rights and responsibilities and revenue loss and subjects the auxiliary and CSU to potential liability.

**Recommendation 16**

We recommend that Shops ensure that:

a. Beer and wine clearance request forms are maintained on file for all events where alcoholic beverages are served.

b. Certificates of insurance are obtained for non-university events.

c. Signed catering contracts are maintained on file.

**Campus Response**

We concur. The Shops revised the catering terms agreement and practice to include the above recommendations with files to be maintained. Staff in charge of handling these files has been informed accordingly.

Corrective action on this item is complete.

**EVENT SALES**

Administration of Shops special-event merchandise sales needed improvement.

We reviewed the process for special events and physically observed an off-site event, and we found that:

- Inventory counts were not conducted for all merchandise at the start of sale or for all remaining merchandise at the end of the events.

- Merchandise added to the inventory during the events was not accounted for.

- A reconciliation of inventory sold to cash receipts and sales recorded in the general ledger was not completed.

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 merchandise inventory, sales, and cash receipts.

The Shops controller/CFO stated that the after-hours special events were a new venture, and the failure to perform inventory counts, account for products in transit, and complete reconciliations of special event merchandise sales were due to management oversight.

Inadequate administration of merchandise inventory, sales, and cash receipts increases the risk of loss or misappropriation of funds.

**Recommendation 17**

We recommend that Shops:

a. Perform inventory counts for all merchandise at the start of sale and for all remaining merchandise at the end of all special events.

b. Account for any merchandise added to the inventory during special events.

c. Complete a reconciliation of merchandise inventory to cash receipts and sales recorded to the general ledger for all special events.

**Campus Response**

We concur. To address this one-time incident and possible future need to conduct remote retail merchandise sales on campus, the Shops developed procedures to track inventory and sales activity at remote locations.

Corrective action on this item is complete.

**INVENTORY**

Shops had not devised a system to formally calculate, identify, monitor, and mitigate factors contributing to the increases in inventory losses and shrinkage at its six convenience stores in fiscal years 2010/11 and 2011/12.

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 over retail and commodity inventory.

The Shops controller/CFO stated that convenience store system limitations prevented Shops from formally calculating potential inventory losses and shrinkage. He further stated that management had used cost-of-goods-sold and margin rates over time to gain comfort with the process.

Failure to devise a system to formally calculate, identify, monitor, and mitigate factors contributing to inventory losses and shrinkage increases the risk of inventory errors, loss, or misappropriation.

**Recommendation 18**

We recommend that Shops establish a system to formally calculate, identify, monitor, and mitigate factors contributing to inventory losses and shrinkage at its six convenience stores.

**Campus Response**

In 2012, the Shops transitioned C-Stores from their bookstore retail point-of-sale system (WinPrism) to their food services point-of-sale system (Micros) due to poor sales transaction performance. However, Micros did not provide similarly capable back-office support for ongoing evaluation of margin rates, cost of goods and inventory evaluation.

To address this shortcoming, the Shops purchased a point-of-sale interface from Computrition and installed the program on February 5, 2013. Procedures and process documentation are currently being developed for the reporting and tracking of C-Store inventory.

Estimated date of completion is April 12, 2013.

**INFORMATION TECHNOLOGY**

Shops did not have a written information technology (IT) disaster recovery plan (DRP).

ICSUAM §8085.0, *Business Continuity and Disaster Recovery*, dated April 19, 2010, states that campuses must ensure that their information assets can, in the case of a catastrophic event, continue to operate and be appropriately accessible to users. Each campus must maintain an ongoing program that ensures the continuity of essential functions and operations following a catastrophic event.

EO 698, *Board of Trustees Policy for The California State University Auxiliary Organizations*, dated March 3, 1999, states that the review of auxiliary organizations will be used to determine appropriate separation of duties, safeguarding of assets, and reliability and integrity of information.
The *Compilation of Policies and Procedures for California State University Auxiliary Organizations* sets sound business practice guidelines for auxiliary organizations operating within the CSU system. Section 8.10, *Computer Controls*, states that auxiliary organizations should establish written policies and practices that ensure secure computer system operations, including backup and recovery mechanisms and DRPs.

The Shops controller/CFO stated that a written IT DRP had not been developed because the auxiliary was unaware of the requirement.

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

**Recommendation 19**

We recommend that Shops develop a written IT DRP.

**Campus Response**

We concur. The additional requirement for a written DRP was never brought forth in prior CSU audits and thus not addressed. To comply with this recommendation, the Shops will compile currently existing IT support documentation into a single IT DRP to complement the existing business continuity plan.

Estimated date of completion is April 12, 2013.
ASSOCIATED STUDENTS, CALIFORNIA STATE UNIVERSITY, LONG BEACH

OPERATIONAL COMPLIANCE

Associated Students, California State University, Long Beach (AS) had not obtained annual conflict-of-interest statements from all board members.

We found that two of the 20 board members had not signed a conflict-of-interest statement for fiscal year 2011/12.

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 AS executive director stated that conflict-of-interest statements were not collected from the two board members because staff failed to follow procedures.

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

Recommendation 20

We recommend that AS ensure that annual conflict-of-interest statements are obtained from all board members.

Campus Response

We concur. This was a rare oversight due to the mid-year replacement of two board members who resigned before their term had ended. Stricter enforcement of the existing guidelines have been put in place to make sure that conflict-of-interest statements are part of the orientation process when appointing positions mid-year.

Corrective action on this item is complete.
FEES, REVENUES, AND RECEIVABLES

AS Child Development Center (CDC) uncollectible accounts receivable were not written off and submitted to a collection agency in a timely manner.

We reviewed ten delinquent accounts receivable from the accounts receivable aging report as of August 20, 2012, and found six uncollectible accounts receivables that were not written off and submitted to a collection agency in a timely manner.

The AS Accounts Receivable policy states that the accounts receivable technician shall carry out collection procedures according to the schedule. After 90 days past invoice date, accounts are submitted to a collection agency.

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 AS director of administrative services stated that CDC uncollectible accounts receivables were not written off and submitted to a collection agency in a timely manner due to a breakdown of communication between the CDC and the AS accounts receivable department.

Inadequate control over accounts receivable increases the risk that receivables will not be properly controlled and accurately reflected in auxiliary financial statements, reduces the likelihood of collection, and negatively impacts cash flow.

Recommendation 21

We recommend that AS ensure that CDC uncollectible accounts receivable are written off and submitted to a collection agency in a timely manner.

Campus Response

We concur. The AS accounts receivables coordinator did not always follow the AS policy on receivables due to a miscommunication with the CDC. The accounts receivable coordinator has been instructed to follow the AS policy, and all past due accounts will be monitored monthly by the accounting manager.
Corrective action on this item is complete.

PROPERTY AND EQUIPMENT

ACCOUNTING

AS had not properly recorded, capitalized, depreciated, and tagged Student Recreation and Wellness Center equipment.

We found that group II equipment acquired through systemwide revenue bond fees for the Student Recreation and Wellness Center that met the capitalization threshold of $5,000 was recorded in the campus books but had not been transferred to AS.

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 accounting of property and equipment.

The AS director of administrative services stated that because the group II equipment was not formally transferred from the campus to AS, the equipment could not be recorded, capitalized, depreciated, and tagged.

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

Recommendation 22

We recommend that AS ensure that Student Recreation and Wellness Center equipment is appropriately recorded, capitalized, depreciated, and tagged.

Campus Response

We concur. The equipment at the Student Recreation and Wellness Center has now been tagged and appropriately recorded. We note, however, that ownership of the equipment had not been officially transferred to AS at the time of the audit and was still the property of the campus.

Corrective action on this item has been completed.

ADMINISTRATION

AS did not have a review process to ensure that asset tag numbers were updated correctly in the inventory system.
We found that certain AS assets had physical tag numbers that were different from the tag numbers listed in the inventory system.

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

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

The AS director of administrative services stated that the differences between the physical and recorded tag numbers were due to the change in property and equipment policies in 2010. He further stated that the auxiliary had raised the capitalization threshold amounts and switched to a new set of tagging labels. He also stated that the new tagging labels were not implemented on all assets and tag numbers were not reconciled due to employee oversight.

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

**Recommendation 23**

We recommend that AS implement a review process to ensure that asset tag numbers are updated correctly in the inventory system.

**Campus Response**

We concur. During the audit, AS was in the process of updating its inventory tagging system with a bar code tagging system. There were some assets that had not been changed over yet and still carried the old tags. All of our assets have been tagged with the current bar code system tags.

Corrective action on this item has been completed.

**INFORMATION TECHNOLOGY**

**ACCEPTABLE USE POLICY**

The AS acceptable use policy (AUP) had not been updated to include provisions for illegal file sharing and protection of copyrighted material, and employees were not required to sign an appropriate AUP statement.
EO 999, *Illegal Electronic File Sharing and Protection of Electronic Copyrighted Material*, dated March 7, 2007, states that it is the policy of the CSU to use any and all information technologies in a manner consistent with the federal laws governing copyright protection. Use of any university resource such as computers (hardware or software), network connections, servers, routers, facsimile machines, copy machines, and other electronic equipment by any university constituent (faculty, student, staff or general public) to circumvent legitimate copyright protections or illegally access, copy or disseminate copyrighted material is unacceptable. Each university president will ensure that the campus policy governing acceptable use of information technology resources makes explicit that illegal file-sharing and other copyright violations are a Violation of Title 5 of the California Code of Regulations. In addition, each president will ensure that the existing campus processes and procedures for determining and penalizing copyright violations are detailed in the Student Handbook.

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 employees with access to technical resources certify that information resources will not be used for any unlawful, unethical, or unprofessional purpose or activity.

The AS director of administrative services stated that the policy had not been updated due to other IT priorities.

Inadequate control over computer and Internet usage increases the risk of non-compliance with state and federal rules and regulations.

**Recommendation 24**

We recommend that AS update the current AUP policy to include provisions for illegal file sharing and protection of copyrighted material and require employees to sign an appropriate AUP statement.

**Campus Response**

We concur. AS will adopt the campus AUP policy. This policy will be distributed to all AS employees, and acknowledgments of receipt will be placed into their personnel files.

Estimated date of completion is March 31, 2013.

**ACCESS REMOVAL**

AS termination procedures were not adequate to ensure that system access was removed from terminated and transferred employees in a timely manner.

We found that department management did not consistently notify IT of employee terminations, and there was no provision for notification in the HR employee exit process.
ICSUAM §8060, *Access Control*, dated April 19, 2010, states that access to campus information assets containing protected data as defined in the CSU Data Classification Standard may be provided only to those having a need for specific access in order to accomplish an authorized task. Access must be based on the principles of need-to-know and least privilege. Users experiencing a change in employment status (e.g., termination or position change) must have their logical access rights reviewed, and if necessary, modified or revoked.

ICSUAM §8080, *Information Security Policy*, dated April 19, 2010, states that each campus must identify physical areas that must be protected from unauthorized physical access while ensuring that authorized users have appropriate access.

The AS director of administrative services stated that the auxiliary did not remove system access for terminated and transferred employees in a timely manner due to oversight.

Failure to provide adequate security over IT assets and sensitive data increases the risk that unauthorized personnel will have access to information assets.

**Recommendation 25**

We recommend that AS improve termination procedures to ensure that system access is removed from terminated and transferred employees in a timely manner.

**Campus Response**

We concur. AS has added the information technology manager to the exit interview process. He or she will be the last to sign off and will remove all access to our systems at that point.

Corrective action on this item is complete.

**BACKUP POWER**

AS did not have adequate backup power in place for the financial accounting or human resources systems, which are financially significant applications.

ICSUAM §8045.100, *Information Technology Security*, dated April 19, 2010, 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 AS director of administrative services stated that only two systems were deemed critical based on a risk assessment performed; therefore, due to budget constraints, backup power was only provided for those systems.

Lack of an alternative power source could cause the auxiliary to lose data for an extended period of time, which could result in financial misstatements.

**Recommendation 26**

We recommend that AS provide adequate backup power for all financially significant applications.

**Campus Response**

We concur. However, for the following reasons, the campus is willing to accept the risk inherent in not having adequate backup power for all financially significant applications: The UPS unit needed to supply the proper backup utility will not fit into the space next to the server in the current server room; the wall that is currently dividing the room would need to be removed; and the existing telecom wiring would need to be transferred to another wall and the electrical outlets would need to be upgraded and moved. Due to the high cost of this remodel, AS is in the process of evaluating a relocation of the server room.

**PHYSICAL SECURITY**

The AS data room contained unsecured windows that could potentially allow for unauthorized entry.

ICSUAM §8080, *Physical Security*, dated April 19, 2010, states that each campus must identify physical areas that must be protected from unauthorized physical access. Such areas would include data centers and other locations on the campus where information assets containing protected data are stored.

The AS director of administrative services stated that the data room had windows because it had previously been used as an office.

Failure to secure all potential access points to the data center and network rooms increases the risk of security breaches and theft of computing equipment.

**Recommendation 27**

We recommend that AS secure the data room windows that could potentially allow for unauthorized entry.

**Campus Response**

We concur. However, for the following reasons, the campus is willing to accept the risk inherent with the server room windows: Three windows would have to be removed; the wall reframed, dry
walled and painted; and the HVAC system to keep the server room cool would need to be upgraded as well, since the re-walling of the windows would increase the room temperature. Due to the high cost of this remodel, AS is in the process of evaluating a relocation of the server room.
## APPENDIX A: PERSONNEL CONTACTED

<table>
<thead>
<tr>
<th>Name</th>
<th>Title</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>CAMPUS</strong></td>
<td></td>
</tr>
<tr>
<td>F. King Alexander</td>
<td>President</td>
</tr>
<tr>
<td>Aysu Spruill</td>
<td>Director of Internal Auditing Services and Campus Information Security Officer</td>
</tr>
<tr>
<td>Mary Stephens</td>
<td>Vice President, Administration and Finance</td>
</tr>
<tr>
<td>Sharon Taylor</td>
<td>Associate Vice President, Financial Management</td>
</tr>
<tr>
<td>Gene Wohlgezogen</td>
<td>Associate, Information Security Officer</td>
</tr>
<tr>
<td><strong>CSULB 49ER FOUNDATION</strong></td>
<td></td>
</tr>
<tr>
<td>Jo Anna Aubel</td>
<td>Cashier</td>
</tr>
<tr>
<td>Miranda Carvalho</td>
<td>Administrative Analyst</td>
</tr>
<tr>
<td>Brian Lawver</td>
<td>Director of Advancement Services and Accounting</td>
</tr>
<tr>
<td>Michael Losquadro</td>
<td>Chief Operating Officer</td>
</tr>
<tr>
<td>Mary Ann Messing</td>
<td>Associate Director of Gifts</td>
</tr>
<tr>
<td>Arlene Reyes</td>
<td>Director of Finance</td>
</tr>
<tr>
<td>Mary Stephens</td>
<td>Chief Financial Officer</td>
</tr>
<tr>
<td>Andrea Taylor</td>
<td>Chief Executive Officer</td>
</tr>
<tr>
<td><strong>CALIFORNIA STATE UNIVERSITY, LONG BEACH RESEARCH FOUNDATION</strong></td>
<td></td>
</tr>
<tr>
<td>Brian Lawver</td>
<td>Director of Alumni Records and System Management</td>
</tr>
<tr>
<td>Stephanie Moreno</td>
<td>Associate Director of Human Resources</td>
</tr>
<tr>
<td>Brian Nowlin</td>
<td>Chief Operating Officer</td>
</tr>
<tr>
<td>Gregory Raitz</td>
<td>Associate Director of Information Systems</td>
</tr>
<tr>
<td>Arlene Reyes</td>
<td>Director of Finance and Accounting</td>
</tr>
<tr>
<td>Sandy Shereman</td>
<td>Senior Director of Sponsored Programs</td>
</tr>
<tr>
<td>Mary Stephens</td>
<td>Chief Executive Officer</td>
</tr>
<tr>
<td>John Taylor</td>
<td>Payroll Manager</td>
</tr>
<tr>
<td><strong>THE FORTY-NINER SHOPS, INC.</strong></td>
<td></td>
</tr>
<tr>
<td>Miguel Alcantara</td>
<td>Storeroom Supervisor</td>
</tr>
<tr>
<td>Kristin Bonetati</td>
<td>Gifts and Soft Goods Buyer/Manager</td>
</tr>
<tr>
<td>Sandy Brant</td>
<td>Accounts Receivable Clerk</td>
</tr>
<tr>
<td>Marylou Cajucom</td>
<td>Cash Room Supervisor</td>
</tr>
<tr>
<td>Clint Campbell</td>
<td>Contract Administrator/Facilities Management</td>
</tr>
<tr>
<td>Melissa Devan</td>
<td>Director of Dining Service</td>
</tr>
<tr>
<td>Becky Drouin</td>
<td>Beach Catering/Chart Room Manager</td>
</tr>
<tr>
<td>Cyndi Farrington</td>
<td>ID Card Manager/Bookstore Warehouse Manager</td>
</tr>
<tr>
<td>Brian Fetterman</td>
<td>Book Division Manager</td>
</tr>
<tr>
<td>Alix Hamidian</td>
<td>Webmaster</td>
</tr>
<tr>
<td>Rosa Hernandez</td>
<td>Director of Communications/Human Resources</td>
</tr>
<tr>
<td>Tristy Hillestad</td>
<td>Bookstore Director</td>
</tr>
<tr>
<td>Jackie Hughes</td>
<td>Accounts Payable</td>
</tr>
<tr>
<td>Tess Monzon</td>
<td>Senior Accountant</td>
</tr>
</tbody>
</table>
APPENDIX A: PERSONNEL CONTACTED

THE FORTY-NINER SHOPS, INC. (CONT.)
Don Penrod  Chief Executive Officer/General Manager
Chris Ramirez  Bookstore/Campus Copy Center Manager
Elizabeth Sanchez  Accountant
Chris Tabellario  Art Store/Supply Department Buyer/Manager
Robert de Wit  Controller/Chief Financial Officer
Majid Zahedi  Information Technology Manager
Steve Zimmerle  Computer Store Buyer/Manager

ASSOCIATED STUDENTS, CALIFORNIA STATE UNIVERSITY, LONG BEACH
Dave Edwards  Associate Executive Director
Debra Gammage  Human Resources Manager
Richard Haller  Executive Director
David Kleen  Information Technology Manager
Marcy Le Beau  Accounting Manager
Rhonda Marikos  Director of Child Development Center
Judy Musselman  Business Services Coordinator
Stewart Ohanesian  Accounting Analyst
Elizabeth Post  Accounts Payable and Receivables Coordinator
Liz Recendez  Administrative Specialist, Child Development Center
Martiz Ware  Director of Administrative Services
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.
March 15, 2013

Mr. Larry Mandel
University Auditor
California State University
401 Golden Shore
Long Beach, California 90802

Re: Response to Auxiliary Audit #12-06

Dear Larry:

Please find enclosed California State University, Long Beach's response to the above report. The campus is committed to addressing and resolving the issues identified in the audit report.

Please let me know if we can provide you with any additional information.

Sincerely,

F. King Alexander
President

Enclosure

IA-0309

c: Robert De Wit, Controller, Forty-Niner Shops
    Dave Edwards, ASI Assoc. Executive Director/USU Dir.
    Richard Haller, Executive Director, ASI
    Ted Kadowaki, Associate Vice President, Budget and University Services
    Brian Nowlin, Chief Operating Officer, Foundation
    Donald Para, Provost and Senior Vice President, Academic Affairs
    Don Penrod, General Manager/CEO Forty-Niner Shops
    Douglas W. Robinson, Vice President for Student Services
    Mary Stephens, Vice President for Administration and Finance
    Aysu Spruill, Director, Internal Auditing Services/Information Security Officer
    Martiz Ware, Director, Admin. Services, USU
AUXILIARY ORGANIZATIONS
CALIFORNIA STATE UNIVERSITY,
LONG BEACH

Audit Report 12-06

CAMPUS

INFORMATION TECHNOLOGY

INFORMATION SECURITY TRAINING

Recommendation 1

We recommend that the campus ensure that all auxiliary employees with access to critical systems and/or protected data complete required information security awareness training.

Campus Response

We concur. We will ensure that all auxiliary employees with access to critical systems and/or protected data complete required information security awareness training. Corrective action on this item is complete.

PAYMENT CARD INDUSTRY DATA SECURITY STANDARD COMPLIANCE

Recommendation 2

We recommend that the campus ensure that the auxiliaries fully address PCI DSS requirements, including the performance of network scans.

Campus Response

We concur. The campus is in the process of acquiring an approved scanning vendor for PCI DSS compliance. Estimated date of completion is June 30, 2013.
FEES, REVENUES, AND RECEIVABLES

Recommendation 3

We recommend that the Foundation document follow-up activity for all delinquent pledges receivable.

Campus Response

We concur. A quarterly pledge receivable process was updated to include pledges in this category (less than $10,000). In this new process, the director of advancement services will review and document the follow-up activity of these pledges on a quarterly basis. Corrective action on this item is complete.

TRUSTS AND OTHER LIABILITIES

Recommendation 4

We recommend that the Foundation finalize procedures for administration of campus activities and program funds with the campus.

Campus Response

We concur. Procedures for administration of campus activities and program funds have been finalized and were communicated to the campus in February 2013. Corrective action on this item is complete.

AUXILIARY PROGRAMS

Recommendation 5

We recommend that the Foundation:

a. Complete and certify effort certification reports from the spring 2010 semester to the present.

b. Ensure that future effort certification reports are completed in a timely manner for all faculty members.

Campus Response

We concur.

a. We will be current with exempt faculty effort certifications.
b. We will ensure that effort certification will be kept current in accordance with OMB Circular A-21 and campus policy thereafter.

Estimated date of completion is June 30, 2013.

INFORMATION TECHNOLOGY

Recommendation 6

We recommend that the Foundation remove the descriptive label from the data room door.

Campus Response

We concur. The descriptive label was removed from the data room door immediately during audit field work.

Corrective action on this item is complete.
THE FORTY-NINER SHOPS, INC.

OPERATING AND ADMINISTRATIVE AGREEMENTS

Recommendation 7

We recommend that Shops ensure that:

a. All future agreements include an appropriate indemnification provision, or an analysis is performed and documented with appropriate review and counsel to support the business decision made to not include an indemnification provision.

b. All future agreements are renewed prior to the term expiration date.

Campus Response

a. The above two findings included one contract (Wells Fargo ATM) which was a pre-existing agreement from the prior CSU audit. The Shops were unsuccessful in getting the vendor to modify the existing agreement for desired indemnification while the second contract was a commercial textbook rental agreement with Chegg which was terminated as of August 1, 2012.

For future agreements, when faced with vendor resistance to include the desired CSU indemnification language, the Shops will consult with campus risk management and document the process according to technical letter RM 2012-01. Corrective action on this item is complete.

b. The above expired campus agreements were awaiting renewal of the Shops CSU operating agreement which authorizes services within the above. Upon renewal of the operating agreement the two lease agreements were immediately executed while the ID card agreement is in review with campus team. Estimated date of completion for the ID card agreement is April 12, 2013.

FISCAL COMPLIANCE

Recommendation 8

We recommend that Shops assess or track UBI earned from catering to community members and determine whether the revenue should be reported to the IRS on Form 990T.

Campus Response

The Shops provides on-campus catering with limited access to community members. Each catering event is recorded via the custom catering and event management program Caterease. The Shops will be tracking (back to July 1, 2012) non-campus-initiated catering events for reporting sales on Form 990T for tax year 2012. Corrective action on this item is complete.
OPERATIONAL COMPLIANCE

EMPLOYEES

Recommendation 9

We recommend that Shops fully implement its compensation policy to ensure that salaries, wages, and benefits for employees performing substantially similar services to those of campus employees are not in conflict with comparability requirements.

Campus Response

The Shops have been actively implementing its formal compensation policy through a long term multi-phase project plan. In 2011 the Shops partnered with the Employers Group to engage Meyer-Chattfield Compensation Advisors to conduct a compensation analysis. The scope of the analysis, including each individual phase of the project, was approved by the Forty-Niner Shops Board of Directors.

The compensation study is comprised of four major phases with an anticipated implementation date of July 1, 2013. Phases and status of each are as follows:

a. Phase I: Completed
   - Provide a compensation and benefit overview of current base salaries in comparison to a multi-market environment including campus, AOA, and local market.

b. Phase II: Completed
   - Develops a long-term compensation philosophy for the 49er Shops.

c. Phase III: Target completion date: March 15, 2013
   - Construct a 49er Shops market-based base salary and ranges positions by job classification and Fair Labor Standards Act exemption status.

d. Phase IV: Anticipated implementation date: July 1, 2013
   - Provides a pay-to-market gap analysis with recommendations for a two- to three-year strategy for action for individual and group compensation.

Estimated date of completion is July 1, 2013.

RETIREE HEALTH BENEFITS

Recommendation 10

We recommend that Shops develop and implement written procedures to address the administration and processing of retiree health benefits.
Campus Response

The Shops currently administers specific tasks for the processing and coordination of retiree health benefits with healthcare providers, insurance companies, and the Public Employees Retirement System. These existing practices will be documented into a single retiree benefit administrative procedure. Estimated date of completion for this item is April 30, 2013.

CASH RECEIPTS AND HANDLING

Recommendation 11

We recommend that Shops ensure that:

a. All future bank reconciliations are completed in a timely manner.
b. Any outstanding checks more than 180 days old are voided.

Campus Response

a. We concur. The Shops updated its monthly closing guidelines, effective January 1, 2013, to include bank reconciliation completion prior to the next monthly closing cycle. Average cycle time for the last six months (excluding holiday closure) has been reduced to 28 days.

b. We concur. The Shops updated its accounts payable procedure manual to reflect that all outstanding checks over 180 days old are to be voided.

Corrective action on this item is complete.

FEES, REVENUES, AND RECEIVABLES

COLLECTIONS

Recommendation 12

We recommend that Shops:

a. Perform and document collection and follow-up activity for delinquent accounts receivable to facilitate collection or support account write-off.

b. Ensure that collected payments are properly applied to the corresponding accounts receivables.

Campus Response

a. We concur. The majority of items in question have already been written off to date. The Shops will improve procedures to document collection and follow-up activity to facilitate collection or support account write-off.
b. We concur. We will review our current separation of duties procedures to ensure consistency in accounts receivable postings.

Estimated date of completion is July 1, 2013.

WRITE-OFFS

Recommendation 13

We recommend that Shops ensure that:

a. Long-outstanding accounts receivables are written off in a timely manner.
b. Only authorized items are purchased through rehabilitation program accounts.

Campus Response

a. We concur. The Shops Accounts Receivable Procedures Manual has been updated to reflect specific time frames for initiating reviews of outstanding receivables in excess of 90 days with a 365-day limit before being written off.

b. This issue no longer exists and was a fallout from either the previous point-of-sale system and/or missing control fields for point-of-sale approval. The accounts have since been written off.

When setting up new rehabilitation program accounts, current procedure calls for accounts receivable staff to establish/restrict items within the point-of-sale system via “DCC” codes. When confronted with an unauthorized transaction at the register, the customer is denied the transaction and redirected to the accounts receivable department for resolution with the program administrator. This procedure has been in effect prior to 2012.

Corrective action on this item is complete.

PURCHASING AND ACCOUNTS PAYABLE

Recommendation 14

We recommend that Shops:

a. Promptly remit the cited unclaimed checks to the state.

b. Develop and implement written policies and procedures to ensure timely escheatment of unclaimed checks to the state in accordance with the Code of Civil Procedure.

Campus Response

a. Upon further analysis by the Shops, the cited unclaimed checks included items carried over from an accounting system conversion, duplicate checks, checks that have been reissued, mis-issued checks as well as those that should have been voided. The latter comprised less than $1,500 and will be escheated to the state.
b. We concur. The Shops will approve a written escheatment policy pursuant to California unclaimed property law to ensure timely escheatment of unclaimed checks to the state. The policy will be in effect as of April 12, 2013.

Estimated date of completion is April 12, 2013.

PERSONNEL AND PAYROLL

Recommendation 15

We recommend that Shops monitor student employee work hours and document approval for any student employees working more than 20 hours per week during the academic period.

Campus Response

We concur. The Shops has reiterated its policy on student employee working hours through a human resources communication dated March 6, 2013. Effective as of this date, human resources will monitor student hours accordingly and review for exception. Corrective action on this item is complete.

COMMERCIAL OPERATIONS

CATERING

Recommendation 16

We recommend that Shops ensure that:

a. Beer and wine clearance request forms are maintained on file for all events where alcoholic beverages are served.

b. Certificates of insurance are obtained for non-university events.

c. Signed catering contracts are maintained on file.

Campus Response

We concur. The Shops revised the catering terms agreement and practice to include the above recommendations with files to be maintained. Staff in charge of handling these files has been informed accordingly. Corrective action on this item is complete.

EVENT SALES

Recommendation 17

We recommend that Shops:
a. Perform inventory counts for all merchandise at the start of sale and for all remaining merchandise at the end of all special events.

b. Account for any merchandise added to the inventory during special events.

c. Complete a reconciliation of merchandise inventory to cash receipts and sales recorded to the general ledger for all special events.

**Campus Response**

We concur. To address this one-time incident and possible future need to conduct remote retail merchandise sales on campus, the Shops developed procedures to track inventory and sales activity at remote locations. Corrective action on this item is complete.

**INVENTORY**

**Recommendation 18**

We recommend that Shops establish a system to formally calculate, identify, monitor, and mitigate factors contributing to inventory losses and shrinkage at its six convenience stores.

**Campus Response**

In 2012, the Shops transitioned C-Stores from their bookstore retail point-of-sale (POS) system (WinPrism) to their food services point-of-sale system (Micros) due to poor sales transaction performance. However, Micros did not provide similarly capable back office support for ongoing evaluation of margin rates, cost of goods and inventory evaluation.

To address this shortcoming, the Shops purchased a point-of-sale interface from Computrition and installed the program on February 5, 2013. Procedures and process documentation are currently being developed for the reporting and tracking of C-Store inventory. Estimated date of completion is April 12, 2013.

**INFORMATION TECHNOLOGY**

**Recommendation 19**

We recommend that Shops develop a written IT DRP.

**Campus Response**

We concur. The additional requirement for a written DRP was never brought forth in prior CSU audits and thus not addressed. To comply with this recommendation the Shops will compile currently existing IT support documentation into a single IT DRP to complement the existing business continuity plan. Estimated date of completion is April 12, 2013.
ASSOCIATED STUDENTS, CALIFORNIA STATE UNIVERSITY, LONG BEACH

OPERATIONAL COMPLIANCE

Recommendation 20

We recommend that AS ensure that annual conflict-of-interest statements are obtained from all board members.

Campus Response

We concur. This was a rare oversight due to the mid-year replacement of two board members who resigned before their term had ended. Stricter enforcement of the existing guidelines have been put in place to make sure that conflict-of-interest statements are part of the orientation process when appointing positions mid-year. Corrective action on this item is complete.

FEES, REVENUES, AND RECEIVABLES

Recommendation 21

We recommend that AS ensure that CDC uncollectible accounts receivable are written off and submitted to a collection agency in a timely manner.

Campus Response

We concur. The AS accounts receivables coordinator did not always follow the AS policy on receivables due to a miscommunication with the CDC. The accounts receivable coordinator has been instructed to follow the AS policy and all past due accounts will be monitored monthly by the accounting manager. Corrective action on this item is complete.

PROPERTY AND EQUIPMENT

ACCOUNTING

Recommendation 22

We recommend that AS ensure that Student Recreation and Wellness Center equipment is appropriately recorded, capitalized, depreciated, and tagged.

Campus Response

We concur. The equipment at the Student Recreation and Wellness Center has now been tagged and appropriately recorded. We note, however, that ownership of the equipment had not been officially transferred to AS at the time of the audit and was still the property of the campus. Corrective action on this item has been completed.
ADMINISTRATION

Recommendation 23

We recommend that AS implement a review process to ensure that asset tag numbers are updated correctly in the inventory system.

Campus Response

We concur. During the audit, AS was in the process of updating its inventory tagging system with a bar code tagging system. There were some assets that had not been changed over yet and still carried the old tags. All of our assets have been tagged with the current bar code system tags. Corrective action on this item has been completed.

INFORMATION TECHNOLOGY

ACCEPTABLE USE POLICY

Recommendation 24

We recommend that AS update the current AUP policy to include provisions for illegal file sharing and protection of copyrighted material and require employees to sign an appropriate AUP statement.

Campus Response

We concur. AS will adopt the campus AUP policy. This policy will be distributed to all AS employees, and acknowledgments of receipt will be placed into their personnel files. Estimated date of completion is March 31, 2013.

ACCESS REMOVAL

Recommendation 25

We recommend that AS improve termination procedures to ensure that system access is removed from terminated and transferred employees in a timely manner.

Campus Response

We concur. AS has added the information technology manager to the exit interview process. He or she will be the last to sign off and will remove all access to our systems at that point. Corrective action on this item is complete.

BACKUP POWER

Recommendation 26

We recommend that AS provide adequate backup power for all financially significant applications.
Campus Response

We concur. However, for the following reasons, the campus is willing to accept the risk inherent in not having adequate backup power for all financially significant applications: The UPS unit needed to supply the proper backup utility will not fit into the space next to the server in the current server room; the wall that is currently dividing the room will need to be removed; and the existing telecom wiring will need to be transferred to another wall and the electrical outlets will need to be upgraded and moved. Due to the high cost of this remodel, AS is in the process of evaluating a relocation of the server room.

PHYSICAL SECURITY

Recommendation 27

We recommend that AS secure the data room windows that could potentially allow for unauthorized entry.

Campus Response

We concur. However, for the following reasons, the campus is willing to accept the risk inherent with the server room windows; three windows will have to be removed, the wall reframed, dry walled, and painted; and the HVAC system to keep the server room cool would need to be upgraded as well, since the re-wallling of the windows will increase the room temperature. Due to the high cost of this remodel, AS is in the process of evaluating a relocation of the server room.
April 17, 2013

MEMORANDUM

TO: Mr. Larry Mandel
University Auditor

FROM: Timothy P. White
Chancellor

SUBJECT: Draft Final Report 12-06 on Auxiliary Organizations,
California State University, Long Beach

In response to your memorandum of April 17, 2013, I accept the response as submitted with the draft final report on Auxiliary Organizations, California State University, Long Beach.

TPW/amd