

**AUXILIARY ORGANIZATIONS**  
**HUMBOLDT STATE UNIVERSITY**

**Audit Report 13-07**  
**January 17, 2014**

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Rebecca D. Eisen Hugo Morales

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**BOARD OF TRUSTEES**  
**THE CALIFORNIA STATE UNIVERSITY**

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## **ABBREVIATIONS**

AF	Humboldt State University Advancement Foundation
AORMA	Auxiliary Organization Risk Management Authority
AS	Associated Students of Humboldt State University
CSU	California State University
CSURMA	California State University Risk Management Authority
DRP	Disaster Recovery Plan
EO	Executive Order
Foundation	Humboldt State University Sponsored Programs Foundation
HSU	Humboldt State University
ICSUAM	Integrated California State University Administrative Manual
ISO	Information Security Officer
IT	Information Technology
RFIN	Resolution of the Committee on Finance
UC	Humboldt State University Center Board of Directors

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## EXECUTIVE SUMMARY

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

Humboldt State University (HSU) 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 HSU campus and its auxiliary organizations from September 16, 2013, through October 18, 2013, and made a study and evaluation of the system of internal compliance/internal control in effect as of October 18, 2013. This report represents our triennial review.

In our opinion, except for the effect of the weaknesses described below, the fiscal, operational, and administrative controls at the *HSU campus* as of October 18, 2013, taken as a whole, were sufficient to meet the objectives stated above and in the "Purpose" section of this report. Areas of concern include: fiscal compliance, contracts and grants, and information technology.

In our opinion, except for the effect of the weaknesses described below, the fiscal, operational, and administrative controls at *Humboldt State University Advancement Foundation* as of October 18, 2013, taken as a whole, were sufficient to meet the objectives stated above and in the "Purpose" section of this report. An area of concern is operational compliance.

In our opinion, except for the effect of the weaknesses described below, the fiscal, operational, and administrative controls at *Humboldt State University Sponsored Programs Foundation* as of October 18, 2013, taken as a whole, were sufficient to meet the objectives stated above and in the "Purpose" section of this report. An area of concern is trust and other liabilities.

In our opinion, except for the effect of the weaknesses described below, the fiscal, operational, and administrative controls at *Humboldt State University Center Board of Directors* as of October 18, 2013, taken as a whole, were sufficient to meet the objectives stated above and in the “Purpose” section of this report. Areas of concern include: personnel and payroll, commercial operations, and information technology.

In our opinion, except for the effect of the weaknesses described below, the fiscal, operational, and administrative controls at *Associated Students of Humboldt State University* as of October 18, 2013, taken as a whole, were sufficient to meet the objectives stated above and in the “Purpose” section of this report. Areas of concern include: fees, revenues, and receivables and personnel and payroll.

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 documented an exchange of value or the benefit to the university’s overall educational mission for pre-award specialists working for the Humboldt State University Sponsored Programs Foundation (Foundation) in its business management services agreement.

### **CONTRACTS AND GRANTS [13]**

The campus had not developed a written policy incorporating components outlined in Executive Order 890 to address the management of sponsored programs.

### **INFORMATION TECHNOLOGY [14]**

Campus administration of protected data needed improvement. Specifically, the campus did not perform a comprehensive assessment of all sensitive information maintained in electronic and paper format, including those maintained in auxiliary operations, and did not provide specific guidance to the auxiliaries about how to perform individual assessments and report the results to campus information technology personnel. Additionally, the campus had not trained all auxiliary employees with computer access in information security awareness. Further, user access within the Humboldt State University Advancement Foundation (AF) donor system was not always appropriate.

**HUMBOLDT STATE UNIVERSITY ADVANCEMENT FOUNDATION**

**OPERATING AND ADMINISTRATIVE AGREEMENTS [17]**

Agreements between the AF and the campus were not always fully executed in a timely manner.

**CORPORATE GOVERNANCE [17]**

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

**FISCAL COMPLIANCE [18]**

AF net assets were not allocated into the board-designated reserve categories.

**OPERATIONAL COMPLIANCE [19]**

The AF had not obtained annual conflict-of-interest statements from all board members. Additionally, the AF did not have a current written delegation of authority from the campus president giving the AF executive director responsibility to accept monetary gifts and sign gift acknowledgement agreements and letters on behalf of the AF.

**PURCHASING AND ACCOUNTS PAYABLE [21]**

The AF did not always obtain signed release forms or waivers from students traveling by air.

**ENDOWMENT ADMINISTRATION [22]**

The AF endowment did not have a written management agreement with the Foundation for the administration of spending accounts.

**HUMBOLDT STATE UNIVERSITY SPONSORED PROGRAMS FOUNDATION**

**CORPORATE GOVERNANCE [23]**

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

**TRUSTS AND OTHER LIABILITIES [23]**

Administration of Foundation campus activity or program trust funds needed improvement. For example, the delegation of authority from the campus president to his/her designee for the authorization of campus activities/programs had not been documented, two agreements had expired and had not been renewed, one agreement had not been signed by the designated vice president, one agreement did not include signatures

of approval, one agreement had not been completed, and one agreement did not state the correct name of the auxiliary.

## **HUMBOLDT STATE UNIVERSITY CENTER BOARD OF DIRECTORS**

### **CORPORATE GOVERNANCE [26]**

The Humboldt State University Center Board of Directors (UC) had not filed amended Articles of Incorporation and Bylaws with the chancellor's office in a timely manner.

### **FISCAL COMPLIANCE [26]**

UC net assets were not allocated into board-designated reserve categories, as required by UC reserve policy.

### **PURCHASING AND ACCOUNTS PAYABLE [28]**

The UC did not escheat unclaimed payroll checks to the state.

### **PERSONNEL AND PAYROLL [28]**

The UC did not document approval in advance when student employees worked more than 20 hours per week during the academic period. Additionally, compensation paid to UC outdoor program instructors was processed through payroll without time records, which are required by the Fair Labor Standards Act of 1938.

### **COMMERCIAL OPERATIONS [30]**

Administration of UC catering services needed improvement. Specifically, catering agreements were not always supported by written agreements that included appropriate indemnification and insurance provisions, and insurance permits could not always be located. Additionally, administration of third-party sales commission receipts at the UC bookstore needed improvement. For example, the UC did not have written policies and procedures to periodically audit third-party sales commissions to ensure that commission receipts were in accordance with contractual requirements and had not established a system to perform periodic, documented reviews of commission receipts.

### **INFORMATION TECHNOLOGY [32]**

The UC did not perform periodic, documented management reviews of user access privileges within the financial and administrative system, which contained protected data. Additionally, the UC IT disaster recovery plan did not include sufficient detail to ensure the timely recovery of critical systems. Also, the UC service agreement with the vendor providing maintenance and support of the financial and administrative system, which contained protected data, was inadequate.



## **ASSOCIATED STUDENTS OF HUMBOLDT STATE UNIVERSITY**

### **OPERATIONAL COMPLIANCE [36]**

The Associated Students of Humboldt State University (AS) conflict-of-interest policy had not been updated since 2001, and it did not include procedures for signing annual conflict-of-interest statements, nor steps for reporting conflicts of interest.

### **PROGRAM COMPLIANCE [36]**

AS did not complete time records, which are required by the Fair Labor Standards Act of 1938, for student executive officers who received stipends processed through payroll.

### **FEES, REVENUES, AND RECEIVABLES [37]**

Administration of AS accounts receivable collections needed improvement. Specifically, collection and follow-up activity was not always performed and documented to facilitate collection or support account write-off. Additionally, AS uncollectible accounts receivable were not always written off in a timely manner.

### **PERSONNEL AND PAYROLL [39]**

Administration of AS personnel and payroll needed improvement. For example, AS did not certify the I-9 form within three business days of one new employee's first day of work and did not document approval for student employees who worked more than 20 hours per week during the academic period.

### **PROPERTY AND EQUIPMENT [40]**

AS fixed assets were not always properly tagged.

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

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

This executive order requires CSU auxiliary organizations to operate within the regulations and oversight of the campus. The campus president is responsible for ensuring the fiscal viability of auxiliary organizations and compliance with applicable CSU policies. The campus chief financial officer is responsible for administrative compliance and fiscal oversight of auxiliary organizations. The campus,

with the approval of the chancellor (or designees), may assign certain functions to auxiliary organizations pursuant to the California Code of Regulations, Title 5, §42500. A written operating agreement is established detailing the functions that auxiliary organizations can perform. The campus may assign responsibility for an activity or program to auxiliary organizations, and the acceptance of the responsibility requires the assumption of the associated legal obligation and liabilities, fiscal liabilities, and fiduciary responsibilities by auxiliary organizations. Auxiliary organizations shall ensure that fiscal procedures and management systems are in place, consistent with California Code of Regulations, Title 5, §42401.

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

#### Humboldt State University Advancement Foundation

The Humboldt State University Advancement Foundation (AF) was established in 2004 as a non-profit public benefit corporation to support and advance the mission of Humboldt State University (HSU) by securing and increasing private support, developing and managing entrepreneurial activities, and managing endowed and other assets as requested by the university. Prior to the incorporation of the AF in 2004, university endowments were managed by the Humboldt State University Sponsored Programs Foundation. The AF is governed by a board of directors composed of representatives from the university administration, faculty, alumni, student body, and community. The AF does not have employees and relies on campus personnel from university advancement, administrative affairs, and financial services for administrative and accounting support services.

#### Humboldt State University Sponsored Programs Foundation

The Humboldt State University Sponsored Programs Foundation (Foundation) was established in 1952 as a non-profit public benefit corporation for the purpose of providing a unique setting for the encouragement of broad social, cultural, recreational, and informal educational programming for the university and its surroundings. The Foundation's primary function is to administer externally funded grants and contracts. It also provides services, including the administration of various campus programs such as alumni association activities, the KHSU radio station, the First Street Gallery, the Natural History Museum, various centers and institutes, and other similar self-supporting programs. The Foundation is governed by a board of directors composed of representatives from the faculty, university and auxiliary administration, student body, and community. It employs a director, a compliance officer, three grant analysts, two pre-award specialists, and an administrative assistant but relies on campus personnel for accounting services.

#### Humboldt State University Center Board of Directors

The Humboldt State University Center Board of Directors (UC) was established in 1970 as a non-profit benefit corporation to promote the welfare of HSU, its students, and its employees. The UC's primary

activities are to develop, finance, and operate the University Center building and the dining services on the HSU campus. The University Center building houses the major operations of the UC, including the bookstore, dining operations, Center Arts, center activities, and clubs and activities. The operation of the bookstore was outsourced to a third party in 2011. The UC also leases space to Associated Students of Humboldt State University and offers a variety of conference spaces, meeting rooms, and lounge/study areas both within the UC facility and in Nelson Hall East. The UC is governed by a board of directors composed of representatives from the student body, the faculty, university and auxiliary administration, the alumni, and the community.

### Associated Students of Humboldt State University

Associated Students of Humboldt State University (AS) was established in 1991 as a non-profit public benefit corporation for the purpose of providing the official voice through which students may express their opinions. AS serves three primary purposes: to allocate student fee dollars to more than 20 programs; to educate students on campus, local, and state affairs that have significant impact on students; and to advocate the student perspective to the appropriate parties. AS resides within the University Center building and operates student activities, advocacy and outreach programs, and instructionally related activities. It also provides funding for the Children's Center, student events, multicultural centers, and art galleries. AS is governed by a board of directors composed of representatives from the student body and the university and auxiliary administration. AS relies on campus and UC personnel for administrative and accounting support services.

## **PURPOSE**

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

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

## **SCOPE AND METHODOLOGY**

Our study and evaluation were conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing* issued by the Institute of Internal Auditors and included the audit tests we considered necessary in determining whether fiscal, operational, and administrative controls are in place and operative. The management review emphasized, but was not limited to, compliance with

state and federal laws, Board of Trustee policies, and Office of the Chancellor policies, letters, and directives. For those audit tests that required annualized data, fiscal years 2010/11 and 2011/12 were the primary periods reviewed. In certain instances, we were concerned with representations of the most current data; in such cases, the test period was July 1, 2012, to October 18, 2013. Our primary focus was on internal compliance/internal control.

Specifically, we reviewed and tested:

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

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

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

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

Humboldt State University Advancement Foundation

- ▶ Operating and Administrative Agreements
- ▶ Facilities Agreements
- ▶ Corporate Governance
- ▶ Fiscal Compliance
- ▶ Operational Compliance
- ▶ Program Compliance
- ▶ Segregation of Duties
- ▶ Cash Receipts and Handling
- ▶ Investments
- ▶ Fees, Revenues, and Receivables
- ▶ Purchasing and Accounts Payable
- ▶ Trusts and Other Liabilities
- ▶ Endowment Administration
- ▶ Auxiliary Programs

Humboldt State University Advancement Foundation (cont.)

- ▶ Information Technology

Humboldt State University Sponsored Programs Foundation

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

Humboldt State University Center Board of Directors

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

Associated Students of Humboldt State University

- ▶ Operating and Administrative Agreements
- ▶ Facilities Agreements
- ▶ Corporate Governance
- ▶ Fiscal Compliance

Associated Students of Humboldt State University (cont.)

- ▶ Operational Compliance
- ▶ Program Compliance
- ▶ Segregation of Duties
- ▶ Cash Receipts and Handling
- ▶ Petty Cash and Change Funds
- ▶ Investments
- ▶ Fees, Revenues, and Receivables
- ▶ Purchasing and Accounts Payable
- ▶ Personnel and Payroll
- ▶ Property and Equipment
- ▶ Auxiliary Programs
- ▶ Information Technology

Campus

- ▶ Campus Oversight
- ▶ Auxiliary Support Services
- ▶ Information Technology

We have not performed any auditing procedures beyond October 18, 2013. Accordingly, our comments are based on our knowledge as of that date. Since the purpose of our comments is to suggest areas for improvement, comments on favorable matters are not addressed.

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# OBSERVATIONS, RECOMMENDATIONS, AND CAMPUS RESPONSES

## CAMPUS

### FISCAL COMPLIANCE

The campus had not documented an exchange of value or the benefit to the university's overall educational mission for pre-award specialists working for the Humboldt State University Sponsored Programs Foundation (Foundation) in its business management services agreement.

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 a university's cost allocation/reimbursement plan must articulate the practices and methodologies utilized in determining the basis for allocating costs. There are some activities that are integral to supporting the core educational objectives of a university, but which are not fully funded through the California State University (CSU) operating fund. In some cases, operating fund resources are used to support those efforts. Those efforts are recognized as providing either tangible or intangible value that ultimately inures to the overall benefit of the university and its educational mission even though the activity might reside in an auxiliary organization or enterprise program/activity/fund. Two of the more common examples of such activities are fundraising and externally sponsored research and grants. If a cost allocation/reimbursement plan incorporates such exchanges of value, they must be well documented and clearly articulate the benefit to the overall educational mission.

Executive Order (EO) 1000, *Delegation of Fiscal Authority and Responsibility*, dated July 1, 2007, states that each campus must develop a cost allocation plan to 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. The campus chief financial officer, or designee, shall annually approve and implement this plan.

The campus associate vice president of business services stated that because state personnel working for the Foundation were exempt from cost recovery, documentation for an exchange of value and the benefit to the university's overall educational mission were not included in the business management services agreement.

Insufficient documentation of an exchange of value and the benefit to the university's overall educational mission increases the risk that the campus operating fund will not be fully compensated for support provided to auxiliaries.

#### **Recommendation 1**

We recommend that the campus document an exchange of value and the benefit to the university's overall educational mission for pre-award specialists working for the Foundation in its business management services agreement.



### **Campus Response**

We concur. The campus service agreement with the Foundation will include an exchange of value statement that discusses the benefit of the Foundation's pre-award specialists to the overall educational mission of the university.

Completion date: March 31, 2014

## **CONTRACTS AND GRANTS**

The campus had not developed a written policy incorporating components outlined in EO 890 to address the management of sponsored programs.

EO 890, *Administration of Grants and Contracts in Support of Sponsored Programs*, dated January 7, 2004, states that each campus shall establish a written policy on the management of sponsored programs that incorporates the components outlined in this EO and that is consistent with policies relating to risk management, environmental health and safety, conflicts of interest, research misconduct, and other applicable CSU and campus policies. It further states that prior to acceptance, the recipient shall designate either the university or an auxiliary to administer the contract or grant, and this entity will be known as the sponsored program administrator.

The campus associate vice president of business services stated her belief that the master agreement between the campus and the Foundation was sufficient to address the components outlined in EO 890, and as such, a written policy on the management of sponsored programs had not been developed.

Lack of a written policy on the management of sponsored programs increases the risk of non-compliance with EO 890.

### **Recommendation 2**

We recommend that the campus develop a written policy incorporating the components outlined in EO 890 to address the management of sponsored programs.

### **Campus Response**

We concur. The campus will develop a written policy incorporating the components outlined in EO 890 to address the management of sponsored programs.

Completion date: March 31, 2014

## INFORMATION TECHNOLOGY

### PROTECTED DATA INVENTORY

Campus administration of protected data needed improvement.

Specifically, we found that the campus did not:

- ▶ Perform a comprehensive assessment of all sensitive information maintained in electronic and paper format, including those maintained in auxiliary operations.
- ▶ Provide specific guidance to the auxiliaries about how to perform individual assessments and report the results to campus IT personnel.

ICSUAM §8020, *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, *Information Asset Management*, dated April 19, 2010, states that campuses must maintain an inventory of information assets containing level 1 or level 2 data as defined in the CSU Data Classification Standard. These assets must be categorized and protected throughout their entire life cycle, from origination to destruction.

The campus information security officer (ISO) stated that the campus had performed an assessment of all protected data maintained in electronic format; however, a process was not yet in place to perform an inventory and assessment of level 2 data maintained in electronic format. He further stated that a process was not yet in place to perform an inventory and assessment of all sensitive information maintained in paper format.

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

### Recommendation 3

We recommend that the campus:

- a. Perform a comprehensive assessment of all sensitive information maintained in electronic and paper format, including those maintained in auxiliary operations.

- b. Provide specific guidance to the auxiliaries about how to perform individual assessments and report the results to campus IT personnel.

### **Campus Response**

We concur. The campus will perform an assessment of all sensitive information maintained in electronic and paper format, including those maintained in auxiliary operations, and provide specific guidance to the auxiliaries about how to perform individual assessments and report the results to campus IT personnel.

Completion date: April 30, 2014

## **INFORMATION SECURITY AWARENESS TRAINING**

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

ICSUAM §8035.100, *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 ISO stated that the campus requires all employees with access to computer assets to enroll in information security awareness training and that reminder emails are sent to individuals who do not complete the training. He further stated that all methods currently agreed to by the bargaining units are used to enforce the completion of the training.

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

### **Recommendation 4**

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

### **Campus Response**

We concur. The campus will provide training on information security awareness to all auxiliary employees.

Completion date: April 30, 2014

## **USER ACCESS**

User access within the Humboldt State University Advancement Foundation donor system was not always appropriate.

Specifically, we found that the director of annual giving had the ability to add and modify transactions, although the position required no more than read-only access to the gifts, funds, appeals, and campaign module.

ICSUAM §8060.300, *Access Control*, dated April 19, 2010, states that separation-of-duties principles must be followed when assigning job responsibilities relating to restricted or essential resources. Campuses must maintain an appropriate level of separation of duties when issuing credentials to individuals who have access to information assets containing protected data. Campuses must avoid issuing credentials that allow a user greater access or more authority over information assets than is required by the employee's job duties.

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 campus vice president of university advancement stated that the director of annual giving was given the ability to add and modify transactions in the gifts, funds, appeals, and campaign module in order to serve as a backup for the advancement services manager. Inappropriate user access increases the risk that management controls could be circumvented.

### **Recommendation 5**

We recommend that the campus remove the director of annual giving's ability to add and modify transactions in the gifts, funds, appeals, and campaign module of the Humboldt State University Advancement Foundation donor system, or institute mitigating procedures approved by the campus vice president of administration and finance.

### **Campus Response**

We concur. The campus will remove the director of annual giving's ability to add and modify transactions in the gifts, funds, appeals, and campaign module of the Humboldt State University Advancement Foundation donor system.

Completion date: April 30, 2014

## **HUMBOLDT STATE UNIVERSITY ADVANCEMENT FOUNDATION**

### **OPERATING AND ADMINISTRATIVE AGREEMENTS**

Agreements between the Humboldt State University Advancement Foundation (AF) and the campus were not always fully executed in a timely manner.

We reviewed 11 agreements and found that three were signed after their effective dates. Execution delays ranged from 43 to 212 days.

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

The AF executive director stated that agreements were not always fully executed in a timely manner due to staff turnover.

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

#### **Recommendation 6**

We recommend that the AF fully execute all agreements in a timely manner.

#### **Campus Response**

We concur. The AF will execute all agreements in a timely manner.

Completion date: April 30, 2014

### **CORPORATE GOVERNANCE**

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

We found that amendments made to the Articles of Incorporation on December 3, 2012, and to the Bylaws on March 18, 2011, 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 AF executive director stated that the amended Articles of Incorporation and Bylaws were not submitted to the chancellor's office in a timely manner due to staff turnover and transitions.

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

### **Recommendation 7**

We recommend that the AF promptly file the amended Articles of Incorporation and Bylaws with the Contract Services and Procurement department at the chancellor's office.

### **Campus Response**

We concur. The AF will promptly file the amended Articles of Incorporation and Bylaws with the Contract Services and Procurement department at the chancellor's office.

Completion date: March 30, 2014

## **FISCAL COMPLIANCE**

AF net assets were not allocated into board-designated reserve categories.

The AF *Reserves Policy* states reserve guidelines as: a) working capital and current operations, maintained at a level that is one year annual operating budget for cash flow; b) capital acquisition/replacement, maintained at a level determined by the finance committee; and c) planned future operations reserve, maintained at a level determined by the finance committee.

The *Compilation of Policies and Procedures for California State University Auxiliary Organizations* sets sound business practice guidelines for auxiliary organizations operating within the CSU system. Section 8.1.1.2 A-2, *Basis for Financial Standards and Fiscal Viability – Financial Statements*, states that annually each auxiliary governing board shall review the fiscal viability of the auxiliary organization to include an evaluation of the need for reserves in the following areas: a) working capital, b) current operations, c) capital replacement, and d) planned future operations.

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 8.9.9, *Reserves and Net Assets*, states, in part, that an auxiliary must implement financial standards, which will assure fiscal viability, including proper provision for professional management,

adequate working capital, adequate reserve funds for current operations and capital replacements, and adequate provisions for new business requirements.

Title 5 §42401 and §42402 state that the campus president shall require that auxiliary organizations operate in conformity with policy of the Board of Trustees and the campus. One of the objectives of the auxiliary organizations is to provide fiscal procedures and management systems that allow effective coordination of the auxiliary activities with the campus in accordance with sound business practices. Sound business practice mandates appropriate allocation of net assets into the board-designated reserve categories.

The AF executive director stated that net assets were not allocated into board-designated reserve categories because the reserve policy was in the process of being updated.

Failure to allocate net assets into board-designated reserve categories increases the risk of misunderstandings and miscommunication regarding available reserves, as well as the risk that the auxiliary will be unable to fund future needs.

### **Recommendation 8**

We recommend that the AF allocate net assets into board-designated reserve categories.

### **Campus Response**

We concur. The AF will allocate net assets into board-designated reserve categories.

Completion date: April 30, 2014

## **OPERATIONAL COMPLIANCE**

### **CONFLICT OF INTEREST**

The AF had not obtained annual conflict-of-interest statements from all board members.

We found that two of the 28 board members had not signed a conflict-of-interest statement for fiscal year 2012/13.

CSU Conflict of Interest Handbook §2B states that the Political Reform Act requires the CSU to adopt a formal conflict-of-interest code. The CSU's code requires certain employees, who are most likely to be involved in university decision-making where potential conflicts may be present, to file an annual disclosure form.

The Internal Revenue Service, *Governance and Related Topics 501(c)(3)*, dated February 4, 2008, and *Return of Organization Exempt from Income Tax*, Form 990, encourage a charity's board of directors to adopt and regularly evaluate a written conflict-of-interest policy that requires directors and staff to act solely in the interests of the charity without regard for personal interests; includes

written procedures for determining whether a relationship, financial interest, or business affiliation results in a conflict of interest; and prescribes a course of action in the event a conflict of interest is identified.

Title 5 §42401, §42402, §42500 and Education Code §89900 establish a responsibility to operate in accordance with sound business practices in the interest of the campus. Sound business practice mandates establishing conflict-of-interest policies and procedures and compliance with existing policies and procedures.

The AF executive director stated that annual conflict-of-interest statements had not been obtained from all board members due to oversight. He further stated that no one was keeping track of the conflict-of-interest forms that were received.

A lack of conflict-of-interest statements from all auxiliary board members increases liability for acts contrary to the code.

### **Recommendation 9**

We recommend that the AF obtain annual conflict-of-interest statements from all board members.

### **Campus Response**

We concur. The AF will obtain annual conflict-of-interest statements from all board members.

Completion date: March 30, 2014

## **DELEGATION OF AUTHORITY**

The AF did not have a current written delegation of authority from the campus president giving the AF executive director responsibility to accept monetary gifts and sign gift acknowledgement agreements and letters on behalf of the AF.

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 AF executive director stated that the written delegation of authority from the campus president to accept monetary gifts and sign gift acknowledgement agreements and letters was not updated due to staff turnover.

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



### **Recommendation 10**

We recommend that the AF obtain a written delegation of authority from the campus president giving the AF executive director responsibility to accept monetary gifts and sign acknowledgement agreements and letters on behalf of the AF.

### **Campus Response**

We concur. The AF will obtain a written delegation of authority from the campus president giving the AF executive director responsibility to accept monetary gifts and sign acknowledgement agreements and letters on behalf of the AF.

Completion date: March 30, 2014

## **PURCHASING AND ACCOUNTS PAYABLE**

The AF did not always obtain signed release forms or waivers from students traveling by air.

We reviewed three student travel disbursements and found that in two instances, students traveling by air did not complete and sign release forms or waivers.

EO 1041, *California State University Student Travel Policy*, dated July 1, 2009, states 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 release forms or signed waivers be obtained from each student traveling by air.

The AF executive director stated that certain students traveling by air did not complete and sign release forms or waivers due to staff turnover and oversight.

The absence of release forms or waivers from students traveling by air increases the risk of legal liability.

**Recommendation 11**

We recommend that the AF obtain signed release forms or waivers from all students traveling by air.

**Campus Response**

We concur. The AF will obtain signed release forms or waivers from all students traveling by air.

Completion date: April 30, 2014

**ENDOWMENT ADMINISTRATION**

The AF endowment did not have a written management agreement with the Humboldt State University Sponsored Programs Foundation (Foundation) for the administration of spending 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 that endowment funds held and administered by others be properly supported by complete, written agreements.

The AF executive director stated that gift agreements required that funds be expended only for the purposes specified in the agreements. He further stated that because authorized signers for each account were responsible for verifying allowable expenditures, an additional agreement between the auxiliaries would be redundant and unnecessary.

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

**Recommendation 12**

We recommend that the AF, in conjunction with the Foundation, promptly establish a written agreement for the administration of spending accounts.

**Campus Response**

We concur. The AF will establish a written agreement for the administration of spending accounts.

Completion date: April 30, 2014

## **HUMBOLDT STATE UNIVERSITY SPONSORED PROGRAMS FOUNDATION**

### **CORPORATE GOVERNANCE**

The Humboldt State University Sponsored Programs Foundation (Foundation) had not filed amended Articles of Incorporation with the chancellor's office in a timely manner.

We found that an amendment to the Articles of Incorporation made on January 10, 2013, which was submitted to and approved by the Secretary of State on February 3, 2013, 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 Foundation executive director stated that the cited amendment to the Articles of Incorporation was not submitted to the chancellor's office due to management oversight.

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

#### **Recommendation 13**

We recommend that the Foundation promptly file the amended Articles of Incorporation with the Contract Services and Procurement department at the chancellor's office.

#### **Campus Response**

We concur. The Foundation will file the amended Articles of Incorporation with the contract services and procurement department at the chancellor's office.

Completion date: February 28, 2014

### **TRUSTS AND OTHER LIABILITIES**

Administration of Foundation campus activity and program trust funds needed improvement.

We reviewed 15 trust funds and found that:

- ▶ The delegation of authority from the campus president to his/her designee for the authorization of campus activities/programs had not been documented.
- ▶ Two agreements had expired and had not been renewed.
- ▶ One agreement had not been signed by the designated vice president.
- ▶ One agreement did not include signatures of approval.
- ▶ One agreement had not been completed.
- ▶ One agreement did not state the correct name of the auxiliary.

ICSUAM §13680.00, *Placement and Control of Receipts for Campus Activities and Programs*, dated September 29, 2011, states that only the campus presidents or their designees may authorize a campus activity or program. Delegation of this authority must be documented and implemented consistent with campus policies and practices. It also states that an auxiliary board may hold the receipts of another auxiliary as directed by the president or designee and consistent with legal and policy requirement. A written agreement is required and must be authorized by each organization's board or designee.

EO 1059, *Utilization of Campus Auxiliary Organizations*, dated June 6, 2011, states that auxiliary organizations may accept or administer campus funds as an agent of the university when specifically authorized in writing by the campus president or his/her designee. Said authorizations shall be granted judiciously and only when it is advantageous to the university and supportive of the university mission. The authorization should include the rationale for making this choice and clearly articulate the advantages to the university.

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 campus activity or program trust funds.

The Foundation executive director stated that based on CSU's guidance, the Foundation had been working with the campus on separating Foundation trusts and non-Foundation trusts over the past year. He further stated that the uncertainty created by this transition caused difficulties in the administration of the trusts.

Inadequate administration of campus activity and program trust funds increases the risk of non-compliance with relevant requirements and misunderstandings and miscommunication regarding rights and responsibilities.

**Recommendation 14**

We recommend that the Foundation:

- a. Document the delegation of authority from the campus president to his/her designee for the authorization of campus activities/programs.
- b. Promptly renew the expired trust fund agreements.
- c. Obtain the designated vice president's signature on the cited agreement.
- d. Obtain all required approval signatures on the cited agreement.
- e. Complete an agreement for the cited trust fund.
- f. Establish a new agreement for the cited trust fund that states the correct name of the auxiliary.

**Campus Response**

We concur. The Foundation will obtain the appropriate delegation of authority from the campus president and assure that timely, properly executed trust agreements are in place for all trusts.

Completion date: February 28, 2014

## **HUMBOLDT STATE UNIVERSITY CENTER BOARD OF DIRECTORS**

### **CORPORATE GOVERNANCE**

The Humboldt State University Center Board of Directors (UC) had not filed amended Articles of Incorporation and Bylaws with the chancellor's office in a timely manner.

We found that amendments to the Articles of Incorporation and Bylaws made on December 6, 2012, had not been filed with the chancellor's office until February 5, 2013, and August 6, 2013.

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 UC associate executive director stated that amended Articles of Incorporation and Bylaws were not filed with the chancellor's office in a timely manner due to oversight.

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

#### **Recommendation 15**

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

#### **Campus Response**

We concur. UC will file all future changes and amendments to Articles of Incorporation and Bylaws with the Contract Services and Procurement department at the chancellor's office within 30 calendar days.

Completion date: February 28, 2014

### **FISCAL COMPLIANCE**

UC net assets were not allocated into board-designated reserve categories, as required by UC reserve policy.

The UC *Reserve Policy* states that excess revenues will be allocated to the following reserve areas until such level of funding is attained according to the following requirements: a) working capital and current operations – general fund, b) working capital and current operations – commercial fund, c) growth and development reserve – general fund, and d) growth and development reserve – commercial fund.

The *Compilation of Policies and Procedures for California State University Auxiliary Organizations* sets sound business practice guidelines for auxiliary organizations operating within the CSU system. Section 8.1.1.2 A-2, *Basis for Financial Standards and Fiscal Viability – Financial Statements*, states that annually each auxiliary governing board shall review the fiscal viability of the auxiliary organization to include an evaluation of the need for reserves in the following areas: a) working capital, b) current operations, c) capital replacement, and d) planned future operations.

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 8.9.9, *Reserves and Net Assets*, states, in part, that an auxiliary must implement financial standards, which will assure fiscal viability, including proper provision for professional management, adequate working capital, adequate reserve funds for current operations and capital replacements, and adequate provisions for new business requirements.

Title 5 §42401 and §42402 state that the campus president shall require that auxiliary organizations operate in conformity with policy of the Board of Trustees and the campus. One of the objectives of the auxiliary organizations is to provide fiscal procedures and management systems that allow effective coordination of the auxiliary activities with the campus in accordance with sound business practices. Sound business practice mandates appropriate allocation of net assets into board-designated reserve categories.

The UC associate executive director stated that, per reserve policy, UC reviews the reserve balances annually with the UC finance committee, which then reports back to the UC board in the committee report. He further stated that the net assets were not allocated into the board-designated reserve categories due to oversight.

Failure to allocate net assets into board-designated reserve categories increases the risk of misunderstandings and miscommunication regarding available reserves, as well as the risk that the auxiliary will be unable to fund future needs.

### **Recommendation 16**

We recommend that the UC allocate net assets into board-designated reserve categories, as required by UC reserve policy.

### **Campus Response**

We concur. The UC allocated net assets into board-designated reserve categories.

## **PURCHASING AND ACCOUNTS PAYABLE**

The UC did not escheat unclaimed payroll checks to the state.

We found that the UC had 37 unclaimed payroll checks, totaling \$1,038, dated from August 2008 to May 2012 that had not been escheated to the state.

Code of Civil Procedure Title 10, *Unclaimed Property*, and Chapter 7, *Unclaimed Property Law*, Article 2, §1510 and §1511 state that property held by a business association escheats to the state, subject to various requirements and limitations.

The UC associate executive director stated that management was unaware that unclaimed payroll checks outstanding for more than a year had to be escheated to the state. She further stated that the payroll checks that had not been escheated were not for significant amounts, and numerous attempts had been made to contact the check holders.

Failure to escheat unclaimed property to the state or perform the duties specified in the unclaimed property law could result in fines.

### **Recommendation 17**

We recommend that the UC promptly escheat the cited unclaimed checks to the state.

### **Campus Response**

We concur. The UC escheated the cited unclaimed checks to the state.

## **PERSONNEL AND PAYROLL**

### **STUDENT EMPLOYEES**

The UC did not document approval in advance when student employees worked more than 20 hours per week during the academic period.

We reviewed working hours for five student employees from the pay period ending April 17, 2011, and noted that three students had worked from 47 to 63 hours during a two-week period.

Coded memorandum Human Resources 2012-08, *Revised Student Assistant Classification Standard (non-represented) and Guidelines for Student Assistants*, states that student assistants may work up to, but not in excess of, 20 hours per week during academic periods and may work up to 40 hours per week during academic break periods.

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 documenting approval when student employees work more than 20 hours per week.

The UC associate executive director stated that all student additional working hours were approved verbally in advance, but such approvals were not documented due to the nature of the tasks, which included working at concerts/performances and outdoor adventure trips at the beginning of the school year.

Inadequate documentation of approvals for student employee work hours increases the risk of non-compliance with CSU, local, state, and federal employment regulations.

### **Recommendation 18**

We recommend that the UC document approval in advance when student employees work more than 20 hours per week during the academic period.

### **Campus Response**

We concur. The UC will implement procedures to document approval in advance when student employees work more than 20 hours per week during the academic period.

Completion date: March 31, 2014

## **PROGRAM INSTRUCTORS**

Compensation paid to UC outdoor program instructors was processed through payroll without time records, which are required by the Fair Labor Standards Act of 1938.

The Fair Labor Standards Act of 1938 requires that employees must receive at least the minimum wage and may not be employed for more than 40 hours in a week without receiving at least one-and-one-half times their regular rates of pay for the overtime hours. The Act requires no particular form for the records, but does require that the records include certain identifying information about the employee and data about the hours worked and the wages earned. The law requires this information to be accurate.

The UC associate executive director stated that the compensation was based on agreed-upon pay rates with estimated working hours. She further stated that the minimum wage and skill levels of the instructors were factored into the agreement, and any additional working hours could be reported and paid upon request.

Inadequate documentation of employee work hours increases the risk of non-compliance with the Fair Labor Standards Act of 1938.

### **Recommendation 19**

We recommend that the UC obtain an independent assessment of the payroll agreement with the outdoor program instructors to determine whether the arrangement is sufficient for compliance with the Fair Labor Standards Act of 1938.

### **Campus Response**

We concur. The UC will establish a system of records that documents employees' work hours that complies with the Fair Labor Standards.

Completion date: March 31, 2014

## **COMMERCIAL OPERATIONS**

### **CATERING SERVICES**

Administration of UC catering services needed improvement.

We reviewed ten catering events provided to third parties from December 2010 to August 2013, and we found that:

- ▶ In seven instances, catering arrangements were not supported by written agreements that included appropriate indemnification and insurance provisions.
- ▶ In two instances, insurance permits could not be located.

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 UC associate executive director stated that she was unaware that written agreements were needed for catering arrangements. She further stated that the two insurance permits were obtained but the operating manager could not locate them due to misfiling.

Insufficient administration of catering services increases the risk of misunderstandings and miscommunication regarding rights and responsibilities, as well as revenue loss, and subjects the auxiliary and CSU to potential liability.

### **Recommendation 20**

We recommend that the UC:

- a. Establish written agreements that include appropriate indemnification and insurance provisions for catering events provided to third parties.
- b. Maintain insurance permits for catering events provided to third parties.

### **Campus Response**

We concur. The UC will establish written agreements that include appropriate indemnification and insurance provisions for catering events provided to third parties and maintain insurance permits for catering events provided to third parties.

Completion date: April 30, 2014

## **COMMISSION RECEIPTS**

Administration of third-party sales commission receipts at the UC bookstore needed improvement.

Specifically, we found that the UC:

- ▶ Did not have written policies and procedures to periodically audit third-party sales commissions to ensure that commission receipts were in accordance with contractual requirements.
- ▶ Had not established a system to perform periodic, documented reviews of commission receipts.

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

Title 5 §42401 and §42402 state that the campus president shall require that auxiliary organizations operate in conformity with policy of the Board of Trustees and the campus. One of the objectives of the auxiliary organizations is to provide fiscal procedures and management systems that allow effective coordination of the auxiliary activities with the campus in accordance with sound business practices. Sound business practice mandates that sales revenues be periodically reviewed and sales commissions from outsourced operations be verified.

The UC associate executive director stated that bookstore performance was closely monitored by UC management, sales reports were carefully reviewed, and inquiries were made about any variations, but a formal process had not been developed and documented.

The absence of written policies and procedures for oversight of sales activities of outsourced operations and lack of periodic review of sales revenues increases the risk that errors, inconsistencies, misunderstandings, or misappropriation of funds will occur.

### **Recommendation 21**

We recommend that the UC:

- a. Develop and implement written policies and procedures to periodically audit third-party sales commissions at the bookstore to ensure that commission receipts are in accordance with contractual requirements.
- b. Establish a system to perform periodic, documented reviews of commission receipts at the bookstore.

### **Campus Response**

We concur. The UC will establish procedures to periodically review third-party sales commissions at the bookstore to ensure that commission receipts are in accordance with contractual requirements.

Completion date: April 30, 2014

## **INFORMATION TECHNOLOGY**

### **SYSTEM ACCESS REVIEW**

The UC did not perform periodic, documented management reviews of user access privileges within the financial and administrative system, which contained protected data.

ICSUAM §8060.400, *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.

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 UC information technology (IT) consultant stated that periodic reviews were performed on an informal, ad hoc basis, but they had not been documented.

Lack of a periodic, documented management review of user access to systems containing protected data increases the risk of inappropriate access.

### **Recommendation 22**

We recommend that the UC perform periodic, documented management reviews of user access for the financial and administrative system at least annually.

### **Campus Response**

We concur. The UC will perform periodic, documented management reviews of user access for the financial and administrative system at least annually.

Completion date: April 30, 2014

## **DISASTER RECOVERY PLAN**

The UC IT disaster recovery plan (DRP) did not include sufficient detail to ensure the timely recovery of critical systems.

We found that:

- ▶ The IT DRP did not adequately describe recovery procedures for restoring critical systems.
- ▶ The UC did not have a plan to test the DRP to ensure that the key components of systems recovery were sufficient and executable.

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

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

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

The UC IT consultant stated that an IT DRP had been created for the UC systems and that it had been updated to include additional information based on the last Auxiliary Organizations audit; however, the DRP needed additional refinement to address some of the concerns listed.

The absence of a comprehensive, tested IT DRP increases the risk that business and data processing operations may not be restored within management expectations in the event of an emergency or disaster, which could result in financial and non-financial losses.

### **Recommendation 23**

We recommend that the UC:

- a. Revise its IT DRP to adequately describe recovery procedures for restoring critical systems.
- b. Create a plan to test the DRP to ensure that the key components of systems recovery are sufficient and executable.

### **Campus Response**

We concur. The UC will revise its IT DRP to adequately describe recovery procedures for restoring critical systems and create a plan to test the DRP to ensure that the key components of systems recovery are sufficient and executable.

Completion date: April 30, 2014

## **EXTERNAL SERVICE AGREEMENTS**

The UC service agreement with the vendor providing maintenance and support of the financial and administrative system, which contained protected data, was inadequate.

We found that the current service agreement with Sungard did not include appropriate provisions for information security, data confidentiality, and terms for services provided by the vendor.

ICSUAM §8040.200, *Managing Third Parties*, dated April 19, 2010, states that third-party service providers must not be granted access to campus level 1 or level 2 information assets as defined in the CSU Data Classification Standard until the access has been authorized, appropriate security controls have been implemented, and a contract/agreement has been signed defining the terms for access.

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.

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

The UC IT consultant stated that the vendor did not send the UC a new contract with updated terms and conditions after acquiring the maintenance of the financial and administrative system from another company.

The absence of a current agreement with adequate provisions for information security and data confidentiality responsibilities subjects the auxiliary to potential liability, increases exposure to security breaches, increases the likelihood of misunderstandings for services provided, and could compromise compliance with statutory information security requirements.

#### **Recommendation 24**

We recommend that the UC obtain and sign a current service agreement with Sungard that has appropriate provisions for information security, data confidentiality, and terms for services provided by the vendor.

#### **Campus Response**

We concur. The UC obtained and executed a current service agreement with Sungard that has appropriate provisions for information security, data confidentiality, and terms for services provided by the vendor.

## **ASSOCIATED STUDENTS OF HUMBOLDT STATE UNIVERSITY**

### **OPERATIONAL COMPLIANCE**

The Associated Students of Humboldt State University (AS) conflict-of-interest policy had not been updated since 2001, and it did not include procedures for signing annual conflict-of-interest statements, nor steps for reporting conflicts of interest.

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 policies and procedures be kept current.

The AS general manager stated that board members were aware of procedures for signing annual conflict-of-interest statements and steps for reporting conflicts of interest, as the topics were covered in the board member orientation. She further stated that conflict-of-interest forms were annually signed by all board members.

The absence of current policies and procedures addressing conflicts of interest increases the risk that errors, inconsistencies, or misunderstandings may occur.

#### **Recommendation 25**

We recommend that AS update its conflict-of-interest policy to include procedures for signing annual conflict-of-interest statements and steps for reporting conflicts of interest.

#### **Campus Response**

The AS will update its conflict-of-interest policy to include procedures for signing annual conflict-of-interest statements and steps for reporting conflicts of interest.

Completion date: April 30, 2014

### **PROGRAM COMPLIANCE**

AS did not complete time records, which are required by the Fair Labor Standards Act of 1938, for student executive officers who received stipends processed through payroll.

The Fair Labor Standards Act of 1938 requires that employees must receive at least the minimum wage and may not be employed for more than 40 hours in a week without receiving at least one-and-one-half times their regular rates of pay for the overtime hours. The Act requires no particular form for the records, but does require that the records include certain identifying information about the



employee and data about the hours worked and the wages earned. The law requires this information to be accurate.

The AS general manager stated that she was unaware that time records had to be filled out for stipends paid through payroll.

Inadequate documentation of student executive officer work hours increases the risk of non-compliance with the Fair Labor Standards Act of 1938.

### **Recommendation 26**

We recommend that AS complete time records for student executive officers who receive stipends processed through payroll.

### **Campus Response**

We concur that the process needs to be improved. Student executive officers who receive stipends will be paid by the campus financial aid office via a payment schedule and not through AS payroll.

Completion date: May 30, 2014

## **FEES, REVENUES, AND RECEIVABLES**

### **COLLECTION**

Administration of AS accounts receivable collections needed improvement.

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

- ▶ In eight instances, collection and follow-up activity was not always performed and documented to facilitate collection or support account write-off. The delinquent accounts receivable, totaling \$2,098, were outstanding from 934 to 1,756 days.
- ▶ In two instances, delinquent accounts receivable, totaling \$118, were outstanding from 1,087 to 2,092 days. These receivables were collected during audit fieldwork.

The *Compilation of Policies and Procedures for California State University Auxiliary Organizations* sets sound business practice guidelines for auxiliary organizations operating within the CSU system. Section 8.9.4, *Receivables*, states that the auxiliary should establish a written system to invoice customers promptly, in a consistent manner, while exercising due diligence in the follow-up and collection of past-due accounts.

Title 5 §42401 and §42402 indicate that the campus president shall require that auxiliary organizations operate in conformity with policy of the Board of Trustees and the campus. One of the

objectives of the auxiliary organizations is to provide fiscal procedures and management systems that allow effective coordination of the auxiliary activities with the campus in accordance with sound business practices. Sound business practice mandates adequate administration of delinquent accounts receivable.

The AS general manager stated that collection and follow-up activity was performed but not properly documented. She further stated that an allowance for doubtful accounts was set up for these uncollectible accounts.

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 27**

We recommend that AS:

- a. Perform and document collection and follow-up activity for delinquent accounts receivable to facilitate collection or support account write-off.
- b. Periodically review and validate supporting documentation for long-outstanding accounts receivable.

### **Campus Response**

We concur. The AS will perform and document collection activity for delinquent accounts receivable to facilitate collection or support account write-off. AS will periodically review and validate supporting documentation for long-outstanding accounts receivable.

Completion date: April 30, 2014

### **WRITE-OFF**

AS uncollectible accounts receivable were not always written off in a timely manner.

We reviewed ten accounts receivable write-offs and found that six uncollectible receivables, totaling \$1,662, were outstanding from 548 to 3180 days.

The *Compilation of Policies and Procedures for California State University Auxiliary Organizations* sets sound business practice guidelines for auxiliary organizations operating within the CSU system. Section 8.9.4, *Receivables*, states that the auxiliary should establish a written system to invoice customers promptly, in a consistent manner, while exercising due diligence in the follow-up and collection of past-due accounts.

Title 5 §42401 and §42402 indicate that the campus president shall require that auxiliary organizations operate in conformity with policy of the Board of Trustees and the campus. One of the

objectives of the auxiliary organizations is to provide fiscal procedures and management systems that allow effective coordination of the auxiliary activities with the campus in accordance with sound business practices. Sound business practice mandates adequate administration of uncollectible accounts receivable.

The AS general manager stated that uncollectible accounts receivable were not written off in a timely manner because AS did not receive approvals from the program business manager.

Untimely write-off of uncollectible accounts receivable increases the risk that receivables will not be accurately reflected in auxiliary financial statements.

**Recommendation 28**

We recommend that AS write off uncollectible receivables in a timely manner.

**Campus Response**

We concur. The AS will write off uncollectible receivables in a timely manner.

Completion date: April 30, 2014

**PERSONNEL AND PAYROLL**

Administration of AS personnel and payroll needed improvement.

We reviewed ten new hires and ten student employees who worked more than 20 hours per week during the academic period, and we found that:

- ▶ AS did not certify the I-9 form within three business days of one new employee's first day of work. The form was reviewed and approved eight business days after the employee's effective date of employment.
- ▶ AS did not document approval for student employees who worked more than 20 hours per week during the academic period. The students worked from 23 to 40 hours per week.

Department of Homeland Security, U.S. Citizenship and Immigration Services, *Form I-9, Employment Eligibility Verification*, states that employers must complete section 2 by examining evidence of identity and employment authorization within three business days of the date employment begins.

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.

Coded memorandum Human Resources, 2012-08, *Revised Student Assistant Classification Standard (non-represented) and Guidelines for Student Assistants*, states that student assistants may work up to, but not in excess of, 20 hours per week during academic periods and may work up to 40 hours per week during academic break periods.

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 documenting approval when student employees work more than 20 hours per week.

The AS general manager stated that the I-9 form was not certified within three business days because the new employee did not go to the human resources department to complete the document in a timely manner. She further stated that due to specific programs and the level of activity required for the programs, student employees exceeded the 20-hours-per-week limit. She also stated that the students did not work more than 20 hours per week on average over the course of an academic year.

Untimely certification of employment eligibility increases the risk of fines and penalties, and inadequate documentation of approval for student employee work hours increases the risk of non-compliance with CSU, local, state, and federal employment regulations.

### **Recommendation 29**

We recommend that AS:

- a. Certify I-9 forms for new employees within three business days of a new employee's first day of work.
- b. Document advance approval when student employees work more than 20 hours per week.

### **Campus Response**

We concur. The AS will certify I-9 forms for new employees within three business days of a new employee's first day of work. The AS will document advance approval when student employees work more than 20 hours per week.

Completion date: April 30, 2014

## **PROPERTY AND EQUIPMENT**

AS fixed assets were not always properly tagged.

We reviewed ten assets and found that in two instances, assets were not properly tagged. AS tagged the assets during audit fieldwork.

The AS *Fixed Assets Procedures, Purchase of Capitalized Equipment*, states that the AS business office shall appropriately tag each asset as AS equipment.

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

The AS general manager stated that the assets were not properly tagged due to oversight.

Inadequate tagging of property and equipment increases the risk that assets may be lost or stolen or misrepresented in the financial statements.

**Recommendation 30**

We recommend that AS properly tag all fixed assets.

**Campus Response**

We concur. The AS properly tagged all fixed assets.

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## **APPENDIX A: PERSONNEL CONTACTED**

<b><u>Name</u></b>	<b><u>Title</u></b>
<b>CAMPUS</b>	
Rollin C. Richmond	President
Josh Callahan	Information Security Officer
Tawny Fleming	Accountant II
Alexander Hampel	Information Technology Systems Administrator
Mary Kay Hartman	Director of Advancement Operations
Sandra Joubert Amiel	Advancement Services Manager
Joyce Lopes	Vice President, Administrative Affairs
Carol Lorenzten	Associate Vice President, Business Services
Cindy Hori	Accounting Supervisor
Megan McKenzie	Information Security Consultant
Brandon Price	Accounting Technician I
Jamie Rich	Budget/Finance Specialist
Sandy Wieckowski	Student Financial Services Manager
Jeff Williams	Learning Technology Specialist
Travis Williams	Director of Annual Giving
Craig Wruck	Vice President, University Advancement

### **HUMBOLDT STATE UNIVERSITY ADVANCEMENT FOUNDATION**

Craig Wruck	Executive Director
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### **HUMBOLDT STATE UNIVERSITY SPONSORED PROGRAMS FOUNDATION**

Lily Barrera	Front Office Assistant
Kacie Flynn	Office Manager
Anthony Johnson	Lead Grant Analyst
Steve Karp	Executive Director
Kathleen Whiteside	Compliance Officer

### **HUMBOLDT STATE UNIVERSITY CENTER BOARD OF DIRECTORS**

Mary Ann Brown	Assistant Director, Dining Services
Heidi Chien	Associate Executive Director
Debbie Copher	Accounting Staff
John Erickson	Operations Manager
Roy Furshpan	Director, Center Arts
Scott Gerving	Information Technology Consultant
Bridget Hand	Assistant Manager, Center Activities
Jessica Lende	Ticket Office Coordinator, Center Arts
Dave Nakamura	Executive Director
Linda Pereira	Administrative Assistant to Director
Carol Petty	Accounting Staff
Ron Rudebock	Director, Dining Services
Wendy Sotomayor	Accounting Manager
Jennifer Swift	Senior Cashier

**ASSOCIATED STUDENTS OF HUMBOLDT STATE UNIVERSITY**

Rob Christensen	Council Assistant
Joan Tyson	General Manager

## **STATEMENT OF INTERNAL CONTROLS**

### **A. INTRODUCTION**

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

### **B. INTERNAL CONTROL DEFINITION**

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

#### **1. Internal Accounting Controls**

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

#### **2. Operational Controls**

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

### **C. INTERNAL CONTROL OBJECTIVES**

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



#### **D. INTERNAL CONTROL SYSTEMS LIMITATIONS**

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



# HUMBOLDT STATE UNIVERSITY

Vice President of Administrative Affairs

February 21, 2014

Larry Mandel  
University Auditor  
The California State University  
401 Golden Shore  
Long Beach, CA 90802-4210

**RECEIVED**  
**AUDIT AND ADVISORY SERVICES**  
**FEB 21 2014**  
**THE CALIFORNIA STATE UNIVERSITY**

**Audit Report 13-07 Auxiliary Organizations**

Dear Mr. Mandel:

Please find enclosed Humboldt State University's response to the findings contained in Audit Report 13-07 Auxiliary Organizations.

Please review the information and let us know if there are any questions, or if we can provide additional information. We appreciate the effort you and your staff have made to indicate areas where our procedures could be strengthened.

Please direct questions regarding the responses to Carol Lorentzen, Associate Vice President, Business Services, at (707) 826-5728 or carol.lorentzen@humboldt.edu.

Sincerely,

  
Joyce Lopes, Vice-President Administration and Finance

Cc: Rollin C. Richmond, President (w/o enclosures)

**AUXILIARY ORGANIZATIONS  
HUMBOLDT STATE UNIVERSITY**

**Audit Report 13-07**

**CAMPUS**

**FISCAL COMPLIANCE**

**Recommendation 1**

We recommend that the campus document an exchange of value and the benefit to the university's overall educational mission for pre-award specialists working for the Foundation in its business management services agreement.

**Campus Response**

We concur. The campus service agreement with the Foundation will include an exchange of value statement which discusses the benefit of the Foundation's pre-award specialists to the overall educational mission of the University.

Completion date: March 31, 2014

**CONTRACTS AND GRANTS**

**Recommendation 2**

We recommend that the campus develop a written policy incorporating the components outlined in EO 890 to address the management of sponsored programs.

**Campus Response**

We concur. The campus will develop a written policy incorporating the components outlined in EO 890 to address the management of sponsored programs.

Completion date: March 31, 2014

**INFORMATION TECHNOLOGY**

**PROTECTED DATA INVENTORY**

**Recommendation 3**

We recommend that the campus:

- a. Perform a comprehensive assessment of all sensitive information maintained in electronic and paper format, including those maintained in auxiliary operations.
- b. Provide specific guidance to the auxiliaries about how to perform individual assessments and report the results to campus IT personnel.

**Campus Response**

We concur. The campus will perform an assessment of all sensitive information maintained in electronic and paper format, including those maintained in auxiliary operations and provide specific guidance to the auxiliaries about how to perform individual assessments and report the results to campus IT personnel.

Completion date: April 30, 2014

**INFORMATION SECURITY AWARENESS TRAINING**

**Recommendation 4**

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

**Campus Response**

We concur. The campus will provide training on information security awareness to all auxiliary employees.

Completion date: April 30, 2014

**USER ACCESS**

**Recommendation 5**

We recommend that the campus remove the director of annual giving's ability to add and modify transactions in the gifts, funds, appeals, and campaign module of the Humboldt State University Advancement Foundation donor system, or institute mitigating procedures approved by the campus vice president of administration and finance.

**Campus Response**

We concur. The campus will remove the director of annual giving's ability to add and modify transactions in the gifts, funds, appeals, and campaign module of the Humboldt State University Advancement Foundation donor system.

Completion date: April 30, 2014

**HUMBOLDT STATE UNIVERSITY ADVANCEMENT FOUNDATION**

**OPERATING AND ADMINISTRATIVE AGREEMENTS**

**Recommendation 6**

We recommend that the AF fully execute all agreements in a timely manner.

**Campus Response**

We concur. AF will execute all agreements in a timely manner.

Completion date: April 30, 2014

**CORPORATE GOVERNANCE**

**Recommendation 7**

We recommend that the AF promptly file the amended Articles of Incorporation and Bylaws with the Contract Services and Procurement department at the chancellor's office.

**Campus Response**

We concur. The AF will promptly file the amended Articles of Incorporation and Bylaws with the Contract Services and Procurement department at the chancellor's office.

Completion date: March 30, 2014

**FISCAL COMPLIANCE**

**Recommendation 8**

We recommend that the AF allocate net assets into board-designated reserve categories.

**Campus Response**

We concur. The AF will allocate net assets into board-designated reserve categories.

Completion date: April 30, 2014

## **OPERATIONAL COMPLIANCE**

### **CONFLICT OF INTEREST**

#### **Recommendation 9**

We recommend that the AF obtain annual conflict-of-interest statements from all board members.

#### **Campus Response**

We concur. The AF will obtain annual conflict-of-interest statements from all board members.

Completion date: March 30, 2014

### **DELEGATION OF AUTHORITY**

#### **Recommendation 10**

We recommend that the AF obtain a written delegation of authority from the campus president giving the AF executive director responsibility to accept monetary gifts and sign acknowledgement agreements and letters on behalf of the AF.

#### **Campus Response**

We concur. The AF will obtain a written delegation of authority from the campus president giving the AF executive director responsibility to accept monetary gifts and sign acknowledgement agreements and letters on behalf of the AF.

Completion date: March 30, 2014

## **PURCHASING AND ACCOUNTS PAYABLE**

#### **Recommendation 11**

We recommend that the AF obtain signed release forms or waivers from all students traveling by air.

#### **Campus Response**

We concur. The AF will obtain signed release forms or waivers from all students traveling by air.

Completion date: April 30, 2014

## ENDOWMENT ADMINISTRATION

### **Recommendation 12**

We recommend that the AF, in conjunction with the Foundation, promptly establish a written agreement for the administration of spending accounts.

### **Campus Response**

We concur. The AF will establish a written agreement for the administration of spending accounts.

Completion date: April 30, 2014

**HUMBOLDT STATE UNIVERSITY SPONSORED PROGRAMS FOUNDATION**

**CORPORATE GOVERNANCE**

**Recommendation 13**

We recommend that the Foundation promptly file the amended Articles of Incorporation with the Contract Services and Procurement department at the chancellor's office.

**Campus Response**

We concur. The Foundation will file the amended Articles of Incorporation with the contract services and procurement department at the chancellor's office.

Completion date: February 28, 2014

**TRUSTS AND OTHER LIABILITIES**

**Recommendation 14**

We recommend that the Foundation:

- a. Document the delegation of authority from the campus president to his/her designee for the authorization of campus activities/programs.
- b. Promptly renew the expired trust fund agreements.
- c. Obtain the designated vice president's signature on the cited agreement.
- d. Obtain all required approval signatures on the cited agreement.
- e. Complete an agreement for the cited trust fund.
- f. Establish a new agreement for the cited trust fund that states the correct name of the auxiliary.

**Campus Response**

We concur. The Foundation will obtain the appropriate delegation of authority from the campus president and assure that timely, properly executed trust agreements are in place for all trusts.

Completion date: February 28, 2014



**HUMBOLDT STATE UNIVERSITY CENTER BOARD OF DIRECTORS**

**CORPORATE GOVERNANCE**

**Recommendation 15**

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

**Campus Response**

We concur. UC will file all future changes and amendments to Articles of Incorporation and Bylaws with the Contract Services and Procurement department at the chancellor's office within 30 calendar days.

Completion date: February 28, 2014

**FISCAL COMPLIANCE**

**Recommendation 16**

We recommend that the UC allocate net assets into board-designated reserve categories, as required by UC reserve policy.

**Campus Response**

We concur. The UC allocated net assets into board-designated reserve categories.

Completion date: Completed

**PURCHASING AND ACCOUNTS PAYABLE**

**Recommendation 17**

We recommend that the UC promptly escheat the cited unclaimed checks to the state.

**Campus Response**

We concur. The UC escheated the cited unclaimed checks to the state.

Completion date: Completed

## **PERSONNEL AND PAYROLL**

### **STUDENT EMPLOYEES**

#### **Recommendation 18**

We recommend that the UC document approval in advance when student employees work more than 20 hours per week during the academic period.

#### **Campus Response**

We concur. The UC will implement procedures to document approval in advance when student employees work more than 20 hours per week during the academic period.

Completion date: March 31, 2014

### **PROGRAM INSTRUCTORS**

#### **Recommendation 19**

We recommend that the UC obtain an independent assessment of the payroll agreement with the outdoor program instructors to determine whether the arrangement is sufficient for compliance with the Fair Labor Standards Act of 1938.

#### **Campus Response**

We concur. The UC will establish a system of records that documents employees' work hours that complies with the Fair Labor Standards.

Completion date: March 31, 2014

## **COMMERCIAL OPERATIONS**

### **CATERING SERVICES**

#### **Recommendation 20**

We recommend that the UC:

- a. Establish written agreements that include appropriate indemnification and insurance provisions for catering events provided to third parties.
- b. Maintain insurance permits for catering events provided to third parties.

**Campus Response**

We concur. The UC will establish written agreements that include appropriate indemnification and insurance provisions for catering events provided to third parties and maintain insurance permits for catering events provided to third parties.

Completion date: April 30, 2014

**COMMISSION RECEIPTS**

**Recommendation 21**

We recommend that the UC:

- a. Develop and implement written policies and procedures to periodically audit third-party sales commissions at the bookstore to ensure that commission receipts are in accordance with contractual requirements.
- b. Establish a system to perform periodic, documented reviews of commission receipts at the bookstore.

**Campus Response**

We concur. The UC will establish procedures to periodically review third-party sales commissions at the bookstore to ensure that commission receipts are in accordance with contractual requirements.

Completion date: April 30, 2014

**INFORMATION TECHNOLOGY**

**SYSTEM ACCESS REVIEW**

**Recommendation 22**

We recommend that the UC perform periodic, documented management reviews of user access for the financial and administrative system at least annually.

**Campus Response**

We concur. The UC will perform periodic, documented management reviews of user access for the financial and administrative system at least annually.

Completion date: April 30, 2014

## **DISASTER RECOVERY PLAN**

### **Recommendation 23**

We recommend that the UC:

- a. Revise its IT DRP to adequately describe recovery procedures for restoring critical systems.
- b. Create a plan to test the DRP to ensure that the key components of systems recovery are sufficient and executable.

### **Campus Response**

We concur. The UC will revise its IT DRP to adequately describe recovery procedures for restoring critical systems and create a plan to test the DRP to ensure that the key components of systems recovery are sufficient and executable.

Completion date: April 30, 2014

## **EXTERNAL SERVICE AGREEMENTS**

### **Recommendation 24**

We recommend that the UC obtain and sign a current service agreement with Sungard that has appropriate provisions for information security, data confidentiality, and terms for services provided by the vendor.

### **Campus Response**

We concur. The UC obtained and executed a current service agreement with Sungard that had appropriate provisions for information security, data confidentiality, and terms for services provided by the vendor.

Completion date: Completed

**ASSOCIATED STUDENTS OF HUMBOLDT STATE UNIVERSITY**

**OPERATIONAL COMPLIANCE**

**Recommendation 25**

We recommend that AS update its conflict-of-interest policy to include procedures for signing annual conflict-of-interest statements and steps for reporting conflicts of interest.

**Campus Response**

The AS will update its conflict-of-interest policy to include procedures for signing annual conflict-of-interest statements and steps for reporting conflicts of interest.

Completion date: April 30, 2014

**PROGRAM COMPLIANCE**

**Recommendation 26**

We recommend that AS complete time records for student executive officers who receive stipends processed through payroll.

**Campus Response**

We concur that the process needs to be improved. Student executive officers who receive stipends will be paid by the campus financial aid office via a payment schedule and not through AS payroll.

Completion date: May 30, 2014

**FEES, REVENUES, AND RECEIVABLES**

**COLLECTION**

**Recommendation 27**

We recommend that AS:

- a. Perform and document collection and follow-up activity for delinquent accounts receivable to facilitate collection or support account write-off.
- b. Periodically review and validate supporting documentation for long-outstanding accounts receivable.

**Campus Response**

We concur. The AS will perform and document collection activity for delinquent accounts receivable to facilitate collection or support account write-off. AS will periodically review and validate supporting documentation for long-outstanding accounts receivable.

Completion Date: April 30, 2014

**WRITE-OFF**

**Recommendation 28**

We recommend that AS write off uncollectible receivables in a timely manner.

**Campus Response**

We concur. The AS will write off uncollectible receivables in a timely manner.

Completion date: April 30, 2014

**PERSONNEL AND PAYROLL**

**Recommendation 29**

We recommend that AS:

- a. Certify I-9 forms for new employees within three business days of a new employee's first day of work.
- b. Document advance approval when student employees work more than 20 hours per week.

**Campus Response**

We concur. The AS will certify I-9 forms for new employees within three business days of a new employee's first day of work. The AS will document advance approval when student employees work more than 20 hours per week.

Completion date: April 30, 2014

**PROPERTY AND EQUIPMENT**

**Recommendation 30**

We recommend that AS properly tag all fixed assets.

**Campus Response**

We concur. The AS properly tagged all fixed assets.

Completion date: Completed during audit fieldwork

THE CALIFORNIA STATE UNIVERSITY  
OFFICE OF THE CHANCELLOR



BAKERSFIELD

CHANNEL ISLANDS

March 19, 2014

CHICO

DOMINGUEZ HILLS

MEMORANDUM

EAST BAY

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

FRESNO

FULLERTON

FROM: Timothy P. White  
Chancellor

HUMBOLDT

SUBJECT: Draft Final Report 13-07 on *Auxiliary Organizations*,  
Humboldt State University

LONG BEACH

LOS ANGELES

MARITIME ACADEMY

In response to your memorandum of March 19, 2014, I accept the response as submitted with the draft final report on *Auxiliary Organizations*, Humboldt State University.

MONTEREY BAY

NORTHRIDGE

TPW/amd

POMONA

SACRAMENTO

SAN BERNARDINO

SAN DIEGO

SAN FRANCISCO

SAN JOSÉ

SAN LUIS OBISPO

SAN MARCOS

SONOMA

STANISLAUS