

Audit and Advisory Services
401 Golden Shore
Long Beach, CA 90802-4210

February 8, 2021

Dr. Tom Jackson, Jr., President
Humboldt State University
1 Harpst Street
Arcata, CA 95521

Dear Dr. Jackson:

Subject: Audit Report 20-51, University Center, Humboldt State University

We have completed an audit of *Humboldt State University Center* as part of our 2020-2021 Audit Plan, and the final report is attached for your reference. The audit was conducted in accordance with the Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing*.

I have reviewed the management response and have concluded that it appropriately addresses our recommendations. The management response has been incorporated into the final audit report, which has been posted to Audit and Advisory Services' website. We will follow-up on the implementation of corrective actions outlined in the response and determine whether additional action is required.

Any observations not included in this report were discussed with your staff at the informal exit conference and may be subject to follow-up.

I wish to express my appreciation for the cooperation extended by the campus personnel over the course of this review.

Sincerely,



Vlad Marinescu
Vice Chancellor and Chief Audit Officer

c: Joseph I. Castro, Chancellor
Adam Day, Chair, Committee on Audit
Jane W. Carney, Vice Chair, Committee on Audit

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HUMBOLDT STATE UNIVERSITY CENTER

Humboldt State University

Audit Report 20-51
February 8, 2021

EXECUTIVE SUMMARY

OBJECTIVE

The objectives of the audit were to confirm compliance with regulatory requirements for the establishment and governance of auxiliary organizations; ascertain the effectiveness of operational, administrative, financial, and information technology (IT) controls for the activities conducted by the Humboldt State University Center (UC); evaluate adherence to auxiliary policies and procedures and applicable Integrated California State University Administrative Manual (ICSUAM) policies, or, where appropriate, to an industry-accepted standard; and to ensure compliance with relevant governmental regulations, Trustee policy, Office of the Chancellor (CO) directives, and campus procedures.

BACKGROUND

Humboldt State University (HSU) has four separate auxiliary organizations, each of which provide a function that contributes to the educational mission of the university. The UC was established in 1970 as a non-profit public benefit corporation to promote the welfare of HSU, its students, and its employees. The UC's primary activities are to develop, finance, and operate the University Center building and the dining services on the HSU campus. The University Center building houses the major operations of the UC, including the bookstore, dining operations, Center Arts, center activities, and clubs and activities. The operation of the bookstore was outsourced to a third party in 2011. The UC also leases space to Associated Students (AS) and offers a variety of conference spaces, meeting rooms, and lounge/study areas both within the UC facility and in Nelson Hall East. The UC is governed by a board of directors composed of representatives from the student body, faculty, university and auxiliary administration, alumni, and community.

At the time of our review, we noted both financial and going-concern issues for the UC. In January 2020, an outbreak of a novel coronavirus (COVID-19) rapidly spread across the world, and in March 2020, the World Health Organization characterized it as a pandemic. With the impacts of COVID-19 continuing to propagate, in March 2020, the California State University (CSU) chancellor announced that instruction at all CSU campuses would be virtual and most CSU employees would telecommute. Virtual instruction and telecommuting are expected to continue through the spring semester of 2021. Although COVID-19 is expected to be temporary, the financial impact has been significant to the CSU and its auxiliary organizations.

COVID-19 has severely limited the number of students, faculty, and staff on campus, which has impacted UC operations and its budget. We found that for fiscal year (FY) 2020/21, the UC projected an overall operating loss of \$2,214,700, with \$1,928,300 of this attributed to dining services, due to a significant reduction in the number of residential meal plans, meal plan cancellations, and decreased catering revenue and on-site cash transactions. Also, the university made the decision to not implement any of the planned Category II fee increases in FY 2020/21 in an effort to keep fees flat for students as the campus navigates the pandemic, resulting in a reduction of more than \$300,000 in student fee revenue from the UC's FY 2020/21 budget.

In addition, on September 24, 2020, the UC received a Notice of Termination (notice) issued by HSU notifying the UC of alleged violations of the UC's Operating Agreement with the Board of Trustees of the CSU. The notice cited six alleged violations and stated its intent to terminate the Operating Agreement effective December 23, 2020, unless those breaches were remedied. The UC provided an initial response to the notice on November 11, 2020, and received a partial response from HSU on December 3, 2020, clarifying certain outstanding questions and issues. If HSU determines that the breaches have not been remedied, the Operating Agreement will be terminated and the UC will be removed or suspended as a CSU auxiliary in good standing. This creates a substantial going concern issue for the UC.

On December 21, 2020, the president issued a letter ending the UC's Operating Agreement with the Board of Trustees of the CSU effective end of business on January 8, 2021. The letter stated that the president accepted the proposed cure for two of the six breaches listed in the September 3, 2020 letter but found that the proposed cures for four breaches were not acceptable. All services provided by the UC will continue under the direction of HSU and the functions of the UC will transition to HSU under the oversight of the Division of Enrollment Management and the Intercollegiate Athletics and Recreational Sports Department. Dining services will be outsourced to a third-party vendor and accounting and information technology (IT) operations will be provided by HSU during the winding down of UC. The UC will remain as a 501(c)(3) organization without an operating agreement with the campus and any new activities or operations.

CONCLUSION

Based upon the results of the work performed within the scope of the audit, the operational, administrative, financial, and IT controls for UC as of November 12, 2020, were unlikely to provide reasonable assurance that risks were being managed and objectives were met.

During our review, we found that there were a number of key financial and information technology processes in need of improvement. Specifically, we found that the UC Business and Accounting Services Agreement (business agreement) with the Arcata Community Pool (pool) covered functions that were not essential or integral to the educational mission of the campus, and the scope of activities included in the business agreement created a potential liability to the UC. The business agreement also provided a line of credit to the pool, an outlay of funds that did not appear to further the CSU educational mission.

We also found that several business and financial controls needed to be strengthened, including appropriate segregation of duties and authorization of wire transfers and transfers in and out of the Local Agency Investment Fund (LAIF). Additionally, we noted numerous issues in the purchasing area, such as instances in which competitive bids were not obtained, sole-source justifications for purchases that were not adequately documented or approved, and credit card processes that allowed cardholders to approve their own transactions. We also found that dining services procedures did not address all aspects of food safety, and processes to document that food handler cards were obtained timely and that alcohol training was completed needed improvement. Other financial and operational issues are noted in the body of the report.

OBSERVATIONS, RECOMMENDATIONS, AND RESPONSES

1. BUSINESS AND ACCOUNTING SERVICES AGREEMENT

OBSERVATION

The UC's business agreement with the Arcata Community Pool (pool) covered functions or activities that were not essential or integral to the UC's and the campus' educational mission.

The UC entered into a Business and Accounting Services Agreement (business agreement) with the pool that first went into effect in 1993. The impetus for the business agreement may have been to create an unrelated business income revenue stream, and the arrangement currently generates approximately \$70,000 annually for the UC. A 2002 auxiliary audit by Audit and Advisory Services (A&AS) at the CO found that the UC entered into the business agreement with the pool to act as an independent contractor/fiscal agent providing payroll, human resource management, accounting, fund management, and administrative-related services. The audit reported that those services were not listed as appropriate functions of an auxiliary organization under California Code of Regulations (CCR) Title 5 §42500. However, HSU sought and obtained a variance from a former executive vice chancellor and chief financial officer of the CO in March 2003 for the functions not listed in Title 5 §42500. The letter approving the variance did not indicate an expiration date for the variance, nor did it indicate that it must be periodically renewed.

The most recent business agreement was renewed for the period July 1, 2018, to June 30, 2021. The agreement was approved by the UC Board of Directors (board), which at the time included the HSU financial services director, vice president for student affairs, and one faculty member. As part of the business agreement, the UC prepared bank deposits, managed the pool's bank account and was authorized to "prepare, sign and distribute checks." Despite the board's approval, our review determined that these activities were not essential functions that were an integral part of the campus's educational mission, as required by Title 5 §42500. Furthermore, the now-former executive director of the UC was an authorized signer on the pool's bank account. Although the business manager for the pool initiated check requests, no representatives from the pool signed checks or were authorized signers on the pool bank account.

The business agreement also included a provision that the UC provide "management consultation services." These consultation services included management services, fiscal management, staffing, and operational marketing and advertising and were most recently provided by the former executive director. According to minutes from the pool's board of directors meetings, the consulting services covered various topics, including a parking lot project. Although the pool's board of directors were the decision makers, the former executive director participated in the decision-making process, and these actions could have created a potential liability for the UC and, by extension, HSU, especially because the former executive director was also signing checks on behalf of the pool.

According to the UC's interim executive director, the UC is no longer providing these services to the pool because there are currently no UC employees who are qualified to do so. On December 4, 2020, the UC interim executive director notified the pool that the UC had elected to terminate the business agreement, effective March 5, 2021.

Performing only those functions or activities that are aligned with the educational mission and authorized by the auxiliary's operating agreement reduces the risk of misunderstandings and miscommunication regarding rights and responsibilities, as well as potential liability to the campus and auxiliary.

RECOMMENDATION

We recommend that the campus, in conjunction with the UC, provide training on allowable auxiliary activities to the UC board, including the campus representatives who serve on the board.

MANAGEMENT RESPONSE

We concur. The campus, in conjunction with the UC, will provide training on allowable auxiliary activities to the UC board, including the campus representatives who serve on the board.

Expected completion date: March 31, 2021

2. LINE OF CREDIT

OBSERVATION

The UC provided the pool with a line of credit that was not connected to the UC's and the campus's educational mission.

When the UC entered into the business agreement with the pool in 1993, it also granted the pool a line of credit, which has remained a part of subsequent business agreement renewals. In his presentation to the board's finance committee in September 2019, the former UC executive director stated that the pool wished to reactivate the line of credit to pay for contractual agreements while waiting on grant funds promised by the State of California. The finance committee unanimously approved a \$300,000 line of credit to the pool on September 19, 2019, and shared that information with the entire board on November 14, 2019. Although the line of credit agreement for the pool was approved by the board's finance committee, the agreement was not an activity that was essential and integral to the mission and purpose of the UC and the campus, and the expenditures did not further the CSU educational mission.

According to a November 11, 2020, response letter to the Notice of Termination, the UC believed that the line of credit issued to the pool was consistent with the policies of the CSU. In addition, the UC believed that HSU was aware of and approved these transactions because the HSU controller was a member of the board and its finance committee, which unanimously approved the line of credit. The finance committee then shared this information with the full board at an open and public meeting on November 14, 2019.

In addition, actions related to the line-of-credit agreement with the pool were not always properly segregated. We found that the former executive director initiated and completed a wire transfer of \$100,000 from the UC to the pool account that is managed by UC. The former

executive director was able to process the wire transfer without any other approvals, and there was no documentation showing that pool representatives requested, authorized, or documented the reason for the transfer. However, our review found no indication of fraud associated with the transfer. As of November 2020, the pool owed the UC a balance of \$75,000 plus interest for the line of credit and planned to repay the balance in December.

In November 2020, the UC instituted a new policy, *Check Signature and Electronic Payment Authorization Policy*, to prevent this from happening in the future. The policy requires two signatures from authorized bank signers for any wire transfer greater than \$10,000. Additionally, the policy requires documentation supporting the reason for the transfer.

Performing only those functions or activities that are aligned with the educational mission and authorized by the auxiliary's operating agreement reduces the risk of misunderstandings and miscommunication regarding rights and responsibilities, as well as potential liabilities to the campus and auxiliary. Also, proper segregation of duties helps to ensure that erroneous and inappropriate actions will be prevented or timely detected.

RECOMMENDATION

We recommend that the campus, in conjunction with the UC:

- a. Seek repayment for the balance of the line of credit from the pool as soon as possible.
- b. Consult with campus representatives (including campus legal counsel) to determine the appropriateness of the UC providing any future lines of credit.
- c. Enforce its new policy requiring two signatures from authorized bank signers.

MANAGEMENT RESPONSE

We concur.

- a. The campus, in conjunction with the UC, will seek repayment for the balance of the line of credit from the pool as soon as possible. Expected completion date is June 30, 2021.
- b. With the dissolution of the operating agreement, this recommendation is no longer applicable.
- c. The UC has implemented its new policy requiring two signatures from authorized signers.

3. PURCHASING

OBSERVATION

The UC's purchasing policy did not address formal bidding processes or receiving controls, and purchasing processes needed improvement.

We found that the UC *Purchasing Policy* did not specifically address the formal bidding process, including required dollar thresholds, or receiving controls, including proper securing of assets and timely notification of any returns, partial receipts, and damaged items. However, in practice, the UC required competitive bids for purchases that exceeded \$10,000. The policy did state that three or more quotes must be obtained on all purchases where the amount exceeded \$5,000 and that sole-source purchases of supplies and services on a non-competitive basis would require written justification and the approval of the executive director.

We reviewed 14 purchases that exceeded \$10,000, and we found that:

- In one instance, justification to support the selection of a vendor for the purchase of payroll software and the approval of the executive director were not documented. Although four quotes were obtained, there was no documented analysis to determine the lowest bidder or the selected vendor. Per discussion with the UC, the former executive director and IT manager reviewed the quotes and determined that the selected vendor provided software that would work best for the UC.
- In five instances, competitive bids were not obtained or sole-source justifications were not documented. Also, in one of these instances, a service agreement or contract was not executed. The purchases were for a feasibility study for dining services, legal and investigation services, and digital display and software purchases. Per discussion with the UC, these purchases were all reviewed and verbally approved by the former executive director prior to the purchase. The check requests for these purchases were appropriately approved by the former executive director after the purchase was made.
- In two instances, sole-source justification forms were completed, but the forms were not approved by the former executive director as required by the purchasing policy. However, we reviewed the sole-source justification forms and determined that the justifications for the sole-source purchases appeared to be reasonable. The check requests for these purchases were appropriately approved by the former executive director after the purchase.

We also found that the UC generally did not use purchase orders or purchase requisitions for procuring goods and services to track purchases, obtain proper authorizations prior to purchasing, and verify that purchases were within budget.

Proper administration of purchasing and receiving reduces the risk of errors and irregularities, and competitive bidding processes provide transparency, mitigate favoritism toward certain vendors, and increase the chance of obtaining the best prices. Also, purchase orders or purchase requisitions make orders easier to track and ensure that proper authorizations are obtained before purchasing and that purchases are within budget.

RECOMMENDATION

We recommend that that the campus, in conjunction with the UC:

- a. Review and update the UC *Purchasing Policy* to address formal bidding processes and receiving controls.

- b. Implement a process to ensure that competitive bids or documented sole-source justifications and proper approvals are obtained according to the new purchasing policy.
- c. Consider implementing a purchase order or purchase requisition system.
- d. Provide training on the revised purchasing policy to appropriate staff.

MANAGEMENT RESPONSE

We concur. Effective January 8, 2021, the UC does not make any new purchases. All programs and commercial operations have been transferred to the campus and follow campus policies and procedures.

4. FOOD SAFETY POLICIES AND PROCEDURES

OBSERVATION

The UC did not have a comprehensive written manual that encompassed all aspects of food safety.

We found that UC dining services had various policies and procedures in place related to food safety, such as procedures outlining supervisor responsibilities for maintaining a safe workplace, personal hygiene, safe storage of hot food, cleaning and sanitization of utensils, and other topics. However, we noted that these procedures did not address, or fully address, all aspects of food safety. Specifically, the policies and procedures did not address:

- Periodic inspections, including internal inspections and response to external inspections.
- Sanitization schedules for equipment.
- Procedures for food storage.
- Communication and response to allergen concerns.

Further, we noted that the existing policies and procedures were piecemeal documents specific to single processes or topics, rather than one single comprehensive food safety manual.

A comprehensive written food safety manual helps to ensure that dining operations continue to operate in compliance with applicable laws and regulations and increases the likelihood that policies and procedures are maintained with up-to-date information and adequately communicated to employees.

RECOMMENDATION

We recommend that the campus, in conjunction with the UC, establish a comprehensive written food safety manual, distribute the manual to all applicable employees, and provide training on the manual.

MANAGEMENT RESPONSE

We concur. Effective January 8, 2021, the UC no longer operates food services on campus. The campus has outsourced food services to a third party; therefore, no further actions will be taken on this recommendation.

5. DINING SERVICES EMPLOYEE TRAINING

OBSERVATION

UC did not have established processes to ensure that dining services employees authorized to sell and serve alcohol had completed alcohol training or that food handler cards were obtained within 30 days of employment or prior to expiration of the card.

UC dining services is licensed to sell and serve alcohol at one dining location, The Depot. For this location, the *Alcohol Policy of the Depot* outlines requirements for employees selling or serving alcohol. Per discussions with UC dining services personnel, we were informed that current practice required employees to sign the policy stating that they read and understood the policy, as well as attend a one-hour training with the location manager and a university police officer. However, we noted that The Depot was temporarily closed during the audit in response to COVID-19 restrictions.

We attempted to review alcohol training documentation for the 19 employees assigned to The Depot prior to the temporary closure of the location, but we found that no documentation had been retained to allow us to verify whether the employees had signed the policy or completed the required training. In November 2020, the UC provided a revised alcohol policy, *UC Sale of Alcoholic Beverages Policy*, incorporating the current training practices and documentation retention requirements. Also, per discussion with the UC, training will be assigned and tracked in their HR system (Optimum).

Additionally, we reviewed food handler cards for 15 food service workers to verify that the employees had obtained food handler cards within 30 days of employment or prior to the expiration of the card, per the California Retail Food Code. We noted that all 15 employees possessed current food handler cards, but there was no documentation available to verify that the cards had been obtained within 30 days of employment. Per discussion with the UC, moving forward, food handler card acquisition and expiration dates will be assigned and tracked in Optimum.

Appropriate oversight and administration of alcohol training and food handler cards ensures that employees are adequately trained and cognizant of related policies and procedures and reduces legal and financial exposure from inappropriate actions.

RECOMMENDATION

We recommend that the campus, in conjunction with the UC:

- a. Enforce the new policy requiring alcohol training and the retention of training records.

- b. Track and monitor food handler cards and notify dining services managers when cards are not obtained or renewed in a timely manner.

MANAGEMENT RESPONSE

We concur. Effective January 8, 2021, the UC no longer operates food services on campus. The campus has outsourced food services to a third party; therefore, no further actions will be taken on this recommendation.

6. LAIF

OBSERVATION

Administration of the LAIF needed improvement.

We found that the UC *Investment Policy*, dated July 10, 2000, did not describe a strategy for determining when to transfer funds in and out of the LAIF account or define who was authorized to approve these transactions.

We also found that certain duties and responsibilities related to administering the LAIF were not adequately segregated at the UC. Specifically, the interim executive director initiated and authorized transfers between the LAIF and UC checking account without a second approver or reviewer. Also, there was no backup person to perform the duties. However, we did not note any inappropriate or abnormal transactions between the two accounts in our review of the July and August 2020 LAIF reconciliations.

In November 2020, the UC instituted a new *Cash Flow Management* policy, which describes a strategy for determining when to transfer funds in and out of the LAIF account, details proper segregation of duties, and identifies a backup for LAIF transactions.

Proper administration of investments helps to ensure that funds will be handled appropriately and reduces the risk of financial loss.

RECOMMENDATION

We recommend that the UC enforce its new policy to ensure that transfers are made according to the policy and maintain proper segregation of duties.

MANAGEMENT RESPONSE

We concur. The UC has implemented its new policy to ensure that transfers are made according to the policy and maintain segregation of duties.

7. CONFLICT OF INTEREST

OBSERVATION

Administration of conflict of interest (COI) at the UC needed improvement.

We found that the UC's COI statement was also the policy and did not address training requirements for board members, explain how to disclose potential conflicts, or include procedures for reviewing disclosed potential COI.

We also found that the UC did not have a process to ensure that board members appointed mid-term completed and signed the annual COI statement as soon as they assumed office. Specifically:

- Two of 14 voting board members appointed mid-term for FY 2019/20 did not timely complete and sign the annual COI statement. The board members were seated in the December 12, 2019, meeting but did not sign the statement until February 5, 2020, and February 15, 2020.
- Three of 14 voting board members appointed mid-term for FY 2018/19 did not complete and sign the annual COI statement for that year. However, they all signed the FY 2019/20 COI statement.

In November 2020, the UC developed a new *Conflict of Interest Policy*, COI Disclosure Form, and Board Member Checklist. The policy addresses the areas noted above, and the disclosure form allows the board members to disclose any potential COI. Also, the checklist will ensure that board members appointed mid-term complete and sign annual COI statements as soon as they assume office.

A comprehensive COI policy and timely completion of COI statements from all auxiliary board members reduce the risk of non-compliance with CSU and auxiliary policies and the Political Reform Act of 1974.

RECOMMENDATION

We recommend that the UC enforce the new COI policy and ensure that disclosure forms are timely completed.

MANAGEMENT RESPONSE

We concur. The UC has implemented its new COI policy and process to ensure that disclosure forms are timely completed.

8. CASH-HANDLING TRAINING

OBSERVATION

The UC did not have a process to ensure that all cash-handling employees received documented cash-handling training upon employment and periodically thereafter.

Specifically, we found that UC CenterArts and the business office did not maintain documentation showing that staff was trained on cash-handling procedures.

Effective administration of cash-handling training helps to ensure compliance with auxiliary policies, increases awareness of internal controls, and reduces exposure to loss, theft, and misappropriation of funds.

RECOMMENDATION

We recommend that the UC establish processes to provide initial and ongoing training to all cash-handling employees, and maintain training documentation.

MANAGEMENT RESPONSE

We concur. Effective January 8, 2021, the UC is no longer engaged in commercial operations. All cashiering activities for food services, Center Activities, and CenterArts will be conducted by campus personnel in accordance with campus cashiering and cash management policies and procedures.

9. CREDIT CARD PROGRAM

OBSERVATION

The credit card approval and reconciliation process needed improvement.

We found that current UC processes allowed all credit card holders to approve their own purchases without any additional approvals. Although monthly credit card reconciliations are performed by the UC business office on behalf of the cardholders, the business office requests that the cardholders approve their own transactions. The credit card holders were all department managers, and credit cards were mostly used to purchase department items. We determined that the nature of the credit card expenditures appeared appropriate in our review of the August and September 2020 credit card reconciliations.

In November 2020, the UC revised its *Credit Card Use for Purchasing* policy. The revised policy requires that credit card transactions be reviewed and approved by a higher-level supervisor.

Appropriate review and approval of credit card transactions helps to reduce the risk of errors, misappropriation of funds, and auxiliary exposure to potential liability.

RECOMMENDATION

We recommend that the UC enforce the new credit card policy and ensure that credit card payments are reviewed and approved by the executive director.

MANAGEMENT RESPONSE

We concur. Effective January 8, 2021, the UC is no longer engaged in commercial operations. All credit cards at the UC have been closed. The UC operations and programs have been transferred to the campus and follow campus policies and procedures.

10. PROPERTY AND EQUIPMENT

OBSERVATION

The UC did not always include the method of disposal on disposal forms or document the deletion of sensitive data from auxiliary equipment prior to disposal.

We reviewed five property and equipment disposals and found that in three instances, although disposal forms were completed, the form stated only the reason for disposal, not the method of disposal. Therefore, we could not determine whether the assets were properly disposed, donated, sold, or kept in storage. Additionally, for one item, a server, the UC could not provide documentation showing that sensitive data had been deleted prior to disposal.

Adequate control over the disposal of property and equipment, especially equipment containing protected data, reduces the risk of loss, inappropriate use of resources, and exposure to information security breaches.

RECOMMENDATION

We recommend that the campus, in conjunction with the UC:

- a. Include a space on the disposal form where the method of disposal can be noted, and ensure that the method is documented and items are properly disposed.
- b. Develop a written process to ensure documentation of the deletion of sensitive data from auxiliary equipment prior to disposal.

MANAGEMENT RESPONSE

We concur. Until the final disposition of UC assets, the campus will ensure that items are properly disposed and the method is documented. Also, a written process will be developed to ensure documentation of the deletion of sensitive data prior to disposal.

Expected completion date: March 31, 2021

11. NOTICE OF EXCLUSION

OBSERVATION

UC did not have a process to provide a CalPERS Notice of Exclusion to classified employees who were not eligible for the CalPERS retirement plan.

CalPERS requires the Notice of Exclusion to be completed and provided to the employee to inform the employee of the specific reason for their exclusion and fulfill the employer's responsibility of notification. Also, providing the CalPERS Notice of Exclusion to employees who are not eligible reduces the risk of misunderstandings of the employee retirement benefit plan.

In November 2020, the UC provided an updated Part-Time Onboarding Checklist, which includes the CalPERS Notice of Exclusion as one of the hiring forms to be provided by the human resources department.

RECOMMENDATION

We recommend that the UC implement the new process described above to ensure that the Notice of Exclusion is properly provided.

MANAGEMENT RESPONSE

We concur. The UC will have no new employees; therefore, this is no longer applicable.

12. AGREEMENTS

OBSERVATION

Agreements between the UC and third parties were not always properly or timely executed.

We reviewed four agreements between the UC and third parties and found that:

- An agreement with a vending services provider expired on June 30, 2017, and was not renewed until August 11, 2020.
- An agreement with a law firm executed on December 18, 2019, for legal employment services did not include the terms of the agreement or an indemnification clause. Per the UC, the agreement did not specify the term because it was for specified services, and because the services were completed, the agreement was no longer applicable.
- An agreement with an employee benefits service provider executed on March 4, 2020, incorrectly stated that the responsible party was HSU, rather than the UC, and did not include indemnification and insurance clauses.

- An agreement with a vendor executed on August 15, 2019, for the operation of a bagel shop at the University Center was not timely executed. The effective date of the agreement was August 15, 2019, but it was not signed by both parties until January 23, 2020.

Properly and timely executed agreements reduce potential misunderstanding of the agreement terms, conditions, rights, and responsibilities and reduce the CSU's and auxiliary's exposure to potential loss and liability.

RECOMMENDATION

We recommend that the campus, in conjunction with the UC, develop a process to ensure that agreements with third parties are properly and timely executed.

MANAGEMENT RESPONSE

We concur. The campus, in conjunction with the UC, will develop a process to ensure that agreements with third parties are properly and timely executed.

Expected completion date: March 31, 2021

13. RESERVES

OBSERVATION

The planning and analysis of certain UC reserves were not adequately documented.

Although appropriate funding levels were maintained in the financial system and approved by the board, the planning and analysis supporting the capital replacement and planned future operations reserves were not adequately documented as required by the UC reserve policy.

Our review noted some discussions of these reserves during the various finance committee and board meetings, but there was no documentation available detailing how the reserves were calculated.

Documented planning and analysis of reserves helps to ensure that financial activities are carried out consistently.

RECOMMENDATION

We recommend that the campus, in conjunction with the UC, document the planning and analysis of the capital replacement and future operations reserves.

MANAGEMENT RESPONSE

We concur. Effective January 8, 2021, the UC programs and commercial operations have been transferred to the campus. The campus is working with the UC to analyze all reserves and plan for appropriate reserves regarding pensions and other post-employment benefits.

Expected completion date: March 31, 2021

CAMPUS

14. CAMPUS SERVICE AGREEMENT

OBSERVATION

The campus did not timely execute the annual business service agreements with the UC, and as a result, reimbursements for the services provided by the campus were not timely invoiced.

The campus provides various services to the UC, including, but not limited to, student financial cashiering, facilities management, information technology, and university police. We found that although the UC reimbursed the campus for these services, the annual business service agreements were not timely executed. Specifically, the FY 2019/20 business service agreement, effective July 1, 2019, was not executed until June 1, 2020, and the FY 2018/19 agreement, effective July 1, 2018, was not executed until January 2, 2019. As a result, the reimbursements were not timely invoiced by the campus according to the terms in the agreements.

Timely executed agreements for services provided by the campus to an auxiliary help to ensure timely reimbursements to the campus and reduce potential misunderstanding of the agreement terms, conditions, rights, and responsibilities.

RECOMMENDATION

We recommend that the campus develop a process to ensure that the annual business service agreements with the UC are timely executed.

MANAGEMENT RESPONSE

We concur. Based on the dissolution of the operating agreement between the university and the UC, this recommendation is no longer applicable.

15. STATE EMPLOYEE SERVICE AGREEMENT

OBSERVATION

The two memorandums of understanding (MOU) between the campus and the UC for services to be performed by state employees for the benefit of the auxiliary did not include all of the provisions required by systemwide policy.

Campus state employees provide various services to the UC. Specifically, the executive director performs overall administrative and financial management of the UC, and the strength and conditioning coach provides administrative oversight of the weight room in the UC student recreation center. Although the UC reimbursed the campus for these services, we

found that the related MOUs did not include all of the provisions required by the UC operating agreement and the prior CalPERS audit, including:

- The specific services to be provided by the state employee(s).
- The specific performance measures used by the UC to measure or evaluate the level of service.
- Acknowledgment that the UC does not retain the right to hire, supervise, or otherwise determine how to fulfill the obligations of the campus to provide the specified services.

Properly executed agreements and inclusion of required terms and provisions help to ensure compliance with systemwide requirements and reduce the risk of misunderstanding of responsibilities and liabilities of state employees.

RECOMMENDATION

We recommend that the campus include all of the required provisions noted above in any MOUs between the campus and the UC for services to be performed by state employees.

MANAGEMENT RESPONSE

We concur. The campus will include all of the required provisions noted above in any MOUs between the campus and the UC for services to be performed by state employees.

Expected completion date: March 31, 2021

INFORMATION TECHNOLOGY

In addition to the IT observations noted below, there were eight other information security-related observations that were identified. They are not included in the body of this report, as they may contain sensitive information exempt from disclosure under the California Public Records Act, California Government Code §6254.19.

16. GENERAL IT GOVERNANCE AND INTERNAL CONTROL

OBSERVATION

The UC did not provide adequate governance and management oversight of the IT support and maintenance function.

We noted a general lack of documentation about critical IT resources and a lack of internal controls over hardware maintenance and sensitive data assets. Because of the lack of essential IT controls, the UC did not consistently adhere to regulatory and compliance standards, as shown by a reliance on outdated and unsupported technology solutions and workstations that went uninstalled, some for more than a year.

This is a repeat observation. A 2016 audit of the UC by A&AS noted that the auxiliary was totally dependent on one individual for all essential IT services and support; this condition had not changed at the time of our review.

Proper resourcing and management of the IT function reduces the risk of unauthorized access to sensitive data, data breach and denial of service attacks, and diminished reputation.

RECOMMENDATION

We recommend that the campus, in conjunction with the UC, improve management oversight and governance of the IT function and increase resourcing or partner with the campus for IT services. Specifically, improved oversight is needed for software and equipment maintenance, user support, and internal control processes concerning protection of sensitive data.

MANAGEMENT RESPONSE

We concur. Effective January 8, 2021, the UC is no longer engaged in commercial operations. The UC programs and commercial operations have been transferred to the campus. The IT needs of the UC have been transferred to the campus IT department and are being conducted based on campus policies and procedures. No further action will be taken on this recommendation.

17. REVIEW OF USER ACCESS RIGHTS

OBSERVATION

The UC had not performed a periodic review of user access privileges for all applications with access to Level 1 data, as required by CSU policy. The UC had performed a review in August of access to the Level 1 data in the financial system, but no other applications had their user access rights reviewed.

We found that an annual review of user roles with access to Level 1 data was not performed for the Odyssey/CBORD, AudienceView, and Fusion applications.

Adequate administration of user account roles and privileges decreases the risk of inappropriate access.

RECOMMENDATION

We recommend that the campus, in conjunction with the UC, implement a process to perform a periodic review of application access privileges for users with access to Level 1 data.

MANAGEMENT RESPONSE

We concur. Effective January 8, 2021, the UC is no longer engaged in commercial operations. The UC programs and commercial operations have been transferred to the campus. The IT needs of the UC have been transferred to the campus IT department and are

being conducted based on campus policies and procedures. No further action will be taken on this recommendation.

18. DISASTER RECOVERY PLANNING

OBSERVATION

The UC's IT disaster recovery (ITDR) plan had not been updated since April 2014.

We noted that the existing plan contained applications that are no longer used by the UC, including the accounting and enterprise resource planning application.

A current, accurate, and detailed ITDR plan decreases the risk of incomplete or limited recovery of critical IT services and interruption of business operations.

RECOMMENDATION

We recommend that the campus, in conjunction with the UC, perform a full review of ITDR requirements and design and document a recovery plan and strategy that identifies critical IT infrastructure services and applications and suitable alternative processing facilities to support timely recovery.

MANAGEMENT RESPONSE

We concur. The campus, in conjunction with the UC, will perform a full review of ITDR requirements and design and document a recovery plan and strategy that identifies critical IT infrastructure services and applications and suitable alternative processing facilities to support timely recovery. All remaining UC IT functions will either be taken offline or will be provided by existing campus IT systems, which are fully documented in the campus ITS disaster recovery plan.

Expected completion date: March 31, 2021

GENERAL INFORMATION

SCOPE

Due to temporary operating procedures and limitations resulting from the COVID-19 public health emergency, we performed fieldwork remotely from September 4, 2020, through November 12, 2020. Our audit and evaluation included the audit tests we considered necessary in determining whether operational, administrative, and financial controls are in place and operative. The audit focused on procedures in effect from July 1, 2018, to November 12, 2020.

Specifically, we reviewed and tested:

- Corporate governance, including compliance with education, government, and corporation codes.
- Timely and proper execution of agreements, contracts, and memorandums of understanding.
- Fiscal, operational, and program compliance, such as review of provisions, budget, cost reimbursement, COI, and risk management practices.
- Internal controls and segregation of duties over fiscal administration of areas such as cash receipts, accounts receivables, accounts payable, investments, disbursements, and capital assets.
- Commercial operations, such as the bookstore and dining services.
- Information systems.

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.

Our testing and methodology, which was designed to provide a review of key operational, administrative, financial, and IT controls, included interviews and detailed testing on certain aspects of the UC. Our review was limited to gaining reasonable assurance that essential elements of the UC program were in place and did not examine all aspects of the program. Specifically, most of the programs offered through CenterArts and Center Activities were closed during our review due to COVID-19. Therefore, we did not review these programs, including performing arts and events, the Student Recreation Center, outdoor adventures, leisure activities, room and equipment rentals, and certification programs.

CRITERIA

Auxiliary organizations are separate business and legal entities performing activities essential to the educational program of a campus that cannot be legally or effectively administered using state funding. CCR Title 5 §42401 states that auxiliary organizations provide the fiscal means and the management procedures that allow the campus to carry on activities providing those instructional and service aids not normally furnished by the state budget.

Education Code §89900 states, in part, that the operation of auxiliary organizations shall be conducted in conformity with regulations established by the Trustees, and CCR Title 5 §42402 confirms the campus president's authority and responsibility for auxiliary organization operations. Campus management is responsible for establishing and maintaining an adequate system of internal compliance/internal controls and assuring that each of its auxiliary organizations similarly establishes such a system.

Education Code §89904 states, in part, that the Trustees of the 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 auxiliary organizations.
- Implement financial standards that will assure the fiscal viability of 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 auxiliary organizations are within the educational mission of the state colleges.
- Develop policies for the appropriation of funds derived from indirect cost payments.

Executive Order (EO) 1059, *Utilization of Campus Auxiliary Organizations*, dated June 6, 2011, represents Trustee policy addressing appropriate use of CSU auxiliary organizations. This EO requires CSU auxiliary organizations to operate within the regulations and oversight of the campus. The EO reiterates that the campus president is responsible for ensuring the fiscal viability of auxiliary organizations and their compliance with applicable CSU policies, and it further designates the campus chief financial officer as the individual responsible for administrative compliance and fiscal oversight of auxiliary organizations.

Our audit was based upon standards as set forth in CSU Board of Trustee policies; CO policies, letters, and directives; campus and auxiliary procedures; and sound administrative practices and consideration of the potential impact of significant risks. This audit was conducted in conformance with the Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing*.

This review emphasized, but was not limited to, compliance with:

- Education Code §89720
- Education Code §89756

- Education Code §89900
- Education Code §89904
- 5 CCR §42401, *Declaration of Policy*
- 5 CCR §42402, *Authority of Campus President*
- 5 CCR §42500, *Functions of Auxiliary Organizations*
- 5 CCR §42502, *Contents of Written Agreement*
- 5 CCR §42665, *Definition*
- RFIN 7-81-4
- IRS, Governance and Related Topics 501(c)(3)
- California Health and Safety Code, Division 104, Environmental Health, Part 7, California *Retail Food Code*
- CalPERS Public Agency and School Reference Guide
- Political Reform Act of 1974
- EO 1000, *Delegation of Fiscal Authority and Responsibility*
- EO 1059, *Utilization of Campus Auxiliary Organizations*
- *CSU Auxiliary Organizations Compliance Guide*
- *CSU Auxiliary Organizations Sound Business Practices Guidelines*
- CSU Conflict of Interest Handbook §2B
- ICSUAM 3552.01, *Cost Allocation/Reimbursement Plans for the CSU Operating Fund*
- ICSUAM §8000.00, *Information Security*
- *UC Alcohol Policy of the Depot*
- *UC Authorizing Investment of Monies in the Local Agency Investment Fund*
- *UC Cash Flow Management*
- *UC Check Signature and Electronic Payment Authorization Policy*
- *UC Conflict of Interest Policy*
- *UC Credit Card Use Guidelines*
- *UC Credit Card Use for Purchasing*
- *UC Investment Policy*
- *UC Purchasing Policy*
- *UC Reserve Policy*
- *UC Sale of Alcoholic Beverages Policy*

AUDIT TEAM

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IT Audit Manager: Greg Dove
Senior Auditor: Christina Chen
Senior IT Auditor: Clement Chen
Senior Investigative Auditor: Brenda Auner
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