

**AUXILIARY ORGANIZATIONS**  
**CALIFORNIA STATE UNIVERSITY,**  
**CHANNEL ISLANDS**

**Audit Report 14-03**  
**August 20, 2014**

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**ASSOCIATED STUDENTS OF**  
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## **ABBREVIATIONS**

ASI	Associated Students of California State University Channel Islands, Inc.
AVP	Associate Vice President
CFO	Chief Financial Officer
CSU	California State University
CSUCI	California State University, Channel Islands
DRP	Disaster Recovery Plan
DSS	Data Security Standard
EO	Executive Order
FY	Fiscal Year
Foundation	California State University Channel Islands Foundation
ICSUAM	Integrated California State University Administrative Manual
IRS	Internal Revenue Service
ISO	Information Security Officer
IT	Information Technology
MOU	Memorandum of Understanding
PCI	Payment Card Industry
RFIN	Resolution of the Committee on Finance
SAQ	Self-Assessment Questionnaire
Site Authority	California State University Site Authority
UGC	University Glen Corporation

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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, Channel Islands (CSUCI) 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 CSUCI campus and its auxiliary organizations from April 21, 2014, through May 15, 2014, and made a study and evaluation of the system of internal compliance/internal control in effect as of May 15, 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 *CSUCI campus* as of May 15, 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: fiscal compliance, purchasing and accounts payable, and information technology.

In our opinion, except for the effect of the weaknesses described below, the fiscal, operational, and administrative controls at the *California State University Channel Islands Foundation* as of May 15, 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, operational compliance, and fees, revenues, and receivables.

In our opinion, except for the effect of the weaknesses described below, the fiscal, operational, and administrative controls at the *University Glen Corporation* as of May 15, 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: operating and administrative agreements, lease agreements, corporate governance, fiscal compliance, operational compliance, commercial operations, and information technology.

In our opinion, except for the effect of the weaknesses described below, the fiscal, operational, and administrative controls at the *Associated Students of California State University Channel Islands, Inc.* as of May 15, 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: operating and administrative agreements and corporate governance.

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

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

## **CAMPUS**

### **FISCAL COMPLIANCE [11]**

The annual campus cost allocation plan to recover direct and indirect costs incurred by the California State University Channel Islands Foundation (Foundation) needed improvement. Specifically, the campus had not recovered or documented an exchange of value for university advancement services provided to the Foundation, the plan did not describe the practices and methodologies utilized to determine the basis for allocating costs, and the fiscal year (FY) 2012/13 cost allocation plan was not signed by the authorized signatories.

### **PURCHASING AND ACCOUNTS PAYABLE [13]**

The campus did not always investigate and resolve open purchase orders in a timely manner. Additionally, campus administration of auxiliary procurement cards needed improvement. For example, procurement cards were used for the purchase of prohibited items, such as gift cards, and for travel-related expenditures, procurement card reconciliations were not always dated to verify timely completion of the review, and Credit Card Program Participation Notification Forms were not always on file.

## **INFORMATION TECHNOLOGY [15]**

Payment Card Industry Data Security Standard Self-Assessment Questionnaires-A had not been completed for all auxiliary credit card merchant accounts on campus. Additionally, the campus had not trained all auxiliary employees with computer access in information security awareness, and the campus did not conduct vulnerability scans of the Associated Students of California State University Channel Islands, Inc. (ASI) server to ensure that vulnerabilities were remediated in a timely manner.

## **CALIFORNIA STATE UNIVERSITY CHANNEL ISLANDS FOUNDATION**

### **CORPORATE GOVERNANCE [18]**

The Foundation did not update its Articles of Incorporation and Bylaws to reflect a proper dissolution clause. Additionally, Foundation board meeting minutes had not been certified by the board secretary or assistant secretary, in accordance with Corporation Code §5215, since February 2012. Further, the Foundation had not filed amended Articles of Incorporation with the Secretary of State and the chancellor's office and Bylaws with the chancellor's office.

### **OPERATIONAL COMPLIANCE [21]**

The Foundation's endowment policies and procedures did not address the minimum dollar threshold to establish an endowment, management fees, or the execution of an endowment agreement outlining donor's intent. Additionally, the Foundation had not obtained annual conflict-of-interest statements from all board members.

### **FEES, REVENUES, AND RECEIVABLES [23]**

Administration of Foundation pledges receivable needed improvement. Specifically, management review of the pledges receivable aging report was not documented, follow-up invoices were not always sent in a timely manner, there was no evidence of management review of follow-up phone logs for further actions to be taken, uncollectible pledges receivables were not always written off in a timely manner, and 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. Additionally, the Foundation did not always perform a documented dual review of all matching gifts during the acceptance process to ensure that funds were designated in accordance with donor intent. Further, Foundation administration of donor system reconciliations needed improvement. Specifically, management reviews of the reconciliations between the Foundation donor database and the campus general ledger accounting system were not documented and written policies and procedures had not been developed to address Foundation management review of donor system reconciliations and the timeliness of final disposition of unreconciled items.

## **UNIVERSITY GLEN CORPORATION**

### **OPERATING AND ADMINISTRATIVE AGREEMENTS [28]**

Agreements between the University Glen Corporation (UGC) and California State University Channel Islands Site Authority (Site Authority), the campus, and a third-party vending services provider were not renewed in a timely manner.

### **FACILITIES AGREEMENTS [29]**

The UGC had not established a facility lease agreement with the Site Authority for the Town Center Market and UGC corporate office located in Town Center or a lease agreement with the campus for equipment used by UGC commercial services.

### **CORPORATE GOVERNANCE [30]**

The UGC had not filed amended Articles of Incorporation with the chancellor's office in a timely manner. Additionally, the UGC had not appointed an audit committee selected by the board of directors, established a written charter explaining the roles and responsibilities of the audit committee's members, or maintained audit committee minutes.

### **FISCAL COMPLIANCE [31]**

UGC reserves for FY 2013/14 were not accurately presented in the annual budget or recorded in the accounting system. Additionally, the UGC did not track and remit California use tax for purchases made with procurement cards.

### **OPERATIONAL COMPLIANCE [33]**

UGC policies and procedures for property and equipment, accounts payable, and dining services needed improvement. Specifically, written policies and procedures for equipment transfers to the campus had not been developed, and current policies and procedures for accounts payable and dining services were not readily available to UGC management and staff. Additionally, the UGC did not have a process in place to ensure that board members appointed mid-term completed and signed annual conflict-of-interest statements.

### **SEGREGATION OF DUTIES [35]**

Certain duties and responsibilities related to cash disbursement transactions were not adequately segregated at the UGC.

## **PERSONNEL AND PAYROLL [36]**

The UGC did not perform an independent, detailed, and documented reconciliation of vacation accruals against ADP payroll records.

## **COMMERCIAL OPERATIONS [37]**

Administration of UGC catering services needed improvement. For example, catering arrangements with third parties were not always supported by written agreements, and catering services were provided to a third party before payment was received.

## **INFORMATION TECHNOLOGY [38]**

The server used by the UGC was running an operating system for which the vendor no longer provided routine security updates and patches. Additionally, the UGC had not established a written service agreement with the campus for maintenance and support of its server housed in the data center, or for other IT services, and remote access to the UGC system server by a third-party service provider was not tracked or monitored. Also, the UGC did not have an information technology disaster recovery plan.

## **ASSOCIATED STUDENTS OF CALIFORNIA STATE UNIVERSITY CHANNEL ISLANDS, INC.**

## **OPERATING AND ADMINISTRATIVE AGREEMENTS [43]**

The operating agreement between the ASI and the Trustees was not fully executed in a timely manner and included functions that should not be performed by a student body organization; and the MOU between ASI and the UGC was not supported by an updated agreement.

## **CORPORATE GOVERNANCE [45]**

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

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## INTRODUCTION

### **BACKGROUND**

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

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

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

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

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

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

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

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

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

#### California State University Channel Islands Foundation

The California State University Channel Islands Foundation (Foundation) was established in 1996 as a non-profit public benefit corporation to promote and assist the educational programs of California State University, Channel Islands (CSUCI). The mission of the Foundation is to support and encourage the university's strategic agenda and institutional mission. The Foundation procures gifts and endowment income to provide immediate and long-term support of CSUCI. The Foundation is governed by a board of directors composed of representatives from the community, faculty, university administration, and student body. The Foundation does not have employees and relies on campus personnel from university advancement and campus financial services for administrative and accounting support services.

#### University Glen Corporation

University Glen Corporation (UGC), part of the CSUCI Site Authority, was established in 2002 as a non-profit public benefit corporation. It is responsible for the development, provision, and maintenance of affordable housing and other related facilities for the use and convenience of university faculty and staff, as well as local residents. UGC oversees the rental program and the construction, financing, sales, and re-sales of the for-sale program, plus community/property management. In 2009, UGC assumed responsibility for the campus dining, catering, and residential dining programs. UGC also provides payroll services to Associated Students of California State University Channel Islands, Inc.; however, UGC relies on campus financial services for administrative and accounting support services. UGC is governed by a board of directors composed of representatives from the faculty, community, student body, and university administration.

#### Associated Students of California State University Channel Islands, Inc.

Associated Students of California State University Channel Islands, Inc. (ASI) was established in 2003 as a non-profit public benefit corporation to promote the establishment of, and provide the means for effective avenues of, student input into the governance of the campus; provide an official voice through which student opinion may be expressed; provide an opportunity for students to gain experience and

training in responsible political participation and community leadership; assist in the protection of the rights and interests of individual students; and stimulate the educational, social, physical, and cultural well-being of the university community. In addition, ASI implements sound business practices that uphold the fiduciary responsibility associated with the management of student fees and funds the operation of the CSUCI Student Union. ASI is governed by a board of directors composed of representatives from the student body, university administration, faculty, and community. ASI relies on campus personnel for administrative and accounting support services and UGC for payroll services.

### **PURPOSE**

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

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

### **SCOPE AND METHODOLOGY**

Our study and evaluation were conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing* issued by the Institute of Internal Auditors and included the audit tests we considered necessary in determining whether fiscal, operational, and administrative controls are in place and operative. The management review emphasized, but was not limited to, compliance with state and federal laws, Board of Trustee policies, and Office of the Chancellor policies, letters, and directives. For those audit tests that required annualized data, fiscal years 2011/12 and 2012/13 were the primary periods reviewed. In certain instances, we were concerned with representations of the most current data; in such cases, the test period was July 1, 2013, to May 15, 2014. Our primary focus was on internal compliance/internal control.

Specifically, we reviewed and tested:

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

- ▶ Campus oversight of auxiliary operations.

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

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

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

California State University Channel Islands Foundation

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

University Glen Corporation

- ▶ Operating and Administrative Agreements
- ▶ Facilities Agreements
- ▶ Corporate Governance
- ▶ Fiscal Compliance
- ▶ Operational Compliance
- ▶ Program Compliance
- ▶ Segregation of Duties
- ▶ Cash Receipts and Handling

University Glen Corporation (cont.)

- ▶ Petty Cash and Change Funds
- ▶ Investments
- ▶ Fees, Revenues, and Receivables
- ▶ Purchasing and Accounts Payable
- ▶ Personnel and Payroll
- ▶ Property and Equipment
- ▶ Trusts and Other Liabilities
- ▶ Commercial Operations
- ▶ Auxiliary Programs
- ▶ Information Technology

Associated Students of California State University Channel Islands, Inc.

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

Campus

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

We have not performed any auditing procedures beyond May 15, 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 annual campus cost allocation plan to recover direct and indirect costs incurred by the California State University Channel Islands Foundation (Foundation) needed improvement.

We reviewed campus cost allocation plan documentation for fiscal years (FY) 2011/12, 2012/13, and 2013/14, and we found that:

- ▶ The campus had not recovered or documented an exchange of value for university advancement services provided to the Foundation.
- ▶ The plan did not describe the practices and methodologies utilized to determine the basis for allocating costs.
- ▶ The FY 2012/13 cost allocation plan was not signed by the authorized signatories.

Integrated California State University Administrative Manual (ICSUAM) §3552.01, *Cost Allocation/Reimbursement Plans for the California State University Operating 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 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. It further states that a university's cost allocation/reimbursement plan must articulate the practices and methodologies utilized in determining the basis for allocating costs.

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 (AVP) for finance and budget stated that the Foundation did not have any employees, and university advancement employees had been providing support for the

Foundation as part of their daily work responsibilities. She further stated that this had been the practice since the formation of the Foundation and had not been cited in previous audits as a practice that required change. Additionally, she stated that practices and methodologies had not been developed because the Foundation had not reimbursed the campus for university advancement staff since its inception. She also stated that a signed cost allocation plan for FY 2012/13 could not be located due to a change in documentation storage and the separation of a staff member responsible for filing the cost allocation plan.

Lack of cost recovery or a documented exchange of value, inadequate documentation of practices and methodologies, and the absence of a formally approved cost allocation plan increase the risk that the campus operating fund will not be fully compensated for support provided to auxiliaries, and increase the risk of non-compliance with relevant requirements and misunderstandings and miscommunication regarding direct and indirect costs.

### **Recommendation 1**

We recommend that the campus:

- a. Recover or document an exchange of value for university advancement services provided to the Foundation.
- b. Update its cost allocation plan to describe the practices and methodologies utilized to determine the basis for allocating costs.
- c. Obtain the signatures of authorized signatories on all future cost allocation plans.

### **Campus Response**

We concur.

- a. The university will document an exchange of value for university advancement services provided to the Foundation in the FY 2015/16 cost allocation plan and will provide a copy of that plan to the chancellor's office by February 20, 2015.
- b. The campus will update the cost allocation plans for all of its auxiliaries to include descriptions of practices and methodologies utilized to determine the basis for allocating costs and will provide copies of the plans by to the chancellor's office by February 20, 2015.
- c. The campus will obtain signatures on all future cost allocation plans; evidence of this will be included in the plans to be provided to the chancellor's office by February 20, 2015.

## **PURCHASING AND ACCOUNTS PAYABLE**

### **OPEN PURCHASE ORDERS**

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

We reviewed 21 auxiliary open purchase orders outstanding for more than 365 days, and we found that 21 purchase orders totaling \$55,335 were outstanding from 377 to 676 days and had not been disencumbered or removed from the purchase order system.

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

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

The campus AVP for finance and budget stated that periodic review of long outstanding purchase orders was not in place due to management oversight.

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

### **Recommendation 2**

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

### **Campus Response**

We concur. The campus has implemented a new program to track open purchase orders. Under the new program, bi-weekly notices are sent to buyers. Buyers report back on the status of open purchase orders, and indicate whether the purchase order is to remain open or should be closed.

## **PROCUREMENT CARDS**

Campus administration of auxiliary procurement cards needed improvement.

We reviewed the procurement card issuance process and three procurement card reconciliations for five employees working for University Glen Corporation (UGC), and we found that:

- ▶ In six instances, procurement cards were used for the purchase of prohibited items, such as gift cards, and for travel-related expenditures.
- ▶ In two instances, procurement card reconciliations were not dated to verify timely completion of the review.
- ▶ In one instance, a Credit Card Program Participation Notification Form was not on file.

California State University, Channel Islands (CSUCI) *Procurement Credit Card Handbook* states that use of procurement cards for gift cards/gift and travel-related air or ground transportation, lodging, or meals is prohibited. It further states that the online procurement card monthly reconciliation is due five business days from the cycle cut-off on the 10th of the month. The authorizing official then has five business days to review and approve all transactions.

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

The campus AVP for administrative services stated that auxiliaries were allowed to use procurement cards for the purchase of gift cards and for travel-related expenditures because auxiliaries did not have a separate travel or credit card. He further stated that procurement card reconciliations were not dated due to oversight, and that the Credit Card Program Participation and Notification Form was signed but misfiled.

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

### **Recommendation 3**

We recommend that the campus:

- a. Enforce policies prohibiting the use of procurement cards for the purchase of items such as gift cards or for travel-related expenditures.
- b. Date procurement card reconciliations.
- c. Properly file Credit Card Program Participation Notification Forms.

### **Campus Response**

We concur.

- a. The campus has a training module that covers the appropriate and approved use of procurement cards. The campus will continue to monitor these prohibited expenditures by assessing penalties

on a graduated scale. A copy of the agenda and sign-in sheets for the training sessions and documentation supporting penalties assessed will be provided to the chancellor's office by February 20, 2015.

- b. The campus will monitor the requirement to date reconciliations. The campus will conduct a monthly audit and will provide a report indicating, out of the total number of reconciliations submitted per month, how many were not dated. For those reconciliations not dated, procurement will notify the responsible party and continue to track for as long as the problem persists. Documentation supporting this process will be provided to the chancellor's office by February 20, 2015.
- c. The campus will develop a process to ensure that Credit Card Program Participation Notification Forms are properly filed. A copy of the process will be supplied and a written confirmation that filing has been completed will be provided to the chancellor's office by February 20, 2015.

## INFORMATION TECHNOLOGY

### PAYMENT CARD INDUSTRY DATA SECURITY STANDARD COMPLIANCE

Payment Card Industry (PCI) Data Security Standard (DSS) Self-Assessment Questionnaires (SAQ)-A had not been completed for all auxiliary credit card merchant accounts on campus.

PCI DSS requires attestation through SAQ-A, which applies to merchants that outsource all cardholder data.

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.

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

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

and expiration dates; and prohibit any storage, whether encrypted or not, of the three-digit security codes.

The campus information security officer (ISO) stated his belief that because the auxiliary food services systems did not process credit card information over the campus network, it did not need to complete a PCI DSS SAQ-A.

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

#### **Recommendation 4**

We recommend that the campus, in conjunction with the auxiliaries, complete an annual PCI DSS SAQ-A for all auxiliary credit card merchant accounts on campus.

#### **Campus Response**

We concur. A team will be created consisting of auxiliary personnel and information security staff, to define and develop roles and responsibilities, conduct a risk assessment, and complete the annual SAQ-A for all auxiliary credit card merchant accounts. Guidelines, results of risk assessment, and a completed annual SAQ will be provided to the chancellor's office by February 20, 2015.

### **INFORMATION SECURITY AWARENESS TRAINING**

The campus had not trained all auxiliary employees with computer access 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.

The campus ISO stated that he thought that information security training was available to auxiliaries through the auxiliary organization risk management authority provided by the auxiliary organization association, but that he had not confirmed auxiliaries' participation.

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

### **Recommendation 5**

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

### **Campus Response**

We concur. The campus information security department will create security awareness training. The training will be administered to all auxiliary employees, and assessments will be conducted by the auxiliary's administrative staff. A copy of the contents of the security awareness training will be provided, and documentation evidencing that all auxiliary employees have taken the security awareness training will be provided to the chancellor's office by February 20, 2015.

## **VULNERABILITY ASSESSMENTS**

The campus did not conduct vulnerability scans of the Associated Students of California State University Channel Islands, Inc. (ASI) server to ensure that vulnerabilities were remediated in a timely manner.

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 server did not include reviewing vulnerability scanning results and remediating critical vulnerabilities. The campus manager of information technology infrastructure stated that the campus houses the auxiliary server in the data center but does not perform any other services.

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

### **Recommendation 6**

We recommend that the campus conduct vulnerability scans of the auxiliary servers to ensure that vulnerabilities are remediated in a timely manner.

### **Campus Response**

We concur. Vulnerability scans of servers identified as auxiliary servers will be conducted by the campus technology department. The results will be provided to the auxiliary to address. A copy of the vulnerability scan results and an explanation of the remediation measures taken by the auxiliary as a result of the scan will be provided by February 20, 2015.

## **CALIFORNIA STATE UNIVERSITY CHANNEL ISLANDS FOUNDATION**

### **CORPORATE GOVERNANCE**

#### **DISSOLUTION OF AUXILIARY**

The California State University Channel Islands Foundation (Foundation) did not update its Articles of Incorporation and Bylaws 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 Foundation's dissolution clause was not updated due to staff transition.

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 7**

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

#### **Campus Response**

We concur. The Foundation shall update its Articles of Incorporation and Bylaws to reflect a proper dissolution clause; copies of the Bylaws and Articles will be provided to the chancellor's office by February 20, 2015.

### **BOARD MINUTES**

Foundation board meeting minutes had not been certified by the board secretary or assistant secretary, in accordance with Corporation Code §5215, since February 2012.

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

The campus vice president of university advancement stated that board meeting minutes were not certified due to staff transition and the lack of proper staff training as a part of the transition of responsibilities.

Lack of certification for board meeting minutes increases the risk of misunderstandings and may increase legal liability.

### **Recommendation 8**

We recommend that the Foundation have all board meeting minutes certified by the board secretary or assistant secretary, in accordance with Corporation Code §5215.

### **Campus Response**

We concur. The Foundation is now in compliance with Corporation Code §5215. Certified board meeting minutes are posted to the Foundation website. Moving forward, meeting minutes will be certified at the time the board approves them and will be posted to the Foundation website in a timely manner.

## **ARTICLES OF INCORPORATION**

The Foundation had not filed amended Articles of Incorporation with the Secretary of State and the chancellor's office.

We found that amendments made to the Articles of Incorporation on July 19, 2011, had not been filed with the Secretary of State and the chancellor's office.

Corporation Code §5817 states that upon the filing of the certificate of amendment, the articles shall be amended in accordance with the certificate and any change, reclassification or cancellation of memberships shall be effected, and a copy of the certificate, certified by the Secretary of State, is prima facie evidence of the performance of the conditions necessary to the adoption of the amendment. A corporation shall furnish an additional copy of the certificate of amendment to the Secretary of State, who shall forward that copy to the attorney general.

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 campus vice president for university advancement stated that the amendment to the Articles of Incorporation occurred under the tenure of the former AVP of advancement, and the loss of the vice

president of advancement position, as well as staff transition, may have prevented the reassignment of this responsibility to a new or existing employee.

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

### **Recommendation 9**

We recommend that the Foundation promptly file the amended Articles of Incorporation with the Secretary of State and submit a copy to the Contract Services and Procurement department at the chancellor's office.

### **Campus Response**

We concur. The Foundation has submitted its Articles of Incorporation to the Secretary of State, and a copy was forwarded on September 19, 2014, to the Contract Services and Procurement department at the chancellor's office.

## **BYLAWS**

The Foundation had not filed amended Bylaws with the chancellor's office.

We found that an amendment made to the Bylaws on May 14, 2013, had not been filed with the chancellor's office.

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

The campus vice president for university advancement stated that the transition of the management team and a reassignment of roles and responsibilities may have prevented the Foundation from carrying out this task.

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. A copy of the amended Bylaws of the Foundation was submitted to the Contract Services and Procurement department at the chancellor's office on September 19, 2014.

## **OPERATIONAL COMPLIANCE**

### **POLICIES AND PROCEDURES**

The Foundation's endowment policies and procedures did not address the minimum dollar threshold to establish an endowment, management fees, or the execution of an endowment agreement outlining donor's intent.

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

The campus vice president of university advancement stated that the loss of the vice president of advancement position may have prevented the creation of comprehensive endowment policies and procedures.

Insufficient written policies and procedures increase the risk that errors, inconsistencies, misunderstandings, or misappropriation will occur and funds will be misdirected, and may increase legal liability for noncompliance with a donor's intent.

### **Recommendation 11**

We recommend that the Foundation update its endowment policies and procedures to address the minimum dollar threshold to establish an endowment, management fees, and the execution of an endowment agreement outlining the donor's intent.

### **Campus Response**

We concur. The Foundation will update its endowment policies and procedures. The policies and procedures will address the minimum dollar threshold to establish an endowment, management fees, and the execution of an endowment agreement outlining the donor's intent. A copy of the updated policies and procedures will be provided to the chancellor's office by February 20, 2015.

## **CONFLICT OF INTEREST**

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

We found that 13 of the 22 board members had not signed a conflict-of-interest statement for FY 2013/14.

The Foundation *Conflict of Interest Policy* states that the board requires each director and officer annually (1) to review this policy; (2) to disclose any possible personal, familial, or business relationship that reasonably could give rise to a conflict of interest involving Foundation or California State University, Channel Islands; and (3) to acknowledge by his or her signature that he or she is in accordance with the letter and spirit of this policy.

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

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

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

The campus vice president for university advancement stated that the campus had not obtained signed conflict-of-interest statements from all board members due to oversight.

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

### **Recommendation 12**

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

### **Campus Response**

We concur. Staff will ensure that annual conflict-of-interest statements are completed and signed by all board members. Copies of the statements will be provided to the chancellor's office by February 20, 2015.

## FEES, REVENUES, AND RECEIVABLES

### PLEDGES RECEIVABLE

Administration of Foundation pledges receivable needed improvement.

We reviewed ten pledges receivable from the February 2014 aging report, and we found that:

- ▶ Management review of the pledges receivable aging report was not documented.
- ▶ In three instances, follow-up invoices were not sent in a timely manner, and there was no evidence of management review of follow-up phone logs for further actions to be taken.
- ▶ Uncollectible pledges receivables were not always written off in a timely manner.
- ▶ 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.

The Foundation *Accounts Receivable Aging Report and Invoicing Procedure* states that the Foundation will review monthly reports for payments due now, send reminder invoices for payments due now, and update reports with notes for when payments can be expected. It further states that the Foundation will write-off pledges that directors feel will not be paid.

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.

The *Compilation of Policies and Procedures for California State University Auxiliary Organizations* sets sound business practice guidelines for auxiliary organizations operating within the CSU system. Section 8.9.3, *Donations, Program Service Fees, Other Income*, states that the auxiliary should establish a written recordkeeping system that enables gifts to be properly received, recorded, and acknowledged in accordance with donor restrictions and other requirements.

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

The campus vice president for university advancement stated that staff turnover contributed to the pledges receivable concerns; however, as part of the year-end process, management was made aware of pledges deemed collectible and actions to be taken.

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

### **Recommendation 13**

We recommend that the Foundation:

- a. Document management review of the pledges receivable aging report.
- b. Send all follow-up invoices in a timely manner, and document management review of follow-up phone logs for further actions to be taken.
- c. Write-off uncollectible receivables in a timely manner.
- d. Develop and implement written policies and procedures to address collection and follow-up activity for delinquent pledges receivable and the write-off of uncollectible pledges.

### **Campus Response**

We concur.

- a. Pledges receivable balances are reported and reviewed monthly. Procedures will be updated to reflect management review. The procedure and aging report documenting review by management will be provided to the chancellor's office by February 20, 2015.
- b. Follow-up invoices will be sent in a timely manner and documentation of management review of phone logs for further action taken will be implemented. Updated procedures will reflect the collection process. Collection reports, phone logs, and evidence of management review with documentation will be provided to the chancellor's office by February 20, 2015.
- c. Uncollectible balances will be approved for write-off by management in a timely manner. Updated procedures will reflect the write-off process. Write-off reports with documentation will be provided to the chancellor's office by February 20, 2015.
- d. Procedures will be updated and developed to address collection and follow-up activity for delinquent pledges receivable and the write-off of uncollectible pledges procedures will be provided to the chancellor's office by February 20, 2015.

### **MATCHING GIFTS**

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

We reviewed ten corporate matching gifts received between September 2011 and April 2014, and we found that in six instances, a Matching Gift Acceptance Form was not provided to document review of eligibility and to certify that a dual review was performed. This is a repeat finding from the prior Auxiliary Organizations audit.

The Foundation *Matching Gift Policy* states that all matching gifts will be reviewed by the advancement finance coordinator, as well as the president or designee. It further states that the Matching Gift Acceptance Form will be completed by both the advancement finance coordinator and the president or designee to ensure that the requirements of the matching gift company are met.

ICSUAM §15401.00, *Approving Authority Responsibility*, dated March 1, 2012, states that each campus is required to develop written procedures consistent with this policy. It requires the review and verification of all donor contributions for which matching gifts are to be requested to ensure that the gift conforms to the guidelines for donations to the recipient organization and the relevant matching gift program; any apparent questions should be resolved by appropriate inquiries before a matching gift is requested. Specifically, the approving authority should review any restrictions related to personal benefit provided to the donor; e.g., athletics tickets. Section 505, *Documentation*, further states that 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 staff turnover and the implementation of a new matching gift policy resulted in the lack of dual review documentation.

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 14**

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

#### **Campus Response**

We concur. The matching gift policy and form is in place. The administration desk procedures have been updated to reflect a dual process review of all matching gifts during the acceptance process to ensure that funds are designated in accordance with donor intent.

### **DONOR SYSTEM RECONCILIATION**

Foundation administration of donor system reconciliations needed improvement.

We reviewed donor system reconciliations for December 2013, January 2014, and February 2014, and we found that:

- ▶ Management reviews of the reconciliations between the Foundation donor database and the campus general ledger accounting system were not documented.
- ▶ Written policies and procedures had not been developed to address Foundation management review of donor system reconciliations and the timeliness of final disposition of unreconciled 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 8.9.4, *Receivables*, states that the auxiliary should reconcile subsidiary receivables ledgers to the general ledger on a timely basis with independent 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 proper administration of gift processing.

The campus vice president for university advancement stated that staff turnover contributed to the donor system reconciliation concerns.

Inadequate administration of gift processing increases the risk of inconsistencies, misunderstandings, and loss or misappropriation of funds, and the absence of policies and procedures increase the risk that errors, inconsistencies, or misunderstandings may occur.

### **Recommendation 15**

We recommend that the Foundation:

- a. Document management review of reconciliations between the Foundation donor database and the campus general ledger accounting system.
- b. Establish written policies and procedures to address management review of donor system reconciliations and the timeliness of final disposition of unreconciled items.

### **Campus Response**

We concur.

- a. The Foundation will document management review of reconciliations between the Foundation data base and the campus general ledger accounting system. A copy of the process and reconciliation will be provided to the chancellor's office by February 20, 2015.

- b. Guidelines and procedures will be established for monthly management review of reconciliations and timeliness of final disposition of unreconciled items. A copy of the guidelines and procedures will be provided to the chancellor's office by February 20, 2015.

## **UNIVERSITY GLEN CORPORATION**

### **OPERATING AND ADMINISTRATIVE AGREEMENTS**

Agreements between the University Glen Corporation (UGC) and the California State University Channel Islands Site Authority (Site Authority), the campus, and a third-party vending services provider were not renewed in a timely manner.

We found that:

- ▶ The service agreement between the UGC and the Site Authority had expired on June 30, 2012, and had not been renewed.
- ▶ The memorandum of understanding (MOU) between the UGC and the campus for commercial services had expired on June 30, 2013, and had not been renewed.
- ▶ The contract between the UGC and a third-party vending services provider had expired on June 30, 2009, and had not been renewed.

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 UGC senior director stated that the agreement and the MOU were not renewed in a timely manner because management believed that the language in the agreement and MOU permitted the agreement and MOU to remain in force unless and until changes were necessary and agreed upon. He further stated that the contract with the vending services provider was not renewed due to oversight.

The absence of a current, written operating agreement increases the risk of misunderstandings and miscommunication regarding rights and responsibilities and subjects the auxiliary and CSU to potential liability.

#### **Recommendation 16**

We recommend that the UGC promptly renew the service agreement with the Site Authority, the MOU with the campus, and the contract with the third-party vending services provider.

#### **Campus Response**

We concur.

- a. UGC will renew the operating agreement with the Site Authority and will provide to the chancellor's office a copy of the fully executed agreement by February 20, 2015.
- b. UGC will renew the MOU with the campus and provide to the chancellor's office, a fully executed copy of it by February 20, 2015.
- c. UGC will renew its agreement with Canteen Coastal (vending services provider) and provide to the chancellor's office a fully executed copy of it by February 20, 2015.

## **FACILITY AGREEMENTS**

The UGC had not established a facility lease agreement with the Site Authority for the Town Center Market and UGC corporate office located in Town Center or a lease agreement with the campus for equipment used by UGC commercial services.

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

The campus AVP for administrative services stated that because the UGC acts as the Site Authority's agent, paying fees to itself seemed counter-productive and therefore, a facility lease had not been established. He further stated that the equipment lease had not been established due to oversight.

The absence of facility lease agreements increases the risk of misunderstandings and miscommunication regarding rights and responsibilities.

### **Recommendation 17**

We recommend that the UGC establish a facility lease with the Site Authority and an equipment lease with the campus.

### **Campus Response**

We concur.

- a. UGC will execute a lease for Town Center Market and the UGC corporate offices with the campus and provide a copy to the chancellor's office by February 20, 2015.
- b. The equipment that is in use in the Student Union Building was purchased by University Glen and currently resides on the campus books. The equipment will be transferred to UGC's books. Proof that the equipment was originally purchased by University Glen and evidence of the

transfer of the property to University Glen's books will be provided to the chancellor's office by February 20, 2015.

## **CORPORATE GOVERNANCE**

### **ARTICLES OF INCORPORATION**

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

We found that amendments made to the Articles of Incorporation on September 26, 2011, and submitted and approved by the Secretary of State on November 21, 2007, as well as amendments made on October 9, 2012, and submitted and approved by the Secretary of State on October 24, 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 campus AVP for administrative services stated that the amended Articles of Incorporations were not submitted to the chancellor's office because there was a lack of awareness about the requirement.

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

#### **Recommendation 18**

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

#### **Campus Response**

We concur. The amended Articles of Incorporation were recorded by the California Secretary of State and also submitted to the chancellor's office on May 28, 2014.

### **AUDIT COMMITTEE**

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

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

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

The campus AVP for administrative services stated that the board served as the audit committee during the past three years, and an audit committee had not been established due to oversight. He further stated that a written charter and audit committee minutes had not been established because an audit committee had not been formed.

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

#### **Recommendation 19**

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

#### **Campus Response**

We concur. UGC has appointed an audit committee; the campus will provide a roster. A charter will be drafted and a copy of the draft will be provided. Audit committee minutes will be maintained, and a copy of the minutes will be provided. All documentation will be provided to the chancellor's office by February 20, 2015.

## **FISCAL COMPLIANCE**

### **RESERVES**

UGC reserves for FY 2013/14 were not accurately presented in the annual budget or recorded in the accounting system.

Specifically, we found that the reserve amount was stated as zero, rather than a board-approved reserve amount.

The UGC *Reserves Policy* states that excess revenues will be allocated as working capital and current operations and commercial services. This appropriation will be maintained at a reserve level until it is sufficient to provide for at least one year of normal operating expenses for all UGC operations.

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

The *Compilation of Policies and Procedures for California State University Auxiliary Organizations* sets sound business practice guidelines for auxiliary organizations operating within the CSU system. Section 8.9.9, *Reserves and Net Assets*, states, in part, that an auxiliary must implement financial standards, which will assure fiscal viability, including proper provision for professional management, adequate working capital, adequate reserve funds for current operations and capital replacements, and adequate provisions for new business requirements.

The UGC senior director stated that reserves were not accurately presented in the annual budget and recorded in the accounting system due to management oversight.

Improper administration of reserves increases the risk of misunderstandings and miscommunication regarding available reserves, as well as the risk that the auxiliary will be unable to fund future needs.

### **Recommendation 20**

We recommend that the UGC accurately present reserves in its annual budget and record reserves in the accounting system.

### **Campus Response**

We concur. UGC will accurately present reserves in its annual budget and record reserves in the accounting system. A copy of the projected FY 2015/16 budget to reflect the accurate presentation of the reserves that will be recorded in the approved budget, and support for the accounting entries, will be provided to the chancellor's office by February 20, 2015.

### **TAXES**

The UGC did not track and remit California use tax for purchases made with procurement cards.

California State Board of Equalization Publication 110, *California Use Tax Basics*, states that use tax generally applies when you buy merchandise that will be used, stored, consumed, or given away in this state, under certain circumstances. Use tax is based on an item's purchase price and generally applies to California consumer or retailer purchases from out-of-state vendors (including foreign

merchants) who do not collect California tax on their sales unless the purchase is otherwise subject to an exemption or exclusion.

State of California Franchise Tax Board 988, *California Use Tax and Your Filing Requirements*, states that you must pay California use tax when you purchase out-of-state items by telephone, internet, mail, or in person and both of the following apply: a) the seller does not collect California sales or use tax and b) you use, give away, store, or consume the item in this state.

The campus AVP for finance and budget stated that the California use tax for purchases made with procurement cards was not tracked and remitted due to oversight.

Inadequate tracking and remitting of California use tax increases exposure to potential penalties and actions by California State Board of Equalization.

### **Recommendation 21**

We recommend that the UGC track and remit California use tax for purchases made with procurement cards.

### **Campus Response**

We concur. UGC will track and remit California sales tax for purchases made with procurement cards. A sample of the tracking and remission to the tax board will be provided to the chancellor's office by February 20, 2015. (Please note: UGC does not incur use tax at this time.)

## **OPERATIONAL COMPLIANCE**

### **POLICIES AND PROCEDURES**

UGC policies and procedures for property and equipment, accounts payable, and dining services needed improvement.

We found that:

- ▶ Written policies and procedures for equipment transfers to the campus had not been developed.
- ▶ Current policies and procedures for accounts payable and dining services were not readily available to UGC management and staff.

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

address equipment transfers to the campus and the availability of all policies and procedures to management and staff.

The campus AVP for administrative services stated that the UGC had been making property and equipment transfers to the campus for a long time, in a practice initiated by the former vice president of finance and administration, and related policies and procedures were not in place due to oversight. The UGC senior director stated that the current policies and procedures for accounts payable and dining services were not readily available to UGC management and staff due to oversight.

The absence of written policies and procedures and lack of availability of current policies and procedures to management and staff increases the risk that errors, inconsistencies, misunderstandings, or misappropriation will occur.

### **Recommendation 22**

We recommend that the UGC:

- a. Develop written policies and procedures for equipment transfers to the campus.
- b. Make current policies and procedures for accounts payable and dining services readily available to UGC management and staff.

### **Campus Response**

We concur.

- a. Policies and procedures for equipment transfers to the campus will be developed and provided to the chancellor's office by February 20, 2015.
- b. Policies and procedures for accounts payable and dining services will be developed and distributed to UGC management and staff, and copies will be provided to the chancellor's office by February 20, 2015.

### **CONFLICT OF INTEREST**

The UGC did not have a process in place to ensure that board members appointed mid-term completed and signed annual conflict-of-interest statements.

We found that two of seven board members appointed mid-term in FY 2013/14 did not complete and sign annual conflict-of-interest statements.

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

The IRS, *Governance and Related Topics 501(c)(3)*, dated February 4, 2008, and *Return of Organization Exempt from Income Tax*, Form 990, encourages a charity's board of directors to adopt and regularly evaluate a written conflict-of-interest policy that requires directors and staff to act solely in the interests of the charity without regard for personal interests; includes written procedures for determining whether a relationship, financial interest, or business affiliation results in a conflict of interest; and prescribes a course of action in the event a conflict of interest is identified.

Title 5 §42401 and §42402 indicate that the campus president shall require that auxiliary organizations operate in conformity with policy of the Board of Trustees and the campus. One of the objectives of the auxiliary organizations is to provide fiscal procedures and management systems that allow effective coordination of the auxiliary activities with the campus in accordance with sound business practices. Sound business practice mandates the development of processes to ensure all board members complete and sign annual conflict-of-interest statements.

The campus AVP for administrative services stated that the current process only required board members to certify and disclose potential conflicts of interest annually at the April board meeting, and therefore, board members appointed after June did not complete the statement until the following annual board meeting.

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

### **Recommendation 23**

We recommend that the UGC develop a process to ensure that board members who are appointed mid-term complete and sign annual conflict-of-interest statements.

### **Campus Response**

We concur. Annual conflict-of-interest statements will be incorporated to ensure board members who are appointed mid-term complete and sign annual conflict-of-interest statements. A copy of the process will be provided to the chancellor's office by February 20, 2015.

## **SEGREGATION OF DUTIES**

Certain duties and responsibilities related to cash disbursement transactions were not adequately segregated at the UGC.

We found that one employee entered disbursements into the system, created invoices, authorized check printing, and received printed checks.

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

The *Compilation of Policies and Procedures for California State University Auxiliary Organizations* sets sound business practice guidelines for auxiliary organizations operating within the CSU system. Section 8.9.1, *Cash*, states that the auxiliary should establish a written internal control system that ensures cash receipts and disbursements are conducted with appropriate segregation of duties.

The campus AVP for finance and budget stated her belief that the UGC's current segregation of duties related to cash disbursement transactions was in conformance with campus policy, which was within the campus tolerance of risk.

Inadequate segregation of duties increases the risk that errors and irregularities will not be detected in a timely manner.

#### **Recommendation 24**

We recommend that the UGC adequately segregate duties and responsibilities related to cash disbursement transactions or institute mitigating procedures approved by the campus CFO.

#### **Campus Response**

We concur. UGC will adequately segregate duties and responsibilities related to cash disbursement transactions or institute mitigating procedures approved by the campus CFO. A supporting policy will be developed and implemented. A copy of the policy will be provided to the chancellor's office by February 20, 2015.

## **PERSONNEL AND PAYROLL**

The UGC did not perform an independent, detailed, and documented reconciliation of vacation accruals against ADP payroll records.

We reviewed ten vacation accrual records as of January 31, 2014, and we found that in two instances, vacation hours did not correspond to ADP payroll records. The overages were eight and 16 hours.

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

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

The UGC director of administrative services stated that accrued vacation hours were properly reset at year-end, but ADP was having difficulty properly initiating the newly accrued benefit of paid time-off that officially began on January 1, 2014, and this resulted in overages in certain accounts as of January 31, 2014.

Insufficient reconciliation between vacation accruals and ADP payroll records limits the auxiliary's ability to detect errors and irregularities, increases the likelihood of loss of funds, and compromises accountability.

### **Recommendation 25**

We recommend that the UGC perform independent, detailed, and documented reconciliations of vacation accruals against ADP payroll records.

### **Campus Response**

We concur. UGC will perform independent, detailed, and documented reconciliations of vacation accruals against ADP payroll records. A sample reconciliation will be provided to the chancellor's office by February 20, 2015.

## **COMMERCIAL OPERATIONS**

Administration of UGC catering services needed improvement.

We reviewed ten catering events from July 2011 to April 2014, and we found that:

- ▶ In four instances, catering arrangements with third parties were not supported by written agreements.
- ▶ In one instance, catering services were provided to a third party before payment was received. Payment was received 74 days after the event date.

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 properly executed agreements.

The *University Glen Corporation Hospitality Services Food and Beverage Policies* state that external catering must be paid for on the day of or before the event transpires.

The UGC senior director stated that the absence of written agreements and the late receipt of payment were due to management oversight.

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 26**

We recommend that the UGC:

- a. Support all catering arrangements with written agreements.
- b. Obtain payment for catering services prior to an event.

### **Campus Response**

We concur.

- a. Management requires written agreements to support all catering arrangements. Procedures will be updated to reflect this process; a copy of the procedure will be provided by February 20, 2015.
- b. Payment for all events is required prior to the delivery of the event. A supporting policy will be developed and implemented. A copy of this policy will be provided to the chancellor's office by February 20, 2015.

## **INFORMATION TECHNOLOGY**

### **SERVER SECURITY UPDATES**

The server used by the UGC was running an operating system for which the vendor no longer provided routine security updates and patches.

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

ICSUAM §8045.300, *Network Security*, dated April 19, 2010, states that campuses must appropriately design their networks—based on risk, data classification, and access—in order to ensure the confidentiality, integrity, and availability of their information assets. Each campus must implement and regularly review a documented process for transmitting data over the campus network. This process must include the identification of critical information systems and protected data that is transmitted through the campus network or is stored on campus computers. Campus processes for transmitting or storing critical assets and protected data must ensure confidentiality, integrity, and availability.

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

The UGC director of administrative services stated that due to the fact that the campus was relatively young, guidelines and procedures for managing business functions that involved state and auxiliary interface had not been completed. He further stated that the campus did not currently provide technical support for the auxiliary server.

Operating outdated and unsupported systems and servers increases the risk of potential security breaches and possible compromise of protected data.

### **Recommendation 27**

We recommend that the UGC upgrade its operating system to a version for which the vendor provides routine security upgrades and patches.

### **Campus Response**

We concur. UGC has purchased an upgrade to its operating system to a version for which the vendor provides routine security upgrades and patches; this system will be implemented with appropriate operating systems. Documentation to support the implementation will be provided to the chancellor's office by February 20, 2015.

## **INFORMATION TECHNOLOGY SERVICE AGREEMENT**

The UGC had not established a written service agreement with the campus for maintenance and support of its server housed in the data center, or for other information technology (IT) services.

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

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 UGC director of administrative services stated that she was unaware of the service agreement requirement for the server and IT support services.

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

### **Recommendation 28**

We recommend that the UGC establish a written service agreement with the campus for maintenance and support of its server housed in the data center, and for other IT services.

### **Campus Response**

We concur. Server maintenance is provided under contract with a third-party contractor, as the installed software is proprietary. UGC will work with the campus to develop a service agreement for other IT services. A copy of the service agreement will be provided to the chancellor's office by February 20, 2015.

## **REMOTE SERVER ACCESS**

Remote access to the UGC system server by a third-party service provider was not tracked or monitored.

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 securing remote access to auxiliary systems.

The UGC director of administrative services stated that she was unaware that the UGC was required to monitor vendor access to its system server. She further stated that programming updates for the server by the third-party service provider were tracked as part of the process by which the UGC submits service requests to the third-party provider.

Inadequate monitoring of access to auxiliary servers increases the risk that an attacker or other unauthorized individual could gain undetected access to the system, which could lead to the loss of protected information, the potential execution of malicious programs on the server, or disablement of critical computing resources.

### **Recommendation 29**

We recommend that the UGC track or monitor remote access to the UGC system server by the third-party service provider.

### **Campus Response**

We concur. UGC has developed and implemented a process to track remote access by the third-party service provider.

## **DISASTER RECOVERY**

The UGC did not have an IT disaster recovery plan (DRP).

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 UGC director of administrative services stated that she was unaware that the UGC was responsible for developing an IT DRP, given that the campus hosted the UGC server.

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 30**

We recommend that the UGC develop an IT DRP.

**Campus Response**

We concur. UGC falls under the umbrella of the campus IT DRP.

**ASSOCIATED STUDENTS OF  
CALIFORNIA STATE UNIVERSITY CHANNEL ISLANDS, INC.**

**OPERATING AND ADMINISTRATIVE AGREEMENTS**

The operating agreement between the Associated Students of California State University Channel Islands, Inc. (ASI) and the Trustees was not fully executed in a timely manner and included functions that should not be performed by a student body organization; and the MOU between ASI and the UGC was not supported by an updated agreement.

We reviewed five agreements, and we found that:

- ▶ The operating agreement between ASI and the Trustees was not fully executed until 276 days after inception of the agreement.
- ▶ The operating agreement included functions that a student body organization is not authorized to perform, such as alumni programs, public relations, fundraising, fund management and similar development programs, and the acquisition, development, sale, and transfer of real property and personal property.
- ▶ The MOU between ASI and the UGC for personnel and payroll services was not updated to reflect current ASI personnel and payment for services provided.

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

Title 5 §42502 states that the operating agreement should specify the function or functions that the organization is to manage, operate, or administer.

Title 5 §42659 states that the principle underlying the expenditure of student body organization funds collected through mandatory fees is that such expenditures shall be made in programs that reflect the broadest variety of student interests and that are open to all students who wish to participate. Student body organization funds obtained from mandatory fees may be expended for the following programs: programs of cultural and educational enrichment and community service; recreational social activities; support of student unions; scholarships, stipends, and grants-in-aid for only currently admitted students in accordance with provisions of Section 42500, subdivision (d); tutorial programs; athletic programs, both intramural and intercollegiate; student publications; assistance to recognized student organizations; student travel insurance; administration of student fee program; student government-scholarship stipends, grants-in-aid, and reimbursements to student officers for service to student government – before such scholarship stipends, grants-in-aid, and reimbursements are established by a student body association, the principle of establishing such payments shall be approved by a student referendum; student employment to provide payment for services in connection with the general administration of student fee; augmentation of counseling services,

including draft information, to be performed by the campus – such counseling may also include counseling on legal matters to the extent of helping the student to determine whether he should retain legal counsel, and of referring him to legal counsel through a bar association, legal aid foundation or similar body; transportation services; child day care centers for children of students and employees of the campus; and augmentation of campus health services.

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 current, written agreements.

The ASI executive director and campus associate director of special projects stated that there was a delay in executing the operating agreement due to language related to the length of term allowable, which required review by ASI outside counsel. The campus associate director of special projects further stated that a request for guidance from the Office of General Counsel at the chancellor's office in November 2013 and the leave of absence of staff in charge of this project caused further delay. She also stated that ASI was instructed by the Contracts Services and Procurement department at the chancellor's office to not make any changes to the operating agreement template. In addition, the ASI executive director stated that in fall 2013, she had a conversation with the UGC executive director, who is currently campus AVP for administrative services, regarding updating the MOU, and the campus AVP for administrative services stated his belief that the MOU was still in compliance, as nothing significant had changed. The campus AVP for administrative services stated that emails had been exchanged between ASI and the UGC agreeing to detailed payment amounts and schedules for payroll and personnel services.

The absence of fully executed operating agreements and inclusion of functions that should not be performed by a student body organization increase the risk of misunderstandings and miscommunication regarding rights and responsibilities and subjects the auxiliary and CSU to potential liability, while the lack of an updated MOU increases the risk that errors, inconsistencies, and misunderstanding will occur.

### **Recommendation 31**

We recommend that ASI:

- a. Execute all future operating agreements in a timely manner.
- b. Amend its operating agreement to include only those functions that a student body organization is authorized to perform.
- c. Update the MOU between ASI and the UGC for personnel and payroll services to reflect current ASI personnel and payment for services provided.

### **Campus Response**

We concur.

- a. ASI will amend the existing operating agreement in a timely manner. A copy of the agreement will be provided to the chancellor's office by February 20, 2015.
- b. ASI will include only functions that a student body organization is authorized to perform and will execute and file the agreement, and all future agreements, in a timely manner. A copy of the amended agreement will be provided to the chancellor's office by February 20, 2015.
- c. ASI agrees to collaborate with UGC to update the MOU between ASI and UGC to reflect current ASI personnel and payment for services provided. A copy of the MOU will be provided to the chancellor's office by February 20, 2015.

### **CORPORATE GOVERNANCE**

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

We found that amendments made to the Articles of Incorporation in May 2013 and to the Bylaws in January 2013 were not filed with the chancellor's office until April 2, 2014.

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 ASI executive director stated that when the amendment was approved by the ASI board of directors, it was immediately uploaded to the ASI website; however, she did not remember that these documents also needed to be submitted to the chancellor's office.

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

### **Recommendation 32**

We recommend that ASI file all future changes/amendments to Articles of Incorporation and Bylaws with the Contract Services and Procurement department at the Office of the Chancellor within 30 calendar days.

**Campus Response**

We concur. ASI will file, with the chancellor's office, all future changes and amendments to the Articles of Incorporation and Bylaws within 30 calendar days.

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## **APPENDIX A: PERSONNEL CONTACTED**

### **Name**

### **Title**

#### **CAMPUS**

Richard R. Rush	President
Christopher Abe	Director of Advancement Services, University Advancement
Herbert Aquino	Manager, Information Technology Infrastructure
Michael Berman	Vice President, Technology and Communication
Stephanie Bracamontes	Associate Director, Special Projects
Erik Blaine	Associate Vice President for Administrative Services
Neal Fisch	Information Security Officer
Tom Froelich	Advancement Database Specialist, University Advancement
Michelle Hense	Accountant, Business and Financial Affairs
Phyllis Huling	Senior Staff Accountant – Treasury, Fiscal Services
Nichole Ipach	Vice President for University Advancement
Missy Jarnagin	Associate Vice President, Finance and Budget
Nasser Mansour	Database Administrator
Jennifer Moss	Accounting Manager, Fiscal Services
Godfrey Mubiru	Interim University Controller, Finance
E. Molly Oberst	Finance and Budget Analyst, University Advancement
Cathy Strauch	Technical Contract Specialist
Ysabel Trinidad	Vice President, Finance and Administration

#### **CALIFORNIA STATE UNIVERSITY CHANNEL ISLANDS FOUNDATION**

Christopher Abe	Director of Advancement Services, University Advancement
Tom Froelich	Advancement Database Specialist, University Advancement
Nichole Ipach	Vice President for University Advancement
E. Molly Oberst	Finance and Budget Analyst, University Advancement

#### **UNIVERSITY GLEN CORPORATION**

Charissa Barnhart	Accounting Technician II
Deanne Ellison	Director of Administrative Services
Roxanne Herlien	Administrative and Marketing Coordinator
Peter Maher	Director of Food Services and Executive Chef
Mike McConnell	Director for Facility Services
Dave Nirenberg	Senior Director
Amy Schick	Catering Manager

#### **ASSOCIATED STUDENTS OF CALIFORNIA STATE UNIVERSITY CHANNEL ISLANDS, INC.**

Genevieve Evans Taylor	Executive Director
Christine Thompson	Assistant Director

## **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.



November 10, 2014

Mr. Larry Mandel  
Vice Chancellor and Chief Audit Officer  
The California State University  
401 Golden Shore, 4<sup>th</sup> Floor  
Long Beach, CA 90802-4200

RECEIVED  
AUDIT AND ADVISORY SERVICES

NOV 10 2014

THE CALIFORNIA STATE  
UNIVERSITY

RE: Campus Responses to Recommendations: Audit Report 14-03 – Auxiliary Audit

Dear Mr. Mandel,

Enclosed please find our revised responses to the recommendations found in Audit Report 14-03, Auxiliary Organizations, California State University Channel Islands.

If there are questions or additional information is necessary, please contact Caroline Doll at (805) 437-3232.

Sincerely,

A handwritten signature in blue ink, appearing to read 'Ysabel Trinidad'.

Ysabel Trinidad

cc: Richard Rush

**AUXILIARY ORGANIZATIONS**  
**CALIFORNIA STATE UNIVERSITY,**  
**CHANNEL ISLANDS**

**Audit Report 14-03**

**CAMPUS**

**FISCAL COMPLIANCE**

**Recommendation 1**

We recommend that the campus:

- a. Recover or document an exchange of value for university advancement services provided to the Foundation.
- b. Update its cost allocation plan to describe the practices and methodologies utilized to determine the basis for allocating costs.
- c. Obtain the signatures of authorized signatories on all future cost allocation plans.

**Campus Response**

We concur.

- a. The university will document an exchange of value for university advancement services provided to the Foundation in the FY 15-16 cost allocation plan and will provide a copy of that plan to the chancellor's office by February 20, 2015.
- b. The campus will update the cost allocation plans for all of its auxiliaries to include descriptions of practices and methodologies utilized to determine the basis for allocating costs and will provide copies of the plans by to the chancellor's office by February 20, 2015.
- c. The campus will obtain signatures on all future cost allocations plans; evidence of this will be included in the plans to be provided to the chancellor's office by February 20, 2015.

**PURCHASING AND ACCOUNTS PAYABLE**

**OPEN PURCHASE ORDERS**

**Recommendation 2**

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

**Campus Response**

We concur. The campus has implemented a new program to track open purchase orders. Under the new program, bi-weekly notices are sent to buyers. Buyers report back on the status of open purchase orders and whether the purchase order is to remain open or should be closed.

**PROCUREMENT CARDS****Recommendation 3**

We recommend that the campus:

- a. Enforce policies prohibiting the use of procurement cards for the purchase of items such as gift cards or for travel-related expenditures.
- b. Date procurement card reconciliations.
- c. Properly file Credit Card Program Participation Notification Forms.

**Campus Response**

We concur.

- a. The campus has a training module which covers the appropriate and approved use of procurement cards. The campus will continue to monitor these prohibited expenditures by assessing penalties on a graduated scale. A copy of the agenda and sign-in sheets for the training sessions and documentation supporting penalties assessed will be provided to the chancellor's office by February 20, 2015.
- b. The campus will monitor the requirement to date reconciliations. The campus will conduct a monthly audit and will provide a report indicating, out of the total number of reconciliations submitted per month, how many were not dated. For those reconciliations not dated, procurement will notify the responsible party and continue to track for as long as the problem persists. Documentation supporting this process will be provided to the chancellor's by February 20, 2015.
- c. The campus will develop a process to ensure that Credit Card Program Participation Notification Forms are properly filed. A copy of the process will be supplied and a written confirmation that filing has been completed will be provided to the chancellor's office by February 20, 2015.

**INFORMATION TECHNOLOGY****PAYMENT CARD INDUSTRY DATA SECURITY STANDARD COMPLIANCE****Recommendation 4**

We recommend that the campus, in conjunction with the auxiliaries, complete an annual PCI DSS SAQ-A for all auxiliary credit card merchant accounts on campus.

**Campus Response**

We concur. A team will be created consisting of auxiliary personnel and information security staff, to define and develop roles and responsibilities, conduct a risk assessment, and complete the annual SAQ-A for all auxiliary credit card merchant accounts. Guidelines, results of risk assessment and a completed annual SAQ will be provided to the chancellor's office by February 20, 2015.

**INFORMATION SECURITY AWARENESS TRAINING****Recommendation 5**

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

**Campus Response**

We concur. The campus information security department will create security awareness training. The training will be administered to all auxiliary employees, and assessments will be conducted by the auxiliary's administrative staff. A copy of the contents of the security awareness training will be provided, and documentation evidencing that all auxiliary employees have taken the security awareness training will be provided to the chancellor's office by February 20, 2015.

**VULNERABILITY ASSESSMENTS****Recommendation 6**

We recommend that the campus conduct vulnerability scans of the auxiliary servers to ensure that vulnerabilities are remediated in a timely manner.

**Campus Response**

We concur. Vulnerability scans of servers identified as auxiliary servers will be conducted by the campus technology department. The results will be provided to the auxiliary to address. A copy of the vulnerability scan results and an explanation of the remediation measures taken by the auxiliary as a result of the scan will be provided by February 20, 2015.

**CALIFORNIA STATE UNIVERSITY CHANNEL ISLANDS FOUNDATION**

**CORPORATE GOVERNANCE**

**DISSOLUTION OF AUXILIARY**

**Recommendation 7**

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

**Campus Response**

We concur. The Foundation shall update its Articles of Incorporation and Bylaws to reflect a proper dissolution clause; copies of the Bylaws and Articles will be provided to the chancellor's office by February 20, 2015.

**BOARD MINUTES**

**Recommendation 8**

We recommend that the Foundation have all board meeting minutes certified by the board secretary or assistant secretary, in accordance with Corporation Code §5215.

**Campus Response**

We concur. The Foundation is now in compliance with Corporation Code §5215. Certified board meeting minutes are posted to the Foundation website. Moving forward, meeting minutes will be certified at the time the board approves them and will be posted to the Foundation webpage in a timely manner.

**ARTICLES OF INCORPORATION**

**Recommendation 9**

We recommend that the Foundation promptly file the amended Articles of Incorporation with the Secretary of State and submit a copy to the Contract Services and Procurement department at the chancellor's office.

**Campus Response**

We concur. The Foundation has submitted its Articles of Incorporation to the Secretary of State and a copy was forwarded on September 19, 2014, to the Contract Services and Procurement department at the chancellor's office.

## **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. A copy of the amended Bylaws of the Foundation was submitted to the Contract Services and Procurement department at the chancellor's office on September 19, 2014.

## **OPERATIONAL COMPLIANCE**

### **POLICIES AND PROCEDURES**

#### **Recommendation 11**

We recommend that the Foundation update its endowment policies and procedures to address the minimum dollar threshold to establish an endowment, management fees, and the execution of an endowment agreement outlining the donor's intent.

#### **Campus Response**

We concur. The Foundation will update its endowment policies and procedures. The policies and procedures will address the minimum dollar threshold to establish an endowment, management fees, and the execution of an endowment agreement outlining the donor's intent. A copy of the updated policies and procedures will be provided to the chancellor's office by February 20, 2015.

### **CONFLICT OF INTEREST**

#### **Recommendation 12**

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

#### **Campus Response**

We concur. Staff will ensure that annual conflict-of-interest statements are completed and signed by all board members. Copies of the statements will be provided to the chancellor's office by February 20, 2015.

## FEES, REVENUES, AND RECEIVABLES

### PLEDGES RECEIVABLE

#### Recommendation 13

We recommend that the Foundation:

- a. Document management review of the pledges receivable aging report.
- b. Send all follow-up invoices in a timely manner, and document management review of follow-up phone logs for further actions to be taken.
- c. Write-off uncollectible receivables in a timely manner.
- d. Develop and implement written policies and procedures to address collection and follow-up activity for delinquent pledges receivable and the write-off of uncollectible pledges.

#### Campus Response

We concur.

- a. Pledges receivable balances are reported and reviewed monthly. Procedures will be updated to reflect management review. The procedure and aging report documenting review by management will be provided to the chancellor's office by February 20, 2015.
- b. Follow-up invoices will be sent in a timely manner and documentation of management review of phone logs for further action taken will be implemented. Updated procedures will reflect the collection process. Collection reports, phone logs, and evidence of management review with documentation will be provided to the chancellor's office by February 20, 2015.
- c. Uncollectible balances will be approved for write-off by management in a timely manner. Updated procedures will reflect the write-off process. Write-off reports with documentation will be provided to the chancellor's office by February 20, 2015.
- d. Procedures will be updated and developed to address collection and follow-up activity for delinquent pledges receivable and the write-off of uncollectible pledges procedures will be provided to the chancellor's office by February 20, 2015.

### MATCHING GIFTS

#### Recommendation 14

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

**Campus Response**

We concur. The matching gift policy and form is in place. The administration desk procedures have been updated to reflect a dual process review of all matching gifts during the acceptance process to ensure that funds are designated in accordance with donor intent.

**DONOR SYSTEM RECONCILIATION**

**Recommendation 15**

We recommend that the Foundation:

- a. Document management review of reconciliations between the Foundation donor database and the campus general ledger accounting system.
- b. Establish written policies and procedures to address management review of donor system reconciliations and the timeliness of final disposition of unreconciled items.

**Campus Response**

We concur.

- a. The Foundation will document management review of reconciliations between the Foundation database and the campus general ledger accounting system. A copy of the process and reconciliation will be provided to the chancellor's office by February 20, 2015.
- b. Guidelines and procedures will be established for monthly management review of reconciliations and timeliness of final disposition of unreconciled items. A copy of the guidelines and procedures will be provided to the chancellor's office by February 20, 2015.

**UNIVERSITY GLEN CORPORATION**

**OPERATING AND ADMINISTRATIVE AGREEMENTS**

**Recommendation 16**

We recommend that the UGC promptly renew the service agreement with the Site Authority, the MOU with the campus, and the contract with the third-party vending services provider.

**Campus Response**

We concur.

- a. UGC will renew the operating agreement with the Site Authority and will provide to the chancellor's office a copy of the fully executed agreement by February 20, 2015.
- b. UGC will renew the MOU with the campus and provide to the chancellor's office a fully executed copy of it by February 20, 2015.
- c. UGC will renew its agreement with Canteen Coastal (vending services provider) and provide to the chancellor's office a fully executed copy of it by February 20, 2015.

**FACILITY AGREEMENTS**

**Recommendation 17**

We recommend that the UGC establish a facility lease with the Site Authority and an equipment lease with the campus.

**Campus Response**

We concur.

- a. UGC will execute a lease for Town Center Market and the UGC corporate offices with the campus and provide a copy to the chancellor's office by February 20, 2015.
- b. The equipment that is in use in the Student Union Building was purchased by University Glen and currently resides on the campus books. The equipment will be transferred to UGC's books. Proof that the equipment was originally purchased by University Glen and evidence of the transfer of the property to University Glen's books will be provided to the chancellor's office by February 20, 2015.

## **CORPORATE GOVERNANCE**

### **ARTICLES OF INCORPORATION**

#### **Recommendation 18**

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

#### **Campus Response**

We concur. The amended Articles of Incorporation were recorded by the California Secretary of State and also submitted to the chancellor's office on May 28, 2014.

### **AUDIT COMMITTEE**

#### **Recommendation 19**

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

#### **Campus Response**

We concur. UGC has appointed an audit committee; the campus will provide a roster. A charter will be drafted and a copy of the draft will be provided. Audit committee minutes will be maintained, and a copy of the minutes will be provided. All documentation will be provided to the chancellor's office by February 20, 2015.

## **FISCAL COMPLIANCE**

### **RESERVES**

#### **Recommendation 20**

We recommend that the UGC accurately present reserves in its annual budget and record reserves in the accounting system.

#### **Campus Response**

We concur. UGC will accurately present reserves in its annual budget and record reserves in the accounting system. A copy of the projected FY 2015/16 budget to reflect the accurate presentation of the reserves that will be recorded in the approved budget, and support for the accounting entries, will be provided to the chancellor's office by February 20, 2015.

## TAXES

### Recommendation 21

We recommend that the UGC track and remit California use tax for purchases made with procurement cards.

### Campus Response

We concur. UGC will track and remit California sales tax for purchases made with procurement cards. A sample of the tracking and remission to the tax board will be provided to the chancellor's office by February 20, 2015. (Please note: UGC does not incur use tax at this time.)

## OPERATIONAL COMPLIANCE

### POLICIES AND PROCEDURES

#### Recommendation 22

We recommend that the UGC:

- a. Develop written policies and procedures for equipment transfers to the campus.
- b. Make current policies and procedures for accounts payable and dining services readily available to UGC management and staff.

### Campus Response

We concur.

- a. Policies and procedures for equipment transfers to the campus will be developed and provided to the chancellor's office by February 20, 2015.
- b. Policies and procedures for accounts payable and dining services will be developed and distributed to UGC management and staff, and copies will be provided to the chancellor's office by February 20, 2015.

## CONFLICT OF INTEREST

### Recommendation 23

We recommend that the UGC develop a process to ensure that board members who are appointed mid-term complete and sign annual conflict-of-interest statements.

**Campus Response**

We concur. Annual conflict-of-interest statements will be incorporated to ensure board members who are appointed mid-term complete and sign annual conflict-of-interest statements. A copy of the process will be provided to the chancellor's office by February 20, 2015.

**SEGREGATION OF DUTIES**

**Recommendation 24**

We recommend that the UGC adequately segregate duties and responsibilities related to cash disbursement transactions or institute mitigating procedures approved by the campus CFO.

**Campus Response**

We concur. UGC will adequately segregate duties and responsibilities related to cash disbursement transactions or institute mitigating procedures approved by the campus CFO. A supporting policy will be developed and implemented. A copy of the policy will be provided to the chancellor's office by February 20, 2015.

**PERSONNEL AND PAYROLL**

**Recommendation 25**

We recommend that the UGC perform independent, detailed, and documented reconciliations of vacation accruals against ADP payroll records.

**Campus Response**

We concur. UGC will perform independent, detailed, and documented reconciliations of vacation accruals against ADP payroll records. A sample reconciliation will be provided to the chancellor's office by February 20, 2015.

**COMMERCIAL OPERATIONS**

**Recommendation 26**

We recommend that the UGC:

- a. Support all catering arrangements with written agreements.
- b. Obtain payment for catering services prior to an event.

**Campus Response**

We concur.

- a. Management requires written agreements to support all catering arrangements. Procedures will be updated to reflect this process; a copy of the procedure will be provided by February 20, 2015.
- b. Payment for all events is required prior to the delivery of the event. A supporting policy will be developed and implemented. A copy of this policy will be provided to the chancellor's office by February 20, 2015.

## **INFORMATION TECHNOLOGY**

### **SERVER SECURITY UPDATES**

#### **Recommendation 27**

We recommend that the UGC upgrade its operating system to a version for which the vendor provides routine security upgrades and patches.

#### **Campus Response**

We concur. UGC has purchased an upgrade to its operating system to a version for which the vendor provides routine security upgrades and patches; this system will be implemented with appropriate operating systems. Documentation to support the implementation will be provided to the chancellor's office by February 20, 2015.

### **INFORMATION TECHNOLOGY SERVICE AGREEMENT**

#### **Recommendation 28**

We recommend that the UGC establish a written service agreement with the campus for maintenance and support of its server housed in the data center, and for other IT services.

#### **Campus Response**

We concur. Server maintenance is provided under contract with a third party contractor as the installed software is proprietary. UGC will work with the campus to develop a service agreement for other IT services. A copy of the service agreement will be provided to the chancellor's office by February 20, 2015.

### **REMOTE SERVER ACCESS**

#### **Recommendation 29**

We recommend that the UGC track or monitor remote access to the UGC system server by the third-party service provider.

#### **Campus Response**

We concur. UGC has developed and implemented a process to track remote access by the third-party service provider.

## **DISASTER RECOVERY**

### **Recommendation 30**

We recommend that the UGC develop an IT DRP.

### **Campus Response**

We concur. UGC falls under the umbrella of the campus IT DRP.

**ASSOCIATED STUDENTS OF  
CALIFORNIA STATE UNIVERSITY CHANNEL ISLANDS, INC.**

**OPERATING AND ADMINISTRATIVE AGREEMENTS**

**Recommendation 31**

We recommend that ASI:

- a. Execute all future operating agreements in a timely manner.
- b. Amend its operating agreement to include only those functions that a student body organization is authorized to perform.
- c. Update the MOU between ASI and the UGC for personnel and payroll services to reflect current ASI personnel and payment for services provided.

**Campus Response**

We concur.

- a. ASI will amend the existing operating agreement in a timely manner. A copy of the agreement will be provided to the chancellor's office by February 20, 2015.
- b. ASI will include only functions that a student body organization is authorized to perform and will execute and file the agreement, and all future agreements, in a timely manner. A copy of the amended agreement will be provided to the chancellor's office by February 20, 2015.
- c. ASI agrees to collaborate with UGC to update the MOU between ASI and UGC to reflect current ASI personnel and payment for services provided. A copy of the MOU will be provided to the chancellor's office by February 20, 2015.

**CORPORATE GOVERNANCE**

**Recommendation 32**

We recommend that ASI file all future changes/amendments to Articles of Incorporation and Bylaws with the Contract Services and Procurement department at the Office of the Chancellor within 30 calendar days.

**Campus Response**

We concur. ASI will file, with the chancellor's office, all future changes and amendments to the Articles of Incorporation and Bylaws within 30 calendar days.

THE CALIFORNIA STATE UNIVERSITY  
OFFICE OF THE CHANCELLOR



BAKERSFIELD

CHANNEL ISLANDS

December 2, 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 14-03 on *Auxiliary Organizations*,  
California State University, Channel Islands

LONG BEACH

LOS ANGELES

MARITIME ACADEMY

In response to your memorandum of December 2, 2014, I accept the response as submitted with the draft final report on *Auxiliary Organizations*, California State University, Channel Islands.

MONTEREY BAY

NORTHRIDGE

TPW/amd

POMONA

SACRAMENTO

SAN BERNARDINO

SAN DIEGO

SAN FRANCISCO

SAN JOSÉ

SAN LUIS OBISPO

SAN MARCOS

SONOMA

STANISLAUS