

**AUXILIARY ORGANIZATIONS**  
**CALIFORNIA STATE UNIVERSITY,**  
**SACRAMENTO**

**Audit Report 14-01**  
**May 15, 2014**

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

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## ABBREVIATIONS

ASI	Associated Students of California State University, Sacramento
CSU	California State University
CSUS	California State University, Sacramento
CFO	Chief Financial Officer
COO	Chief Operating Officer
CPR	Capital Public Radio, Inc.
DRP	Disaster Recovery Plan
EO	Executive Order
Foundation	The University Foundation at Sacramento State
FY	Fiscal Year
ICSUAM	Integrated California State University Administrative Manual
IFAS	Integrated Financial Accounting System
ISO	Information Security Officer
IT	Information Technology
OMB	Office of Management and Budget
PI	Principal Investigator
RFIN	Resolution of the Committee on Finance
UEI	University Enterprises, Inc.
Union	University Union Operation of California State University, Sacramento

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## EXECUTIVE SUMMARY

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

California State University, Sacramento (CSUS) 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 CSUS campus and its auxiliary organizations from January 21, 2014, through February 21, 2014, and made a study and evaluation of the system of internal compliance/internal control in effect as of February 21, 2014. This report represents our triennial review.

In our opinion, except for the effect of the weaknesses described below, the fiscal, operational, and administrative controls at the *CSUS campus* as of February 21, 2014, taken as a whole, were sufficient to meet the objectives stated above and in the "Purpose" section of this report. Areas of concern include: trusts and other liabilities and information technology.

In our opinion, except for the effect of the weaknesses described below, the fiscal, operational, and administrative controls at *The University Foundation at Sacramento State* as of February 21, 2014, taken as a whole, were sufficient to meet the objectives stated above and in the "Purpose" section of this report. Areas of concern include: corporate governance; fees, revenues, and receivables; and purchasing and accounts payable.

In our opinion, except for the effect of the weaknesses described below, the fiscal, operational, and administrative controls at *University Enterprises, Inc.* as of February 21, 2014, taken as a whole, were sufficient to meet the objectives stated above and in the “Purpose” section of this report. Areas of concern include: commercial operations and contracts and grants.

In our opinion, except for the effect of the weaknesses described below, the fiscal, operational, and administrative controls at *Capital Public Radio, Inc.* as of February 21, 2014, taken as a whole, were sufficient to meet the objectives stated above and in the “Purpose” section of this report. Areas of concern include: operational compliance; fees, revenues, and receivables; purchasing and accounts payable; and property and equipment.

In our opinion, except for the effect of the weaknesses described below, the fiscal, operational, and administrative controls at *Associated Students of California State University, Sacramento* as of February 21, 2014, taken as a whole, were sufficient to meet the objectives stated above and in the “Purpose” section of this report. Areas of concern include: fees, revenues, and receivables; and information technology.

In our opinion, except for the effect of the weaknesses described below, the fiscal, operational, and administrative controls at *University Union Operation of California State University, Sacramento* as of February 21, 2014, taken as a whole, were sufficient to meet the objectives stated above and in the “Purpose” section of this report. An area of concern is information technology.

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

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

## **CAMPUS**

### **FISCAL COMPLIANCE [15]**

The campus had not recovered or documented an exchange of value for university advancement services provided to the University Foundation at Sacramento State (Foundation).

### **FEES, REVENUES, AND RECEIVABLES [16]**

Campus oversight of accounts receivable collections for the campus newspaper, the State Hornet, needed improvement. Specifically, collection and follow-up activity was not documented to facilitate collection, or collection efforts were not performed in a timely manner.

## **TRUSTS AND OTHER LIABILITIES [17]**

Campus administration of campus activity and program funds at University Enterprises, Inc. (UEI) needed improvement. For example, the campus did not document the delegation of authority for the authorization of a campus activity or program from the campus president to his/her designee, policies and procedures to provide specific guidance and documentation requirements for campus activity and program funds, and advantages to the university and support of the university mission.

## **INFORMATION TECHNOLOGY [18]**

The campus had not trained all auxiliary employees with access to protected data and information assets in information security awareness. In addition, the campus did not perform periodic, documented management reviews of user access privileges within the university advancement donor system, which contained protected data. Also, the campus did not document the deletion of sensitive data from auxiliary computers prior to the disposal or redeployment of the assets. Further, the campus did not store protected data within auxiliary file servers in an encrypted format. Additionally, the campus did not ensure that all vulnerability scans were reviewed and that vulnerabilities were remediated in a timely manner.

## **THE UNIVERSITY FOUNDATION AT SACRAMENTO STATE**

### **CORPORATE GOVERNANCE [24]**

The Foundation did not update its Articles of Incorporation to reflect a proper dissolution clause. Additionally, the Foundation had not filed amended Bylaws with the chancellor's office in a timely manner.

### **OPERATIONAL COMPLIANCE [25]**

The Foundation had not obtained annual conflict-of-interest statements from all board members. This is a repeat finding from the prior Auxiliary Organizations audit.

### **FEES, REVENUES, AND RECEIVABLES [26]**

Administration of Foundation pledges receivable needed improvement. Specifically, four pledges receivable, totaling \$162,275, were reflected as long-outstanding in the general ledger, although payments had been received by the Foundation and recorded in the donor database. As a result, unearned revenue for fiscal year (FY) 2012/13 was overstated by \$162,275. Further, management review of the pledges receivable aging report was not documented. Additionally, the Foundation did not perform a documented dual review of all matching gifts during the acceptance process to ensure that funds were designated in accordance with donor intent.

### **PURCHASING AND ACCOUNTS PAYABLE [29]**

Foundation travel and miscellaneous advances were not always recovered and reconciled in a timely manner.

### **GIFT ADMINISTRATION [30]**

The Foundation did not perform and document follow-up activity on uncleared gift receipts in the suspense account.

### **UNIVERSITY ENTERPRISES, INC.**

### **OPERATING AND ADMINISTRATIVE AGREEMENTS [32]**

Agreements between UEI and third parties were not always fully executed in a timely manner.

### **PETTY CASH AND CHANGE FUNDS [32]**

The UEI petty cash policy did not require periodic, independent cash counts of petty cash funds.

### **PURCHASING AND ACCOUNTS PAYABLE [33]**

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

### **COMMERCIAL OPERATIONS [34]**

Administration of UEI catering services needed improvement. For example, two contracts for non-university events were not finalized at least five working days before the event, and three agreements were not signed and dated by the client.

### **CONTRACTS AND GRANTS [35]**

UEI did not document the submission of faculty time and effort reports to campus academic affairs in accordance with established timelines. Additionally, UEI did not always provide orientation to principal investigators and other individuals involved in UEI contracts and grants. Further, administration of UEI sub-recipient monitoring needed improvement. Specifically, a documented risk assessment was not on file prior to sub-award issuance for one sub-recipient, and an A-133 report was not on file for one sub-recipient.

### **INFORMATION TECHNOLOGY [39]**

Protected data maintained on the UEI administrative file server was not encrypted.

## **CAPITAL PUBLIC RADIO, INC.**

### **CORPORATE GOVERNANCE [41]**

Capital Public Radio, Inc. (CPR) had not filed amended Articles of Incorporation with the chancellor's office in a timely manner.

### **OPERATIONAL COMPLIANCE [41]**

CPR did not have written delegations of authority from the campus president giving its management the responsibility to accept monetary gifts and sign gift acknowledgement agreements and letters, or to sign/approve CPR contracts and grants proposals. Additionally, CPR fundraising events with gross receipts greater than \$5,000 were not properly approved by a delegated authority.

### **FEES, REVENUES, AND RECEIVABLES [43]**

CPR's administration of corporate matching gifts needed improvement. For example, corporate matching gift documentation was not maintained to show evidence that gifts were evaluated for eligibility of matching, subjected to a dual review, and deposited as directed in a timely manner. Also, matching gift auto-added pledges, established on the basis of an existing relationship, were erroneously recorded and aged as outstanding receivables, and aged outstanding auto-added pledges receivable had not been followed up or written off. These are repeat findings from the prior Auxiliary Organizations audits. Additionally, administration of CPR accounts receivable collections needed improvement. Specifically, written policies and procedures had not been developed to address collection and follow-up activity for delinquent pledges receivable, and the write-off of uncollectible pledges receivable, collection and follow-up activity was not always performed and documented. In addition, credit balances were not always investigated or resolved in a timely manner. Further, CPR uncollectible accounts receivable were not always written off in a timely manner, nor were write-offs always properly documented and approved.

### **PURCHASING AND ACCOUNTS PAYABLE [47]**

CPR did not require travel authorization forms documenting advance approval of all travel and related expenditures. Additionally, CPR did not escheat unclaimed checks to the state.

### **PROPERTY AND EQUIPMENT [49]**

Administration of CPR property and equipment needed improvement. For example, CPR did not have written policies and procedures for an independent physical count of inventory and had not performed an independent annual physical inventory of property and equipment for FY 2010/11, 2011/12, and 2012/13. In addition, assets were not always properly reported, disposed of, located, or removed from the accounting system.

### **INFORMATION TECHNOLOGY [50]**

Physical access to the CPR server room needed improvement. Specifically, several former employees had access to the CPR server room, and written policies or procedures for the regular certification of the list of individuals with authorized access to the server room were not in place.

### **ASSOCIATED STUDENTS OF CALIFORNIA STATE UNIVERSITY, SACRAMENTO**

#### **CORPORATE GOVERNANCE [52]**

Associated Students of California State University, Sacramento (ASI) had not filed amended Bylaws with the chancellor's office in a timely manner.

#### **PROGRAM COMPLIANCE [53]**

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

#### **FEES, REVENUES, AND RECEIVABLES [53]**

Administration of ASI accounts receivable collections needed improvement. For example, invoices did not accurately reflect the due date, invoices were not aged properly, accounts receivable were not always billed in a timely manner, and collection and follow-up activity was not always documented to facilitate collection, or collection efforts were not performed in a timely manner.

#### **INFORMATION TECHNOLOGY [55]**

The ASI information technology (IT) disaster recovery plan (DRP) did not include a business impact assessment to reflect the criticality and order of recovery priority for ASI systems. Additionally, periodic, documented management reviews of user access privileges within the ASI accounting, payroll, and human resources systems were not performed.

### **UNIVERSITY UNION OPERATION OF CALIFORNIA STATE UNIVERSITY, SACRAMENTO**

#### **OPERATING AND ADMINISTRATIVE AGREEMENTS [58]**

Agreements between the University Union Operation of California State University, Sacramento (Union) and the campus, other auxiliaries, and third parties were not always fully executed in a timely manner.

## **INFORMATION TECHNOLOGY [58]**

The Union IT DRP did not include notification and escalation procedures, a business impact analysis, or a threat assessment. Additionally, periodic, documented management reviews of user access privileges within the Union member management system, which contained protected data, were not performed.

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## INTRODUCTION

### **BACKGROUND**

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

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

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

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

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

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

This executive order requires CSU auxiliary organizations to operate within the regulations and oversight of the campus. The campus president is responsible for ensuring the fiscal viability of auxiliary

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

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

#### The University Foundation at Sacramento State

The University Foundation at Sacramento State (Foundation) was established in 1986 as a non-profit public benefit corporation to act as the university's primary philanthropic function and to actively support the university's mission of teaching, learning, and service by acquiring and managing financial and other resources for the university. The Foundation is governed by a board of directors composed of representatives from the community, university and auxiliary administration, faculty, and student body. The Foundation relies on University Enterprises, Inc. for accounting support services and the campus for administrative and information technology services.

#### University Enterprises, Inc.

University Enterprises, Inc. (UEI) was established in 1951 as a non-profit public benefit corporation to manage an array of programs and services that support and strengthen the university's mission of teaching, scholarship, and public services. UEI is responsible for administering dining and vendor services, bookstore operations, and the Upper Eastside Lofts, as well as providing accounting services. UEI has outsourced the bookstore operations and Upper Eastside Lofts to third-party vendors. In addition to these operations, UEI is responsible for grant and contract management and fiscal services for university research and sponsored programs. It also provides fiscal services to university-related agencies and activities. Further, numerous state agencies and private employers use UEI's student employment services as their source for student assistants. UEI is governed by a board of directors composed of representatives from the community, faculty, university administration, and student body. UEI provides accounting services to the Foundation and payroll and personnel services to the University Union Operation of California State University, Sacramento.

#### Capital Public Radio, Inc.

Capital Public Radio, Inc. (CPR) was established in 1970 as student-operated radio station KERS on the campus of California State University, Sacramento. CPR was incorporated as an auxiliary organization of the CSU in 1991 and currently operates as a non-profit public benefit corporation that broadcasts

classical music, jazz, news, public affairs, and locally produced specialty programs. CPR seeks to provide a trusted source of information, music, and entertainment for its listeners while strengthening the civic and cultural life of the communities it serves. CPR is governed by a board of directors composed of representatives from the community, university administration, faculty, student body, and CPR's president and general manager.

#### Associated Students of California State University, Sacramento

Associated Students of California State University, Sacramento (ASI) was established in 1956 as a non-profit public benefit corporation to provide support to a variety of programs aimed at meeting the needs of the students of the university. ASI also serves as a vehicle for participation of students in the governance of the university and as the fiscal agent for deposit accounts for student organizations and other student-related programs and activities. ASI is governed by a board of directors composed of representatives from the student body and university and auxiliary administration.

#### University Union Operation of California State University, Sacramento

University Union Operation of California State University, Sacramento (Union) was established in 1975 as a non-profit public benefit corporation to promote and assist the university's educational programs. The Union provides a central space for students, faculty, staff, alumni, and the greater community to participate in campus life. The Union hub offers dining, activities, and meeting rooms. Additionally, the Union is responsible for the Well facilities, which opened in 2010. The Well offers recreational facilities to students, faculty, staff, and alumni. The Union is governed by a board of directors composed of representatives from the student body, university and auxiliary administration, faculty, alumni, and ASI. The Union does not have employees and has outsourced accounting services to ASI and payroll and personnel services to UEI.

### **PURPOSE**

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

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

## **SCOPE AND METHODOLOGY**

Our study and evaluation were conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing* issued by the Institute of Internal Auditors and included the audit tests we considered necessary in determining whether fiscal, operational, and administrative controls are in place and operative. The management review emphasized, but was not limited to, compliance with state and federal laws, Board of Trustee policies, and Office of the Chancellor policies, letters, and directives. For those audit tests that required annualized data, fiscal years 2011/12 and 2012/13 were the primary periods reviewed. In certain instances, we were concerned with representations of the most current data; in such cases, the test period was July 1, 2013, to February 21, 2014. Our primary focus was on internal compliance/internal control.

Specifically, we reviewed and tested:

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

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

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

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

### The University Foundation at Sacramento State

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

The University Foundation at Sacramento State (cont.)

- ▶ Segregation of Duties
- ▶ Cash Receipts and Handling
- ▶ Investments
- ▶ Fees, Revenues, and Receivables
- ▶ Purchasing and Accounts Payable
- ▶ Property and Equipment
- ▶ Trusts and Other Liabilities
- ▶ Gift Administration
- ▶ Auxiliary Programs
- ▶ Information Technology

University Enterprises, Inc.

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

Capital Public Radio, Inc.

- ▶ Operating and Administrative Agreements
- ▶ Facilities Agreements
- ▶ Corporate Governance
- ▶ Fiscal Compliance
- ▶ Operational Compliance
- ▶ Program Compliance
- ▶ Segregation of Duties
- ▶ Cash Receipts and Handling
- ▶ Investments
- ▶ Fees, Revenues, and Receivables
- ▶ Purchasing and Accounts Payable
- ▶ Personnel and Payroll

Capital Public Radio, Inc. (cont.)

- ▶ Property and Equipment
- ▶ Trusts and Other Liabilities
- ▶ Auxiliary Programs
- ▶ Information Technology

Associated Students of California State University, Sacramento

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

University Union Operation of California State University, Sacramento

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

Campus

- ▶ Campus Oversight
- ▶ Auxiliary Support Services

▶ Information Technology

We have not performed any auditing procedures beyond February 21, 2014. Accordingly, our comments are based on our knowledge as of that date. Since the purpose of our comments is to suggest areas for improvement, comments on favorable matters are not addressed.

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## OBSERVATIONS, RECOMMENDATIONS, AND CAMPUS RESPONSES

### CAMPUS

#### FISCAL COMPLIANCE

The campus had not recovered or documented an exchange of value for university advancement services provided to the University Foundation at Sacramento State (Foundation).

Integrated California State University Administrative Manual (ICSUAM) §3552.01, *Cost Allocation/Reimbursement Plans for the California State University Operation Fund*, dated April 1, 2011, states that a university's cost allocation/reimbursement plan must articulate the practices and methodologies utilized in determining the basis for allocating costs. Due consideration must be given to the relative benefits received, the materiality of costs, and the amount of time and effort necessary to make such an allocation/reimbursement. The plan will also specifically identify direct and indirect costs requiring reimbursement. And, while there are different methodologies available for allocating costs that a university might use, the methodology used should result in a justifiable distribution of costs as determined by the campus chief financial officer (CFO). Detailed documentation that demonstrates the factors that were taken into consideration in determining cost recovery are to be included as part of the plan.

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

The campus associate vice president for financial services stated that the campus was unaware that university advancement provided services to the Foundation without recovery or a documented exchange of value.

Lack of cost recovery or a documented exchange of value increases the risk that the campus operating fund will not be fully compensated for support provided to auxiliaries.

#### **Recommendation 1**

We recommend that the campus recover or document an exchange of value for university advancement services provided to the Foundation.

### **Campus Response**

We concur. By August 15, 2014, we will provide documentation of campus recovery and/or document the exchange in value for university advancement services and events that were approved to be paid by the Foundation board of directors for fiscal year 2013/14.

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

Campus oversight of accounts receivable collections for the campus newspaper, the State Hornet, needed improvement.

We reviewed two delinquent State Hornet accounts receivable from the accounts receivable aging report as of November 30, 2013, and we found that collection and follow-up activity was not documented to facilitate collection, or collection efforts were not performed in a timely manner. The delinquent accounts receivable, totaling \$1,772, were outstanding for more than a year.

The California State University, Sacramento (CSUS) *Collection of Invoice Receivables Procedure* states that collection activities, including letters, emails, and phone calls, are required at 30-day intervals, and debts that are eligible for referral to a third-party collection agency will be sent a final letter at 120 days. It further states that files should include copies of such correspondence in case of write-off.

ICSUAM §3131.01, *Accounts Receivable Collections*, dated January 1, 2012, states that campus procedures must describe collection efforts applicable to each type of past due receivable.

The State Hornet advertising manager stated that collection activities were ongoing as needed and the timing and documentation of these activities were informal because she was unaware of campus collection and documentation requirements. The campus associate vice president for financial services stated that the campus did not monitor State Hornet collection activities because State Hornet accounts receivable were managed by the newspaper's internal staff and responsibility for oversight of the collection process was unclear.

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

### **Recommendation 2**

We recommend that the campus oversee the State Hornet's performance and documentation of collection and follow-up activity for delinquent accounts receivable to facilitate collection.

### **Campus Response**

We concur. Financial services will work with the State Hornet to develop collection procedures and train the staff on collection techniques by November 14, 2014. Financial services will review the State Hornet's collection of delinquent accounts semi-annually.

## **TRUSTS AND OTHER LIABILITIES**

Campus administration of campus activity and program funds at University Enterprises, Inc. (UEI) needed improvement.

We reviewed ten campus activity and program funds at UEI, and we found that the campus did not document:

- ▶ The delegation of authority for the authorization of a campus activity or program from the campus president to his/her designee.
- ▶ Policies and procedures to provide specific guidance and documentation requirements for campus activity and program funds.
- ▶ Advantages to the university and support of the university mission.

ICSUAM §13680.00, *Placement and Control of Receipts for Campus Activities and Programs*, dated September 29, 2011, states that only the campus presidents or their designees may authorize a campus activity or program. Delegation of this authority must be documented and implemented consistent with campus policies and practices. It further states that campus policies and procedures regarding activities and programs must provide specific guidance in regard to campus centers and institutes, workshops and conferences, instructionally related events and activities, and documentation requirements. Receipts from university-owned activities and programs may not be accepted by an auxiliary organization, except when specifically authorized in writing by the campus president or his/her designee. Said authorization shall be granted judiciously and only when the president or designee deems it is advantageous to the university and supportive of the university mission. Specific advantage must be documented in a written agreement.

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

The campus vice president of administration and chief financial officer (CFO) stated that campus was unaware of ICSUAM §13680.00 requirements. He further stated that the campus provided

documentation during audit fieldwork showing evidence that a delegation of authority had been documented.

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

### **Recommendation 3**

We recommend that the campus document:

- a. The delegation of authority for the authorization of a campus activity or program from the campus president to his/her designee.
- b. Policies and procedures to provide specific guidance and documentation requirements for campus activities and program funds.
- c. Advantages to the university and support of the university mission.

### **Campus Response**

We concur. We will provide the following documentation:

- a. The delegation of authority was already provided during fieldwork.
- b. Developed policies and procedures providing specific guidance and documentation requirements for campus activities and program funds by November 14, 2014.
- c. Examples of revised UEI account documentation indicating the advantages to the university and support of the university mission by November 14, 2014.

## **INFORMATION TECHNOLOGY**

### **INFORMATION SECURITY AWARENESS TRAINING**

The campus had not trained all auxiliary employees with access to protected data and information assets in information security awareness.

ICSUAM §8035.0, *Information Security Awareness and Training*, dated April 19, 2010, states that each campus must implement a program for providing appropriate information security awareness and training to employees appropriate to their access to campus information assets. The campus information security awareness program must promote campus strategies for protecting information assets containing protected data. All employees with access to protected data and information assets must participate in appropriate information security awareness training. When appropriate,

information security training must be provided to individuals whose job functions require specialized skill or knowledge in information security.

ICSUAM §8035.S000, *Security Awareness and Training Standard*, dated April 19, 2010, states that each campus information security officer (ISO) will be responsible for overseeing development and coordination of the campus information security awareness and training program.

The campus ISO stated that the campus had been waiting for the new CSU information security training to be released, and it was unclear whether the training would be available to the auxiliaries. He further stated that in the meantime, the focus had been on providing security awareness on various information security concerns through email communications.

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

#### **Recommendation 4**

We recommend that the campus train all auxiliary employees with access to protected data and information assets in information security awareness.

#### **Campus Response**

We concur. We will work with the University Union management team so they can provide documentation that all University Union employees with access to protected data and information assets have been trained in information security awareness by November 14, 2014.

#### **USER ACCESS REVIEW**

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

*CSUS Access Control Supplemental Policy* states that all access rights for Level 1 and Level 2 data and other elevated access must be reviewed annually and the results of such reviews should be documented by the ISO and reported to the vice president and chief information officer.

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

The campus vice president of university advancement stated that management performed a review of terminations against an active-user listing for the donor system on a monthly basis. He further stated that ad hoc reviews of user access privileges were performed when users were removed from the system; however, the reviews had not been documented.

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

### **Recommendation 5**

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

### **Campus Response**

We concur. A documented management review of user access privileges within the university advancement donor system will be provided by August 15, 2014.

## **ASSET MANAGEMENT**

The campus did not document the deletion of sensitive data from auxiliary computers prior to the disposal or redeployment of the assets.

We found that although campus procedures required that hard drives be destroyed or reimaged before being disposed of or redeployed, the campus could not provide documentation showing that sensitive data had been deleted from all such hard drives.

*CSUS Disposal of Protected Data Process* states that local information technology staff members are responsible for logging the decommissioning and repurposing of all computers and devices in their area of responsibility.

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

The campus ISO stated that campus procedures included destroying or reimaging all hard drives; however, documenting the process had not been part of the procedure.

Inadequate control over the disposal or redeployment of computing equipment, especially equipment containing protected data, increases the risk of loss and inappropriate use and exposure to information security breaches.

### **Recommendation 6**

We recommend that the campus document the deletion of sensitive data from auxiliary computers prior to the disposal or redeployment of the assets.

### **Campus Response**

We concur. Per the campus *Disposal of Protected Data Process*, Associated Students of California State University, Sacramento (ASI), Capital Public Radio, Inc. and Advancement will log the disposal of all sensitive data before decommissioning and repurposing of all computers and devices in their area by August 15, 2014.

## **ENCRYPTION**

The campus did not store protected data within auxiliary file servers in an encrypted format.

CSUS *Security of Servers and Network Attached Devices* states that all Level 1 and Level 2 data stored on campus servers and other network attached devices must be identified to the ISO in a timely manner and such data must always be securely stored and protected, as defined by Information Security Office Guidelines.

ICSUAM §8045.0, *Information Technology Security*, dated April 19, 2010, states that campuses must develop and implement appropriate technical controls to minimize risks to their information technology infrastructure. Each campus must take reasonable steps to protect the confidentiality, integrity, and availability of its critical assets and protected data from threats.

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

ICSUAM §8065.S001, *Information Security Asset Management Standard*, dated April 19, 2010, ¶12.4, *Data Storage*, states in part that where the combination of assessed risk, technical feasibility and operational practicality allow, protected Level 1 data stored electronically must be encrypted using strong encryption methods.

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 encryption of protected data maintained on auxiliary systems.

The campus ISO stated that campus policy did not require the encryption of Level 1 data maintained on file servers in the data center.

Lack of encryption for protected data increases the risk of loss and inappropriate use of auxiliary resources and increases exposure to information security breaches, which could result in violation of legal statutes, financial penalties, and loss of public trust.

### **Recommendation 7**

We recommend that the campus store all protected data within auxiliary file servers in an encrypted format.

### **Campus Response**

We will review the use of the ASI payroll file server and assess the risk, technical feasibility, and operational practicality of encrypting the stored data. Documentation of this review and any revised policies/procedures as a result of this will be provided by November 14, 2014.

## **VULNERABILITY ASSESSMENTS**

The campus did not ensure that all vulnerability scans were reviewed and that vulnerabilities were remediated in a timely manner.

We found that the campus did not:

- ▶ Review the vulnerability scans and report vulnerabilities to system owners for Associated Students of California State University, Sacramento (ASI) servers that contained protected data.
- ▶ Develop and implement procedures for ASI management to remediate vulnerabilities in a timely manner.

CSUS *Vulnerability Scanning Procedures and Guidelines* states that system administrators must perform, analyze, remediate, or document exceptions and report on all maintenance scans completed on their systems. System administrators or designated department scan analysts must review all vulnerability scans for a system within 24 hours of scanning and are responsible for remediating vulnerabilities identified during vulnerability scanning. System administrators must also report their evaluation and remediation options to the system owner or designee upon completion of evaluation.

ICSUAM §8045.0, *Information Technology Security*, dated April 19, 2010, states that at a minimum, server administrators are required to scan regularly, remediate, and report unremediated vulnerabilities on critical systems or systems that store protected information within a prescribed time frame.

The campus ISO stated that the current processes and tools used to maintain ASI servers did not include reviewing vulnerability scanning results and remediating critical vulnerabilities.

Inadequate review of vulnerability scans and lack of timely remediation of vulnerabilities may lead to compromise in network resources and loss of protected information.

### **Recommendation 8**

We recommend that the campus:

- a. Review the vulnerability scans and report vulnerabilities to system owners for ASI servers containing protected data.
- b. Develop and implement procedures for ASI management to remediate vulnerabilities in a timely manner.

### **Campus Response**

We concur.

- a. The campus' information security office already conducts periodic campus-wide vulnerability reviews of campus servers with protected data. ASI will notify the ISO of the presence and location of all level one data on its systems. The ISO will ensure that servers that house ASI data are included in future quarterly vulnerability scans. The ISO will provide vulnerability reports on the ASI servers with protected data to system owners after each campus-wide quarterly scan. The campus will complete all actions by August 15, 2014.
- b. The system administrator of ASI will adopt and comply with existing campus-wide information security policies and procedures (i.e., *Supplemental Information Security Policy* 8045) and work with the campus information security office to both address any reported vulnerabilities in a timely manner and report completion of risk mitigation to the ISO. This documentation will be provided by August 15, 2014.

## **THE UNIVERSITY FOUNDATION AT SACRAMENTO STATE**

### **CORPORATE GOVERNANCE**

#### **ARTICLES OF INCORPORATION**

The University Foundation at Sacramento State (Foundation) did not update its Articles of Incorporation to reflect a proper dissolution clause.

Title 5 §42600(b) states that by December 31, 2012, the Articles of Incorporation or constitution of an auxiliary organization shall contain a provision that upon dissolution of the organization, net assets, other than trust funds, shall be distributed to a successor approved by the president of the campus and by the chancellor.

The campus vice president for university advancement stated that the Bylaws were updated to reflect the chancellor's approval, but the Foundation failed to update its Articles of Incorporation due to a misunderstanding of the requirement.

The lack of a proper dissolution clause in accordance with Title 5 increases the risk that net assets will not be properly distributed in the event the corporation is dissolved.

#### **Recommendation 9**

We recommend that the Foundation update its Articles of Incorporation to reflect a proper dissolution clause.

#### **Campus Response**

We concur. The Foundation will update its Articles of Incorporation to reflect a proper dissolution clause. In addition, within 30 days after the changes have been made, the amended Articles will be submitted to the Contract Services and Procurement department at the chancellor's office. These revised Articles and evidence of the submittal will be provided by October 15, 2014, following the September 30, 2014, board meeting.

#### **BYLAWS**

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

We found that an amendment made to the Bylaws on February 28, 2013, had not been filed with the chancellor's office.

The *Compilation of Policies and Procedures for California State University Auxiliary Organizations* sets sound business practice guidelines for auxiliary organization operating within the CSU system. Section 11.6.1, *Reporting Changes in Articles of Incorporation (or Constitution) and Bylaws*, states

that when an auxiliary organization makes changes to its Articles of Incorporation (or Constitution) or Bylaws, a complete amended copy is to be submitted to Contract Services and Procurement at the Office of the Chancellor within 30 calendar days. The submission should indicate the date the changes were approved by the governing board and/or members.

The campus vice president for university advancement stated that the amended Bylaws were not filed with the chancellor's office due to management oversight.

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

### **Recommendation 10**

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

### **Campus Response**

We concur. The Foundation filed the amended Bylaws on March 14, 2014.

## **OPERATIONAL COMPLIANCE**

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

We found that three of the 22 board members had not signed a conflict-of-interest statement for fiscal year (FY) 2013/14. This is a repeat finding from the prior Auxiliary Organizations audit.

The Foundation *Conflict of Interest Policy* states that directors will fully and regularly disclose all material facts relating to any actual or potential conflicts of interest. They will submit conflict-of-interest disclosure forms to the chair of the audit committee: a) initially, upon joining the board of directors; b) annually, before the annual meeting; c) where appropriate at or prior to action on grant applications and business transactions; and d) upon becoming aware of an actual or potential conflict of interest.

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

The Internal Revenue Service, *Governance and Related Topics 501(c)(3)*, dated February 4, 2008, and *Return of Organization Exempt from Income Tax*, Form 900, encourages a charity's board of directors to adopt and regularly evaluate a written conflict-of-interest policy that requires directors and staff to act solely in the interests of the charity without regard for personal interests; includes written procedures for determining whether a relationship, financial interest, or business affiliation

results in a conflict of interest; and prescribes a course of action in the event a conflict of interest is identified.

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

The campus vice president for university advancement stated that the Foundation did not obtain one of the missing conflict-of-interest forms because one member recently joined the board, in December 2013. He further stated that the Foundation did not obtain the other two forms due to oversight. In addition, he stated that the three forms were obtained during audit fieldwork.

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

#### **Recommendation 11**

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

#### **Campus Response**

We concur. Going forward, the Foundation will obtain all conflict-of-interest statements from all board members according to policy.

## **FEES, REVENUES AND RECEIVABLES**

### **PLEDGES RECEIVABLE**

Administration of Foundation pledges receivable needed improvement.

We reviewed ten pledges receivable from the December 2013 aging report, and we found that:

- ▶ Four pledges receivable, totaling \$162,275, were reflected as long-outstanding in the general ledger, although payments had been received by the Foundation and recorded in the donor database. As a result, unearned revenue for FY 2012/13 was overstated by \$162,275.
- ▶ Management review of the pledges receivable aging report was not documented.

CSUS *Sacramento State Gift Procedures* state that lapsed pledges are those payments that are overdue by more than 90 days. Monthly, based on payment schedule, the advancement services department notifies responsible development officers of major gift lapsed pledges. Development officers/prospect managers must review the information and indicate action to be taken on each

lapsed pledge. Any pledge not noted for additional follow-up will be considered uncollectible and may be written off at the discretion of the vice president for advancement or the associate vice president for advancement. Annual fund and smaller pledges are written off at the end of each fiscal year for the prior fiscal year.

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.

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

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

The University Enterprises, Inc. (UEI) controller stated that a miscommunication between university advancement and UEI accounting may have prevented the receipts from being booked against the receivables in a timely manner. She further stated that management review of the pledges receivable occurred on a quarterly basis but was not fully documented due to oversight.

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

### **Recommendation 12**

We recommend that the Foundation:

- a. Accurately reflect pledges receivable in the general ledger.
- b. Document management review of the pledges receivable aging report.

### **Campus Response**

We concur. UEI accounting will reconcile pledges receivable in the general ledger and the outstanding pledged donations in the donor database with the development office on a quarterly basis. We will also document management review of the pledges receivable aging quarterly.

Evidence of the most recent documented management review of the pledges receivable aging report will be provided by August 15, 2014.

## **MATCHING GIFTS**

The Foundation did not perform a documented dual review of all matching gifts during the acceptance process to ensure that funds were designated in accordance with donor intent.

CSUS *Sacramento State Gift Procedures* state that all matching gift requests must be submitted through the development office, gifts processing unit, and are signed by the associate vice president for development, who serves as the campus approving authority. It further states that the approving authority will sign all matching gift requests, thereby certifying review of eligible donors' gifts. Copies of matching gift requests as evidence of eligibility review are submitted to the record keeper (gift steward).

ICSUAM §15401.00, *Fundraising-Matching Gifts*, dated March 1, 2012, states that the purpose of this policy is to establish proper internal controls for the acceptance of matching gifts, which includes a dual review process. Approving authority responsibilities shall be segregated from the recordkeeping function and include, among other duties, the review and verification of all donor contributions for which matching gifts are requested. Recordkeeping responsibilities may be assigned to one or more staff members and should include: 1) maintaining records of donor contributions and matching gifts in such a manner that there is a clear record of the individual contribution, the related matching gift claim, and compliance with the matching gift program; and 2) maintaining a record documenting that the matching gift purpose mirrors the purpose of the original donor gift and is consistent with representations to the matching gift program. To substantiate the dual review process: 1) the recordkeeper may countersign the claim certification; 2) the approving authority and recordkeeper may both sign an affirmation; or 3) the process may be automated in a secure database that tracks the actions of both the approving authority and recordkeeper.

The campus vice president for university advancement stated that many corporations are moving toward an electronic matching gift process, and in many cases documentation may not be available to sign and retain.

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

### **Recommendation 13**

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

### **Campus Response**

We concur. The *Sacramento State Gift Procedures* will be revised to include the required documented dual review of matching gifts. We will provide the revised procedures and evidence of the documented dual review by August 15, 2014.

## **PURCHASING AND ACCOUNTS PAYABLE**

Foundation travel and miscellaneous advances were not always recovered and reconciled in a timely manner.

We reviewed one travel advance and seven miscellaneous advances issued between July 2013 and December 2013, and we found that:

- ▶ The travel advance was 205 days outstanding, and three miscellaneous advances were 102 to 189 days outstanding, and collection and follow-up activity had not been documented.
- ▶ Account reconciliations for advance accounts had not been prepared and reviewed for the prior six months.

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

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 sufficient monitoring of travel and miscellaneous advances.

The UEI controller stated that a lack of communication between accounting and the responsible departments limited the timeliness of recovery. She further stated that follow-up and frequent reconciliations of the advance accounts had not occurred due to time constraints and limited resources. She added that the reconciliations were prepared and reviewed during audit fieldwork.

Insufficient control over travel and miscellaneous advances increases the risk of errors, irregularities, and misappropriation of funds.

### **Recommendation 14**

We recommend that the Foundation:

- a. Document collection and follow-up activity on delinquent travel and miscellaneous advances.
- b. Prepare and review account reconciliations for advance accounts in a timely manner.

### **Campus Response**

We concur. UEI accounting will revise our procedures to include documented collection and follow-up activity on delinquent travel and miscellaneous advances. We will provide these procedures and evidence of a current reviewed reconciliation of advance accounts by August 15, 2014.

## **GIFT ADMINISTRATION**

The Foundation did not perform and document follow-up activity on uncleared gift receipts in the suspense account.

We found that as of December 31, 2013, 124 receipts totaling \$118,200 remained in the suspense account. The receipts were dated from January 2007 to October 2013.

Foundation *Suspense Account Procedures* states that monthly, accounts receivable staff will run a detailed trial balance in the integrated financial accounting system (IFAS) and will run a query in Hyperion. This will verify that the IFAS general ledger total matches the Hyperion total. The Foundation is to be contacted if any discrepancies occur. When the Foundation decides where to apply the funds received in the suspense account, the detail is given to the accounts receivable staff, and the information is then listed on the Excel spreadsheet under amount cleared, date cleared, and how cleared. Accounts receivable staff will forward the package to another UEI staff member to create a journal entry to apply to the proper account, or to process a check request, to clear the item. Quarterly, accounts receivable staff will submit by e-mail the Excel file listing of uncleared suspense items to the Foundation. UEI staff will work with Foundation staff to clear the items.

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 follow-up activity for gift receipts in the suspense account.

The campus vice president for university advancement stated that the lack of follow-up on uncleared gift receipts in the suspense account was due to a miscommunication between university advancement and UEI accounting.

Inadequate follow-up of uncleared gift receipts in a suspense account increases the risk of loss or misappropriation of funds.

**Recommendation 15**

We recommend that the Foundation perform and document follow-up activity on uncleared gift receipts in the suspense account.

**Campus Response**

We concur. Going forward, there will be documented communication between UEI accounting and university advancement on uncleared gift receipts in the suspense account. An example of this will be provided by August 15, 2014.

## **UNIVERSITY ENTERPRISES, INC.**

### **OPERATING AND ADMINISTRATIVE AGREEMENTS**

Agreements between University Enterprises, Inc. (UEI) and third parties were not always fully executed in a timely manner.

We reviewed 15 agreements and found that four were signed after their effective date. Execution delays ranged from 32 to 55 days.

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

The UEI CFO stated that the agreements were delayed because negotiations were ongoing between UEI and the third parties on the effective date.

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

#### **Recommendation 16**

We recommend that UEI fully execute all agreements with third parties in a timely manner.

#### **Campus Response**

We concur. On certain occasions, agreements with third parties were not signed until after the effective date indicated on the contract because negotiations were still ongoing. Effective immediately, UEI will ensure that all contracts are signed no later than the effective date, provided a mutual agreement has been reached with the other party.

### **PETTY CASH AND CHANGE FUNDS**

The UEI petty cash policy did not require periodic, independent cash counts of petty cash funds.

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

business practices. Sound business practice mandates periodic, independent cash counts of petty cash.

The UEI CFO stated that the petty cash policy did not specifically address periodic, independent cash counts of petty cash funds due to oversight.

Lack of periodic, independent cash counts of petty cash increases the risk of loss or misappropriation of funds.

#### **Recommendation 17**

We recommend that UEI update its petty cash policy to require periodic, independent cash counts of petty cash funds.

#### **Campus Response**

We concur. UEI will revise the petty cash policy to require periodic, independent cash counts of petty cash funds. The revised policy will be provided by August 15, 2014.

## **PURCHASING AND ACCOUNTS PAYABLE**

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

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

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

Title 5 §42401 and §42402 indicate that the campus president shall require that auxiliary organizations operate in conformity with policy of the Board of Trustees and the campus. One of the objectives of the auxiliary organizations is to provide fiscal procedures and management systems that allow effective coordination of the auxiliary activities with the campus in accordance with sound business practices. Sound business practice mandates that release forms or signed waivers be obtained from each student traveling by air.

The UEI CFO stated that management was unaware that the requirement for student travel release forms or waivers applied to students traveling on sponsored activities.

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

### **Recommendation 18**

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

### **Campus Response**

We concur. As of April 18, 2014, UEI's sponsored programs administration requires submission of the waiver form prior to departure for all student travel under a sponsored activity or campus program account that includes air or ground transportation. Effective July 1, 2014, students traveling under any UEI account will require the waiver form prior to departure. A copy of the waiver form will be provided and any related procedural documentation will be provided by August 15, 2014.

## **COMMERCIAL OPERATIONS**

Administration of UEI catering services needed improvement.

We reviewed ten catering events from February 2011 to February 2013, and we found that:

- ▶ Two contracts for non-university events were not finalized at least five working days before the event.
- ▶ Three agreements were not signed and dated by the client.

The UEI *Catering Contract* states that contracts must be finalized a minimum of five working days prior for non-university events.

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 UEI director of dining services stated that previous catering management failed to fully examine certain agreements for proper signatures and, in some instances, follow-up on contract deadlines due in part to catering software limitations.

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

### **Recommendation 19**

We recommend that UEI:

- a. Finalize contracts for non-university events at least five working days before the event.
- b. Require the client to sign and date all catering agreements.

### **Campus Response**

We concur.

- a. UEI dining services policies and procedures mandate that all contracts be finalized and paid in full not less than five days prior to the event. Clients failing to meet the deadline incur a 15 percent late fee. The policies and procedures also stated that UEI “may not be able to perform the desired level of service” for clients not meeting their obligation under the contract. UEI reiterated to dining staff that non-university events must be finalized at least five working days before the event.
- b. UEI dining is transitioning to new catering software, known as CaterTrax, which will eliminate the need to obtain handwritten signatures on contracts. In the future, an electronic signature will replace the prior practice, on all contracts. It is anticipated that CaterTrax will be placed in service no later than August 1, barring any complications. We will provide reports that detail the order and approval process by November 14, 2014.

## **CONTRACTS AND GRANTS**

### **EFFORT REPORTING**

UEI did not document the submission of faculty time and effort reports to campus academic affairs in accordance with established timelines.

*CSUS Faculty Time and Effort, Reporting Procedure*, states that UEI administers all sponsored activity on behalf of the campus through the office of research administration and contract administration. As UEI manages a separate payroll and timekeeping system from the university, all earnings via sponsored activity are accounted for separately from university effort. UEI records hours worked by pay period for all faculty working additional employment hours on research or sponsored projects during the academic year. At the end of each semester, the faculty time and effort report is sent to university human resources and academic affairs. Additional copies may be forwarded to specific deans based on circumstance.

Office of Management and Budget (OMB) Circular A-21, *Cost Principles for Educational Institutions, Section J.10*, states that for professorial and professional staff, the reports will be prepared each academic term, but no less frequently than every six months. For other employees, unless alternate arrangements are agreed to, the reports will be prepared no less frequently than monthly and will coincide with one or more pay periods.

ICSUAM 11000.003.006, *Sponsored Programs Administration*, effective December 1, 2011, states that effort certifications are completed each academic term, but not less frequently than twice annually.

The UEI director of contract and research administration stated that reports were provided to campus academic affairs throughout the audit review period; however, most were provided in hardcopy format and were not documented with a transmittal letter or other record to show that they were submitted in accordance with the minimum frequency per procedural timelines.

Lack of documentation of the timely submission of faculty time and effort reports increases the risk of reduced reimbursements, non-compliance with OMB requirements, and increased regulatory scrutiny.

### **Recommendation 20**

We recommend that UEI document the submission of faculty time and effort reports to campus academic affairs in accordance with established timelines.

### **Campus Response**

We concur. Sponsored programs administration will formally report faculty effort to the office of research affairs within academic affairs through electronic mail to document the transmittal in accordance with timelines that will be established and a copy of the FY 2013/14 effort transmission will be provided by August 15, 2014.

### **ORIENTATION**

UEI did not always provide orientation to principal investigators (PI) and other individuals involved in UEI contracts and grants.

We reviewed 15 contracts and grants and found that in three instances, evidence or acknowledgement of orientation was not on file.

UEI *Protocols for New Awards* states that within 15 working days of acceptance of award document or receipt of fully executed agreement/contract, the account administrator will coordinate scheduling of PI orientation.

UEI *Establishing an Account* states that when research administration and contract administration is notified of a new grant or contract, an account administrator is assigned. This person will contact the

project director to set up an orientation meeting. When the award document is received, the account administrator will notify the PI/project director. An orientation is held with the PI/project director to review the award and UEI forms and procedures.

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

The UEI director of contract and research administration stated that in the first instance, a formal procedure for documenting orientation for a replacement PI was not in place; in the second instance, orientation was not considered applicable to a long-standing project for which the PI had not changed, although a new award was received; and in the third instance, the cause could not be determined because documentation was not on file and the account administrator and PI of the project were no longer on campus to confirm.

Lack of orientation for PIs increases the risk of non-compliance with federal and state regulations, as well as the risk that errors, inconsistencies, misunderstandings, or misappropriation may occur.

### **Recommendation 21**

We recommend that UEI provide orientation to all PIs and other individuals involved in UEI contracts and grants.

### **Campus Response**

We concur and have been providing orientations since 2008. In the three instances cited, documentation was not on file; therefore, effective July 1, 2014, sponsored programs administration will require orientation documentation for replacement PIs and for all new awards for ongoing projects. A copy of the revised procedure will be provided by August 15, 2014.

## **SUB-RECIPIENT MONITORING**

Administration of UEI sub-recipient monitoring needed improvement.  
We reviewed five sub-recipient awards, and we found that:

- ▶ A documented risk assessment was not on file prior to sub-award issuance for one sub-recipient.
- ▶ An A-133 report was not on file for one sub-recipient.

*UEI Sub-recipient Monitoring Policy* states that as a recipient of federal sponsored projects, UEI must comply with the guidelines outlined in OMB Circular A-133. For sub-awards that include federal funds, sub-recipients are required to make an annual disclosure of any sponsored research

audit findings. It also requires that UEI conduct an annual risk assessment of all active subcontracts or sub-awards to determine which sub-recipients require closer scrutiny.

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

OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, §320, states that auditees that are also sub-recipients shall submit to each pass-through entity one copy of the required reporting package when the schedule of findings and questioned costs disclosed audit findings relating to federal awards that the pass-through entity provided.

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

The UEI director of contract and research administration stated that the risk assessment form was not in place at the time of sub-award issuance. She further stated that the A-133 report was not obtained due to an internal coding issue.

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

## **Recommendation 22**

We recommend that UEI:

- a. Maintain each sub-recipient's documented risk assessment on file prior to sub-award issuance.
- b. Obtain A-133 reports from all sub-recipients.

## **Campus Response**

We concur. A risk assessment form was developed and has been in effect since November 2013. In addition, a determination of a sub-recipient or vendor has been in effect since October 2011. Entities determined to be sub-recipients will be coded appropriately in the GL project account key. Effective July 1, 2014, a system report will be generated based on the sub-recipient code field to ensure proper coding; this report will also provide the listing for obtaining A-133 reports or similar documentation if the entity is not subject to OMB Circular A-133. By November 14, 2014, a copy of the system

report with notation that the risk assessment forms are on file and A-133 requested/collected for active sub-recipients will be provided.

## INFORMATION TECHNOLOGY

Protected data maintained on the UEI administrative file server was not encrypted.

ICSUAM §8045.0, *Information Technology Security*, dated April 19, 2010, states that campuses must develop and implement appropriate technical controls to minimize risks to their information technology infrastructure. Each campus must take reasonable steps to protect the confidentiality, integrity, and availability of its critical assets and protected data from threats.

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

ICSUAM §8065.S001, *Information Security Asset Management Standard*, dated April 19, 2010, states in part that where the combination of assessed risk, technical feasibility and operational practicality allow, protected Level 1 data stored electronically must be encrypted using strong encryption methods.

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 encryption of protected data maintained on file servers.

The UEI director of information technology (IT) stated that the file server was not encrypted because CSUS policy did not require servers with protected data to be encrypted. She further stated that a restricted folder within the shared drive was created to restrict access and further secure the files that contained protected data.

Lack of encryption for protected data increases the risk of loss and inappropriate use of auxiliary resources and increases exposure to information security breaches, which could result in violation of legal statutes, financial penalties, and loss of public trust.

**Recommendation 23**

We recommend that UEI encrypt all protected data maintained on its administrative file server.

**Campus Response**

We will work with the information security office to review the use of all protected data maintained on our administrative file server and assess the risk, technical feasibility, and operational practicality of encrypting the stored data. Documentation of this review will be provided by November 14, 2014.

## **CAPITAL PUBLIC RADIO, INC.**

### **CORPORATE GOVERNANCE**

Capital Public Radio, Inc. (CPR) had not filed amended Articles of Incorporation with the chancellor's office in a timely manner.

We found that an amendment made to the Articles of Incorporation on November 29, 2012, had not been filed with the chancellor's office.

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

The CPR CFO/chief operating officer (COO) stated that the cited amendment to the Articles of Incorporation was not submitted to the chancellor's office due to management oversight.

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

#### **Recommendation 24**

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

#### **Campus Response**

We concur. Going forward, CPR will promptly file amended Articles of Incorporation with the Contract Services and Procurement department at the chancellor's office. We will provide evidence of the submittal to the Contract Services and Procurement department at the chancellor's office of any unfiled corporate Articles and/or Bylaws by August 15, 2014.

### **OPERATIONAL COMPLIANCE**

#### **DELEGATION OF AUTHORITY**

CPR did not have written delegations of authority from the campus president giving its management the responsibility to accept monetary gifts and sign gift acknowledgement agreements and letters, or to sign/approve CPR contracts and grant proposals.

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

EO 890, *Administration of Grants and Contracts in Support of Sponsored Programs*, dated January 7, 2004, states that the university and the auxiliary shall enter into a master agreement setting forth the roles and responsibilities of each party with regard to the administration of sponsored programs by an auxiliary. It further states that proposals for sponsored programs shall not be submitted to the sponsor without prior written approval of the president of the university or the president's university designee and of the CFO or the CFO's university designee.

The CPR CFO/COO stated that CPR and the campus went through an extensive process to determine mutual responsibilities as an auxiliary and a licensee, but documented delegations of authority were not obtained due to oversight.

The absence of documented delegations of authority for gift evaluation and acceptance and for approval of contracts and grant proposals increases the risk that donations will be mishandled or misused, sponsored program proposals will not be subject to adequate review, and misunderstandings or unauthorized activities will occur.

### **Recommendation 25**

We recommend that CPR obtain written delegations of authority from the campus president giving its management the responsibility to accept monetary gifts and sign acknowledgement agreements and letters and to sign/approve contracts and grant proposals.

### **Campus Response**

We concur. A delegation of authority from the campus president via the vice president of advancement will be obtained giving CPR management responsibility to accept monetary gifts to CPR and to sign gift acknowledgement agreements and letters. In addition, a delegation of authority from the campus president and CFO will be obtained to sign and approve contracts and grant proposals. These will be obtained and copies provided by September 30, 2014.

## **FUNDRAISING**

CPR fundraising events with gross receipts greater than \$5,000 were not properly approved by a delegated authority.

ICSUAM §15701, *Fundraising Events*, dated July 1, 2012, states that fundraising events with gross receipts greater than \$5,000 must be approved in writing by a delegated authority when the fundraising event utilizes the university name, logo, or trademarks and represents that the university will benefit from the proceeds. Prior to the event, the delegated authority shall review the

fundraising event's budget, drafts of solicitation materials, and action plan to comply with federal, state, and local regulations.

The CPR CFO/COO stated that management was unaware of this requirement.

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

### **Recommendation 26**

We recommend that CPR obtain written approval from a delegated authority for all fundraising events with gross receipts greater than \$5,000.

### **Campus Response**

We concur. CPR will obtain written approval from a delegated authority for all fundraising events with anticipated gross receipts greater than \$5,000. Procedures for fundraising events will be provided to show that this will now be part of the process. These procedures will be provided by August 15, 2014.

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

### **MATCHING GIFTS**

CPR's administration of corporate matching gifts needed improvement.

We found that:

- ▶ Corporate matching gift documentation was not maintained to show evidence that gifts were evaluated for eligibility of matching, subjected to a dual review to ensure that funds were administered in accordance with corporate donor requirements, and deposited as directed in a timely manner.
- ▶ Matching gift auto-added pledges, established on the basis of an existing relationship, were erroneously recorded and aged as outstanding receivables. The donor system permitted matching gift pledges to be auto-added, even though a pledge had not been requested by the constituent.
- ▶ Aged outstanding auto-added pledges receivable had not been followed up or written off.

These are repeat findings from the prior Auxiliary Organizations audit.

ICSUAM §15401.00, *Fundraising-Matching Gifts*, dated March 1, 2012, states that the purpose of this policy is to establish proper internal controls for the acceptance of matching gifts, which

includes a dual review process. Approving authority responsibilities shall be segregated from the recordkeeping function and include, among other duties, the review and verification of all donor contributions for which matching gifts are requested. Recordkeeping responsibilities may be assigned to one or more staff members and should include 1) maintaining records of donor contributions and matching gifts in such a manner that there is a clear record of the individual contribution, the related matching gift claim, and compliance with the matching gift program, and 2) maintaining a record documenting that the matching gift purpose mirrors the purpose of the original donor gift and is consistent with representations to the matching gift program. To substantiate the dual review process, 1) the recordkeeper may countersign the claim certification, 2) the approving authority and recordkeeper may both sign an affirmation, or 3) the process may be automated in a secure database that tracks the actions of both the approving authority and recordkeeper.

The *Compilation of Policies and Procedures for California State University Auxiliary Organizations* sets sound business practice guidelines for auxiliary organizations operating within the CSU system. Section 8.9.4, *Receivables*, states that the auxiliary should properly record and promptly collect receivables in a consistent manner utilizing systems that ensure integrity of existing internal controls.

The CPR *Matching Gifts Policy* states that all pledges that are 12 months past due or have no donor-directed activity within a 12-month period will be written off as uncollectible. The write-off will be noted in the donor's Raiser's Edge account.

The CPR CFO/COO stated that this was discussed at the end of the last audit and some procedures were put in place; however, there was a lack of regular coordination between the finance office and the membership department with regard to managing accounts receivable and matching gift pledges.

Inadequate administration of matching gifts increases the likelihood that funds will be misdirected and the campus will be exposed to liabilities from non-compliance with corporate donor policies, and inadequate follow-up and/or write-off of aged outstanding auto-added pledges receivable increases the risk that receivables will not be accurately reflected in auxiliary financial statements.

### **Recommendation 27**

We recommend that CPR:

- a. Maintain corporate matching gift documentation to show evidence that gifts were evaluated for eligibility of matching, subjected to a dual review to ensure that funds were administered in accordance with corporate donor requirements, and deposited as directed in a timely manner.
- b. Manually correct or write-off auto-added pledges, disable the auto-added feature within the database, and enter pledges only at constituents' request.
- c. Follow up and/or write off aged outstanding auto-added pledges.

### **Campus Response**

We concur. Procedures will be added to increase controls for all of these areas and both the finance office and the membership department will sign to acknowledge receipt and acceptance of these procedures:

- a. Documentation of dual review of matching gifts.
- b. Correction and write-off of auto-added pledges.
- c. Documentation of follow-up and/or write-off of aged auto-added pledges.

Evidence of the auto-added feature disabled within CPR's database and these procedures will be provided by November 14, 2014.

### **COLLECTIONS**

Administration of CPR accounts receivable collections needed improvement.

We reviewed ten delinquent accounts receivable from the accounts receivable aging report as of December 16, 2013, and we found that:

- ▶ Written policies and procedures had not been developed to address collection and follow-up activity for delinquent pledges receivable and the write-off of uncollectible pledges receivable.
- ▶ In five instances, collection and follow-up activity was not performed and documented to facilitate collection or support account write-off. The delinquent accounts receivable, totaling \$3,167, were outstanding from 432 to 1587 days.
- ▶ In one instance, credit balances, totaling \$1,000, were outstanding for 618 days and were not investigated or resolved in a timely manner.

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

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

The CPR CFO/COO stated that the earnings of account executives were dependent on collections and, therefore, CPR assumed that the account executives would work toward collecting unpaid

accounts. He further stated that the delinquent accounts receivables and the credit balances were immaterial to the organization.

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

### **Recommendation 28**

We recommend that CPR:

- a. Develop and implement written policies and procedures to address collection and follow-up activity for delinquent accounts receivable and the write-off of uncollectible accounts receivable.
- b. Perform and document collection and follow-up activity for delinquent accounts receivable to facilitate collection or support account write-off.
- c. Investigate and resolve credit balances in a timely manner.

### **Campus Response**

We concur. CPR will develop and implement written policies and procedures to address:

- a. Collection and follow-up activity for delinquent accounts receivable and write-offs.
- b. Documentation of the collection and follow-up activity for collection, follow-up, and write-offs.
- c. Credit balances – document investigation and policy of whether approval is needed.

These new procedures will be provided along with a memo showing distribution of these new procedures to all required/involved staff by November 14, 2014.

### **WRITE-OFFS**

CPR uncollectible accounts receivable were not always written off in a timely manner, nor were write-offs always properly documented and approved.

We reviewed ten accounts receivable write-offs and found that:

- ▶ In eight instances, the uncollectible receivables were not written off in a timely manner. The receivables, totaling \$18,915, were outstanding from 430 to 963 days before they were written off.
- ▶ In one instance, the write-off was not properly documented and approved.

The *Compilation of Policies and Procedures for California State University Auxiliary Organizations* sets sound business practice guidelines for auxiliary organizations operating within the CSU system.

Section 8.9.4, *Receivables*, states that the auxiliary should establish a written system to invoice customers promptly, in a consistent manner, while exercising due diligence in the follow-up and collection of past-due accounts.

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

The CPR CFO/COO stated that CPR did not have a policy addressing when to write-off past-due accounts. He further stated that he had performed the write-off without proper documentation and approval, and he did not think that he needed additional documentation and approval to perform this write-off.

Untimely write-off of uncollectible accounts receivable increases the risk that receivables will not be accurately reflected in auxiliary financial statements, and lack of proper documentation and approval of write-offs limits the auxiliary's ability to detect errors and irregularities, increases the likelihood of loss of funds, and compromises accountability.

#### **Recommendation 29**

We recommend that CPR write-off uncollectible receivables in a timely manner and properly document and approve write-offs.

#### **Campus Response**

We concur. The procedures developed for Recommendation 28 will also include the timelines required for write-offs and the proper approvals needed. As stated above, these will be provided by November 14, 2014.

## **PURCHASING AND ACCOUNTS PAYABLE**

### **TRAVEL**

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

We reviewed ten travel disbursements, and we found that none required a travel authorization form. The CPR *CapRadio Employee Handbook* states that all business travel must be approved in advance by the immediate supervisor.

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

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

The CPR CFO/COO stated that all travel requests were authorized verbally or through email. He further stated that many flights and hotels were booked by the human resources and business manager, and he stated his belief that this was a sufficient control for an auxiliary of CPR's size.

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

### **Recommendation 30**

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

### **Campus Response**

We concur. CPR will create a travel authorization form for CPR travel. It will be communicated to staff that the form is required to be completed and approved prior to the start of travel. Evidence of this will be provided by August 15, 2014.

## **UNCLAIMED PROPERTY**

CPR did not escheat unclaimed checks to the state.

Specifically, we found that long outstanding unclaimed checks and corresponding accounts payable were voided in the accounting system, but the checks had not been escheated to the state.

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

The CPR CFO/COO stated that he was unaware of the escheatment law.

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

### **Recommendation 31**

We recommend that CPR promptly escheat the unclaimed checks to the state.

### **Campus Response**

We concur. All long-outstanding checks will be escheated according to Title 10, *Unclaimed Property, Chapter 7, Unclaimed Property Law*, Article 2, §1510 and §1511. In addition, new procedures will be written to comply with this law. The written procedures and the evidence of escheatment will be provided by September 30, 2014.

## **PROPERTY AND EQUIPMENT**

Administration of CPR property and equipment needed improvement.

We reviewed ten assets, and we found that:

- ▶ CPR did not have written policies and procedures for an independent physical count of inventory.
- ▶ CPR had not performed an independent annual physical inventory of property and equipment for FY 2010/11, 2011/12, and 2012/13.
- ▶ One stolen asset was not properly reported and removed from the accounting system.
- ▶ One asset could not be located.
- ▶ One asset was returned but not reported to the finance department or removed from the accounting system.

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

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

The CPR CFO/COO stated that CPR did not have written policies and procedures due to oversight and therefore, independent annual inventory counts were not performed. He added that equipment

lists were posted at remote locations, and engineers were expected at least once a year to inspect the lists and report back if anything was missing; however, the inspections were conducted but not properly documented. He further stated that the unreported return was due to oversight on the part of the engineering department, which did not inform the finance department of the return.

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

### **Recommendation 32**

We recommend that CPR:

- a. Develop written policies and procedures for an independent physical count of inventory.
- b. Perform an independent annual physical inventory of property and equipment.
- c. Promptly report any stolen, missing, or returned assets for timely removal from the accounting system.

### **Campus Response**

We concur. CPR will develop written policies and procedures for an independent physical count of inventory. These procedures will also include the requirements to promptly report any stolen, missing, or returned assets for removal from the accounting system. These procedures and evidence of an independent annual physical inventory of property and equipment will be provided by November 14, 2014.

## **INFORMATION TECHNOLOGY**

Physical access to the CPR server room needed improvement.

We found that:

- ▶ Several former employees had access to the CPR server room.
- ▶ Written policies and procedures for the regular certification of the list of individuals with authorized access to the server room were not in place.

CSUS *Access Control* states that all servers and network devices must be kept in a secure location. The location entry must be locked, and access must be limited to a limited set of authorized administrators.

ICSUAM §8080.0, *Physical Security*, dated April 19, 2010, states that each campus must identify physical areas that must be protected from unauthorized physical access. Such areas would include

data centers and other locations on the campus where information assets containing protected data are stored. Campuses must protect these limited-access areas from unauthorized physical access while ensuring that authorized users have appropriate access. Campus information assets that 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 CPR IT coordinator stated that former employees had access to the CPR server room because CPR had not developed policies and procedures to regularly certify the list of individuals with authorized access to the server room.

Lack of reviews of server room access increases the risk that unauthorized personnel will have access to information assets.

### **Recommendation 33**

We recommend that CPR:

- a. Evaluate the list of employees with authorized access to the server room and limit access to only those current employees whose responsibilities require access.
- b. Develop policies and procedures for the regular certification of the list of individuals with authorized access to the server room.

### **Campus Response**

We concur. CPR will develop policies and procedures to annually review the list of individuals with access to the server room. Access will be limited to only those current employees whose responsibilities require access. The review will be documented. These written procedures and evidence of a recent documented review will be provided by November 14, 2014.

**ASSOCIATED STUDENTS OF**  
**CALIFORNIA STATE UNIVERSITY, SACRAMENTO**

**CORPORATE GOVERNANCE**

Associated Students of California State University, Sacramento (ASI) had not filed amended Bylaws with the chancellor's office in a timely manner.

We found that amendments made to the Bylaws on June 16, 2011, had not been filed with the chancellor's office until September 13, 2011.

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

The ASI executive director stated that the late submittal of the amended Bylaws to the chancellor's office occurred because the campus approved the amendments only in part, and therefore, the submittal was delayed until the first scheduled board of directors meeting in September to determine whether the board desired a request for reconsideration by the campus.

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

**Recommendation 34**

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

**Campus Response**

We concur. All future changes/amendments to Bylaws will be filed with the Contract Services and Procurement department at the chancellor's office within 30 calendar days. ASI will develop procedures that document this process to ensure compliance with the *Compilation of Policies and Procedures for California State University Auxiliary Organizations* Section 11.6.1, *Reporting Changes in Articles of Incorporation and Bylaws*. These procedures will be provided by November 14, 2014.

## **PROGRAM COMPLIANCE**

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

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

The ASI executive director stated that the late reporting of scholarships to the financial aid office was due to oversight.

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

### **Recommendation 35**

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

### **Campus Response**

We concur. Going forward, ASI student scholarships will be reported to the financial aid office before funds are expended. Written procedures will be developed to comply with Title 5 §42500(d). These procedures will be provided by November 14, 2014.

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

Administration of ASI accounts receivable collections needed improvement.

We reviewed ten accounts receivable from the accounts receivable aging report as of November 30, 2013, and we found that:

- ▶ Invoices did not accurately reflect the due date. Specifically, invoices stated that payments were due 15 days after receipt of the invoice, but the accounts receivable system did not consider invoices late until 30 days after invoicing.
- ▶ Invoices were not aged properly. Specifically, aging reports were generated using the invoice date as the due date, causing invoices to appear 30 days older than they actually were.
- ▶ In three instances, accounts receivable were not billed in a timely manner.

- ▶ In seven instances, collection and follow-up activity was not documented to facilitate collection, or collection efforts were not performed in a timely manner.

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

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

The ASI director of finance and administration stated that invoices did not accurately reflect the due date due to oversight, and invoices were not aged properly because of an incorrect system setup. He further stated that the lack of timely billing was due to the failure of certain ASI departments to promptly notify the ASI business office to send the invoices. In addition, he stated that untimely follow-up for past-due accounts was due to resources being limited during the implementation of the new point-of-sale system.

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

### **Recommendation 36**

We recommend that ASI:

- a. Correct invoices to accurately reflect the due date.
- b. Correct aging reports to accurately reflect the age of accounts receivable invoices.
- c. Bill accounts receivable in a timely manner.
- d. Perform and document collection and follow-up activity for delinquent accounts receivable to facilitate collection.

### **Campus Response**

We concur. ASI will correct invoices and the setup of the accounting system to accurately reflect due dates and the age of the accounts receivable invoices. We will revise our procedures to provide specific requirements of billing in a timely manner, as well as performing and documenting

collection activity for delinquent accounts receivable. We will also communicate to ASI departments the need to promptly notify the ASI business office to send invoices. We will provide evidence of the accounting system correction, revised procedures, a copy of a current invoice, and communication to ASI departments by August 15, 2014.

## INFORMATION TECHNOLOGY

### DISASTER RECOVERY PLAN

The ASI IT disaster recovery plan (DRP) did not include a business impact assessment to reflect the criticality and order of recovery priority for ASI systems.

EO 1014, *California State University Business Continuity Program*, dated October 8, 2007, provides detailed guidance to campuses for creating, implementing, and maintaining a business continuity program that includes an IT DRP. It further states that goals, which must be met by such a program, include, but are not limited to, the listing, prioritizing, and establishing of recovery time objectives for essential functions, systems, and applications through business impact analysis and risk assessments. Campuses must keep all business continuity-related plans current, must test all plans for viability, and must reference all materials necessary to recover from a disaster.

ICSUAM §8085.0, *Business Continuity and Disaster Recovery*, dated April 19, 2010, states that an information security program needs to support the maintenance and potential restoration of operations through and after both minor and catastrophic disruptions. Campuses must ensure that their information assets can, in the case of a catastrophic event, continue to operate and be appropriately accessible to users. Each campus must maintain an ongoing program that ensures the continuity of essential functions and operations following a catastrophic event. The campus program must be in compliance with the CSU Business Continuity Program.

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 ASI IT manager stated that the ASI IT DRP had recently been updated to include additional information but needed additional refinement to address the concern noted above.

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

**Recommendation 37**

We recommend that ASI include in its IT DRP a business impact assessment to reflect the criticality and order of recovery priority for ASI systems.

**Campus Response**

We concur. ASI will add to our IT DRP a business impact assessment to reflect the criticality of recovery for ASI systems. The revised DRP will be provided by November 14, 2014.

**USER ACCESS REVIEW**

Periodic, documented management reviews of user access privileges within the ASI accounting, payroll, and human resources systems were not performed.

CSUS *Access Control Supplemental Policy* states that all access rights for Level 1 and Level 2 data and other elevated access must be reviewed annually and the results of such reviews be documented by the information security officer and reported to the vice president and chief information officer.

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

The ASI IT manager stated that annual reviews were performed of users assigned to active directory security groups, which control access to the noted applications; however, management was unaware of the requirement to also perform reviews of user access privileges.

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

**Recommendation 38**

We recommend that ASI work with the campus information security office to report all Level 1 and Level 2 systems in order to include those user access privileges as part of the annual campus review.

**Campus Response**

We concur. ASI will work with the campus information security office to report all Level 1 and Level 2 system access privileges in a documented annual review. Evidence of this review and providing it to the information security office will be provided by November 14, 2014.

**UNIVERSITY UNION OPERATION OF**  
**CALIFORNIA STATE UNIVERSITY, SACRAMENTO**

**OPERATING AND ADMINISTRATIVE AGREEMENTS**

Agreements between the University Union Operation of California State University, Sacramento (Union) and the campus, other auxiliaries, and third parties were not always fully executed in a timely manner.

We reviewed 15 agreements and found that three agreements between the Union and the campus, two agreements between the Union and ASI, two agreements between the Union and UEI, and three agreements between the Union and third parties were signed after their effective dates. Execution delays ranged from 19 to 109 days.

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

The Union executive director stated that agreements were not executed in a timely manner due to management oversight and the lack of an appropriate process.

The absence of fully executed written agreements increases the risk of misunderstandings and miscommunication regarding rights and responsibilities and subjects the auxiliaries and CSU to potential liability.

**Recommendation 39**

We recommend that the Union execute all future agreements in a timely manner.

**Campus Response**

We concur. The Union will execute all future agreements in a timely manner. We will develop a written process to help accomplish this. The process will be provided by August 15, 2014.

**INFORMATION TECHNOLOGY**

**DISASTER RECOVERY PLAN**

The Union IT DRP did not include notification and escalation procedures, a business impact analysis, or a threat assessment.

EO 1014, *California State University Business Continuity Program*, dated October 8, 2007, provides detailed guidance to campuses for creating, implementing, and maintaining a business continuity program that includes an IT DRP. It further states that goals, which must be met by such a program, include, but are not limited to, the listing, prioritizing, and establishing of recovery time objectives for essential functions, systems, and applications through business impact analysis and risk assessments. Campuses must keep all business continuity-related plans current, must test all plans for viability, and must reference all materials necessary to recover from a disaster.

ICSUAM §8085.0, *Business Continuity and Disaster Recovery*, dated April 19, 2010, states that an information security program needs to support the maintenance and potential restoration of operations through and after both minor and catastrophic disruptions. Campuses must ensure that their information assets can, in the case of a catastrophic event, continue to operate and be appropriately accessible to users. Each campus must maintain an ongoing program that ensures the continuity of essential functions and operations following a catastrophic event. The campus program must be in compliance with the CSU Business Continuity Program.

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 Union assistant director of IT services stated that the Union IT DRP had recently been updated to include additional information. He added that due to management oversight, the DRP needed additional refinement to address the concerns listed.

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

#### **Recommendation 40**

We recommend that the Union revise its IT DRP to include notification and escalation procedures, a business impact analysis, and a threat assessment.

#### **Campus Response**

We concur. The Union will revise our IT DRP to include notification and escalation procedures, a business impact analysis, and a threat assessment. The revised IT DRP will be provided by August 15, 2014.

#### **USER ACCESS REVIEW**

User access reviews for the Union needed improvement.

We found that periodic, documented management reviews of active users within the member management system, which contained protected data, were performed on a periodic basis; however, the reviews did not include a documented evaluation of user access privileges granted.

*CSUS Access Control Supplemental Policy* states that all access rights for Level 1 and Level 2 data and other elevated access must be reviewed annually and the results of such reviews be documented by the information security officer and reported to the vice president and chief information officer.

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

The Union assistant director of IT services stated that user access privileges were reviewed by him and the business manager, and then a listing of the user access privileges was provided to the ISO as part of the annual campus payment card industry requirements. He further stated that the review of the user access privileges was not documented with signatures due to management oversight, but this was remedied during audit fieldwork.

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

#### **Recommendation 41**

We recommend that the Union perform periodic, documented management reviews of user access privileges within the member management system.

#### **Campus Response**

We concur. A documented review of user access privileges within the member management system was provided during fieldwork; therefore, this recommendation has already been satisfied.

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## **APPENDIX A: PERSONNEL CONTACTED**

### Name

### Title

#### **CAMPUS**

Alexander Gonzalez	President
Adam Cook	Security Analyst, Information Resource and Technology
David Earwicker	Assistant Vice President, Research Administration, Division of Academic Affairs
Justine Heartt	Associate Vice President for Financial Services
Diane Kauffman	Advertising Manager, The State Hornet
Ming-Tung "Mike" Lee	Vice President of Administration and Chief Financial Officer
Kaye Milburn	Director of Auditing Services
Vince Sales	Vice President, University Advancement
Jeff Williams	Information Security Officer

#### **THE UNIVERSITY FOUNDATION AT SACRAMENTO STATE**

Sue Garcia	Director, Advancement Services
Marisa Rollin	Financial Gift Steward

#### **UNIVERSITY ENTERPRISES, INC.**

Craig Barth	Chief Financial Officer
Jennifer Campbell	Human Resources Specialist
Emily Chu	Controller
Steven Davis	Director, Dining Services
Monica Kauppinen	Director, Contract and Research Administration
Terry Kuntz	Purchasing Manager, Dining Services
Ada Lai	Business Analyst
Meri McGraw	Director, Information Technology
Donna McLeod	Payroll Manager
Veronica Nute	Assistant Director, Administration and Operations
Jim Reinhart	Executive Director
Sandy Siu	Accounting/Budget Manager
Cathy Sorace	Accounts Receivable Supervisor
Cheryl Stone	Accounts Payable Supervisor

#### **CAPITAL PUBLIC RADIO, INC.**

Rick Copeland	Information Technology Coordinator
Rick Eytcheson	President and General Manager
Arla Gibson	Director, Development and Marketing
Victoria Hagele	Business Operations Officer
Jennifer Halm	Director, Member Communications
Sandra Langley	Accounting Assistant
Jun Reina	Chief Financial Officer/Chief Operating Officer

**ASSOCIATED STUDENTS OF CALIFORNIA STATE UNIVERSITY, SACRAMENTO**

Davin Brown	Director, Student Life and Services
Meredith Budlong	Operations Specialist, Peak Adventures
Brian Dulgar	Director, Aquatic Center
Tatyana Dyda	Accounting Technician
Elvia Felix	Senior Accounting Technician
Jayant Garg	Interim Junior Accountant
Heather Heieck	Office Manager, Aquatic Center
Eric Johnson	Challenge Center Program Assistant, Peak Adventures
Susie Kuo	Station Advisor, Student Life and Services
Nancy Lopez	Office Administrator, Children's Center
Michael Lopez-Garcia	Operations Assistant
Stacey Matthews	Payroll Technician
Mark Montalvo	Director of Finance and Administration
Jennifer Rossi	Accounting Manager
Mari Ruiz	Operations Supervisor
Alicia Taylor	Programs Specialist, Peak Adventures
Gerald Tubo	Manager, Information Technology
Denise Wessels	Director, Children's Center
Patricia Worley	Executive Director

**THE UNIVERSITY UNION OPERATION OF CALIFORNIA STATE UNIVERSITY, SACRAMENTO**

Kate Costello	Assistant Director of Well
Leslie Davis	Executive Director
Jill Farrell	Business Manager
Steve Forseth	Assistant Director, Facility Services
Mirjana Gavric	Well Director
Amy Jacobsen	Accounting Technician
Bill Olmsted	Director, Facilities and Administration
Norma Sanchez	Assistant Director, Operations
Andrew Singletary	Assistant Director, Information Technology Services
Dean Sorensen	Director, University Union

## **STATEMENT OF INTERNAL CONTROLS**

### **A. INTRODUCTION**

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

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

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

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

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

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

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

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

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

**D. INTERNAL CONTROL SYSTEMS LIMITATIONS**

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



California State University, Sacramento  
Office of the Vice President & Chief Financial Officer  
6000 J Street • Sacramento Hall 272 • Sacramento, CA 95819-6038  
T (916) 278-6312 • F (916) 278-5783 • www.csus.edu/aba

June 16, 2014

Larry Mandel  
Vice Chancellor and Chief Audit Officer  
The California State University  
401 Golden Shore  
Long Beach, CA 90802-4210

**SUBJECT: Campus Response to Audit Recommendations  
of Auxiliary Organizations, #14-01**

Dear Larry:

Please find enclosed California State University, Sacramento's response to the recommendations of the audit. The campus is committed to addressing and resolving the issues identified in the audit report.

If you have any questions or require additional information, please contact Kaye Milburn, Director of Auditing Services, at (916) 278-7439.

Sincerely,

A handwritten signature in blue ink, appearing to read "Ming-Tung Lee".

Ming-Tung "Mike" Lee, Ph.D.  
Vice President and Chief Financial Officer

MTL:mh

Enclosure

cc: Alexander Gonzalez, President  
Larry Gilbert, Vice President and Chief Information Officer  
Jim Reinhart, Executive Director, University Enterprises Inc.  
Vince Sales, Vice President, University Advancement  
Leslie Davis, Executive Director, Union WELL Inc.  
Rick Eytcheson, CEO, Capital Public Radio, Inc.  
Patricia Worley, Executive Director, Associated Students, Inc.  
Ed Mills, Vice President, Student Affairs (Interim)  
Kaye Milburn, Director, Auditing Services

**AUXILIARY ORGANIZATIONS  
CALIFORNIA STATE UNIVERSITY,  
SACRAMENTO**

**Audit Report 14-01**

**CAMPUS**

**FISCAL COMPLIANCE**

**Recommendation 1**

We recommend that the campus recover or document an exchange of value for university advancement services provided to the Foundation.

**Campus Response**

We concur. By August 15, 2014, we will provide documentation of campus recovery and/or document the exchange in value for university advancement services and events that were approved to be paid by the Foundation Board of Directors for fiscal year 2013/14.

**FEES, REVENUES, AND RECEIVABLES**

**Recommendation 2**

We recommend that the campus oversee the State Hornet's performance and documentation of collection and follow-up activity for delinquent accounts receivable to facilitate collection.

**Campus Response**

We concur. Financial Services will work with the State Hornet to develop collection procedures and train the staff on collection techniques by November 14, 2014. Financial Services will review the State Hornet's collection of delinquent accounts semi-annually.

**TRUSTS AND OTHER LIABILITIES**

**Recommendation 3**

We recommend that the campus document:

- a. The delegation of authority for the authorization of a campus activity or program from the campus president to his/her designee.

- b. Policies and procedures to provide specific guidance and documentation requirements for campus activities and program funds.
- c. Advantages to the university and support of the university mission.

**Campus Response**

We concur. We will provide the following documentation:

- a. The delegation of authority was already provided during fieldwork.
- b. Developed policies and procedures providing specific guidance and documentation requirements for campus activities and program funds by November 14, 2014.
- c. Examples of revised UEI account documentation indicating the advantages to the university and support of the university mission by November 14, 2014.

**INFORMATION TECHNOLOGY**

**INFORMATION SECURITY AWARENESS TRAINING**

**Recommendation 4**

We recommend that the campus train all auxiliary employees with access to protected data and information assets in information security awareness.

**Campus Response**

We concur. We will work with the University Union management team so they can provide documentation that all University Union employees with access to protected data and information assets have been trained in information security awareness by November 14, 2014.

**USER ACCESS REVIEW**

**Recommendation 5**

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

**Campus Response**

We concur. A documented management review of user access privileges within the university advancement donor system will be provided by August 15, 2014.

## ASSET MANAGEMENT

### Recommendation 6

We recommend that the campus document the deletion of sensitive data from auxiliary computers prior to the disposal or redeployment of the assets.

### Campus Response

We concur. Per the campus *Disposal of Protected Data Process*, ASI, CPR, and Advancement will log the disposal of all sensitive data before decommissioning and repurposing of all computers and devices in their area by August 15, 2014.

## ENCRYPTION

### Recommendation 7

We recommend that the campus store all protected data within auxiliary file servers in an encrypted format.

### Campus Response

We will review the use of the ASI payroll file server and assess the risk, technical feasibility and operational practicality of encrypting the stored data. Documentation of this review and any revised policies/procedures as a result of this will be provided by November 14, 2014.

## VULNERABILITY ASSESSMENTS

### Recommendation 8

We recommend that the campus:

- a. Review the vulnerability scans and report vulnerabilities to system owners for ASI servers containing protected data.
- b. Develop and implement procedures for ASI management to remediate vulnerabilities in a timely manner.

### Campus Response

We concur.

- a. Sacramento State's Information Security office already conducts periodic campus-wide vulnerability reviews of campus servers with protected data. ASI will notify the ISO of the presence and location of all level one data on their systems. The ISO will ensure that servers that house ASI data are included in future quarterly vulnerability scans. The ISO will provide vulnerability reports on the ASI servers with protected data to system owners after each campus-wide quarterly scan. The campus will complete all actions by August 15, 2014.

- b. The system administrator of ASI will adopt and comply with existing campus-wide information security policies and procedures (i.e. Supplemental Information Security Policy 8045) and work with the campus Information Security Office to both address any reported vulnerabilities in a timely manner and report completion of risk mitigation to the Information Security Officer. This documentation will be provided by August 15, 2014.

**THE UNIVERSITY FOUNDATION AT SACRAMENTO STATE**

**CORPORATE GOVERNANCE**

**ARTICLES OF INCORPORATION**

**Recommendation 9**

We recommend that the Foundation update its Articles of Incorporation to reflect a proper dissolution clause.

**Campus Response**

We concur. The Foundation will update its Articles of Incorporation to reflect a proper dissolution clause. In addition, within 30 days after the changes have been made, the amended Articles will be submitted to the Contract Services and Procurement department at the chancellor's office. These revised Articles and evidence of the submittal will be provided by October 15, 2014, following the September 30, 2014 Board meeting.

**BYLAWS**

**Recommendation 10**

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

**Campus Response**

We concur. The Foundation filed the amended Bylaws on March 14, 2014.

**OPERATIONAL COMPLIANCE**

**Recommendation 11**

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

**Campus Response**

We concur. Going forward, the Foundation will obtain all conflict-of-interest statements from all board members according to policy.

## FEES, REVENUES AND RECEIVABLES

### PLEDGES RECEIVABLE

#### Recommendation 12

We recommend that the Foundation:

- a. Accurately reflect pledges receivable in the general ledger.
- b. Document management review of the pledges receivable aging report.

#### Campus Response

We concur. UEI Accounting will reconcile pledges receivable in the general ledger and the outstanding pledged donations in the donor database with the Development Office on a quarterly basis. We will also document management review of the pledges receivable aging quarterly. Evidence of the most recent documented management review of the pledges receivable aging report will be provided by August 15, 2014.

### MATCHING GIFTS

#### Recommendation 13

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

#### Campus Response

We concur. The *Sacramento State Gift Procedures* will be revised to include the required documented dual review of matching gifts. We will provide the revised procedures and evidence of the documented dual review by August 15, 2014.

## PURCHASING AND ACCOUNTS PAYABLE

#### Recommendation 14

We recommend that the Foundation:

- a. Document collection and follow-up activity on delinquent travel and miscellaneous advances.
- b. Prepare and review account reconciliations for advance accounts in a timely manner.

#### Campus Response

We concur. UEI Accounting will revise our procedures to include documented collection and follow-up activity on delinquent travel and miscellaneous advances. We will provide these procedures and evidence of a current reviewed reconciliation of advance accounts by August 15, 2014.

## GIFT ADMINISTRATION

### **Recommendation 15**

We recommend that the Foundation perform and document follow-up activity on uncleared gift receipts in the suspense account.

### **Campus Response**

We concur. Going forward, there will be documented communication between UEI accounting and university advancement on uncleared gift receipts in the suspense account. An example of this will be provided by August 15, 2014.

**UNIVERSITY ENTERPRISES, INC.**

**OPERATING AND ADMINISTRATIVE AGREEMENTS**

**Recommendation 16**

We recommend that UEI fully execute all agreements with third parties in a timely manner.

**Campus Response**

We concur. On certain occasions, agreements with third parties were not signed until after the effective date indicated on the contract because negotiations were still ongoing. Effective immediately, UEI will ensure that all contracts are signed no later than the effective date, provided a mutual agreement has been reached with the other party.

**PETTY CASH AND CHANGE FUNDS**

**Recommendation 17**

We recommend that UEI update its petty cash policy to require periodic, independent cash counts of petty cash funds.

**Campus Response**

We concur. UEI will revise the petty cash policy to require periodic, independent cash counts of petty cash funds. The revised policy will be provided by August 15, 2014.

**PURCHASING AND ACCOUNTS PAYABLE**

**Recommendation 18**

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

**Campus Response**

We concur. As of April 18, 2014, UEI's Sponsored Programs Administration requires submission of the waiver form prior to departure for all student travel under a sponsored activity or campus program account that includes air or ground transportation. Effective July 1, 2014, students traveling under any UEI account will require the waiver form prior to departure. A copy of the waiver form will be provided and any related procedural documentation will be provided by August 15, 2014.

## COMMERCIAL OPERATIONS

### Recommendation 19

We recommend that UEI:

- a. Finalize contracts for non-university events at least five working days before the event.
- b. Require the client to sign and date all catering agreements.

### Campus Response

- a. We concur. UEI Dining Services policies and procedures mandate that all contracts be finalized and paid in full not less than five days prior to the event. Clients failing to meet the deadline incur a 15 percent late fee. The policies and procedures also stated that UEI “may not be able to perform the desired level of service” for clients not meeting their obligation under the contract. UEI reiterated to Dining staff that non-university events must be finalized at least five working days before the event.
- b. We concur. UEI Dining is transitioning to new catering software, known as CaterTrax, which will eliminate the need to obtain handwritten signatures on contracts. In the future, an electronic signature will replace the prior practice, on all contracts. It is anticipated that CaterTrax will be placed in service no later than August 1, barring any complications. We will provide reports that detail the order and approval process by November 14, 2014.

## CONTRACTS AND GRANTS

### EFFORT REPORTING

#### Recommendation 20

We recommend that UEI document the submission of faculty time and effort reports to campus academic affairs in accordance with established timelines.

#### Campus Response

We concur. Sponsored Programs Administration will formally report faculty effort to the Office of Research Affairs within Academic Affairs through electronic mail to document the transmittal in accordance with timelines that will be established and a copy of the FY 2013/14 effort transmission will be provided by August 15, 2014.

### ORIENTATION

#### Recommendation 21

We recommend that UEI provide orientation to all PIs and other individuals involved in UEI contracts and grants.

**Campus Response**

We concur and have been providing orientations since 2008. In the three instances cited, documentation was not on file; therefore, effective July 1, 2014, Sponsored Programs Administration will require orientation documentation for replacement PIs and for all new awards for ongoing projects. A copy of the revised procedure will be provided by August 15, 2014.

**SUB-RECIPIENT MONITORING**

**Recommendation 22**

We recommend that UEI:

- a. Maintain each sub-recipient's documented risk assessment on file prior to sub-award issuance.
- b. Obtain A-133 reports from all sub-recipients.

**Campus Response**

We concur. A risk assessment form was developed and has been in effect since November 2013. In addition, a determination of a sub-recipient or vendor has been in effect since October 2011. Entities determined to be sub-recipients will be coded appropriately in the GL project account key. Effective July 1, 2014, a system report will be generated based on the sub-recipient code field to ensure proper coding; this report will also provide the listing for obtaining A-133 reports or similar documentation if the entity is not subject to OMB Circular A-133. By November 14, 2014, a copy of the system report with notation that the risk assessment forms are on file and A-133 requested/collected for active sub-recipients will be provided.

**INFORMATION TECHNOLOGY**

**Recommendation 23**

We recommend that UEI encrypt all protected data maintained on its administrative file server.

**Campus Response**

We will work with the Information Security Office to review the use of all protected data maintained on our administrative file server and assess the risk, technical feasibility and operational practicality of encrypting the stored data. Documentation of this review will be provided by November 14, 2014.

**CAPITAL PUBLIC RADIO, INC.**

**CORPORATE GOVERNANCE**

**Recommendation 24**

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

**Campus Response**

We concur. Going forward, CPR will promptly file their amended Articles of Incorporation with the Contract Services and Procurement department at the chancellor's office. We will provide evidence of the submittal to the Contract Services and Procurement department at the chancellor's office of any unfiled corporate Articles and/or Bylaws by August 15, 2014.

**OPERATIONAL COMPLIANCE**

**DELEGATION OF AUTHORITY**

**Recommendation 25**

We recommend that CPR obtain written delegations of authority from the campus president giving its management the responsibility to accept monetary gifts and sign acknowledgement agreements and letters and to sign/approve contracts and grant proposals.

**Campus Response**

We concur. A delegation of authority from the campus president via the vice president of advancement will be obtained giving CPR management responsibility to accept monetary gifts to CPR and to sign gift acknowledgement agreements and letters. In addition, a delegation of authority from the campus president and CFO will be obtained to sign and approve contracts and grant proposals. These will be obtained and copies provided by September 30, 2014.

**FUNDRAISING**

**Recommendation 26**

We recommend that CPR obtain written approval from a delegated authority for all fundraising events with gross receipts greater than \$5,000.

**Campus Response**

We concur. CPR will obtain written approval from a delegated authority for all fundraising events with anticipated gross receipts greater than \$5,000. Procedures for fundraising events will be provided to show that this will now be part of the process. These procedures will be provided by August 15, 2014.

## FEES, REVENUES, AND RECEIVABLES

### MATCHING GIFTS

#### Recommendation 27

We recommend that CPR:

- a. Maintain corporate matching gift documentation to show evidence that gifts were evaluated for eligibility of matching, subjected to a dual review to ensure that funds were administered in accordance with corporate donor requirements, and deposited as directed in a timely manner.
- b. Manually correct or write-off auto-added pledges, disable the auto-added feature within the database, and enter pledges only at constituents' request.
- c. Follow up and/or write off aged outstanding auto-added pledges.

#### Campus Response

We concur. Procedures will be added to increase controls for all of these areas and both the finance office and the membership department will sign to acknowledge receipt and acceptance of these procedures:

- a. Documentation of dual review of matching gifts.
- b. Correction and write-off of auto-added pledges.
- c. Documentation of follow-up and/or write-off of aged auto-added pledges.

Evidence of the auto-added feature disabled within CPR's database and these procedures will be provided by November 14, 2014.

## COLLECTIONS

#### Recommendation 28

We recommend that CPR:

- a. Develop and implement written policies and procedures to address collection and follow-up activity for delinquent accounts receivable and the write-off of uncollectible accounts receivable.
- b. Perform and document collection and follow-up activity for delinquent accounts receivable to facilitate collection or support account write-off.
- c. Investigate and resolve credit balances in a timely manner.

#### Campus Response

We concur. CPR will develop and implement written policies and procedures to address:

- a. Collection and follow-up activity for delinquent accounts receivable and write-offs.

- b. Documentation of the collection and follow-up activity for collection, follow-up, and write-offs.
- c. Credit balances – document investigation and policy of whether approval is needed.

These new procedures will be provided along with a memo showing distribution of these new procedures to all required/involved staff by November 14, 2014.

## **WRITE-OFFS**

### **Recommendation 29**

We recommend that CPR write-off uncollectible receivables in a timely manner and properly document and approve write-offs.

### **Campus Response**

We concur. The procedures developed for Recommendation 28 will also include the timelines required for write-offs and the proper approvals needed. As stated above, these will be provided by November 14, 2014.

## **PURCHASING AND ACCOUNTS PAYABLE**

### **TRAVEL**

#### **Recommendation 30**

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

#### **Campus Response**

We concur. CPR will create a travel authorization form for CPR travel. It will be communicated to staff that the form is required to be completed and approved prior to the start of travel. Evidence of this will be provided by August 15, 2014.

## **UNCLAIMED PROPERTY**

### **Recommendation 31**

We recommend that CPR promptly escheat the unclaimed checks to the state.

### **Campus Response**

We concur. All long-outstanding checks will be escheated according to Title 10, *Unclaimed Property, Chapter 7, Unclaimed Property Law*, Article 2, §1510 and §1511. In addition, new procedures will be written to comply with this law. The written procedures and the evidence of escheatment will be provided by September 30, 2014.

## PROPERTY AND EQUIPMENT

### Recommendation 32

We recommend that CPR:

- a. Develop written policies and procedures for an independent physical count of inventory.
- b. Perform an independent annual physical inventory of property and equipment.
- c. Promptly report any stolen, missing, or returned assets for timely removal from the accounting system.

### Campus Response

We concur. CPR will develop written policies and procedures for an independent physical count of inventory. These procedures will also include the requirements to promptly report any stolen, missing, or returned assets for removal from the accounting system. These procedures and evidence of an independent annual physical inventory of property and equipment will be provided by November 14, 2014.

## INFORMATION TECHNOLOGY

### Recommendation 33

We recommend that CPR:

- a. Evaluate the list of employees with authorized access to the server room and limit access to only those current employees whose responsibilities require access.
- b. Develop policies and procedures for the regular certification of the list of individuals with authorized access to the server room.

### Campus Response

We concur. CPR will develop policies and procedures to annually review the list of individuals with access to the server room. Access will be limited to only those current employees whose responsibilities require access. The review will be documented. These written procedures and evidence of a recent documented review will be provided by November 14, 2014.

**ASSOCIATED STUDENTS OF  
CALIFORNIA STATE UNIVERSITY, SACRAMENTO**

**CORPORATE GOVERNANCE**

**Recommendation 34**

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

**Campus Response**

We concur. All future changes/amendments to Bylaws will be filed with the Contract Services and Procurement department at the chancellor's office within 30 calendar days. ASI will develop procedures that document this process to ensure compliance with the *Compilation of Policies and Procedures for California State University Auxiliary Organizations* Section 11.6.1, *Reporting Changes in Articles of Incorporation and Bylaws*. These procedures will be provided by November 14, 2014.

**PROGRAM COMPLIANCE**

**Recommendation 35**

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

**Campus Response**

We concur. Going forward, ASI student scholarships will be reported to the financial aid office before funds are expended. Written procedures will be developed to comply with Title 5 §42500(d). These procedures will be provided by November 14, 2014.

**FEES, REVENUES, AND RECEIVABLES**

**Recommendation 36**

We recommend that ASI:

- a. Correct invoices to accurately reflect the due date.
- b. Correct aging reports to accurately reflect the age of accounts receivable invoices.
- c. Bill accounts receivable in a timely manner.
- d. Perform and document collection and follow-up activity for delinquent accounts receivable to facilitate collection.

**Campus Response**

We concur. ASI will correct invoices and the setup of the accounting system to accurately reflect due dates and the age of the accounts receivable invoices. We will revise our procedures to provide specific requirements of billing in a timely manner, as well as performing and documenting collection activity for delinquent accounts receivable. We will also communicate to ASI departments the need to promptly notify the ASI business office to send invoices. We will provide evidence of the accounting system correction, revised procedures, a copy of a current invoice, and communication to ASI departments by August 15, 2014.

**INFORMATION TECHNOLOGY****DISASTER RECOVERY PLAN****Recommendation 37**

We recommend that ASI include in its IT DRP a business impact assessment to reflect the criticality and order of recovery priority for ASI systems.

**Campus Response**

We concur. ASI will add to our IT DRP a business impact assessment to reflect the criticality of recovery for ASI systems. The revised DRP will be provided by November 14, 2014.

**USER ACCESS REVIEW****Recommendation 38**

We recommend that ASI work with the campus information security office to report all Level 1 and Level 2 systems in order to include those user access privileges as part of the annual campus review.

**Campus Response**

We concur. ASI will work with the campus information security office to report all Level 1 and Level 2 system access privileges in a documented annual review. Evidence of this review and providing it to the information security office will be provided by November 14, 2014.

**UNIVERSITY UNION OPERATION OF  
CALIFORNIA STATE UNIVERSITY, SACRAMENTO**

**OPERATING AND ADMINISTRATIVE AGREEMENTS**

**Recommendation 39**

We recommend that the Union execute all future agreements in a timely manner.

**Campus Response**

We concur. The Union will execute all future agreements in a timely manner. We will develop a written process to help accomplish this. The process will be provided by August 15, 2014.

**INFORMATION TECHNOLOGY**

**DISASTER RECOVERY PLAN**

**Recommendation 40**

We recommend that the Union revise its IT DRP to include notification and escalation procedures, a business impact analysis, and a threat assessment.

**Campus Response**

We concur. The Union will revise our IT DRP to include notification and escalation procedures, a business impact analysis, and a threat assessment. The revised IT DRP will be provided by August 15, 2014.

**USER ACCESS REVIEW**

**Recommendation 41**

We recommend that the Union perform periodic, documented management reviews of user access privileges within the member management system.

**Campus Response**

We concur. A documented review of user access privileges within the member management system was provided during field work; therefore this recommendation has already been satisfied.

THE CALIFORNIA STATE UNIVERSITY  
OFFICE OF THE CHANCELLOR



BAKERSFIELD

CHANNEL ISLANDS

July 10, 2014

CHICO

DOMINGUEZ HILLS

MEMORANDUM

EAST BAY

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

FRESNO

FULLERTON

FROM: Timothy P. White  
Chancellor

HUMBOLDT

SUBJECT: Draft Final Report 14-01 on *Auxiliary Organizations*,  
California State University, Sacramento

LONG BEACH

LOS ANGELES

MARITIME ACADEMY

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

MONTEREY BAY

NORTHRIDGE

TPW/amd

POMONA

SACRAMENTO

SAN BERNARDINO

SAN DIEGO

SAN FRANCISCO

SAN JOSÉ

SAN LUIS OBISPO

SAN MARCOS

SONOMA

STANISLAUS