

**AUXILIARY ORGANIZATIONS**  
**CALIFORNIA STATE UNIVERSITY,**  
**EAST BAY**

**Audit Report 14-02**  
**June 18, 2014**

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**BOARD OF TRUSTEES**  
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## **ABBREVIATIONS**

ASI	Associated Students, Inc. of California State University East Bay
CFO	Chief Financial Officer
CFR	Code of Federal Regulations
CSU	California State University
CSUEB	California State University, East Bay
Ed Foundation	Cal State East Bay Educational Foundation
EO	Executive Order
Foundation	California State University, East Bay Foundation, Inc.
FY	Fiscal Year
GC	Government Code
HR	Human Resources
ICSUAM	Integrated California State University Administrative Manual
IRS	Internal Revenue Service
ISO	Information Security Officer
NIST	National Institute of Standards and Technology
OMB	Office of Management and Budget
ORSP	Office of Research and Sponsored Programs
PI	Principal Investigator
PHS	Public Health Services
RFIN	Resolution of the Committee on Finance

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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.

California State University, East Bay (CSUEB) 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 CSUEB campus and its auxiliary organizations from March 10, 2014, through April 4, 2014, and made a study and evaluation of the system of internal compliance/internal control in effect as of April 4, 2014. This report represents our triennial review.

In our opinion, except for the effect of the weaknesses described below, the fiscal, operational, and administrative controls at the *CSUEB campus* as of April 4, 2014, taken as a whole, were sufficient to meet the objectives stated above and in the "Purpose" section of this report. Areas of concern include: operational compliance, purchasing and accounts payable, personnel and payroll, property and equipment, and information technology.

In our opinion, due to the effect of the weaknesses described below, the fiscal, operational, and administrative controls at *California State University, East Bay Foundation, Inc.* as of April 4, 2014, taken as a whole, were not sufficient to meet the objectives stated above and in the "Purpose" section of this report. An area of concern is: contracts and grants.

In our opinion, except for the effect of the weaknesses described below, the fiscal, operational, and administrative controls at *Cal State East Bay Educational Foundation* as of April 4, 2014, 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 *Associated Students, Inc. of California State University East Bay* as of April 4, 2014, 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 purchasing and accounts payable.

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 [11]**

California State University East Bay Foundation, Inc. (Foundation) and Associated Students, Inc. of California State University East Bay (ASI) reserves for fiscal years (FY) 2010/11, 2011/12, and 2012/13 had not been approved by the campus president.

### **OPERATIONAL COMPLIANCE [12]**

Campus cash receipts and disbursements policies and procedures had not been updated to reflect Integrated California State University Administrative Manual §3101.02 and §3103.01 requirements. Additionally, the campus risk management policy did not require an annual risk management report to the campus president with a copy to the assistant vice chancellor for risk management and public safety.

### **PURCHASING AND ACCOUNTS PAYABLE [14]**

Campus administration of auxiliary procurement cards needed improvement. For example, Foundation employees did not always complete a Statement of Economic Interests Form 700 as required by campus policy, the cardholder did not always sign the cardholder pickup log when receiving a procurement card, and procurement card reconciliations were not always reviewed by the program administrator in a timely manner. Additionally, campus administration of Foundation and Cal State East Bay Educational Foundation (Ed Foundation) travel expenditures needed improvement. Specifically, travel authorization

forms documenting advance approval of travel and related expenditures to be incurred were not always completed and students traveling by air did not always complete and sign release forms or waivers.

### **PERSONNEL AND PAYROLL [17]**

Campus administration of Foundation and ASI employee separation procedures needed improvement. For example, Foundation and ASI employees were not always removed from the payroll system in a timely manner, Foundation separation documents did not always include the appropriate signatures, and personnel and payroll policies and procedures did not require a separation checklist to document removal of information technology access and return of property.

### **PROPERTY AND EQUIPMENT [18]**

Campus administration of Foundation property and equipment needed improvement. Specifically, a documented independent physical inventory count had not been performed, and capitalized assets selected for physical verification from the property and equipment listing could not always be located.

### **INFORMATION TECHNOLOGY [20]**

The campus did not perform a complete inventory and assessment of all sensitive information maintained in electronic and paper format, including those maintained in auxiliary operations. In addition, password security parameters for the campus active directory system were not in compliance with California State University policy. Further, the campus did not perform periodic, documented management reviews of user access privileges within the campus financial and university advancement donor systems, which contained protected data. Also, the campus stored hard drives with potentially sensitive information in unsecured bins before wiping them.

### **CALIFORNIA STATE UNIVERSITY, EAST BAY FOUNDATION, INC.**

### **OPERATING AND ADMINISTRATIVE AGREEMENTS [25]**

The Foundation agreement outsourcing bookstore operations did not include a right-to-audit provision.

### **CORPORATE GOVERNANCE [25]**

The Foundation had not appointed an audit committee selected by the board of directors, established a written charter explaining the roles and responsibilities of the audit committee's members, or maintained audit committee minutes.

### **PROGRAM COMPLIANCE [26]**

The Foundation did not report student stipends paid for the Title IV-E, CalSWEC-II Mental Health Stipend Program, to the financial aid office.

## **COMMERCIAL OPERATIONS [27]**

Administration of third-party sales commission receipts at the Foundation bookstore needed improvement. For example, the Foundation did not have written policies and procedures to periodically audit third-party sales commissions at the bookstore to ensure that commission receipts were in accordance with contractual requirements, nor did it document reviews of commission receipts.

## **CONTRACTS AND GRANTS [29]**

Campus administration of sponsored programs at the Office of Research and Sponsored Programs (ORSP) on behalf of the Foundation required improvement. Specifically, requested documents were not provided on a timely basis. Campus policies and procedures and disclosure forms for conflicts of interest used by the Foundation needed to be updated. Further, initial and renewal conflict-of-interest forms from principal investigators (PIs) were not always obtained, as required by federal regulations and CSU and campus policy. Additionally, training and orientation were not always provided to PIs and co-PIs involved in Foundation contracts and grants. Campus effort-reporting policies and procedures used by the Foundation did not define the roles and responsibilities of the various offices and individuals at the campus who were involved in effort reporting. Campus sub-recipient policies and procedures used by the Foundation did not accurately reflect ORSP's current practices and needed improvement. The procedures did not address the sub-recipient risk assessment to identify key risks and determine the level of monitoring required, nor did they fully address procedures for monitoring sub-recipients, such as the methodology for resolving findings of sub-recipient noncompliance or weaknesses in internal control. As a result, risk assessments were not always completed and the required A-133 audit reports were not always obtained prior to proposal submission. Additionally, one A-133 audit report, which revealed a material weakness and two significant deficiencies, had no documentation to support the campus evaluation of findings or address required follow-up or corrective actions.

## **CAL STATE EAST BAY EDUCATIONAL FOUNDATION**

### **CORPORATE GOVERNANCE [40]**

The Ed Foundation did not file amended Articles of Incorporation with the chancellor's office in a timely manner.

### **OPERATIONAL COMPLIANCE [40]**

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



**ASSOCIATED STUDENTS, INC. OF CALIFORNIA STATE UNIVERSITY EAST BAY**

**FISCAL COMPLIANCE [43]**

ASI did not maintain board-designated reserves in accordance with its reserves policy.

**OPERATIONAL COMPLIANCE [44]**

ASI had not developed comprehensive conflict-of-interest policies and procedures that included requirements for signing annual conflict-of-interest statements and steps for reporting and resolving conflicts of interest.

**PROGRAM COMPLIANCE [45]**

ASI student stipends were not reported to the financial aid office before funds were expended.

**PURCHASING AND ACCOUNTS PAYABLE [45]**

ASI did not always require travel authorization forms documenting advance approval of all travel and related expenditures. Additionally, ASI did not always investigate and resolve open purchase orders in a timely manner.

**PROPERTY AND EQUIPMENT [47]**

Certain ASI capitalized assets could not be located.

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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 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.

#### California State University, East Bay Foundation, Inc.

The California State University, East Bay Foundation, Inc. (Foundation) was established in 1959 as a non-profit public benefit corporation to provide programs and support for the California State University, East Bay (CSUEB) mission and goals. The Foundation provides and augments funding for educationally related services at CSUEB not otherwise available through or funded by the state university system. The Foundation is responsible for administering dining and bookstore operations, which are outsourced to third-party service vendors. The Foundation is governed by a board of directors composed of representatives from the university administration, faculty, student body, and community and relies on campus personnel for administrative and accounting support services.

#### Cal State East Bay Educational Foundation

The Cal State East Bay Educational Foundation (Ed Foundation) acts as the philanthropic auxiliary for the campus. Its sole function is to collect, invest, and administer all gifts, bequests, endowments, trusts, and similar funds received by the campus. The Ed Foundation is governed by a board of directors composed of representatives from the community, university administration, student body, faculty, and alumni. The Ed Foundation does not have any employees and relies on campus personnel from university advancement and accounting and fiscal services for administrative and accounting support services.

#### Associated Students, Inc. of California State University East Bay

Associated Students, Inc. of California State University East Bay (ASI) is charged with operating the student body government and Union facilities. The mission of ASI is to be the official voice of the students at CSUEB. ASI represents and advocates on behalf of the interests, needs, and concerns of the diverse and dynamic student body, providing them with the services and resources to supplement and support their college experience. ASI is governed by a board of directors composed of representatives from the student body and the university and auxiliary administration. ASI relies on campus 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 2011/12 and 2012/13 were the primary periods reviewed. In certain instances, we were concerned with representations of the most current data; in such cases, the test period was July 1, 2013, to April 4, 2014. Our primary focus was on internal compliance/internal control.

Specifically, we reviewed and tested:

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

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

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

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

California State University, East Bay Foundation, Inc.

- ▶ 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
- ▶ Commercial Operations
- ▶ Contracts and Grants
- ▶ Auxiliary Programs
- ▶ Information Technology

Cal State East Bay Educational 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
- ▶ Auxiliary Programs
- ▶ Information Technology

Associated Students, Inc. of California State University East Bay

- ▶ 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
- ▶ Auxiliary Programs
- ▶ Information Technology

Campus

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

We have not performed any auditing procedures beyond April 4, 2014. Accordingly, our comments are based on our knowledge as of that date. Since the purpose of our comments is to suggest areas for improvement, comments on favorable matters are not addressed.

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## OBSERVATIONS, RECOMMENDATIONS, AND CAMPUS RESPONSES

### CAMPUS

#### FISCAL COMPLIANCE

California State University East Bay Foundation, Inc. (Foundation) and Associated Students, Inc. of California State University East Bay (ASI) reserves for fiscal years (FY) 2010/11, 2011/12, and 2012/13 had not been approved by the campus president.

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

The *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 15.11.3, *Reserve Guidelines*, states that annually, in conjunction with its budget development process, each student body organization governing board shall review its reserve policy, categories, definitions, and funding levels for adequacy. The review is to be documented and forwarded to the university president for review and approval at the same time the budget is submitted.

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 the campus president annually review and approve auxiliaries' reserves.

The executive director of advancement services and foundations stated that the reserves for the Foundation were informally reviewed by the campus president but were not formally submitted and approved due to management oversight. The executive director of ASI stated that reserves were shared and reviewed annually with the ASI board, and ASI's audited financial statements were shared with the campus administration. He added that the reserves were not formally approved by the campus president due to management oversight.

Lack of adequate review and approval of reserves by the campus president increases the risk that auxiliary programs and appropriations planned by the auxiliary will be inconsistent with Board of Trustees and campus policy.

### **Recommendation 1**

We recommend that the campus obtain presidential approval of auxiliary reserves on an annual basis.

### **Campus Response**

We agree. Effective for the 2014/15 fiscal year, the campus includes the auxiliary reserves for the Foundation and ASI in the annual budget package, which is approved by the campus president. The approved budget packages will be provided by July 1, 2014.

## **OPERATIONAL COMPLIANCE**

### **POLICIES AND PROCEDURES**

Campus cash receipts and disbursements policies and procedures had not been updated to reflect Integrated California State University Administrative Manual (ICSUAM) §3101.02 and §3103.01 requirements.

We found that campus policies and procedures had not been updated to reflect:

- ▶ Designation of cash-handling units and individuals/positions performing functions related to cash handling and cash accounting.
- ▶ The process for creating or dismantling approved cashiering/sub-cashiering locations, including physical locations, websites, third-party processors, and any channel accepting credit card payments.
- ▶ Procedures that prescribe the manner and extent in which funds are disbursed, and the documentation requirements for disbursements.
- ▶ Separation of duties so that no one person could disburse funds unilaterally.
- ▶ Procedures to ensure that all business expenses are in accordance with appropriate federal, state, CSU, or campus policy and, when applicable, conditions specified by external source.
- ▶ The treatment of and people who may authorize all exceptions to the policy.

ICSUAM §3101.02, *Campus Administration of Systemwide Cash Management*, dated December 16, 2013, states that the campus chief financial officer (CFO) or his/her delegate is responsible for implementing this policy at the campus. It further states that at a minimum, the campus' cash management procedures must include: designation of cash-handling units and individuals/positions performing functions related to cash handling and cash accounting; the process for creating or dismantling approved cashiering/sub-cashiering locations, including physical locations, websites, third-party processors, and any channel accepting credit card payments; arrangements to ensure that



the person or persons properly authorized to sign checks, drafts, or other orders for payment of money or to approve/release electronic transfers of funds against CSU accounts is/are covered by a fidelity bond; and the requirement that monthly reconciliations must be completed within 30 days of the preceding month and must show the preparer's name/signature, reviewer's name/signature, date prepared, and date reviewed.

ICSUAM §3103.01, *Disbursements-General*, dated January 1, 2014, states that the campuses must prepare written procedures that implement this policy. The campus CFO must: establish procedures that prescribe the manner and extent in which funds are disbursed, and the documentation requirements for disbursement; establish appropriate separation of duties so that no one person can disburse funds unilaterally; ensure that all business expenses are in accordance with appropriate federal, state, CSU, or campus policy and, when applicable, conditions specified by external sources; outline the treatment of and specify who may authorize all exceptions to the policy.

The campus director of fiscal services stated that the campus was in the process of updating cash receipts and disbursements policies and procedures but had not completed these at the time of the audit due to resource constraints.

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

### **Recommendation 2**

We recommend that campus update its cash receipts and disbursements policies and procedures to reflect ICSUAM §3101.02 and §3103.01 requirements.

### **Campus Response**

We agree. The campus is updating its cash receipts and disbursements policies and procedures to reflect ICSUAM §3101.02 and §3103.01. These will be provided by August 15, 2014.

## **RISK MANAGEMENT**

The campus risk management policy did not require an annual risk management report to the campus president with a copy to the assistant vice chancellor for risk management and public safety.

Executive Order (EO) 1069, *Risk Management and Public Safety*, dated March 1, 2012, states that the campus president is delegated responsibility for implementing and maintaining campus risk management policies that are consistent with systemwide risk management policies and procedures.

Technical Letter, Risk Management 2011-05, *CSU Campus Risk Management Policy*, dated March 1, 2012, states that the campus policy shall include an evaluation process that includes the collection of relevant data and an annual risk management report to the campus president with a copy to the

assistant vice chancellor for risk management and public safety. The annual report can be done on a calendar or fiscal-year basis.

The campus vice president of administration and finance/CFO stated that the campus was unaware of this criteria.

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

### **Recommendation 3**

We recommend that the campus update its risk management policy to require an annual risk management report to the campus president with a copy to the assistant vice chancellor for risk management and public safety.

### **Campus Response**

We agree. The campus will update policy and submit the annual risk management report for the 2013 calendar year to the campus president and the vice chancellor for risk management and public safety. These will be provided by July 10, 2014.

## **PURCHASING AND ACCOUNTS PAYABLE**

### **PROCUREMENT CARDS**

Campus administration of auxiliary procurement cards needed improvement.

We reviewed the procurement card issuance process and two procurement card statements for five employees working for the Foundation and ASI, and we found that:

- ▶ In two instances, Foundation employees did not complete a Statement of Economic Interests Form 700 as required by campus policy.
- ▶ In one instance, the cardholder did not sign the cardholder pickup log when receiving a procurement card.
- ▶ In two instances, procurement card reconciliations were not reviewed by the program administrator in a timely manner. The reconciliation delays were 12 and 26 days.

California State University, East Bay (CSUEB) *Procurement Credit Card Handbook* states that completing a Statement of Economic Interests Form 700 annual statement is one of the cardholder's responsibilities. Additionally, the cardholder is required to sign for receipt of the card when picking up the new card in person. It further states that reconciliations must be received by the program

administrator, procurement services SA2750, no later than 5 p.m. on the 10th of the following month after the billing cycle ends on the 25th of each month.

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

The campus director of fiscal services stated that two Statement of Economic Interests Form 700s were not completed due to management oversight. She further stated that the cardholder did not sign the pickup log due to oversight by the procurement card administrator, and reconciliation deadlines were not met by the procurement card administrator due to management oversight.

Inadequate administration of procurement cards increases the risk that errors, irregularities, misunderstandings, and misappropriation of funds will occur.

#### **Recommendation 4**

We recommend that the campus reiterate to staff that:

- a. Cardholders should complete a Statement of Economic Interests Form 700.
- b. Cardholders should sign a pickup log when receiving a procurement card.
- c. Procurement card reconciliations should be reviewed by the program administrator in a timely manner.

#### **Campus Response**

We agree.

- a. The campus will provide updated procurement card procedures, which include the requirement to provide Form 700, by September 26, 2014.
- b. The campus will provide updated procurement card procedures, including the cardholder requirement to sign a pickup log, by September 26, 2014.
- c. The campus will provide updated procurement card procedures, including timely review by the program administrator, by September 26, 2014.

#### **TRAVEL**

Campus administration of Foundation and Cal State East Bay Educational Foundation (Ed Foundation) travel expenditures needed improvement.

We reviewed ten Foundation and ten Ed Foundation travel-related transactions, and we found that:

- ▶ In two instances, travel authorization forms documenting advance approval of travel and related expenditures to be incurred were not completed.
- ▶ In three instances, students traveling by air did not complete and sign release forms or waivers.

ICSUAM §3601.01, *Travel Policy*, dated April 1, 2013, states that authorization to travel must be obtained from appropriate administrators within the employee's organization as determined by the organization's identified delegation of authority. Individuals traveling on official university business are responsible for ensuring they have documented authorization in advance to travel. Employees should review specific procedures with their management.

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

EO 1041, *California State University Student Travel Policy*, dated July 1, 2009, 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 all requested travel be approved in advance of incurring travel expenditures and that release forms or signed waivers be obtained from each student traveling by air.

The campus director of fiscal services stated that the two travel authorization forms and three release forms or waivers from students traveling by air were not completed due to management oversight.

The absence of documented approval of travel and related expenditures and release forms or waivers from students traveling by air increases the risk of errors, irregularities, and misappropriation of funds and the risk of legal liability.

### **Recommendation 5**

We recommend that the campus obtain:

- a. Travel authorization forms documenting advance approval of all travel and related expenditures.
- b. Signed release forms or waivers from all students traveling by air.

### **Campus Response**

We agree.

- a. The campus will provide updated travel procedures, including advance approval of all travel and related expenditures, by September 26, 2014.
- b. The campus will provide updated travel procedures, including signed release forms or waivers from all students traveling by air, by September 26, 2014.

## **PERSONNEL AND PAYROLL**

Campus administration of Foundation and ASI employee separation procedures needed improvement.

We reviewed ten Foundation and eight ASI employee separations from October 2011 to March 2014, and we found that:

- ▶ Nine Foundation and four ASI employees were not removed from the payroll system in a timely manner. The delays ranged from 33 to 296 days.
- ▶ Two Foundation separation documents did not include the appropriate signatures.
- ▶ Personnel and payroll policies and procedures did not require a separation checklist to document removal of information technology (IT) access and return of property.

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

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

business practices. Sound business practice mandates sufficient administration of employee separations.

The campus associate vice president of human resources and payroll services stated that employees were not removed from the payroll system in a timely manner due to management oversight and the resignation of the human resources manager. He further stated that the two separation documents did not include the appropriate signatures due to management oversight and that organizational changes prevented policies and procedures for employee separation from being updated.

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

### **Recommendation 6**

We recommend that the campus:

- a. Remove separated auxiliary employees from the payroll system in a timely manner.
- b. Obtain appropriate signatures on separation documents.
- c. Update its policies and procedures to require a separation checklist to document removal of IT access and return of property.

### **Campus Response**

We agree.

- a. Campus separation checklist and procedures are being utilized for those auxiliary employees who are moving state-side as of July 1, 2014. Payroll system documentation for affected employees will be provided by July 31, 2014.
- b. The campus will ensure that appropriate signatures are obtained on separation documents for all Foundation employees working on grants who are separating as of June 30, 2014. Payroll system documentation of Foundation employee separations will be provided by July 31, 2014.
- c. The campus is now utilizing the university separation checklist to process the auxiliary employees separating as of June 30, 2014. On June 20, 2014, an IT service desk ticket was created to request IT to track all IT equipment for all auxiliary staff moving state-side. A list of all auxiliary employees and IT equipment will be provided by July 31, 2014.

## **PROPERTY AND EQUIPMENT**

Campus administration of Foundation property and equipment needed improvement.

We found that:

- ▶ A documented independent physical inventory count had not been performed.
- ▶ Six of the 11 capitalized assets selected for physical verification from the property and equipment listing could not be located.

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

The *Compilation of Policies and Procedures for California State University Auxiliary Organizations* sets sound business practice guidelines for auxiliary organizations operating within the CSU system. Section 8.9.7, *Property and Equipment*, states that the auxiliary should establish a written system that ensures physical inspection of property and equipment on a service-life schedule and the proper recording of property and equipment.

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

The campus director of fiscal services stated that an independent physical inventory that included a portion of Foundation assets had been performed; however, due to organizational changes, some of the original documentation could not be located. The Foundation executive director stated that the six missing assets were fully depreciated and were removed from service without submission of the appropriate paperwork to the campus property department due to management oversight.

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

### **Recommendation 7**

We recommend that the campus:

- a. Perform a documented independent physical inventory count.
- b. Promptly locate the missing assets and adjust the property and equipment listing as necessary.

### **Campus Response**

We agree.

- a. The campus has performed an independent physical inventory count of Foundation assets. This will be provided by July 15, 2014.
- b. The campus will locate the six missing Foundation assets or adjust the property and equipment listing by July 31, 2014.

## **INFORMATION TECHNOLOGY**

### **PROTECTED DATA INVENTORY**

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

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

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

The campus vice president of administration and finance/CFO stated that the campus recently completed an assessment of selected sensitive data as part of an advisory services review performed by the Office of Audit and Advisory Services and a review of PeopleSoft data with Oracle, but further assessments were limited due to resource constraints.

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 8**

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

### **Campus Response**

We agree. A complete survey of sensitive data stored by auxiliaries in electronic and paper format will be performed by July 31, 2014, including strategies to mitigate exposure. The summary will be provided by August 15, 2014.

## **PASSWORD SECURITY**

Password security parameters for the campus active directory system were not in compliance with CSU policy.

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

ICSUAM §8060.S000, *Access Control*, dated April 19, 2010, states that campuses must identify and implement password criteria that meets National Institute of Standards and Technology (NIST) level 1 “resistance to guessing authentication secret,” at a minimum. To prepare for InCommon bronze/silver implementation, campuses should consider meeting NIST level 2 for “resistance to guessing authentication secret.” Compliant examples of password complexity that meet NIST level 1 include, but are not limited to, a minimum password length of seven characters, password complexity enforced, account lockout for a certain duration after eight invalid log on attempts, and password history set to at least four passwords remembered. Compliant examples of password complexity that meet NIST level 2 include, but are not limited to, a minimum password length of eight characters, password complexity enforced, account lockout for a certain duration after eight invalid log on attempts, and password history set to at least four passwords remembered.

The campus director of academic and administrative technology/information security officer (ISO) stated that the campus was unaware that campus policy was not in compliance with CSU policy.

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

### **Recommendation 9**

We recommend that the campus set password security parameters for the active directory system that comply with CSU policy.

### **Campus Response**

We agree. In May 2014, the campus engaged Moran Technology Consultants to roll out the new password security requirements to all campus end-users, as current passwords expire and need renewal. The phased roll-out is planned to begin in July 2014. A copy of the revised password instructions for end-users will be provided by July 31, 2014.

### **USER ACCESS REVIEWS**

The campus did not perform periodic, documented management reviews of user access privileges within the campus financial and university advancement donor systems, which contained protected data.

*CSUEB Information Security Policy*, dated March 2009, states that asset stewards must establish and document criteria for issuing, reviewing, and revoking accounts used for access to critical applications or systems containing confidential/sensitive data. An Access Management Process must incorporate procedures reviewing accounts at least annually.

*ICSUAM §8060.0, Access Control*, dated April 19, 2010, states that access to campus information assets containing protected data as defined in the CSU Data Classification Standard may be provided only to those having a need for specific access in order to accomplish an authorized task. Access must be based on the principles of need-to-know and least privilege. It further states that campuses must develop procedures to detect unauthorized access and privileges assigned to authorized users that exceed the required access rights needed to perform their job functions. Appropriate campus managers and data owners must review, at least annually, user access rights to information assets containing protected data. The results of the review must be documented.

The campus director of academic and administrative technology/ISO stated that the campus was unaware that campus policy, which did not indicate that user access reviews should be documented, was not in compliance with CSU policy.

Lack of periodic, documented management reviews of user access privileges for systems containing protected data increases the risk of inappropriate access, compromised production systems, and potential disclosure of confidential data.

### **Recommendation 10**

We recommend that the campus perform periodic, documented management reviews of user access privileges within the campus financial and university advancement donor systems.

### **Campus Response**

We agree. An updated business process guide for user access review of the donor system has been completed. The updated business process guide for user access review of the financial system will be completed by August 15, 2014. These will both be provided by August 20, 2014.

## **EQUIPMENT DISPOSAL**

The campus stored hard drives with potentially sensitive information in unsecured bins before wiping them.

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

ICSUAM §8080, *Physical Security*, dated April 19, 2010, states that each campus must identify physical areas that must be protected from unauthorized physical access. Such areas would include data centers and other locations on the campus where information assets containing protected data are stored. Campuses must protect these limited-access areas from unauthorized physical access while ensuring that authorized users have appropriate access. Campus information assets that can access protected data and are located in public and non-public access areas must be physically secured to prevent theft, tampering, or damage. The level of protection provided must be commensurate with that of identifiable risks. Campuses must review and document physical access rights to campus limited-access areas annually.

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

Title 5 §42401 and §42402 indicate that the campus president shall require that auxiliary organizations operate in conformity with policy of the Board of Trustees and the campus. One of the objectives of the auxiliary organizations is to provide fiscal procedures and management systems that allow effective coordination of the auxiliary activities with the campus in accordance with sound business practices. Sound business practice mandates that adequate physical security be present to limit unauthorized access to computer assets containing protected data.

The campus director of user support services stated that a change in business processes resulted in a two-week period when hard disks were removed but not yet secured.

Inadequate administration over the disposal of computing equipment, especially equipment containing sensitive information, increases the risk of loss, inappropriate use of state resources, and campus exposure to information security breaches.

### **Recommendation 11**

We recommend that the campus store hard drives with potentially sensitive information in a secure area before wiping them.

**Campus Response**

We agree. The campus has updated the business process guideline for equipment disposal, which will be provided by June 30, 2014.

## **CALIFORNIA STATE UNIVERSITY, EAST BAY FOUNDATION, INC.**

### **OPERATING AND ADMINISTRATIVE AGREEMENTS**

The California State University, East Bay Foundation, Inc. (Foundation) agreement outsourcing bookstore operations did not include a right-to-audit provision.

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 outsourcing agreements include a right-to-audit provision.

The campus associate vice president of financial services stated that the right-to-audit provision was omitted due to management oversight.

The absence of a right-to-audit provision increases the risk of misunderstanding and miscommunication regarding rights and responsibilities and subjects the auxiliary and CSU to potential liability.

#### **Recommendation 12**

We recommend that the Foundation include a right-to-audit provision in the agreement outsourcing bookstore operations.

#### **Campus Response**

We agree. On June 10, 2014, the campus and Follett signed an amendment to the bookstore contract, which includes a right-to-audit clause. This will be provided by June 30, 2014.

### **CORPORATE GOVERNANCE**

The Foundation had not appointed an audit committee selected by the board of directors, established a written charter explaining the roles and responsibilities of the audit committee's members, or maintained audit committee minutes.

The Foundation *Bylaws*, Article IV Section 5, states that the audit committee will consist of one board member (who cannot serve as a chair), one member from the university accounting and fiscal services office, one member from the Associated Students, Inc. board, and one member of the community. The board chair shall appoint the members of the committee.

Government Code (GC) §12586(e) states that every charitable corporation that receives or accrues in any fiscal year gross revenue of \$2 million or more shall have an audit committee appointed by the board of directors.

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

The executive director of advancement services and foundations stated that the board served as the audit committee during the past three years. She further stated that at the December 2012 board meeting, the board approved the formation of an audit committee for inclusion in the Bylaws, but the Bylaws were not formally approved until March 7, 2014, because of other proposed Bylaw changes, personnel transitions, and board attendance, which delayed formation of the audit committee. She also stated that a written charter and audit committee minutes had not been established because the audit committee had not yet been formed.

Lack of an audit committee appointed by the board of directors, establishment of a written charter, and maintenance of audit committee minutes in accordance with legal mandates increases the risk of misunderstandings and may increase legal liability.

### **Recommendation 13**

We recommend that the Foundation appoint an audit committee selected by the board of directors, establish a written charter explaining the roles and responsibilities of its members, and maintain audit committee minutes.

### **Campus Response**

We agree. The Foundation has appointed an audit committee, established a written charter, and maintains formal audit committee minutes. These will be provided by July 31, 2014.

## **PROGRAM COMPLIANCE**

The Foundation did not report student stipends paid for the Title IV-E, CalSWEC-II Mental Health Stipend Program, to the financial aid office.

Title 5 §42500(d) states that a record of financial assistance, such as student loans, scholarships, stipends, and grants-in-aid, shall be forwarded on a timely basis to the campus financial aid office and shall be documented on student financial aid recipient records in that office. All such financial assistance provided from student body organization funds shall be approved by the campus financial

aid office before such funds are expended and shall not exceed amounts to be provided under regulations of federal and state financial aid programs, except as provided under §42403(b).

Coded Memorandum Academic Affairs 2004-15, *Student Financial Aid Administration – Coordination of Information and Resources*, dated May 3, 2004, states that an individual should be designated to be responsible for administering all Title IV student aid programs and coordinating those programs with all other programs of student financial assistance. It further states that given the broad array of factors related to a student’s financial aid eligibility, each campus must ensure that adequate channels of communication and other provisions for the timely sharing of relevant information are established and maintained between the financial aid office and other campus offices and departments.

The campus director of fiscal services stated that although the CalSWEC-II Mental Health Stipend Program was researched to determine the stipend procedures, the 2004 Coded Memorandum was overlooked due to oversight.

Lack of appropriate reporting of student stipends to the campus financial aid office may result in an overpayment of financial aid funds and increases the risk of fines and penalties.

#### **Recommendation 14**

We recommend that the Foundation report student stipends paid for the Title IV-E, CalSWEC-II Mental Health Stipend Program, to the financial aid office.

#### **Campus Response**

We agree. The campus will update its business process guide for reporting stipend payments to the financial aid office for CalSWEC Mental Health. This will be provided by July 31, 2014.

## **COMMERCIAL OPERATIONS**

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

We found that the Foundation did not have:

- ▶ Written policies and procedures to periodically audit third-party sales commissions at the bookstore to ensure that commission receipts were in accordance with contractual requirements.
- ▶ Documented reviews of commission receipts at the bookstore.

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 establishing written policies and procedures to periodically audit outsourced operations and document review of sales commissions.

The campus director of fiscal services stated that written policies and procedures addressing a periodic audit of bookstore receipts had not been developed due to management oversight. She further stated that although periodic reviews of outsourced bookstore commission receipts occurred, the Foundation had not documented these reviews due to management oversight.

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

### **Recommendation 15**

We recommend that the Foundation:

- 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. Document reviews of commission receipts at the bookstore.

### **Campus Response**

We agree.

- a. The campus will update its business process guide to include audit of the bookstore commissions. This will be provided by August 15, 2014.
- b. The campus will add a signature line to evidence management review of commission receipts. This will be provided by August 15, 2014.



## CONTRACTS AND GRANTS

### GENERAL ENVIRONMENT

Campus administration of sponsored programs at the Office of Research and Sponsored Programs (ORSP) on behalf of the Foundation required improvement.

We found that ORSP did not have adequate management oversight and accountability for record retention to ensure that adequate records were maintained for sponsored programs. As a result, certain supporting documents requested in the beginning of the audit were not provided on a timely basis.

GC §13401 states that all levels of management of state agencies must be involved in assessing and strengthening the systems of internal accounting and administrative control to minimize fraud, errors, abuse, and waste of government funds.

GC §13402 and §13403 state that management is responsible for establishing and maintaining a system of internal administrative controls, which includes documenting the system, communicating system requirements to employees, and assuring that the system is functioning as prescribed and is modified, as appropriate, for changes in conditions. It further states that administrative controls are the methods through which reasonable assurance can be given that measures adopted by state agency heads to safeguard assets and promote operational efficiency are being followed.

Office of Management and Budget (OMB) Circular A-110, *Uniform Administrative Requirements for Grants and Other Agreements with Institutions of Higher Education, Hospitals and Other Non-Profit Organizations*, §C.21, states that the recipient's financial management systems shall provide for effective control over and accountability for all funds, property, and other assets, and accounting records that are supported by source documentation.

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 adequate administration of sponsored programs.

The campus vice president of administration and finance/CFO stated that a reorganization and personnel turnover contributed to inconsistent management oversight and the record retention issues.

Inadequate administration of sponsored programs increases the risk of noncompliance with relevant federal and state regulations and exposes the auxiliary organization to penalties and disallowances for non-compliance with contracts and grants terms.

### **Recommendation 16**

We recommend that the campus provide adequate management oversight and accountability for record retention to ensure that adequate records are maintained for sponsored programs.

### **Campus Response**

We agree. The interim AVP of ORSP has developed a new organization chart and new job descriptions, including responsibility for record retention management. These will be provided by July 15, 2014.

## **POLICIES AND PROCEDURES – CONFLICT OF INTEREST**

Public Health Services (PHS) policies and procedures and disclosure forms for conflicts of interest used by the Foundation needed to be updated.

We found that:

- ▶ Campus supplemental conflict-of-interest policies and procedures for PHS awards did not contain a provision for the public disclosure of any significant financial interest within five business days of a request.
- ▶ Campus supplemental conflict-of-interest policies and procedures for PHS awards were not incorporated into or referenced by the campus conflict-of-interest policy or by the page on the campus website addressing conflicts of interest in research, increasing the possibility that campus constituents would not be aware of applicable conflict-of-interest requirements for PHS awards.
- ▶ The campus financial disclosure form had not been updated to reflect the current PHS financial disclosure threshold.

Code of Federal Regulations (CFR), Title 42, Part 50, Subpart F, *Responsibility of Applicants for Promoting Objectivity in Research for Which PHS Funding Is Sought*, effective September 26, 2011, states that prior to the institution's expenditure of any funds under a PHS-funded research project, the institution shall ensure public accessibility, via a publicly accessible website or written response to any requestor within five business days of a request, of information concerning any significant financial interest disclosed to the institution.

GC §13402 and §13403 state that management is responsible for establishing and maintaining a system of internal administrative controls, which includes documenting the system, communicating system requirements to employees, and assuring that the system is functioning as prescribed and is modified, as appropriate, for changes in conditions. It further states that administrative controls are the methods through which reasonable assurance can be given that measures adopted by state agency heads to safeguard assets and promote operational efficiency are being followed.

The campus vice president of administration and finance/CFO stated that there had been no PHS grants in the past three years and the campus and Foundation had not updated the PHS conflict-of-interest policies and procedures, forms, or website due to management turnover.

Incomplete or outdated policies and procedures and forms increase the risk of noncompliance with CSU and governmental requirements.

### **Recommendation 17**

We recommend that the campus:

- a. Update the campus supplemental conflict-of-interest policies and procedures for PHS awards to include a provision for the public disclosure of any significant financial interest within five business days of a request.
- b. Incorporate or reference the campus supplemental conflict-of-interest policies and procedures for PHS awards in the campus conflict-of-interest policy or on the campus website page that addresses conflicts of interest in research.
- c. Update the campus disclosure of financial interest form to reflect current PHS financial disclosure thresholds.

### **Campus Response**

We agree.

- a. ORSP updated its conflict-of-interest website to reflect PHS policies and procedures, including public disclosure of any significant financial interest, on June 11, 2014. The website link will be provided by June 30, 2014.
- b. ORSP updated its conflict-of-interest website to reflect supplemental conflict-of-interest policies and procedures for PHS awards on June 11, 2014. The website link will be provided by June 30, 2014.
- c. On June 11, 2014, ORSP updated its conflict-of-interest website to reflect current PHS financial disclosure thresholds. The website link will be provided by June 30, 2014.

## **POLICIES AND PROCEDURES – EFFORT REPORTING**

Campus effort-reporting policies and procedures used by the Foundation did not define the roles and responsibilities of the various offices and individuals at the campus who were involved in effort reporting.

ICSUAM §11000.003.006, *Effort Reporting*, effective December 1, 2011, states that it is the policy of the CSU that each campus shall develop and maintain policies and procedures for reporting all

compensated effort of sponsored project-related employees to ensure compliance with applicable regulations and agreements. At a minimum, the campus president or designee must ensure that the campus has an effort-reporting policy that defines roles and responsibilities of various offices and individuals at the campus. It further states that effort certifications are completed each academic term, but not less frequently than twice annually.

GC §13402 and §13403 state that management is responsible for establishing and maintaining a system of internal administrative controls, which includes documenting the system, communicating system requirements to employees, and assuring that the system is functioning as prescribed and is modified, as appropriate, for changes in conditions. It further states that administrative controls are the methods through which reasonable assurance can be given that measures adopted by state agency heads to safeguard assets and promote operational efficiency are being followed.

The campus interim associate vice president of research and sponsored programs stated that a reorganization resulted in the need for revised policies and procedures, but the update had not been completed due to the complexity of the task, resource constraints, and management oversight.

Incomplete effort-reporting policies and procedures increase the risk of noncompliance with CSU and governmental reporting requirements.

### **Recommendation 18**

We recommend that the campus update its effort-reporting policies and procedures to define the roles and responsibilities of the various offices and individuals at the campus who are involved in effort reporting.

### **Campus Response**

We agree. ORSP published an updated *Principal Investigator's Grant Manual* on June 1, 2014. In addition, updated effort-reporting policies and procedures were distributed on May 21, 2014, by the interim AVP of ORSP. These will be provided by June 30, 2014.

## **POLICIES AND PROCEDURES – SUB-RECIPIENT**

Campus sub-recipient policies and procedures used by the Foundation did not always accurately reflect current ORSP practices and needed improvement.

We found that:

- ▶ Current practice was for principal investigators (PI) to submit to the ORSP an A-133 audit report only when exceptions were noted in the A-133 checklist, even though policies and procedures required PIs to provide the ORSP with a copy of the latest A-133 audit report from each sub-recipient prior to proposal submission.

- ▶ Sub-recipient policies and procedures did not address the sub-recipient risk assessment to identify key risks and determine the level of monitoring required.
- ▶ Sub-recipient policies and procedures did not fully address procedures for monitoring sub-recipients, such as the methodology for resolving findings of sub-recipient noncompliance or weaknesses in internal control.

ICSUAM §11000.002.005, *Sub-recipient Monitoring*, effective December 1, 2011, states that it is the policy of the CSU that each campus shall have financial controls and procedures in place that ensure compliance with the sponsor's requirements for sub-recipient monitoring. The campus president or designee must ensure that procedures established for sub-recipient risk assessment and monitoring are in compliance with the federal OMB Circular A-133, applicable standards of other sponsors, CSU regulations, and campus policies. Campus procedures should provide consideration for documentation of compliance with minimum requirements of OMB Circular A-133 as it relates to sub-recipient monitoring, giving consideration to high-risk sub-recipients as necessary.

OMB Circular A-133, *Compliance Supplement Part 6-M, Sub-recipient Monitoring*, last revised March 2013, states that in order to provide reasonable assurance of compliance with federal requirements related to sub-recipients, official policies and procedures should exist establishing communication of federal award requirements to sub-recipients; responsibilities for monitoring sub-recipients; processes and procedures for monitoring; methodology for resolving findings of sub-recipient noncompliance or weaknesses in internal control; and requirements for and processing of sub-recipient audits, including appropriate adjustment of the pass-through entity's accounts.

OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, Section D.400(d) states that for federal awards it makes, a pass-through entity shall issue a management decision on audit findings within six months after receipt of the sub-recipient's audit report and ensure that the sub-recipient takes appropriate and timely corrective action, and consider whether sub-recipient audits necessitate adjustment of the pass-through entity's own records.

The campus ORSP director stated that A-133 audit reports were not obtained from all PIs due to administrative oversight. He further stated that ORSP policies and procedures for sub-recipients had not been updated due to management turnover.

Incomplete sub-recipient policies and procedures increase the risk of noncompliance with CSU and governmental requirements, as well as the risk that sub-recipients will not be adequately assessed and monitored.

### **Recommendation 19**

We recommend that the campus:

- a. Require PIs to provide the ORSP with a copy of the latest A-133 audit report from each sub-recipient prior to proposal submission.

- b. Update the sub-recipient policies and procedures to address the sub-recipient risk assessment process to identify key risks and determine the level of monitoring required.
- c. Update the sub-recipient policies and procedures to fully address procedures for monitoring sub-recipients, such as the methodology for resolving findings of sub-recipient noncompliance or weaknesses in internal control.

### **Campus Response**

We agree.

- a. Updated sub-recipient monitoring policies and procedures were distributed on May 21, 2014, by the interim AVP of ORSP. These address the requirement that the PI obtain the latest A-133 audit report prior to grant proposal submission. This will be provided by June 30, 2014.
- b. The interim AVP of ORSP developed a new Sub-Recipient Monitoring Report form and a CSUEB Risk Assessment Matrix form so that the PIs are able to identify the level of risk posed by the sub-recipient. Sub-recipients are evaluated against 19 different categories, and each category is assessed as low, medium, or high risk. The forms will be provided by June 30, 2014.
- c. Updated ORSP policy requires that a monitoring plan be approved by a sub-recipient monitoring committee for all medium- and high-risk sub-recipients. The policy was distributed on May 21, 2014, and will be provided by June 30, 2014.

### **CONFLICT OF INTEREST**

The campus, working on behalf of the Foundation, did not always obtain initial and renewal conflict-of-interest forms from PIs as required by federal regulations and CSU and campus policy.

We reviewed 15 contracts and grants, and we found that:

- ▶ Three PIs did not complete conflict-of-interest forms prior to the award start dates. The forms were signed and dated approximately two to 13 months after the award start date. This is a repeat finding from the prior Auxiliary Organizations audit.
- ▶ Three PIs did not complete annual renewal conflict-of-interest forms.

Coded memorandum Human Resources (HR) 2005-38, *Conflict of Interest Update – Principal Investigators*, dated August 30, 2005, states that the CSU PIs are required to file an initial statement prior to acceptance of a contract, grant, or gift, an interim statement within 30 days after funding is renewed, and a project completion statement within 90 days after gift funds are exhausted, or the research project is completed, pursuant to CSU policy.

CSUEB Conflict-of-Interest Policy 1A, *Federal Requirements*, and 1B, *State Requirements*, state that each PI who submits a proposal to the National Science Foundation or an agency of the U.S.

Department of Health and Human Services must, at the time of submission, complete a Conflict-of-Interest Disclosure Form. It further states that all persons employed by University of California or CSU who have principal responsibility for a research project funded or supported, in whole or in part, by a contract or grant (or other funds earmarked by the donor for a specific research project or for a specific researcher) from a nongovernmental entity, must complete CSU Form 700U “Statement of Economic Interests form” and disclose any financial interest. Further, Section 3 states that as required by federal regulation, all significant financial interests must be disclosed to the university prior to submission of the proposal to the federal agency. If an award is made, financial disclosures must be updated by investigators during the period of the award as new reportable significant financial interests are obtained or annually.

The campus ORSP director stated that the three initial and annual renewal conflict-of-interest forms were not completed due to administrative oversight.

Inadequate administration of conflict-of-interest forms increases the risk of non-compliance with federal, state, and CSU requirements and could lead to possible regulatory scrutiny.

#### **Recommendation 20**

We recommend that the campus obtain initial and renewal conflict-of-interest forms from PIs as required by federal regulations and CSU and campus policy.

#### **Campus Response**

We agree. The campus risk management website, as well as the ORSP conflict-of-interest website, have been updated to reflect filing requirements for initial and renewal conflict-of-interest forms (Form 700-U). The website links will be provided by June 30, 2014.

#### **TRAINING**

Training and orientation were not always provided to PIs and co-PIs involved in Foundation contracts and grants.

We reviewed eight federal and seven non-government awards, and we found that:

- ▶ Five PIs on non-governmental projects did not complete the required ethics and conflict-of-interest training in a timely manner. The trainings were completed 10 to 32 months after the award start date. This is a repeat finding from the prior Auxiliary Organizations audit.
- ▶ Two PIs on non-governmental projects did not complete ethics and conflict-of-interest training.
- ▶ One co-PI on a federal project did not complete ethics and conflict-of-interest training.

CSUEB *Financial Conflict of Interest* policy states that training must be completed prior to proposal submission. Each investigator (PI/project director, collaborators, consultants and any other person,

regardless of title and position, who is responsible for the design, conduct or reporting) who is the prime/sub-recipient of a PHS award must disclose all significant financial interests and must complete training regarding financial conflict-of-interest prior to engaging in research related to any PHS-funded grant, at least every four years and immediately when any of the following circumstances apply: (1) CSUEB revises its financial conflict-of-interest policies or procedures in any manner that affects the requirements of investigators; (2) an investigator is new to CSUEB; (3) during the award period on an annual basis; (4) within 30 days of the acquisition or discovery of new significant financial interest (e.g., through purchase, marriage, or inheritance); and (5) CSUEB finds that an investigator is not in compliance with the financial conflict-of-interest policy or management plan.

Coded memorandum HR 2005-38, *Conflict of Interest Update – PIs*, dated August 30, 2005, states that PIs must complete ethics training within six months of receiving the grant. Subsequent training is required at least once during each consecutive period of two calendar years that the grant is in place.

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 PIs and other individuals involved in contracts and grants receive orientation and training.

The campus interim associate vice president of research and sponsored programs stated that a reorganization and personnel turnover contributed to inconsistent management oversight, including ethics and conflict-of-interest training.

Inadequate training and orientation of PIs and co-PIs increases the risk of non-compliance with CSU, federal, and state regulations and increases the risk that errors, inconsistencies, misunderstandings, or misappropriation may occur.

### **Recommendation 21**

We recommend that the campus provide ethics and conflict-of-interest training to all PIs and co-PIs in a timely manner.

### **Campus Response**

We agree. Ethics and conflict-of-interest training status for all PIs will be monitored by ORSP staff. Staff will be assigned and the process will be implemented by July 31, 2014. ORSP will provide a report of the status of ethics and conflict-of-interest training for all PIs by July 31, 2014.

## **SUB-RECIPIENT MONITORING**

Campus sub-recipient monitoring on behalf of the Foundation needed improvement.



We reviewed ten sub-recipient awards, and we found that:

- ▶ In all ten instances, risk assessments were not completed prior to proposal submission. The risk assessments were completed approximately ten to 19 months after the sub-award issuance.
- ▶ In five instances, required A-133 audit reports were not obtained prior to proposal submission.
- ▶ In one instance, an A-133 audit report for FY 2012/13 revealed a material weakness and two significant deficiencies, but there was no documentation to support the evaluation of findings or address required follow-up or corrective actions. Additionally, the A-133 audit report revealed that the sub-recipient had outstanding findings from the prior year (FY 2011/12), and no documentation was on file proving that the noted findings had been evaluated.

ICSUAM §11000.002.005, *Sub-recipient Monitoring*, dated December 1, 2011, states that it is the policy of the CSU that each campus shall have financial controls and procedures in place that ensure compliance with the sponsor's requirements for sub-recipient monitoring. The campus president or designee must ensure that procedures established for sub-recipient risk assessment and monitoring are in compliance with the federal OMB Circular A-133, applicable standards of other sponsors, CSU regulations, and campus policies. Campus procedures should provide consideration for documentation of compliance with minimum requirements of OMB Circular A-133 as it relates to sub-recipient monitoring, giving consideration to high-risk sub-recipients as necessary.

OMB Circular A-133, *Compliance Supplement Part 6-M, Sub-recipient Monitoring*, last revised March 2013, states that in order to provide reasonable assurance of compliance with federal requirements related to sub-recipients, official policies and procedures should exist establishing communication of federal award requirements to sub-recipients; responsibilities for monitoring sub-recipients; processes and procedures for monitoring; methodology for resolving findings of sub-recipient noncompliance or weaknesses in internal control; and requirements for and processing of sub-recipient audits, including appropriate adjustment of the pass-through entity's accounts.

OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, Section D.400(d) states that for federal awards it makes, a pass-through entity shall issue a management decision on audit findings within six months after receipt of the sub-recipient's audit report and ensure that the sub-recipient takes appropriate and timely corrective action, and consider whether sub-recipient audits necessitate adjustment of the pass-through entity's own records. It further states that a pass-through entity shall perform, in part, the following for the federal awards it makes: advise sub-recipients of requirements imposed on them by federal laws, regulations, and the provisions of contracts or grant agreements and ensure that sub-recipients expending \$300,000 (\$500,000 for fiscal years ending after December 31, 2003) or more in federal awards during the sub-recipient's fiscal year have met the audit requirements of this part for that fiscal year.

42 CFR Part 50, Subpart F, *Responsibility of Applicants for Promoting Objectivity in Research for Which PHS Funding Is Sought*, effective September 26, 2011, states that if the institution carries out funded research through a sub-recipient, the institution must take reasonable steps to ensure that any sub-recipient investigator complies with this subpart by incorporating as part of a written agreement

with the sub-recipient terms that establish whether the financial conflicts-of-interest policy of the awardee institution or that of the sub-recipient will apply to the sub-recipient's investigators. If using sub-recipient's conflict-of-interest policy, the sub-recipient shall certify as part of the agreement that its policy complies with this subpart, and the agreement must specify time period(s) for the sub-recipient to report any conflict of interest to the awardee institution. If using the awardee conflict-of-interest policy, the agreement shall specify time period(s) for the sub-recipient to submit disclosures.

*CSUEB Subrecipient Monitoring Policy* states, in part, prior to proposal submission PIs must provide ORSP with the following from each sub-recipient institution included in the proposal: completed and signed sub-recipient versus vendor determination form, completed sub-recipient commitment form, and a copy of the latest A-133 audit report.

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 sub-recipients.

The campus ORSP director stated that ORSP business processes were inadequate in regard to sub-recipient risk assessment monitoring until January 2014, when a new procedure was implemented. He further stated that A-133 reports were not obtained due to lack of resources and administrative oversight. He added that ORSP business processes for sub-recipient monitoring of A-133 audit deficiencies and follow-up had not been updated due to management oversight.

Insufficient monitoring and execution of sub-recipient awards increases the risk of reduced reimbursements, non-compliance with OMB requirements, conflicts of interest, and possible regulatory scrutiny, and subjects the Foundation and CSU to potential liability.

## **Recommendation 22**

We recommend that the campus:

- a. Complete each sub-recipient's risk assessment prior to proposal submission.
- b. Obtain each sub-recipient's A-133 audit report prior to proposal submission.
- c. Review each sub-recipient's A-133 audit report findings during the risk assessment process and document management's evaluation of the sub-recipient's findings or any necessary follow-up or corrective actions.

### **Campus Response**

We agree.

- a. The interim AVP of ORSP developed a new Sub-Recipient Monitoring Report form and a CSUEB Risk Assessment Matrix form, which were distributed on May 21, 2014. PIs are now able to use a uniform standard to identify the level of risk posed by the sub-recipient. Sub-recipients are evaluated against 19 different categories, which are assessed as low, medium, or high risk. The risk assessments are required to be completed prior to proposal submission. A completed CSUEB Risk Assessment Matrix form will be provided by July 31, 2014.
- b. Updated sub-recipient monitoring policies and procedures were distributed on May 21, 2014, by the interim AVP of ORSP. These address the requirement that the PI obtain the latest A-133 audit report prior to grant proposal submission. The policy will be provided by June 30, 2014.
- c. ORSP policy issued on May 21, 2014, requires that a formal sub-recipient monitoring plan be approved by a sub-recipient monitoring committee for any sub-recipients that have been deemed to pose a medium or high risk, including negative A-133 audit findings. Follow-up or corrective action will be addressed by the committee. The campus will provide an actual sub-recipient monitoring plan by August 15, 2014.

## **CAL STATE EAST BAY EDUCATIONAL FOUNDATION**

### **CORPORATE GOVERNANCE**

The Cal State East Bay Educational Foundation (Ed Foundation) did not file amended Articles of Incorporation with the chancellor's office in a timely manner.

We found that an amendment made to the Articles of Incorporation on November 28, 2012, which was submitted to and approved by the Secretary of State on April 16, 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 executive director of advancement services and foundations stated that a draft copy of the amended Articles of Incorporation was submitted to the chancellor's office, but the endorsed copy 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 23**

We recommend that the Ed Foundation promptly file the amended Articles of Incorporation and reiterate to staff that all future changes and amendments to the Articles of Incorporation should be filed with the Contract Services and Procurement department at the chancellor's office within 30 calendar days.

#### **Campus Response**

We agree. The endorsed copy was provided to the Contract Services and Procurement department at the chancellor's office on April 4, 2014. A copy will be provided by June 30, 2014.

### **OPERATIONAL COMPLIANCE**

#### **CONFLICT OF INTEREST**

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

We found that:

- ▶ Eight of the 35 board members had not signed a conflict-of-interest statement for FY 2012/13.
- ▶ None of the board members had signed a conflict-of-interest statement for FY 2011/12.

The Ed Foundation *Conflict of Interest Policy*, Section 7.1, states that board members, managers, exempt employees, and contracted consultants of the auxiliary organizations will annually file conflict-of-interest statements. Board members will annually complete and submit the related party's questionnaire.

CSU *Conflict of Interest Handbook*, §2B, states that the Political Reform Act requires 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 (IRS), *Governance and Related Topics 501(c)(3)*, dated February 4, 2008, and *Return of Organization Exempt from Income Tax, Form 900*, encourages 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 executive director of advancement services and foundations stated that board members who did not attend meetings during or left the board after FY 2012/13 did not respond to requests to complete their conflict-of-interest statements. She further stated that conflict-of-interest statements for FY 2011/12 were not obtained due to management oversight resulting from personnel turnover.

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

#### **Recommendation 24**

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

#### **Campus Response**

We agree. The campus president has issued a University Executive Directive that addresses conflict-of-interest requirements for auxiliary board members. In addition, the campus has updated its

conflict-of-interest website. The website link and the University Executive Directive will be provided by July 15, 2014.

## **DELEGATION OF AUTHORITY**

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

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 executive director of advancement services and foundations stated that an updated written delegation of authority had not yet been executed due to management oversight.

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 25**

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

### **Campus Response**

We agree. The formal delegation of authority for the vice president of university advancement was signed by the campus president on May 27, 2014. This will be provided by June 30, 2014.

**ASSOCIATED STUDENTS, INC. OF**  
**CALIFORNIA STATE UNIVERSITY EAST BAY**

**FISCAL COMPLIANCE**

Associated Students, Inc. of California State University East Bay (ASI) did not maintain board-designated reserves in accordance with its reserves policy.

We found that board-designated net assets in the financial statements for FY 2011/12 and 2012/13 were not in line with funding contribution percentages to designated reserves and the designated reserve goals in the reserve policy.

The ASI *Fiscal Reserves Policy* will place any unallocated surplus or fund balances in the following percentages if any surplus is present at the close of each fiscal year until the funding goal is met: capital improvement and equipment replacement (30 percent), current operations and working capital (30 percent), other post-employment benefit (20 percent), and undesignated (20 percent). After the goal is met for a category, the residual funds will be equally distributed to the remaining categories. When all categories are fully funded, the reserve policy will be reviewed. Any amount that remains after all other categories are fully funded will go into undesignated reserve.

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

The campus director of fiscal services stated that ASI documented reserves did not comply with board policy due to oversight on the computation of documented reserves, which did not consider all of the required steps when the reserve amounts were memorialized.

Inadequate reserve funding 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 26**

We recommend that ASI maintain board-designated reserves in accordance with its reserves policy.

**Campus Response**

We agree. A reserve analysis was approved by the campus president on May 22, 2014. This will be provided by June 30, 2014.

## OPERATIONAL COMPLIANCE

ASI had not developed comprehensive conflict-of-interest policies and procedures that included requirements for signing annual conflict-of-interest statements and steps for reporting and resolving conflicts of interest.

*CSU Conflict of Interest Handbook*, §2B, states that the Political Reform Act requires 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 *IRS Governance and Related Topics 501(c)(3)*, dated February 4, 2008, and *Return of Organization Exempt from Income Tax*, Form 990, encourages 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 ASI executive director stated that he was unaware that written policies and procedures were required for board member annual conflict-of-interest statements because requirements for signing annual conflict-of-interest statements and steps for reporting and resolving conflicts of interest were addressed in the annual board member orientation.

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

### **Recommendation 27**

We recommend that ASI develop comprehensive conflict-of-interest policies and procedures that include requirements for signing annual conflict-of-interest statements and steps for reporting and resolving conflicts of interest.

### **Campus Response**

We agree. A new business process guide for obtaining ASI board member signatures and resolving conflicts of interest has been implemented. This will be provided by June 30, 2014.



## **PROGRAM COMPLIANCE**

ASI student stipends were not reported to the financial aid office before funds were expended.

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

The campus vice president of administration and finance/CFO stated that ASI's scholarship and stipend business process was changed, and due to management oversight, ASI stipends were no longer reported to the financial aid office prior to disbursement.

Untimely reporting of student stipends to the campus financial aid office may result in an overpayment of financial aid funds and increases the risk of fines and penalties.

### **Recommendation 28**

We recommend that ASI report student stipends to the financial aid office before funds are expended.

### **Campus Response**

We agree. A revised business process guide for reporting ASI stipends to the office of financial aid has been implemented. This will be provided by July 31, 2014.

## **PURCHASING AND ACCOUNTS PAYABLE**

### **TRAVEL**

ASI did not always require travel authorization forms documenting advance approval of all travel and related expenditures.

We reviewed ten travel disbursements, and we found that in six instances, a travel authorization form documenting advance approval of travel and related expenditures was not completed.

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

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

The ASI executive director stated that travel-related expenditures were generally approved in advance and documented through board meeting minutes, but formal travel authorization forms were not utilized until March 2014.

The absence of documented travel approval increases the risk of errors, irregularities, and misappropriation of funds.

### **Recommendation 29**

We recommend that ASI require travel authorization forms documenting advance approval of all travel and related expenditures.

### **Campus Response**

We agree. The ASI board of directors approved a new travel policy on April 30, 2014. This will be provided by June 30, 2014.

## **PURCHASE ORDERS**

ASI did not always investigate and resolve open purchase orders in a timely manner.

We reviewed 12 open purchase orders outstanding over 365 days, and we found that ten purchase orders totaling \$19,668 were outstanding from 425 to 597 days and had not been disencumbered or removed from the purchase order system.

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

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

The ASI executive director stated that ASI budget and accounting staff were unaware that they needed to contact the campus procurement department to close open purchase orders.

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

**Recommendation 30**

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

**Campus Response**

We agree. A revised business process guide for ASI staff to review and close out purchase orders was implemented on May 21, 2014. This will be provided by June 30, 2014.

**PROPERTY AND EQUIPMENT**

Certain ASI capitalized assets could not be located.

We reviewed five capitalized assets for physical verification from the ASI property and equipment listing, and we found that two could not be located.

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.

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 over property and equipment.

The campus director of fiscal services stated that due to oversight, these two items had been disposed of but were not removed from the ASI property listing.

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

**Recommendation 31**

We recommend that ASI promptly locate the missing assets or adjust the property and equipment listing as necessary.

**Campus Response**

We agree. A revised business process guide for ASI asset inventory and asset dispositions was implemented on June 5, 2014. This will be provided by June 30, 2014.

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## **APPENDIX A: PERSONNEL CONTACTED**

<u>Name</u>	<u>Title</u>
<b>CAMPUS</b>	
Leroy M. Morishita	President
Philip Bollinger	Accounting Technician, Cashier's Office
Debbie Chaw	Executive Director of Advancement Services and Foundations
Matt Collins	Director, Academic and Administrative Technology and Information System Officer
Stephanie Couch	Interim Associate Vice President, Research and Sponsored Programs
Thomas Dixon	Director, Network Infrastructure and Operations
Marissa Fournier	Accountant
Maggie Graney	Director, Compliance and Internal Control
Darrell Haydon	Associate Vice President, Financial Services
André Johnson	Associate Vice President, Human Resources and Payroll Services
Gene Lim	Director, Server Operations
Lana Lewis	Accounts Payable Manager
Eric Neumann	Director, User Support Services
Jesse Norman	Information Technology Consultant
Sherry Pickering	Director, Fiscal Services
Ara Serjoie	Vice President, University Advancement
Tony Tijero	Director, Payroll Services
Brad Wells	Vice President, Administration and Finance/Chief Financial Officer
Sean Williams	Director, Office of Research and Sponsored Programs

### **CALIFORNIA STATE UNIVERSITY, EAST BAY FOUNDATION, INC**

Debbie Chaw	Executive Director of Advancement Services and Foundations
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### **CAL STATE EAST BAY EDUCATIONAL FOUNDATION**

Debbie Chaw	Executive Director of Advancement Services and Foundations
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### **ASSOCIATED STUDENTS, INC. OF CALIFORNIA STATE UNIVERSITY EAST BAY**

Randy Saffold	Executive Director
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## **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.



CALIFORNIA STATE  
UNIVERSITY  
E A S T B A Y

Office of the Vice President, Administration  
and Finance & Chief Financial Officer

CALIFORNIA STATE UNIVERSITY, EAST BAY  
25800 Carlos Bee Boulevard, Hayward, CA 94542-3002  
510.885-3803 • 510.885.4745 (fax) • www.csueastbay.edu

June 25, 2014

Mr. Larry Mandel  
Vice Chancellor and Chief Audit Officer  
The California State University  
401 Golden Shore  
Long Beach, CA 90802

RE: **Campus Response to Incomplete Draft Audit Report  
Auxiliary Organizations (14-02), California State University, East Bay**

Dear Mr. Mandel,

The campus has provided our corrective action plan, with responses and deadlines to the above audit recommendations via e-mail to your office today.

I have reviewed and approved them.

Please let us know if you have any questions or need additional information.

Sincerely,

A handwritten signature in black ink that reads "Bradley Wells".

Bradley Wells  
Vice President, Administration & Finance, CFO

cc: Leroy M. Morishita, President  
Maggie Graney, Director of Compliance and Internal Control

THE CALIFORNIA STATE UNIVERSITY

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**AUXILIARY ORGANIZATIONS**  
**CALIFORNIA STATE UNIVERSITY,**  
**EAST BAY**

**Audit Report 14-02**

**CAMPUS**

**FISCAL COMPLIANCE**

**Recommendation 1**

We recommend that the campus obtain presidential approval of auxiliary reserves on an annual basis.

**Campus Response**

We agree. Effective for the 2014/15 fiscal year, the campus includes the auxiliary reserves for the Foundation and ASI in the annual budget package, which is approved by the campus president. The approved budget packages will be provided by July 1, 2014.

**OPERATIONAL COMPLIANCE**

**POLICIES AND PROCEDURES**

**Recommendation 2**

We recommend that campus update its cash receipts and disbursements policies and procedures to reflect ICSUAM §3101.02 and §3103.01 requirements.

**Campus Response**

We agree. The campus is updating its cash receipts and disbursements policies and procedures to reflect ICSUAM 3101.02 and 3103.01. These will be provided by August 15, 2014.

**RISK MANAGEMENT**

**Recommendation 3**

We recommend that the campus update its risk management policy to require an annual risk management report to the campus president with a copy to the assistant vice chancellor for risk management and public safety.

**Campus Response**

We agree. The campus will update policy and submit the annual risk management report for the 2013 calendar year to the campus president and the vice chancellor for risk management and public safety. These will be provided by July 10, 2014.

**PURCHASING AND ACCOUNTS PAYABLE****PROCUREMENT CARDS****Recommendation 4**

We recommend that the campus reiterate to staff that:

- a. Cardholders should complete a Statement of Economic Interests Form 700.
- b. Cardholders should sign a pickup log when receiving a procurement card.
- c. Procurement card reconciliations should be reviewed by the program administrator in a timely manner.

**Campus Response**

- a. We agree. The campus will provide updated procurement card procedures, which include the requirement to provide Form 700, by September 26, 2014.
- b. We agree. The campus will provide updated procurement card procedures, including the cardholder requirement to sign a pickup log, by September 26, 2014.
- c. We agree. The campus will provide updated procurement card procedures, including timely review by the program administrator, by September 26, 2014.

**TRAVEL****Recommendation 5**

We recommend that the campus obtain:

- a. Travel authorization forms documenting advance approval of all travel and related expenditures.
- b. Signed release forms or waivers from all students traveling by air.

**Campus Response**

- a. We agree. The campus will provide updated travel procedures, including advance approval of all travel and related expenditures, by September 26, 2014.
- b. We agree. The campus will provide updated travel procedures, including signed release forms or waivers from all students traveling by air, by September 26, 2014.

## PERSONNEL AND PAYROLL

### Recommendation 6

We recommend that the campus:

- a. Remove separated auxiliary employees from the payroll system in a timely manner.
- b. Obtain appropriate signatures on separation documents.
- c. Update its policies and procedures to require a separation checklist to document removal of IT access and return of property.

### Campus Response

- a. We agree. Campus separation checklist and procedures are being utilized for those auxiliary employees who are moving state-side as of July 1, 2014. Payroll system documentation for affected employees will be provided by July 31, 2014.
- b. We agree. The campus will ensure that appropriate signatures are obtained on separation documents, for all Foundation employees working on grants who are separating as of June 30, 2014. Payroll system documentation of Foundation employee separations will be provided by July 31, 2014.
- c. We agree. The campus is now utilizing the university separation checklist to process the auxiliary employees separating as of June 30, 2014. On June 20, 2014, an IT service desk ticket was created to request IT to track all IT equipment for all auxiliary staff moving state-side. A list of all auxiliary employees and IT equipment will be provided by July 31, 2014.

## PROPERTY AND EQUIPMENT

### Recommendation 7

We recommend that the campus:

- a. Perform a documented independent physical inventory count.
- b. Promptly locate the missing assets and adjust the property and equipment listing as necessary.

### Campus Response

- a. We agree. The campus has performed an independent physical inventory count of Foundation assets. This will be provided by July 15, 2014.
- b. We agree. The campus will locate the six missing Foundation assets or adjust the property and equipment listing by July 31, 2014.

## INFORMATION TECHNOLOGY

### PROTECTED DATA INVENTORY

#### Recommendation 8

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

#### Campus Response

We agree. A complete survey of sensitive data stored by auxiliaries in electronic and paper format will be performed by July 31, 2014, including strategies to mitigate exposure. The summary will be provided by August 15, 2014.

### PASSWORD SECURITY

#### Recommendation 9

We recommend that the campus set password security parameters for the active directory system that comply with CSU policy.

#### Campus Response

We agree. In May 2014, the campus engaged Moran Technology Consultants to roll out the new password security requirements to all campus end-users, as current passwords expire and need renewal. The phased roll-out is planned to begin in July 2014. A copy of the revised password instructions for end-users will be provided by July 31, 2014.

### USER ACCESS REVIEWS

#### Recommendation 10

We recommend that the campus perform periodic, documented management reviews of user access privileges within the campus financial and university advancement donor systems.

#### Campus Response

We agree. An updated business process guide for user access review of the donor system has been completed. The updated business process guide for user access review of the financial system will be completed by August 15, 2014. These will both be provided by August 20, 2014.

### EQUIPMENT DISPOSAL

#### Recommendation 11

We recommend that the campus store hard drives with potentially sensitive information in a secure area before wiping them.

**Campus Response**

We agree. The campus has updated the business process guideline for equipment disposal, which will be provided by June 30, 2014.

**CALIFORNIA STATE UNIVERSITY, EAST BAY FOUNDATION, INC.**

**OPERATING AND ADMINISTRATIVE AGREEMENTS**

**Recommendation 12**

We recommend that the Foundation include a right-to-audit provision in the agreement outsourcing bookstore operations.

**Campus Response**

We agree. On June 10, 2014, the campus and Follett signed an amendment to the bookstore contract, which includes a right-to-audit clause. This will be provided by June 30, 2014.

**CORPORATE GOVERNANCE**

**Recommendation 13**

We recommend that the Foundation appoint an audit committee selected by the board of directors, establish a written charter explaining the roles and responsibilities of its members, and maintain audit committee minutes.

**Campus Response**

We agree. The Foundation has appointed an audit committee, established a written charter and maintains formal audit committee minutes. These will be provided by July 31, 2014.

**PROGRAM COMPLIANCE**

**Recommendation 14**

We recommend that the Foundation report student stipends paid for the Title IV-E, CalSWEC-II Mental Health Stipend Program, to the financial aid office.

**Campus Response**

We agree. The campus will update its business process guide for reporting stipend payments to the Financial Aid office for CalSWEC Mental Health. This will be provided by July 31, 2014.

## COMMERCIAL OPERATIONS

### Recommendation 15

We recommend that the Foundation:

- 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. Document reviews of commission receipts at the bookstore.

### Campus Response

- a. We agree. The campus will update its business process guide to include audit of the bookstore commissions. This will be provided by August 15, 2014.
- b. We agree. The campus will add a signature line to evidence management review of commission receipts. This will be provided by August 15, 2014.

## CONTRACTS AND GRANTS

### GENERAL ENVIRONMENT

#### Recommendation 16

We recommend that the campus provide adequate management oversight and accountability for record retention to ensure that adequate records are maintained for sponsored programs.

#### Campus Response

We agree. The interim AVP of ORSP has developed a new organization chart and new job descriptions, including responsibility for record retention management. These will be provided by July 15, 2014.

## POLICIES AND PROCEDURES – CONFLICT OF INTEREST

### Recommendation 17

We recommend that the campus:

- a. Update the campus supplemental conflict-of-interest policies and procedures for PHS awards to include a provision for the public disclosure of any significant financial interest within five business days of a request.
- b. Incorporate or reference the campus supplemental conflict-of-interest policies and procedures for PHS awards in the campus conflict-of-interest policy or on the campus website page that addresses conflicts of interest in research.

- c. Update the campus disclosure of financial interest form to reflect current PHS financial disclosure thresholds.

**Campus Response**

- a. We agree. ORSP updated its conflict of interest website to reflect PHS policies and procedures, including public disclosure of any significant financial interest, on June 11, 2014. The website link will be provided by June 30, 2014.
- b. We agree. ORSP updated its conflict of interest website to reflect supplemental conflict of interest policies and procedures for PHS awards on June 11, 2014. The website link will be provided by June 30, 2014.
- c. We agree. On June 11, 2014, ORSP updated its conflict of interest website to reflect current PHS financial disclosure thresholds. The website link will be provided by June 30, 2014.

**POLICIES AND PROCEDURES – EFFORT REPORTING**

**Recommendation 18**

We recommend that the campus update its effort-reporting policies and procedures to define the roles and responsibilities of the various offices and individuals at the campus who are involved in effort reporting.

**Campus Response**

We agree. ORSP published an updated *Principal Investigator's Grant Manual* on June 1, 2014. In addition, updated effort-reporting policies and procedures were distributed on May 21, 2014, by the interim AVP of ORSP. These will be provided by June 30, 2014.

**POLICIES AND PROCEDURES – SUB-RECIPIENT**

**Recommendation 19**

We recommend that the campus:

- a. Require PIs to provide the ORSP with a copy of the latest A-133 audit report from each sub-recipient prior to proposal submission.
- b. Update the sub-recipient policies and procedures to address the sub-recipient risk assessment process to identify key risks and determine the level of monitoring required.
- c. Update the sub-recipient policies and procedures to fully address procedures for monitoring sub-recipients, such as the methodology for resolving findings of sub-recipient noncompliance or weaknesses in internal control.



**Campus Response**

- a. We agree. Updated sub-recipient monitoring policies and procedures were distributed on May 21, 2014, by the interim AVP of ORSP. These address the requirement that the PI obtain the latest A-133 audit report prior to grant proposal submission. This will be provided by June 30, 2014.
- b. We agree. The interim AVP of ORSP developed a new Sub-Recipient Monitoring Report form and a CSUEB Risk Assessment Matrix form so that the Principal Investigators are able to identify the level of risk posed by the sub-recipient. Sub-recipients are evaluated against nineteen different categories and each category is assessed as low, medium or high risk. The forms will be provided by June 30, 2014.
- c. We agree. Updated ORSP policy requires that a monitoring plan is approved by a sub-recipient monitoring committee for all medium and high-risk sub-recipients. The policy was distributed on May 21, 2014, and will be provided by June 30, 2014.

**CONFLICT OF INTEREST**

**Recommendation 20**

We recommend that the campus obtain initial and renewal conflict-of-interest forms from PIs as required by federal regulations and CSU and campus policy.

**Campus Response**

We agree. The campus risk management website, as well as the ORSP conflict of interest website, have been updated to reflect filing requirements for initial and renewal conflict of interest forms (Form 700-U). The website links will be provided by June 30, 2014.

**TRAINING**

**Recommendation 21**

We recommend that the campus provide ethics and conflict-of-interest training to all PIs and co-PIs in a timely manner.

**Campus Response**

We agree. Ethics and conflict of interest training status for all PIs will be monitored by ORSP staff. Staff will be assigned and the process will be implemented by July 31, 2014. ORSP will provide a report of the status of ethics and conflict-of-interest training for all PIs by July 31, 2014.

## SUB-RECIPIENT MONITORING

### Recommendation 22

We recommend that the campus:

- a. Complete each sub-recipient's risk assessment prior to proposal submission.
- b. Obtain each sub-recipient's A-133 audit report prior to proposal submission.
- c. Review each sub-recipient's A-133 audit report findings during the risk assessment process and document management's evaluation of the sub-recipient's findings or any necessary follow-up or corrective actions.

### Campus Response

- a. We agree. The interim AVP of ORSP developed a new Sub-Recipient Monitoring Report form and a CSUEB Risk Assessment Matrix form, which were distributed on May 21, 2014. Principal Investigators are now able to use a uniform standard to identify the level of risk posed by the sub-recipient. Sub-recipients are evaluated against nineteen different categories which are assessed as low, medium or high risk. The risk assessments are required to be completed prior to proposal submission. A completed CSUEB Risk Assessment Matrix form will be provided by July 31, 2014.
- b. We agree. Updated sub-recipient monitoring policies and procedures were distributed on May 21, 2014, by the interim AVP of ORSP. These address the requirement that the PI obtain the latest A-133 audit report prior to grant proposal submission. The policy will be provided by June 30, 2014.
- c. We agree. ORSP policy issued on May 21, 2014, requires that a formal sub-recipient monitoring plan must be approved by a sub-recipient monitoring committee, for any sub-recipients that have been deemed to pose a medium or high risk, including negative A-133 audit findings. Follow-up or corrective action will be addressed by the committee. The campus will provide an actual sub-recipient monitoring plan by August 15, 2014.

**CAL STATE EAST BAY EDUCATIONAL FOUNDATION**

**CORPORATE GOVERNANCE**

**Recommendation 23**

We recommend that the Ed Foundation promptly file the amended Articles of Incorporation and reiterate to staff that all future changes and amendments to the Articles of Incorporation should be filed with the Contract Services and Procurement department at the chancellor's office within 30 calendar days.

**Campus Response**

We agree. The endorsed copy was provided to the Contract Services and Procurement department at the Chancellor's Office on April 4, 2014. A copy will be provided by June 30, 2014.

**OPERATIONAL COMPLIANCE**

**CONFLICT OF INTEREST**

**Recommendation 24**

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

**Campus Response**

We agree. The campus president has issued a University Executive Directive which addresses conflict of interest requirements for auxiliary board members. In addition, the campus has updated its conflict of interest website. The website link and the University Executive Directive will be provided by July 15, 2014.

**DELEGATION OF AUTHORITY**

**Recommendation 25**

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

**Campus Response**

We agree. The formal delegation of authority for the vice president of University Advancement was signed by the campus president on May 27, 2014. This will be provided by June 30, 2014.

**ASSOCIATED STUDENTS, INC. OF**  
**CALIFORNIA STATE UNIVERSITY EAST BAY**

**FISCAL COMPLIANCE**

**Recommendation 26**

We recommend that ASI maintain board-designated reserves in accordance with its reserves policy.

**Campus Response**

We agree. A reserve analysis was approved by the campus president on May 22, 2014. This will be provided by June 30, 2014.

**OPERATIONAL COMPLIANCE**

**Recommendation 27**

We recommend that ASI develop comprehensive conflict-of-interest policies and procedures that include requirements for signing annual conflict-of-interest statements and steps for reporting and resolving conflicts of interest.

**Campus Response**

We agree. A new business process guide for obtaining ASI board member signatures and resolving conflicts of interest has been implemented. This will be provided by June 30, 2014.

**PROGRAM COMPLIANCE**

**Recommendation 28**

We recommend that ASI report student stipends to the financial aid office before funds are expended.

**Campus Response**

We agree. A revised business process guide for reporting ASI stipends to the office of financial aid has been implemented. This will be provided by July 31, 2014.

## **PURCHASING AND ACCOUNTS PAYABLE**

### **TRAVEL**

#### **Recommendation 29**

We recommend that ASI require travel authorization forms documenting advance approval of all travel and related expenditures.

#### **Campus Response**

We agree. The ASI board of directors approved a new travel policy on April 30, 2014. This will be provided by June 30, 2014.

## **PURCHASE ORDERS**

#### **Recommendation 30**

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

#### **Campus Response**

We agree. A revised business process guide for ASI staff to review and close out purchase orders was implemented on May 21, 2014. This will be provided by June 30, 2014.

## **PROPERTY AND EQUIPMENT**

#### **Recommendation 31**

We recommend that ASI promptly locate the missing assets or adjust the property and equipment listing as necessary.

#### **Campus Response**

We agree. A revised business process guide for ASI asset inventory and asset dispositions was implemented on June 5, 2014. This will be provided by June 30, 2014.

THE CALIFORNIA STATE UNIVERSITY  
OFFICE OF THE CHANCELLOR



BAKERSFIELD

CHANNEL ISLANDS

July 10, 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 14-02 on *Auxiliary Organizations*,  
California State University, East Bay

LONG BEACH

LOS ANGELES

MARITIME ACADEMY

In response to your memorandum of July 10, 2014, I accept the response as submitted with the draft final report on *Auxiliary Organizations*, California State University, East Bay.

MONTEREY BAY

NORTHRIDGE

TPW/amd

POMONA

SACRAMENTO

SAN BERNARDINO

SAN DIEGO

SAN FRANCISCO

SAN JOSÉ

SAN LUIS OBISPO

SAN MARCOS

SONOMA

STANISLAUS