

AUXILIARY ORGANIZATIONS

**CALIFORNIA POLYTECHNIC STATE UNIVERSITY,
SAN LUIS OBISPO**

**Audit Report 11-06
December 7, 2011**

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ABBREVIATIONS

ASI	Associated Students, Incorporated of California Polytechnic State University at San Luis Obispo
BCP	Business Continuity Plan
Corporation	Cal Poly Corporation
CSU	California State University
DRP	Disaster Recovery Plan
EO	Executive Order
Foundation	California Polytechnic State University Foundation
Housing	Cal Poly Housing Corporation
ICSUAM	Integrated California State University Administrative Manual
IT	Information 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 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 Polytechnic State University, San Luis Obispo 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 Polytechnic State University, San Luis Obispo campus and its auxiliary organizations from July 18, 2011, through August 11, 2011, and made a study and evaluation of the system of internal compliance/internal control in effect as of August 11, 2011. This report represents our triennial review.

Our study and evaluation at *California Polytechnic State University Foundation* did not reveal any significant internal control problems or weaknesses that would be considered pervasive in their effects on the accounting and administrative controls. There were no major findings revealed during our review. In our opinion, the accounting and administrative control in effect as of August 11, 2011, taken as a whole, was sufficient to meet the objectives stated above.

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

control in effect as of August 11, 2011, taken as a whole, was sufficient to meet the objectives stated above.

Our study and evaluation at *Cal Poly Housing Corporation* did not reveal any significant internal control problems or weaknesses that would be considered pervasive in their effects on the accounting and administrative controls. There were no major findings revealed during our review. In our opinion, the accounting and administrative control in effect as of August 11, 2011, taken as a whole, was sufficient to meet the objectives stated above.

Our study and evaluation at *Associated Students, Incorporated of California Polytechnic State University at San Luis Obispo* 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 August 11, 2011, taken as a whole, was sufficient to meet the objectives stated above.

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

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

CAL POLY CORPORATION

OPERATING AND ADMINISTRATIVE AGREEMENTS [10]

Certain business arrangements between the Cal Poly Corporation (Corporation) and third-party service providers were not supported by written agreements. Specifically, a business arrangement between the Corporation and a third-party service provider that performed the bookstore and dining physical inventory counts was not documented, and a business arrangement between the Corporation and an outside vendor for the manufacture and sale of dairy products was expired.

OPERATIONAL COMPLIANCE [11]

The Corporation had not developed written policies and procedures to address inventory and merchandise receiving at the bookstore.

CASH RECEIPTS AND HANDLING [12]

Cashiering controls needed improvement at the Corporation's dairy science unit, crop science unit, customer service area, campus dining cash office, and various campus dining locations. For example, cash receipts processed by the dairy science unit were not supported with an advice-of-sale receipt, and checks received by the crop science unit were not restrictively endorsed immediately upon receipt.

FEES, REVENUES, AND RECEIVABLES [14]

The Corporation extension-of-credit program needed improvement. Specifically, credit applications, credit references, and a credit report were not obtained prior to the extension of credit, and credit limits had not been established.

PURCHASING AND ACCOUNTS PAYABLE [15]

Corporation travel was not always approved in advance on a travel request form.

PROPERTY AND EQUIPMENT [16]

The Corporation did not always tag assets.

RETAIL AND COMMODITY INVENTORY [17]

Administration of goods transferred from the Corporation's horticulture and crop science units to the off-campus farmer's market and the campus farm market was inadequate. Specifically, inventory counts were not conducted for goods transferred to the off-campus farmer's market and the campus farm market at the time of transfer, the start of sale, and the end of the day to determine and maintain accountability over the quantity of goods sold.

INFORMATION TECHNOLOGY [18]

The Corporation had not performed a business impact assessment to define the business dependence on data processing services and the expected recovery timeline, and the business continuity plan did not include procedures for manually recovering up to one week's worth of lost data. Additionally, the information technology disaster recovery plan did not include adequate details for the recovery of the Corporation's systems and network, and security settings on the bookstore AS 400 system used by the Corporation were not set to restrict command line access to only those individuals who needed it to perform their job duties.

**ASSOCIATED STUDENTS, INCORPORATED OF
CALIFORNIA POLYTECHNIC STATE UNIVERSITY AT SAN LUIS OBISPO**

CORPORATE GOVERNANCE [21]

Associated Students, Incorporated of California Polytechnic State University at San Luis Obispo (ASI) internal review committee meeting minutes were not always recorded.

PERSONNEL AND PAYROLL [21]

ASI administration of personnel and payroll needed improvement. Specifically, employee payroll information forms were not always signed by an employee or a supervisor, and prior approval was not obtained for all overtime.

INTRODUCTION

BACKGROUND

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

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

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

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

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

California Polytechnic State University Foundation

The California Polytechnic State University Foundation (Foundation) acts as the philanthropic auxiliary for the campus. The sole function of the Foundation is to collect, invest, and administer all gifts, bequests, endowments, trusts, and similar funds received by the campus. Fund-raising activities of the Foundation are carried out by board members and other volunteers under the general direction of the board development committee and with support from university advancement staff. The Foundation is governed by a board of directors composed of faculty, alumni, and community members, and the vice

president of university advancement provides campus oversight. The Cal Poly Corporation performs all accounting and business administration support services.

Cal Poly Corporation

The Cal Poly Corporation (Corporation) was established in 1940 as a non-profit public benefit corporation to assist and promote the educational mission of the California Polytechnic State University, San Luis Obispo. The Corporation acts as the primary entity responsible for commercial operations, which include the El Corral Bookstore, campus dining, university graphics systems, sponsored programs, and a host of other programs. In addition, the Corporation, in cooperation with the appropriate campus administrative offices, provides fiscal services to instructionally related programs, conferences, workshops, and institutes to supplement the instructional programs and agency activities as requested by the university. The Corporation also provides accounting and business administration services for the Foundation, Cal Poly Housing Corporation, and Associated Students, Incorporated of California Polytechnic State University at San Luis Obispo. The Corporation is governed by a board of directors composed of faculty, staff, student, and community members.

Cal Poly Housing Corporation

The Cal Poly Housing Corporation (Housing) was established in 2001 as a non-profit public benefit corporation to support the academic mission of the California Polytechnic State University, San Luis Obispo. Housing is responsible for the planning, development, operation, and maintenance of affordable housing and the related housing programs. These housing programs are for the use and convenience of faculty, staff, and students of the university in order to foster an academic community and environment on or near the campus and to attract and retain the highest quality faculty, staff, and students at the university. Housing is governed by a board of directors composed of faculty, staff, student, and community members. Housing does not have employees and relies on Corporation personnel for all accounting and business administration support services.

Associated Students, Incorporated of California Polytechnic State University at San Luis Obispo

Associated Students, Incorporated of California Polytechnic State University at San Luis Obispo (ASI) was established in 1964 as a non-profit public benefit corporation to administer and provide oversight of University Union and ASI-funded programs and services. The mission of ASI is to enrich the quality of student life and to complement the educational mission of California Polytechnic State University, San Luis Obispo through shared governance, student employment, student advocacy, and a variety of diverse programs and services. ASI administers Julian A. McPhee University Union, Orfalea Family and ASI Children's Center, Recreational Center, and Cal Poly Sports Complex. ASI is governed by a board of directors composed of representatives from the student body, and the president of ASI is the chief executive of the auxiliary, though ASI does employ an executive director to manage day-to-day operations and to provide consistency between student administrations. ASI is responsible for the fiscal administration of student organizations and relies on the Corporation for certain accounting and business administration support services.

PURPOSE

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

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

SCOPE AND METHODOLOGY

Our study and evaluation were conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing* issued by the Institute of Internal Auditors, and included the audit tests we considered necessary in determining that accounting and administrative controls are in place and operative. The management review emphasized, but was not limited to, compliance with state and federal laws, Board of Trustee policies, and Office of the Chancellor policies, letters, and directives. For those audit tests that required annualized data, fiscal years 2008/09 and 2009/10 were the primary periods reviewed. In certain instances, we were concerned with representations of the most current data; in such cases, the test period was July 1, 2010, to August 11, 2011. Our primary focus was on internal compliance/internal control.

Specifically, we reviewed and tested:

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

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

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

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

California Polytechnic State University Foundation

- ▶ Operating and Administrative Agreements
- ▶ Facilities Agreements
- ▶ Corporate Governance
- ▶ Fiscal Compliance
- ▶ Operational Compliance
- ▶ Program Compliance
- ▶ Campus Oversight and Control
- ▶ Segregation of Duties
- ▶ Investments
- ▶ Fees, Revenues, and Receivables
- ▶ Matching Gift Administration
- ▶ Endowment Administration

Cal Poly Corporation

- ▶ Operating and Administrative Agreements
- ▶ Facilities Agreements
- ▶ Corporate Governance
- ▶ Fiscal Compliance
- ▶ Operational Compliance
- ▶ Program Compliance
- ▶ Campus Oversight and Control
- ▶ Segregation of Duties
- ▶ Cash Receipts and Handling
- ▶ Cash Disbursement
- ▶ Petty Cash and Change Funds
- ▶ Investments
- ▶ Fees, Revenues, and Receivables
- ▶ Purchasing and Accounts Payable
- ▶ Personnel and Payroll
- ▶ Property and Equipment
- ▶ Retail Inventory
- ▶ Trusts and Other Liabilities
- ▶ Reserves
- ▶ Endowment Administration

Cal Poly Corporation (cont.)

- ▶ Auxiliary Programs
- ▶ Information Technology

Cal Poly Housing Corporation

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

Associated Students, Incorporated of California Polytechnic State University at San Luis Obispo

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

Campus

- ▶ Campus Oversight and Control

We have not performed any auditing procedures beyond August 11, 2011. Accordingly, our comments are based on our knowledge as of that date. Since the purpose of our comments is to suggest areas for improvement, comments on favorable matters are not addressed.

OBSERVATIONS, RECOMMENDATIONS, AND CAMPUS RESPONSES

CAL POLY CORPORATION

OPERATING AND ADMINISTRATIVE AGREEMENTS

Certain business arrangements between the Cal Poly Corporation (Corporation) and third-party service providers were not supported by written agreements.

We found that:

- ▶ A business arrangement between the Corporation and a third-party service provider that performed the bookstore and dining physical inventory counts was not documented in a written agreement to address services rendered, insurance requirements, and indemnification provisions.
- ▶ A business arrangement between the Corporation and an outsider vendor for the manufacture and sale of dairy products expired on September 22, 2007, and had not been renewed.

The *Compilation of Policies and Procedures for California State University Auxiliary Organizations* sets sound business practice guidelines for auxiliary organizations operating within the California State University (CSU) system. Section 8.9.5, *Procurement*, states, in part, that the auxiliary should establish a written system that provides for purchases and service contracts to be made within governing board policies, source restrictions, funds availability, and other applicable requirements.

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

The Corporation associate executive director of finance and business operations stated that the agreement with the physical inventory count service provider was directed through correspondence several years ago and a contract was never completed. He further stated that the service/production agreement for dairy products was signed prior to the new dairy department supervisor being hired and the contract had not been reviewed.

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

Recommendation 1

We recommend that the Corporation:

- a. Promptly establish written agreements with the above-noted third-party service providers.
- b. Ensure that written agreements are established for all future business arrangements and include all appropriate insurance and indemnification requirements.

Campus Response

We concur.

- a. A written agreement was signed with one of the service providers. An agreement has been drafted and sent to the other third-party service provider for its signature. This will be completed by February 2012.
- b. Corporation staff compiled a list of current service providers that will be reviewed before the end of the fiscal year. Written agreements, if one is not in place, will be developed for these service providers. Corporation staff have been notified that contracts need to be in place for all future service providers and business arrangements. An annual review of expenditures will be undertaken to ensure that agreements are appropriately maintained. Corporation policies include all appropriate insurance and indemnification requirements.

OPERATIONAL COMPLIANCE

The Corporation had not developed written policies and procedures to address inventory and merchandise receiving at the bookstore.

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 to address inventory receiving practices.

The Corporation associate executive director of finance and business operations stated that the missing policies and procedures were due to management oversight.

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

Recommendation 2

We recommend that the Corporation develop written policies and procedures to address inventory and merchandise receiving at the bookstore.

Campus Response

We concur. The Corporation implemented new inventory and merchandise receiving policies and procedures for the bookstore in September 2011.

CASH RECEIPTS AND HANDLING

Cashiering operations needed improvement at the Corporation's dairy science unit, crop science unit, customer service area, campus dining cash office, and various campus dining locations.

We found that:

- ▶ Cash receipts processed by the dairy science unit were not supported with an advice-of-sale receipt.
- ▶ Checks received by the crop science unit were not restrictively endorsed immediately upon receipt.
- ▶ Cashier closeout procedures at the customer service desk and various dining locations did not include an end-of-shift cash count, nor did they require an independent count of each cashier's drawer by a supervisor or other staff member.
- ▶ Dining cash receipts and bookstore deposits were transferred to the cash office without the use of transfer receipts.

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

Section 8.9.1, *Cash*, states that the auxiliary should receive cash in a consistent manner utilizing systems that ensure integrity of existing internal controls.

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

The Corporation associate executive director of finance and business operations stated that he was unaware of whether the dairy and crop unit had been given training on cash handling procedures. The Corporation retail accounting manager for campus dining stated that the updated cash handling

procedures had not been implemented at all campus dining locations, and the delay in rolling out the updated procedures may be attributed to the venues' summer schedules and the anticipation of assets and resources to facilitate the process. She further stated that the failure to document the transfer of custody of receipts between locations was due to oversight.

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

Recommendation 3

We recommend that the Corporation:

- a. Ensure that all dairy science unit cash receipts are supported with an advice-of-sale receipt.
- b. Ensure that the crop science unit restrictively endorses checks immediately upon receipt.
- c. Ensure that cashier closeout procedures at all locations include an end-of-shift cash count and an independent count of each cashier's drawer by a supervisor or other staff member.
- d. Ensure that transfer receipts are utilized when dining cash receipts and bookstore deposits are transferred to the cash office for deposit.

Campus Response

We concur.

- a. We will conduct a training session with dairy science management and staff by March 31, 2012, to ensure that all dairy science unit cash receipts are supported with an advice-of-sale receipt.
- b. We will furnish crop science with an endorsement stamp and will conduct a training session no later than March 31, 2012, with crop science management and staff to ensure checks are endorsed immediately upon receipt.
- c. We are in the process of rolling out a cash accountability system, which includes an end-of-shift cash count, as well as independent counts of each cashier's drawer by a supervisor or other staff member. This will be fully implemented throughout campus dining by April 30, 2012.
- d. A transfer log was implemented in August 2011 when funds are transferred between locations for deposit.

FEES, REVENUES, AND RECEIVABLES

The Corporation extension-of-credit program needed improvement.

We reviewed ten non-university commercial accounts and found that:

- ▶ A credit application, credit references, and a credit report for the customers were not obtained prior to the extension of credit.
- ▶ Credit limits were not established by management for lines of credit extended to customers.

The Corporation *Extension of Credit Policy 104, Section 3.4, Credit Checks* states that when a non-university organization or individual requests an extension of commercial credit from the Corporation, a credit application, credit references, and a credit report are required. It further states that the establishment of credit limits shall be the responsibility of the associate executive director and/or his or her designee.

The Corporation associate executive director of finance and business operations stated that the Corporation did not have procedures in place to implement its extension-of-credit policy. He further stated that the Corporation did not have credit limits in place as this was left to the sole discretion of the departments.

Inadequate administration over the extension of credit impedes the ability to adequately screen a customer's creditworthiness and increases the possibility of misunderstandings about payment terms, and a lack of established credit limits increases the risk of loss.

Recommendation 4

We recommend that the Corporation:

- a. Obtain a credit application, credit references, and a credit report for non-university customers prior to the extension of credit.
- b. Ensure that management establishes credit limits for lines of credit extended to customers in accordance with Corporation policy.

Campus Response

We concur.

- a. The Corporation has developed a credit application (which includes a requirement for credit references) for non-university customers requesting credit. Corporation policies now require the completion of a credit application for all new non-university customers requesting greater than \$1,000 of credit and for a business credit report from a third-party provider to be obtained if the Corporation is extending greater than \$5,000 of credit.

- b. Management has drafted procedures for the establishment of credit limits for non-university customers. Credit limits have been uploaded into the Corporation's IFAS database for all commercial-related accounts. The Commercial Accounts Receivable Credit/Collection Procedures have been updated to include these draft procedures. The draft procedures are currently under review and will be finalized by March 31, 2012.

PURCHASING AND ACCOUNTS PAYABLE

Corporation travel was not always approved in advance on a travel request form.

We reviewed 13 travel expense reimbursements and noted that four of them did not have a completed travel request form to document advance approval of travel and related expenditures.

The *Cal Poly Corporation Travel Guidelines* state that a travel request form is required to be submitted prior to departure.

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

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

The Corporation associate executive director of finance and business operations stated that all of the identified travel claims were from the same department. He further stated that the department staff was unaware that all travel had to be approved in advance; they mistakenly assumed that only travel that required advances needed approval.

Failure to sufficiently document travel approval increases the risk of errors, irregularities, and misappropriation of funds.

Recommendation 5

We recommend that the Corporation ensure that all travel is approved in advance on a travel request form.

Campus Response

We concur. The Corporation has implemented a process which requires prior documented review and approval for travel requests.

PROPERTY AND EQUIPMENT

The Corporation did not always tag assets.

Specifically, we reviewed 12 Corporation assets and found that five lacked an identification tag.

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 reconcile physical inventories to the general ledger on a timely basis with review by management. It further states that the auxiliary should establish a written system that ensures physical inspection of property and equipment on a service life schedule, proper recording of property and equipment when received, and for labeling of equipment.

The Corporation associate executive director of finance and business operations stated that three of the tags had fallen off and staff did not order new tags, and that two assets had never been tagged due to staff oversight.

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

Recommendation 6

We recommend that the Corporation tag all assets.

Campus Response

We concur. Tags have been issued for the assets that were missing fixed asset tags. The Corporation's fixed asset procedures require a yearly fixed asset inventory of all operations, excluding campus dining and the El Corral Bookstore, which are on a rotating two-year fixed asset inventory schedule where certain categories of assets are counted each year. We will conduct a training session with Corporation staff by March 31, 2012, to ensure that all parties understand their responsibilities for the accuracy of the fixed asset inventories. In addition, management of each department will be required to approve the fixed asset inventory for their respective area.

RETAIL AND COMMODITY INVENTORY

Administration of goods transferred from the Corporation's horticulture and crop science units to the off-campus farmer's market and the campus farm market was inadequate.

We found that inventory counts were not conducted of goods transferred to the off-campus farmer's market and the campus farm market at the time of transfer, the start of sale, and the end of the day to determine and maintain accountability over the quantity of goods sold.

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 inventory, sales, and cash receipts.

The Corporation associate executive director of finance and business operations stated that he was unaware of whether the commercial operations of the horticulture and crop science department had received training on the procedures for the transfer of goods.

Failure to account for inventory transfers increases the risk of errors, loss, or misappropriations, and inadequate administration of inventories, sales, and cash receipts increases the risk of loss or misappropriation of funds.

Recommendation 7

We recommend that the Corporation ensure that the horticulture and crop science units perform inventory counts for goods transferred to the off-campus farmer's market and the campus farm market at the time of transfer, the start of sale, and the end of the day.

Campus Response

We concur. By fiscal year-end, the Corporation will develop procedures and ensure that the horticulture and crop science units' staff and appropriate students are trained on the procedures for how to account for and document the transfer of products between the off-campus farmer's market and the campus farm market at the time of transfer, the start of sale, and the end of the day. This will be completed by June 30, 2012.

INFORMATION TECHNOLOGY

BUSINESS IMPACT ASSESSMENT

The Corporation had not performed a business impact assessment to define the business dependence on data processing services and the expected recovery timeline, and its business continuity plan (BCP) did not include procedures for manually recovering up to one week's worth of lost data.

Integrated California State University Administrative Manual (ICSUAM) §8085, *Business Continuity and Disaster Recovery* dated April 19, 2010, states that an information security program needs to support the maintenance and potential restoration of operations through and after both minor and catastrophic disruptions. Campuses must ensure that their information assets can, in the case of a catastrophic event, continue to operate and be appropriately accessible to users. Each campus must maintain an ongoing program that ensures the continuity of essential functions and operations following a catastrophic event.

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

The *Compilation of Policies and Procedures for California State University Auxiliary Organizations* sets sound business practice guidelines for auxiliary organizations operating within the CSU system. Section 8.10, *Computer Controls*, states that auxiliary organizations should establish written policies and practices that ensure secure computer system operations, including backup and recovery mechanisms and disaster recovery programs.

The manager of information technology (IT) stated that the Corporation had designed its IT disaster recovery plan (DRP) to provide reasonable and cost-effective solutions, but that a formal business impact assessment would be helpful to ensure that the business needs are met.

The absence of a comprehensive BCP that includes a business impact assessment and procedures for recovery of lost data increases the risk that business and data processing operations may not be restored within a reasonable time frame in the event of an emergency or disaster.

Recommendation 8

We recommend that the Corporation perform a business impact assessment and update its BCP to include procedures for manually recovering up to one week's worth of lost data.

Campus Response

We concur. By May 31, 2012, the Corporation will perform a business impact assessment to define the business dependence on information technology services and the expected recovery timeline, and

its BCP. It will include procedures for manually recovering up to one week's worth of lost data in case of an emergency or a catastrophic event.

DISASTER RECOVERY PLAN

The IT DRP did not include adequate details for the recovery of the Corporation's systems and network.

Specifically, we noted that:

- ▶ The IT DRP did not identify an alternate processing facility.
- ▶ The plan did not include critical IT equipment that would be needed to access the application systems.
- ▶ The test plan did not include recovery timelines that aligned with business recovery expectations.

ICSUAM §8085, *Business Continuity and Disaster Recovery* dated April 19, 2010, states that an information security program needs to support the maintenance and potential restoration of operations through and after both minor and catastrophic disruptions. Campuses must ensure that their information assets can, in the case of a catastrophic event, continue to operate and be appropriately accessible to users. Each campus must maintain an ongoing program that ensures the continuity of essential functions and operations following a catastrophic event.

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

The *Compilation of Policies and Procedures for California State University Auxiliary Organizations* sets sound business practice guidelines for auxiliary organizations operating within the CSU system. Section 8.10, *Computer Controls*, states that auxiliary organizations should establish written policies and practices that ensure secure computer system operations, including backup and recovery mechanisms and disaster recovery programs.

The IT manager stated that the plan was designed to describe the recovery of the business applications and did not include all details needed to recover the systems and network infrastructure. She also stated that the establishment of recovery timelines for testing the DRP were dependent on completion of the business impact assessment.

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

Recommendation 9

We recommend that the Corporation update its IT DRP to:

- a. Identify an alternate processing facility.
- b. Include critical IT equipment that would be needed to access the application systems.
- c. Include in the test plan recovery timelines that align with business recovery expectations.

Campus Response

We concur. By June 30, 2012, the Corporation will update the IT DRP to include an alternate processing facility, critical IT equipment that would be needed to access the application systems, recovery timelines that align with business recovery expectations for the mission-critical systems, as well as non-mission-critical systems, based on the results of the business impact assessment.

AS 400 SECURITY

Security settings on the bookstore AS 400 system used by the Corporation were not set to restrict command line access to only those individuals who needed it to perform their job duties.

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.

The bookstore interim director stated that the Corporation had implemented the security setting as recommended by the software vendor and was unaware of the risk associated with giving users the capability to enter system commands.

Inadequate security parameters may allow access that is broader than intended by management, which in turn may increase the risk of data loss and unauthorized access to systems and confidential data.

Recommendation 10

We recommend that the Corporation change security settings for the bookstore AS 400 system to restrict command line access to only those individuals who need it to perform their job duties.

Campus Response

We concur. In September 2011, the Corporation bookstore updated the security settings on the IBM iSeries Server (AS 400) to restrict command line access to only those individuals who need it to perform their job duties.

**ASSOCIATED STUDENTS, INCORPORATED OF
CALIFORNIA POLYTECHNIC STATE UNIVERSITY AT SAN LUIS OBISPO**

CORPORATE GOVERNANCE

Associated Students, Incorporated of California Polytechnic State University at San Luis Obispo (ASI) internal review committee meeting minutes were not always recorded.

The ASI *Bylaws* state that ASI shall maintain written minutes of all meetings of the board and subcommittees of the board.

Corporation Code §5215 states that the original or a copy in writing or in any other form capable of being converted into a clearly legible tangible form of the bylaws or of the minutes of any incorporators', members', directors', committee or other meeting or of any resolution adopted by the board or a committee thereof, or members, certified to be a true copy by a person purporting to be the secretary or an assistant secretary of the corporation, is prima facie evidence of the adoption of such bylaws or resolution or of the due holding of such meeting and of the matters stated therein.

The ASI executive director stated that he has informed the chair of the board about the importance of and requirement for detailed meeting minutes to document the actions and work done by the committee but that the recording of the minutes has been selectively and inconsistently enforced by the chair of the board.

Failure to record subcommittee meeting minutes increases the risk of misunderstandings and may increase legal liability.

Recommendation 11

We recommend that ASI ensure that internal review committee meeting minutes are consistently recorded.

Campus Response

We concur. During fall quarter 2011, ASI management met with the ASI corporate officers regarding the requirement for documenting the actions of the board subcommittees. At that time, we encouraged the officers to develop and implement educational training for the board that includes the importance of and requirement for appropriately documenting all subcommittee meeting agendas and minutes. As of fall quarter, board subcommittees prepare agendas and minutes for all meetings.

PERSONNEL AND PAYROLL

ASI administration of personnel and payroll needed improvement.

We reviewed ten new hires and ten overtime payments and found that:

- ▶ In two instances, employee payroll information forms were not signed by an employee or a supervisor.
- ▶ In five instances, prior supervisor approval was not obtained for overtime.

The *ASI Personnel Policy Manual* states that each instance of overtime must be approved in advance by an employee's supervisor. Where circumstances preclude this, authorization must be obtained from the executive director or designee.

The *Compilation of Policies and Procedures for California State University Auxiliary Organizations* sets sound business practice guidelines for auxiliary organizations operating within the CSU system. Section 8.9.6, *Payroll*, states that the auxiliary should establish a written system that ensures payroll documentations are signed by appropriate individuals and prior approval is obtained for overtime.

The ASI executive director stated that the employee payroll information form is utilized by the organization to document employee data used for ensuring accurate payroll processing, and though all of the proper data was complete and accurate on the form, there were omitted signatures due to oversight by the employee and the staff member. He further stated that prior approval was not obtained for overtime due to oversight by the supervisor of the particular staff member.

Failure to obtain required signatures for payroll information forms and prior approval for overtime increases the risk of errors, irregularities, and misappropriation of funds.

Recommendation 12

We recommend that ASI:

- a. Ensure that required signatures are obtained on employee payroll information forms.
- b. Ensure that prior supervisor approval is obtained for all overtime.

Campus Response

We concur.

- a. As of January 5, 2012, new procedures have been implemented to ensure that all payroll information forms are properly completed prior to being filed in their respective personnel files.
- b. ASI will develop new policy statements that will address overtime for all regular full-time staff, together with a separate policy for overtime related to part-time student employees. This will be completed by July 2012.

APPENDIX A: PERSONNEL CONTACTED

Name

Title

CAMPUS

Jeffrey D. Armstrong	President
Lawrence Kelley	Vice President of Administration and Finance
Rick Ramirez	Associate Vice President of Finance
Terry Vahey	Information Security Officer and Director, Technology Services

CALIFORNIA POLYTECHNIC STATE UNIVERSITY FOUNDATION

Sarah Bettencourt	Interim Foundation and Stewardship Coordinator
Cassie Carter	Associate Vice President for Operations
Mariam Emyan	Financial and Personnel Analyst
Lorlie Leetham	Director of Fiscal Services
Craig Nelson	Director of Advancement Services
Ron Weaver	Investment Administrator

CAL POLY CORPORATION

Philip Davis	Bookstore Interim Director
Bruce Golden	Department Head and Professor, Dairy Science Unit
Jennifer Graham	Catering Manager
David Headrick	Professor, Horticulture and Crop Science
Star Lee	Associate Executive Director, Administrative and Legal Affairs
Joanne Mead	Human Resources Director
Melissa Mullen	Sponsored Programs Manager
Bonnie Murphy	Associate Vice President, Commercial Services; Executive Director
Gayle Nakano	Grant Analyst
John Peterson	Department Head and Professor, Horticulture and Crop Science Director, Wine and Viticulture Program
Lori Raissipour	Campus Market Manager
Lisa Rockwell-Harpster	Trust Administrator, Corporation
Eumi Sprague	Manager, Information Technology
Grant Trexler	Associate Executive Director, Finance and Business Operations
Bianca Uway	Senior Retail Analyst, Campus Dining
Mariann Van Pelt	Retail Accounting Manager, Campus Dining
Laura Wunsch	Senior Accountant/Analyst

CAL POLY HOUSING CORPORATION

Lisa Rockwell-Harpster	Trust Administrator, Corporation
Grant Trexler	Executive Director

**ASSOCIATED STUDENTS, INCORPORATED OF
CALIFORNIA POLYTECHNIC STATE UNIVERSITY AT SAN LUIS OBISPO**

Dawn Annoni	Human Resources Technician
Carol Brizendine	Human Resources Coordinator
Dwayne Brummett	Director of Business Services
Lisa Buscher	Accounting Assistant
Nancy Clark	Outdoor Recreation Coordinator
Anthony Colvard	Information Technology Coordinator
Darren Connor	Assistant Director, ASI Programs
Brandy Hawkins	Accounting Technician
Tracy Haydon	Accounting Technician
Caeli Horwith	Human Resources Technician
Tonya Iverson	Director, Children's Programs
Rick Johnson	Executive Director
Becky Kane	Club Services Assistant
Marcy Maloney	Director, ASI Programs
Gina Murtha	Accounting Coordinator
Julie Newton	Accounting Technician
Nancy Owens	Accounting Technician
Roxie Phillips	Administrative/Accounting Assistant
Ron Skamfer	Associate Director of Facility Operations

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 POLY

California Polytechnic State University
San Luis Obispo, CA 93407

Administration & Finance Division
(805) 756-2171 • Fax (805) 756-7560

18 January 2012

Mr. Larry Mandel
University Auditor
Office of the University Auditor
The California State University
401 Golden Shore
Long Beach, CA 90802-4275

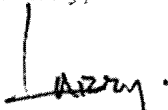
Subject: Campus Responses to Recommendations of Audit Report Number 11-06,
Auxiliary Organizations, California Polytechnic State University, San Luis
Obispo

Dear Larry:

Enclosed in reply to your 21 December 2011 email to President Armstrong, are responses to the Auxiliary Organizations incomplete draft audit report (Audit Report No. 11-06). The responses are submitted to you for review and for acceptance by the Chancellor. The responses include a corrective action plan and time frame for completion.

Please direct questions to Rick Ramírez, Associate Vice President for Finance, at 805-756-2091 (rramirez@calpoly.edu).

Sincerely,



Lawrence Kelley
Vice President for Administration & Finance

cc: J. Armstrong, R. Ramírez

AUXILIARY ORGANIZATIONS

CALIFORNIA POLYTECHNIC STATE UNIVERSITY, SAN LUIS OBISPO

Audit Report 11-06

CAL POLY CORPORATION

OPERATING AND ADMINISTRATIVE AGREEMENTS

Recommendation 1

We recommend that the Corporation:

- a. Promptly establish written agreements with the above-noted third-party service providers.
- b. Ensure that written agreements are established for all future business arrangements and include all appropriate insurance and indemnification requirements.

Campus Response

Concur.

- a. A written agreement was signed with one of the service providers. An agreement has been drafted and sent to the other third party service provider for their signature. Complete by: February 2012.
- b. Corporation staff compiled a list of current service providers that will be reviewed before the end of the fiscal year. Written agreements, if one is not in place, will be developed for these service providers. Corporation staff have been notified that contracts need to be in place for all future service providers and business arrangements. An annual review of expenditures will be undertaken to ensure that agreements are appropriately maintained. Corporation policies include all appropriate insurance and indemnification requirements. Completed.

OPERATIONAL COMPLIANCE

Recommendation 2

We recommend that the Corporation develop written policies and procedures to address inventory and merchandise receiving at the bookstore.

Campus Response

Concur. The Corporation implemented new inventory and merchandise receiving policies and procedures for the bookstore in September 2011. Completed.

CASH RECEIPTS AND HANDLING

Recommendation 3

We recommend that the Corporation:

- a. Ensure that all dairy science unit cash receipts are supported with an advice-of-sale receipt.
- b. Ensure that the crop science unit restrictively endorses checks immediately upon receipt.
- c. Ensure that cashier closeout procedures at all locations include an end-of-shift cash count and an independent count of each cashier's drawer by a supervisor or other staff member.
- d. Ensure that transfer receipts are utilized when dining cash receipts and bookstore deposits are transferred to the cash office for deposit.

Campus Response

Concur.

- a. We will conduct a training session with dairy science management and staff by March 31, 2012 to ensure that all dairy science unit cash receipts are supported with an advice-of-sale receipt.
- b. We will furnish crop science with an endorsement stamp and will conduct a training session no later than March 31, 2012 with crop science management and staff to ensure checks are endorsed immediately upon receipt.
- c. We are in the process of rolling out a cash accountability system which includes an end of shift cash count as well as independent counts of each cashier's drawer by a supervisor or other staff member. This will be fully implemented throughout Campus Dining by April 30, 2012.
- d. A transfer log was implemented in August 2011 when funds are transferred between locations for deposit. Completed.

FEES, REVENUES, AND RECEIVABLES

Recommendation 4

We recommend that the Corporation:

- a. Obtain a credit application, credit references, and a credit report for non-university customers prior to the extension of credit.
- b. Ensure that management establishes credit limits for lines of credit extended to customers in accordance with Corporation policy.

Campus Response

Concur.

- a. The Corporation has developed a credit application (which includes a requirement for credit references) for non-university customers requesting credit. Corporation policies now require the completion of a credit application for all new non-university customers requesting greater than \$1,000 of credit and for a business credit report from a third party provider to be obtained if the Corporation is extending greater than \$5,000 of credit. Completed.
- b. Management has drafted procedures for the establishment of credit limits for non-university customers. Credit limits have been uploaded into the Corporation's IFAS database for all commercial-related accounts. The Commercial Accounts Receivable Credit/Collection Procedures have been updated to include these draft procedures. The draft procedures are currently under review and will be finalized by March 31, 2012.

PURCHASING AND ACCOUNTS PAYABLE**Recommendation 5**

We recommend that the Corporation ensure that all travel is approved in advance on a travel request form.

Campus Response

Concur. The Corporation has implemented a process which requires prior documented review and approval for travel requests. Completed.

PROPERTY AND EQUIPMENT**Recommendation 6**

We recommend that the Corporation tag all assets.

Campus Response

Concur. Tags have been issued for the assets that were missing fixed asset tags. The Corporation's fixed asset procedures require a yearly fixed asset inventory of all operations, excluding Campus Dining and the El Corral Bookstore who are on a rotating two year fixed asset inventory schedule where certain categories of assets are counted each year. We will conduct a training session with Corporation staff by March 31, 2012 to ensure that all parties understand their responsibilities for the accuracy of the fixed asset inventories. In addition, management of each department will be required to approve the fixed asset inventory for their respective area. Completed.

RETAIL AND COMMODITY INVENTORY

Recommendation 7

We recommend that the Corporation ensure that the horticulture and crop science units perform inventory counts for goods transferred to the off-campus farmer's market and the campus farm market at the time of transfer, the start of sale, and the end of the day.

Campus Response

Concur. By fiscal year end, the Corporation will develop procedures and ensure that the horticulture and crop science units' staff and appropriate students are trained on the procedures for how to account for and document the transfer of products between the off-campus farmer's market and the campus farm market at the time of transfer, the start of sale, and the end of the day.

Complete by: June 30, 2012.

INFORMATION TECHNOLOGY

BUSINESS IMPACT ASSESSMENT

Recommendation 8

We recommend that the Corporation perform a business impact assessment and update its BCP to include procedures for manually recovering up to one week's worth of lost data.

Campus Response

Concur. By May 31, 2012, the Corporation will perform a business impact assessment to define the business dependence on information technology services and the expected recovery timeline, and it's BCP. It will include procedures for manually recovering up to one week's worth of lost data in case of an emergency or a catastrophic event.

DISASTER RECOVERY PLAN

Recommendation 9

We recommend that the Corporation update its IT DRP to:

- a. Identify an alternate processing facility.
- b. Include critical IT equipment that would be needed to access the application systems.
- c. Include in the test plan recovery timelines that align with business recovery expectations.

Campus Response

Concur. By June 30, 2012, the Corporation will update the IT DRP to include an alternate processing facility, critical IT equipment that would be needed to access the application systems, recovery timelines that aligned with business recovery expectation for the mission-critical systems, as well as non-mission-critical systems, based on the results of the business impact assessment.

AS 400 SECURITY

Recommendation 10

We recommend that the Corporation change security settings for the bookstore AS 400 system to restrict command line access to only those individuals who need it to perform their job duties.

Campus Response

Concur. In September 2011, the Corporation Bookstore updated the security settings on the IBM iSeries Server (aka, AS 400) to restrict command line access to only those individuals who need it to perform their job duties. Completed.

**ASSOCIATED STUDENTS, INCORPORATED OF
CALIFORNIA POLYTECHNIC STATE UNIVERSITY AT SAN LUIS OBISPO**

CORPORATE GOVERNANCE

Recommendation 11

We recommend that ASI ensure that internal review committee meeting minutes are consistently recorded.

Campus Response

Concur. During fall quarter 2011, ASI management met with the ASI corporate officers regarding the requirement for documenting the actions of the Board subcommittees. At that time, we encouraged the Officers to develop and implement educational training for the Board that includes the importance of and requirement for appropriately documenting all subcommittee meeting agendas and minutes. As of fall quarter, Board subcommittees prepare agendas and minutes for all meetings. Completed.

PERSONNEL AND PAYROLL

Recommendation 12

We recommend that ASI:

- a. Ensure that required signatures are obtained on employee payroll information forms.
- b. Ensure that prior supervisor approval is obtained for all overtime.

Campus Response

Concur.

- a. As of January 5, 2012, new procedures have been implemented to ensure that all payroll information forms are properly completed prior to being filed in their respective personnel files. Completed.
- b. ASI will develop new policy statements that will address overtime for all regular full-time staff together with a separate policy for overtime related to part-time student employees. Complete by: July 2012.

THE CALIFORNIA STATE UNIVERSITY
OFFICE OF THE CHANCELLOR

BAKERSFIELD

CHANNEL ISLANDS

February 6, 2012

CHICO

MEMORANDUM

DOMINGUEZ HILLS

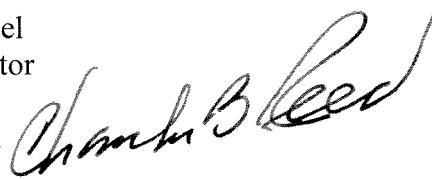
EAST BAY

TO: Mr. Larry Mandel
University Auditor

FRESNO

FULLERTON

FROM: Charles B. Reed
Chancellor



HUMBOLDT

SUBJECT: Draft Final Report 11-06 on *Auxiliary Organizations*,
California Polytechnic State University, San Luis Obispo

LONG BEACH

LOS ANGELES

In response to your memorandum of February 6, 2012, I accept the response as submitted with the draft final report on *Auxiliary Organizations*, California Polytechnic State University, San Luis Obispo.

MARITIME ACADEMY

MONTEREY BAY

CBR/amd

NORTHBRIDGE

POMONA

SACRAMENTO

SAN BERNARDINO

SAN DIEGO

SAN FRANCISCO

SAN JOSÉ

SAN LUIS OBISPO

SAN MARCOS

SONOMA

STANISLAUS