AUXILIARY ORGANIZATIONS
SAN DIEGO STATE UNIVERSITY

Audit Report 13-08
April 9, 2014

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BOARD OF TRUSTEES
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ABBREVIATIONS

AS
ARC
CFO
CSU
EO
HR
ICSUAM
IS
ISO
IT
MBAC
PI
Research Foundation
RFIN
SDSU
Shops

Associated Students, San Diego State University
Aztec Recreation Center
Chief Financial Officer
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Human Resources
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Resolution of the Committee on Finance
San Diego State University
Aztec Shops, Ltd.
EXECUTIVE SUMMARY

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

San Diego State University (SDSU) management is responsible for establishing and maintaining an adequate system of internal compliance/internal control and assuring that each of its auxiliary organizations similarly establishes such a system. This responsibility, in accordance with California Code of Regulations, Title 5, Section 42402 et seq. and Executive Order 698, Board of Trustees Policy for The California State University Auxiliary Organizations et seq., includes requiring the documentation of internal control, communicating requirements to employees, and assuring that its system of internal compliance/internal control is functioning as prescribed. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures.

The objectives of a system of internal compliance/internal control are to provide management with reasonable, but not absolute, assurance that:

- Auxiliary operations are conducted in accordance with policies and procedures established in the State Administrative Manual, Education Code, Title 5, and Trustee policy.
- Assets are adequately safeguarded against loss from unauthorized use or disposition.
- Transactions are executed in accordance with management’s authorization and recorded properly to permit the timely preparation of reliable financial statements.

We visited the SDSU campus and its auxiliary organizations from November 4, 2013, through December 13, 2013, and made a study and evaluation of the system of internal compliance/internal control in effect as of December 13, 2013. This report represents our triennial review.

In our opinion, except for the effect of the weaknesses described below, the fiscal, operational, and administrative controls at the SDSU campus as of December 13, 2013, taken as a whole, were sufficient to meet the objectives stated above and in the “Purpose” section of this report. An area of concern is contracts and grants.

In our opinion, the fiscal, operational, and administrative controls in effect at the San Diego State University Research Foundation as of December 13, 2013, taken as a whole, were sufficient to meet the objectives stated above and in the “Purpose” section of this report.

In our opinion, except for the effect of the weaknesses described below, the fiscal, operational, and administrative controls at The Campanile Foundation as of December 13, 2013, taken as a whole, were sufficient to meet the objectives stated above and in the “Purpose” section of this report. An area of concern is fees, revenues and receivables.
In our opinion, except for the effect of the weaknesses described below, the fiscal, operational, and administrative controls at Aztec Shops, Ltd. as of December 13, 2013, taken as a whole, were sufficient to meet the objectives stated above and in the “Purpose” section of this report. Areas of concern include: fees, revenue, and receivables and purchasing and accounts payable.

In our opinion, except for the effect of the weaknesses described below, the fiscal, operational, and administrative controls at Associated Students, San Diego State University as of December 13, 2013, taken as a whole, were sufficient to meet the objectives stated above and in the “Purpose” section of this report. Areas of concern include: cash receipts and handling; fees, revenue, and receivables; property and equipment; and information technology.

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**

**CONTRACTS AND GRANTS [12]**

Campus administration of conflict-of-interest statements needed improvement. For example, the campus did not have written conflict-of-interest policies and procedures for non-governmental sponsors that included requirements and responsibilities for reviewing statement of economic interest forms, managing conflicts of interest, and enforcing disclosure requirements, and one principal investigator (PI) working on a non-governmental grant did not complete a statement of economic interest form. Additionally, the campus did not always provide ethics training to PIs involved in San Diego State University Research Foundation (Research Foundation) contracts and grants.

**INFORMATION TECHNOLOGY [14]**

The campus had not trained all auxiliary employees with computer access in information security awareness.
EXECUTIVE SUMMARY

SAN DIEGO STATE UNIVERSITY RESEARCH FOUNDATION

PERSONNEL AND PAYROLL [15]

New hires at the Research Foundation did not always sign I-9 forms at the time of hire, and the Research Foundation did not always certify I-9 forms within three business days of new employees’ first day of work.

THE CAMPANILE FOUNDATION

FEES, REVENUES, AND RECEIVABLES [16]

The Campanile Foundation did not perform independent reconciliations between its donor database and the Research Foundation’s general ledger accounting system for FY 2010/11 and 2011/12. This is a repeat finding from the prior Auxiliary Organizations audit. Additionally, the Campanile Foundation did not perform a documented dual review of all matching gifts during the acceptance process to ensure that funds were designated in accordance with donor intent.

INFORMATION TECHNOLOGY [17]

User access reviews for the Campanile Foundation systems needed improvement. Specifically, documented periodic reviews of user access to level 1 data in systems and applications were based off of access request forms, or approved access, rather than system listings of user access privileges granted.

AZTEC SHOPS, LTD.

OPERATING AND ADMINISTRATIVE AGREEMENTS [19]

Agreements between Aztec Shops, Ltd. (Shops) and the campus were not always fully executed in a timely manner.

FEES, REVENUES, AND RECEIVABLES [19]

Administration of Shops accounts receivable collections needed improvement. For example, collection and follow-up activity was not always performed and documented to facilitate collection or support account write-off, and credit balances were not always investigated or resolved in a timely manner.

PURCHASING AND ACCOUNTS PAYABLE [21]

Shops did not always require the submission of travel authorization forms documenting advance approval of all travel and related expenses to be incurred. Additionally, approved credit and single purchase limits for Shops procurement cards did not always match actual limits.
EXECUTIVE SUMMARY

PROPERTY AND EQUIPMENT [23]

Shops’ capitalized assets could not always be located.

INFORMATION TECHNOLOGY [23]

User access reviews for the Shops required improvement. Specifically, documented periodic reviews of user access to level 1 data in systems and applications were based off of access request forms, or approved access, rather than system listings of user access privileges granted.

ASSOCIATED STUDENTS, SAN DIEGO STATE UNIVERSITY

OPERATIONAL COMPLIANCE [25]

Associated Students, San Diego State University (AS) did not obtain signed annual conflict-of-interest statements from all board members and employees.

SEGREGATION OF DUTIES [26]

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

CASH RECEIPTS AND HANDLING [26]

AS cashiering operations at the Aztec Recreation Center (ARC), Viejas Arena, Mission Bay Aquatic Center (MBAC), Daily Aztec, and AS Business Office required improvement. For example, at the ARC and Viejas Arena, petty cash funds were commingled with change funds; the Daily Aztec received cash receipts even though it had not been formally approved as a cash-handling location, and checks were not restrictively endorsed immediately upon receipt; ARC cash tills were not adequately secured, as the keys were stored inside the tills; MBAC daily cash receipts were not independently reconciled prior to their deposit; and AS Business Office student organization cash receipts were not pre-numbered.

FEES, REVENUES, AND RECEIVABLES [28]

Administration of AS accounts receivable write-offs needed improvement. Specifically, written policies and procedures had not been developed to address the reporting and write-off of uncollectible accounts receivable, and write-offs were not supported by documented approvals.

PURCHASING AND ACCOUNTS PAYABLE [29]

AS did not always follow single transaction limit policies for procurement cards.
EXECUTIVE SUMMARY

PROPERTY AND EQUIPMENT [30]

Administration of AS property and equipment needed improvement. For example, disposals were recorded to the fixed asset records once annually, instead of at the time of disposal or at least quarterly, and equipment disposals were not always recorded within the same fiscal year.

INFORMATION TECHNOLOGY [31]

User access reviews for AS systems required improvement. Specifically, documented periodic reviews of user access to level1 data in systems and applications were based off of access request forms, or approved access, rather than system listings of user access privileges granted. Additionally, AS did not ensure that the server with the timekeeping system, which contained protected information, was appropriately segmented from AS user computers.
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 Audit and Advisory Services 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 Integrated 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.

San Diego State University Research Foundation
The San Diego State University Research Foundation (Research Foundation) was established in 1943 as a non-profit corporation for the purpose of furthering educational, research, and community services of San Diego State University (SDSU). The Research Foundation performs services that are vital to students, faculty, staff, and the entire campus community, including administration of grants and contracts; development and management of major centers, institutes, community partnerships, and programs; administration of student scholarships and loan funds; and financial management and investment of gifts, trusts, and endowments, most on behalf of The Campanile Foundation. The Research Foundation also acquires, develops, and manages real property, enabling the provision of space for grant and contract activity. Further, the Research Foundation has financial oversight of the KPBS public broadcasting television and radio stations. The Research Foundation is governed by a board of directors composed of representatives from the faculty, community, campus administration, and student body.

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

Aztec Shops, Ltd.
Aztec Shops, Ltd. (Shops) was established in 1931 as a non-profit public benefit corporation to operate retail and commercial operations in support of the university’s mission. Shops operates the SDSU Bookstore, which has one of the highest sales volumes of all campus bookstores in the country, and is also responsible for all restaurants and other dining service outlets on the SDSU campus, including the meal plan program, residence hall dining programs, franchised and individually branded restaurants, convenience stores, and catering. Further, Shops operates a satellite bookstore at the SDSU branch campus in Calexico; the Road Scholar program; University Towers; Montezuma Publishing; Aztec Shops
Concessions at campus arenas, theaters, and stadiums; and ATM and vending machine services on campus. Shops also acquires, develops, and manages real property, enabling the leasing of property to the university and other commercial entities, and oversees some student housing. Shops is governed by a board of directors composed of representatives from the campus administration, faculty, alumni, student body, and community.

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

PURPOSE

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

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

SCOPE AND METHODOLOGY

Our study and evaluation were conducted in accordance with the International Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors and included the audit tests we considered necessary in determining whether fiscal, operational, 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, 2012, to December 13, 2013. Our primary focus was on internal compliance/internal control.
Specifically, we reviewed and tested:

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

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

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

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

**San Diego State University Research Foundation**
- Operating and Administrative Agreements
- Facilities Agreements
- Corporate Governance
- Fiscal Compliance
- Operational Compliance
- Program Compliance
- Segregation of Duties
- Cash Receipts and Handling
- Investments
- Fees, Revenues, and Receivables
- Purchasing and Accounts Payable
- Personnel and Payroll
- Property and Equipment
- Trusts and Other Liabilities
- Contracts and Grants
- Auxiliary Programs
- Information Technology

**The Campanile Foundation**
- Operating and Administrative Agreements
The Campanile Foundation (cont.)
- Facilities Agreements
- Corporate Governance
- Fiscal Compliance
- Operational Compliance
- Program Compliance
- Segregation of Duties
- Cash Receipts and Handling
- Investments
- Fees, Revenues, and Receivables
- Purchasing and Accounts Payable
- Trusts and Other Liabilities
- Auxiliary Programs
- Information Technology

Aztec Shops, Ltd.
- Operating and Administrative Agreements
- Facilities Agreements
- Corporate Governance
- Fiscal Compliance
- Operational Compliance
- Program Compliance
- Segregation of Duties
- Cash Receipts and Handling
- Investments
- Fees, Revenues, and Receivables
- Purchasing and Accounts Payable
- Personnel and Payroll
- Property and Equipment
- Trusts and Other Liabilities
- Auxiliary Programs
- Information Technology

Associated Students, San Diego State University
- Operating and Administrative Agreements
- Facilities Agreements
- Corporate Governance
- Fiscal Compliance
- Operational Compliance
- Program Compliance
- Segregation of Duties
- Cash Receipts and Handling
- Investments
- Fees, Revenues, and Receivables
- Purchasing and Accounts Payable
We have not performed any auditing procedures beyond December 13, 2013. 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

CONTRACTS AND GRANTS

CONFLICT OF INTEREST

Campus administration of conflict-of-interest statements needed improvement.

We found that:

- The campus did not have written conflict-of-interest policies and procedures for non-governmental sponsors that included requirements and responsibilities for reviewing statement of economic interest forms, managing conflicts of interest, and enforcing disclosure requirements.

- For ten contracts and grants we reviewed, one principal investigator (PI) working on a non-governmental grant did not complete a statement of economic interest form.

Executive Order (EO) 890, *Administration of Grants and Contracts in Support of Sponsored Programs*, dated January 7, 2004, states that each campus shall establish a written policy on the management of sponsored programs that incorporates the components outlined in this EO and that is consistent with policies relating to risk management, environmental health and safety, conflicts of interest, research misconduct and other applicable California State University (CSU) and campus policies.

Coded memorandum Human Resources (HR) 2005-38, *Conflict of Interest Update – PI*, dated August 30, 2005, states that presidents are responsible for ensuring a procedure is in place for independent substantive review when disclosure indicates a financial interest exists, including the designation or establishment of an independent review committee to conduct the review, and criteria for the conduct of such a review. The independent review committee shall have at least three individuals, including a faculty or staff person from another department or occupational area, an administrator, and a member at large. If further states that the CSU PIs are required to report financial interests if they have principal responsibility for a research project funded or supported, in whole or in part, by a contract or grant from a nongovernmental entity. PIs are required to file an initial statement prior to acceptance of a contract, grant, or gift, an interim statement within 30 days after funding is renewed, and a project completion statement within 90 days after gift funds are exhausted, or the research project is completed, pursuant to CSU policy.

The campus director of research affairs stated that procedures for reviewing and managing conflict of interest for non-governmental sponsors were in place, but due to an anticipated update to the CSU policy on conflict of interest, the update to the campus policy was placed on hold. She further stated that the campus had experienced turnover in the key positions responsible for conflict-of-interest policies and was therefore unaware that the CSU had imposed more restrictive language on the conflict-of-interest requirements than those set forth by the State of California Fair Political Practices Commission form 700U guidelines.
Inadequate administration of conflict-of-interest statements increases the risk of non-compliance with CSU requirements and could lead to possible regulatory scrutiny.

**Recommendation 1**

We recommend that the campus:

a. Develop and document conflict-of-interest policies and procedures for non-governmental sponsors that include requirements and responsibilities for reviewing statement of economic interest forms, managing conflicts of interest, and enforcing disclosure requirements.

b. Obtain completed conflict-of-interest forms from all PIs working on non-governmental grants.

**Campus Response**

We concur. The campus will:


b. Obtain completed conflict-of-interest forms from all PIs working on non-governmental grants by September 30, 2014.

**TRAINING**

The campus did not always provide ethics training to PIs involved in San Diego State University Research Foundation (Research Foundation) contracts and grants.

We reviewed the training for five PIs working on non-governmental grants, and we found that three PIs had not completed the CSU-required ethics training.

Coded memorandum HR 2005-38, *Conflict of Interest Update – Principal Investigators*, dated August 30, 2005, states that PIs must complete ethics training within six months of receiving the grant. Subsequent training is required at least once during each consecutive period of two calendar years that the grant is in place.

The campus director of research affairs stated that the requirement for CSU ethics training was placed on hold pending issuance of an anticipated update to the CSU policy. She further stated that, in the interim, the campus continued to follow the guidelines of the State of California Fair Political Practices Commission stated in form 700U, which did not include a training requirement.

Inadequate training of PIs increases the risk of non-compliance with CSU, federal, and state regulations and increases the risk that errors, inconsistencies, misunderstandings, or misappropriation may occur.
**Recommendation 2**

We recommend that the campus provide ethics training to all PIs involved in Research Foundation contracts and grants.

**Campus Response**

We concur. The campus will provide ethics training to all PIs by September 30, 2014.

**INFORMATION TECHNOLOGY**

The campus had not trained all auxiliary employees with computer access in information security awareness.

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 information security officer (ISO) stated that the university had been waiting for the new CSU information security training to be released. She further stated that in the meantime, the focus had been on providing industry-specific training, such as Health Insurance Portability and Accountability Act training, in order to mitigate key risks.

Lack of information security awareness training for all auxiliary employees with access to computer resources 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 3**

We recommend that the campus train all auxiliary employees with computer access in information security awareness.

**Campus Response**

We concur. The campus will train all auxiliary employees with computer access in information security awareness by September 30, 2014.
SAN DIEGO STATE UNIVERSITY RESEARCH FOUNDATION

PERSONNEL AND PAYROLL

New hires at the Research Foundation did not always sign I-9 forms at the time of hire, and the Research Foundation did not always certify I-9 forms within three business days of new employees’ first day of work.

We reviewed 20 new hires, and we found that in three instances, I-9 forms were not signed by the employee at the time of hire, nor were they reviewed and verified by the employer within three business days of hire.

Department of Homeland Security, U.S. Citizenship and Immigration Services, *Handbook for Employers*, states that employers should ensure that the employee completes Section 1 of Form I-9 at the time of hire. “Hire” means when employment in exchange for wages or other remuneration begins. The time of hire is noted on the form as the first day of employment and employees may complete Section 1 of Form I-9 before the time of hire, but no earlier than acceptance of the job offer. It further states that employers should review the employee’s document(s) and fully complete Section 2 of Form I-9 within three business days of the hire.

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

The Research Foundation associate director of HR stated that despite efforts to educate the academic community regarding the need for completion of I-9 forms within three business days, faculty members sometimes allowed individuals to begin work at their facilities before HR had been notified of the hire, and new hires sometimes failed to report to the centralized HR department in a timely manner.

Untimely completion and certification of employment eligibility increases the risk of fines and penalties.

**Recommendation 4**

We recommend that the Research Foundation complete and certify I-9 forms for new employees in a timely manner.

**Campus Response**

We concur. The Research Foundation will implement a process by October 31, 2014, to ensure I-9 forms are completed and certified for new employees in a timely manner.
THE CAMPANILE FOUNDATION

FEES, REVENUES, AND RECEIVABLES

DONOR SYSTEM RECONCILIATION

The Campanile Foundation did not perform independent reconciliations between its donor database and the Research Foundation’s general ledger accounting system for FY 2010/11 and 2011/12. This is a repeat finding from the prior Auxiliary Organizations audit.

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

The Campanile Foundation CFO stated that independent reconciliations were not performed for FY 2010/11 and 2011/12 because procedures were still being revised at the time. She further stated that the Campanile Foundation had performed the reconciliation for FY 2012/13.

Inadequate administration of gift processing increases the risk of inconsistencies and misunderstandings in survey and reporting numbers.

Recommendation 5

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

Campus Response

We concur. Procedures have been revised and reconciliations were performed for FY 2012/13 of the donor database to the Research Foundation’s general ledger accounting system. Reconciliations will continue to be performed annually.

MATCHING GIFTS

The Campanile Foundation did not perform a documented dual review of all matching gifts during the acceptance process to ensure that funds were designated in accordance with donor intent.

We reviewed ten corporate matching gifts received between February 2012 and August 2013, and we found that in seven instances, a documented dual review of matching gifts was not performed.

The Campanile Foundation Matching Gift Policy states that to ensure that matching funds are deposited into the correct account, the gift processor completes the substitute matching gift form, which is then reviewed and approved by either the director of gift administration or the CFO of The Campanile Foundation.
The *Compilation of Policies and Procedures for California State University Auxiliary Organizations* sets sound business practice guidelines for auxiliary organizations operating within the CSU system. Section 8.9.3, *Donations, Program Service Fees, Other Income*, states that the auxiliary should establish a written recordkeeping system that enables gifts to be properly received, recorded, and acknowledged in accordance with donor restrictions and other requirements.

Title 5 §42401 and §42402 indicate that the campus president shall require that auxiliary organizations operate in conformity with policy of the Board of Trustees and the campus. One of the objectives of the auxiliary organizations is to provide fiscal procedures and management systems that allow effective coordination of the auxiliary activities with the campus in accordance with sound business practices. Sound business practice mandates that matching gifts undergo a documented dual review process to ensure that funds are appropriately deposited to an eligible recipient in accordance with corporate donor requirements.

The Campanile Foundation CFO stated that the Campanile Foundation conducted dual reviews; however, in the cited instances, the reviews were not documented.

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

**Recommendation 6**

We recommend that the Campanile Foundation perform a documented dual review of all matching gifts during the acceptance process to ensure that funds are designated in accordance with donor intent.

**Campus Response**

We concur. Documented dual reviews for matching gifts will be completed by June 30, 2014.

**INFORMATION TECHNOLOGY**

User access reviews for the Campanile Foundation systems needed improvement.

We found that documented periodic reviews of user access to level 1 data in systems and applications were based off of access request forms, or approved access, rather than system listings of user access privileges granted.

San Diego State University (SDSU) Information Security (IS) Plan 3.6.1.3, *Reviewing, Disabling, Reassigning, or Deleting Accounts*, dated February 2013, states that access-approving managers should be notified whenever an employee is terminated and should periodically review access to detect unauthorized access or user access that exceeds an employee’s current job responsibilities. Access to critical information assets or assets containing protected level 1 or 2 data must be reviewed annually, and the review must be documented.
ICSUAM §8060.0, *Access Control*, dated April 19, 2010, states that campuses must develop procedures to detect unauthorized access and privileges assigned to authorized users that exceed the required access rights needed to perform their job functions. Appropriate campus managers and data owners must review, at least annually, user access rights to information assets containing protected data. The results of the review must be documented.

ICSUAM §8060.200, *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.

The campus ISO stated that auxiliary management may not have been aware that documented periodic reviews of user access to level 1 data in systems and applications had to be based on system listings of user access privileges granted, and the campus had not implemented a process to ensure compliance.

Lack of periodic, documented management reviews of user access privileges for all systems with protected data based on system listings of user access privileges granted increases the risk of inappropriate access, compromised production systems, and potential disclosure of confidential data.

**Recommendation 7**

We recommend that the Campanile Foundation conduct periodic, documented management reviews of user access privileges within all systems with protected data based on system listings of user access privileges granted.

**Campus Response**

We concur. The Campanile Foundation will conduct documented management reviews of user access privileges within all systems with protected data by June 30, 2014.
AZTEC SHOPS, LTD.

OPERATING AND ADMINISTRATIVE AGREEMENTS

Agreements between Aztec Shops, Ltd. (Shops) and the campus were not always fully executed in a timely manner.

We reviewed 15 agreements and found that five internal agreements were signed after their effective dates. Execution delays ranged from 25 to 173 days.

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

The Shops senior director of administrative services stated that the delays were the result of administrative issues with the campus.

Untimely execution of written agreements increases the risk of misunderstandings and miscommunication regarding rights and responsibilities and subjects the auxiliaries and CSU to potential liability.

Recommendation 8

We recommend that Shops fully execute all agreements with the campus in a timely manner.

Campus Response

We concur. To ensure all campus agreements are executed in a timely manner, procedures will be revised by June 30, 2014.

FEES, REVENUES, AND RECEIVABLES

Administration of Shops accounts receivable collections needed improvement.

We reviewed ten delinquent accounts receivable from the accounts receivable aging report as of September 22, 2013, and we found that:

- In one instance, collection and follow-up activity was not performed and documented to facilitate collection or support account write-off. The delinquent account receivable, totaling $2,147, was outstanding for 740 days.
In two instances, credit balances totaling $3,596 were outstanding from 2,431 to 3,180 days and were not investigated or resolved in a timely manner.

Shops *Accounts Receivable Procedures* state that accounting should ensure that all accounts receivable are promptly and accurately credited with payments, that payments are properly applied to the correct invoice, and that any discrepancies are immediately reconciled. It further states that the financial services staff should work diligently with the customer to satisfactorily resolve any problems.

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 director of financial services/controller stated that the delinquent accounts receivable were identified and reviewed, but procedures were not in place to document collection efforts. She further stated that the credit balances were related to marketing and were being held until the bookstore had a need for the funds.

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 9**

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. Investigate and resolve credit balances in a timely manner.

**Campus Response**

We concur. Shops will perform and document collection and follow-up activity for delinquent accounts receivable by June 30, 2014. Shops will also investigate and resolve any credit balances.
PURCHASING AND ACCOUNTS PAYABLE

TRAVEL

Shops did not always require the submission of travel authorization forms documenting advance approval of all travel and related expenses to be incurred.

We reviewed ten travel disbursements, and we found that none required a travel authorization form documenting advance approval of travel and related expenditures to be incurred.

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

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

The Shops director of financial services/controller stated that the current travel policy did not require a travel authorization form documenting advance approval of travel and related expenditures to be incurred. She further stated that all travel was pre-approved through the annual budget process, and actual reimbursements were approved by the appropriate director or manager after the travel.

The absence of documented travel approval increases the risk of errors, irregularities, and misappropriation of funds.

**Recommendation 10**

We recommend that Shops require the submission of travel authorization forms documenting advance approval of all travel and related expenses to be incurred.

**Campus Response**

We concur. Shops will revise its policy by June 30, 2014, and require travel authorization forms documenting advance approval of all travel.

PROCUREMENT CARDS

Approved credit and single purchase limits for Shops procurement cards did not always match actual limits.
We reviewed seven employee procurement card statements for September and October 2013, and we found that:

- In one instance, an actual credit limit exceeded the approved credit limit by $4,951.
- In one instance, an actual single purchase limit exceeded the approved single purchase limit by $390.

Shops Purchase Card Policy states that the total value of the transaction shall not exceed a cardholder’s single purchase limit. Payment for a purchase will not be split into multiple transactions to stay within the single purchase limit. It also states that the credit limit must be adhered to.

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

Title 5 §42401 and §42402 indicate that the campus president shall require that auxiliary organizations operate in conformity with policy of the Board of Trustees and the campus. One of the objectives of the auxiliary organizations is to provide fiscal procedures and management systems that allow effective coordination of the auxiliary activities with the campus in accordance with sound business practices. Sound business practice mandates that monthly credit and single purchase limits on procurement cards be enforced.

The Shops director of financial services/controller stated that in the first instance, the warehouse manager’s monthly credit limit was temporarily increased due to the opening of the University Towers kitchen. She further stated that approval was given over the phone but had not been documented by her office. She added that in the second instance, the single purchase limit had been changed due to the employee’s new position, but the paperwork had not been updated due to oversight.

Inadequate control over procurement cards increases the risk of fraud or the misuse of procurement cards.

**Recommendation 11**

We recommend that Shops update approved credit and single purchase limits for procurement cards to match actual limits.

**Campus Response**

We concur. Shops will review and update approved credit and single purchase limits for procurement cards to match actual limits by June 30, 2014.
PROPERTY AND EQUIPMENT

Shops capitalized assets could not always be located.

We reviewed ten capitalized assets for physical verification from the June 30, 2013, property and equipment listing, and we found that three assets, worth a total of $2,472, could not be located.

The *Compilation of Policies and Procedures for California State University Auxiliary Organizations* sets sound business practice guidelines for auxiliary organizations operating within the CSU system. Section 8.9.7, *Property and Equipment*, states that the auxiliary should establish a written system that ensures physical inspection of property and equipment on a service life schedule, reconciliation to the general ledger on a timely basis with review by management, and the proper 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 over property and equipment.

The Shops director of financial services/controller stated that the cited assets were fully depreciated and had been disposed of by different departments, but their disposal was not reported to financial services for removal from the fixed assets system.

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

**Recommendation 12**

We recommend that Shops promptly locate the missing assets and adjust the property and equipment listing as necessary.

**Campus Response**

We concur. Shops will implement procedures to locate missing assets promptly and will update its property and equipment listing by June 30, 2014.

INFORMATION TECHNOLOGY

User access reviews for Shops needed improvement.

We found that documented periodic reviews of user access to level 1 data in systems and applications were based off of access request forms or approved access, rather than system listings of user access privileges granted.
SDSU IS Plan 3.6.1.3, *Reviewing, Disabling, Reassigning, or Deleting Accounts*, dated February 2013, states that access-approving managers should be notified whenever an employee is terminated and should periodically review access to detect unauthorized access or user access that exceeds an employee’s current job responsibilities. Access to critical information assets or assets containing protected level 1 or 2 data must be reviewed annually, and the review must be documented.

ICSUAM §8060.0, *Access Control*, dated April 19, 2010, states that campuses must develop procedures to detect unauthorized access and privileges assigned to authorized users that exceed the required access rights needed to perform their job functions. Appropriate campus managers and data owners must review, at least annually, user access rights to information assets containing protected data. The results of the review must be documented.

ICSUAM §8060.200, *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.

The Shops director of IT stated that the auxiliary recently reorganized the IT function, which oversees account access. He further stated that as a result, IT was in the process of assessing and justifying all access to ensure that it was the minimum needed before beginning a routine process to approve existing system accounts.

Lack of periodic, documented management reviews of user access privileges for all systems with protected data based on system listings of user access privileges granted increases the risk of inappropriate access, compromised production systems, and potential disclosure of confidential data.

**Recommendation 13**

We recommend that Shops conduct periodic, documented management reviews of user access privileges within all systems with protected data based on system listings of user access privileges granted.

**Campus Response**

We concur. Shops will conduct documented management reviews of user access privileges within all systems with protected data by June 30, 2014.
ASSOCIATED STUDENTS, SAN DIEGO STATE UNIVERSITY

OPERATIONAL COMPLIANCE

Associated Students, San Diego State University (AS) did not obtain signed annual conflict-of-interest statements from all board members and employees.

We found that AS did not require board members and employees to submit a signed conflict-of-interest statement if reportable conflicts did not exist.

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.

The Internal Revenue Service, Governance and Related Topics 501(c)(3), dated February 4, 2008, and Return of Organization Exempt from Income Tax, Form 900, encourages a charity’s board of directors to adopt and regularly evaluate a written conflict-of-interest policy that requires directors and staff to act solely in the interests of the charity without regard for personal interests; includes written procedures for determining whether a relationship, financial interest, or business affiliation results in a conflict of interest; and prescribes a course of action in the event a conflict of interest is identified.

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 finance director stated that board members and employees were notified via email that they were required to identify and report any conflicts of interest that had arisen from the previous year; however, signed conflict-of-interest statements were not required if there were no conflicts of interest.

Lack of conflict-of-interest statements from all auxiliary board members and employees increases liability for acts contrary to the code.

Recommendation 14

We recommend that AS obtain signed annual conflict-of-interest statements from all board members and employees.

Campus Response

We concur. AS has obtained signed conflict-of-interest statements from its board members and key employees and will continue this practice annually.
SEGREGATION OF DUTIES

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

We found that unclaimed payroll checks were returned to the payroll staff, which processed and printed payroll checks for final distribution.

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

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

The AS finance director stated his belief that front-end payroll processing procedures used to detect errors and irregularities helped minimize the potential risks from segregation of duties concerns that could present themselves on the back end of payroll processing.

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

**Recommendation 15**

We recommend that AS adequately segregate duties and responsibilities related to payroll processing or institute mitigating procedures approved by the campus CFO.

**Campus Response**

We concur. AS will review and adequately segregate its payroll processing duties and responsibilities by July 31, 2014.

CASH RECEIPTS AND HANDLING

AS cashiering operations at the Aztec Recreation Center (ARC), Viejas Arena, Mission Bay Aquatic Center (MBAC), Daily Aztec, and AS Business Office needed improvement.

We found that:

- At the ARC and Viejas Arena, petty cash funds were commingled with change funds.
The Daily Aztec received cash receipts even though it had not been formally approved as a cash-handling location. Additionally, checks at the Daily Aztec were not restrictively endorsed immediately upon receipt.

At the ARC, cash tills were not adequately secured, as the keys were stored inside the tills.

At the MBAC, daily cash receipts were not independently reconciled prior to their deposit.

At the AS Business Office, student organization cash receipts were not pre-numbered.

AS Policy and Procedure Manual Section 10.4, Petty Cash Funds, requires petty cash funds to be kept separate and not commingled with any other funds.

AS Policy and Procedure Manual Section 10.2, Cash Collections and Deposits, states that only those AS divisions approved in writing by the controller or delegate are authorized to collect or receive money for AS, whether from cash sales or from other sources.

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 the 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 petty cash and cash receipts.

The AS finance director stated that the petty cash was commingled with change funds at the ARC and Viejas Arena because it was easier to manage as a single fund instead of two separate funds. He further stated that the Daily Aztec received cash receipts even though it had not been formally approved as a cash-handling location due to oversight, and checks were not restrictively endorsed upon receipt because the Daily Aztec had undergone staff changes, and the new employee was unaware of the need for immediate endorsement of checks. He added that the keys at the ARC were kept in the cash tills only when the cashier was present because the tills were used frequently; the lack of independent cash verification before deposit at the MBAC was due to oversight; and generic receipts were being used temporarily until unique numbered receipts were created at the AS Business Office because AS recently assumed responsibility for managing student organization accounts. He further stated that cash policies and procedures needed to be adjusted to reflect current practices.

Inadequate administration of petty cash and cash receipts increases the risk of loss or misappropriation of funds.
Recommendation 16

We recommend that AS:

a. Separate petty cash funds from change funds at the ARC and Viejas Arena.

b. Obtain formal approval for the Daily Aztec to operate as a cash-handling location, and restrictively endorse checks at the Daily Aztec immediately upon receipt.

c. Adequately secure cash tills at the ARC.

d. Independently reconcile daily cash receipts at the MBAC prior to their deposit.

e. Use pre-numbered receipts at the AS Business Office.

Campus Response

We concur.

a. AS will develop an appropriate policy regarding petty cash and change funds at the ARC and Viejas Arena by July 31, 2014.

b. AS will obtain formal approval for the Daily Aztec to operate as a cash-handling location and restrictively endorse checks at the Daily Aztec immediately upon receipt by July 30, 2014.

c. AS has secured the cash tills at the ARC.

d. AS has implemented a procedure that reconciles daily cash receipts at the MBAC prior to deposit.

e. AS now uses pre-numbered receipts at the AS Business Office.

FEES, REVENUES, AND RECEIVABLES

Administration of AS accounts receivable write-offs needed improvement.

We found that:

- Written policies and procedures had not been developed to address the reporting and write-off of uncollectible accounts receivables.

- Write-offs were not supported by documented approvals.

AS Policy and Procedure Manual Section 5.5, *Collection of Past Due Accounts Procedure*, states that the AS controller has been delegated the responsibility for developing the operating policies and procedures necessary for the reporting and write-off of uncollectible accounts.
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 accounts receivable write-offs.

The AS finance director stated that the lack of written policies and procedures was due to oversight, and accounts receivable write-offs were verbally approved.

Inadequate control over the write-off of uncollectible accounts receivable increases the risk that receivables will not be properly controlled and accurately reflected in auxiliary financial statements.

**Recommendation 17**

We recommend that AS:

a. Develop written policies and procedures to address the reporting and write-off of uncollectible accounts receivable.

b. Support write-offs with documented approvals.

**Campus Response**

We concur. AS will:

a. Develop written policies and procedures to address the reporting and write-off of uncollectible accounts receivable by June 30, 2014.


**PURCHASING AND ACCOUNTS PAYABLE**

AS did not always follow single transaction limit policies for procurement cards.

We reviewed ten employee procurement card statements for July and August 2013, and we noted that one employee circumvented the single transaction limit by splitting a single transaction into two purchases.
AS P-Card policies and procedures state that a cardholder agrees not to engage in stringing or making successive purchases to avoid circumventing the procurement card’s assigned single transaction limit regardless of whether the purchase is with one or several vendors.

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

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

The AS finance director stated that this was an isolated incident.

Inadequate control over procurement cards increases the risk of fraud or the misuse of the cards.

Recommendation 18

We recommend that AS follow single transaction limit policies for procurement cards.

Campus Response

We concur. AS has strengthened its process and now adheres to the single transaction limit policies for procurement cards.

PROPERTY AND EQUIPMENT

Administration of AS property and equipment needed improvement.

We reviewed ten property and equipment disposals, and we found that:

- Disposals were recorded to the fixed asset records once annually, instead of at the time of disposal or at least quarterly.
- In three instances, equipment disposals were not recorded within the same fiscal year.

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

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

The AS finance director stated that limited resources restricted AS from recording disposals more frequently, and the three items cited were not recorded within the same fiscal year due to oversight.

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

**Recommendation 19**

We recommend that AS record property and equipment disposals to the fixed asset records at the time of disposal, or at least quarterly.

**Campus Response**

We concur. AS will require that property and equipment disposals are posted quarterly to the fixed asset records. Revised procedures will be completed by July 31, 2014.

**INFORMATION TECHNOLOGY**

**ACCOUNTING SYSTEM ACCESS**

User access reviews for AS systems needed improvement.

We found that documented periodic reviews of user access to level 1 data in systems and applications were based off of access request forms, or approved access, rather than system listings of user access privileges granted.

SDSU IS Plan 3.6.1.3, *Reviewing, Disabling, Reassigning, or Deleting Accounts*, dated February 2013, states that access-approving managers should be notified whenever an employee is terminated and should periodically review access to detect unauthorized access or user access that exceeds an employee’s current job responsibilities. Access to critical information assets or assets containing protected level 1 or 2 data must be reviewed annually, and the review must be documented.

ICSUAM §8060.0, *Access Control*, dated April 19, 2010, states that campuses must develop procedures to detect unauthorized access and privileges assigned to authorized users that exceed the required access rights needed to perform their job functions. Appropriate campus managers and data
 owners must review, at least annually, user access rights to information assets containing protected
data. The results of the review must be documented.

ICSUAM §8060.200, 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.

The AS IT Systems manager stated that the previous finance director had a periodic checklist to
verify access on a scheduled basis; however, this process was not transitioned to the new finance
director.

Lack of periodic, documented management reviews of user access privileges for all systems with
protected data based on system listings of user access privileges granted increases the risk of
inappropriate access, compromised production systems, and potential disclosure of confidential data.

**Recommendation 20**

We recommend that AS conduct periodic, documented management reviews of user access privileges
within all systems with protected data based on system listings of user access privileges granted.

**Campus Response**

We concur. AS will conduct documented management reviews of user access privileges within all
systems with protected data by September 30, 2014.

**NETWORK SEGMENTATION**

AS did not ensure that the server with the timekeeping system, which contained protected
information, was appropriately segmented from AS user computers.

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.

ICSUAM §8045.300, Information Technology Security, dated April 19, 2010, states that campuses
must appropriately design their networks based on risk, data classification, and access in order to
ensure the confidentiality, integrity and availability of their information assets. Each campus must
implement and regularly review a documented process for transmitting data over the campus network.
This process must include the identification of critical information systems and protected data that is
transmitted through the campus network or is stored on campus computers. Campus processes for
transmitting or storing critical assets and protected data must ensure confidentiality, integrity, and
availability.
The AS IT systems manager stated that plans to migrate to the vendor-hosted version of the timekeeping system were not implemented because the cost of implementation was greater than expected.

Placing servers with sensitive information on the same network as internal systems increases the risk of compromise and unauthorized access to protected data.

**Recommendation 21**

We recommend that AS place the server with the timekeeping system on a separate network segment from AS user computers.

**Campus Response**

We concur. AS will place the server on a separate network segment by September 30, 2014.
**APPENDIX A:**
PERSONNEL CONTACTED

<table>
<thead>
<tr>
<th>Name</th>
<th>Title</th>
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<tbody>
<tr>
<td><strong>CAMPUS</strong></td>
<td></td>
</tr>
<tr>
<td>Elliot Hirshman</td>
<td>President</td>
</tr>
<tr>
<td>Valerie Carter</td>
<td>Director, Audit and Tax</td>
</tr>
<tr>
<td>Edgar Hodge</td>
<td>Director, University Computer Operations</td>
</tr>
<tr>
<td>Lorretta Leavitt</td>
<td>Associate Vice President, Financial Operations</td>
</tr>
<tr>
<td>Crystal Little</td>
<td>Director, Budget and Finance</td>
</tr>
<tr>
<td>Tom McCarron</td>
<td>Vice President, Business and Financial Affairs</td>
</tr>
<tr>
<td>Leon Messenie</td>
<td>Director of Engineering and Information Technology (IT), KPBS</td>
</tr>
<tr>
<td>Vince M. Petronzio</td>
<td>Director of Finance and Accounting, KPBS</td>
</tr>
<tr>
<td>Dena Plemmons</td>
<td>Director, Research Affairs</td>
</tr>
<tr>
<td>Felecia Vlahos</td>
<td>Information Security Officer</td>
</tr>
<tr>
<td><strong>SAN DIEGO STATE UNIVERSITY RESEARCH FOUNDATION</strong></td>
<td></td>
</tr>
<tr>
<td>Melinda Coil</td>
<td>Associate Executive Director and Chief Financial Officer</td>
</tr>
<tr>
<td>Erik Davidson</td>
<td>Director, Investments and Financial Reporting</td>
</tr>
<tr>
<td>Michele Goetz</td>
<td>Associate Executive Director, Sponsored Research Services</td>
</tr>
<tr>
<td>Katherine Ivko</td>
<td>Payment Services Manager</td>
</tr>
<tr>
<td>Victoria Kuebler</td>
<td>Associate Director of Human Resources</td>
</tr>
<tr>
<td>Renee Lechner</td>
<td>Director, Sponsored Research Administration</td>
</tr>
<tr>
<td>Rich Rechif</td>
<td>Director, Finance and Accounting</td>
</tr>
<tr>
<td>Rachel Raynoha</td>
<td>Director, IT</td>
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<tr>
<td>Bob E. Wolfson</td>
<td>Executive Director</td>
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<td><strong>THE CAMPANILE FOUNDATION</strong></td>
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<tr>
<td>Brian Andrews</td>
<td>Director of Gift Administration</td>
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<tr>
<td>Joel Avendano</td>
<td>IT Consultant, University Relations and Development</td>
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<tr>
<td>Mary Ruth Carleton</td>
<td>President and Chief Executive Officer</td>
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<tr>
<td>Travis Clancy</td>
<td>Director of Finance</td>
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<tr>
<td>Jeff Luko</td>
<td>Programmer/Analyst, University Relations and Development</td>
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<tr>
<td>Virginia Parker</td>
<td>Assistant Gift Manager</td>
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<tr>
<td>Sarah Slaughter</td>
<td>Chief Financial Officer</td>
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<tr>
<td>Jose Tagle</td>
<td>Assistant Systems Analyst/Programmer, University Relations and Development</td>
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<td><strong>AZTEC SHOPS, LTD.</strong></td>
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<tr>
<td>Lisa Albers</td>
<td>Director, Financial Services/Controller</td>
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<tr>
<td>Nessa Heubach</td>
<td>Accountant</td>
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<tr>
<td>Jahan Jamshidi</td>
<td>Director, IT</td>
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<tr>
<td>Dory Lee</td>
<td>Assistant Manager, Sales and Audit</td>
</tr>
<tr>
<td>Joanna Lindquist</td>
<td>Accounting Manager</td>
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<tr>
<td>Donna Martens</td>
<td>Senior Accounting Manager</td>
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<tr>
<td>Leah Messenger</td>
<td>Payroll Manager</td>
</tr>
<tr>
<td>H. E. Reichert</td>
<td>Senior Director, Administrative Services</td>
</tr>
<tr>
<td>Martha Speck</td>
<td>Senior Director, Management Services</td>
</tr>
</tbody>
</table>
AZTEC SHOPS, LTD. (CONT.)
Dawn Stoebe  Staff, IT
Barbara Van Meter  Director, Financial Services
Virginia Weckback  Accounts Payable Technician
Gina Wynne  Purchasing Technician

ASSOCIATED STUDENTS, SAN DIEGO STATE UNIVERSITY
Ernest Arreola  Information Technology Systems Manager
Gina Bautista  Accounting Specialist
Barbara Bowen  SDSU Children’s Center Office Supervisor
Christina Brown  Executive Director
Amanda Burgess  Mission Bay Aquatic Center Office and Marketing Supervisor
Carlos Careaga  Finance Director
Vicki Greene  Aztec Recreation Center Member Service Manager
Fran Hasterok  Accounts Receivable Supervisor
Rosie Ramos  Payroll Supervisor
Robin Judd  SDSU Children’s Center Director
Patty Rea  Human Resources Director
Tim Ripke  Viejas Arena Assistant Director
Rico Salgado  Aztec Center Ticket Office Supervisor
Maggie Sanchez  Human Resources Specialist
Jake Siegfried  Aztec Aquaplex Manager
Kevin Waldick  Mission Bay Aquatic Center Assistant Director
Amy Yanez  Accounts Payable Supervisor
Mark Zakrzewski  Aztec Recreation Director
STATEMENT OF INTERNAL CONTROLS

A. INTRODUCTION

Internal accounting and related operational controls established by the State of California, the California State University Board of Trustees, and the Office of the Chancellor are evaluated by the Office of Audit and Advisory Services, 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.
May 08, 2014

Mr. Larry Mandel  
Vice Chancellor and Chief Audit Officer  
Office of Audit and Advisory Services  
The California State University  
401 Golden Shore, 4th Floor  
Long Beach, CA 90802

Dear Mr. Mandel:

Attached is San Diego State University’s response to Audit Report 13-08, Auxiliary Organizations. Documentation of policy and control changes will follow under separate cover.

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

Sincerely,

[Signature]

Tom McCarron  
Vice President and CFO, Business and Financial Affairs

Attachment

c: Elliot Hirshman, President  
Mary Ruth Carleton, Vice President, University Relations and Development  
Agnes Wong Nickerson, Associate Vice President, Financial Operations  
Christina Brown, Executive Director, Associated Students  
Donna Tusack, Chief Executive Officer, Aztec Shops  
Bob Wolfson, Executive Director, San Diego State University Research Foundation  
Valerie Carter, Director, Audit and Tax
AUXILIARY ORGANIZATIONS
SAN DIEGO STATE UNIVERSITY
Audit Report 13-08

CAMPUS

CONTRACTS AND GRANTS

CONFLICT OF INTEREST

Recommendation 1

We recommend that the campus:

a. Develop and document conflict-of-interest policies and procedures for non-governmental sponsors that include requirements and responsibilities for reviewing statement of economic interest forms, managing conflicts of interest, and enforcing disclosure requirements.

b. Obtain completed conflict-of-interest forms from all PIs working on non-governmental grants.

Campus Response

We concur. The campus will:


b. Obtain completed conflict-of-interest forms from all PIs working on non-governmental grants by September 30, 2014.

TRAINING

Recommendation 2

We recommend that the campus provide ethics training to all PIs involved in Research Foundation contracts and grants.

Campus Response

We concur. The campus will provide ethics training to all PIs by September 30, 2014.
INFORMATION TECHNOLOGY

Recommendation 3

We recommend that the campus train all auxiliary employees with computer access in information security awareness.

Campus Response

We concur. The campus will train all auxiliary employees with computer access in information security awareness by September 30, 2014.
SAN DIEGO STATE UNIVERSITY RESEARCH FOUNDATION

PERSONNEL AND PAYROLL

Recommendation 4

We recommend that the Research Foundation complete and certify I-9 forms for new employees in a timely manner.

Campus Response

We concur. The Research Foundation will implement a process, by October 31, 2014, to ensure I-9 forms are completed and certified for new employees in a timely manner.
THE CAMPANILE FOUNDATION

FEES, REVENUES, AND RECEIVABLES

DONOR SYSTEM RECONCILIATION

Recommendation 5

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

Campus Response

We concur. Procedures have been revised and reconciliations were performed for FY 2012/13 of the donor database to the Research Foundation’s general ledger accounting system. Reconciliations will continue to be performed annually.

MATCHING GIFTS

Recommendation 6

We recommend that the Campanile Foundation perform a documented dual review of all matching gifts during the acceptance process to ensure that funds are designated in accordance with donor intent.

Campus Response

We concur. Documented dual reviews for matching gifts will be completed by June 30, 2014.

INFORMATION TECHNOLOGY

Recommendation 7

We recommend that the Campanile Foundation conduct periodic, documented management reviews of user access privileges within all systems with protected data based on system listings of user access privileges granted.

Campus Response

We concur. The Campanile Foundation will conduct documented management reviews of user access privileges within all systems with protected data by June 30, 2014.
**AZTEC SHOPS, LTD.**

**OPERATING AND ADMINISTRATIVE AGREEMENTS**

**Recommendation 8**

We recommend that Shops fully execute all agreements with the campus in a timely manner.

**Campus Response**

We concur. To ensure all campus agreements are executed in a timely manner, procedures will be revised by June 30, 2014.

**FEES, REVENUES, AND RECEIVABLES**

**Recommendation 9**

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. Investigate and resolve credit balances in a timely manner.

**Campus Response**

We concur. Shops will perform and document collection and follow-up activity for delinquent accounts receivable by June 30, 2014. Shops will also investigate and resolve any credit balances.

**PURCHASING AND ACCOUNTS PAYABLE**

**TRAVEL**

**Recommendation 10**

We recommend that Shops require the submission of travel authorization forms documenting advance approval of all travel and related expenses to be incurred.

**Campus Response**

We concur. Shops will revise its policy by June 30, 2014, and require travel authorization forms documenting advance approval of all travel.
PROCUREMENT CARDS

Recommendation 11

We recommend that Shops update approved credit and single purchase limits for procurement cards to match actual limits.

Campus Response

We concur. Shops will review and update approved credit and single purchase limits for procurement cards to match actual limits by June 30, 2014.

PROPERTY AND EQUIPMENT

Recommendation 12

We recommend that Shops promptly locate the missing assets and adjust the property and equipment listing as necessary.

Campus Response

We concur. Shops will implement procedures to locate missing assets promptly and will update its property and equipment listing by June 30, 2014.

INFORMATION TECHNOLOGY

Recommendation 13

We recommend that Shops conduct periodic, documented management reviews of user access privileges within all systems with protected data based on system listings of user access privileges granted.

Campus Response

We concur. Shops will conduct documented management reviews of user access privileges within all systems with protected data by June 30, 2014.
ASSOCIATED STUDENTS, SAN DIEGO STATE UNIVERSITY

OPERATIONAL COMPLIANCE

Recommendation 14

We recommend that AS obtain signed annual conflict-of-interest statements from all board members and employees.

Campus Response

We concur. AS has obtained signed conflict-of-interest statements from its board members and key employees and will continue this practice annually.

SEGREGATION OF DUTIES

Recommendation 15

We recommend that AS adequately segregate duties and responsibilities related to payroll processing or institute mitigating procedures approved by the campus CFO.

Campus Response

We concur. AS will review and adequately segregate its payroll processing duties and responsibilities by July 31, 2014.

CASH RECEIPTS AND HANDLING

Recommendation 16

We recommend that AS:

a. Separate petty cash funds from change funds at the ARC and Viejas Arena.

b. Obtain formal approval for the Daily Aztec to operate as a cash-handling location, and restrictively endorse checks at the Daily Aztec immediately upon receipt.

c. Adequately secure cash tills at the ARC.

d. Independently reconcile daily cash receipts at the MBAC prior to their deposit.

e. Use pre-numbered receipts at the AS Business Office.

Campus Response

We concur.
a. AS will develop an appropriate policy regarding petty cash and change funds at the ARC and Viejas Arena by July 31, 2014.

b. AS will obtain formal approval for the Daily Aztec to operate as a cash-handling location, and restrictively endorse checks at the Daily Aztec immediately upon receipt by July 30, 2014.

c. AS has secured the cash tills at the ARC.

d. AS has implemented a procedure that reconciles daily cash receipts at the MBAC prior to deposit.

e. AS now uses pre-numbered receipts at the AS Business Office.

FEES, REVENUES, AND RECEIVABLES

Recommendation 17

We recommend that AS:

a. Develop written policies and procedures to address the reporting and write-off of uncollectible accounts receivable.

b. Support write-offs with documented approvals.

Campus Response

We concur. AS will:

a. Develop written policies and procedures to address the reporting and write-off of uncollectible accounts receivable by June 30, 2014.


PURCHASING AND ACCOUNTS PAYABLE

Recommendation 18

We recommend that AS follow single transaction limit policies for procurement cards.

Campus Response

We concur. AS has strengthened its process and now adheres to the single transaction limit policies for procurement cards.
PROPERTY AND EQUIPMENT

Recommendation 19

We recommend that AS record property and equipment disposals to the fixed asset records at the time of disposal, or at least quarterly.

Campus Response

We concur. AS will require that property and equipment disposals are posted quarterly to the fixed asset records. Revised procedures will be completed by July 31, 2014.

INFORMATION TECHNOLOGY

ACCOUNTING SYSTEM ACCESS

Recommendation 20

We recommend that AS conduct periodic, documented management reviews of user access privileges within all systems with protected data based on system listings of user access privileges granted.

Campus Response

We concur. AS will conduct documented management reviews of user access privileges within all systems with protected data by September 30, 2014.

NETWORK SEGMENTATION

Recommendation 21

We recommend that AS place the server with the timekeeping system on a separate network segment from AS user computers.

Campus Response

We concur. AS will place the server on a separate network segment by September 30, 2014.
May 30, 2014

MEMORANDUM

TO: Mr. Larry Mandel
Vice Chancellor and Chief Audit Officer

FROM: Timothy P. White
Chancellor

SUBJECT: Draft Final Report 13-08 on Auxiliary Organizations, San Diego State University

In response to your memorandum of May 30, 2014, I accept the response as submitted with the draft final report on Auxiliary Organizations, San Diego State University.

TPW/amd