AUXILIARY ORGANIZATIONS

CALIFORNIA STATE UNIVERSITY, CHICO

Audit Report 12-07
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ABBREVIATIONS

AORMA  Auxiliary Organization Risk Management Authority
AS  Associated Students of California State University, Chico
CFO  Chief Financial Officer
CSU  California State University
CSUC  California State University, Chico
CSURMA  California State University Risk Management Authority
EO  Executive Order
EPLS  Excluded Parties List System
ICSUAM  Integrated California State University Administrative Manual
OMB  Office of Management and Budget
PCI DSS  Payment Card Industry Data Security Standard
Research Foundation  CSU, Chico Research Foundation
RFIN  Resolution of the Committee on Finance
RM  Risk Management
VP  Vice President
EXECUTIVE SUMMARY

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

California State University, Chico (CSUC) 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 CSUC campus and its auxiliary organizations from November 13, 2012, through December 13, 2012, and made a study and evaluation of the system of internal compliance/internal control in effect as of December 13, 2012. This report represents our triennial review.

In our opinion, except for the effect of the weaknesses described below, the fiscal, operational, and administrative controls at the CSUC campus as of December 13, 2012, taken as a whole, were sufficient to meet the objectives stated above and in the “Purpose” section of this report. Areas of concern include: fiscal compliance and information technology.

In our opinion, except for the effect of the weaknesses described below, the fiscal, operational, and administrative controls at The University Foundation as of December 13, 2012, taken as a whole, were sufficient to meet the objectives stated above and in the “Purpose” section of this report. Areas of concern include: operational and program compliance and purchasing and accounts payable.

In our opinion, except for the effect of the weaknesses described below, the fiscal, operational, and administrative controls at CSU, Chico Research Foundation as of December 13, 2012, taken as a whole,
were sufficient to meet the objectives stated above and in the “Purpose” section of this report. Areas of concern include: program compliance and contracts and grants.

In our opinion, except for the effect of the weaknesses described below, the fiscal, operational, and administrative controls at Associated Students of California State University, Chico as of December 13, 2012, taken as a whole, were sufficient to meet the objectives stated above and in the “Purpose” section of this report. Areas of concern include: fees, revenues, and receivables and information technology.

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

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

**CAMPUS**

**FISCAL COMPLIANCE [12]**

The campus had not developed a written cost allocation or reimbursement plan to allocate costs to the University Foundation, the CSU, Chico Research Foundation (Research Foundation), and Associated Students of California State University, Chico (AS), nor had it required reimbursement or documentation of offsetting costs for the direct and indirect costs incurred by the campus on behalf of the auxiliaries.

**INFORMATION TECHNOLOGY [13]**

The campus did not ensure that University Foundation and Research Foundation employees with access to sensitive data completed information security awareness training. Additionally, password controls and security parameters for the Banner donor system were inadequate and not in accordance with campus guidelines. Lastly, campus university advancement did not perform a periodic, documented management review of user access privileges within the Banner donor system.

**THE UNIVERSITY FOUNDATION**

**OPERATING AND ADMINISTRATIVE AGREEMENTS [17]**

Agreements between the University Foundation and third-party service providers did not always include appropriate indemnification provisions. This is a repeat finding from the prior Auxiliary Organizations audit.
OPERATIONAL COMPLIANCE [18]

The University Foundation did not have a written delegation of authority from the campus president to accept monetary gifts and sign gift acknowledgement agreements and letters. Additionally, administration of University Foundation fundraising events needed improvement. Specifically, fundraising events held after July 1, 2012, with gross receipts greater than $5,000 were not approved in writing by a delegated authority and event budgets, drafts of solicitation materials, and action plans to comply with federal, state, and local regulations were not reviewed prior to the event.

PROGRAM COMPLIANCE [20]

The University Foundation did not always report academically related awards and prizes to the campus financial aid office.

PETTY CASH AND CHANGE FUNDS [20]

The University Foundation did not conduct periodic, independent cash counts of petty cash and change funds.

FEES, REVENUES, AND RECEIVABLES [21]

The University Foundation did not perform a documented dual review of all matching gifts during the acceptance process to ensure that funds were designated in accordance with donor intent. This is a repeat finding from the prior Auxiliary Organizations audit.

PURCHASING AND ACCOUNTS PAYABLE [22]

Certain University Foundation disbursements were incorrectly recorded in the financial system. Additionally, administration of University Foundation travel needed improvement. For example, a travel request form documenting advance approval of travel and related expenditures to be incurred was not always required. Also, students traveling by air did not always complete and sign release forms or waivers.

CSU, CHICO RESEARCH FOUNDATION

CORPORATE GOVERNANCE [25]

The Research Foundation had not filed amended Bylaws with the chancellor’s office in a timely manner.

PROGRAM COMPLIANCE [25]

The Research Foundation did not always report all academically related awards and prizes to the campus financial aid office.
CASH RECEIPTS AND HANDLING [26]

Administration of Research Foundation cash receipts required improvement. Specifically, the Research Foundation did not use a check log to record checks received through the mail at the administration office, CSUC Farm, and intercollegiate athletics department. Further, checks received at the administration office and intercollegiate athletics department were not restrictively endorsed immediately upon receipt or by the close of the business day.

PETTY CASH AND CHANGE FUNDS [28]

Administration of the Research Foundation petty cash and change funds needed improvement. For example, periodic, independent counts were not conducted for all petty cash and change funds, and a public relations disbursement was incorrectly recorded to a petty cash expense account.

PURCHASING AND ACCOUNTS PAYABLE [29]

The Research Foundation did not require staff to complete travel request forms documenting advance approval of travel and related expenditures to be incurred.

PERSONNEL AND PAYROLL [30]

Research Foundation student employee separation documentation was not always completed in a timely manner.

CONTRACTS AND GRANTS [31]

Administration of Research Foundation sub-recipient awards required improvement. Specifically, the auxiliary did not always search for sub-recipients in the Excluded Parties List System and did not always maintain documentation showing that a risk assessment had been performed.

ASSOCIATED STUDENTS OF CALIFORNIA STATE UNIVERSITY, CHICO

CORPORATE GOVERNANCE [33]

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

FEES, REVENUES, AND RECEIVABLES [34]

Administration of AS accounts receivables needed improvement. For example, uncollectible accounts were not written off in a timely manner, and proper approval was not documented prior to write-off.
EXECUTIVE SUMMARY

PROPERTY AND EQUIPMENT [35]

AS did not document the preparation and review of monthly reconciliations of the fixed assets sub-ledger to the general ledger.

INFORMATION TECHNOLOGY [36]

AS had not fully addressed Payment Card Industry (PCI) Data Security Standard (DSS) requirements. Additionally, AS did not perform a periodic, detailed assessment and inventory of protected information stored on its systems, desktops, and other computing equipment, and the data had not been classified into security protection levels. Lastly, the AS server room door contained a window that could potentially allow for unauthorized entry, and the room was not equipped with an alarm system.
INTRODUCTION

BACKGROUND

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

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

- Institute a standard systemwide accounting and reporting system for businesslike management of the operation of such auxiliary organizations.

- Implement financial standards that will assure the fiscal viability of such various auxiliary organizations. Such standards shall include proper provision for professional management, adequate working capital, adequate reserve funds for current operations and capital replacements, and adequate provisions for new business requirements.

- Institute procedures to assure that transactions of the auxiliary organizations are within the educational mission of the state colleges.

- Develop policies for the appropriation of funds derived from indirect cost payments.

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

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

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

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

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

The University Foundation

The University Foundation was established in 1940 as a non-profit public benefit corporation to support CSU, Chico (CSUC) projects and programs for which state funding is insufficient or unavailable. In 1997, the University Foundation became solely philanthropic and as such administers the university’s gift programs, including bequests, charitable trusts, special gifts, charitable gift annuities, scholarships, endowments, and donor-advised funds. The University Foundation is governed by a board of directors composed of representatives from the university administration, faculty, student body, and community. The University Foundation does not have employees and relies on the CSU, Chico Research Foundation (Research Foundation) and university advancement for gift administration services and the Associated Students of California State University, Chico (AS) for accounting and administrative support services.

CSU, Chico Research Foundation

The Research Foundation was established in 1997 as a non-profit public benefit corporation following a reorganization of the responsibilities of the University Foundation. The Research Foundation assumed responsibility for post-award administration of sponsored programs, as well as entrepreneurial activities, including a local radio station, the University Farm, and rental properties. It also acts as a fiscal agent for numerous campus programs and offers expertise and resources to communities in the university’s regional service area by enabling such programs as the Center for Economic Development, the Geographical Information Center, the Satellite Education Network, and an adult resources center. The Research Foundation is governed by a board of directors composed of representatives from the university administration, faculty, student body, and community. The Research Foundation relies on AS for accounting and administrative support services.
Associated Students of California State University, Chico

AS was established in 1942 as a non-profit public benefit corporation to provide for student self-government; to provide essential activities closely related to but not normally included as a part of CSUC regular instructional programs; and to promote the educational effectiveness, academic excellence, and general welfare of the campus. AS is a comprehensive campus auxiliary serving thousands of students, faculty, staff, and community members and is a unique auxiliary in the CSU system because it operates business enterprises (the bookstore and dining services), as well as the student union, recreation, and aquatic centers; an early childhood teaching/learning laboratory; a community legal information center; and student government. AS is governed by a board of directors composed of representatives from the university administration, faculty, and student body. AS also provides accounting and administrative support services to both the University Foundation and the Research Foundation.

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 fiscal, accounting and administrative controls are in place and operative. The management review emphasized, but was not limited to, compliance with state and federal laws, Board of Trustee policies, and Office of the Chancellor policies, letters, and directives. For those audit tests that required annualized data, fiscal years 2010/11 and 2011/12 were the primary periods reviewed. In certain instances, we were concerned with representations of the most current data; in such cases, the test period was July 1, 2011, to December 13, 2012. Our primary focus was on internal compliance/internal control.
Specifically, we reviewed and tested:

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

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

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

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

The University Foundation
- Operating and Administrative Agreements
- Facilities Agreements
- Corporate Governance
- Fiscal Compliance
- Operational Compliance
- Program Compliance
- Campus Oversight and Control
- Segregation of Duties
- Cash Receipts and Handling
- Cash Disbursement
- Petty Cash and Change Funds
- Investments
- Fees, Revenues, and Receivables
- Purchasing and Accounts Payable
- Property and Equipment
- Endowment Administration
- Auxiliary Programs
- Information Technology
INTRODUCTION

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

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

Campus
- Fiscal Compliance
- Campus Oversight and Control
- Information Technology

We have not performed any auditing procedures beyond December 13, 2012. Accordingly, our comments are based on our knowledge as of that date. Since the purpose of our comments is to suggest areas for improvement, comments on favorable matters are not addressed.
OBSERVATIONS, RECOMMENDATIONS, AND CAMPUS RESPONSES

CAMPUS

FISCAL COMPLIANCE

The campus had not developed a written cost allocation or reimbursement plan to allocate costs to the University Foundation, the CSU, Chico Research Foundation (Research Foundation), and Associated Students of California State University, Chico (AS), nor had it required reimbursement or documentation of offsetting costs for direct and indirect costs incurred by the campus on behalf of the auxiliaries.

Integrated California State University Administrative Manual (ICSUAM) §3552.01, Cost Allocation/Reimbursement Plans for the California State University Operation Fund, dated April 1, 2011, states that the university’s chief financial officer (CFO) is responsible for ensuring proper, consistent, and timely recovery of costs incurred by the California State University (CSU) Operating Fund by annually preparing a documented cost allocation/reimbursement plan for the university. The annual approval and implementation of the plan should occur at a consistent time from year to year, and the time frame should be stipulated in the plan. The CFO must ensure that all costs incurred by the CSU Operating Fund for services, products, and facilities provided to auxiliary organizations, enterprise programs/activities/fund sources, or entities external to the university are properly and consistently recovered with cash and/or a documented fair exchange of value. This includes all costs for services, products, and facilities borne by the CSU Operating Fund on behalf of enterprise programs/activities/fund sources and auxiliary organizations. The CFO may consider the cost-benefit of deriving the costs to be allocated/reimbursed.

Executive Order (EO) 1000, Delegation of Fiscal Authority and Responsibility, dated July 1, 2007, states that the campus president shall ensure that costs incurred by the CSU Operating Fund for services, products, and facilities provided to other CSU funds and to auxiliary organizations are properly and consistently recovered with cash and/or a documented exchange of value. Allowable direct costs incurred by the CSU Operating Fund shall be allocated and recovered based on actual costs incurred. Allowable and allocable indirect costs shall be allocated and recovered according to a cost allocation plan that utilizes a documented and consistent methodology including identification of indirect costs and a basis for allocation. The campus CFO, or designee, shall annually approve and implement the cost allocation plan.

The campus vice president (VP) of business and finance stated that although some costs were being allocated via individual memoranda of understanding or operating agreements, a formal cost allocation plan was not compiled into one formal document from 2010 to 2012.

The absence of a cost allocation or reimbursement plan and the failure to require auxiliary reimbursement of direct and indirect costs incurred by the campus increases the risk that the campus operating fund will not be fully compensated for support provided to auxiliary enterprises.
Recommendation 1

We recommend that the campus develop a written cost allocation or reimbursement plan to allocate costs to the auxiliaries and require reimbursement or documentation of offsetting costs for direct and indirect costs incurred by the campus on behalf of the auxiliaries.

Campus Response

We concur. The campus will compile all direct and indirect reimbursements for the auxiliaries into one formal document.

Implementation date: August 31, 2013

INFORMATION TECHNOLOGY

INFORMATION SECURITY TRAINING

The campus did not ensure that University Foundation and Research Foundation employees with access to sensitive data completed information security awareness training.

The California State University, Chico (CSUC) Information Security Plan states that when appropriate, information security training is provided to individuals whose job functions require specialized skill or knowledge in information security. While the heads of relevant offices are ultimately responsible for ensuring compliance with information security practices, the information security office will assist in the development of training and education programs for all employees who have access to confidential data. Federal, state, and university policies concerning confidential information should be provided for review before access to protected/confidential information is allowed. The information security program provides and coordinates training for individuals whose job functions require special knowledge of security threats, vulnerabilities, and safeguards. This training is focused on expanding knowledge, skills, and abilities for technical individuals responsible for securing systems and information.

ICSUAM §8035.0, Information Security Awareness and Training, dated April 19, 2010, states that each campus must implement a program for providing appropriate information security awareness and training to employees appropriate to their access to campus information assets. The campus information security awareness program must promote campus strategies for protecting information assets containing protected data. All employees with access to protected data and information assets must participate in appropriate information security awareness training. When appropriate, information security training must be provided to individuals whose job functions require specialized skill or knowledge in information security.
The campus VP for university advancement/University Foundation secretary stated that personnel with access to sensitive data had not completed information security awareness training due to oversight.

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

**Recommendation 2**

We recommend that the campus ensure that University Foundation and Research Foundation employees with access to sensitive data complete information security awareness training.

**Campus Response**

We concur. In order to receive and maintain access to systems and databases with sensitive data, all University Foundation, Research Foundation, and University Advancement staff will be required to complete data security training annually. Completion of training will be monitored with a 30-day window of opportunity to retrain after the anniversary of last compliance. Staff failing to retrain will not be allowed access until training is completed.

Implementation date: July 1, 2013

**PASSWORD SECURITY**

Password controls and security parameters for the Banner donor system were inadequate and not in accordance with campus guidelines.

We found that the system’s security parameters did not include a minimum password length, password expiration, automatic sign-off of users after a period of inactivity, password complexity requirements, restrictions for reuse of passwords, or account revocation after repeated failed attempts.

The CSUC Shared Network Resource Password Policy states that passwords should have a minimum of eight characters, three of four character classes (uppercase alpha, lowercase alpha, numeric, or special character), an expiration date of six months, and automatic sign-off of users after 60 minutes of inactivity. Additionally, passwords may not be reused.

ICSUAM §8045.100, Information Technology Security, dated April 9, 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 campus VP for university advancement/University Foundation secretary stated that Banner password and security rules were removed because they interfered with an upgrade process. He further stated that the password and security rules were not reinstated due to a mistaken belief that they could cause problems for the database administrators.

Inadequate password controls and security parameters may compromise the authentication of credentials, which increases the risk of unauthorized access to systems and confidential data.

**Recommendation 3**

We recommend that the campus set adequate password controls and security parameters for the Banner donor system in accordance with campus password guidelines.

**Campus Response**

We concur. Banner password controls and security parameters for the Banner database system were changed to use the campus password and security system.

Implementation date: Completed

**USER ACCESS REVIEW**

Campus university advancement did not perform a periodic, documented management review of user access privileges within the Banner donor system.

The CSUC *Account Management Standards* state that all accounts shall be reviewed at least annually to ensure that access and account privileges are commensurate with job function, need-to-know, and employment status. This review must be documented. The information security office may also conduct periodic reviews for any system connected to the CSUC network.

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

The campus VP for university advancement/University Foundation secretary stated that a periodic, documented management review was not performed for Banner donor system users because of staff turnover.

Failure to periodically perform a documented review of user access to systems containing protected data increases the risk of inappropriate access, compromised production systems, and potential disclosure of confidential data.
Recommendation 4

We recommend that the campus perform periodic, documented management reviews of user access privileges for the Banner donor system, at least annually.

Campus Response

We concur. Annually, the advancement services director will review and document Banner users and access privileges to verify access and account privileges are commensurate with job function, need-to-know, and employment status.

Implementation date: July 1, 2013
Agreements between the University Foundation and third-party service providers did not always include appropriate indemnification provisions. This is a repeat finding from the prior Auxiliary Organizations audit.

We found that agreements with a fundraising counsel firm and an investment consultant did not specifically indemnify the state of California, Trustees of the CSU, and the campus.

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

EO 849, *California State University Insurance Requirements*, dated February 5, 2003, states that auxiliary organizations shall agree to indemnify, defend, and save harmless the state of California, the Trustees of the CSU, the campus, and the officers, employees, volunteers, and agents of each of them from any and all loss, damage, or liability that may be suffered or incurred by state, caused by, arriving out of, or in any way connected with the operations of the auxiliary. Coded memorandum Risk Management (RM) 2012-01, *California State University Insurance Requirements*, dated June 1, 2012, replaced EO 849 and continues to require appropriate provisions for indemnification.

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

The Research Foundation interim director stated that the lack of an appropriate indemnification provision was due to administrative oversight.

The absence of an appropriate indemnification provision increases the risk of misunderstandings and miscommunications regarding rights and responsibilities and subjects the auxiliary and CSU to potential liability.
Recommendation 5

We recommend that the University Foundation amend the cited agreements with appropriate indemnification provisions and ensure that all future agreements with third-party service providers include an appropriate indemnification provision.

Campus Response

We concur. The cited agreements will be amended. All contracts will be reviewed by the executive director of the Research Foundation prior to execution to ensure appropriate indemnification provisions are included.

Implementation date: May 15, 2013

OPERATIONAL COMPLIANCE

DELEGATION OF AUTHORITY

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

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

The campus VP for university advancement/University Foundation secretary stated that he was unaware of this requirement and was unable to find previous documentation of this delegation.

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

Recommendation 6

We recommend that the University Foundation obtain a written delegation of authority from the campus president to accept monetary gifts and sign gift acknowledgement agreements and letters.

Campus Response

We concur. Written delegation of authority by the president to the campus authority will be obtained for acceptance of gifts and gift acknowledgements.

Implementation date: July 1, 2013
FUNDRAISING

Administration of University Foundation fundraising events needed improvement.

We found that:

- Fundraising events held after July 1, 2012, with gross receipts greater than $5,000 were not approved in writing by a delegated authority.

- Event budgets, drafts of solicitation materials, and action plans to comply with federal, state, and local regulations were not reviewed prior to the events.

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

The campus VP for university advancement/University Foundation secretary stated that procedures to implement the new ICSUAM requirements had not yet been developed.

Insufficient administration of fundraising events increases the risk of non-compliance with relevant regulations and misunderstandings and miscommunication regarding fundraising events.

Recommendation 7

We recommend that the University Foundation ensure that:

a. Fundraising events with gross receipts greater than $5,000 are approved in writing by a delegated authority.

b. Event budgets, drafts of solicitation materials, and action plans for compliance with federal, state, and local regulations are reviewed prior to each fundraising event.

Campus Response

We concur. A campus procedure will be drafted that requires fundraising events with gross receipts greater than $5,000 be approved in writing by the delegated authority. This procedure will ensure that the event budget, drafts of solicitation materials, and action plans for compliance with federal, state, and local regulations are reviewed by the delegated authority prior to each fundraising event.

Implementation date: July 1, 2013
PROGRAM COMPLIANCE

The University Foundation did not always report academically related awards and prizes to the campus financial aid office.

We reviewed 16 awards and prizes paid to students and found that 12 were academically related and had not been reported to the campus financial aid office.

Title 5 §42500(d) states that a record of financial assistance, such as student loans, scholarships, stipends, and grants-in-aid, shall be forwarded on a timely basis to the campus financial aid office and shall be documented on student financial aid recipient records in that office. All such financial assistance provided from student body organization funds shall be approved by the campus financial aid office before such funds are expended and shall not exceed amounts to be provided under regulations of federal and state financial aid programs, except as provided under §42403(b).

The Research Foundation financial director stated that the University Foundation reports scholarships, tuition remissions, and stipends to financial aid, but was unaware that miscellaneous prizes and awards had to be reported.

Failure to appropriately report academically related prizes and awards to the campus financial aid office may result in an overpayment of financial aid funds and increases the risk of fines and penalties.

**Recommendation 8**

We recommend that the University Foundation report academically related prizes and awards to the campus financial aid office.

**Campus Response**

We concur. The University Foundation will be meeting with representatives from financial aid to develop processes and procedures for reporting academically related awards and prizes to students.

Implementation date: July 1, 2013

PETTY CASH AND CHANGE FUNDS

The University Foundation did not conduct periodic, independent cash counts of petty cash and change funds.

We found that independent cash counts were not conducted for petty cash and change funds in the amount of $2,950 held at the development administration office, Research Foundation business office, North State Symphony Guild, and Career Planning and Placement office.
Title 5 §42401 and §42402 indicate that the campus president shall require that auxiliary organizations operate in conformity with policy of the Board of Trustees and the campus. One of the objectives of the auxiliary organizations is to provide fiscal procedures and management systems that allow effective coordination of the auxiliary activities with the campus in accordance with sound business practices. Sound business practice mandates sufficient administration of petty cash and change funds, including periodic, independent cash counts.

The Research Foundation financial director stated that periodic, independent cash counts were not performed due to oversight.

Inadequate administration of petty cash and change funds increases the risk of loss or misappropriation of funds.

Recommendation 9

We recommend that the University Foundation conduct periodic, independent cash counts of all petty cash and change funds.

Campus Response

We concur. The University Foundation will conduct unannounced inspections of petty cash funds on a quarterly basis.

Implementation date: Completed

FEES, REVENUES, AND RECEIVABLES

The University Foundation did not perform a documented dual review of all matching gifts during the acceptance process to ensure that funds were designated in accordance with donor intent. This is a repeat finding from the prior Auxiliary Organizations audit.

ICSUAM §15401.00, Fundraising-Matching Gifts, dated March 1, 2012, states that the purpose of this policy is to establish proper internal controls for the acceptance of matching gifts, which includes a dual review process. Approving authority responsibilities shall be segregated from the recordkeeping function and include, among other duties, the review and verification of all donor contributions for which matching gifts are requested. Recordkeeping responsibilities may be assigned to one or more staff members and should include 1) maintaining records of donor contributions and matching gifts in such a manner that there is a clear record of the individual contribution, the related matching gift claim, and compliance with the matching gift program, and 2) maintaining a record documenting that the matching gift purpose mirrors the purpose of the original donor gift and is consistent with representations to the matching gift program. To substantiate the dual review process, 1) the recordkeeper may countersign the claim certification, 2) the approving authority and recordkeeper may both sign an affirmation, or 3) the process may be automated in a secure database that tracks the actions of both the approving authority and recordkeeper.
The campus VP for university advancement/University Foundation secretary stated that a documented dual review was not always performed for matching gift acceptance due to staff turnover.

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

**Recommendation 10**

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

**Campus Response**

We concur. Advancement services has implemented a documented, dual review of all matching gifts.

Implementation date: Completed

**PURCHASING AND ACCOUNTS PAYABLE**

**DISBURSEMENTS**

Certain University Foundation disbursements were incorrectly recorded in the financial system.

We reviewed 25 disbursements and found that:

- In two instances, petty cash disbursements were incorrectly recorded to participant fees and public relations expense accounts.
- In one instance, a public relations disbursement was incorrectly recorded to a travel expense account.
- In one instance, a contract service disbursement was incorrectly recorded to an award expense account.

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.

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 accurate recording of disbursements into the financial system.

The Research Foundation financial director stated that certain disbursements were incorrectly recorded due to a failure to detect the incorrect object coding on check request forms.

Failure to correctly record disbursements increases the risk of errors, irregularities, and misappropriation of funds.

**Recommendation 11**

We recommend that the University Foundation record disbursements correctly in the financial system.

**Campus Response**

We concur. All staff has been trained in the review and correct recording of disbursements.

Implementation date: Completed

**TRAVEL**

Administration of University Foundation travel needed improvement.

We reviewed ten travel disbursements and found that:

- In one instance, a travel request form documenting advance approval of travel and related expenditures to be incurred was not required.

- In one instance, students traveling by air did not complete and sign release forms or waivers.

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.

EO 1041, *California State University Student Travel Policy*, dated July 1, 2009, state that all students participating in CSU-affiliated programs that require air travel shall be required to acknowledge that they have been informed of the risks of air travel required by such programs and to sign a statement certifying that they have been informed of and undertake such air travel voluntarily with full knowledge of such risks, and release and hold harmless the state of California, the CSU, the campus affiliated with the program requiring air travel, and each and every officer, agent, and employee of each of them, from any and all claims and causes of action that the student, or any person(s) claiming
through the student, may have against any of the above institutions or persons, by reason of any accident, illness, or injuries, death, or other consequences resulting directly or indirectly from or in any manner arising out of, or in connection with, the student being a passenger on a flight.

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 and release forms or signed waivers be obtained from each student traveling by air.

The Research Foundation interim director stated that the travel approval form was completed but could not be located. She further stated that the Research Foundation was unaware that students were traveling by air.

Failure to sufficiently document travel approval increases the risk of errors, irregularities, and misappropriation of funds, and failure to obtain release forms or waivers from students traveling by air increases the risk of legal liability.

**Recommendation 12**

We recommend that the University Foundation:

a. Ensure that all travel and related expenditures to be incurred are approved in advance on a travel request form.

b. Obtain signed release forms or waivers from all students traveling by air.

**Campus Response**

We concur.

a. Research Foundation employees traveling on University Foundation business will be required to submit a travel authorization signed by their supervisor, or a one-up signature, in advance of the planned travel. University employees traveling on University Foundation business will be required to submit a copy of their approved state travel authorization form.

b. A signed release or waiver will be obtained, in advance of the planned travel, from all students traveling by air.

Implementation date: July 1, 2013
CSU, CHICO RESEARCH FOUNDATION

CORPORATE GOVERNANCE

The CSU, Chico Research Foundation (Research Foundation) had not filed amended Bylaws with the chancellor’s office in a timely manner.

We found that an amendment to the Bylaws made on June 6, 2011, had not been filed with the chancellor’s office, and an amendment made on March 28, 2012, had not been filed with the chancellor’s office until July 23, 2012.

The Compilation of Policies and Procedures for California State University Auxiliary Organizations sets sound business practice guidelines for auxiliary organizations operating within the CSU system. Section 11.6.1, Reporting Changes in Articles of Incorporation and Bylaws, states that when an auxiliary organization makes changes to its Articles of Incorporation (or Constitution) or Bylaws, a complete amended copy is to be submitted to Contract Services and Procurement at the Office of the Chancellor within 30 calendar days. The submission should indicate the date the changes were approved by the governing board and/or members.

The Research Foundation interim director stated that amended Bylaws were not submitted to the chancellor’s office in a timely manner due to oversight.

Failure to file amendments to Bylaws in a timely manner increases the risk of misunderstandings and may increase legal liability.

Recommendation 13

We recommend that the Research Foundation promptly file the cited amendment to the Bylaws with the Contract Services and Procurement department at the Office of the Chancellor and ensure that all future changes/amendments to the Bylaws are filed within 30 calendar days.

Campus Response

We concur. The cited amendments have been filed with the chancellor’s office, and all future Research Foundation Bylaw changes/amendments will be filed with the chancellor’s office within 30 calendar days.

Implementation date: Completed

PROGRAM COMPLIANCE

The Research Foundation did not always report all academically related awards and prizes to the campus financial aid office.
We reviewed 12 awards and prizes paid to students and found that five were academically related and had not been reported to the campus financial aid office.

Title 5 §42500(d) states that a record of financial assistance, such as student loans, scholarships, stipends, and grants-in-aid, shall be forwarded on a timely basis to the campus financial aid office and shall be documented on student financial aid recipient records in that office. All such financial assistance provided from student body organization funds shall be approved by the campus financial aid office before such funds are expended and shall not exceed amounts to be provided under regulations of federal and state financial aid programs, except as provided under §42403(b).

The Research Foundation financial director stated that the Research Foundation reports scholarships, tuition remissions, and stipends to financial aid, but was unaware that miscellaneous prizes and awards had to be reported.

Failure to appropriately report academically related prizes and awards to the campus financial aid office may result in an overpayment of financial aid funds and increases the risk of fines and penalties.

**Recommendation 14**

We recommend that the Research Foundation report all academically related awards and prizes to the campus financial aid office.

**Campus Response**

We concur. The Research Foundation will be meeting with representatives from financial aid to develop processes and procedures for reporting academically related awards and prizes to students.

Implementation date: July 1, 2013

**CASH RECEIPTS AND HANDLING**

Administration of Research Foundation cash receipts required improvement.

We found that:

- The Research Foundation did not use a check log to record checks received through the mail at the administration office, CSUC Farm, and intercollegiate athletics department.

- Checks received at the administration office and intercollegiate athletics department were not restrictively endorsed immediately upon receipt or by the close of the business day.

ICSUAM §3102.03, *Acceptance of Cash and Cash Equivalents*, dated April 1, 2011, states that a collection not recorded on a cash register or point of sale equipment, including mailed payments, can
be recorded on a valid pre-numbered, multiple-part cash receipt or a mailed payments log. The receipts must be used sequentially. Receipt stock shall be kept secured, inventoried, and regularly reviewed to prevent and detect alteration. The mailed payment log should be reviewed and reconciled periodically. Further, checks, including mailed remittances, must be restrictively endorsed for deposit (endorsement stamp or its mechanical equivalent) or electronically deposited as soon as possible, but not later than the close of business on the day of receipt.

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, 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 adequate administration of cash receipts.

The Research Foundation financial director stated that the Research Foundation cash receipting locations relied on the Associated Students of California State University, Chico financial services office to log and restrictively endorse all checks received.

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

**Recommendation 15**

We recommend that the Research Foundation:

a. Establish a check log to record checks received through the mail at the administration office, CSUC Farm, and intercollegiate athletics department.

b. Restrictively endorse checks received at the administration office and intercollegiate athletics department immediately upon receipt or by the close of the business day.

**Campus Response**

We concur.

a. Check log templates have been created and distributed to the affected departments and will be submitted to the Research Foundation on a quarterly basis.

   Implementation date: April 1, 2013

b. Checks will be restrictively endorsed upon receipt.
PETTY CASH AND CHANGE FUNDS

Administration of Research Foundation petty cash and change funds needed improvement.

We found that:

- Periodic, independent counts were not conducted for petty cash and change funds in the amount of $10,150.
- In one instance, a public relations disbursement was incorrectly recorded to a petty cash expense account.

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.

Title 5 §42401 and §42402 indicate that the campus president shall require that auxiliary organizations operate in conformity with policy of the Board of Trustees and the campus. One of the objectives of the auxiliary organizations is to provide fiscal procedures and management systems that allow effective coordination of the auxiliary activities with the campus in accordance with sound business practices. Sound business practice mandates sufficient administration of petty cash and change funds, including periodic, independent cash counts, as well as accurate recording of disbursements in the financial system.

The Research Foundation financial director stated that periodic and independent cash counts of petty cash and change funds were not performed due to oversight. He further stated that a certain disbursement was incorrectly recorded due to a failure to detect the incorrect object coding on a check request form.

Inadequate administration of petty cash and change funds increases the risk of loss or misappropriation of funds, and failure to correctly record disbursements increases the risk of errors, irregularities, and misappropriation of funds.

**Recommendation 16**

We recommend that the Research Foundation conduct periodic, independent counts of petty cash and change funds and record disbursements correctly in the financial system.
Campus Response

We concur. Research Foundation administration will conduct unannounced inspections of petty cash funds on a quarterly basis. All staff has been trained in the review and in the recording of petty cash expenditures.

Implementation date: Completed

PURCHASING AND ACCOUNTS PAYABLE

The Research Foundation did not require staff to complete travel request forms documenting advance approval of travel and related expenditures to be incurred.

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

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

The Research Foundation interim director stated that Research Foundation travel policy, which was reviewed and accepted in the prior auxiliary audit, did not require advance approval.

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

Recommendation 17

We recommend that the Research Foundation require staff to complete travel request forms documenting advance approval of travel and related expenditures to be incurred.

Campus Response

We concur. Research Foundation employees will be required to submit a travel authorization signed by their supervisor, or a one-up signature, in advance of the planned travel. University employees traveling on Research Foundation business will be required to submit a copy of their approved state travel authorization form.

Implementation date: July 1, 2013
PERSONNEL AND PAYROLL

Research Foundation student employee separation documentation was not always completed in a timely manner.

We reviewed ten student employee separations that occurred between December 2009 and December 2012, and we found that in six instances, separation documentation was completed from seven to 20 months after the student employee’s last pay date.

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

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

The Research Foundation interim director stated that a quarterly review of student employee separation was not performed due to a transition in personnel.

Insufficient control over employee separations increases the risk of loss of auxiliary funds and inappropriate use of auxiliary resources.

Recommendation 18

We recommend that the Research Foundation complete separation documentation for student employees in a timely manner.

Campus Response

We concur. Research Foundation staff will review student employee separations three times per year (after add/drop deadline in the fall and spring semesters and during the summer).

Implementation date: Completed
CONTRACTS AND GRANTS

Administration of Research Foundation sub-recipient awards required improvement.

We reviewed three current contracts and grants and found that:

› In one instance, the auxiliary did not search for the sub-recipient in the Excluded Parties List System (EPLS).

› In two instances, the auxiliary did not maintain documentation showing that a risk assessment had been performed.

The Research Foundation Policy on Sub-Recipient Monitoring states that before including a sub-recipient in a proposal, the research and sponsored programs development specialist will check the EPLS to determine whether the potential sub-recipient has been suspended or debarred from doing business with the federal government. If the sub-recipient has not been suspended or debarred, a risk assessment will be performed, where a Subaward Commitment Form, Federal Funding Accountability and Transparency Act Form, or A-133 questionnaire will be submitted based on the assessment.

Office of Management and Budget (OMB) Circular A-110, Uniform Administrative Requirements for Grants and Agreements With Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations, §.51(a), states that recipients are responsible for managing and monitoring each project, program, sub-award, function, or activity supported by the award. It also states that recipients shall monitor sub-awards to ensure sub-recipients have met the audit requirements defined in OMB Circular A-133.

The campus director of research and sponsored programs stated that the failure to check the EPLS was due to oversight. She further stated that after the selected sub-recipients were determined to be a low risk, documentation of the assessments was not maintained on file.

Failure to adequately monitor sub-recipient awards increases the risk of non-compliance with federal regulations and jeopardizes the future of the Research Foundation’s grant programs.

Recommendation 19

We recommend that the Research Foundation:

a. Search the EPLS to determine if potential sub-recipients have been suspended or debarred from doing business with the federal government.

b. Maintain documentation showing that risk assessments have been performed for all sub-recipients.
Campus Response

We concur.

a. The Research Foundation will search the EPLS to determine if a sub-recipient on federal awards has not been suspended or debarred prior to issuing a sub-contract.

   Implementation date: Completed

b. Documentation showing that risk assessments have been performed for all sub-recipients on federal awards will be maintained.

   Implementation date: Completed
ASSOCIATED STUDENTS OF CALIFORNIA STATE UNIVERSITY, CHICO

CORPORATE GOVERNANCE

Associated Students of California State University, Chico (AS) had not filed amended Articles of Incorporation and Bylaws with the chancellor’s office in a timely manner.

We found that an amendment made to the Articles of Incorporation on September 24, 2012, and three amendments made to the Bylaws between October 3, 2011, and April 20, 2012, had not been filed with the chancellor’s office.

The *Compilation of Policies and Procedures for California State University Auxiliary Organizations* sets sound business practice guidelines for auxiliary organizations operating within the CSU system. Section 11.6.1, *Reporting Changes in Articles of Incorporation (or Constitution) and Bylaws*, states that when an auxiliary organization makes changes to its Articles of Incorporation (or Constitution) or Bylaws, a complete amended copy is to be submitted to Contract Services and Procurement at the Office of the Chancellor within 30 calendar days. The submission should indicate the date the changes were approved by the governing board and/or members.

The AS financial services director stated that AS was unaware of the requirement to file amended Articles of Incorporation and Bylaws with the chancellor’s office.

Failure to file amendments to Articles of Incorporation and Bylaws in a timely manner increases the risk of misunderstandings and may increase legal liability.

**Recommendation 20**

We recommend that AS promptly file the cited amendments to the Articles of Incorporation and Bylaws with the Contract Services and Procurement department at the chancellor’s office and ensure that all future changes/amendments to Articles of Incorporation and Bylaws are filed within 30 calendar days.

**Campus Response**

We concur with the recommendation. Procedures have been put in place to ensure changes/amendments to Articles of Incorporation and Bylaws are filed with the chancellor’s office within 30 calendar days.

Implementation date: Completed
FEES, REVENUES, AND RECEIVABLES

Administration of AS accounts receivables needed improvement. We reviewed eight delinquent accounts receivable write-offs as of June 30, 2012, and found that:

- Uncollectible accounts were not written off in a timely manner. The accounts were written off from 571 to 900 days after the invoice date.
- Proper approval was not documented prior to write-off.

The AS Accounts Receivable Policy states that every effort is made to collect on invoices that remain outstanding until it is determined that they are uncollectible and written off to bad debt. Written authorization will be obtained from the respective area’s manager prior to write-off.

The Compilation of Policies and Procedures for California State University Auxiliary Organizations sets sound business practice guidelines for auxiliary organizations operating within the CSU system. Section 8.9.4, Receivables, states that the auxiliary should properly record and collect receivables in a consistent manner utilizing systems that ensure integrity of existing internal controls. It also states that the auxiliary should establish a written system to invoice customers promptly, in a consistent manner, while exercising due diligence in the follow-up and collection of past-due accounts.

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

The AS financial services director stated that the outstanding receivables had been included in the bad debt allowance but had not been written off in a timely manner due to continued collection efforts. She further stated that verbal approvals for the accounts receivable write-offs had been obtained but were not documented.

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

Recommendation 21

We recommend that AS ensure that:

a. Uncollectible accounts are written off in a timely manner.

b. Proper approval is obtained prior to the write-off of delinquent accounts receivable.
Campus Response

We concur with the recommendation. Accounts receivable procedures have been improved and documented to include evaluation and write-off of uncollectable accounts outstanding 365 days or more at the end of each fiscal year. In addition, departmental approval will be obtained and documented prior to the write-off of delinquent accounts receivable.

Implementation date: Completed

PROPERTY AND EQUIPMENT

AS did not document the preparation and review of monthly reconciliations of the fixed assets sub-ledger to the general ledger.

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

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

The AS financial services director stated that property and equipment reconciliations had been completed but had not been documented.

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

Recommendation 22

We recommend that AS document the preparation and review of monthly reconciliations of the fixed assets sub-ledger to the general ledger.

Campus Response

We concur with the recommendation. Procedures have been put in place to document the preparation and review of the monthly fixed assets sub-ledger to the general ledger.
Implementation date: Completed

INFORMATION TECHNOLOGY

PAYMENT CARD INDUSTRY DATA SECURITY STANDARD COMPLIANCE

AS had not fully addressed Payment Card Industry (PCI) Data Security Standard (DSS) requirements.

Specifically, we found that:

- Unique user names and passwords were not enforced on all computers that ran PayTrace to process credit card transactions.
- Computers used to process credit card transactions were also used for other activities.
- Computers used to process credit card transactions were not segregated from the general campus network.
- Documentation addressing the processing of credit card transactions, as well as annual training on PCI DSS compliance, had not been developed.

The CSUC Credit Card Handling Security Standards states that the campus and all departments that process credit or debit card information must comply with the PCI DSS. This includes the acquiring, accepting, capturing, storing, processing, or transmitting of credit or debit card data, in both electronic and non-electronic formats.

ICSUAM §8045.100, Information Technology Security, dated April 19, 2010, states that campuses must develop and implement appropriate technical controls to minimize risks to their information technology infrastructure. Each campus must take reasonable steps to protect the confidentiality, integrity, and availability of its critical assets and protected data from threats.

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

The 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 AS information technology director stated that the auxiliary was aware of the outstanding PCI DSS requirements but had been delayed in resolving them due to ongoing software and hardware issues with PayTrace. He further stated that documentation and training related to PCI DSS compliance had not been developed due to oversight.

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

Recommendation 23

We recommend that AS:

a. Enforce unique user names and passwords on all computers running PayTrace to process credit card transactions.

b. Designate specific computers that process only credit card transactions.

c. Segregate computers used to process credit card transactions from the general campus network.

d. Develop documentation for the processing of credit card transactions and for annual training on PCI DSS compliance.

Campus Response

We concur with the recommendation. AS will improve procedures to ensure unique user names and passwords are enforced on all computers running PayTrace software. AS is currently in the process of deploying a solution using virtual workstations that are isolated on segregated network connections. In addition, AS will develop documentation for the processing of credit card transactions in addition to requiring relevant staff participation in PCI DSS compliance trainings.

Implementation date: August 31, 2013

PROTECTED DATA ASSESSMENT AND SECURITY

AS did not perform a periodic, detailed assessment and inventory of protected information stored on its systems, desktops, and other computing equipment, and the data had not been classified into security protection levels.

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

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

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 systems.

The AS information technology director stated that a manual review process and inventory were performed but the results were not documented.

Failure to ensure that all sensitive information has been identified and properly secured increases exposure to information security breaches and could result in the violation of legal statues, resulting in financial penalties and loss of public trust.

Recommendation 24

We recommend that AS perform a periodic, detailed assessment and inventory of protected information stored on its systems, desktops, and other computing equipment, and classify the data into security protection levels.

Campus Response

We concur with the recommendation. AS will implement procedures to ensure reviews of user access privileges occur on a regular basis. To assist in this effort, AS is currently evaluating software that will monitor folder and document permission changes.

Implementation date: August 31, 2013
SERVER ROOM SECURITY

The AS server room door contained a window that could potentially allow for unauthorized entry, and the room was not equipped with an alarm system.

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

The AS information technology director stated that he was unaware that the server room window had to be secured and/or equipped with an alarm system.

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

**Recommendation 25**

We recommend that AS evaluate the feasibility of:

a. Securing all potential openings into the server room.
b. Installing a security alarm system and/or video camera in the data room.

**Campus Response**

We concur with the recommendation. A metal plate has been fixed over the potential opening on the server room door. The server room is currently locked and can be unlocked only via card swipe by the executive director and IT staff. AS will research the feasibility of installing a security alarm system and/or video camera in the server room.

Implementation date for securing server room door: Completed

Implementation date for installing alarm system: September 15, 2013
### APPENDIX A:
PERSONNEL CONTACTED

<table>
<thead>
<tr>
<th>Name</th>
<th>Title</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>CAMPUS</strong></td>
<td></td>
</tr>
<tr>
<td>Paul J. Zingg</td>
<td>President</td>
</tr>
<tr>
<td>Robert E. Alber</td>
<td>Senior Associate Vice President for University Advancement</td>
</tr>
<tr>
<td>Daria Booth</td>
<td>Scholarship Coordinator</td>
</tr>
<tr>
<td>Cindy Dietle</td>
<td>Gift Processor, University Advancement</td>
</tr>
<tr>
<td>Richard Ellison</td>
<td>Vice President for University Advancement</td>
</tr>
<tr>
<td>Lorraine B. Hoffman</td>
<td>Vice President, Business and Finance</td>
</tr>
<tr>
<td>Ed Hudson</td>
<td>Information Security Manager</td>
</tr>
<tr>
<td>Jeni Kitchell</td>
<td>Director of University Budget and Resource Management</td>
</tr>
<tr>
<td>James Page</td>
<td>Data Analyst, Information Security Office</td>
</tr>
<tr>
<td>Carol Sager</td>
<td>Director of Research and Sponsored Programs</td>
</tr>
<tr>
<td><strong>THE UNIVERSITY FOUNDATION</strong></td>
<td></td>
</tr>
<tr>
<td>Richard Ellison</td>
<td>Secretary</td>
</tr>
<tr>
<td><strong>CSU, CHICO RESEARCH FOUNDATION</strong></td>
<td></td>
</tr>
<tr>
<td>Karen Finley</td>
<td>Interim Director</td>
</tr>
<tr>
<td>Marsail Ford</td>
<td>Business Systems Analyst</td>
</tr>
<tr>
<td>Mark McGee</td>
<td>Programmer/Analyst</td>
</tr>
<tr>
<td>Blake Michaelsen</td>
<td>Accounting Technician</td>
</tr>
<tr>
<td>Heather Patton</td>
<td>Accountant</td>
</tr>
<tr>
<td>Tawnie Peterson</td>
<td>Administrative Assistant</td>
</tr>
<tr>
<td>Fred Woodmansee</td>
<td>Financial Director</td>
</tr>
<tr>
<td><strong>ASSOCIATED STUDENTS OF CALIFORNIA STATE UNIVERSITY, CHICO</strong></td>
<td></td>
</tr>
<tr>
<td>Karen Bang</td>
<td>Administrative Office Coordinator</td>
</tr>
<tr>
<td>David Buckley</td>
<td>Executive Director</td>
</tr>
<tr>
<td>Vincent Elliott</td>
<td>Information Technology Director</td>
</tr>
<tr>
<td>Debbie Ernenwein</td>
<td>Cash Room Supervisor</td>
</tr>
<tr>
<td>Eric Gallagher</td>
<td>Computer Department Manager</td>
</tr>
<tr>
<td>Cindy Haws</td>
<td>Accounting Assistant</td>
</tr>
<tr>
<td>Marilyn Hoag</td>
<td>Operations/Information Systems Manager</td>
</tr>
<tr>
<td>Susan Jennings</td>
<td>Financial Services Director</td>
</tr>
<tr>
<td>Corinne Knapp</td>
<td>Dining Services Retail Manager</td>
</tr>
<tr>
<td>Nancy Mantle</td>
<td>Business/Programs Manager</td>
</tr>
<tr>
<td>Gina McCammon</td>
<td>Human Resources Director</td>
</tr>
<tr>
<td>Verlene Moreno</td>
<td>Accounting Supervisor</td>
</tr>
<tr>
<td>Roy Myers</td>
<td>Bookstore Director</td>
</tr>
<tr>
<td>George Rankin</td>
<td>Dining Services Director</td>
</tr>
<tr>
<td>Linda Riggins</td>
<td>Book Division Manager</td>
</tr>
<tr>
<td>Katrina Robertson</td>
<td>Accounting Supervisor</td>
</tr>
<tr>
<td>Rick Scott</td>
<td>Recreation Center Director</td>
</tr>
<tr>
<td>Ian Williams</td>
<td>Information Technology Staff</td>
</tr>
<tr>
<td>Collette Young</td>
<td>Accounting Supervisor</td>
</tr>
<tr>
<td>Randy Zimlich</td>
<td>Bookstore Information Technology Staff</td>
</tr>
</tbody>
</table>
STATEMENT OF INTERNAL CONTROLS

A. INTRODUCTION

Internal accounting and related operational controls established by the State of California, the California State University Board of Trustees, and the Office of the Chancellor are evaluated by the 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.
April 24, 2013

Mr. Larry Mandel  
University Auditor  
The California State University  
401 Golden Shore, 4th Floor  
Long Beach, CA 90802-4210

Subject: Auxiliary Organizations, Audit Report 12-07  
California State University, Chico

Dear Mr. Mandel:

We have reviewed the Office of the University Auditor Report 12-07, Auxiliary Organizations at California State University, Chico. Please find enclosed our response to the audit recommendations. Upon acceptance of our response, the campus will submit documentation evidencing implementation of the recommendations.

If you have any questions or require additional information, please contact Jeni Kitchell at 530-898-5910 or jkitchell@csuchico.edu. Thank you.

Sincerely,

Lorraine Hoffman  
Vice President for Business and Finance

Enclosure

cc: Paul Zingg, President, CSU Chico  
Jeni Kitchell, Director of Budget, CSU Chico  
David Buckley, Executive Director, Associated Students  
Richard Ellison, Secretary, University Foundation  
Katherine Thoma, Executive Director, Research Foundation
AUXILIARY ORGANIZATIONS

CALIFORNIA STATE UNIVERSITY,
CHICO

Audit Report 12-07

FISCAL COMPLIANCE

Recommendation 1

We recommend that the campus develop a written cost allocation or reimbursement plan to allocate costs to the auxiliaries and require reimbursement or documentation of offsetting costs for direct and indirect costs incurred by the campus on behalf of the auxiliaries.

Campus Response

We concur. The campus will compile all direct and indirect reimbursements for the auxiliaries into one formal document.

Implementation date: August 31, 2013

INFORMATION TECHNOLOGY

INFORMATION SECURITY TRAINING

Recommendation 2

We recommend that the campus ensure that University Foundation and Research Foundation employees with access to sensitive data complete information security awareness training.

Campus Response

We concur. In order to receive and maintain access to systems and databases with sensitive data, all University Foundation, Research Foundation and University Advancement staff will be required to complete data security training annually. Completion of training will be monitored with a 30-day window of opportunity to retrain after the anniversary of last compliance. Staff failing to retrain will not be allowed access until training is completed.

Implementation date: July 1, 2013
PASSWORD SECURITY

Recommendation 3

We recommend that the campus set adequate password controls and security parameters for the Banner donor system in accordance with campus password guidelines.

Campus Response

We concur. Banner password controls and security parameters for the Banner database system were changed to use the campus password and security system.

Implementation date: Completed

USER ACCESS REVIEW

Recommendation 4

We recommend that the campus perform periodic, documented management reviews of user access privileges for the Banner donor system, at least annually.

Campus Response

We concur. Annually, the advancement services director will review and document Banner users and access privileges to verify access and account privileges are commensurate with job function, need-to-know, and employment status.

Implementation date: July 1, 2013
THE UNIVERSITY FOUNDATION

OPERATING AND ADMINISTRATIVE AGREEMENTS

Recommendation 5

We recommend that the University Foundation amend the cited agreements with appropriate indemnification provisions and ensure that all future agreements with third-party service providers include an appropriate indemnification provision.

Campus Response

We concur. The cited agreements will be amended. All contracts will be reviewed by the executive director of the Research Foundation prior to execution to ensure appropriate indemnification provisions are included.

Implementation date: May 15, 2013

OPERATIONAL COMPLIANCE

DELEGATION OF AUTHORITY

Recommendation 6

We recommend that the University Foundation obtain a written delegation of authority from the campus president to accept monetary gifts and sign gift acknowledgement agreements and letters.

Campus Response

We concur. Written delegation of authority by the president to the campus authority will be obtained for acceptance of gifts and gift acknowledgements.

Implementation date: July 1, 2013

FUNDRAISING

Recommendation 7

We recommend that the University Foundation ensure that:

a. Fundraising events with gross receipts greater than $5,000 are approved in writing by a delegated authority.

b. Event budgets, drafts of solicitation materials, and action plans for compliance with federal, state, and local regulations are reviewed prior to each fundraising event.
Campus Response

We concur. A campus procedure will be drafted that requires fundraising events with gross receipts greater than $5,000 be approved in writing by the delegated authority. This procedure will ensure that the event budget, drafts of solicitation materials, and action plans for compliance with federal, state, and local regulations are reviewed by the delegated authority prior to each fundraising event.

Implementation date: July 1, 2013

PROGRAM COMPLIANCE

Recommendation 8

We recommend that the University Foundation report academically related prizes and awards to the campus financial aid office.

Campus Response

We concur. Foundation administration will be meeting with representatives from financial aid to develop processes and procedures for reporting academically related awards and prizes to students.

Implementation date: July 1, 2013

PETTY CASH AND CHANGE FUNDS

Recommendation 9

We recommend that the University Foundation conduct periodic, independent cash counts of all petty cash and change funds.

Campus Response

We concur. Foundation administration will conduct unannounced inspections of petty cash funds on a quarterly basis.

Implementation date: Completed

FEES, REVENUES, AND RECEIVABLES

Recommendation 10

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

We concur. Advancement services has implemented a documented, dual review of all matching gifts.

Implementation date: Completed

PURCHASING AND ACCOUNTS PAYABLE

DISBURSEMENTS

Recommendation 11

We recommend that the University Foundation record disbursements correctly in the financial system.

Campus Response

We concur. All staff has been trained in the review and correct recording of disbursements.

Implementation date: Completed

TRAVEL

Recommendation 12

We recommend that the University Foundation:

a. Ensure that all travel and related expenditures to be incurred are approved in advance on a travel request form.

b. Obtain signed release forms or waivers from all students traveling by air.

Campus Response

We concur.

a. Foundation employees will be required to submit a travel authorization signed by their supervisor, or a one-up signature, in advance of the planned travel. University employees traveling on Foundation business will be required to submit a copy of their approved state travel authorization form.

b. A signed release or waiver will be obtained, in advance of the planned travel, from all students traveling by air.

Implementation date: July 1, 2013
CSU, CHICO RESEARCH FOUNDATION

CORPORATE GOVERNANCE

Recommendation 13

We recommend that the Research Foundation promptly file the cited amendment to the Bylaws with the Contract Services and Procurement department at the Office of the Chancellor and ensure that all future changes/amendments to the Bylaws are filed within 30 calendar days.

Campus Response

We concur. The cited amendments have been filed with the chancellor’s office, and all future Research Foundation Bylaw changes/amendments will be filed with the chancellor’s office within 30 calendar days.

Implementation date: Completed

PROGRAM COMPLIANCE

Recommendation 14

We recommend that the Research Foundation report all academically related awards and prizes to the campus financial aid office.

Campus Response

We concur. Research Foundation will be meeting with representatives from financial aid to develop processes and procedures for reporting academically related awards and prizes to students.

Implementation date: July 1, 2013

CASH RECEIPTS AND HANDLING

Recommendation 15

We recommend that the Research Foundation:

a. Establish a check log to record checks received through the mail at the administration office, CSUC Farm, and intercollegiate athletics department.

b. Restrictively endorse checks received at the administration office and intercollegiate athletics department immediately upon receipt or by the close of the business day.
Campus Response

We concur.

a. Check log templates have been created and distributed to the affected departments and will be submitted to Research Foundation on a quarterly basis.

   Implementation date: April 1, 2013

b. Checks will be restrictively endorsed upon receipt.

   Implementation date: April 1, 2013

PETTY CASH AND CHANGE FUNDS

Recommendation 16

We recommend that the Research Foundation conduct periodic, independent counts of petty cash and change funds and record disbursements correctly in the financial system.

Campus Response

We concur. Foundation administration will conduct unannounced inspections of petty cash funds on a quarterly basis. All staff has been trained in the review and in the recording of petty cash expenditures.

Implementation date: Completed

PURCHASING AND ACCOUNTS PAYABLE

Recommendation 17

We recommend that the Research Foundation require staff to complete travel request forms documenting advance approval of travel and related expenditures to be incurred.

Campus Response

We concur. Research Foundation employees will be required to submit a travel authorization signed by their supervisor, or a one-up signature, in advance of the planned travel. University employees traveling on Research Foundation business will be required to submit a copy of their approved state travel authorization form.

Implementation date: July 1, 2013
PERSONNEL AND PAYROLL

Recommendation 18

We recommend that the Research Foundation complete separation documentation for student employees in a timely manner.

Campus Response

We concur. Research Foundation staff will review student employee separations three times per year (after add/drop deadline in the fall and spring semesters and during the summer).

Implementation date: Completed

CONTRACTS AND GRANTS

Recommendation 19

We recommend that the Research Foundation:

a. Search the EPLS to determine if potential sub-recipients have been suspended or debarred from doing business with the federal government.

b. Maintain documentation showing that risk assessments have been performed for all sub-recipients.

Campus Response

We concur.

a. Research Foundation will search the EPLS to determine if a sub-recipient on federal awards has not been suspended or debarred prior to issuing a sub-contract.

Implementation date: Completed

b. Documentation showing that risk assessments have been performed for all sub-recipients on federal awards will be maintained.

Implementation date: Completed
ASSOCIATED STUDENTS OF CALIFORNIA STATE UNIVERSITY, CHICO

CORPORATE GOVERNANCE

Recommendation 20

We recommend that AS promptly file the cited amendments to the Articles of Incorporation and Bylaws with the Contract Services and Procurement department at the chancellor’s office and ensure that all future changes/amendments to Articles of Incorporation and Bylaws are filed within 30 calendar days.

Campus Response

We concur with the recommendation. Procedures have been put in place to ensure changes/amendments to Articles of Incorporation and Bylaws are filed with the chancellor’s office within 30 calendar days.

Implementation date: Completed

FEES, REVENUES, AND RECEIVABLES

Recommendation 21

We recommend that AS ensure that:

a. Uncollectible accounts are written off in a timely manner.
b. Proper approval is obtained prior to the write-off of delinquent accounts receivable.

Campus Response

We concur with the recommendation. Accounts receivable procedures have been improved and documented to include evaluation and write-off of uncollectable accounts outstanding 365 days or more at the end of each fiscal year. In addition, departmental approval will be obtained and documented prior to the write-off of delinquent accounts receivable.

Implementation date: Completed

PROPERTY AND EQUIPMENT

Recommendation 22

We recommend that AS document the preparation and review of monthly reconciliations of the fixed assets sub-ledger to the general ledger.
Campus Response

We concur with the recommendation. Procedures have been put in place to document the preparation and review of the monthly fixed assets sub-ledger to the general ledger.

Implementation date: Completed

INFORMATION TECHNOLOGY

PAYMENT CARD INDUSTRY DATA SECURITY STANDARD COMPLIANCE

Recommendation 23

We recommend that AS:

a. Enforce unique user names and passwords on all computers running PayTrace to process credit card transactions.

b. Designate specific computers that process only credit card transactions.

c. Segregate computers used to process credit card transactions from the general campus network.

d. Develop documentation for the processing of credit card transactions and for annual training on PCI DSS compliance.

Campus Response

We concur with the recommendation. The AS will improve procedures to ensure unique user names and passwords are enforced on all computers running PayTrace software. The AS is currently in the process of deploying a solution using virtual workstations that are isolated on segregated network connections. In addition, the AS will develop documentation for the processing of credit card transactions in addition to requiring relevant staff participation in PCI DSS compliance trainings.

Implementation date: August 31, 2013

PROTECTED DATA ASSESSMENT AND SECURITY

Recommendation 24

We recommend that AS perform a periodic, detailed assessment and inventory of protected information stored on its systems, desktops, and other computing equipment, and classify the data into security protection levels.

Campus Response

We concur with the recommendation. The AS will implement procedures to ensure reviews of user access privileges occur on a regular basis. To assist in this effort, the AS is currently evaluating software that will monitor folder and document permission changes.
Implementation date: August 31, 2013

SERVER ROOM SECURITY

Recommendation 25

We recommend that AS evaluate the feasibility of:

a. Securing all potential openings into the server room.
b. Installing a security alarm system and/or video camera in the data room.

Campus Response

We concur with the recommendation. A metal plate has been fixed over the potential opening on the server room door. The server room is currently locked and can be unlocked only via card swipe by the executive director and IT staff. The AS will research the feasibility of installing a security alarm system and/or video camera in the server room.

Implementation date for securing server room door: Completed

Implementation date for installing alarm system: September 15, 2013
May 13, 2013

MEMORANDUM

TO: Mr. Larry Mandel  
    University Auditor

FROM: Timothy P. White  
      Chancellor

SUBJECT: Draft Final Report 12-07 on Auxiliary Organizations, 
         California State University, Chico

In response to your memorandum of May 13, 2013, I accept the response as submitted with the draft final report on Auxiliary Organizations, California State University, Chico.

TPW/amd