

AUXILIARY ORGANIZATIONS
CALIFORNIA MARITIME ACADEMY

Audit Report 08-52
May 22, 2009

Members, Committee on Audit

Melinda Guzman, Chair
Raymond W. Holdsworth, Vice Chair
Herbert L. Carter Carol R. Chandler
Kenneth Fong Margaret Fortune
George G. Gowgani William Hauck
Henry Mendoza

Staff

University Auditor: Larry Mandel
Senior Director: Janice Mirza
Audit Manager: Gary Miller
Senior Auditor: Kwabena Boakye

BOARD OF TRUSTEES
THE CALIFORNIA STATE UNIVERSITY

CONTENTS

Executive Summary	1
Introduction	4
Background	4
Purpose	5
Scope and Methodology	5

OBSERVATIONS, RECOMMENDATIONS, AND CAMPUS RESPONSES

CAMPUS

Operational Compliance.....	8
-----------------------------	---

CALIFORNIA MARITIME ACADEMY FOUNDATION, INC.

Operating and Administrative Agreements.....	9
Operating Agreement	9
Administrative Service Agreements.....	9
Commercial Fundraiser Agreement	11
Operational Compliance.....	12
Purchasing and Accounts Payable	13
Information Technology.....	14
Password Security	14
Protected Data Assessment and Security	15
Payment Card Industry Data Security Standard Compliance	16
Information Security Training.....	18
Vendor Master File	19
Patch Management	20

ASSOCIATED STUDENTS OF THE CALIFORNIA MARITIME ACADEMY

Operating and Administrative Agreements.....	21
Operating Agreement	21
Administrative Service Agreements.....	21
Information Technology.....	22

APPENDICES

APPENDIX A:	Personnel Contacted
APPENDIX B:	Statement of Internal Controls
APPENDIX C:	Campus Response
APPENDIX D:	Chancellor's Acceptance

ABBREVIATIONS

ASCMA	Associated Students of the California Maritime Academy
CMA	California Maritime Academy
CMS	Common Management System
CSU	California State University
DMZ	Demilitarized Zone
EO	Executive Order
Foundation	California Maritime Academy Foundation, Inc.
GC	Government Code
PCI DSS	Payment Card Industry Data Security Standard
RFIN	Resolution of the Committee on Finance
SAQ	Self-Assessment Questionnaire

EXECUTIVE SUMMARY

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

California Maritime Academy 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 California Maritime Academy campus and its auxiliary organizations from December 1, 2008, through December 17, 2008, and made a study and evaluation of the system of internal compliance/internal control in effect as of December 17, 2008. This report represents our triennial review.

Our study and evaluation at the *California Maritime Academy Foundation, Inc.*, revealed certain conditions that, in our opinion, could result in errors and irregularities if not corrected. Specifically, the auxiliary did not maintain adequate control over information technology. These conditions, along with other reportable weaknesses, are described in the executive summary and in the body of the report. In our opinion, except for the weakness described above, accounting and administrative control in effect as of December 17, 2008, taken as a whole, was sufficient to meet the objectives stated above.

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

accounting and administrative control in effect as of December 17, 2008, taken as a whole, was sufficient to meet the objectives stated above.

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

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

CAMPUS

OPERATIONAL COMPLIANCE [8]

California Maritime Academy did not ensure that its auxiliaries established a risk management policy, including procedures to actively identify, analyze, quantify, and manage risk.

CALIFORNIA MARITIME ACADEMY FOUNDATION, INC.

OPERATING AND ADMINISTRATIVE AGREEMENTS [9]

An operating agreement between the California Maritime Academy Foundation, Inc. (Foundation) and the CSU Trustees expired on June 30, 2007, and had not been renewed. Certain arrangements between the Foundation and third parties were not supported by complete, written agreements; and the agreement between the Foundation and the telemarketing service provider did not contain certain provisions required for an agreement with a commercial fundraiser.

OPERATIONAL COMPLIANCE [12]

The Foundation had not developed policies and procedures to address the accounting and processing of pledges receivable, matching gifts, and endowments.

PURCHASING AND ACCOUNTS PAYABLE [13]

Certain Foundation disbursements were not supported by sufficient and appropriate documentation.

INFORMATION TECHNOLOGY [14]

Password and user security parameters were not always adequate for Foundation systems. The Foundation did not perform a periodic assessment and inventory of protected information residing on its

systems, and internal resources were not adequately protected. Further, the Foundation had not completed a Payment Card Industry (PCI) Data Security Standard (DSS) Self-Assessment Questionnaire or any other PCI DSS compliance summary plan to define its applicable vendor level and respective contractual requirements. In addition, Foundation and university advancement personnel with access to sensitive donor and financial information were not always required to complete information security awareness training and data confidentiality forms; access to add/edit vendor data in the Foundation vendor master file contained in the Financial Edge system was not adequately controlled and resulted in an inadequate segregation of duties; and the administration of patches and updates to the Foundation's Edge Application Suite was not adequately controlled.

ASSOCIATED STUDENTS OF THE CALIFORNIA MARITIME ACADEMY

OPERATING AND ADMINISTRATIVE AGREEMENTS [21]

The Associated Students of the California Maritime Academy (ASCMA) had not executed an operating agreement with the campus authorizing the issuance of stipends. Further, the agreement between the ASCMA and the campus regarding the functions provided by the auxiliary and charges for services provided by the campus expired on June 30, 2008, and had not been renewed.

INFORMATION TECHNOLOGY [22]

Password security parameters were not always adequate for ASCMA systems.

INTRODUCTION

BACKGROUND

Education Code §89900 states, in part, that the operation of auxiliary organizations shall be conducted in conformity with regulations established by the Trustees.

Education Code §89904 states, in part, that the Trustees of the California State University (CSU) and the governing boards of the various auxiliary organizations shall:

- ▶ Institute a standard systemwide accounting and reporting system for businesslike management of the operation of such auxiliary organizations.
- ▶ Implement financial standards that will assure the fiscal viability of such various auxiliary organizations. Such standards shall include proper provision for professional management, adequate working capital, adequate reserve funds for current operations and capital replacements, and adequate provisions for new business requirements.
- ▶ Institute procedures to assure that transactions of the auxiliary organizations are within the educational mission of the state colleges.
- ▶ Develop policies for the appropriation of funds derived from indirect cost payments.

The Board of Trustee policy concerning auxiliary organizations was originally adopted in July 1981 in the Resolution of the Committee on Finance (RFIN) 7-81-4. Executive Order 698, *Board of Trustees Policy for The California State University Auxiliary Organizations*, dated March 3, 1999, represents policy of the Trustees addressing CSU auxiliary organization activity and governing the internal management of the system. CSU auxiliary organizations are required to comply with Board of Trustee policy (California Code of Regulations, Title 5, Section 42402 and Education Code, Section 89900).

This executive order requires that the Office of the University Auditor will perform an internal compliance/internal control review of auxiliary organizations. The review will be used to determine compliance with law, including statutes in the Education Code and rules and regulations of Title 5, and compliance with policy of the Board of Trustees and of the campus, including appropriate separation of duties, safeguarding of assets, and reliability and integrity of information. According to Board of Trustee instruction, each auxiliary organization shall be examined on a triennial basis pursuant to procedures established by the chancellor.

The California Maritime Academy Foundation, Inc. (Foundation) was established in 1972 as a tax-exempt, charitable and educational organization. The Foundation supports the California Maritime Academy (CMA) through fundraising, acceptance of donor gifts, and management of endowments. The Foundation also runs the Marine Development Program, whereby donated boats are received and subsequently leased to third parties for about two years with the option for the lessee to buy at the end of the lease term.

The Associated Students of the California Maritime Academy (ASCMA) is a non-profit corporation originally incorporated in 1966 as the California Maritime Academy Midshipman's Fund. The ASCMA became a recognized CSU auxiliary in 1998 with the purpose to sponsor, promote and conduct essential activities closely related to the CMA instructional program, and operate the student body government. The ASCMA is governed by the Student Board of Directors and runs the ACE (Adventure, Camaraderie, Entertainment) program which plans activities such as coffee house nights, dances, ski trips, camping, and a variety of other activities for the benefit of students.

PURPOSE

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

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

SCOPE AND METHODOLOGY

Our study and evaluation were conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing* issued by the Institute of Internal Auditors, and included the audit tests we considered necessary in determining that accounting and administrative controls are in place and operative. The management review emphasized, but was not limited to, compliance with state and federal laws, Board of Trustee policies, and Office of the Chancellor policies, letters, and directives. For those audit tests that required annualized data, fiscal years 2006/07 and 2007/08 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, 2008 to December 17, 2008. Our primary focus was on internal compliance/internal control.

Specifically, we reviewed and tested:

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

- ▶ Campus oversight of auxiliary operations.

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

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

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

California Maritime Academy Foundation, Inc.

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

Associated Students of the California Maritime Academy

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

Associated Students of the California Maritime Academy (cont.)

- ▶ Cash Receipts and Handling
- ▶ Purchasing and Accounts Payable
- ▶ Auxiliary Programs
- ▶ Information Technology

Campus

Campus Oversight and Control

We have not performed any auditing procedures beyond December 17, 2008. 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

OPERATIONAL COMPLIANCE

California Maritime Academy did not ensure that its auxiliaries established a risk management policy, including procedures to actively identify, analyze, quantify, and manage risk.

Executive Order (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 California State University (CSU) Risk Management Policy guidelines. This includes an ongoing process to identify risks, analyze the frequency and severity of the potential risks, and select the best management techniques to manage the risks.

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

The campus controller stated that prior to the recent assignment of risk management duties to the university procurement officer, neither the campus nor its auxiliaries had trained personnel to address risk management issues.

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

Recommendation 1

We recommend that the campus ensure that its auxiliaries establish a risk management policy, including procedures to actively identify, analyze, quantify, and manage risk.

Campus Response

We concur. The auxiliaries will develop and have in place a risk management policy and related procedures that will be used to identify, analyze, quantify, and manage risk by August 1, 2009.

CALIFORNIA MARITIME ACADEMY FOUNDATION, INC.

OPERATING AND ADMINISTRATIVE AGREEMENTS

OPERATING AGREEMENT

An operating agreement between the California Maritime Academy Foundation, Inc. (Foundation) and the CSU Trustees expired on June 30, 2007, and had not been renewed.

Title 5 §42501 indicates that a written operating agreement on behalf of the State of California by the chancellor of the CSU, and the auxiliary organization is required for the performance by such auxiliary organization of any functions listed in §42500.

The campus controller stated that the operating agreement had not been renewed due to the lack of a mechanism for tracking contract expiration dates.

The absence of a current, written agreement increases the risk of misunderstandings and miscommunication regarding rights and responsibilities.

Recommendation 2

We recommend that the Foundation promptly renew its operating agreement with the CSU Trustees and implement a process to ensure that future agreements with the Trustees are timely renewed.

Campus Response

We concur. The Foundation will have a current operating agreement with the CSU Trustees and implement a tracking mechanism to ensure such agreements are timely renewed by August 1, 2009.

ADMINISTRATIVE SERVICE AGREEMENTS

Certain arrangements between the Foundation and third parties were not supported by complete, written agreements.

We found that:

- ▶ The arrangement between the Foundation and the special consultant for professional services related to outreach and networking was not supported by a written agreement.
- ▶ The agreements with the telemarketing service provider for annual fundraising and the service provider for the marine spill management simulator did not specifically indemnify the CSU Trustees, the campus, and the State of California.

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.

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

The campus vice president of advancement/Foundation executive director stated that a separate contract was not executed with the special consultant because the consultant already had a service contract with the campus for advancement services. He further stated that since the consultant's personnel performing campus advancement services were also performing Foundation fundraising activities, it had not occurred to them that a separate contract should have been prepared for each entity. He also stated that the omission of an indemnification clause in the two agreements was due to the lack of coordination and planning between Foundation management and campus procurement personnel.

Operating in the absence of a written agreement and appropriate indemnification clause increases the risk of misunderstandings and miscommunication regarding rights and responsibilities, and subjects the auxiliary and CSU to potential liability.

Recommendation 3

We recommend that the Foundation:

- a. Establish a written agreement with the special consultant.
- b. Establish a procedure to ensure that future agreements include appropriate indemnification provisions.

Campus Response

We concur. Although we no longer are engaged with the special consultant, the Foundation will establish procedure(s) that ensure that all future agreements include appropriate indemnification provisions. This will be completed by August 1, 2009.

COMMERCIAL FUNDRAISER AGREEMENT

An agreement between the Foundation and a telemarketing service provider did not contain certain required provisions.

Specifically, the agreement did not contain the following, as required by the California Nonprofit Integrity Act of 2004 and codified in Government Code (GC) §12599 (i):

- ▶ If the commercial fundraiser will be paid a fixed fee, the amount of the fee and a good faith estimate of what percentage of the total contributions the fee will comprise. The contract must clearly set forth the assumptions on which the good faith estimate is based.
- ▶ All contributions received by the commercial fundraiser must, within five working days of receipt, either be deposited in a bank account controlled by the charitable organization or delivered in person to the charitable organization.
- ▶ The charitable organization has a right to cancel the contract without cost, penalty, or liability for ten days following the date the contract is executed.
- ▶ After the initial 10-day period, the charitable organization has a right to cancel the contract for any reason without liability if the commercial fundraiser or its agents make material misrepresentations, harm the charitable organization's reputation, or are found to have been convicted of a crime arising from charitable solicitations.

GC §12599(i) states that for every solicitation campaign or event produced by a commercial fundraiser for a charitable organization, there must be a written contract between the fundraiser and the charitable organization. The written contract must contain or state certain provisions.

The campus vice president of advancement/Foundation executive director stated that the Foundation intended to contract for telemarketing services but was unaware of the commercial fundraiser contract requirements.

Failure to execute agreements in accordance with legal mandates increases the risk of misunderstandings regarding rights and responsibilities and may increase legal liability.

Recommendation 4

We recommend that the Foundation establish procedures to ensure that all future commercial fundraiser agreements are established in accordance with the Government Code.

Campus Response

We concur. We will establish procedures to ensure that all commercial fundraiser agreements are prepared in accordance with the applicable Government Code by August 1, 2009.

OPERATIONAL COMPLIANCE

The Foundation had not developed policies and procedures to address the accounting and processing of pledges receivable, matching gifts, and endowments.

Specifically, policies and procedures should address:

- ▶ Identification, tracking, follow-up, and evaluation of outstanding pledges receivable.
- ▶ Obtaining a corporate matching gift agreement, review of matching gifts to ensure appropriate deposit with eligible recipients, and follow-up of outstanding corporate matching gifts.
- ▶ Endowment dollar thresholds, set-up fees, and execution of endowment agreements outlining donor intent.

The *Compilation of Policies and Procedures for California State University Auxiliary Organizations* sets sound business practice guidelines for auxiliary organizations operating within the CSU system. Section 8.9.4, *Receivables (including Pledges)*, states that the auxiliary should record unconditional promises, such as donor pledges, at fair value and have verifiable documentation and exercise due diligence in the follow-up of past-due accounts.

The *Compilation of Policies and Procedures for California State University Auxiliary Organizations* sets sound business practice guidelines for auxiliary organizations operating within the CSU system. Section 8.9.3, *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.

EO 676, *Delegation of Gift Evaluation and Acceptance to Campuses*, dated February 1, 1998, delegated authority to campus presidents to evaluate and accept gifts, bequests, and donations of personal property to campuses. Campus presidents may further delegate this authority in whole or in part to campus officers and employees. Henceforth, campuses will evaluate potential campus gifts, bequests, and donations and accept and receipt campus gifts, bequests, and donations in accordance with the requirements of the California Education Code Sections 89720 and 66010.4(b).

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

The campus vice president of advancement/Foundation executive director stated that the Foundation had not yet adopted all the necessary business best practices and was in the process of developing all the policies and procedures needed for its growing operations.

The absence of written policies and procedures increases the risk that errors, inconsistencies, misunderstandings, and misappropriation will occur.

Recommendation 5

We recommend that the Foundation develop written policies and procedures to address the accounting and processing of pledges receivable, matching gifts, and endowments.

Campus Response

We concur. The Foundation will have policies and accounting procedures in place for pledges receivable, matching gifts, and endowments by August 1, 2009.

PURCHASING AND ACCOUNTS PAYABLE

Certain Foundation cash disbursements were not supported by sufficient and appropriate documentation.

Our review of 42 disbursements disclosed that 24 purchases of goods and/or services over \$1,000 lacked an approved requisition form.

The California Maritime Academy *Accounts Payable Direct Payment Procedures* state, in part, that the purchase of commodities or off-campus services that exceed \$1,000 should be requested using a requisition before ordering or before the service is scheduled or contracted.

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

The campus vice president of advancement/Foundation executive director stated that requisitions were not used for those disbursements due to oversight.

The lack of sufficient and appropriate supporting documentation increases the risk of errors, irregularities, and misappropriation of funds.

Recommendation 6

We recommend that the Foundation reiterate to staff existing cash disbursement policies and procedures regarding the use of requisition forms for the purchase of goods and services over \$1,000.

Campus Response

We concur. The Foundation will develop a policy and related procedures that require the use of requisitions for purchases of goods and services over \$1,000 by August 1, 2009.

INFORMATION TECHNOLOGY

PASSWORD SECURITY

Password and user security parameters were not always adequate for Foundation systems.

The following password and user account security parameters were set outside of leading security standards:

Active Directory:

- ▶ Minimum Password Length = At least six characters.

Edge Application Suite (Raiser's Edge, Financial Edge, and Researcher's Edge):

- ▶ Passwords never expire.
- ▶ Generic accounts for "supervisor" and "student."

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 strong password and login parameters, and the elimination of generic accounts.

The campus director of Common Management Systems (CMS) and information security stated that the Active Directory password length parameter and use of generic accounts were due to oversight, and the Edge Application Suite system did not allow changes to the vendor-established password controls.

Insufficient password parameters and the existence of generic user accounts may compromise the authentication credentials of user account privileges that are embedded into applications and operating systems; all of which increase the risk of unauthorized access to auxiliary systems and confidential data.

Recommendation 7

We recommend that the Foundation:

- a. Reassess its system password settings to include longer password requirements, a maximum password expiration limit, and forced password changes subsequent to the expiration limit. If the system is not capable of such security settings, then we recommend that a password policy be developed and communicated to users to prompt periodic password changes.
- b. Examine the necessity for generic accounts and discontinue their use if at all possible.

Campus Response

We concur. The Foundation will require longer passwords and force those passwords to be automatically changed on a periodic basis. This will be accomplished by the use of Active Directory software. The use of any generic accounts will be discontinued. We will have this in place and functioning by August 1, 2009.

PROTECTED DATA ASSESSMENT AND SECURITY

The Foundation did not perform a periodic assessment and inventory of protected information residing on its systems, and internal resources were not adequately protected.

We found that:

- ▶ The Foundation had not conducted a detailed assessment of protected information residing on auxiliary systems, and the protected information was not formally inventoried.
- ▶ The Edge Application Suite and database server (MySQL) which contained critical financial and sensitive donor information were not encrypted.
- ▶ Departmental shared drives on Foundation file servers were not encrypted and since an assessment of protected data had not been conducted, the existence of protected data was unknown.
- ▶ The lack of a demilitarized zone (DMZ) increased the risk of internal network exposure to security compromises as all file, application, and database servers were located within the same network segment as Internet-accessible devices (web servers).

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 periodic assessment and inventory of protected information residing on auxiliary systems, as well as the protection and encryption of any protected data residing on systems.

The campus director of CMS and information security stated that the protected data assessment and inventory of auxiliary systems had not been conducted due to competing information technology priorities and resource requirements. She further stated that the Edge Suite system and departmental servers were not encrypted due to oversight. The campus data center supervisor stated that a DMZ was not in place between web servers and internal campus resources due to insufficient resources to fund such a project.

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

Recommendation 8

We recommend that the Foundation:

- a. Conduct an assessment and inventory of protected information, and ensure that a reassessment is completed, at least annually. Such an assessment would reference applications, servers/systems, databases, storage locations, protected data types, approximations for number of protected data files, existing security controls, interfaces with other systems, custodians of record, technical security officers, and individuals permitted access.
- b. Properly secure all systems and servers containing protected data.
- c. Evaluate the feasibility of implementing a DMZ to separate and protect internal campus resources from Internet-accessible devices.

Campus Response

We concur. The campus information security officer will prepare a protected data assessment report including a corrective action plan and cost elements for the vice president for administration and chief financial officer by October 1, 2009. Upon approval of the plan, feasibility, and availability of resources, steps will be taken to properly secure all systems and servers.

PAYMENT CARD INDUSTRY DATA SECURITY STANDARD COMPLIANCE

The Foundation had not completed a Payment Card Industry (PCI) Data Security Standard (DSS) Self-Assessment Questionnaire (SAQ) or any other PCI DSS compliance summary plan to define its applicable vendor level and respective contractual requirements.

We found that:

- ▶ A compliance assessment was not performed to determine comprehensive compliance obligations for credit card data maintained on auxiliary servers and transmitted throughout the campus network as required by PCI DSS.
- ▶ An annual PCI DSS SAQ was not completed.

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

The PCI DSS is a set of comprehensive requirements for enhancing payment account data security, which was developed by the founding payment brands of the PCI Security Standards Council, including American Express, Discover Financial Services, JCB International, MasterCard Worldwide and Visa Inc. International, to help facilitate the broad adoption of consistent data security measures on a global basis. The PCI DSS is a multifaceted security standard that includes requirements for security management, policies, procedures, network architecture, software design and other critical protective measures. This comprehensive standard is intended to help organizations proactively protect customer account data. According to payment brand rules, all merchants and their service providers are required to comply with the PCI DSS in its entirety.

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

The campus director of CMS and information security stated that the campus was aware of PCI DSS requirements but was unsure of the campus' applicable vendor level and specific requirements.

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

Recommendation 9

We recommend that the Foundation and the campus:

- a. Conduct a PCI DSS assessment to determine their applicable vendor level and respective PCI DSS requirements.
- b. Complete all PCI DSS requirements including an annual SAQ and quarterly network scans by an approved vendor, if required.

Campus Response

We concur. The campus information security officer, in conjunction with the campus controller, will conduct a PCI DSS assessment and comply with all PCI DSS requirements by October 1, 2009.

INFORMATION SECURITY TRAINING

Foundation and university advancement personnel with access to sensitive donor and financial information were not always required to complete information security awareness training and confidentiality forms.

Specifically, if personnel only had access to the donor system, they were not required to complete either information security awareness training or a data confidentiality form.

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 periodic information security training for all employees with access to critical systems or protected data, as well as the required completion of data confidentiality forms.

The campus director of CMS and information security stated that information security awareness training was provided to employees granted PeopleSoft system access; however, this training program and confidentiality forms were not required of employees only granted access to the donor systems.

Failure to provide employees with information security awareness training and require signed data confidentiality forms increases the risk of mismanagement of protected data, which increases auxiliary and campus exposure to security breaches and could compromise compliance with statutory information security requirements.

Recommendation 10

We recommend that the Foundation require completion of:

- a. Information security awareness training by all employees with access to critical systems or protected data.
- b. Confidentiality forms by all employees granted access to critical systems or protected data.

Campus Response

We concur. Staff involved with Foundation activity will receive information security awareness training and sign confidentiality forms by August 1, 2009.

VENDOR MASTER FILE

Access to add/edit vendor data in the Foundation vendor master file contained in the Financial Edge system was not adequately controlled and resulted in an inadequate segregation of duties.

We found that users within the “accounts payable limited” and “accounts payable group” security groups were able to add/edit vendor data in the Foundation vendor master file and were also able to approve and voucher 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 controls system that ensures cash receipts and disbursements are conducted with appropriate segregation of duties.

The campus controller stated that the vendor master file was accessible to these incompatible duties within PeopleSoft as a result of oversight.

Failure to maintain adequate control over access to the vendor master file increases the risk of fraudulently misdirected payments.

Recommendation 11

We recommend that the Foundation ensure that users with accounts payable vouchering duties are restricted from add/edit access to the vendor master file.

Campus Response

We concur. The segregation of duties weakness regarding access to the vendor master file by persons with access to the accounts payable vouchering duties will be corrected by August 1, 2009.

PATCH MANAGEMENT

The administration of patches and updates to the Foundation's Edge Application Suite was not adequately controlled.

New patches and updates were not tested in a separate test environment prior to application to the production environment.

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 adequate separation of test and production environments.

The campus data center supervisor stated that the application of patches and updates to the production system was not first tested in a test environment because of a lack of resources available to support such testing.

Failure to adequately test new system patches and updates in an environment separate from the production environment increases the risk of damages to auxiliary systems and the loss of production data not yet backed up.

Recommendation 12

We recommend that the Foundation implement a separate test environment for the testing of new patches and updates prior to the application of such patches and updates to the production environment.

Campus Response

We concur that patches and updates should be tested prior to use in the production environment. We will accomplish this by making a backup the evening before the patches and updates are placed into production and testing same in production prior to proceeding with normal daily processing. In the event that the testing identifies problems, the backup from the prior night will be restored in production until the problems can be corrected. This procedure will be in effect beginning August 1, 2009.

ASSOCIATED STUDENTS OF THE CALIFORNIA MARITIME ACADEMY

OPERATING AND ADMINISTRATIVE AGREEMENTS

OPERATING AGREEMENT

The Associated Students of the California Maritime Academy (ASCMA) had not executed an operating agreement with the campus authorizing the issuance of stipends.

The ASCMA provided monthly stipends to student government officers.

Title 5 §42501 indicates that a written agreement on behalf of the State of California by the chancellor of the CSU and the auxiliary organization is required for the performance by such auxiliary organization of any functions listed in §42500, except student body organization activities. If the auxiliary performs more than a single function, then the written agreement may cover any number of the functions. Title 5 §42502 states that the operating agreement should specify the function or functions which the organization is to manage, operate, or administer.

The campus controller stated that the operating agreement had not been executed due to oversight.

The absence of a written agreement increases the risk of misunderstandings and miscommunication regarding rights and responsibilities.

Recommendation 13

We recommend that the ASCMA execute an operating agreement with the campus including the issuance of stipends as an authorized function.

Campus Response

We concur. We will have the ASCMA execute an operating agreement with the campus by August 1, 2009.

ADMINISTRATIVE SERVICE AGREEMENTS

The agreement between the ASCMA and the campus regarding the functions provided by the auxiliary and charges for services provided by the campus expired on June 30, 2008, and had not been renewed.

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

business practices. Sound business practice mandates that business arrangements be supported by current, written agreements.

The campus controller stated that the agreement was not timely renewed due to ongoing negotiations of contract terms.

Operating in the absence of a current, written agreement increases the risk of misunderstandings and miscommunication regarding rights and responsibilities.

Recommendation 14

We recommend that the ASCMA promptly renew its agreement with the campus.

Campus Response

We concur. The operating agreement between the ASCMA and the campus will be in place by August 1, 2009.

INFORMATION TECHNOLOGY

Password security parameters were not always adequate for ASCMA systems.

The following password security parameters were set outside of leading security standards:

PeopleSoft Finance:

- ▶ Minimum Password Length = At least six characters.
- ▶ Enforce Password Complexity Requirements (numbers and special characters) = Not enabled.

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 strong password parameters.

The campus accounting manager stated that the PeopleSoft system password length and complexity requirements were considered to be adequate.

Insufficient password parameters may compromise the authentication credentials of user account privileges that are embedded into applications and operating systems, which increase the risk of unauthorized access to auxiliary systems and confidential data.

Recommendation 15

We recommend that the ASCMA reassess its security requirements and set effective password security controls for its computer systems.

Campus Response

We concur. The ASCMA will reassess its security requirements and set effective password controls for its computer systems by September 1, 2009.

**APPENDIX A:
PERSONNEL CONTACTED**

<u>Name</u>	<u>Title</u>
CAMPUS	
William B. Eisenhardt	President
Walter Abarca	Data Center Supervisor
Josie Alexander	Dean of Students/Director of Student Life
Jannette Corpus	Director of CMS and Information Security
Thomas Dunworth	Vice President, Advancement/Foundation Executive Director
Susan Foft	Accounting Manger
Tom Morgan	Server Administrator
Mark Nickerson	Vice President, Administration and Finance
Bobbie Solveson	Database Analyst
Karen Spall	Administrative Assistant
Kenneth Toet	Controller
Vance Webb	Help Desk Specialist
Jennifer Whitty	Director, Development and Alumni Relations
Louis Wilfong	Help Desk Specialist

STATEMENT OF INTERNAL CONTROLS

A. INTRODUCTION

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

B. INTERNAL CONTROL DEFINITION

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

1. Internal Accounting Controls

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

2. Operational Controls

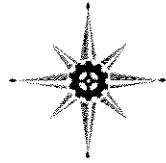
Operational controls comprise the plan of organization and all methods and procedures that are concerned mainly with operational efficiency and adherence to managerial policies and usually relate only indirectly to the financial records.

C. INTERNAL CONTROL OBJECTIVES

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

D. INTERNAL CONTROL SYSTEMS LIMITATIONS

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



CAL MARITIME

Vice President for Administration and Finance

July 2, 2009

RECEIVED
UNIVERSITY AUDITOR

JUL - 6 2009

THE CALIFORNIA STATE
UNIVERSITY

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

RE: Response to CMA Audit Report 08-52, Auxiliary Organizations

Dear Mr. Mandel,

Enclosed are our responses to the findings from Audit Report 08-52, Auxiliary Organizations for the California Maritime Academy.

If there is further information that we can provide, please contact me.

Sincerely,

Mark Nickerson
Vice President for Administration and Finance

cc: William B. Eisenhardt, President
Ken Toet, Controller
File

MN:ss

THE CALIFORNIA MARITIME ACADEMY

200 Maritime Academy Drive, Vallejo, CA 94590-8181 · PHONE (707) 654-1038 · FAX (707) 654-1013 · www.csum.edu · E-MAIL mnickerson@csum.edu

The California State University: Bakersfield · Channel Islands · Chico · Dominguez Hills · Fresno · Fullerton · Hayward · Humboldt · Long Beach · Los Angeles · Maritime Academy
Monterey Bay · Northridge · Pomona · Sacramento · San Bernardino · San Diego · San Francisco · San Jose · San Luis Obispo · San Marcos · Sonoma · Stanislaus

**AUXILIARY ORGANIZATIONS
CALIFORNIA MARITIME ACADEMY**

Audit Report 08-52

CAMPUS

OPERATIONAL COMPLIANCE

Recommendation 1

We recommend that the campus ensure that its auxiliaries establish a risk management policy, including procedures to actively identify, analyze, quantify, and manage risk.

Campus Response

We concur. The auxiliaries will develop and have in place a risk management policy and related procedures that will be used to identify, analyze, quantify and manage risk by August 1, 2009.

CALIFORNIA MARITIME ACADEMY FOUNDATION, INC.

OPERATING AND ADMINISTRATIVE AGREEMENTS

OPERATING AGREEMENT

Recommendation 2

We recommend that the Foundation promptly renew its operating agreement with the CSU Trustees and implement a process to ensure that future agreements with the Trustees are timely renewed.

Campus Response

We concur. The Foundation will have a current operating agreement with the CSU Trustees and implement a tracking mechanism to ensure such agreements are timely renewed by August 1, 2009.

ADMINISTRATIVE SERVICE AGREEMENTS

Recommendation 3

We recommend that the Foundation:

- a. Establish a written agreement with the special consultant.
- b. Establish a procedure to ensure that future agreements include appropriate indemnification provisions.

Campus Response

We concur. Although we no longer are engaged with the special consultant, the Foundation will establish procedure(s) that ensure that all future agreements include appropriate indemnification provisions. This will be completed by August 1, 2009.

COMMERCIAL FUNDRAISER AGREEMENT

Recommendation 4

We recommend that the Foundation establish procedures to ensure that all future commercial fundraiser agreements are established in accordance with the Government Code.

Campus Response

We concur. We will establish procedures to ensure that all commercial fundraiser agreements are prepared in accordance with the applicable Government Code by August 1, 2009.

OPERATIONAL COMPLIANCE

Recommendation 5

We recommend that the Foundation develop written policies and procedures to address the accounting and processing of pledges receivable, matching gifts, and endowments.

Campus Response

We concur. The foundation will have policies and accounting procedures in place for pledges receivable, matching gifts, and endowments by August 1, 2009.

PURCHASING AND ACCOUNTS PAYABLE

Recommendation 6

We recommend that the Foundation reiterate to staff existing cash disbursement policies and procedures regarding the use of requisition forms for the purchase of goods and services over \$1,000.

Campus Response

We concur. The Foundation will develop a policy and related procedures that require the use of requisitions for purchases of goods and services over \$1,000 by August 1, 2009.

INFORMATION TECHNOLOGY

PASSWORD SECURITY

Recommendation 7

We recommend that the Foundation:

- a. Reassess its system password settings to include longer password requirements, a maximum password expiration limit, and forced password changes subsequent to the expiration limit. If the system is not capable of such security settings, then we recommend that a password policy be developed and communicated to users to prompt periodic password changes.
- b. Examine the necessity for generic accounts and discontinue their use if at all possible.

Campus Response

We concur. The Foundation will require longer passwords and force those passwords to be automatically changed on a periodic basis. This will be accomplished by the use of Active Directory software. The use of any generic accounts will be discontinued. We will have this in place and functioning by August 1, 2009.

PROTECTED DATA ASSESSMENT AND SECURITY

Recommendation 8

We recommend that the Foundation:

- a. Conduct an assessment and inventory of protected information, and ensure that a reassessment is completed, at least annually. Such an assessment would reference applications, servers/systems, databases, storage locations, protected data types, approximations for number of protected data files, existing security controls, interfaces with other systems, custodians of record, technical security officers, and individuals permitted access.
- b. Properly secure all systems and servers containing protected data.
- c. Evaluate the feasibility of implementing a DMZ to separate and protect internal campus resources from Internet-accessible devices.

Campus Response

We concur. The campus Information Security Officer will prepare a protected data assessment report including a corrective action plan and cost elements for the Vice President for Administration and Chief Financial Officer by October 1, 2009. Upon approval of the plan, feasibility and availability of resources, steps will be taken to properly secure all systems and servers.

PAYMENT CARD INDUSTRY DATA SECURITY STANDARD COMPLIANCE

Recommendation 9

We recommend that the Foundation and the campus:

- a. Conduct a PCI DSS assessment to determine their applicable vendor level and respective PCI DSS requirements.
- b. Complete all PCI DSS requirements including an annual SAQ and quarterly network scans by an approved vendor, if required.

Campus Response

We concur. The campus Information Security Officer, in conjunction with the campus Controller, will conduct a PCI DSS assessment and comply with all PCI DSS requirements by October 1, 2009.

INFORMATION SECURITY TRAINING

Recommendation 10

We recommend that the Foundation require completion of:

- a. Information security awareness training by all employees with access to critical systems or protected data.
- b. Confidentiality forms by all employees granted access to critical systems or protected data.

Campus Response

We concur. Staff involved with Foundation activity will receive information security awareness training and sign confidentiality forms by August 1, 2009.

VENDOR MASTER FILE

Recommendation 11

We recommend that the Foundation ensure that users with accounts payable vouchering duties are restricted from add/edit access to the vendor master file.

Campus Response

We concur. The segregation of duties weakness regarding access to the vendor master file by persons with access to the accounts payable vouchering duties will be corrected by August 1, 2009.

PATCH MANAGEMENT

Recommendation 12

We recommend that the Foundation implement a separate test environment for the testing of new patches and updates prior to the application of such patches and updates to the production environment.

Campus Response

We concur that patches and updates should be tested prior to use in production environment. We will accomplish this by making a backup the evening before the patches and updates are placed into production and testing same in production prior to proceeding with normal daily processing. In the event that the testing identifies problem(s), the backup from the prior night will be restored in production until the problems can be corrected. This procedure will be in effect beginning August 1, 2009.

ASSOCIATED STUDENTS OF THE CALIFORNIA MARITIME ACADEMY

OPERATING AND ADMINISTRATIVE AGREEMENTS

OPERATING AGREEMENT

Recommendation 13

We recommend that the ASCMA execute an operating agreement with the campus including the issuance of stipends as an authorized function.

Campus Response

We concur. We will have the ASCMA execute an operating agreement with the campus by August 1, 2009.

ADMINISTRATIVE SERVICE AGREEMENTS

Recommendation 14

We recommend that the ASCMA promptly renew its agreement with the campus.

Campus Response

We concur. The operating agreement between the ASCMA and the campus will be in place by August 1, 2009.

INFORMATION TECHNOLOGY

Recommendation 15

We recommend that the ASCMA reassess its security requirements and set effective password security controls for its computer systems.

Campus Response

We concur. The ASCMA will reassess its security requirements and set effective password controls for its computer systems by September 1, 2009.

THE CALIFORNIA STATE UNIVERSITY
OFFICE OF THE CHANCELLOR



BAKERSFIELD

August 5, 2009

CHANNEL ISLANDS

CHICO

MEMORANDUM

DOMINGUEZ HILLS

TO: Mr. Larry Mandel
University Auditor

EAST BAY

FROM: Charles B. Reed
Chancellor

FRESNO

FULLERTON

SUBJECT: Draft Final Audit Report 08-52 on *Auxiliary Organizations*,
California Maritime Academy

HUMBOLDT

LONG BEACH

In response to your memorandum of August 5, 2009, I accept the response as submitted with the draft final report on *Auxiliary Organizations*, California Maritime Academy.

LOS ANGELES

MARITIME ACADEMY

MONTEREY BAY

CBR/amd

NORTHRIDGE

Enclosure

POMONA

c: Dr. William B. Eisenhardt, President
Mr. Mark Nickerson, Vice President, Administration and Finance

SACRAMENTO

SAN BERNARDINO

SAN DIEGO

SAN FRANCISCO

SAN JOSE

SAN LUIS OBISPO

SAN MARCOS

SONOMA

STANISLAUS