

AUXILIARY ORGANIZATIONS
HUMBOLDT STATE UNIVERSITY

Audit Report 10-08
April 7, 2011

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BOARD OF TRUSTEES
THE CALIFORNIA STATE UNIVERSITY

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ABBREVIATIONS

AF	Humboldt State University Advancement Foundation
AORMA	Auxiliary Organizations Risk Management Authority
AS	Associated Students of Humboldt State University
CSU	California State University
CSURMA	California State University Risk Management Authority
DRP	Disaster Recovery Plan
DSS	Data Security Standard
EO	Executive Order
Foundation	Humboldt State University Sponsored Programs Foundation
HSU	Humboldt State University
ICSUAM	Integrated California State University Administrative Manual
IRS	Internal Revenue Service
IT	Information Technology
PCI	Payment Card Industry
RFIN	Resolution of the Committee on Finance
SAQ	Self Assessment Questionnaire
UBI	Unrelated Business Income
UC	Humboldt State University Center Board of Directors

EXECUTIVE SUMMARY

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

Humboldt State University (HSU) management is responsible for establishing and maintaining an adequate system of internal compliance/internal control and assuring that each of its auxiliary organizations similarly establishes such a system. This responsibility, in accordance with California Code of Regulations, Title 5, Section 42402 et seq. and Executive Order 698, *Board of Trustees Policy for The California State University Auxiliary Organizations et seq.*, includes requiring the documentation of internal control, communicating requirements to employees, and assuring that its system of internal compliance/internal control is functioning as prescribed. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures.

The objectives of a system of internal compliance/internal control are to provide management with reasonable, but not absolute, assurance that:

- ▶ Auxiliary operations are conducted in accordance with policies and procedures established in the State Administrative Manual, Education Code, Title 5, and Trustee policy.
- ▶ Assets are adequately safeguarded against loss from unauthorized use or disposition.
- ▶ Transactions are executed in accordance with management's authorization and recorded properly to permit the timely preparation of reliable financial statements.

We visited the HSU campus and its auxiliary organizations from November 15, 2010, through December 9, 2010, and made a study and evaluation of the system of internal compliance/internal control in effect as of December 9, 2010. This report represents our triennial review.

Our study and evaluation at *Humboldt State University Advancement Foundation* did not reveal any significant internal control problems or weaknesses that would be considered pervasive in their effects on the accounting and administrative controls. However, we did identify other reportable weaknesses that are described in the executive summary and in the body of the report. In our opinion, the accounting and administrative control in effect as of December 9, 2010, taken as a whole, was sufficient to meet the objectives stated above.

Our study and evaluation at *Humboldt State University Sponsored Programs Foundation* did not reveal any significant internal control problems or weaknesses that would be considered pervasive in their effects on the accounting and administrative controls. However, we did identify other reportable weaknesses that are described in the executive summary and in the body of the report. In our opinion, the accounting and administrative control in effect as of December 9, 2010, taken as a whole, was sufficient to meet the objectives stated above.

Our study and evaluation at *Humboldt State University Center Board of Directors* revealed certain conditions that, in our opinion, could result in errors and irregularities if not corrected. Specifically, the auxiliary did not maintain adequate control over information technology. These conditions, along with other weaknesses, are described in the executive summary and in the body of the report. In our opinion, except for the effect of the weaknesses described above, accounting and administrative control in effect as of December 9, 2010, taken as a whole, was sufficient to meet the objectives stated above.

Our study and evaluation at *Associated Students of Humboldt State University* did not reveal any significant internal control problems or weaknesses that would be considered pervasive in their effects on the accounting and administrative controls. However, we did identify other reportable weaknesses that are described in the executive summary and in the body of the report. In our opinion, the accounting and administrative control in effect as of December 9, 2010, taken as a whole, was sufficient to meet the objectives stated above.

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

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

CAMPUS

INFORMATION TECHNOLOGY [11]

Access to the campus data center was not restricted to only those who required such access for routine business or emergency purposes. Also, the campus did not ensure that the auxiliaries or other campus departments had fully addressed Payment Card Industry (PCI) Data Security Standard (DSS) requirements. Further, the campus did not perform a complete assessment of protected information residing on its systems, auxiliary desktops, and other computing equipment with sensitive information, nor did it provide specific guidance to the auxiliaries for performing their individual assessments and reporting this information to campus information technology (IT) personnel.

HUMBOLDT STATE UNIVERSITY ADVANCEMENT FOUNDATION

OPERATING AND ADMINISTRATIVE AGREEMENTS [16]

The operating agreement between the Humboldt State University Advancement Foundation (AF) and the CSU Trustees had not been renewed in a timely manner and when renewed contained a section that was not applicable to AF operations.

FEES, REVENUES AND RECEIVABLES [17]

AF account reconciliations were not formally documented and reviewed in a timely manner.

PURCHASING AND ACCOUNTS PAYABLE [17]

Certain AF cash disbursements were not appropriately authorized.

ENDOWMENT ADMINISTRATION [18]

The AF endowment agreement did not address administrative fees, nor did the AF notify donors of such fees.

HUMBOLDT STATE UNIVERSITY SPONSORED PROGRAMS FOUNDATION

FISCAL COMPLIANCE [20]

The Humboldt State University Sponsored Programs Foundation (Foundation) did not maintain board-designated reserves in accordance with its reserves policy.

OPERATIONAL COMPLIANCE [21]

The Foundation had not developed written policies and procedures to fully address the accounting and processing of accounts receivable.

FEES, REVENUES, AND RECEIVABLES [22]

Foundation reconciliations of investment and bank accounts were not always completed in a timely manner, and bank reconciliations were not adequately completed.

PURCHASING AND ACCOUNTS PAYABLE [23]

Certain Foundation cash disbursements were not supported by sufficient and appropriate documentation.

PERSONNEL AND PAYROLL [24]

Administration of Foundation personnel and payroll transactions needed improvement as time sheets for overtime payments were submitted between three months and a year late for three employees, and three non-exempt employees worked overtime beyond the 125 percent allowed per week.

PROPERTY AND EQUIPMENT [25]

Administration of Foundation property and equipment needed improvement as written policies and procedures had not been developed to address the accounting and processing of property and equipment; an independent physical inventory for contracts and grants and campus programs property and equipment had not been performed, nor had the inventory been reconciled to the general ledger; and the Foundation did not have policies and procedures to conduct periodic, independent physical counts on a regular basis.

AUXILIARY PROGRAMS [27]

The Foundation had not developed a formal training program for private investigators or other individuals with responsibility for contracts and grants, and pre-award documentation was not always maintained on file.

HUMBOLDT STATE UNIVERSITY CENTER BOARD OF DIRECTORS

OPERATING AND ADMINISTRATIVE AGREEMENTS [30]

Certain business arrangements between the Humboldt State University Center Board of Directors (UC) and third-party service providers were not supported by written agreements.

FISCAL COMPLIANCE [31]

Unrelated business income activities were not always adequately assessed or tracked by the UC.

CASH RECEIPTS AND HANDLING [32]

Cashiering procedures and controls needed improvement at the UC dining services, bookstore, and aquatic center.

FEES, REVENUES, AND RECEIVABLES [34]

Bank account reconciliations performed by the UC, including bank account reconciliations completed for Associated Students of Humboldt State University (AS), were not reviewed by management.

PURCHASING AND ACCOUNTS PAYABLE [34]

The UC did not conduct periodic cycle counts of bookstore inventory, and perpetual inventory records did not always agree with stock on hand.

PERSONNEL AND PAYROLL [35]

Separation of part-time AS employees was not sufficiently documented by the UC.

INFORMATION TECHNOLOGY [36]

The UC was dependent on one key individual for all essential IT services and support, and no one had been trained as a backup. Also, the UC network did not place Internet-accessible web servers on a separate network segment from other production servers. In addition, the UC IT disaster recovery plan (DRP) did not include sufficient detail to ensure the timely recovery of critical systems and was missing several topics considered essential to an effective DRP. Further, the UC did not track UC and AS inventory under \$5,000.

ASSOCIATED STUDENTS OF HUMBOLDT STATE UNIVERSITY

CORPORATE GOVERNANCE [42]

Associated Students of Humboldt State University had not filed amended Bylaws with the chancellor's office in a timely manner.

INTRODUCTION

BACKGROUND

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

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

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

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

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

Humboldt State University Advancement Foundation

The Humboldt State University Advancement Foundation (AF) was established in 2004 as a non-profit public benefit corporation to support and advance the mission of Humboldt State University (HSU) by securing and increasing private support, developing and managing entrepreneurial activities, and managing endowed and other assets as requested by the university. Prior to the incorporation of the AF in 2004, university endowments were managed by the Humboldt State University Sponsored Programs Foundation. The AF is governed by a board of directors composed of representatives from the student

body, university administration, faculty, alumni, and community. The AF does not have employees and relies on campus personnel from university advancement, administrative affairs, and financial services for administrative and accounting support services.

Humboldt State University Sponsored Programs Foundation

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

Humboldt State University Center Board of Directors

The Humboldt State University Center Board of Directors (UC) was established in 1970 as a non-profit benefit corporation to promote the welfare of HSU, its students, and its employees. The UC's primary activities are to develop, finance, and operate the University Center building and bookstore and the dining services on the HSU campus. The University Center building houses the major operations of the UC, including the bookstore, dining operations, CenterArts, center activities, and clubs and activities. The UC also leases space to Associated Students of Humboldt State University and offers a variety of conference spaces, meeting rooms, and lounge/study areas both within the UC facility and in Nelson Hall East. The UC is governed by a board of directors composed of representatives from university and auxiliary administration, the faculty, the student body, and the community.

Associated Students of Humboldt State University

Associated Students of Humboldt State University (AS) was established in 1991 as a non-profit public benefit corporation for the purpose of providing the official voice through which students may express their opinions. AS serves three primary purposes: to allocate student fee dollars to 23 student-run programs; to educate students on campus, local, and state affairs that have significant impact on students; and to advocate the student perspective to the appropriate parties. AS resides within the University Center building and operates student activities, advocacy and outreach programs, and instructionally related activities. It also provides funding for the Children's Center, student events, multicultural centers, and art galleries. AS is governed by a board of directors composed of representatives from the student body and relies on campus and UC personnel for administrative and accounting support services.

PURPOSE

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

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

SCOPE AND METHODOLOGY

Our study and evaluation were conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing*, issued by the Institute of Internal Auditors, and included the audit tests we considered necessary in determining that accounting and administrative controls are in place and operative. The management review emphasized, but was not limited to, compliance with state and federal laws, Board of Trustee policies, and Office of the Chancellor policies, letters, and directives. For those audit tests that required annualized data, fiscal years 2008/09 and 2009/10 were the primary periods reviewed. In certain instances, we were concerned with representations of the most current data; in such cases, the test period was July 1, 2010, to December 9, 2010. Our primary focus was on internal compliance/internal control.

Specifically, we reviewed and tested:

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

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

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

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

Humboldt State University Advancement Foundation

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

Humboldt State University Sponsored Programs Foundation

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

Humboldt State University Center Board of Directors

- ▶ Operating and Administrative Agreements
- ▶ Facilities Agreements

Humboldt State University Center Board of Directors (cont.)

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

Associated Students of Humboldt State University

- ▶ Operating and Administrative Agreements
- ▶ Facilities Agreements
- ▶ Corporate Governance
- ▶ Fiscal Compliance
- ▶ Operational Compliance
- ▶ Program Compliance
- ▶ Campus Oversight and Control
- ▶ Segregation of Duties
- ▶ Investments
- ▶ Fees, Revenues, and Receivables
- ▶ Purchasing and Accounts Payable
- ▶ Personnel and Payroll
- ▶ Property and Equipment

Campus

- ▶ Campus Oversight and Control
- ▶ Information Technology

We have not performed any auditing procedures beyond December 9, 2010. Accordingly, our comments are based on our knowledge as of that date. Since the purpose of our comments is to suggest areas for improvement, comments on favorable matters are not addressed.

OBSERVATIONS, RECOMMENDATIONS, AND CAMPUS RESPONSES

CAMPUS

INFORMATION TECHNOLOGY

DATA CENTER ACCESS

Access to the campus data center was not restricted to only those who required such access for routine business or emergency purposes.

We found that:

- ▶ More than 50 security cards that granted access to the data center had been assigned to employees who did not require access for routine business or emergency purposes.
- ▶ Twenty-two grandmaster cards that granted access to the data center, among other places, had been assigned to non-information technology (IT) department personnel and others who did not have emergency first-responder obligations.
- ▶ Five grandmaster cards had been generically assigned to shipping and receiving staff.

Integrated California State University Administrative Manual (ICSUAM) §8080, *Physical Security*, 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 which access protected data that 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.

The campus chief information officer stated that the campus had conducted an assessment of access to the data center in the past and, as a result, had reduced the number of security cards, but stated that additional refinement would be considered.

Failure to adequately restrict access to the data center increases the risk of security breaches and increases exposure of the computing equipment to accidental or malicious damage.

Recommendation 1

We recommend that the campus restrict access to the campus data center and remove access from all individuals who do not require such access for routine business or emergency purposes.

Campus Response

We concur. The campus will restrict access to the campus data center and remove access from all individuals who do not require such access for routine business or emergency purposes.

Expected completion date: May 31, 2011

PAYMENT CARD INDUSTRY DATA SECURITY STANDARD COMPLIANCE

The campus did not ensure that the auxiliaries or other campus departments had fully addressed Payment Card Industry (PCI) Data Security Standard (DSS) requirements.

Although some assessment of PCI DSS compliance for the auxiliaries had been conducted, we found that:

- ▶ Roles and responsibilities for PCI DSS compliance were not adequately defined between the campus and auxiliaries.
- ▶ A compliance risk assessment was not fully completed and documented to determine comprehensive compliance obligations for credit card data maintained on auxiliary servers, transmitted throughout the campus network, and stored manually in local files.
- ▶ An annual PCI DSS Self Assessment Questionnaire (SAQ) was not completed by all auxiliaries as is required by PCI DSS of all level one, two, and three vendors, and recommended for all level four vendors.

ICSUAM §8045.100, *Information Technology Security*, 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.

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

The PCI DSS is a set of comprehensive requirements for enhancing payment account data security, which was developed by the founding payment brands of the PCI Security Standards Council, including American Express, Discover Financial Services, JCB International, MasterCard Worldwide, and Visa Inc. International, to help facilitate the broad adoption of consistent data security measures on a global basis. The PCI DSS is a multifaceted security standard that includes requirements for security management, policies, procedures, network architecture, software design, and other critical protective measures. This comprehensive standard is intended to help organizations proactively protect customer account data. According to payment brand rules, all merchants and their service providers are required to comply with the PCI DSS in its entirety.

The PCI DSS SAQ is a validation tool intended to assist merchants and service providers in self-evaluating their compliance with the PCI DSS. The PCI DSS SAQ consists of the following two components: (1) Questions correlating to the PCI DSS requirements, appropriate to service providers and merchants; and (2) An attestation of compliance which attests to an organization's certification of eligibility to perform the appropriate self-assessment.

The campus chief information officer stated that the campus and auxiliaries were aware of PCI DSS requirements and had made some progress toward PCI DSS compliance but had not fully addressed the collective union of campus and auxiliary roles and responsibilities for PCI DSS assessment.

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

Recommendation 2

We recommend that the campus and auxiliaries:

- a. Define and document roles, responsibilities, and legal determination for PCI DSS compliance between the campus and the auxiliaries.
- b. Conduct and fully document a risk assessment of comprehensive compliance obligations for credit card data maintained on auxiliary servers, transmitted throughout the campus network, and stored manually in local files.
- c. Ensure that all auxiliaries complete an annual PCI DSS SAQ to include all credit card merchants on campus, whether completed jointly or separate from the auxiliaries.

Campus Response

We concur.

- a. The campus has developed a standard for the acceptance of credit cards which defines administrative, technical, and user roles and responsibilities and establishes centralized processes for reviewing all organizational requests for accepting credit cards.

Expected completion date: Fully implemented

- b. The University Center, Associated Students, and Sponsored Programs will conduct and document a risk assessment for credit card data maintained on auxiliary servers, transmitted throughout the campus network, and stored manually in local files. Advancement Foundation will perform a risk assessment for credit card data stored manually, but will rely on the campus's assessment regarding data on the server and network as transactions are processed through the campus.

Expected completion date: July 31, 2011

- c. The campus will ensure that all auxiliaries complete an annual PCI DSS SAQ to include all credit card merchants on campus, whether completed jointly or separate from the auxiliaries.

Expected completion date: July 31, 2011

PROTECTED DATA ASSESSMENT

The campus did not perform a complete assessment of protected information residing on its systems, auxiliary desktops, and other computing equipment with sensitive information, nor did it provide specific guidance to the auxiliaries for performing their individual assessments and reporting this information to campus IT personnel.

ICSUAM §8020, *Information Security Risk Management*, 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 California State University (CSU) Data Classification Standard. Identified risks to these information assets must be actively managed by data owners and/or appropriate administrators in order to prioritize resources and remediation efforts. Risk assessments are part of an ongoing risk management process. Risk assessments provide the basis for prioritization and selection of remediation activities and can be used to monitor the effectiveness of campus controls. Campuses must document the scope and frequency of the assessment, risk assessment methodology, result of the risk assessment, and mitigation strategies designed to address identified risks.

ICSUAM §8065, *Information Asset Management*, 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 chief information officer stated that the campus was in the process of implementing the recently developed policy for data classification standards and had yet to ensure that all departments and auxiliaries had conducted an assessment of all computing equipment with sensitive information.

Failure to ensure that all sensitive information has been identified and properly secured by all auxiliary organizations increases the campus' exposure to information security breaches and could result in the violation of legal statutes that could result in financial penalties and loss of public trust.

Recommendation 3

We recommend that the campus:

- a. Perform a complete assessment of protected information residing on its systems, auxiliary desktops, and other computing equipment with sensitive information.

- b. Provide specific guidance to the auxiliaries for performing their individual assessments and reporting this information to campus IT personnel.

Campus Response

We concur. The campus has provided guidance on performing assessments of protected information and will:

- a. Perform a complete assessment of protected information residing on its systems, auxiliary desktops, and other computing equipment with sensitive information.

Expected completion date: July 31, 2011

- b. Provide specific guidance to the auxiliaries for performing their individual assessments and reporting this information to campus IT personnel.

Expected completion date: May 31, 2011

HUMBOLDT STATE UNIVERSITY ADVANCEMENT FOUNDATION

OPERATING AND ADMINISTRATIVE AGREEMENTS

The operating agreement between the Humboldt State University Advancement Foundation (AF) and the CSU Trustees had not been renewed in a timely manner and when renewed contained a section that was not applicable to AF operations.

The operating agreement had expired on June 30, 2009, and had not been renewed until May 26, 2010. In addition, the renewed operating agreement contained a section for a travel study course that was not applicable to AF operations.

Title 5 §42501 indicates that a written operating agreement on behalf of the State of California by the chancellor of the CSU and the auxiliary organization is required for the performance by such auxiliary organization of any functions listed in §42500.

The AF interim executive director stated that the AF had not tracked the expiration of the operating agreement due to oversight. She further stated that the travel study course section from the model operating agreement was incorrectly included in the renewed operating agreement for AF.

The absence of a current, written agreement increases the risk of misunderstandings and miscommunication regarding rights and responsibilities.

Recommendation 4

We recommend that the AF:

- a. Renew future operating agreements in a timely manner.
- b. Remove the travel study course section from the current operating agreement.

Campus Response

We concur.

- a. The contracts and procurement office will review the expiration date of operating agreements and renew future operating agreements in a timely manner.
- b. The contracts and procurement office will amend the current operating agreement to remove the travel study course section that is not applicable.

Expected completion date: May 31, 2011

FEES, REVENUES, AND RECEIVABLES

AF account reconciliations were not formally documented and reviewed in a timely manner.

We reviewed bank, investment, and notes payable account reconciliations from July 2010 to September 2010 and found that none of the reconciliations had been formally documented or reviewed until after fieldwork began.

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 reconcile bank accounts on a timely basis with independent management review. Section 8.9.2, *Investments*, states that the auxiliary should reconcile investment positions and investment income on a frequent basis with independent management review. Section 8.9.8, *Debt and Other Liabilities*, states that the auxiliary should reconcile detailed liability records to the general ledger on a timely basis with review by management.

The campus director of financial services stated that financial services started performing accounting services for the AF on July 1, 2009. She added that due to Humboldt State University's (HSU) participation as a first-wave campus in the Common Financial System conversion process, which began in November 2009 and was completed in November 2010, resources were strained and procedures were not implemented to ensure that reconciliations were formally documented and reviewed.

Failure to complete and review account reconciliations in a timely manner limits the auxiliary's ability to detect errors and irregularities in a timely manner and compromises accountability.

Recommendation 5

We recommend that the AF formally document and review account reconciliations in a timely manner.

Campus Response

We concur. The campus has developed a process to ensure that reconciliations are formally documented and reviewed in a timely manner.

Expected completion date: Fully implemented

PURCHASING AND ACCOUNTS PAYABLE

Certain AF cash disbursements were not appropriately authorized.

We reviewed five checks over \$5,000 and found that two checks did not have two required authorization signatures.

HSU *Accounts Payable Check Printing Policy* states that checks over \$5,000 require two signatures.

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 financial services stated that the failure to obtain a second signature was due to oversight.

The lack of appropriate authorization of cash disbursements increases the risk of misappropriation of funds.

Recommendation 6

We recommend that the AF obtain two authorized signatures for all checks over \$5,000.

Campus Response

We concur. The campus will ensure that checks over \$5,000 have two signatures.

Expected completion date: May 31, 2011

ENDOWMENT ADMINISTRATION

The AF endowment agreement did not address administrative fees, nor did the AF notify donors of such fees.

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 8.9.3, *Donations, Program Service Fees, Other Income*, states that the auxiliary should establish a written recordkeeping system that enables gifts to be properly received, recorded, and acknowledged in accordance with donor restrictions and other requirements.

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

The AF interim executive director stated that she was unaware that the endowment agreement needed to address administrative fees.

Failure to address administrative fees within the endowment agreement and to notify donors of such fees inhibits transparency and increases auxiliary exposure to liability.

Recommendation 7

We recommend that the AF update its endowment agreement to specifically address the AF's administrative fees and notify donors of such fees.

Campus Response

We concur. The AF has updated endowment agreements to include administrative fee information.

Expected completion date: Fully implemented

HUMBOLDT STATE UNIVERSITY SPONSORED PROGRAMS FOUNDATION

FISCAL COMPLIANCE

The Humboldt State University Sponsored Programs Foundation (Foundation) did not maintain board-designated reserves in accordance with its reserves policy.

The Foundation *Reserves Policy* states that it is the goal of the Foundation to maintain adequate reserves and working capital in order to preserve the Foundation's capacity to assist HSU in meeting both its current and long-range goals. The Foundation Board of Directors shall review the fiscal viability of the organization to include an evaluation of the need for reserves in the following areas: A) working capital, B) current operations, C) capital replacement, D) planned future operations, and E) contingent liability reserve. The goal for reserve categories A, B, and C shall be a cumulative amount of two million dollars. When the goal of two million dollars has been achieved for reserve categories A, B, and C, allocations will begin for reserve categories D and E. Each year the Finance Committee will budget 30% of the General Fund net income to reserves and will be subject to the review and recommendation of the Finance Committee.

Education Code §89904(b), §89904.5, and §89905 indicate that reserve planning is necessary.

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

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 designated reserves be maintained.

The campus associate vice president for business services stated that the Foundation did not have enough working capital to set aside the reserves in accordance with its reserve policy.

Failure to maintain adequate reserve funding in accordance with auxiliary policy increases the risk of misunderstandings and miscommunication regarding available reserves, as well as the risk that the auxiliary will be unable to fund future needs.

Recommendation 8

We recommend that the Foundation maintain board-designated reserves in accordance with its reserve policy.

Campus Response

We concur. The Foundation will review its reserve policy and maintain reserves according to the policy.

Expected completion date: Fully implemented

OPERATIONAL COMPLIANCE

The Foundation had not developed written policies and procedures to fully address the accounting and processing of accounts receivable.

Specifically, policies and procedures had not been developed to address:

- ▶ Creation of invoices.
- ▶ Assessment of unbilled accounts receivable.
- ▶ Aging and collection of past-due accounts receivable.
- ▶ Valuation of allowance for doubtful accounts receivable.
- ▶ Write-off of uncollectible accounts receivable.

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

The campus associate vice president for business services stated that the campus assumed the accounting and processing of accounts receivable in March 2010 and did not have the opportunity to develop new policies and procedures for accounts receivable.

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

Recommendation 9

We recommend that the Foundation develop written policies and procedures to address the bulleted items noted above regarding the accounting and processing of accounts receivable.

Campus Response

We concur. The Foundation is developing policies and procedures regarding the accounting and processing of accounts receivable.

Expected completion date: May 31, 2011

FEES, REVENUES, AND RECEIVABLES

Foundation reconciliations of investment and bank accounts were not always completed in a timely manner, and bank reconciliations were not adequately completed.

We reviewed investment and bank reconciliations for July, August, and September 2010 and found that:

- ▶ Reconciliations were reviewed between 20 and 80 days after their preparation.
- ▶ Bank reconciliations reflected long-outstanding reconciling items without adequate justification or evidence of review. The variances were \$237, \$28, and \$1,372, respectively.

The *Compilation of Policies and Procedures for California State University Auxiliary Organizations* sets sound business practice guidelines for auxiliary organizations operating within the CSU system. Section 8.9.4, *Receivables*, states that subsidiary ledgers should be reconciled to the general ledger on a timely basis and reviewed independently by management.

Title 5 §42401 and §42402 indicate that the campus president shall require that auxiliary organizations operate in conformity with policy of the Board of Trustees and the campus. One of the objectives of the auxiliary organizations is to provide fiscal procedures and management systems that allow effective coordination of the auxiliary activities with the campus in accordance with sound business practices. Sound business practice mandates that reconciliations should be reviewed in a timely manner and long-outstanding reconciling items should not exist without adequate justification.

The campus associate vice president for business services stated that the reconciliations were not reviewed in a timely manner due to a transition to a new accounting system in July 2010. She further stated that the bank reconciliations had long-outstanding reconciling items due to oversight during the transitional phase of the campus assuming the accounting functions of the Foundation.

Failure to review investment and bank account reconciliations in a timely manner and having long-outstanding reconciling items without adequate justification limits the auxiliary's ability to detect errors and irregularities, increases the likelihood of loss of funds, and compromises accountability.

Recommendation 10

We recommend that the Foundation:

- a. Perform investment and bank reconciliations in a timely manner.
- b. Document adequate justification and review of long-outstanding reconciling items.

Campus Response

We concur. The Foundation will perform investment and bank reconciliations timely and document any reconciling items.

Expected completion date: May 31, 2011

PURCHASING AND ACCOUNTS PAYABLE

Certain Foundation cash disbursements were not supported by sufficient and appropriate documentation.

We reviewed 30 cash disbursements and found that:

- ▶ In one instance, supporting documents/receipts were missing for a check in the amount of \$2,187.
- ▶ In one instance, the check request was in the amount of \$4,139, but the invoice and check amount was \$4,639.

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.

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 cash disbursements are fully supported and properly authorized.

The campus associate vice president for business services stated that the failure to have sufficient and appropriate documentation for the check and the discrepancy between the check request amount and the invoice and check amount were due to oversight.

Lack of sufficient and appropriate supporting documentation for checks and discrepancies between check request, invoice, and check amounts increase the risk of errors, irregularities, and misappropriation of funds.

Recommendation 11

We recommend that the Foundation:

- a. Maintain supporting documents/receipts for all checks.
- b. Ensure that check request amounts correspond to invoices and check amounts.

Campus Response

We concur. The Foundation will:

- a. Maintain supporting documents/receipts for all checks.
- b. Ensure that check request amounts correspond to invoices and check amounts.

Expected completion date: May 31, 2011

PERSONNEL AND PAYROLL

Administration of Foundation personnel and payroll transactions needed improvement.

We reviewed ten overtime payments and five employee separations and found that:

- ▶ Time sheets for overtime payments were submitted between three months and a year late for three employees.
- ▶ Three non-exempt employees worked overtime beyond the 125 percent allowed per week.
- ▶ Two clearance separation forms were not maintained on file for separated employees.

The Foundation *Administrative Guide* states that it is important that both employees and project directors assure the timely submission of payroll documents to the Foundation office.

The Foundation *Developing Budget for Sponsored Programs, A Guidebook for Principal Investigators and Project Directors*, states that HSU staff in non-exempt positions can work up to 125 percent but must be paid at an overtime rate (time and a half) for any hours in excess of eight hours per day or 40 hours per week.

The Foundation *Personnel Manual* states that before receiving a final paycheck, all employees must complete the Foundation clearance separation form.

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 timely collection of time sheets, procedures to monitor overtime hours, and separation procedures which include collection of a clearance form.

The campus director of financial services stated that the campus assumed payroll processing beginning in March 2010 and did not have the opportunity to document the development and

implementation of new policies and procedures for payroll. She further stated that the conditions identified prior to March 2010 were due to oversight resulting from staff turnover.

Failure to submit time sheets in a timely manner and failure to monitor overtime payments increase the risk of errors, irregularities, and misappropriation of funds, while insufficient control over employee separations increases the risk that all appropriate separation documentation will not be completed and any assets in the possession of terminating employees will not be recovered.

Recommendation 12

We recommend that the Foundation:

- a. Instruct staff to submit time sheets in a timely manner.
- b. Ensure that staff in non-exempt positions do not work overtime beyond the allowed 125 percent.
- c. Maintain all clearance separation forms on file.

Campus Response

We concur.

- a. The Foundation will instruct staff to submit time sheets in a timely manner.

Expected completion date: Fully implemented

- b. While reviewing the procedures for ensuring the appropriateness of overtime worked, the campus has determined that the Foundation's "Developing budget for Sponsored Programs, A Guidebook for Principal Investigators and Project Directors," misstates the use limitations of overtime for non-exempt employees. The Foundation will revise the authoritative literature to properly outline overtime based on the Fair Labor Standards Act.

Expected completion date: June 30, 2011

- c. The Foundation will maintain all clearance separation forms on file.

Expected completion date: June 30, 2011

PROPERTY AND EQUIPMENT

Administration of Foundation property and equipment needed improvement.

We found that:

- ▶ Written policies and procedures had not been developed to address the accounting and processing of property and equipment.

- ▶ An independent physical inventory for contracts and grants and campus programs property and equipment had not been performed, nor had the inventory been reconciled to the general ledger, and the Foundation did not have policies and procedures to conduct periodic, independent physical counts on a regular basis.
- ▶ Supporting documentation had not been maintained for two of ten equipment additions we reviewed. The assets acquisition costs were \$2,746 and \$24,013.
- ▶ The donated Schatz Tree Farm building had been incorrectly categorized in the financial statements as a real estate investment instead of a capital asset, and as a result, the building had not been depreciated.

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 compliance with terms and conditions sponsors may have specified regarding the use of property and equipment, proper recording of property and equipment when received, independent physical inspection of property and equipment on a service life schedule, and accurate financial accounting of equipment additions.

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 associate vice president for business services stated that property and equipment were not properly managed due to the turnover of Foundation personnel. She further stated that the supporting documents for the two equipment items had not been maintained due to the relocation of the Foundation office. She added that the donated Schatz Tree Farm building had been categorized as a real estate investment because that classification had been suggested by an independent certified public accountant firm.

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

Recommendation 13

We recommend that the Foundation:

- a. Develop and implement written policies and procedures to address the accounting and processing of property and equipment.

- b. Perform an independent physical inventory of its contracts and grants and campus programs property and equipment, including reconciliation to the general ledger, and develop and implement policies and procedures to ensure that periodic, independent physical counts are conducted on a regular basis.
- c. Maintain supporting documentation for all property and equipment acquisitions.
- d. Correctly categorize the donated Schatz Tree Farm building as a capital asset in the financial statements and properly account for depreciation expense.

Campus Response

We concur. The Foundation will:

- a. Develop and implement written policies and procedures to address the accounting and processing of property and equipment.

Expected completion date: June 30, 2011

- b. Perform an independent physical inventory of its contracts and grants and campus programs property and equipment, including reconciliation to the general ledger, and develop and implement policies and procedures to ensure that periodic, independent physical counts are conducted on a regular basis.

Expected completion date: July 31, 2011

- c. Maintain supporting documentation for all property and equipment acquisitions.

Expected completion date: July 31, 2011

- d. Obtain the assistance of an independent CPA firm and investigate the categorization of the Schatz Tree Farm building in the financial statements. Based upon the recommendations of the CPA firm, the Foundation will properly account for the building.

Expected completion date: July 31, 2011

AUXILIARY PROGRAMS

The Foundation had not developed a formal training program for private investigators or other individuals with responsibility for contracts and grants, and pre-award documentation was not always maintained on file.

We reviewed ten pre-award contracts and grants and found that:

- ▶ Training was not provided to private investigators or other individuals with responsibility for contracts and grants on the campus conflict of interest policy, the associate reporting requirements, and the related federal regulations.
- ▶ In one instance, a statement of economic interest form was not on file.
- ▶ In two instances, signature authorization forms were not on file.

The Foundation *Personnel Manual* states that all grant and contract proposals submitted by employees of HSU require review and approval through the process of institutional routing prior to submission. This review process screens all proposals to assure that the conflict of interest policy is rigorously applied.

The Foundation *Administrative Guide* states that the project director/principal investigator will be sent a signature card so that the Foundation staff will know the authorized signer's signatures.

Code of Federal Regulations, Title 42, Part 50, Subpart F, *Responsibility of Applicants for Promoting Objectivity in Research for Which Public Health Service Funding Is Sought*, states that each institution must maintain an appropriate written, enforced policy on conflict of interest and inform each investigator of that policy and the investigator's reporting responsibilities.

Office of Management and Budget 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.

EO 890, *Administration of Grants and Contracts in Support of Sponsored Programs*, dated January 7, 2004, states that the campus policy shall incorporate provisions for adequate training of research personnel and for multi-institutional sponsored programs.

The campus associate vice president for business services stated that the pre-award process had not been managed properly due to staff turnover. She further stated that the statement of economic interest form and signature authorization forms were not on file due to the relocation of the Foundation office.

Failure to adequately administer pre-award activities increases the risk of non-compliance with federal and state regulations and jeopardizes the future of the Foundation's grant programs.

Recommendation 14

We recommend that the Foundation:

- a. Develop a formal training program for private investigators and other individuals with responsibility for contracts and grants that covers the campus conflict of interest policy, the associate reporting requirements, and the related federal regulations.
- b. Maintain all statement of economic interest forms on file.
- c. Maintain all signature authorization agreements on file.

Campus Response

We concur. The Foundation will:

- a. Develop a formal training program for private investigators and other individuals with responsibility for contracts and grants that covers the campus conflict of interest policy, the associate reporting requirements, and the related federal regulations.
- b. Maintain all statement of economic interest forms on file.
- c. Maintain all signature authorization agreements on file.

Expected completion date: July 31, 2011

HUMBOLDT STATE UNIVERSITY CENTER BOARD OF DIRECTORS

OPERATING AND ADMINISTRATIVE AGREEMENTS

Certain business arrangements between the Humboldt State University Center Board of Directors (UC) and third-party service providers were not supported by written agreements.

We found that:

- ▶ A business arrangement between the UC and a third-party service provider that performed the bookstore's physical inventory count was not documented in a written agreement to address services rendered, insurance requirements, and indemnification provisions.
- ▶ Business arrangements between the UC and three national wholesalers that handled the buyback of used books were not documented in written agreements.

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

EO 849, *California State University Insurance Requirements*, dated February 5, 2003, states that auxiliary organizations shall agree to indemnify, defend, and save harmless the State of California, the Trustees of the CSU, the campus, and the officers, employees, volunteers, and agents of each of them from any and all loss, damage, or liability that may be suffered or incurred by state, caused by, arising out of, or in any way connected with the operations of the auxiliary.

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

The UC interim executive director stated that the third-party service provider that performed the bookstore's physical inventory count was paid upon satisfactory completion of the service and stated his belief that a written agreement was not warranted. In addition, he stated that management did not consider the buyback activities as outsourcing, and therefore, the services did not need to be formalized with a written agreement.

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

Recommendation 15

We recommend that the UC:

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

Campus Response

We concur. The UC will:

- a. Establish written agreements with the third-party service providers handling the bookstore's physical inventory count and buyback of used books.
- b. Ensure that written agreements are established for business arrangements requiring an agreement and appropriate insurance and indemnification requirements are included.

Expected completion date: June 15, 2011

FISCAL COMPLIANCE

Unrelated business income (UBI) activities were not adequately assessed or tracked by the UC.

We found that the UC had not tracked Center Arts event ticket sales and aquatic center services made and provided to community members. Further, the UC had not determined if such revenue should be reported as UBI on the Internal Revenue Service (IRS) Form 990T.

Internal Revenue Code §512 through §514 defines an unrelated trade or business of an exempt organization as any trade or business, the conduct of which is not substantially related to the exercise or performance of its tax-exempt purpose. UBI in excess of \$1,000 must be reported to the IRS, whether or not a tax liability is incurred. In addition, the organization's tax-exempt status may be jeopardized if too large a portion of its revenue is derived from UBI.

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

The UC interim executive director stated his belief that the ticket sales and services provided to community members were not deemed unrelated businesses, and therefore, the income was not reported as UBI on IRS Form 990T.

Failure to properly account for, document, and report UBI increases the auxiliary's exposure to potential penalties and actions by the IRS.

Recommendation 16

We recommend that the UC obtain an independent assessment of Center Arts event ticket sales and aquatic center services made and provided to community members to determine if such revenue should be reported as UBI on IRS Form 990T.

Campus Response

We concur. The UC will obtain an independent assessment of Center Arts event ticket sales and aquatic center services to determine if such revenue should be reported as UBI on IRS Form 990T.

Expected completion date: July 31, 2011

CASH RECEIPTS AND HANDLING

Cashiering procedures and controls needed improvement at the UC dining services, bookstore, and aquatic center.

Specifically, we found that:

- ▶ At the dining services, daily opening procedures did not include a documented count of the opening banks for each cash register, and separate open and closeout procedures were not used to localize accountability when multiple cashiers used the same cash register. Moreover, safe access records identifying personnel with safe combination knowledge and the date(s) the combination was last changed were not maintained.
- ▶ At the bookstore, the safe access record identified positions that had been given access to the safe but failed to identify personnel with safe combination knowledge and the date(s) the combination was last changed.

- ▶ At the aquatic center, checks received in the mail were not restrictively endorsed upon receipt.

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

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

The UC dining services director stated that a count of the opening banks was conducted by the cashiers and reviewed by a cash coordinator, but evidence of these counts was not retained. The UC associate executive director stated that the UC had not consistently maintained a record of safe access listings due to oversight. The UC interim executive director stated that the aquatic center was not initially set up as a cash receipting location, as payments from customers were to be handled by the UC business office.

Inadequate administration and safeguarding of cash receipts and safe access increases the risk of loss or misappropriation of funds.

Recommendation 17

We recommend that the UC:

- a. Update daily opening procedures at the dining services to include a documented count of the opening banks for each cash register by a supervisor or other independent staff member, and require separate open and closeout procedures to document cash totals between cashier shifts to localize accountability over cash receipts when multiple cashiers operate the same register.
- b. Maintain updated written records of personnel with safe combination knowledge and the date the combination was last changed at the dining services and bookstore.
- c. Restrictively endorse checks immediately upon receipt at the aquatics center.

Campus Response

We concur. The UC will:

- a. Update daily opening procedures at the dining services to include a documented count of the opening banks for each cash register by an independent employee, and require separate open and

closeout procedures to document cash totals between cashier shifts when multiple cashiers operate the same register.

- b. Maintain updated written records of personnel with safe combination knowledge and the date the combination was last changed at the dining services and bookstore.
- c. Restrictively endorse checks immediately upon receipt at the aquatics center.

Expected completion date: May 31, 2011

FEES, REVENUES, AND RECEIVABLES

Bank account reconciliations performed by the UC, including bank account reconciliations completed for Associated Students of Humboldt State University (AS), were not reviewed by 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 receive cash in a consistent manner utilizing systems that ensure integrity of existing internal controls. The compilation further states that the auxiliary should reconcile bank accounts on a timely basis with independent management review.

The UC associate executive director stated her belief that the benefits of management review of bank reconciliations had minimal impact in terms of risk assessment. She further stated that the control procedures in place prevent the staff who reconcile bank statements from any misconduct. Lack of management review of bank account reconciliations limits the auxiliary's ability to detect errors and irregularities, increases the likelihood of loss of funds, and compromises accountability.

Recommendation 18

We recommend that the UC ensure that bank account reconciliations are reviewed by management.

Campus Response

We concur. The UC will ensure that bank account reconciliations are reviewed by management.

Expected completion date: May 31, 2011

PURCHASING AND ACCOUNTS PAYABLE

The UC did not conduct periodic cycle counts of bookstore inventory, and perpetual inventory records did not always agree with stock on hand.

We reviewed ten items from the perpetual inventory records and found that four revealed a shortage when traced to the actual quantity on hand. The variances ranged from 1 to 13 units, and, collectively, the discrepancies reflected an inventory overstatement of approximately \$1,031.

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

The UC bookstore manager stated that the bookstore had not considered the need for periodic cycle counts of bookstore inventory and that the errors resulted from miscounts at the June 2010 physical inventory.

Insufficient administration of perpetual inventory records increases the risk of loss, errors, irregularities, or misappropriation of goods and compromises accountability.

Recommendation 19

We recommend that the UC conduct periodic cycle counts of bookstore inventory to ensure that perpetual inventory records agree with stock on hand.

Campus Response

We concur. The UC will conduct periodic cycle counts of bookstore inventory to ensure that perpetual inventory records agree with stock on hand.

Expected completion date: July 31, 2011

PERSONNEL AND PAYROLL

Separation of part-time AS employees was not sufficiently documented by the UC.

We found that the UC business office had not generated a biannual listing of separated part-time employees for review and response by AS management to ensure the removal of the employees from the payroll processing system.

The UC *Accounting Procedures* on payroll for separation procedures, paragraphs B.1-3, state that to effectively monitor separations, the Business Office generates a listing of employees for each area and forwards it to the area manager/director. Unit managers/directors will review the lists and indicate on the list the employees that are no longer scheduled by them. The report is signed and dated. The report is returned to the Business Office. The Business Office will use the lists submitted to terminate the employees in the payroll processing systems (IFAS & Time and Attendance).

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 UC associate executive director stated that in one instance, the administrative assistant did not retain the communication from the AS general manager after she terminated student employees, but that it was an isolated incident.

Failure to properly document employee separations increases the risk of loss of auxiliary funds and inappropriate use of auxiliary resources.

Recommendation 20

We recommend that the UC generate a biannual listing of separated part-time employees for review and response by AS management.

Campus Response

We concur. The UC will generate a biannual listing of separated part-time employees for review and response by AS management.

Expected completion date: July 31, 2011

INFORMATION TECHNOLOGY

KEY EMPLOYEE DEPENDENCY

The UC was dependent on one key individual for all essential IT services and support, and no one had been trained as a backup.

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 the avoidance of operational dependency on one key person and sufficient training of backup personnel for certain key positions that are critical to ongoing business operations.

The UC IT coordinator stated that except for some desktop and network support from the campus, he is the only person trained in the operations, maintenance, and recovery of the auxiliary systems. The campus chief information officer stated that the campus could provide backup support for some system services if requested, but that the campus does not have expertise in some of the auxiliary systems.

Failure to ensure that backup personnel are adequately trained to support auxiliary IT systems increases the risk of system failure and extended disruption of IT support services.

Recommendation 21

We recommend that the UC train backup personnel in the ongoing support, maintenance, and recovery of key IT systems.

Campus Response

We concur. The UC will:

- a. Investigate and evaluate alternatives for providing backup support for key IT systems.
- b. Formalize policies and execute agreements after the investigation of alternatives.

Expected completion date: July 31, 2011

NETWORK SECURITY

The UC network did not place Internet-accessible web servers on a separate network segment from other production servers.

ICSUAM §8045.100, *Information Technology Security*, 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 §8045.300, *Network Security*, states that campuses must appropriately design their networks—based on risk, data classification, and access—in order to ensure the confidentiality, integrity, and availability of their information assets. Each campus must implement and regularly review a documented process for transmitting data over the campus network. This process must include the identification of critical information systems and protected data that is transmitted through the campus network or is stored

on campus computers. Campus processes for transmitting or storing critical assets and protected data must ensure confidentiality, integrity, and availability.

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 network segmentation to logically separate any protected data residing on internal auxiliary systems from Internet-accessible devices.

The UC IT coordinator stated that the auxiliary had recently completed network segments separating it from the campus network but had not yet segmented its own internal systems.

Failure to separate and protect internal auxiliary resources from Internet-accessible devices increases the risk of internal network exposure to security compromises and inadequate security over information assets with protected data.

Recommendation 22

We recommend that the UC place Internet-accessible web servers on a separate network segment from other production servers.

Campus Response

We concur. The UC will place Internet-accessible web servers on a separate network segment from other production servers.

Expected completion date: June 30, 2011

DISASTER RECOVERY PLAN

The UC IT disaster recovery plan (DRP) did not include sufficient detail to ensure the timely recovery of critical systems and was missing several topics considered essential to an effective DRP.

Specifically, we found that:

- ▶ The IT DRP did not address emergency notification and escalation, an alternate recovery site, a list of critical systems and supporting equipment, a recovery timeline, and a test plan.
- ▶ The UC had not completed a business impact assessment to determine the level of dependence on IT services and to ensure timely recovery of critical systems.

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

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

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

The UC IT coordinator stated that an IT DRP had been created for the UC systems, but that it needed refinement to address some of the concerns listed.

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

Recommendation 23

We recommend that the UC:

- a. Revise its IT DRP to address emergency notification and escalation, an alternate recovery site, a list of critical systems and supporting equipment, a recovery timeline, and a test plan.
- b. Complete a business impact assessment to determine the level of dependence on IT services and to ensure timely recovery of critical systems.

Campus Response

We concur. The UC will:

- a. Revise its IT DRP to address emergency notification and escalation, an alternate recovery site, a list of critical systems and supporting equipment, a recovery timeline, and a test plan.
- b. Complete a business impact assessment to determine the level of dependence on IT services and to ensure timely recovery of critical systems.

Expected completion date: July 31, 2011

EQUIPMENT TRACKING AND SECURITY

The UC did not track UC and AS inventory under \$5,000.

Specifically, we found that:

- ▶ The UC procurement process did not require that all computer systems be recorded into the inventory system.
- ▶ The UC did not perform a periodic inventory of all computer equipment.
- ▶ The UC disposition process for removal of computer assets did not require attestation that the disposed device's memory had been wiped clean.

ICSUAM §8065, *Information Asset Management*, states that campuses must maintain an inventory of information assets containing level 1 or level 2 data as defined in the CSU Data Classification Standard. These assets must be categorized and protected throughout their entire life cycle, from origination to destruction.

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

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

The UC IT coordinator stated that the auxiliary did not have many mobile computers and therefore had a reasonable idea of the location of the computer equipment, but that the process for tracking such equipment and for ensuring that each computer's memory was wiped clean when it was removed from service could be enhanced.

Inadequate accountability of assets, especially those that contain personal confidential information or have access to such protected information, increases the risk of loss and inappropriate use of auxiliary resources and increases exposure to information security breaches.

Recommendation 24

We recommend that the UC:

- a. Revise its procurement process to require that all computer systems are recorded into the inventory system.

- b. Perform a periodic inventory of all computer equipment.
- c. Revise its disposition process for removal of computer assets to require attestation that each disposed device's memory had been wiped clean.

Campus Response

We concur. The UC will:

- a. Develop a process to track computer assets.
- b. Perform a periodic inventory of all computer equipment.
- c. Revise its disposition process for removal of computer assets to require attestation that each disposed device's memory has been wiped clean.

Expected completion date: July 31, 2011

ASSOCIATED STUDENTS OF HUMBOLDT STATE UNIVERSITY

CORPORATE GOVERNANCE

Associated Students of Humboldt State University (AS) had not filed amended Bylaws with the chancellor's office in a timely manner.

We found that an amendment to the Bylaws made on August 31, 2009, had not been filed with the chancellor's office until it was noted during fieldwork.

The *Compilation of Policies and Procedures for California State University Auxiliary Organizations* Section 11.6.1, *Reporting Changes in Articles of Incorporation (or Constitutions) 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 Financing and Treasury at the Office of the Chancellor within 30 calendar days. The submission should indicate the date the changes were approved by the governing board and/or members.

The AS general manager stated that the amended Bylaws were not submitted to the chancellor's office due to oversight.

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

Recommendation 25

We recommend that AS promptly file a complete amended copy of its Bylaws with the chancellor's office and ensure that all future changes/amendments to the Bylaws are filed within 30 calendar days.

Campus Response

We concur. AS filed an amended copy of its Bylaws with the chancellor's office on November 18, 2010. AS will ensure that all future changes/amendments to the Bylaws are filed within 30 calendar days.

Expected completion date: Fully implemented

APPENDIX A: PERSONNEL CONTACTED

<u>Name</u>	<u>Title</u>
CAMPUS	
Rollin C. Richmond	President
Patricia Ambrosini	Payroll Officer, Payroll
Dave Bugbee	Director, Contracts and Procurements
Tammy Curtis	Director, Human Resources
Mark Hendricks	Security Analyst
Benjamin Hylton	Manager, Accounting
Anna Kircher	Chief Information Officer
Emily Kupec	Accountant
Burt Nordstrom	Vice President, Administrative Affairs
Lynne Sandstrom	Director, Financial Services
Stephanie Steffen	Administrative Support, Contracts and Procurement
Carol Terry	Associate Vice President, Business Services

HUMBOLDT STATE UNIVERSITY ADVANCEMENT FOUNDATION

Robin Bailie	Interim Executive Director
Tawny Brunner	Accountant, Financial Reporting
Kim Coughlin-Lamphear	Director, Financial Aid

HUMBOLDT STATE UNIVERSITY SPONSORED PROGRAMS FOUNDATION

Michael Burghart	Accountant, Reporting and Analysis
Kacie Flynn	Administrative Assistant
Cassi Goldsmith	Grant Analyst
Denice Helwig	Interim Director
Cindy Hori	Accountant, Reporting and Analysis
Anthony Johnson	Grant Analyst
Juan Carlos Morales	Director (at time of review)
Keelye Wilson	Grant Analyst

HUMBOLDT STATE UNIVERSITY CENTER BOARD OF DIRECTORS

Eddie Aguilar	Depot Manager, Dining Services
Mary Ann Brown	Assistant Director, Dining Services
Heidi Chien	Associate Executive Director
John Erickson	Operations Manager
Scott Gerving	Information Technology Coordinator
Dianne Lonn	Bookstore Cash Office Supervisor
Ronnie Morton	Depot Assistant Manager, Dining Services
Dave Nakamura	Interim Executive Director
Linda Pereira	Administrative Support Coordinator
Ron Rudebock	Director, Dining Services
Wendy Sotomayor	Accounting Manager
Jennifer Swift	Senior Cashier
Linda Thompson	Bookstore Manager

HUMBOLDT STATE UNIVERSITY CENTER BOARD OF DIRECTORS (CONT.)

Anita Trigeiro	Business Office Manager
Clarinda Van Horn	Textbook Manager

ASSOCIATED STUDENTS OF HUMBOLDT STATE UNIVERSITY

Liz Samaniego	Office Coordinator
Joan Tyson	General Manager

STATEMENT OF INTERNAL CONTROLS

A. INTRODUCTION

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

B. INTERNAL CONTROL DEFINITION

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

1. Internal Accounting Controls

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

2. Operational Controls

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

C. INTERNAL CONTROL OBJECTIVES

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

D. INTERNAL CONTROL SYSTEMS LIMITATIONS

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



HUMBOLDT STATE UNIVERSITY

Vice President of Administrative Affairs

May 9, 2011

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

Audit Report 10-08 – Auxiliary Organizations

Dear Mr. Mandel:

Please find enclosed Humboldt State University's response to Audit Report 10-08 – Auxiliary Organizations, findings #1 through #25.

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

Please direct questions regarding the responses to Lynne Sandstrom, CPA, Financial Services at (707) 826-4031 or les37@humboldt.edu.

Sincerely,

Burt Nordstrom
Vice President

cc: Rollin C. Richmond, President (w/o enclosures)
Carol Terry, Associate Vice President of Business Services (w/o enclosures)

**AUXILIARY ORGANIZATIONS
HUMBOLDT STATE UNIVERSITY**

Audit Report 10-08

CAMPUS

INFORMATION TECHNOLOGY

DATA CENTER ACCESS

Recommendation 1

We recommend that the campus restrict access to the campus data center and remove access from all individuals who do not require such access for routine business or emergency purposes.

Campus Response

We concur. The campus will restrict access to the campus data center and remove access from all individuals who do not require such access for routine business or emergency purposes.

Expected Completion Date: May 31, 2011

PAYMENT CARD INDUSTRY DATA SECURITY STANDARD COMPLIANCE

Recommendation 2

We recommend that the campus and auxiliaries:

- a. Define and document roles, responsibilities, and legal determination for PCI DSS compliance between the campus and the auxiliaries.
- b. Conduct and fully document a risk assessment of comprehensive compliance obligations for credit card data maintained on auxiliary servers, transmitted throughout the campus network, and stored manually in local files.
- c. Ensure that all auxiliaries complete an annual PCI DSS SAQ to include all credit card merchants on campus, whether completed jointly or separate from the auxiliaries.

Campus Response

We concur.

- a. The campus has developed a standard for the acceptance of credit cards which defines administrative, technical, and user roles and responsibilities and establishes centralized processes for reviewing all organizational requests for accepting credit cards.

- b. The University Center, Associated Students, and Sponsored Programs will conduct and document a risk assessment for credit card data maintained on auxiliary servers, transmitted throughout the campus network, and stored manually in local files. Advancement Foundation will perform a risk assessment for credit card data stored manually, but will rely on the campus's assessment regarding data on the server and network as transactions are processed through the campus.
- c. The campus will ensure that all auxiliaries complete an annual PCI DSS SAQ to include all credit card merchants on campus, whether completed jointly or separate from the auxiliaries.

Expected Completion Date:

- a. Fully Implemented
- b. July 31, 2011
- c. July 31, 2011

PROTECTED DATA ASSESSMENT

Recommendation 3

We recommend that the campus:

- a. Perform a complete assessment of protected information residing on its systems, auxiliary desktops, and other computing equipment with sensitive information.
- b. Provide specific guidance to the auxiliaries for performing their individual assessments and reporting this information to campus IT personnel.

Campus Response

We concur. The Campus has provided guidance on performing assessments of protected information and will:

- a. Perform a complete assessment of protected information residing on its systems, auxiliary desktops, and other computing equipment with sensitive information.
- b. Provide specific guidance to the auxiliaries for performing their individual assessments and reporting this information to campus IT personnel.

Expected Completion Date:

- a. July 31, 2011
- b. May 31, 2011

HUMBOLDT STATE UNIVERSITY ADVANCEMENT FOUNDATION

OPERATING AND ADMINISTRATIVE AGREEMENTS

Recommendation 4

We recommend that the AF:

- a. Renew future operating agreements in a timely manner.
- b. Remove the travel study course section from the current operating agreement.

Campus Response

We concur.

- a. The Contracts and Procurement Office will review the expiration date of operating agreements and renew future operating agreements in a timely manner.
- b. The Contracts and Procurement Office will amend the current operating agreement to remove the travel study course section that is not applicable.

Expected Completion Date: May 31, 2011

FEES, REVENUES, AND RECEIVABLES

Recommendation 5

We recommend that the AF formally document and review account reconciliations in a timely manner.

Campus Response

We concur. The Campus has developed a process to ensure that reconciliations are formally documented and reviewed in a timely manner.

Expected Completion Date: Fully Implemented

PURCHASING AND ACCOUNTS PAYABLE

Recommendation 6

We recommend that the AF obtain two authorized signatures for all checks over \$5,000.

Campus Response

We concur. The Campus will ensure that checks over \$5,000 have two signatures.
Expected Completion Date: May 31, 2011

ENDOWMENT ADMINISTRATION

Recommendation 7

We recommend that the AF update its endowment agreement to specifically address the AF's administrative fees and notify donors of such fees.

Campus Response

We concur. The Advancement Foundation has updated endowment agreements to include administrative fee information.

Expected Completion Date: Fully Implemented

HUMBOLDT STATE UNIVERSITY SPONSORED PROGRAMS FOUNDATION

FISCAL COMPLIANCE

Recommendation 8

We recommend that the Foundation maintain board-designated reserves in accordance with its reserve policy.

Campus Response

We concur. The Foundation will review its reserve policy and maintain reserves according to the policy.

Expected Completion Date: Fully Implemented

OPERATIONAL COMPLIANCE

Recommendation 9

We recommend that the Foundation develop written policies and procedures to address the bulleted items noted above regarding the accounting and processing of accounts receivable.

Campus Response

We concur. The Foundation is developing policies and procedures regarding the accounting and processing of accounts receivable.

Expected Completion Date: May 31, 2011

FEES, REVENUES, AND RECEIVABLES

Recommendation 10

We recommend that the Foundation:

- a. Perform investment and bank reconciliations in a timely manner.
- b. Document adequate justification and review of long-outstanding reconciling items.

Campus Response

We concur. The Foundation will perform investment and bank reconciliations timely and document any reconciling items.

Expected Completion Date: May 31, 2011

PURCHASING AND ACCOUNTS PAYABLE

Recommendation 11

We recommend that the Foundation:

- a. Maintain supporting documents/receipts for all checks.
- b. Ensure that check request amounts correspond to invoices and check amounts.

Campus Response

We concur. The Foundation will:

- a. Maintain supporting documents/receipts for all checks.
- b. Ensure that check request amounts correspond to invoices and check amounts.

Expected Completion Date: May 31, 2011

PERSONNEL AND PAYROLL

Recommendation 12

We recommend that the Foundation:

- a. Instruct staff to submit time sheets in a timely manner.
- b. Ensure that staff in non-exempt positions do not work overtime beyond the allowed 125 percent.
- c. Maintain all clearance separation forms on file.

Campus Response

We concur.

- a. The Foundation will instruct staff to submit time sheets in a timely manner.
- b. While reviewing the procedures for ensuring the appropriateness of overtime worked, the Campus has determined that the Foundation's "Developing budget for Sponsored Programs, A Guidebook for Principal Investigators and Project Directors", misstates the use limitations of overtime for non-exempt employees. The Foundation will revise the authoritative literature to properly outline overtime based on fair labor standards act.
- c. The Foundation will maintain all clearance separation forms on file.

Expected Completion Date:

- a. Fully Implemented
- b. June 30, 2011
- c. June 30, 2011

PROPERTY AND EQUIPMENT

Recommendation 13

We recommend that the Foundation:

- a. Develop and implement written policies and procedures to address the accounting and processing of property and equipment.
- b. Perform an independent physical inventory of its contracts and grants and campus programs property and equipment, including reconciliation to the general ledger, and develop and implement policies and procedures to ensure that periodic, independent physical counts are conducted on a regular basis.
- c. Maintain supporting documentation for all property and equipment acquisitions.
- d. Correctly categorize the donated Schatz Tree Farm building as a capital asset in the financial statements and properly account for depreciation expense.

Campus Response

We concur. The Foundation will:

- a. Develop and implement written policies and procedures to address the accounting and processing of property and equipment.
- b. Perform an independent physical inventory of its contracts and grants and campus programs property and equipment, including reconciliation to the general ledger, and develop and implement policies and procedures to ensure that periodic, independent physical counts are conducted on a regular basis.
- c. Maintain supporting documentation for all property and equipment acquisitions.
- d. Obtain the assistance of independent CPA firm and investigate the categorization of the Schatz Tree Farm building in the financial statements. Based upon the recommendations of the CPA firm the Foundation will properly account for the building.

Expected Completion Date:

- a. June 30, 2011
- b. July 31, 2011
- c. July 31, 2011
- d. July 31, 2011

AUXILIARY PROGRAMS

Recommendation 14

We recommend that the Foundation:

- a. Develop a formal training program for private investigators and other individuals with responsibility for contracts and grants that covers the campus conflict of interest policy, the associate reporting requirements, and the related federal regulations.
- b. Maintain all statement of economic interest forms on file.
- c. Maintain all signature authorization agreements on file.

Campus Response

We concur. The Foundation will:

- a. Develop a formal training program for private investigators and other individuals with responsibility for contracts and grants that covers the campus conflict of interest policy, the associate reporting requirements, and the related federal regulations.
- b. Maintain all statement of economic interest forms on file.
- c. Maintain all signature authorization agreements on file.

Expected Completion Date: July 31, 2011

HUMBOLDT STATE UNIVERSITY CENTER BOARD OF DIRECTORS

OPERATING AND ADMINISTRATIVE AGREEMENTS

Recommendation 15

We recommend that the UC:

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

Campus Response

We concur. The University Center will:

- a. Establish written agreements with the third-party service providers handling the bookstore's physical inventory count and buyback of used books.
- b. Ensure that written agreements are established for business arrangements requiring an agreement and appropriate insurance and indemnification requirements are included.

Expected Completion Date: June 15, 2011

FISCAL COMPLIANCE

Recommendation 16

We recommend that the UC obtain an independent assessment of Center Arts event ticket sales and aquatic center services made and provided to community members to determine if such revenue should be reported as UBI on IRS Form 990T.

Campus Response

We concur. The UC will obtain an independent assessment of Center Arts event ticket sales and aquatic center services to determine if such revenue should be reported as UBI on IRS Form 990T.

Expected Completion Date: July 31, 2011

CASH RECEIPTS AND HANDLING

Recommendation 17

We recommend that the UC:

- a. Update daily opening procedures at the dining services to include a documented count of the opening banks for each cash register by a supervisor or other independent staff member, and require separate open and closeout procedures to document cash totals between cashier shifts to localize accountability over cash receipts when multiple cashiers operate the same register.
- b. Maintain updated written records of personnel with safe combination knowledge and the date the combination was last changed at the dining services and bookstore.
- c. Restrictively endorse checks immediately upon receipt at the aquatics center.

Campus Response

We concur. The UC will:

- a. Update daily opening procedures at the dining services to include a documented count of the opening banks for each cash register by an independent employee, and require separate open and closeout procedures to document cash totals between cashier shifts when multiple cashiers operate the same register.
- b. Maintain updated written records of personnel with safe combination knowledge and the date the combination was last changed at the dining services and bookstore.
- c. Restrictively endorse checks immediately upon receipt at the aquatics center.

Expected Completion Date: May 31, 2011

FEES, REVENUES, AND RECEIVABLES

Recommendation 18

We recommend that the UC ensure that bank account reconciliations are reviewed by management.

Campus Response

We concur. The UC will ensure that bank account reconciliations are reviewed by management.

Expected Completion Date: May 31, 2011

PURCHASING AND ACCOUNTS PAYABLE

Recommendation 19

We recommend that the UC conduct periodic cycle counts of bookstore inventory to ensure that perpetual inventory records agree with stock on hand.

Campus Response

We concur. The UC will conduct periodic cycle counts of bookstore inventory to ensure that perpetual inventory records agree with stock on hand.

Expected Completion Date: July 31, 2011

PERSONNEL AND PAYROLL

Recommendation 20

We recommend that the UC generate a biannual listing of separated part-time employees for review and response by AS management.

Campus Response

We concur. The UC will generate a biannual listing of separated part-time employees for review and response by AS management.

Expected Completion Date: July 31, 2011

INFORMATION TECHNOLOGY

KEY EMPLOYEE DEPENDENCY

Recommendation 21

We recommend that the UC train backup personnel in the ongoing support, maintenance, and recovery of key IT systems.

Campus Response

We concur. The UC will:

- a. Investigate and evaluate alternatives for providing backup support for key IT systems.
- b. Formalize policies and execute agreements after investigation of alternatives.

Expected Completion Date: July 31, 2011

NETWORK SECURITY

Recommendation 22

We recommend that the UC place Internet-accessible web servers on a separate network segment from other production servers.

Campus Response

We concur. The UC will place Internet-accessible web servers on a separate network segment from other production servers.

Expected Completion Date: June 30, 2011

DISASTER RECOVERY PLAN

Recommendation 23

We recommend that the UC:

- a. Revise its IT DRP to address emergency notification and escalation, an alternate recovery site, a list of critical systems and supporting equipment, a recovery timeline, and a test plan.
- b. Complete a business impact assessment to determine the level of dependence on IT services and to ensure timely recovery of critical systems.

Campus Response

We concur. The UC will:

- a. Revise its IT DRP to address emergency notification and escalation, an alternate recovery site, a list of critical systems and supporting equipment, a recovery timeline, and a test plan.
- b. Complete a business impact assessment to determine the level of dependence on IT services and to ensure timely recovery of critical systems.

Expected Completion Date: July 31, 2011

EQUIPMENT TRACKING AND SECURITY

Recommendation 24

We recommend that the UC:

- a. Revise its procurement process to require that all computer systems are recorded into the inventory system.
- b. Perform a periodic inventory of all computer equipment.

- c. Revise its disposition process for removal of computer assets to require attestation that each disposed device's memory had been wiped clean.

Campus Response

We concur. The UC will:

- a. Develop a process to track computer assets.
- b. Perform a periodic inventory of all computer equipment.
- c. Revise its disposition process for removal of computer assets to require attestation that each disposed device's memory had been wiped clean.

Expected Completion Date: July 31, 2011

ASSOCIATED STUDENTS OF HUMBOLDT STATE UNIVERSITY

CORPORATE GOVERNANCE

Recommendation 25

We recommend that AS promptly file a complete amended copy of its Bylaws with the chancellor's office and ensure that all future changes/amendments to the Bylaws are filed within 30 calendar days.

Campus Response

We concur. Associated Students has filed an amended copy of its Bylaws with the chancellor's office on November 18, 2010. Associated Students will ensure that all future changes/amendments to the Bylaws are filed within 30 calendar days.

Expected Completion Date: Fully Implemented

THE CALIFORNIA STATE UNIVERSITY
OFFICE OF THE CHANCELLOR

BAKERSFIELD

CHANNEL ISLANDS

June 6, 2011

CHICO

MEMORANDUM

DOMINGUEZ HILLS

EAST BAY

TO: Mr. Larry Mandel
University Auditor

FRESNO

FROM: Charles B. Reed
Chancellor

FULLERTON

HUMBOLDT

SUBJECT: Draft Final Report 10-08 on *Auxiliary Organizations*,
Humboldt State University

LONG BEACH

LOS ANGELES

MARITIME ACADEMY

In response to your memorandum of June 6, 2011, I accept the response as submitted with the draft final report on *Auxiliary Organizations*, Humboldt State University.

MONTEREY BAY

NORTHRIDGE

POMONA

CBR/amd

SACRAMENTO

SAN BERNARDINO

SAN DIEGO

SAN FRANCISCO

SAN JOSÉ

SAN LUIS OBISPO

SAN MARCOS

SONOMA

STANISLAUS