AUXILIARY ORGANIZATIONS

CALIFORNIA STATE UNIVERSITY, MONTEREY BAY

Audit Report 14-08
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THE CALIFORNIA STATE UNIVERSITY
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ABBREVIATIONS

ASM Administrative Systems Management
CFO Chief Financial Officer
CIO Chief Information Officer
Corporation University Corporation at Monterey Bay
CSU California State University
CSUMB California State University, Monterey Bay
DAR Data Access Request
EO Executive Order
Foundation Foundation of California State University Monterey Bay
ICSUAM Integrated California State University Administrative Manual
IDMS Identity Management System
KAZU KAZU Radio Station
LOA Level of Assurance
NIST National Institute of Standards and Technology
RFIN Resolution of the Committee on Finance
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.

California State University, Monterey Bay (CSUMB) 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 CSUMB campus and its auxiliary organizations from November 17, 2014, through December 11, 2014, and made a study and evaluation of the system of internal compliance/internal control in effect as of December 11, 2014. 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 CSUMB campus as of December 11, 2014, 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, property and equipment, and information technology.

In our opinion, except for the effect of the weaknesses described below, the fiscal, operational, and administrative controls at Foundation of California State University Monterey Bay as of December 11, 2014, taken as a whole, were sufficient to meet the objectives stated above and in the “Purpose” section of this report. Areas of concern include: operating and administrative agreements and fiscal compliance.

In our opinion, due to the effect of the weaknesses described below, the fiscal, operational, and administrative controls at University Corporation at Monterey Bay as of December 11, 2014, taken as a
whole, were not sufficient to meet the objectives stated above and in the “Purpose” section of this report. Areas of major concern include: operational compliance, segregation of duties, and auxiliary programs.

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**

**CASH RECEIPTS AND HANDLING [10]**

Campus university advancement administration of Foundation of California State University Monterey Bay (Foundation) cash receipts needed improvement. For example, a system was not in place to issue cash receipts to walk-in patrons and Foundation cash deposits, including large deposits, were not adequately secured when they were taken to the bank, as deposits were transported in sole custody.

**FEES, REVENUES, AND RECEIVABLES [11]**

Campus university advancement administration of University Corporation at Monterey Bay (Corporation) matching gifts needed improvement. Specifically, matching gift processing forms used to document the review of eligibility were completed from six to 15 months after the matches were processed.

**PROPERTY AND EQUIPMENT [12]**

Campus administration of Corporation property and equipment needed improvement. For example, the CSUMB property department had not always performed an independent physical inventory of all Corporation property and equipment; the location of 70 assets could not be identified in the asset management system listing as of August 31, 2014; and the CSUMB property department had not maintained a record of authorized signers for fixed asset disposals and, as a result, proper authorization for eight of ten disposals could not be verified.

**INFORMATION TECHNOLOGY [14]**

Password security parameters for the campus identity management system were not in compliance with California State University (CSU) policy. Also, the campus permitted users to have administrative privileges to their workstations, including those used by auxiliary employees, which allowed disabling of
some security controls and installation of unauthorized software. In addition, the campus did not document the deletion of sensitive data from auxiliary computers prior to the disposal or redeployment of the assets. Further, the campus did not perform a complete inventory and assessment of all sensitive information maintained in electronic and paper format, including information maintained in auxiliary operations. Also, the campus had not trained all auxiliary employees with access to protected data and information assets in information security awareness. Additionally, the process for requesting access to Peoplesoft required improvement as the desired security roles were not documented on the Data Access Request form and requests for access often cited mirroring another individual’s access rather than detailing the desired security roles the individual should have.

**FOUNDATION OF CALIFORNIA STATE UNIVERSITY MONTEREY BAY**

**OPERATING AND ADMINISTRATIVE AGREEMENTS [20]**

The Foundation had not established a written agreement with the Corporation for the payment of the Foundation’s operating expenses.

**CORPORATE GOVERNANCE [20]**

The Foundation had not filed amended Articles of Incorporation and Bylaws with the chancellor’s office in a timely manner.

**FISCAL COMPLIANCE [21]**

The Foundation did not have a plan to build and maintain appropriate reserves.

**OPERATIONAL COMPLIANCE [22]**

The Foundation did not have a current written delegation of authority from the campus president giving the campus vice president for university advancement/Foundation chief executive officer responsibility to accept monetary gifts and sign gift acknowledgement agreements and letters on behalf of the Foundation.

**UNIVERSITY CORPORATION AT MONTEREY BAY**

**OPERATIONAL COMPLIANCE [24]**

The Corporation KAZU Radio Station (KAZU) did not have written delegations of authority from the campus president giving its management the responsibility to accept monetary gifts and sign gift acknowledgement agreements and letters. Additionally, the Corporation did not have a comprehensive written risk management policy that addressed an ongoing process to proactively identify risks, analyze the frequency and severity of identified risks, and implement a risk mitigation program that appropriately coordinated with the campus’ risk assessment and mitigation plan. Further, administration of Corporation fundraising events needed improvement. Specifically, fundraising events, with gross
receipts greater than $5,000 were not properly approved in writing by a delegated authority; event budgets, drafts of solicitation materials, and action plans for compliance with federal, state, and local regulations were not reviewed by a delegated authority prior to the event; KAZU did not have a procedure to ensure that the fundraising counsel was registered with the attorney general; and the agreement between KAZU and the fundraising counsel was not executed in accordance with Government Code Section §12599.

SEGREGATION OF DUTIES [27]

Certain duties and responsibilities related to cash receipts at the Corporation Camp Sea Lab and KAZU were not adequately segregated, and cash receipts were not forwarded for deposit in a timely manner. Additionally, certain duties and responsibilities related to cash disbursement transactions were not adequately segregated at the Corporation.

FEES, REVENUES, AND RECEIVABLES [30]

Administration of Corporation commission receipts from outsourced vending services needed improvement. For example, the commission was not always calculated based on the agreed-upon commission rate.

PURCHASING AND ACCOUNTS PAYABLE [30]

The Corporation did not investigate or resolve open purchase orders in a timely manner.

AUXILIARY PROGRAMS [31]

Corporation volunteers at KAZU were not always required to complete data confidentiality agreements that addressed requirements for protecting confidential information obtained during pledge drives prior to being granted access to protected data. Additionally, administration of underwriting agreements for KAZU needed improvement. Specifically, underwriting agreements were not always signed and dated by KAZU management and the underwriter. These are repeat findings from the prior Auxiliary Organizations audit.

INFORMATION TECHNOLOGY [33]

The auxiliary employee handbook, which provides an overview of the Corporation’s policies and practices, did not include adequate information on the CSU and CSUMB information security policies, with which all auxiliary employees are required to comply.
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.

Foundation of California State University Monterey Bay
The Foundation of California State University Monterey Bay (Foundation) was established as a non-profit corporation in 2010 to develop the private funding needed to achieve the goals of the university. The Foundation aims to provide financial assistance to scientific, literary, educational, and charitable purposes through gifts, grants, loans, and allocations to the university and its controlled affiliates. The Foundation is governed by a board of directors composed of representatives from the community, faculty, students, and alumni. The Foundation does not have employees and relies on the University Corporation at Monterey Bay and university advancement personnel for administrative and accounting support services.

University Corporation at Monterey Bay
The University Corporation at Monterey Bay (Corporation) is the entity responsible for post-award administration of sponsored programs, student housing, conference and event services, the Otter Student Union, and the KAZU radio station. The Corporation oversees a number of other commercial operations and outsources management and operating services. The bookstore is operated by Barnes and Noble, and campus dining, east campus housing, and the child development center are managed by Sodexo, Alliance Residential Company, and Children’s Services, Inc., respectively. The Corporation, in cooperation with campus administrative offices, provides fiscal administrative and support services for grants and contracts for research, instruction, and public service; instructionally related programs, conferences, workshops, and institutes; private gifts and other support sources to the university; and agency activities as requested by the university. The Corporation is governed by a board of directors composed of representatives from the university administration and faculty, as well as one student and one community member.
INTRODUCTION

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 2012/13 and 2013/14 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, 2013, to December 11, 2014. 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:

**Foundation of California State University Monterey Bay**
- Operating and Administrative Agreements
- Facilities Agreements
- Corporate Governance
- Fiscal Compliance
- Operational Compliance
- Program Compliance
- Segregation of Duties
- Cash Receipts and Handling
- Petty Cash and Change Funds
- Investments
- Fees, Revenues, and Receivables
- Purchasing and Accounts Payable
- Trusts and Other Liabilities
- Endowment Administration
- Auxiliary Programs
- Information Technology

**University Corporation at Monterey Bay**
- Operating and Administrative Agreements
- Facilities Agreements
- Corporate Governance
- Fiscal Compliance
- Operational Compliance
- Program Compliance
- Segregation of Duties
- Cash Receipts and Handling
- Petty Cash and Change Funds
- Investments
- Fees, Revenues, and Receivables
- Purchasing and Accounts Payable
- Personnel and Payroll
- Property and Equipment
- Trusts and Other Liabilities
- Endowment Administration
INTRODUCTION

University Corporation at Monterey Bay (cont.)
- Commercial Operations
- Auxiliary Programs
- Information Technology

Campus
- Campus Oversight
- Auxiliary Support Services
- Information Technology

We have not performed any auditing procedures beyond December 11, 2014. 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

CASH RECEIPTS AND HANDLING

Campus university advancement administration of Foundation of California State University Monterey Bay (Foundation) cash receipts needed improvement.

We found that:

- A system was not in place to issue cash receipts to walk-in patrons.
- Foundation cash deposits, including large deposits, were not adequately secured when they were taken to the bank, as deposits were transported in sole custody.

Integrated California State University Administrative Manual (ICSUAM) §3102.03, Acceptance of Cash and Cash Equivalents, dated April 1, 2011, states that an official California State University (CSU) cash receipt should be recorded for each collection. Collections not recorded on a cash register or point-of-sale equipment, including mailed payments, can be recorded on a valid pre-numbered, multiple-part cash receipt or a mailed payments log. The receipts must be used sequentially. Receipt stock shall be kept secured, inventoried, and regularly reviewed to prevent and detect alteration. The mailed payments log should be reviewed and reconciled periodically.

ICSUAM §3102.04, Physical Protection of Cash and Cash Equivalents, dated April 1, 2011, states that the campus chief financial officer (CFO) must establish campus-wide procedures to ensure the safety and security of deposits and personnel while in transit between campus locations. At a minimum, transport must be accomplished jointly by at least two employees. When deposits exceed $2,500, employees shall be escorted by campus police. When determined necessary, armored car service or police escort will be used. Transporting deposits between cashiering sites or to the bank will be accomplished in a secure manner in order to protect the financial assets and individuals involved in transport.

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 cash receipts.
The campus manager of advancement services stated his belief that the low frequency and small amounts of Foundation cash receipts and deposits may not have warranted the use of receipt documentation and armored courier services.

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

Recommendation 1

We recommend that the campus:

a. Implement a system to issue cash receipts to walk-in patrons.

b. Adequately secure cash deposits, especially large deposits, when taking them to the bank.

Campus Response

We concur. The campus will:

a. Implement a system to issue cash receipts to walk-in patrons.

b. Take cash deposits to the cashier’s office, which uses a courier service to ensure that cash deposits are secured when being taken to the bank.

This will be completed by May 31, 2015.

FEES, REVENUES, AND RECEIVABLES

Campus university advancement administration of University Corporation at Monterey Bay (Corporation) matching gifts needed improvement.

We reviewed ten Corporation matching gifts, and we found that the matching gift processing forms used to document the review of eligibility were completed from six to 15 months after the matches were processed.

California State University, Monterey Bay (CSUMB) Private Gift Procedures Reference Manual, Section 4.2, Corporate Matching Gifts, states that advancement services is responsible for researching and documenting any restrictions the corporation may impose on its matching gifts. If such information is not available online, contact by telephone or correspondence is required and the results documented. A matching gift processing form should be used to document each matching gift or group of matching gifts.

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 state that the campus president shall require that auxiliary organizations operate in conformity with policy of the Board of Trustees and the campus. One of the objectives of the auxiliary organizations is to provide fiscal procedures and management systems that allow effective coordination of the auxiliary activities with the campus in accordance with sound business practices. Sound business practice mandates timely review of matching gifts eligibility.

The campus manager of advancement services stated that the matching gift processing forms were not completed at the time of the match because they were being completed in batches rather than per transaction.

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

**Recommendation 2**

We recommend that the campus complete matching gift processing forms prior to processing matching gifts to ensure timely verification of eligibility.

**Campus Response**

We concur. The campus will develop a procedure to ensure that matching gift processing forms are completed prior to processing matching gifts to ensure timely verification of eligibility. This will be completed by May 31, 2015.

**PROPERTY AND EQUIPMENT**

Campus administration of Corporation property and equipment needed improvement.

We reviewed the 2013 physical inventory records for eight locations, the property inventory listing as of August 31, 2014, and ten asset disposals, and we found that:

- The CSUMB property department had not always performed an independent physical inventory of all Corporation property and equipment.

- The location of 70 assets could not be identified in the asset management system listing as of August 31, 2014.

- The CSUMB property department had not maintained a record of authorized signers for fixed asset disposals and, as a result, proper authorization for eight of ten disposals could not be verified.
ICSUAM §3151.04, *Equipment*, dated October 6, 2011, states that a physical inventory of recorded property must be performed at least once every three years by a party who is not the custodian of the item, or more often as required by agreement or law, and must be reconciled to campus property inventory records. The completed reconciliation should receive management review and approval. Any discrepancies must be evaluated for further investigation and escalated to the appropriate authorities based on the specific situation and value of missing items. It further states that it is the policy of the CSU that equipment is properly recorded, maintained, and safeguarded, and that appropriate disposal methods are followed.

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 of physical inventories to the general ledger on a timely basis with review by management, and the proper recording and labeling of equipment when received.

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

The campus director of business and support services stated that the independent physical inventory count was not performed for all locations because the campus policy did not require an independent count. He further stated that the location of 70 assets could not be identified in the asset management system listing because these items were old assets and most of them were acquired before 2006, and the tagging procedures had not been implemented at the time of acquisition. He stated his belief that the department custodians were aware of the location of these assets. Additionally, he stated that the property department did not maintain a record of authorized signers for fixed asset disposals due to oversight. He stated his belief that the department used institutional knowledge of the program directors’ and principal investigators’ responsibilities for fixed assets to determine whether approvers had authority.

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

**Recommendation 3**

We recommend that the campus:

a. Perform a periodic independent physical inventory of Corporation property and equipment.

b. Identify the location of the 70 assets in the asset management system.
c. Maintain a record of authorized signers for fixed asset disposals to verify that disposals are properly authorized.

**Campus Response**

We concur. The campus will:

a. Perform a periodic independent physical inventory of Corporation property and equipment.

b. Identify the location of the 70 assets in the asset management system.

c. Maintain a record of authorized signers for fixed asset disposals to verify that disposals are properly authorized.

This will be completed by July 31, 2015.

**INFORMATION TECHNOLOGY**

**PASSWORD SECURITY**

Password security parameters for the campus identity management system (IDMS) were not in compliance with CSU policy.

ICSUAM §7100.400, *Identity Access Management*, dated April 28, 2014, states that use of electronic identity for access must follow the Access Control Policy and Standard (8060). The identity verification and electronic credential issuance process must be consistent with the National Institute of Standards and Technology (NIST) Level of Assurance (LOA) 2 before an electronic identity can be used to access Level 1 data and must be consistent with NIST LOA 1 when used to access Level 2 data.

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 §8060.S000, *Access Control Standard*, dated July 13, 2013, states that campuses must identify and implement password criteria that meets NIST Level 1 “Resistance to Guessing Authentication Secret,” at a minimum. To prepare for InCommon Bronze/Silver implementation, campuses should consider meeting NIST Level 2 for “Resistance to Guessing Authentication Secret.”

The campus chief information officer (CIO) stated that the campus was unaware that the IDMS password security parameters were not in compliance with CSU policy.
The lack of appropriate password configurations will result in the campus not being in compliance with InCommon, a federation of educational and public institutions that agree to use common technical protocols and standards, and increases the risk for both easily guessed passwords and possible unauthorized access to network resources and confidential information.

**Recommendation 4**

We recommend that the campus set password security parameters for the IDMS that comply with CSU policy.

**Campus Response**

We concur. The campus will set password security parameters for the IDMS that comply with CSU policy. This will be completed by July 31, 2015.

**DESKTOP SECURITY MANAGEMENT**

The campus permitted users to have administrative privileges to their workstations, including those used by auxiliary employees, which allowed disabling of some security controls and installation of unauthorized software.

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.S200, *Malicious Software Protection*, dated May 21, 2013, states that all campus information systems must be secured with current versions of campus-approved anti-malware software unless otherwise authorized by the campus. Additionally, unless appropriately authorized, users must not bypass or turn off anti-malware software installed on campus information systems.

The campus CIO stated that the campus had not conducted a re-evaluation of its administrative privileges access procedures to determine efficacy.

Allowing local administrative accounts in which users have the ability to disable security controls and install their own applications increases the risk that applications may violate CSU policy and/or expose the campus network to other vulnerabilities.

**Recommendation 5**

We recommend that the campus eliminate user administrative access to workstations unless specifically approved.


Campus Response

We concur. The campus will establish guidelines to approve user administrative access to workstations. This will be completed by May 31, 2015.

DISPOSAL

The campus did not document the deletion of sensitive data from auxiliary computers prior to the disposal or redeployment of the assets.

We found that although campus procedures required that hard drives be destroyed or reimaged before being disposed of or redeployed, the campus could not provide documentation showing that sensitive data had been deleted from such hard drives.

ICSUAM §8065.0, Information Asset Management, dated April 19, 2010, states that campuses must maintain an inventory of information assets containing Level 1 or Level 2 data as defined in the CSU Data Classification Standard. These assets must be categorized and protected throughout their entire life cycle, from origination to destruction.

The campus CIO stated that campus procedures included destroying or reimaging all hard drives, but it had not been part of procedures in the past to document this process.

Inadequate control over the disposal or redeployment of computing equipment, especially equipment containing protected data, increases the risk of loss and inappropriate use and exposure to information security breaches.

Recommendation 6

We recommend that the campus document the deletion of sensitive data from auxiliary computers prior to the disposal or redeployment of the assets.

Campus Response

We concur. The campus will establish a procedure to document the deletion of sensitive data from auxiliary computers prior to the disposal or redeployment of the assets. This will be completed by April 30, 2015.

SENSITIVE DATA

The campus did not perform a complete inventory and assessment of all sensitive information maintained in electronic and paper format, including information maintained in auxiliary operations.

ICSUAM §8020.0, Information Security Risk Management, dated April 19, 2010, states that campuses must develop risk management processes that identify, assess, and monitor risks to
information assets containing level 1 and level 2 data as defined in the CSU Data Classification Standard. Identified risks to these information assets must be actively managed by data owners and/or appropriate administrators in order to prioritize resources and remediation efforts. Risk assessments are part of an ongoing risk management process. Risk assessments provide the basis for prioritization and selection of remediation activities and can be used to monitor the effectiveness of campus controls. Campuses must document the scope and frequency of the assessment, risk assessment methodology, result of the risk assessment, and mitigation strategies designed to address identified risks.

ICSUAM §8065.0, Information Asset Management, dated April 19, 2010, states that campuses must maintain an inventory of information assets containing level 1 or level 2 data as defined in the CSU Data Classification Standard. These assets must be categorized and protected throughout their entire life cycle, from origination to destruction.

The campus CIO stated that the auxiliaries may not have been aware of the requirement to perform a periodic inventory and assessment of all sensitive data maintained in paper and electronic format, and the campus had not implemented a process to ensure compliance.

Inadequate accountability over information assets, especially those containing critical and/or personal confidential information, increases the risk of loss, inappropriate use of campus resources, and exposure to information security breaches, which could result in financial penalties and loss of public trust.

**Recommendation 7**

We recommend that the campus perform a complete inventory and assessment of all sensitive information maintained in electronic and paper format, including information maintained in auxiliary operations.

**Campus Response**

We concur. The campus will perform a complete inventory and assessment of all sensitive information maintained in electronic and paper format, including information maintained in auxiliary operations. This will be completed by July 31, 2015.

**INFORMATION SECURITY TRAINING**

The campus had not trained all auxiliary employees with access to protected data and information assets in information security awareness.

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.

ICSUAM §8035.S000, Security Awareness and Training Standard, dated April 19, 2010, states that each campus information security officer will be responsible for overseeing development and coordination of the campus information security awareness and training program.

The campus CIO stated that the auxiliaries were currently implementing the new security access training for all employees and that access to completion reports will be reviewed with management to ensure completion once the training is implemented.

Lack of information security awareness training for all employees with access to computer resources increases the risk of mismanagement of protected data, which increases campus exposure to security breaches and could compromise compliance with statutory information security requirements.

**Recommendation 8**

We recommend that the campus train all auxiliary employees with access to protected data and information assets in information security awareness.

**Campus Response**

We concur. The campus will train auxiliary employees with access to protected data and information assets in information security awareness. This will be completed by July 31, 2015.

**USER ACCESS CONTROLS**

The process for requesting access to PeopleSoft required improvement.

We found that the desired security roles were not documented on the Data Access Request (DAR) form. Additionally, requests for access often cited mirroring another individual’s access rather than detailing the desired security roles the individual should have.

ICSUAM §8060.100, Access Control, dated April 19, 2010, states that on-campus or remote access to information assets containing level 1 or level 2 data as defined in the CSU Data Classification Standard must be based on operational and security requirements. Appropriate controls must be in place to prevent unauthorized access to protected information assets.

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.
ICSUAM §8060.300, Access Control, dated April 19, 2010, states that campuses must avoid issuing credentials that allow a user greater access or more authority over information assets than is required by the employee’s job duties.

The campus CIO stated that it had not been part of campus procedures in the past to document security roles on the DAR form because the security roles were provisioned by the administrative systems management (ASM) team after appropriate approvals had been obtained from campus management. Additionally, he stated that the ASM team provisions the security roles based on information provided by the requestor.

Inadequate administration of user accounts increases the risk of inappropriate access.

Recommendation 9

We recommend that the campus include requested security roles on all DAR forms.

Campus Response

We concur. The campus will include requested security roles on all DAR forms. This will be completed by June 30, 2015.
THE FOUNDATION OF CALIFORNIA STATE UNIVERSITY MONTEREY BAY

OPERATING AND ADMINISTRATIVE AGREEMENTS

The Foundation of California State University Monterey Bay (Foundation) had not established a written agreement with the University Corporation at Monterey Bay (Corporation) for the payment of the Foundation’s operating expenses.

We found that the Corporation had been paying the Foundation’s operating expenses (insurance, legal, regulatory, and auditing services), which annually averaged approximately $14,000. However, these transactions were not recorded in the Foundation’s accounting system, and arrangements had not been made for the Foundation to reimburse the Corporation.

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.

The Corporation director of operations stated that there was an understanding between the Foundation and the Corporation that the Corporation would pay Foundation operating expenses when the Foundation was unable to pay, as the Corporation recognized the overall benefit of the Foundation.

The absence of fully executed written agreements increases the risk of misunderstandings and miscommunication regarding rights and responsibilities and subjects the auxiliaries to potential liability.

Recommendation 10

We recommend that the Foundation establish a written agreement with the Corporation for the payment of the Foundation’s operating expenses.

Campus Response

We concur. The Foundation will establish a written agreement with the Corporation for the payment of the Foundation’s operating expenses. This will be completed by May 31, 2015.

CORPORATE GOVERNANCE

The Foundation had not filed amended Articles of Incorporation and Bylaws with the chancellor’s office in a timely manner.
We found that amendments made to the Articles of Incorporation on May 2, 2013, and amendments made to the Bylaws on November 8, 2013, and June 13, 2014, had not been filed with the chancellor’s office until September 19, 2014.

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 11.6.1, *Reporting Changes in Articles of Incorporation (or Constitution) and Bylaws*, states that when an auxiliary organization makes changes to its Articles of Incorporation (or Constitution) or Bylaws, a complete amended copy is to be submitted to Contract Services and Procurement at the Office of the Chancellor within 30 calendar days. The submission should indicate the date the changes were approved by the governing board and/or members.

The Corporation governance and compliance manager stated that the delayed submission may be attributed to management oversight.

Untimely filing of amendments to Articles of Incorporation and Bylaws increases the risk of misunderstandings and may increase legal liability.

**Recommendation 11**

We recommend that the Foundation file all future changes and amendments to the Articles of Incorporation and Bylaws with the Contract Services and Procurement department at the chancellor’s office within 30 calendar days.

**Campus Response**

We concur. The Foundation will file all future changes and amendments to the Articles of Incorporation and Bylaws with the Contract Services and Procurement department at the chancellor’s office within 30 calendar days. This will be completed on May 31, 2015.

**FISCAL COMPLIANCE**

The Foundation did not have a plan to build and maintain appropriate reserves.

The Foundation *Reserve Policy* states that as part of the annual budget request, the Foundation will include a recommendation to fund reserves with net revenues, indicating the priority in which the reserves will be funded, as well as the degree to which the reserves will be funded.

The *Compilation of Policies and Procedures for California State University Auxiliary Organizations* sets sound business practice guidelines for auxiliary organizations operating within the CSU system. Section 8.1.1.2 A-4, *Basis for Financial Standards and Fiscal Viability – Financial Standards*, states that annually each auxiliary governing board shall review the fiscal viability of the auxiliary organization to include the submission of a report annually to the president, which includes a plan to
build and maintain appropriate reserves. Such a report may be a part of the annual budget submission.

The Corporation director of operations stated that the Foundation did not have a plan to build and maintain appropriate reserves because there had been no net revenues for the Foundation.

Lack of adequate reserves increases the risk that the auxiliary will be unable to fund future needs.

**Recommendation 12**

We recommend that the Foundation develop a plan to build and maintain reserves.

**Campus Response**

We concur. The Foundation will develop a plan to build and maintain reserves. This will be completed by June 30, 2015.

**OPERATIONAL COMPLIANCE**

The Foundation did not have a current written delegation of authority from the campus president giving the campus vice president for university advancement/Foundation chief executive officer responsibility to accept monetary gifts and sign gift acknowledgement agreements and letters on behalf of the Foundation.

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

The campus manager of advancement services stated that there may have been an unawareness of what documentation was completed.

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

**Recommendation 13**

We recommend that the Foundation obtain a written delegation of authority from the campus president giving the vice president for university advancement/Foundation chief executive officer responsibility to accept monetary gifts and sign acknowledgement agreements and letters on behalf of the Foundation.
Campus Response

We concur. The Foundation will obtain a written delegation of authority from the campus president giving the vice president for university advancement/Foundation chief executive officer responsibility to accept monetary gifts and sign acknowledgement agreements and letters on behalf of the Foundation. This will be completed by May 31, 2015.
UNIVERSITY CORPORATION AT MONTEREY BAY

OPERATIONAL COMPLIANCE

DELEGATION OF AUTHORITY

The University Corporation at Monterey Bay (Corporation) KAZU Radio Station (KAZU) did not have written delegations of authority from the campus president giving its management the responsibility to accept monetary gifts and sign gift acknowledgement agreements and letters.

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

The KAZU general manager stated that management was unaware of this requirement.

The absence of documented delegations of authority for gift evaluation and acceptance responsibilities increases the risk that donations will be mishandled or misused.

Recommendation 14

We recommend that the Corporation obtain written delegations of authority from the campus president giving KAZU management responsibility to accept monetary gifts and sign acknowledgement agreements and letters.

Campus Response

We concur. The Corporation will obtain written delegations of authority from the campus president giving KAZU management responsibility to accept monetary gifts and sign acknowledgment agreements and letters. This will be completed by May 31, 2015.

RISK MANAGEMENT

The Corporation did not have a comprehensive written risk management policy that addressed an ongoing process to proactively identify risks, analyze the frequency and severity of identified risks, and implement a risk mitigation program that appropriately coordinated with the campus’ risk assessment and mitigation plan.

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

The *Compilation of Policies and Procedures for California State University Auxiliary Organizations* sets sound business practice guidelines for auxiliary organizations operating within the CSU system. Section 8.7, *Risk Management*, states that auxiliary organizations should develop programs to manage risk related to activities in which the organizations are engaged.

The Corporation director of operations stated that the risk management policy was not updated due to oversight.

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

**Recommendation 15**

We recommend that the Corporation develop and adopt a comprehensive written risk management policy that addresses an ongoing process to proactively identify risks, analyzes the frequency and severity of identified risks, and implements a risk mitigation program that appropriately coordinated with the campus’ risk assessment and mitigation plan.

**Campus Response**

We concur. The Corporation will develop a comprehensive risk management policy that addresses an ongoing process to proactively identify risks, analyzes the frequency and severity of identified risks, and implements a risk mitigation program appropriately coordinated with the campus’ risk assessment and mitigation plan. This will be completed by June 30, 2015.

**FUNDRAISING**

Administration of Corporation fundraising events needed improvement.

We reviewed five Corporation and two KAZU fundraising events, and we found that:

- Fundraising events with gross receipts greater than $5,000 were not properly approved in writing by a delegated authority.

- Event budgets, drafts of solicitation materials, and action plans for compliance with federal, state, and local regulations were not reviewed by a delegated authority prior to the events.

- KAZU did not have a procedure to ensure that the fundraising counsel was registered with the attorney general.

- The agreement between KAZU and the fundraising counsel was not executed in accordance with Government Code §12599. Specifically, the following requirements were not included:
- A statement that the charitable organization exercises control and approval over the content and frequency of solicitation.

- A clear statement of the fees and any other forms of compensation that will be paid to the fundraising counsel.

- The effective start date and termination date of the contract, and the date the solicitation will start in the state.

- Provisions specifying the charitable organization’s right to cancel the contract without liability for 10 days following the date the contract is executed and right to cancel the contract after the initial period by giving 30-day notice and payment for services provided by the fundraising counsel up to the effective date of the notice.

- Any other information required by regulations adopted by the attorney general.

ICSUAM §15701, Fundraising Events, dated July 1, 2012, states that fundraising events with gross receipts greater than $5,000 must be approved in writing by a delegated authority when the fundraising event utilizes the university name, logo, or trademarks and represents that the university will benefit from the proceeds. Prior to the event, the delegated authority shall review the fundraising event’s budget, drafts of solicitation materials, and action plan to comply with federal, state, and local regulations.

Government Code §12599.1 states that fundraising counsel for charitable purposes shall, prior to managing, advising, counseling, consulting, or preparing material for, or with respect to, the solicitation in this state of funds, assets, or property for charitable purposes, register with the attorney general’s Registry of Charitable Trusts on a registration form provided by the attorney general. It further states that there shall be a written contract between a fundraising counsel for charitable purposes and a charitable organization for each service to be performed by the fundraising counsel for the charitable organization that shall be signed by the authorized contracting officer for the fundraising counsel and by an official of the charitable organization who is authorized to sign by the organization’s governing body. The contract shall be available for inspection by the attorney general and shall contain all of the required provisions.

The manager of advancement services stated that there may have been a lack of awareness of the fundraising requirement. The KAZU manager stated that management was unaware of the fundraising approval requirement. He further stated that management did not think that the marketing services they used were considered as fundraising counsel services.

Insufficient administration of fundraising events increases the risk of misunderstanding and miscommunication regarding fundraising events and increases the risk of non-compliance with relevant regulations and failure to execute agreements in accordance with legal mandates increases the risk of misunderstandings regarding rights and responsibilities and may increase legal liability.
Observations, Recommendations, and Campus Responses

Recommendation 16

We recommend that the Corporation:

a. Obtain written approval from a delegated authority for all fundraising events with gross receipts greater than $5,000.

b. Ensure that event budgets, drafts of solicitation materials, and action plans for compliance with federal, state, and local regulations are reviewed by a delegated authority prior to the event.

c. Develop a procedure to ensure that the fundraising counsel is registered with the attorney general.

d. Execute a written agreement with the fundraising counsel in accordance with the Government Code.

Campus Response

We concur. The Corporation will:

a. Establish a procedure to obtain written approval from a delegated authority for all fundraising events with gross receipts greater than $5,000. This will be completed by May 31, 2015.

b. Establish a procedure to ensure that event budgets, drafts of solicitation materials, and action plans for compliance with federal, state, and local regulations are reviewed by a delegated authority prior to the event. This will be completed by May 31, 2015.

c. Ensure that the fundraising counsel is registered with the attorney general. The fundraising counsel was registered with the attorney general on January 27, 2015.

d. Execute a written agreement with the commercial fundraiser in accordance with the Government Code. This will be completed by May 31, 2015.

Segregation of Duties

Cash Receipts

Certain duties and responsibilities related to cash receipts at the Corporation Camp Sea Lab and KAZU were not adequately segregated, and cash receipts were not forwarded for deposit in a timely manner.
We found that:

- One employee at Camp Sea Lab accepted and logged payments, prepared customer receipts, and maintained custody of the payments. In addition, payments were not forwarded to the central cashiering office in a timely manner. Payments were only forwarded on the 15th and 30th of each month.

- One employee at KAZU entered and removed donors and underwriters from the membership and underwriting databases, prepared invoices, recorded payments, and maintained custody of the payments.

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

The *Compilation of Policies and Procedures for California State University Auxiliary Organizations* sets sound business practice guidelines for auxiliary organizations operating within the CSU system. Section 8.9.1, *Cash*, states that the auxiliary should establish a written internal control system that ensures cash receipts and disbursements are conducted with appropriate segregation of duties.

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 appropriate segregation of duties and timely deposit of cash receipts.

The Corporation operations coordinator for the division of science and environmental policy and the KAZU business manager stated that they were unaware that certain duties and responsibilities related to the cash receipts process needed to be segregated. The Corporation operations coordinator for the division of science and environmental policy further stated that she was unaware that cash receipts should be deposited to the central cashiering office at least weekly per Corporation practice.

Inadequate segregation of duties increases the risk that errors and irregularities will not be detected in a timely manner, and untimely deposits increase the risk that collections will be misplaced or misappropriated.

**Recommendation 17**

We recommend that the Corporation adequately segregate duties and responsibilities related to cash receipts or institute mitigating procedures approved by the campus CFO, and reiterate to the Camp Sea Lab that cash receipts must be forwarded to the central cashiering office in a timely manner.
Campus Response

We concur. The Corporation will establish a procedure that adequately segregates duties and responsibilities related to cash receipts and note that cash receipts must be forwarded to the central cashiering office in a timely manner. This will be completed by May 31, 2015.

ACCOUNTS PAYABLE

Certain duties and responsibilities related to cash disbursement transactions were not adequately segregated at the Corporation.

We found that one employee entered disbursements into the system, authorized check printing, and printed checks. Additionally, a comparison between the signed checks and the supporting documentation was not performed.

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

The Compilation of Policies and Procedures for California State University Auxiliary Organizations sets sound business practice guidelines for auxiliary organizations operating within the CSU system. Section 8.9.1, Cash, states that the auxiliary should establish a written internal control system that ensures cash receipts and disbursements are conducted with appropriate segregation of duties.

The Corporation controller stated her belief that the Corporation’s current segregation of duties related to cash disbursement transactions were within the tolerance of risk. She further stated that all checks over $15,000 required a second wet signature.

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

Recommendation 18

We recommend that the Corporation adequately segregate duties and responsibilities related to cash disbursements or institute mitigating procedures approved by the campus CFO.

Campus Response

We concur. The Corporation will establish mitigating procedures approved by the campus CFO related to cash disbursements. This will be completed by May 31, 2015.
FEES, REVENUES, AND RECEIVABLES

Administration of Corporation commission receipts from outsourced vending services needed improvement.

We reviewed the commission statement for the month of May 2014, and we found that the commission was not calculated based on the agreed-upon commission rate. As a result, the commission received for May 2014 was understated by $252.

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

The Corporation accounting manager stated that the commission statement provided by the outsourced vending company was not recalculated due to oversight.

The lack of review of commission receipts increases the risk that commissions will not be accurately calculated and collected.

**Recommendation 19**

We recommend that the Corporation review the calculation of commissions received from outsourced vending services.

**Campus Response**

We concur. The Corporation will periodically review the calculation of commissions received from outsourced vending services. This will be completed by May 31, 2015.

PURCHASING AND ACCOUNTS PAYABLE

The Corporation did not investigate or resolve open purchase orders in a timely manner.

We reviewed ten open purchase orders outstanding for more than 365 days, and we found that eight purchase orders totaling $242,450 were outstanding from 518 to 1,142 days and had not been disencumbered or removed from the purchase order system.

The *Compilation of Policies and Procedures for California State University Auxiliary Organizations* sets sound business practice guidelines for auxiliary organizations operating within the CSU system. Section 8.9.5, *Procurement*, states, in part, that the auxiliary should establish a written system that ensures accurate and timely payment of vendors after the determination of the receipt of goods or services or under the terms of the transaction.
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 long-outstanding purchase orders.

The Corporation governance and compliance manager stated that the long-outstanding purchase orders were not properly closed due to a computer glitch.

Insufficient administration of long-outstanding purchase orders could impair budget analysis and planning and hinder decision-making.

**Recommendation 20**

We recommend that the Corporation investigate and resolve open purchase orders in a timely manner.

**Campus Response**

We concur. The Corporation will investigate and resolve open purchase orders in a timely manner. This will be completed by May 31, 2015.

**AUXILIARY PROGRAMS**

**CONFIDENTIALITY AGREEMENT**

Corporation volunteers at KAZU were not always required to complete data confidentiality agreements that addressed requirements for protecting confidential information obtained during pledge drives prior to being granted access to protected data.

We reviewed 10 volunteer records and found that six volunteers had not completed data confidentiality agreements. This is a repeat finding from the prior Auxiliary Organizations audit.

ICSUAM 8025.0, *Privacy of Personal Information*, dated April 19, 2010, states that to comply with state and federal laws and regulations, campuses may not collect personally identifiable information unless the need for it has been clearly established. It further states that where such information is collected, the campus will use reasonable efforts to ensure that personally identifiable information is adequately protected from unauthorized disclosure.

EO 698, *Board of Trustees Policy for The California State University Auxiliary Organizations*, dated March 3, 1999, states that the review of auxiliary organizations will be used to determine appropriate separation of duties, safeguarding of assets, and reliability and integrity of information.
Title 5 §42401 and §42402 indicate that the campus president shall require that auxiliary organizations operate in conformity with policy of the Board of Trustees and the campus. One of the objectives of the auxiliary organizations is to provide fiscal procedures and management systems that allow effective coordination of the auxiliary activities with the campus in accordance with sound business practices. Sound business practice mandates that volunteers complete a data confidentiality agreement prior to being granted access to protected data.

The KAZU general manager stated that confidentiality agreements were not always be executed due to management oversight.

The lack of data confidentiality agreements from volunteers with access to protected data increases the risk of inappropriate disclosure of data and increases the auxiliary’s exposure to liability.

**Recommendation 21**

We recommend that the Corporation obtain data confidentiality forms that address requirements for protecting confidential information obtained during pledge drives from all KAZU volunteers prior to granting access to protected data.

**Campus Response**

We concur. The Corporation will review this process with KAZU to ensure that volunteer forms with the data confidentiality agreement are obtained from volunteers during pledge drives. This will be completed by May 31, 2015.

**UNDERWRITING**

Administration of underwriting agreements for KAZU required improvement.

We reviewed 12 underwriting agreements and found that 10 were not signed and dated by KAZU management and the underwriter. 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 that business arrangements be supported by fully executed written agreements.

The KAZU business manager stated that KAZU management did not always sign underwriting agreements due to oversight. She further stated that KAZU sent the underwriting agreements to the underwriter for review and sign-off, but the underwriters never returned signed agreements.
The absence of fully executed written agreements increases the risk of misunderstandings and miscommunication regarding rights and responsibilities and subjects the auxiliaries and CSU to potential liability.

**Recommendation 22**

We recommend that the Corporation require KAZU management and underwriters to sign and date all future agreements.

**Campus Response**

We concur. The Corporation will review the underwriting procedure with KAZU to ensure that all future agreements are appropriately signed and dated. This will be completed by May 31, 2015.

**INFORMATION TECHNOLOGY**

The auxiliary employee handbook, which provides an overview of the Corporation’s policies and practices, did not include adequate information on the CSU and CSUMB information security policies, with which all auxiliary employees are required to comply.

ICSUAM §8000, *Information Security Policy Introduction and Scope*, dated April 19, 2010, states that auxiliaries, external businesses, and organizations that use campus information assets must operate those assets in conformity with the CSU Information Security Policy.

ICSUAM §8095, *Information Security Policy Enforcement*, dated April 19, 2010, states that auxiliary employees who violate the requirements of the policy may be subject to appropriate disciplinary actions as defined by their organization’s policies.

The Corporation human resources manager stated that the auxiliary employee handbook needed additional refinement to include details on all information security policies and practices.

Inadequate communication of information security policies and practices increases the risk of unauthorized exceptions and could compromise compliance with statutory information security requirements.

**Recommendation 23**

We recommend that the Corporation communicate CSU and CSUMB information security policies and practices to all auxiliary employees. At a minimum, the campus should update the auxiliary employee handbook to include information on the CSU and CSUMB information security policies and practices, such as a link to the CSUMB information security website.
Campus Response

We concur. The Corporation has updated the auxiliary employee handbook to include information on the CSU and CSUMB information security policies and practices. This was completed on December 18, 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>Eduardo M. Ochoa</td>
<td>President</td>
</tr>
<tr>
<td>Richard Arredondo</td>
<td>Property Clerk II</td>
</tr>
<tr>
<td>George Ball</td>
<td>Property Coordinator</td>
</tr>
<tr>
<td>Art Evjen</td>
<td>Director of Business and Support Services</td>
</tr>
<tr>
<td>John Fitzgibbon</td>
<td>Associate Vice President, Finance</td>
</tr>
<tr>
<td>Christine Frederick</td>
<td>Cashiering and Student Accounting Services Manager</td>
</tr>
<tr>
<td>George (Chip) Lenno</td>
<td>Chief Information Officer</td>
</tr>
<tr>
<td>Steven Mann</td>
<td>Associate Director, Network Services</td>
</tr>
<tr>
<td>Mary Mauro</td>
<td>Director, Information Technology Compliance and Planning</td>
</tr>
<tr>
<td>Susan McFarlane</td>
<td>Director, Administrative Systems Management</td>
</tr>
<tr>
<td>William Musselman</td>
<td>Director of Accounting</td>
</tr>
<tr>
<td>Venkata Paruchuru</td>
<td>Manager of Business Applications</td>
</tr>
<tr>
<td>Kevin Saunders</td>
<td>Vice President, Administration and Finance</td>
</tr>
<tr>
<td>Eric Simoni</td>
<td>Associate Director of Information Systems</td>
</tr>
<tr>
<td>Henry Simpson</td>
<td>Director, Technology Support Services</td>
</tr>
<tr>
<td>Richard Westing</td>
<td>Manager, Advancement Services</td>
</tr>
<tr>
<td>Barbara Zappas</td>
<td>Vice President, University Advancement</td>
</tr>
<tr>
<td><strong>FOUNDATION OF CALIFORNIA STATE UNIVERSITY MONTEREY BAY</strong></td>
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<tr>
<td>Richard Westing</td>
<td>Advancement Services Manager</td>
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<tr>
<td>Barbara Zappas</td>
<td>Chief Executive Officer</td>
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<td><strong>UNIVERSITY CORPORATION AT MONTEREY BAY</strong></td>
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<tr>
<td>Warda Alhadi</td>
<td>KAZU Business Manager</td>
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<tr>
<td>Nancy Ayala</td>
<td>Governance and Compliance Manager</td>
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<tr>
<td>Allison Bagchee</td>
<td>Procurement and Risk Management Analyst</td>
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<tr>
<td>Sherry Baggett</td>
<td>Controller</td>
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<tr>
<td>Mik Benedek</td>
<td>KAZU General Manager</td>
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<tr>
<td>Bill Cline</td>
<td>Lead Accountant</td>
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<tr>
<td>Maria Garcia</td>
<td>Director of Operations</td>
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<tr>
<td>Christine Gibson</td>
<td>Operations Coordinator, Division of Science and Environmental Policy</td>
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<tr>
<td>Stacey Gross-Schneider</td>
<td>Payroll Specialist</td>
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<tr>
<td>Gigi Kiama</td>
<td>Human Resources Manager</td>
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<tr>
<td>Christabel Lozada</td>
<td>Administrative Assistant</td>
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<tr>
<td>Scott Machado</td>
<td>Accountant</td>
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<tr>
<td>Bella Morgenstern</td>
<td>Accounts Payable Technician</td>
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<tr>
<td>Eva Parrott</td>
<td>Human Resources Generalist</td>
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<tr>
<td>Monica Rodriguez</td>
<td>Accounting Manager</td>
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<tr>
<td>Lorena Villalobos</td>
<td>Junior Accountant</td>
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</table>
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 Vice Chancellor and Chief Audit Officer, 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.
27 March 2015

California State University
Attn.: Larry Mandel, Vice Chancellor and Chief Audit Officer
Office of the University Auditor
401 Golden Shore, 4th Floor
Long Beach, CA 90802-4201

RE: Response to Auxiliary Organizations Audit Report
    California State University, Monterey Bay – Report Number 14-08

In accordance with the policies and procedures for the Office of the University Auditor, enclosed please find the response to recommendations one through twenty-three of audit number 14-08, Auxiliary Organizations of California State University, Monterey Bay.

Your audit has provided the campus and the auxiliary organizations with valuable management information that we will use to institute changes and improvements in our campus operations. We appreciate the effort you and your staff have made to indicate areas where our procedures or internal controls could be strengthened. The campus and the auxiliary organizations are committed to addressing and resolving the issues identified in the audit report.

Questions regarding the responses may be directed to Maria A.Y. Garcia at (831) 582-5027 or margarclla@csumb.edu.

Sincerely,

[Signature]

Kevin R. Saunders
Vice President for Administration and Finance

Attachment

Cc (with att.): Eduardo M. Ochoa, Ph.D., CSUMB President
    Kevin R. Saunders, University Corporation Executive Director
    Barbara Zappas, Foundation Chief Executive Officer
    Sherry Baggett, University Corporation Controller
    Maria A.Y. Garcia, Director of Operations for Auxiliary Corporations
AUXILIARY ORGANIZATIONS
CALIFORNIA STATE UNIVERSITY, MONTEREY BAY
Audit Report 14-08

CAMPUS

CASH RECEIPTS AND HANDLING

Recommendation 1

We recommend that the campus:

a. Implement a system to issue cash receipts to walk-in patrons.
b. Adequately secure cash deposits, especially large deposits, when taking them to the bank.

Campus Response

We concur. The campus will:

a. Implement a system to issue cash receipts to walk-in patrons.
b. Take cash deposits to the cashier’s office, which uses a courier service to ensure that cash deposits are secured when being taken to the bank.

This will be completed by 31 May 2015.

FEES, REVENUES, AND RECEIVABLES

Recommendation 2

We recommend that the campus complete matching gift processing forms prior to processing matching gifts to ensure timely verification of eligibility.

Campus Response

We concur. The campus will develop a procedure to ensure that matching gift processing forms are completed prior to processing matching gifts to ensure timely verification of eligibility. This will be completed by 31 May 2015.
PROPERTY AND EQUIPMENT

Recommendation 3

We recommend that the campus:

a. Perform a periodic independent physical inventory of Corporation property and equipment.

b. Identify the location of the 70 assets in the asset management system.

c. Maintain a record of authorized signers for fixed asset disposals to verify that disposals are properly authorized.

Campus Response

We concur. The campus will:

a. Perform a periodic independent physical inventory of Corporation property and equipment.

b. Identify the location of the 70 assets in the asset management system.

c. Maintain a record of authorized signers for fixed asset disposals to verify that disposals are properly authorized.

This will be completed by 31 July 2015.

INFORMATION TECHNOLOGY

PASSWORD SECURITY

Recommendation 4

We recommend that the campus set password security parameters for the IDMS that comply with CSU policy.

Campus Response

We concur. The campus will set password security parameters for the IDMS that comply with CSU policy. This will be completed by 31 July 2015.

DESKTOP SECURITY MANAGEMENT

Recommendation 5

We recommend that the campus eliminate user administrative access to workstations unless specifically approved.
Campus Response

We concur. The campus will establish guidelines to approve user administrative access to workstations. This will be completed by 31 May 2015.

DISPOSAL

Recommendation 6

We recommend that the campus document the deletion of sensitive data from auxiliary computers prior to the disposal or redeployment of the assets.

Campus Response

We concur. The campus will establish a procedure to document the deletion of sensitive data from auxiliary computers prior to the disposal or redeployment of the assets. This will be completed by 30 April 2015.

SENSITIVE DATA

Recommendation 7

We recommend that the campus perform a complete inventory and assessment of all sensitive information maintained in electronic and paper format, including information maintained in auxiliary operations.

Campus Response

We concur. The campus will perform a complete inventory and assessment of all sensitive information maintained in electronic and paper format, including information maintained in auxiliary operations. This will be completed by 31 July 2015.

INFORMATION SECURITY TRAINING

Recommendation 8

We recommend that the campus train all auxiliary employees with access to protected data and information assets in information security awareness.

Campus Response

We concur. The campus will train auxiliary employees with access to protected data and information assets in information security awareness. This will be completed by 31 July 2015.

USER ACCESS CONTROLS

Recommendation 9

We recommend that the campus include requested security roles on all DAR forms.
Campus Response

We concur. The campus will include requested security roles on all DAR forms. This will be completed by 30 June 2015.
OPERATING AND ADMINISTRATIVE AGREEMENTS

Recommendation 10

We recommend that the Foundation establish a written agreement with the Corporation for the payment of the Foundation’s operating expenses.

Campus Response

We concur. The Foundation will establish a written agreement with the Corporation for the payment of the Foundation’s operating expenses. This will be completed by 31 May 2015.

CORPORATE GOVERNANCE

Recommendation 11

We recommend that the Foundation file all future changes and amendments to the Articles of Incorporation and Bylaws with the Contract Services and Procurement department at the chancellor’s office within 30 calendar days.

Campus Response

We concur. The Foundation will file all future changes and amendments to the Articles of Incorporation and Bylaws with the Contract Services and Procurement department at the Chancellor’s Office within 30 calendar days. This will be completed on 31 May 2015.

FISCAL COMPLIANCE

Recommendation 12

We recommend that the Foundation develop a plan to build and maintain reserves.

Campus Response

We concur. The Foundation will develop a plan to build and maintain reserves. This will be completed by 30 June 2015.

OPERATIONAL COMPLIANCE

Recommendation 13

We recommend that the Foundation obtain a written delegation of authority from the campus president giving the vice president for university advancement/Foundation chief executive officer
responsibility to accept monetary gifts and sign acknowledgement agreements and letters on behalf of the Foundation.

Campus Response

We concur. The Foundation will obtain a written delegation of authority from the campus president giving the vice president for university advancement/Foundation chief executive officer responsibility to accept monetary gifts and sign acknowledgement agreements and letters on behalf of the Foundation. This will be completed by 31 May 2015.
UNIVERSITY CORPORATION AT MONTEREY BAY

OPERATIONAL COMPLIANCE

DELEGATION OF AUTHORITY

Recommendation 14

We recommend that the Corporation obtain written delegations of authority from the campus president giving KAZU management responsibility to accept monetary gifts and sign acknowledgement agreements and letters.

Campus Response

We concur. The Corporation will obtain written delegations of authority from the campus president giving KAZU management responsibility to accept monetary gifts and sign acknowledgment agreements and letters. This will be completed by 31 May 2015.

RISK MANAGEMENT

Recommendation 15

We recommend that the Corporation develop and adopt a comprehensive written risk management policy that addresses an ongoing process to proactively identify risks, analyzes the frequency and severity of identified risks, and implements a risk mitigation program that appropriately coordinated with the campus’ risk assessment and mitigation plan.

Campus Response

We concur. The Corporation will develop a comprehensive risk management policy that addresses an ongoing process to proactively identify risks, analyzes the frequency and severity of identified risks, and implements a risk mitigation program appropriately coordinated with the campus’ risk assessment and mitigation plan. This will be completed by 30 June 2015.

FUNDRAISING

Recommendation 16

We recommend that the Corporation:

a. Obtain written approval from a delegated authority for all fundraising events with gross receipts greater than $5,000.

b. Ensure that event budgets, drafts of solicitation materials, and action plans for compliance with federal, state, and local regulations are reviewed by a delegated authority prior to the event.

c. Develop a procedure to ensure that the fundraising counsel is registered with the attorney general.

d. Execute a written agreement with the fundraising counsel in accordance with the Government Code.
Campus Response

We concur. The Corporation will:

a. Establish a procedure to obtain written approval from a delegated authority for all fundraising events with gross receipts greater than $5,000. This will be completed by 31 May 2015.

b. Establish a procedure to ensure that events budgets, drafts of solicitation materials, and action plans for compliance with federal, state, and local regulations are reviewed by a delegated authority prior to the event. This will be completed by 31 May 2015.

c. Ensure that the fundraising counsel is registered with the attorney general. The fundraising counsel was registered with the attorney general on 27 January 2015.

d. Execute a written agreement with the commercial fundraiser in accordance with the Government Code. This will be completed by 31 May 2015.

SEGREGATION OF DUTIES

CASH RECEIPTS

Recommendation 17

We recommend that the Corporation adequately segregate duties and responsibilities related to cash receipts or institute mitigating procedures approved by the campus CFO, and reiterate to the Camp Sea Lab that cash receipts must be forwarded to the central cashiering office in a timely manner.

Campus Response

We concur. The Corporation will establish a procedure that adequately segregates duties and responsibilities related to cash receipts and note that cash receipts must be forwarded to the central cashiering office in a timely manner. This will be completed by 31 May 2015.

ACCOUNTS PAYABLE

Recommendation 18

We recommend that the Corporation adequately segregate duties and responsibilities related to cash disbursements or institute mitigating procedures approved by the campus CFO.

Campus Response

We concur. The Corporation will establish mitigating procedures approved by the campus CFO related to cash disbursements. This will be completed by 31 May 2015.
FEES, REVENUES, AND RECEIVABLES

Recommendation 19
We recommend that the Corporation review the calculation of commissions received from outsourced vending services.

Campus Response
We concur. The Corporation will periodically review the calculation of commissions received from outsourced vending services. This will be completed by 31 May 2015.

PURCHASING AND ACCOUNTS PAYABLE

Recommendation 20
We recommend that the Corporation investigate and resolve open purchase orders in a timely manner.

Campus Response
We concur. The Corporation will investigate and resolve open purchase orders in a timely manner. This will be completed by 31 May 2015.

AUXILIARY PROGRAMS

CONFIDENTIALITY AGREEMENT

Recommendation 21
We recommend that the Corporation obtain data confidentiality forms that address requirements for protecting confidential information obtained during pledge drives from all KAZU volunteers prior to granting access to protected data.

Campus Response
We concur. The Corporation will review this process with KAZU to ensure that volunteer forms with the data confidentiality agreement are obtained from volunteers during pledge drives. This will be completed by 31 May 2015.

UNDERWRITING

Recommendation 22
We recommend that the Corporation require KAZU management and underwriters to sign and date all future agreements.
Campus Response

We concur. The Corporation will review the underwriting procedure with KAZU to ensure that all future agreements are appropriately signed and dated. This will be completed by 31 May 2015.

INFORMATION TECHNOLOGY

Recommendation 23

We recommend that the Corporation communicate CSU and CSUMB information security policies and practices to all auxiliary employees. At a minimum, the campus should update the auxiliary employee handbook to include information on the CSU and CSUMB information security policies and practices, such as a link to the CSUMB information security website.

Campus Response

We concur. The Corporation has updated the auxiliary employee handbook to include information on the CSU and CSUMB information security policies and practices. This was completed on 18 December 2015.
April 29, 2015

MEMORANDUM

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

FROM: Timothy P. White  
Chancellor

SUBJECT: Draft Final Report 14-08 on Auxiliary Organizations,  
California State University, Monterey Bay

In response to your memorandum of April 29, 2015, I accept the response as submitted with the draft final report on Auxiliary Organizations, California State University, Monterey Bay.

TPW/amd