

AUXILIARY ORGANIZATIONS

CALIFORNIA STATE UNIVERSITY, BAKERSFIELD

**Audit Report 14-04
September 26, 2014**

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ABBREVIATIONS

ASI	Associated Students, Incorporated at California State University Bakersfield
AVP	Associate Vice President
CFO	Chief Financial Officer
CSU	California State University
CSUB	California State University, Bakersfield
DSS	Data Security Standards
EO	Executive Order
Foundation	California State University, Bakersfield Foundation
FY	Fiscal Year
ICSUAM	Integrated California State University Administrative Manual
ITS	Information Technology Services
OMB	Office of Management and Budget
PCI	Payment Card Industry
PI	Principal Investigator
RFIN	Resolution of the Committee on Finance
SAQ	Self-Assessment Questionnaire
SPA	California State University, Bakersfield Auxiliary for Sponsored Programs Administration
Union	California State University Bakersfield Student Union, Inc.

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, Bakersfield (CSUB) 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 CSUB campus and its auxiliary organizations from June 2, 2014, through June 26, 2014, and made a study and evaluation of the system of internal compliance/internal control in effect as of June 26, 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 *CSUB campus* as of June 26, 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: purchasing and accounts payable, property and equipment, trusts and liabilities, and information technology.

In our opinion, due to the effect of the weaknesses described below, the fiscal, operational, and administrative controls at the *California State University, Bakersfield Foundation* as of June 26, 2014, taken as a whole, were not sufficient to meet the objectives stated above and in the "Purpose" section of this report. Areas of concern include: corporate governance, operational compliance, cash receipts and handling, and fees, revenues, and receivables.

EXECUTIVE SUMMARY

In our opinion, except for the effect of the weaknesses described below, the fiscal, operational, and administrative controls at the *California State University, Bakersfield Auxiliary for Sponsored Programs Administration* as of June 26, 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 and contracts and grants.

In our opinion, the fiscal, operational, and administrative controls in effect at *California State University Bakersfield Student Union, Inc.* as of June 26, 2014, taken as a whole, were sufficient to meet the objectives stated above and in the “Purpose” section of this report.

In our opinion, the fiscal, operational, and administrative controls in effect at *Associated Students, Incorporated at California State University Bakersfield* as of June 26, 2014, taken as a whole, were sufficient to meet the objectives stated above and in the “Purpose” section of this report.

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 [12]

The annual campus cost allocation plans to recover direct and indirect costs incurred by the auxiliaries were not formally approved and signed by the campus chief financial officer or designee for fiscal years (FY) 2011/12, 2012/13, and 2013/14.

CASH RECEIPTS AND HANDLING [12]

Campus student clubs did not always forward cash receipt to the office of organizational governance to the campus cashiering office for deposit within 48 hours.

PURCHASING AND ACCOUNTS PAYABLE [13]

Campus administration of auxiliary travel expenditures needed improvement. Specifically, the travel authorization forms for documenting advance approval of travel and related expenditures to be incurred were not always completed and submitted to the appropriate administrator for approval, travel expense claims were not always completed within 30 days of the travelers’ return, and students traveling by air did not always complete and sign release forms or waiver. Additionally, the campus did not escheat

EXECUTIVE SUMMARY

unclaimed auxiliary payroll checks to the state. Also, the campus did not always obtain Hospitality Expense Approval Forms from the Foundation.

PERSONNEL AND PAYROLL [17]

The campus did not always obtain separation documentation from auxiliary employees.

PROPERTY AND EQUIPMENT [18]

Campus administration of auxiliary property and equipment needed improvement. Specifically, a California State University, Bakersfield Foundation (Foundation) asset could not be verified and certain California State University, Bakersfield Auxiliary for Sponsored Programs Administration (SPA) assets were not properly tagged.

TRUSTS AND OTHER LIABILITIES [19]

Policies and procedures for campus student club accounts required updating. Additionally, campus administration of Foundation agency and trust funds, which are also known as campus activities and program funds, needed improvement. Specifically, the campus did not have a written delegation of authority from the campus president to the vice president of business and administrative services for the authorization of agency and trust funds, had not developed written policies and procedures to provide specific guidance and documentation requirements for agency and trust funds, did not document the specific determination of whether the campus or the auxiliary was accountable and responsible for the funds and the funds' advantages to the university and support of the university mission, did not require an agency agreement for agency accounts, and did not review Foundation agency and trust accounts for sufficient funds availability prior to expenditures.

INFORMATION TECHNOLOGY [22]

The campus did not perform a complete inventory and assessment of all sensitive information maintained in electronic and paper format, including those maintained in auxiliary operations. In addition, the campus had not trained all auxiliary employees with computer access in information security awareness. Also, password security parameters for the campus active directory system were not in compliance with CSU policy; this is a repeat finding from the prior Auxiliary Organizations audit. Further, the campus did not communicate information security policies to all auxiliary employees. Additionally, Payment Card Industry Data Security Standard Self-Assessment Questionnaires-A had not been completed for all auxiliary credit card merchant accounts on campus.

CALIFORNIA STATE UNIVERSITY, BAKERSFIELD FOUNDATION

CORPORATE GOVERNANCE [28]

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

FISCAL COMPLIANCE [28]

The Foundation reserve funding policy needed to be updated to better reflect current Foundation practice.

OPERATIONAL COMPLIANCE [30]

The Foundation did not have a process to ensure that board members appointed mid-term completed and signed annual conflict-of-interest statements. Additionally, the Foundation did not have a current written delegation of authority from the campus president giving the campus vice president of university advancement/Foundation executive director responsibility to accept monetary gifts and sign gift acknowledgement agreements and letters on behalf of the Foundation. Also, Foundation fundraising events with gross receipts greater than \$5,000 were not always properly approved and reviewed.

CASH RECEIPTS AND HANDLING [33]

Foundation administration of bank-returned CSUB Children's Center checks needed improvement. For example, the Foundation had not developed written policies and procedures to address the collection and follow-up for CSUB Children's Center's returned checks, and collection and follow-up activity was not always documented to facilitate collection of returned checks. Additionally, administration of Foundation suspense/holding accounts needed improvement. Specifically, policies and procedures had not been developed for processing, review, clearance, and reconciliations of suspense/holding accounts and suspense/holding account reconciliations did not show evidence of review. Further, the Foundation did not always forward cash receipts to the campus cashiering office for deposit in a timely manner.

FEES, REVENUES, AND RECEIVABLES [36]

The Foundation did not always send gift acknowledgement letters to donors after receipt of cash gifts. Additionally, administration of Foundation gifts-in-kind required improvement. For example, gifts-in-kind were not recorded in the accounting system, gift acceptance forms were not always on file, gift acknowledgement letters were not always sent to donors, and the department did not always notify property control of receipt of gift and request tagging of the assets. Further, the Foundation accepted a timeshare on behalf of campus athletic department without proper approval, a documented cost analysis, and determination that the timeshare met the academic and/or athletic mission of the campus. The timeshare was valued at \$9,500 at the time of the gift acceptance in November 2011. Also, administration of Foundation pledges receivable needed improvement. Specifically, approvals from the Foundation finance committee and board of directors were not obtained for pledge write-offs for FY 2012/13, Foundation management review of the pledges that met the write-off criteria was not documented, and three long-outstanding pledges were not written off in a timely manner. Additionally, administration of Foundation matching gifts needed improvement. For example, corporate matching gift agreements were not obtained and maintained, documentation was not on file showing that matching gifts were reviewed for eligibility, a documented dual review of matching gifts was not performed during the acceptance process to ensure that funds were designated in accordance with donor intent, and gift acknowledgment letters for donations subject to a matching gift were not sent to donors. The Foundation also did not perform independent reconciliations between its donor database and the campus general ledger accounting system for non-pledge payments received in FY 2011/12, 2012/13, and 2013/14.

EXECUTIVE SUMMARY

CALIFORNIA STATE UNIVERSITY, BAKERSFIELD AUXILIARY FOR SPONSORED PROGRAMS ADMINISTRATION

CORPORATE GOVERNANCE [46]

The community member position on the SPA governing board was vacant for FY 2011/12, 2012/13, and 2013/14. Additionally, SPA had not filed amended Articles of Incorporation with the chancellor's office.

CONTRACTS AND GRANTS [47]

SPA sub-recipient policies and procedures did not include a sub-recipient risk assessment to identify key risks and determine the level of monitoring required. Additionally, SPA did not always obtain initial and renewal conflict-of-interest forms from principal investigators as required by auxiliary policy.

CALIFORNIA STATE UNIVERSITY BAKERSFIELD STUDENT UNION, INC.

CORPORATE GOVERNANCE [50]

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

OPERATIONAL COMPLIANCE [51]

Administration of conflict of interest at the Union needed improvement. For example, the Union conflict-of-interest policy did not include procedures for signing annual conflict-of-interest statements or steps for reporting conflicts of interest, and five of the 16 board members had not signed a conflict-of-interest statement for calendar year 2013.

ASSOCIATED STUDENTS, INCORPORATED AT CALIFORNIA STATE UNIVERSITY BAKERSFIELD

CORPORATE GOVERNANCE [53]

Associated Students, Incorporated at California State University Bakersfield (ASI) had not filed amended Articles of Incorporation and Bylaws with the chancellor's office in a timely manner.

INTRODUCTION

BACKGROUND

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

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

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

The Board of Trustee policy concerning auxiliary organizations was originally adopted in July 1981 in the Resolution of the Committee on Finance (RFIN) 7-81-4. Executive Order (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,

INTRODUCTION

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, Bakersfield Foundation

California State University, Bakersfield Foundation (Foundation) was established in 1969 as a non-profit public benefit corporation. The Foundation's mission is to support California State University, Bakersfield (CSUB) by advocating for the university with government entities and the community, fund-raising for university programs and activities, managing the finances of the Foundation and the university endowment, and advising the CSU and CSUB administrations. The Foundation transferred the CSUB Children's Center operation to the California State University, Bakersfield Auxiliary for Sponsored Programs Administration (SPA) as of July 1, 2014. The Foundation is governed by an appointed board of directors composed of representatives from the community, university administration, faculty, and student body. The Foundation relies on the campus for administrative and accounting support services.

California State University, Bakersfield Auxiliary for Sponsored Programs Administration

SPA was established in 2009 as a non-profit public benefit corporation to manage post-award administration of grants and contracts for university research. SPA's mission is to assist faculty, administrators, and staff in the administration of externally funded activities related to academic affairs while promoting an environment of cooperation, problem-solving, and ethical behavior to ensure that all applicable policies, procedures, and regulations, as well as sponsor requirements, have been met at the optimal level. SPA is governed by a board of directors composed of representatives from the university administration, faculty, student body, and community. SPA relies on the campus for administrative and accounting support services.

California State University Bakersfield Student Union, Inc.

California State University Bakersfield Student Union, Inc. (Union) was established in 1994 as a non-profit public benefit corporation. The Union houses a variety of organizations and offices that benefit the campus by serving students, staff, and faculty and operates the student recreation center facilities (including the playing fields) and programs. It is governed by a board of directors composed of

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representatives from the student body, faculty, university administration, and alumni. The Union relies on the campus for administrative and accounting support services.

Associated Students, Incorporated at California State University Bakersfield

Associated Students, Incorporated at California State University Bakersfield (ASI) was established in 1987 as a non-profit public benefit corporation to provide support to student government, clubs and organizations, activities, services, athletics, and the children's center. ASI was instrumental in the planning, development, design, and construction of the student union, which was completed in 1994, and Runner Park, which was completed in 2000. ASI is governed by a board of directors composed of representatives from the student body. ASI relies on the campus for administrative and accounting support services.

PURPOSE

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

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

SCOPE AND METHODOLOGY

Our study and evaluation were conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing* issued by the Institute of Internal Auditors and included the audit tests we considered necessary in determining whether fiscal, operational, and administrative controls are in place and operative. The management review emphasized, but was not limited to, compliance with state and federal laws, Board of Trustee policies, and Office of the Chancellor policies, letters, and directives. For those audit tests that required annualized data, fiscal years 2011/12 and 2012/13 were the primary periods reviewed. In certain instances, we were concerned with representations of the most current data; in such cases, the test period was July 1, 2013, to June 26, 2014. Our primary focus was on internal compliance/internal control.

Specifically, we reviewed and tested:

- ▶ Formation of the auxiliary.

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- ▶ 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, Bakersfield 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
- ▶ Personnel and Payroll
- ▶ Property and Equipment
- ▶ Trusts and Other Liabilities
- ▶ Endowment Administration
- ▶ Auxiliary Programs
- ▶ Information Technology

California State University, Bakersfield Auxiliary for Sponsored Programs Administration

- ▶ Operating and Administrative Agreements
- ▶ Facilities Agreements
- ▶ Corporate Governance

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California State University, Bakersfield Auxiliary for Sponsored Programs Administration (cont.)

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

California State University Bakersfield Student Union, Inc.

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

Associated Students, Incorporated at California State University Bakersfield

- ▶ 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

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Associated Students, Incorporated at California State University Bakersfield (cont.)

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

Campus

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

We have not performed any auditing procedures beyond June 26, 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.

OBSERVATIONS, RECOMMENDATIONS, AND CAMPUS RESPONSES

CAMPUS

FISCAL COMPLIANCE

The annual campus cost allocation plans to recover direct and indirect costs incurred by the auxiliaries were not formally approved and signed by the campus chief financial officer (CFO) or designee for fiscal years (FY) 2011/12, 2012/13, and 2013/14.

Integrated California State University Administrative Manual (ICSUAM) §3552.01, *Cost Allocation/Reimbursement Plans for the California State University (CSU) Operating Fund*, dated April 1, 2011, states that the university CFO, or designee, shall annually approve and ensure implementation of a documented cost allocation/reimbursement plan.

Executive Order (EO) 1000, *Delegation of Fiscal Authority and Responsibility*, dated July 1, 2007, states that the campus CFO, or designee, shall annually approve and implement the cost allocation plan.

The campus assistant vice president (AVP) for fiscal services stated his belief that because the cost allocation plans were presented as part of the annual budget submissions to the campus president, formal approvals and signatures from the CFO were deemed unnecessary. He further stated that the campus regards the current review and approval process to be robust and indicated that the review of the indirect and direct recovery process and methods did not uncover a misallocation of university or campus auxiliary resources.

The absence of formally approved cost allocation plans increases the risk of non-compliance with relevant requirements and misunderstandings and miscommunication regarding direct and indirect costs.

Recommendation 1

We recommend that the campus CFO, or designee, formally approve and sign the annual cost allocation plans.

Campus Response

We concur. The campus will ensure cost allocation plans are signed by the CFO by March 26, 2015.

CASH RECEIPTS AND HANDLING

Campus student clubs did not always forward cash receipts to the office of organizational governance for deposit within 48 hours.

OBSERVATIONS, RECOMMENDATIONS, AND CAMPUS RESPONSES

We reviewed ten deposits over a two-week period from May 5, 2014, to May 16, 2014, and we found that in six instances, cash receipts were deposited from 10 to 120 days after the receipt date.

The CSUB Runner Source Policies and Procedures for Student Organizations, *University Regulations*, states that all money received must be deposited in the club fund within 48 hours of receipt.

ICSUAM §3102.11, *Deposits and Transfers to the Bank*, dated July 1, 2011, requires collections at other cashiering locations and departments to be deposited at the designated main cashiering station at least weekly or whenever collections exceed \$500.

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

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

The campus director of organizational governance stated that the student clubs' untimely transfer of cash receipts to the office of organizational governance was due to oversight of the student club officers and advisers.

Untimely deposits increase the risk that collections will be misplaced or misappropriated.

Recommendation 2

We recommend that the campus reiterate to the student clubs that cash receipts must be forwarded to the office of organizational governance for deposit within 48 hours.

Campus Response

We concur. The campus will reiterate to the student clubs that cash receipts must be forwarded to the office of organizational governance for deposit within 48 hours. The campus will provide support for the implementation of this recommendation by March 26, 2015.

PURCHASING AND ACCOUNTS PAYABLE

TRAVEL

Campus administration of auxiliary travel expenditures needed improvement.

OBSERVATIONS, RECOMMENDATIONS, AND CAMPUS RESPONSES

We reviewed 40 auxiliary travel-related transactions, and we found that:

- ▶ In two instances, the travel authorization forms documenting advance approval of travel and related expenditures to be incurred were not completed and submitted to the appropriate administrator for approval.
- ▶ In six instances, travel expense claims were not completed within 30 days of the traveler's return.
- ▶ In ten instances, students traveling by air did not complete and sign release forms or waivers.

California State University, Bakersfield (CSUB) *Travel Policy* states that the travel authorization request form should be completed and submitted to the appropriate administrator approving travel. This form authorizes the requestor to travel on official CSUB business. Once approved, the form must be attached to the travel claim. It also states that travel expense claim (Form 262) should be filled out within 30 days after travelers' return.

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

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

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 9.7.1, *Travel*, states that because auxiliary organizations have a special relationship with the CSU, their travel reimbursement policies should generally parallel policies applicable to the CSU.

The campus AVP for fiscal services stated that processing auxiliary travel disbursements without appropriate forms and untimely completion of travel expense claims were due to oversight.

The absence of documented travel approval and release forms or waivers from students traveling by air and untimely completion of travel claims increase the risk of errors, irregularities, and misappropriation of funds and legal liability.

Recommendation 3

We recommend that the campus reiterate to auxiliary employees that:

- a. Travel authorization forms documenting advance approval of all travel and related expenditures must be completed and submitted to the appropriate administrator for approval.
- b. Travel expense claims must be completed within 30 days of the traveler's return.
- c. All students traveling by air must complete signed release forms or waivers.

Campus Response

We concur.

- a. The campus will reiterate to auxiliary employees that forms documenting advance approval of all travel and related expenditures are to be completed and submitted to the appropriate administrator for approval.
- b. The campus will reiterate to auxiliary employees that travel expense claims are to be completed within 30 days of the traveler's return.
- c. The campus will reiterate to auxiliary employees that all students traveling by air are to complete signed release forms or waivers.

The recommendations will be implemented by March 26, 2015.

UNCLAIMED PROPERTY

The campus did not escheat unclaimed auxiliary payroll checks to the state.

We reviewed auxiliary payroll checks from March 2008 to March 2012, and we found that 13 Foundation and seven California State University, Bakersfield Auxiliary for Sponsored Programs Administration (SPA) payroll checks totaling \$6,943 had not been escheated to the state.

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

The campus AVP for fiscal services stated that the campus had not escheated unclaimed Foundation and SPA payroll checks due to oversight.

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

Recommendation 4

We recommend that the campus promptly escheat the unclaimed auxiliary payroll checks to the state.

Campus Response

We concur. The campus will escheat unclaimed auxiliary payroll to the state by March 26, 2015.

HOSPITALITY

The campus did not always obtain Hospitality Expense Approval Forms from Foundation.

We reviewed eight auxiliary hospitality-related disbursements, and we found that in two instances, Hospitality Expense Approval Forms were not completed for the Foundation.

CSUB Hospitality Policy, *Approval of Transactions*, states that the request must be completed on the Hospitality Expense Approval Form one week prior to scheduling the event. The completed request must specify the type and date of event, type of hospitality expense (e.g., breakfast, lunch, etc.), department name and PeopleSoft chartfields, number of participants (with attached guest list), estimated cost per person, nature of the occasion or purpose of the meeting, vendor providing the food, and signature of approving authority by appropriate vice president (exception of grants).

ICSUAM, §1301.00, *Hospitality, Payment or Reimbursement of Expenses*, dated December 15, 2011, states that it is the policy of the CSU that hospitality expenses may be paid to the extent that such expenses are necessary, appropriate to the occasion, reasonable in amount and serve a purpose consistent with the mission and fiduciary responsibilities of the CSU. Each campus may establish more restrictive procedures for the reimbursement of the expenses authorized under this policy, which may also apply to its auxiliaries.

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

The campus AVP for fiscal services stated that Foundation hospitality expenditures were processed without Hospitality Expense Approval Forms due to oversight.

Inadequate administration of hospitality expenditures increases the risk that errors, irregularities, and misappropriation of funds will occur.

Recommendation 5

We recommend that the campus obtain Hospitality Expense Approval Forms from the Foundation.

Campus Response

We concur. The campus will obtain Hospitality Expense Forms from the Foundation. This will be implemented by March 26, 2015.

PERSONNEL AND PAYROLL

The campus did not always obtain separation documentation from auxiliary employees.

We reviewed 20 Foundation and 20 SPA separations, and we found that separation documentation was not completed for six Foundation and ten SPA employees.

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

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

The campus AVP for human resources and administrative services stated that auxiliary employees and supervisors were aware of the requirement to complete a separation clearance form, as the separation clearance form was available on the human resources webpage; however, separation clearance forms were not always completed by the departments and forwarded to the human resources department. She further stated her belief that the human resources department did not have the ability to ensure that the separation clearance forms were completed by the departments.

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

Recommendation 6

We recommend that the campus obtain separation documentations from all auxiliary employees.

Campus Response

We concur. A revision of the current process will be developed and implemented, providing notification to the applicable department to ensure a separation document is completed for employees leaving the auxiliaries. This revision will be implemented by March 26, 2015.

PROPERTY AND EQUIPMENT

Campus administration of auxiliary property and equipment needed improvement.

We reviewed five Foundation and five SPA assets for physical verification from the asset management system, and we found that:

- ▶ One Foundation asset could not be verified.
- ▶ None of the five SPA assets were properly tagged. Specifically, three assets did not have tag numbers that corresponded with the records in the asset management system, and two assets were not tagged.

ICSUAM §3151.04, *Equipment*, dated January 1, 2011, states that campuses must establish a threshold for tracking of equipment valued under \$5,000 based on an analysis of cost versus benefit and risk of misuse or misappropriation. Computers or lab equipment are examples of the type of equipment that may be included in this category. Equipment deemed to be trackable should be tagged and recorded in the campus property inventory records but not included in the campus' generally accepted accounting principle financial statements.

The *Compilation of Policies and Procedures for California State University Auxiliary Organizations* sets sound business practice guidelines for auxiliary organizations operating within the CSU system. Section 8.9.7, *Property and Equipment*, states that the auxiliary should establish a written system that ensures physical inspection of property and equipment on a service life schedule, reconciliation to the general ledger on a timely basis with review by management, and the proper labeling of equipment.

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

The campus AVP for fiscal services stated that some fixed asset tags were not visible due to the use and positioning of the asset and that some assets were not properly tagged due to oversight.

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

Recommendation 7

We recommend that the campus promptly verify the unidentified Foundation asset, properly tag the cited assets, and adjust the asset management system records as necessary.

Campus Response

We concur. The campus will verify the unidentified Foundation asset, properly tag the cited assets, and adjust the asset management system records as necessary by January 31, 2015.

TRUSTS AND OTHER LIABILITIES

STUDENT CLUB FUNDS HELD IN TRUST

Policies and procedures for campus student clubs required updating.

We found that policies and procedures did not reference the correct auxiliary; active web links and resources for reference; and current rates, fees, and charges. Additionally, the policies and procedures did not address the handling of accounts with negative balances. As a result, as of April 23, 2014, five student organization accounts had negative balances that totaled \$467.

The CSUB Runner Source Policies and Procedures for Student Organizations, *Club Fund Information*, states that a registered CSUB student organization that sponsors events on campus or engages in fundraising activities is required to deposit and maintain the fiscal activity in an organization account with the CSUB Foundation.

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 strong controls over the accounting and processing of student club accounts.

The campus director of organizational governance stated that the restructuring of the organization and redesign of the website attributed to the delay in updating the policies and procedures. He further stated that at the time of the student club accounts balance request, the five club accounts had positive balances; however, due to timing delays in billing and/or posting, the negative balances presented themselves.

Insufficient control over student club accounts increases the risk that errors, inconsistencies, misunderstandings, or misappropriation will occur.

Recommendation 8

We recommend that the campus update the policies and procedures for student clubs, including the handling of accounts with negative balances.

Campus Response

We concur. The campus will update the policies and procedures for student clubs, including the handling of accounts with negative balances by March 26, 2015.

CAMPUS PROGRAM ACCOUNTS

Campus administration of Foundation agency and trust funds, which are also known as campus activities and program funds, needed improvement.

We reviewed ten agency funds and ten trust funds at the Foundation, and we found that the campus:

- ▶ Did not have a written delegation of authority from the campus president to the vice president of business and administrative services for the authorization of agency and trust funds.
- ▶ Had not developed written policies and procedures to provide specific guidance and documentation requirements for agency and trust funds.
- ▶ Did not document the specific determination of whether the campus or the auxiliary was accountable and responsible for the funds and the funds' advantages to the university and support of the university mission.
- ▶ Did not require an agency agreement for agency accounts, and although trust agreements were required for trust funds, three of the five trust accounts reviewed did not have a trust agreement.
- ▶ Did not review Foundation agency and trust accounts for sufficient funds availability prior to expenditures. Specifically, 23 of 222 agency accounts and 14 of 70 trust accounts had deficit balances as of June 30, 2013. The total amount of the deficit was \$128,473.

ICSUAM §13680.00, *Placement and Control of Receipts for Campus Activities and Programs*, dated September 29, 2011, states that only the campus presidents or their designees may authorize a campus activity or program. When authorized, a specific determination should be made in writing defining the entity that is accountable and responsible. Delegation of this authority must be documented and implemented consistent with campus policies and practices. It further states that campus policies and procedures regarding activities and programs must provide specific guidance in regard to campus centers and institutes, workshops and conferences, instructionally related events and activities, and documentation requirements. As deemed by the president in the interest of the campus and the CSU, a determination must be made as to whether the university or an auxiliary organization will receive proprietorship over an activity or program, which includes acceptance of both risks and rewards associated with ownership. It also states that an auxiliary board may hold the receipts of another auxiliary as directed by the president or designee and consistent with legal and policy requirement. A written agreement is required and must be authorized by each organization's board or designee. Receipts from university-owned activities and programs may not be accepted by an auxiliary organization, except when specifically authorized in writing by the campus president or his/her designee. Said authorization shall be granted judiciously and only when the president or designee

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deems it is advantageous to the university and supportive of the university mission. Specific advantage must be documented in a written agreement.

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

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

The campus AVP for fiscal services stated that the existing policies and procedures for trust and agency funds needed to be updated to meet the current system guidelines.

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

Recommendation 9

We recommend that the campus:

- a. Prepare a written delegation of authority from the campus president to his designee for the authorization of agency and trust funds.
- b. Develop written policies and procedures to provide specific guidance and documentation requirements for Foundation agency and trust funds.
- c. Document the specific determination of whether the campus or the auxiliary is accountable and responsible for the funds, as well as the funds' advantages to the university and support of the university mission.
- d. Require agreements for all agency accounts and prepare agreements for all trust accounts.
- e. Review Foundation agency and trust accounts for sufficient funds availability before expenditures are made.

Campus Response

We concur.

- a. The campus will prepare a written delegation of authority from the campus president to his designee for the authorization of agency and trust funds by January 31, 2015.
- b. The campus will develop written policies and procedures to provide specific guidance and documentation requirements for Foundation agency and trust funds by March 26, 2015.
- c. The campus will document the specific determination of whether the campus or the auxiliary is accountable and responsible for the funds, as well as the funds' advantages to the university and support of the university mission, by March 26, 2015.
- d. The campus will require agreements for all agency accounts and prepare agreements for all trust accounts by March 26, 2015.
- e. The campus will review Foundation agency and trust accounts for sufficient funds availability before expenditures are made by March 26, 2015.

INFORMATION TECHNOLOGY

PROTECTED DATA INVENTORY

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

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

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

ICSUAM §8065.S001, *Information Security Asset Management Standard*, dated July 16, 2013, states that campuses must complete an inventory identifying level 1 protected data.

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The campus interim AVP for information technology services (ITS) stated that the auxiliaries may not have been aware of the requirement to perform a periodic inventory and assessment of all sensitive data maintained in paper and electronic format, and the campus had not implemented a process to ensure compliance.

Inadequate accountability over information assets, especially those containing critical and/or personal confidential information, increases the risk of loss, inappropriate use of campus resources, and exposure to information security breaches, which could result in financial penalties and loss of public trust.

Recommendation 10

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

Campus Response

We concur. The campus will provide a medium so that auxiliary organizations can perform a complete inventory and assessment of all sensitive information maintained in electronic and paper format. The campus will implement this recommendation by March 26, 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.

ICSUAM §8035.S000, *Security Awareness and Training Standard*, dated July 16, 2013, states that each campus information security officer (ISO) will be responsible for overseeing development and coordination of the campus information security awareness and training program. At a minimum, each campus program must include: a) annual review of content, and refresh as necessary to address changes in law, policy, or present information security threats; b) information security awareness training for new employees; this training must be completed within reasonable proximity to the employee start date as established by the campus; c) annual information security awareness refresher training for all campus employees who interact with protected level 1 information assets; d) periodic information security awareness refresher training for all campus employees who access information assets on a schedule established by the campus and not to exceed three years; e) Annual information

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security training for privileged users (e.g., system and security administrators) who interact with information systems containing protected data; and f) information security training for the ISO and other managers responsible for developing and coordinating the campus information security program and controls as needed to address changes in law, policy, or present information security threats.

The campus interim AVP for ITS stated that the campus had been waiting for the new CSU-provided information security training to be released. He further stated that in the meantime, the campus provided information security training by request and promoted information security awareness on a periodic basis through campus-wide e-mails, posters, flyers, and more.

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

Recommendation 11

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

Campus Response

We concur. The campus will implement annual security awareness training for auxiliary employees. In addition, new employees will complete training within 30 days of employment. The campus will implement this recommendation by March 26, 2015.

PASSWORD SECURITY

Password security parameters for the campus active directory system were not in compliance with CSU policy. This is a repeat finding from the prior Auxiliary Organizations audit.

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

ICSUAM § 8060.S000, *Access Control Standard*, dated July 13, 2013, states that campuses must identify and implement password criteria that meets National Institute of Standards and Technology Level 1 “Resistance to Guessing Authentication Secret,” at a minimum. To prepare for InCommon Bronze/Silver implementation, campuses should consider meeting National Institute of Standards and Technology Level 2 for “Resistance to Guessing Authentication Secret.”

The campus interim AVP for ITS stated that the campus was unaware that the active directory password security parameters were not in compliance with CSU policy.

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

Recommendation 12

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

Campus Response

We concur. The campus has set password parameters for the active directory system that comply with CSU policy. The campus implemented this recommendation on June 12, 2014.

INFORMATION SECURITY POLICIES

The campus did not communicate information security policies to all auxiliary employees.

Specifically, we noted that:

- ▶ The auxiliary employee handbook, which was distributed to all auxiliary employees, did not include adequate information on CSU and CSUB information security policies, which all auxiliary employees are required to comply with.
- ▶ The CSUB information security website did not include information on the CSU information security policies, which all auxiliary employees are required to comply with.

ICSUAM §8000, *Information Security Policy Introduction and Scope*, dated April 19, 2010, states that auxiliaries, external businesses, and organizations that use campus information assets must operate those assets in conformity with the CSU Information Security Policy.

ICSUAM §8095, *Information Security Policy Enforcement*, dated April 19, 2010, states that auxiliary employees who violate the requirements of the policy may be subject to appropriate disciplinary actions as defined by their organization's policies.

The campus interim AVP for ITS stated that the auxiliary employee handbook needed additional refinement to include details on information security policies. He further stated that the campus recently went through a website redesign and as a result, the campus information security website did not include information on the CSU information security policies.

Inadequate communication of information security policies increases the risk of unauthorized exceptions and could compromise compliance with statutory information security requirements.

Recommendation 13

We recommend the campus communicate CSU and CSUB information security policies to all auxiliary employees. At a minimum, the campus should:

- a. Update the auxiliary employee handbook to include information on the CSUB information security policies, such as a link to the CSUB information security website.
- b. Update the CSUB information security website to include information on CSU information security policies.

Campus Response

We concur.

- a. The campus will update the auxiliary employee handbook to include information on the CSUB information security policies, such as a link to the CSUB information security website.
- b. The campus will update the CSUB information security website to include information on CSU information security policies.

The campus will complete this by March 26, 2015.

PAYMENT CARD INDUSTRY DATA SECURITY STANDARD

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 §8045.100, *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.

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

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protective measures. This comprehensive standard is intended to help organizations proactively protect customer account data. According to payment brand rules, all merchants and their service providers are required to comply with the PCI DSS in its entirety.

The campus interim AVP for ITS stated that the campus had outsourced all credit card payment functions to a third party and was unaware that the campus was still subject to the annual SAQ-A requirement.

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

Recommendation 14

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. The campus will assist the merchant organizations in completing annual PCI DSS SAQ as required. The campus will complete this by December 31, 2014.

CALIFORNIA STATE UNIVERSITY, BAKERSFIELD FOUNDATION

CORPORATE GOVERNANCE

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

We found that an amendment made to the Articles of Incorporation on December 12, 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 fiscal services stated his belief that the Articles of Incorporation had been submitted to the chancellor's office in a timely manner. He further stated that the documentation regarding timely filing with the chancellor's office is not maintained since the Articles of Incorporation are posted on each auxiliary organization's website. Additionally, the campus did not receive communication from the chancellor's office that the auxiliaries were out of compliance. He also stated that the Foundation provided a copy of the required Articles of Incorporation to the auditor as requested.

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

Recommendation 15

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

Campus Response

We concur. The Foundation filed amended Articles of Incorporation with the Contract Services and Procurement department on July 8, 2014.

FISCAL COMPLIANCE

The Foundation reserve funding policy needed to be updated to better reflect current Foundation practice.

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We found that the Foundation reserve funding policy had not been updated since the 1970s, and current reserve categories did not correspond to the reserve funding policy. Specifically, we found that the Foundation had sufficient reserves for unrestricted planned future operations and capital replacement reserves totaling \$1.4 million as of FY 2012/13. However, the Foundation reserve funding policy required a reserve for deficit funding in the amount of one-third of each prior year's general fund budget of \$232,141, as well as a capital replacement reserve equal to the planned capital replacement expenditures as set forth in a three-year plan and a capital expenditure budget approved by the Board.

The Foundation *Reserve Funding Policy* states that a reserve for deficit funding shall be in the amount of one-third of each prior year's general fund budget or \$15,000, whichever is larger. Additionally, the capital replacement reserve shall be equal to the planned capital replacement expenditures as set forth in a three-year plan and a capital expenditure budget approved by the board.

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

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 campus AVP for fiscal services stated that the reserve funding policy had not been updated to correspond to current practice due to oversight.

Inconsistent reserve practices increase the risk of misunderstandings and miscommunication regarding available reserves.

Recommendation 16

We recommend that the Foundation update its reserve funding policy to better reflect current practice.

Campus Response

We concur. The Foundation will update its reserve funding policy to better reflect current practice by March 26, 2015.

OPERATIONAL COMPLIANCE

CONFLICT OF INTEREST

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

We found that one of the 25 board members for FY 2011/12 and one of the 30 board members for FY 2012/13 appointed mid-term did not complete and sign an annual conflict-of-interest statement.

The Foundation *Conflict of Interest Policy* states that every year during the Foundation's annual meeting in June, all members of the board of directors will be asked to provide an acknowledgement that they are not involved in any conflict-of -interest relationships as defined in California Education Code § 89906 and § 89909.

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

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

Title 5 §42401 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 vice president of university advancement/Foundation executive director stated that the current process required board members to certify and disclose conflicts of interest during the annual board meeting in June, and therefore, board members appointed after the June board meeting did not complete a conflict-of-interest statement until the following fiscal year.

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

Recommendation 17

We recommend that the Foundation 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. The Foundation will institute a process to ensure that board members who are appointed mid-term are provided annual conflict-of-interest statements to complete and sign by March 26, 2015.

DELEGATION OF AUTHORITY

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

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

The campus vice president of university advancement/Foundation executive director stated his belief that he had been provided the necessary authority and direction regarding the delegation to evaluate and accept gifts by the president through his appointment letter and the duties outlined in the Foundation Bylaws.

The absence of a documented delegation of authority for gift evaluation and acceptance responsibilities increases the risk that donations will be mishandled or misused.

Recommendation 18

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

Campus Response

We concur. The Foundation will obtain this written delegation of authority from the campus president by January 31, 2015.

FUNDRAISING

Foundation fundraising events with gross receipts greater than \$5,000 were not always properly approved and reviewed.

We reviewed three fundraising events held after July 1, 2012, and we found that:

- ▶ None of the events were approved in writing by a delegated authority.
- ▶ Event budgets, drafts of solicitation materials, and action plans for compliance with federal, state, and local regulations were not reviewed by a delegated authority prior to the event.

ICSUAM §15701.00, *Fundraising Events*, dated July, 2012, states that fundraising events with gross receipts greater than \$5,000 must be approved in writing by a delegated authority when the fundraising event utilizes the university name, logo or trademarks and represents that the university will benefit from the proceeds. Prior to the event, the delegated authority shall review the fundraising event's budget, drafts of solicitation materials, and action plan to comply with federal, state, and local regulations.

The campus vice president of university advancement/Foundation executive director stated that he was unaware that approval from a delegated authority for fundraising events, as well as event budgets, drafts of solicitation materials, and action plans for compliance with federal, state, and local regulations, was required. He further stated his belief that the annual budget review for Foundation fundraising events was sufficient.

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

Recommendation 19

We recommend that the Foundation:

- a. Obtain written approval from a delegated authority for all fundraising events with gross receipts greater than \$5,000.
- b. Ensure that event budgets, drafts of solicitation materials, and action plans for compliance with federal, state, and local regulations are reviewed by a delegated authority prior to each fundraising event.

Campus Response

We concur.

- a. If during planning the event coordinator determines an event has the potential to generate gross receipts greater than \$5,000, the Foundation will require the event coordinator to obtain written approval from a delegated authority.

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- b. The Foundation will also develop a procedure through which event budgets, drafts of solicitation materials, and action plans for compliance with federal, state, and local regulations are reviewed by the same delegated authority.

The recommendations will be implemented by March 26, 2015.

CASH RECEIPTS AND HANDLING

UNCLEARED COLLECTIONS

Foundation administration of bank-returned CSUB Children's Center checks needed improvement.

We reviewed 11 checks that had been returned by the bank due to insufficient funds and/or stop payment from January 19, 2012, to April 24, 2014, and we found that:

- ▶ The Foundation had not developed written policies and procedures to address the collection and follow-up for CSUB Children's Center's returned checks.
- ▶ Collection and follow-up activity was not always documented to facilitate collection of returned checks.

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

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

The director of CSUB Children's Center stated that written policies and procedures to address returned checks had not been developed and collection and follow-up activity was not documented due to oversight.

Inadequate administration of cash receipts increases the risk of loss or misappropriation of funds.

Recommendation 20

We recommend that the Foundation:

- a. Develop written policies and procedures to address collection and follow-up for bank-returned CSUB Children's Center checks.

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- b. Document collection and follow-up activity to facilitate collection of returned checks.

Campus Response

We concur.

- a. The Foundation will develop written policies and procedures to address collection and follow-up for bank-returned CSUB Children's Center checks by March 26, 2015.
- b. The Foundation will document collection and follow-up activity to facilitate collection of returned checks by March 26, 2015.

SUSPENSE/HOLDING ACCOUNT

Administration of Foundation suspense/holding accounts needed improvement.

We reviewed 92 suspense/holding accounts, and we found that:

- ▶ Policies and procedures had not been developed for the processing, review, clearance, and reconciliation of suspense/holding accounts.
- ▶ Suspense/holding account reconciliations did not show evidence of review. Specifically, 20 checks, totaling \$183,706, processed between May 10, 2013, and March 28, 2014, showed no evidence of review for clearance or final disposition.

ICSUAM §3102.08, *Recording Deposits to the General Ledger*, dated April 1, 2011, states that all unidentified deposits will be posted to a specific “uncleared collections” account. The accounting office is responsible for researching and attributing items posted to the uncleared collections account. This account must be reconciled on a timetable consistent with accounting’s reconciliation policy.

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

The *Compilation 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

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business practices. Sound business practice mandates adequate administration of suspense/holding accounts.

The campus vice president of university advancement/Foundation executive director stated that cash receipts held in the suspense/holding accounts had not been cleared timely due to oversight.

Inadequate administration of suspense/holding accounts increases the risk of loss or misappropriation of funds.

Recommendation 21

We recommend that the Foundation:

- a. Develop written policies and procedures for the processing, review, clearance, and reconciliation of suspense/holding accounts.
- b. Document review of suspense/holding accounts and take appropriate action to clear outstanding collections.

Campus Response

We concur.

- a. The Foundation will develop written policies and procedures for the processing, review, clearance, and reconciliation of suspense/holding accounts by March 26, 2015.
- b. The Foundation will document review of suspense/holding accounts and take appropriate action to clear outstanding collections by March 26, 2015.

DEPOSITS

The Foundation did not always forward cash receipts to the campus cashiering office for deposit in a timely manner.

We reviewed 12 cash receipts over a two-week period from May 5, 2014, to May 16, 2014, and we found that five cash receipts were deposited from ten to 35 days after receipt.

ICSUAM §3102.11, *Deposits and Transfers to the Bank*, dated July 1, 2011, requires collections at other cashiering locations and departments to be deposited at the designated main cashiering station at least weekly or whenever collections exceed \$500.

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

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

The campus vice president of university advancement/Foundation executive director stated that the cash receipts were not forwarded to the campus cashiering office in a timely manner due to oversight.

Untimely deposits increase the risk that collections will be misplaced or misappropriated.

Recommendation 22

We recommend that the Foundation forward cash receipts to the campus cashiering office for deposit in a timely manner.

Campus Response

We concur. The Foundation will develop a control system that facilitates the delivery of cash receipts to the campus cashiering office for deposit within 24 hours of completion by March 26, 2015.

FEES, REVENUES, AND RECEIVABLES

CASH GIFTS

The Foundation did not always send gift acknowledgement letters to donors after receipt of cash gifts.

We reviewed ten cash gifts exceeding \$1,000 received between July 2011 and June 2014, and we found that in two instances, gift acknowledgment letters were not sent to the donor.

The Foundation Policy and Procedure Manual, Section 1I, *Accepting and Processing Gifts*, states that a numbered receipt is sent to each donor upon acceptance of the gift. Each gift is recorded in the individual donor record. This is necessary to ensure that gifts are deposited correctly and serves as additional verification of a tax-deductible gift for the donor. Most donors are also deeply interested in the progress of the activity they have supported. Therefore, it is highly recommended that follow-up letters be sent by the area of designation to donors of relatively large gifts to inform them of the progress being made in and by the use of their gift and to offer additional thanks for their contribution.

The Foundation *Gift Processing Procedure* states that a standard acknowledgment with perforated gift receipt will be provided to cash donors. Regarding cash gifts \$1,000 or more, an additional personalized acknowledgment letter signed by the vice president of university advancement will be sent to the donor. Regarding cash donations less than \$1,000 to the athletics department, an acknowledgment letter and perforated gift receipt with the athletic director's scanned signature will be sent. For cash donations \$1,000 or more to the athletics department, an acknowledgment letter and

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perforated gift receipt with the athletic director's actual signature will be sent. Additionally, a weekly report will be forwarded to administration, gift officers, and deans/athletic directors to review and write thank-you letters to donors.

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

The campus vice president of university advancement/Foundation executive director stated that gift acknowledgement procedures were not followed due to oversight.

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

Recommendation 23

We recommend that the Foundation send gift acknowledgment letters to donors after receipt of cash gifts.

Campus Response

We concur. The Foundation will develop a full stewardship-focused gift acknowledgment letter to be sent to donors after receipt of cash gifts. This will be in addition to the gift receipt slips, which are currently sent to donors in a timely manner that include a statement signed by the vice president of university advancement/Foundation executive director acknowledging the cash gift for tax purposes, by March 26, 2015.

GIFTS-IN-KIND

Administration of Foundation gifts-in-kind required improvement.

We reviewed ten gifts-in-kind received from July 2011 to June 2014, and we found that:

- ▶ In all ten instances, gifts-in-kind were not recorded in the accounting system.
- ▶ In eight instances, gift acceptance forms were not on file.
- ▶ In nine instances, gift acknowledgment letters were not sent to donors.
- ▶ In three instances, the department did not notify property control of receipt of the gift and request tagging of the assets.

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The Foundation Policy and Procedure Manual, Section 1I, *Accepting and Processing Gifts*, states that a numbered receipt is sent to each donor upon acceptance of the gift. Each gift is recorded in the individual donor record. This is necessary to ensure that gifts are deposited correctly and serves as additional verification of a tax-deductible gift for the donor. Most donors are also deeply interested in the progress of the activity they have supported. Therefore, it is highly recommended that follow-up letters be sent by the area of designation to donors of relatively large gifts to inform them of the progress being made in and by the use of their gift and to offer additional thanks for their contribution. It further states that for gifts of a physical nature (computers, scientific equipment, instruments, furniture, etc.) with a perceived value of \$500 or more, the receiving department notifies property control of receipt of the gift and requests tagging as a fixed asset of the university.

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 proper administration of gifts-in-kind.

The campus vice president of university advancement/Foundation executive director stated that gift-in-kind processing procedures were not followed due to oversight.

Insufficient administration of gifts-in-kind increases the likelihood of misdirected gifts and the risk that gifts will be handled contrary to the expectations of the donors and increases the risk that errors and irregularities may occur.

Recommendation 24

We recommend that the Foundation:

- a. Record gifts-in-kind in the accounting system.
- b. Maintain gift acceptance forms on file.
- c. Send gift acknowledgment letters to donors.
- d. Notify property control of receipt of gifts and request tagging of assets.

Campus Response

We concur.

- a. The Foundation will begin recording gifts-in-kind in the accounting system by December 31, 2014.

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- b. The Foundation will maintain gift acceptance forms on file. This will be implemented by March 26, 2015.
- c. The Foundation will send gift acknowledgment letters to donors. This will be implemented by March 26, 2015.
- d. The Foundation will notify property control of receipt of gifts and request tagging of assets. This will be implemented by March 26, 2015.

GIFT PROCESSING AND VALUATION

The Foundation accepted a timeshare on behalf of the campus athletics department without proper approval, a documented cost analysis, and determination that the timeshare met the academic and/or athletic mission of the campus. The timeshare was valued at \$9,500 at the time of the gift acceptance in November 2011.

We also found that:

- ▶ The timeshare was not reviewed by the gift acceptance committee to determine whether the timeshare met the academic/athletic mission of the university.
- ▶ A gift acceptance form was not on file.
- ▶ The campus president did not approve the acceptance of the timeshare (real property).
- ▶ A strategic plan for the acceptance and/or disposition of the timeshare was not conducted prior to acceptance.
- ▶ A facility use agreement was not on file between the Foundation and campus athletics department for proper usage and maintenance responsibilities.
- ▶ A documented cost-benefit analysis had not been conducted to determine the short-term or long-term financial impact of holding and/or selling the timeshare.
- ▶ Carrying costs (i.e., maintenance costs and annual fees) of the timeshare incurred since acceptance totaled \$3,795.

The Foundation Policy and Procedure Manual, *Gift Acceptance Committee*, states that the gift acceptance committee is responsible for reviewing and making recommendations regarding proffered gifts in which present and/or future encumbrances may be incurred and in cases involving certain types of non-cash gifts. This committee considers the acceptance and disposition of all gifts made to the university and any of its affiliated organizations, whether such gifts are *inter vivo* (lifetime) gifts or gifts from estates, other than gifts of: (a) cash gifts of less than \$50,000, (b) publicly traded equities traded on national exchanges having a value of less than \$50,000, or (c) tangible personal property valued at less than \$5,000. Types of gifts reviewed by the committee include: gifts of real property or an interest therein; gifts of undivided interests or future interests; bargain sales or gifts subject to

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any encumbrance; gifts of tangible personal property such as paintings, sculpture, furniture, or other works of art, or collections of such, if made on the condition or expectation that the items will be permanently exhibited, or that the collections will be maintained and shown as such; gifts that, because of their size, present questions as to the impact on the university, or a particular program or area; and gifts whose terms present the potential for an obligation on the university or the Foundation under local, state, or federal law that either may be unwilling or unable to assume. It further states that the gift acceptance committee, in accordance with this policy, must approve any gift received that falls under this policy in advance of acceptance.

The Foundation Policy and Procedure Manual, Section 1I, *Accepting and Processing Gifts*, states that gifts that may result in current or future financial obligations by the Foundation will require approval of the Foundation manager and approval of the finance committee or Foundation board of directors. It further states that the president of CSUB and the board of directors of the Foundation must approve all gifts of real property. The gift acceptance committee shall consider said gift and make a recommendation to the Board of Directors.

The Foundation Policy and Procedure Manual, Section 1Kd, *Real Property*, states that development officers must understand and communicate to donors that it is the university and Foundation's policy to dispose of all gifts of real estate as expeditiously as possible except in unusual circumstances. Thus, regardless of the value placed on the property by the donor's appraisal, the Foundation will attempt to sell at a reasonable price in light of current market conditions, and the donor needs to be informed that any such sale occurring within two years of the date of gift will be reported to the IRS on Form 8282. It further states that the existence and amount of any carrying costs, including but not limited to property owners' association dues, country club membership dues, and transfer charge, taxes, and insurance, must be disclosed and funded by the donor or the program benefiting from the gift.

The campus vice president of university advancement/Foundation executive director stated that the timeshare was gifted before he was appointed to his current position. He further stated that the gifts-in-kind policy was not followed due to oversight.

Insufficient administration of gifts-in-kind increases the likelihood of misdirected gifts and the risk that gifts will be handled contrary to the expectations of the donors, and increases the risk that errors and irregularities may occur.

Recommendation 25

We recommend that the Foundation:

- a. Ensure that future gifts are brought before the gift acceptance committee.
- b. Complete gift acceptance forms for all gifts and retain them on file.
- c. Obtain the campus president's approval prior to the acceptance of real property.
- d. Formulate a strategic plan for the continued usage or disposition of the timeshare.

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- e. Execute a facility-use agreement for the approved usage of the timeshare.
- f. Document a cost-benefit analysis to determine the short-term or long-term financial impact of holding and/or selling the timeshare.
- g. Minimize the carrying cost or sell the timeshare.

Campus Response

We concur.

- a. The Foundation will ensure that future gifts are brought before the gift acceptance committee.
- b. The Foundation will complete gift acceptance forms for all gifts and retain them on file.
- c. The Foundation will obtain the campus president's approval prior to the acceptance of real property.
- d. The Foundation will formulate a strategic plan for the continued usage or disposition of the timeshare.
- e. The Foundation will execute a facility-use agreement for the approved usage of the timeshare.
- f. The Foundation will document a cost-benefit analysis to determine the short-term or long-term financial impact of holding and/or selling the timeshare.
- g. The Foundation will minimize the carrying cost or sell the timeshare.

The recommendations will be implemented by March 26, 2015.

PLEDGES RECEIVABLE

Administration of Foundation pledges receivable needed improvement.

We reviewed 15 pledges receivable write-offs from the pledges receivable aging reports for FY 2010/11, 2011/12 and 2012/13, and we found that:

- ▶ Approvals from the Foundation finance committee and board of directors were not obtained for pledge write-offs for FY 2012/13.
- ▶ Foundation management review of the pledges that met the write-off criteria was not documented.
- ▶ Three long-outstanding pledges were not written off in a timely manner.

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The Foundation *Pledge Policy and Procedure* states that pledges that meet the write-off criteria will be reviewed on an annual basis by the vice president of university advancement, prior to submission to the Foundation finance committee for approval and final submission to the Foundation board at the annual June meeting.

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 of university advancement/Foundation executive director stated that write-off approval was not obtained, review of the pledges receivable aging report was not documented, and long-outstanding pledges were not written off in a timely manner due to oversight.

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

Recommendation 26

We recommend that the Foundation:

- a. Obtain approval from the Foundation finance committee and board of directors for all write-offs.
- b. Document management review of the pledges that meet the write-off criteria.
- c. Write off long-outstanding pledges in a timely manner.

Campus Response

We concur.

- a. The Foundation will obtain approval from the Foundation finance committee and board of directors for all write-offs.

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- b. The Foundation will document management review of the pledges that meet the write-off criteria.
- c. The Foundation will write off long-outstanding pledges in a timely manner.

The recommendations will be implemented by March 26, 2015.

MATCHING GIFTS

Administration of Foundation matching gifts needed improvement.

We reviewed ten corporate matching gifts received between July 2011 and June 2014, and we found that:

- ▶ Corporate matching gift agreements were not obtained and maintained for any of the gifts.
- ▶ Documentation was not on file showing that matching gifts were reviewed for eligibility.
- ▶ A documented dual review of matching gifts was not performed during the acceptance process to ensure that funds were designated in accordance with donor intent. This is a repeat finding from the prior Auxiliary Organizations audit.
- ▶ Gift acknowledgment letters for donations subject to a matching gift were not sent to donors.

The Foundation *Matching Gift Policy and Gift Processing Procedure* state that an individual donor will be provided a thank you letter acknowledging the individual gift and the matching gift.

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 *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 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

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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 matching gifts.

The campus vice president of university advancement/Foundation executive director stated that the matching gift processing policy and procedure were not followed due to oversight.

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 27

We recommend that Foundation:

- a. Obtain and maintain corporate matching gift agreements.
- b. Document review of eligibility of matching gifts.
- c. Perform a documented dual review of matching gifts during the acceptance process to ensure that funds are designated in accordance with donor intent.
- d. Send gift acknowledgment letters to donors.

Campus Response

We concur.

- a. The Foundation will obtain and maintain corporate matching gift agreements.
- b. The Foundation will document review of eligibility of matching gifts.
- c. The Foundation will perform a documented dual review of matching gifts during the acceptance process to ensure that funds are designated in accordance with donor intent.
- d. The Foundation will send gift acknowledgment letters to donors.

The recommendations will be implemented by March 26, 2015.

DONOR SYSTEM RECONCILIATION

The Foundation did not perform independent reconciliations between its donor database and the campus general ledger accounting system for non-pledge payments received in FY 2011/12, 2012/13, and 2013/14.

The Foundation *Gift Processing Procedure* states that after the cash donation is entered in the donor database, Raiser's Edge, the Foundation data entry person deposits the cash donation to the cashier

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along with a completed collection sheet. The cashier inputs the information from the collection sheet into the Cash Net system and reconciles the cash donation to the collection sheet. A receipt is generated and forwarded to the Foundation. Every evening, an automatic feed occurs from the Cash Net system to the general ledger accounting system, People Soft. A report is generated from this feed and a detailed report is reconciled by accounting to ensure accuracy.

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 and have them reviewed independently by management.

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

The campus AVP for fiscal services stated that reconciliations of non-pledge payments had not been performed due to oversight.

Inadequate administration of gift processing increases the risk of inconsistencies, misunderstandings, and loss or misappropriation of funds.

Recommendation 28

We recommend that the Foundation perform independent reconciliations of its donor database to the campus general ledger accounting system for non-pledge payments.

Campus Response

We concur. The Foundation, with the aid of the campus, will perform independent reconciliations of its donor database to the campus general ledger accounting system for non-pledge payments by March 26, 2015.

CALIFORNIA STATE UNIVERSITY, BAKERSFIELD AUXILIARY FOR SPONSORED PROGRAMS ADMINISTRATION

CORPORATE GOVERNANCE

BOARD OF DIRECTORS

The community member position on the California State University, Bakersfield Auxiliary for Sponsored Programs Administration (SPA) governing board was vacant for FY 2011/12, 2012/13, and 2013/14.

The SPA *Bylaws*, Article III, state that the university president shall appoint a director drawn from the general population of the region served by the university.

Title 5 §42602(b) states that the composition of the governing board of auxiliary organizations must include non-campus personnel (i.e., a community representative).

The SPA director of grant management operations stated that despite ongoing efforts, the community member position remained vacant due to delays in finding a suitable, willing candidate.

Insufficient maintenance of mandated board composition violates statutory requirements and increases the risk that all views will not be adequately represented.

Recommendation 29

We recommend that SPA promptly fill the community member position on the governing board.

Campus Response

We concur. SPA will fill the community member position on the governing board by February 28, 2015.

ARTICLES OF INCORPORATION

SPA had not filed amended Articles of Incorporation with the chancellor's office.

We found that an amendment made to the Articles of Incorporation on December 20, 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

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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 fiscal services stated his belief that the Articles of Incorporation had been submitted to the chancellor's office in a timely manner. He further stated that the documentation regarding timely filing with the chancellor's office is not maintained since the Articles of Incorporation are posted on each auxiliary organization's website. Additionally, the campus did not receive communication from the chancellor's office that the auxiliaries were out of compliance. He also stated that SPA provided a copy of the required Articles of Incorporation to the auditor as requested.

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

Recommendation 30

We recommend that SPA 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 filed with the Contract Services and Procurement department on July 8, 2014.

CONTRACTS AND GRANTS

POLICIES AND PROCEDURES

SPA sub-recipient policies and procedures did not include a sub-recipient risk assessment to identify key risks and determine the level of monitoring required.

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

OMB A-133 *Compliance Supplement Part 6.M, Sub-recipient Monitoring*, last revised March 2013, states that to provide reasonable assurance of compliance with federal requirements related to sub-recipients, key managers should understand the sub-recipient's environment, systems, and controls sufficient to identify the level and methods of monitoring required. In addition, mechanisms should

OBSERVATIONS, RECOMMENDATIONS, AND CAMPUS RESPONSES

exist to identify risks arising from external sources affecting sub-recipients, and to identify and react to changes in sub-recipients.

The SPA director of grant management operations stated that requirements for a formal risk assessment had not been initiated because there were few sub-recipients, and risk was informally assessed as low because most sub-recipients were other educational institutions.

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

Recommendation 31

We recommend that SPA update its sub-recipient policies and procedures to include a sub-recipient risk assessment to identify key risks and determine the level of monitoring required.

Campus Response

We concur. SPA has developed a sub-recipient risk assessment and evaluation tool and will work with procurement to develop policies and procedures to implement the tools and update the Program Administration Guide. SPA will implement this by February 27, 2015.

CONFLICT OF INTEREST

SPA did not always obtain initial and renewal conflict-of-interest forms from principal investigators (PI) as required by auxiliary policy.

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

- ▶ Seven PIs did not complete the Statement of Economic Interests for PIs form prior to the award start dates.
- ▶ Five PIs did not complete annual renewal conflict-of-interest forms in a timely manner. In four instances, the annual renewals were not completed.

The SPA Guide, *Conflict of Interest Policy*, states that each PI will complete the appropriate Statement of Economic Interests for PIs form 700-U or the Governmental Funding Source form 700. The disclosure must occur at the time of proposal submission and update this information annually or more frequently as new financial interests are obtained during the life of the award.

The director of grant management operations stated that conflict-of-interest forms were not always obtained from PIs due to oversight by the assigned grant coordinator.

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

Recommendation 32

We recommend that SPA obtain initial and renewal conflict-of-interest forms from PIs as required by auxiliary policy.

Campus Response

We concur. SPA will comply with the audit recommendation by the following mechanisms: A change in internal process will include the addition of a completed conflict-of-interest form to be included in the PI packet at initial account setup, and the conflict-of-interest form will be updated annually at the beginning of the continuation cycle. SPA will implement this by February 27, 2015.

CALIFORNIA STATE UNIVERSITY BAKERSFIELD STUDENT UNION, INC.

CORPORATE GOVERNANCE

The Union 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, filed with the Secretary of State on January 18, 2013, had not been filed with the chancellor's office.
- ▶ Amendments made to the Bylaws on January 1, 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 Union executive director stated his belief that amended Articles of Incorporation and Bylaws had been submitted to the chancellor's office in a timely manner. He further stated that the documentation regarding timely filing with the chancellor's office is not maintained since the Articles of Incorporation and Bylaws are posted on the Union website. Additionally, the campus did not receive communication from the chancellor's office that the auxiliaries were out of compliance. He also stated that the Union provided a copy of the required Articles of Incorporation and Bylaws to the auditor as requested.

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

Recommendation 33

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

Campus Response

We concur. The Union filed the amended Articles of Incorporation and Bylaws with the Contract Services and Procurement department at the chancellor's office on July 8, 2014, and November 24, 2014, respectively.

OPERATIONAL COMPLIANCE

Administration of conflict of interest at the Union needed improvement.

We found that:

- ▶ The Union conflict-of-interest policy did not include procedures for signing annual conflict-of-interest statements or steps for reporting conflicts of interest.
- ▶ Five of the 16 board members had not signed a conflict-of-interest statement for calendar year 2013.

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

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

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

The Union executive director stated his belief that the Union's current conflict-of-interest policy and procedures were sufficient. He further stated that the Union board of directors signs conflict-of-interest statements retroactively, and as a result, several statements were not obtained when directors resigned or retired in the mid-term.

The absence of comprehensive policies and procedures increases the risk that errors, inconsistencies, or misunderstandings may occur, and a lack of annual conflict-of-interest statements from all auxiliary board members increases liability for acts contrary to the code.

Recommendation 34

We recommend that the Union:

- a. Update its conflict-of-interest policy to include procedures for signing annual conflict-of-interest statements and steps for reporting conflicts of interest.

OBSERVATIONS, RECOMMENDATIONS, AND CAMPUS RESPONSES

- b. Obtain annual conflict-of-interest statements from all board members.

Campus Response

We concur.

- a. The Union will update its conflict-of-interest policy to include procedures for signing annual conflict-of-interest statements and steps for reporting conflicts of interest by March 26, 2015.
- b. The Union will obtain conflict-of-interest statements from all board members by March 26, 2015.

ASSOCIATED STUDENTS, INCORPORATED AT CALIFORNIA STATE UNIVERSITY BAKERSFIELD

CORPORATE GOVERNANCE

Associated Students, Incorporated at California State University Bakersfield (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 September 2013 and to the Bylaws in April 2011, January 2012, May 2013, and June 2013 were not filed with the chancellor's office until February 7, 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 failure to submit Articles of Incorporation and Bylaws to the chancellor office was due to management oversight. She further stated that ASI provided a copy of the required Articles of Incorporation and Bylaws to the auditor as requested.

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

Recommendation 35

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

Campus Response

We concur. All future changes/amendments to Bylaws will be filed with the Contract Services and Procurement department at the chancellor's office within 30 calendar days. This recommendation will be implemented by December 31, 2014.

APPENDIX A: PERSONNEL CONTACTED

<u>Name</u>	<u>Title</u>
CAMPUS	
Horace Mitchell	President
Emile Callahan	Director of Organizational Governance
Michael Chavez	Director of Procurement and Contract Services
Michael Fleming	Network Analyst
Lizeth Gamez	Accounting Supervisor
Kellie Garcia	Associate Vice President, Human Resources and Administrative Services
Eva Hebebrand	Manager, Student Financial Services and Accounting Operations
Scott Herron	Equipment Systems Specialist
Robert Joy	Accountant II
David Melendez	Vice President, University Advancement
Michelle Mills	University Budget Director
Joseph Nailor	Systems Administrator
Michael Neal	Vice President of Business and Administrative Services
Sue Rivera	Information Security Liaison
Richard Ryberg	Accountant II
Kallya Shenoy	Interim Assistant Vice President of Information Technology Services
Doug Wade	Assistant Vice President, Fiscal Services
Tina Williams	Benefits Officer/Human Resources Business Analyst/ Interim Payroll Manager
CALIFORNIA STATE UNIVERSITY, BAKERSFIELD FOUNDATION	
Gladys Garcia	Director, Children's Center
Pierre Igoa	Data Analyst and Web Design Specialist
David Melendez	Executive Director
Carolyn Powers	Development Services Coordinator
CALIFORNIA STATE UNIVERSITY, BAKERSFIELD AUXILIARY FOR SPONSORED PROGRAMS ADMINISTRATION	
Dee Evans	Grants Analyst
Vincent Oragwam	Director of Grant Management Operations
CALIFORNIA STATE UNIVERSITY BAKERSFIELD STUDENT UNION, INC.	
Emile Callahan	Executive Director
Brittany Peters	Office Manager, Student Recreation Center
ASSOCIATED STUDENTS, INCORPORATED AT CALIFORNIA STATE UNIVERSITY BAKERSFIELD	
Taren Mulhouse	Executive 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.



CSU Bakersfield

Business and Administrative Services

Office of the Vice President

Mail Stop: 38 ADM
9001 Stockdale Highway
Bakersfield, California 93311-1022
(661) 654-2287
(661) 654-6923 FAX
www.csub.edu/bas

November 24, 2014

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



Re: University Response to Recommendations contained in Report Number 14-04
CSU Bakersfield – Auxiliary Organizations

Dear Mr. Mandel:

Attached are the University's responses to the recommendations contained in Report 14-04, Auxiliary organizations.

If you have any questions or concerns, please contact my office at (661) 654-2287.

Sincerely,


Kellie Garcia
for Michael A. Neal
Vice President for Business and Administrative Services

c: Horace Mitchell, CSUB President
Douglas S. Wade, AVP, Fiscal Services

AUXILIARY ORGANIZATIONS

CALIFORNIA STATE UNIVERSITY, BAKERSFIELD

Audit Report 14-04

CAMPUS

FISCAL COMPLIANCE

Recommendation 1

We recommend that the campus CFO, or designee, formally approve and sign the annual cost allocation plans.

Campus Response

We concur. The campus will ensure cost allocation plans are signed by the CFO by March 26, 2015.

CASH RECEIPTS AND HANDLING

Recommendation 2

We recommend that the campus reiterate to the student clubs that cash receipts must be forwarded to the office of organizational governance for deposit within 48 hours.

Campus Response

We concur. The campus will reiterate to the student clubs that cash receipts must be forwarded to the office of organizational governance for deposit within 48 hours. The campus will provide support for the implementation of this recommendation by March 26, 2015.

PURCHASING AND ACCOUNTS PAYABLE

TRAVEL

Recommendation 3

We recommend that the campus reiterate to auxiliary employees that:

- a. Travel authorization forms documenting advance approval of all travel and related expenditures must be completed and submitted to the appropriate administrator for approval.

- b. Travel expense claims must be completed within 30 days of the traveler's return.
- c. All students traveling by air must complete signed release forms or waivers.

Campus Response

- a. We concur. The campus will reiterate to auxiliary employees that forms documenting advance approval of all travel and related expenditures are to be completed and submitted to the appropriate administrator for approval. This recommendation will be implemented by March 26, 2015.
- b. We concur. The campus will reiterate to auxiliary employees that travel expense claims are to be completed within 30 days of the traveler's return. This recommendation will be implemented by March 26, 2015.
- c. We concur. The campus will reiterate to auxiliary employees that all students traveling by air are to complete signed release forms or waivers. This will be implemented by March 26, 2015.

UNCLAIMED PROPERTY

Recommendation 4

We recommend that the campus promptly escheat the unclaimed auxiliary payroll checks to the state.

Campus Response

We concur. The campus will escheat unclaimed auxiliary payroll to the state by March 26, 2015.

HOSPITALITY

Recommendation 5

We recommend that the campus obtain Hospitality Expense Approval Forms from the Foundation.

Campus Response

We concur. The campus will obtain Hospitality Expense Forms from the Foundation. This will be implemented by March 26, 2015.

PERSONNEL AND PAYROLL

Recommendation 6

We recommend that the campus obtain separation documentations from all auxiliary employees.

Campus Response

The campus concurs with this recommendation. A revision of the current process will be developed and implemented, providing notification to the applicable department to ensure a separation document is completed for employees leaving the Auxiliaries. This revision will be implemented by March 26, 2015.

PROPERTY AND EQUIPMENT

Recommendation 7

We recommend that the campus promptly verify the unidentified Foundation asset, properly tag the cited assets, and adjust the asset management system records as necessary.

Campus Response

We concur. The campus will verify the unidentified Foundation asset, properly tag the cited assets, and adjust the asset management system records as necessary by January 31, 2015.

TRUSTS AND OTHER LIABILITIES

STUDENT CLUB FUNDS HELD IN TRUST

Recommendation 8

We recommend that the campus update the policies and procedures for student clubs, including the handling of accounts with negative balances.

Campus Response

We concur. The campus will update the policies and procedures for student clubs, including the handling of accounts with negative balances by March 26, 2015.

CAMPUS PROGRAM ACCOUNTS

Recommendation 9

We recommend that the campus:

- a. Prepare a written delegation of authority from the campus president to his designee for the authorization of agency and trust funds.
- b. Develop written policies and procedures to provide specific guidance and documentation requirements for Foundation agency and trust funds.
- c. Document the specific determination of whether the campus or the auxiliary is accountable and responsible for the funds, as well as the funds' advantages to the university and support of the university mission.

- d. Require agreements for all agency accounts and prepare agreements for all trust accounts.
- e. Review Foundation agency and trust accounts for sufficient funds availability before expenditures are made.

Campus Response

We recommend that the campus:

- a. We concur. The campus will prepare a written delegation of authority from the campus president to his designee for the authorization of agency and trust funds by January 31, 2015.
- b. We concur. The campus will develop written policies and procedures to provide specific guidance and documentation requirements for Foundation agency and trust funds by March 26, 2015.
- c. We concur. The campus will document the specific determination of whether the campus or the auxiliary is accountable and responsible for the funds, as well as the funds' advantages to the university and support of the university mission by March 26, 2015.
- d. We concur. The campus will require agreements for all agency accounts and prepare agreements for all trust accounts by March 26, 2015.
- e. We concur. The campus will review Foundation agency and trust accounts for sufficient funds availability before expenditures are made by March 26, 2015.

INFORMATION AND TECHNOLOGY

PROTECTED DATA INVENTORY

Recommendation 10

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

Campus Response

We concur. The campus will provide a medium so that Auxiliary Organizations can perform a complete inventory and assessment of all sensitive information maintained in electronic and paper format. The campus will implement this recommendation by March 26, 2015.

INFORMATION SECURITY AWARENESS TRAINING

Recommendation 11

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

Campus Response

We concur. The campus will implement annual security awareness training for auxiliary employees. In addition, new employees will complete training within thirty days of employment. The campus will implement this recommendation by March 26, 2015.

PASSWORD SECURITY

Recommendation 12

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

Campus Response

We concur. Campus has set password parameters for the Active Directory system that comply with CSU policy. The campus implemented this recommendation on June 12, 2014.

INFORMATION SECURITY POLICIES

Recommendation 13

We recommend the campus communicate CSU and CSUB information security policies to all auxiliary employees. At a minimum, the campus should:

- a. Update the auxiliary employee handbook to include information on the CSUB information security policies, such as a link to the CSUB information security website.
- b. Update the CSUB information security website to include information on CSU information security policies.

Campus Response

- a. We concur. Campus will update the auxiliary employee handbook to include information on the CSUB information security policies, such as a link to the CSUB information security website. The campus will complete this by March 26, 2015.
- b. We concur. Campus will update the CSUB information security website to include information on CSU information security policies. The campus will complete this by March 26, 2015.

PAYMENT CARD INDUSTRY DATA SECURITY STANDARD

Recommendation 14

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. Campus will assist the merchant organizations in completing annual PCI DSS SAQ as required. The campus will complete this by December 31, 2014.

CALIFORNIA STATE UNIVERSITY, BAKERSFIELD FOUNDATION

CORPORATE GOVERNANCE

Recommendation 15

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

Campus Response

We concur. The Foundation filed amended Articles of Incorporation with the Contract Services and procurement department on July 8, 2014.

FISCAL COMPLIANCE

Recommendation 16

We recommend that the Foundation update its reserve funding policy to better reflect current practice.

Campus Response

We concur. The Foundation will update its reserve funding policy to better reflect current practice by March 26, 2015.

OPERATIONAL COMPLIANCE

CONFLICT OF INTEREST

Recommendation 17

We recommend that the Foundation 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. The Foundation will institute a process to ensure that board members who are appointed mid-term are provided annual conflict-of-interest statements to complete and sign by March 26, 2015.

DELEGATION OF AUTHORITY

Recommendation 18

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

Campus Response

We concur. The Foundation will obtain this written delegation of authority from the campus president by January 31, 2015.

FUNDRAISING

Recommendation 19

We recommend that the Foundation:

- a. Obtain written approval from a delegated authority for all fundraising events with gross receipts greater than \$5,000.
- b. Ensure that event budgets, drafts of solicitation materials, and action plans for compliance with federal, state, and local regulations are reviewed by a delegated authority prior to each fundraising event.

Campus Response

- a. We concur. If during planning the event coordinator determines an event has the potential to generate gross receipts greater than \$5,000, the Foundation will require the event coordinator to obtain written approval from a delegated authority. This recommendation will be implemented by March 26, 2015.
- b. We concur. The Foundation will also develop a procedure through which event budgets, drafts of solicitation materials, and action plans for compliance with federal, state, and local regulations are reviewed by the same delegated authority. This recommendation will be implemented by March 26, 2015.

CASH RECEIPTS AND HANDLING

UNCLEARED COLLECTIONS

Recommendation 20

We recommend that the Foundation:

- a. Develop written policies and procedures to address collection and follow-up for bank-returned CSUB Children's Center checks.
- b. Document collection and follow-up activity to facilitate collection of returned checks.

Campus Response

- a. We concur. The Foundation will develop written policies and procedures to address collection and follow-up for bank-returned CSUB Children's Center checks by March 26, 2015.

- b. We concur. The Foundation will document collection and follow-up activity to facilitate collection of returned checks by March 26, 2015.

SUSPENSE/HOLDING ACCOUNT

Recommendation 21

We recommend that the Foundation:

- a. Develop written policies and procedures for the processing, review, clearance, and reconciliation of suspense/holding accounts.
- b. Document review of suspense/holding accounts and take appropriate action to clear outstanding collections.

Campus Response

- a. We concur. The Foundation will develop written policies and procedures for the processing, review, clearance, and reconciliation of suspense/holding accounts by March 26, 2015.
- b. We concur. The Foundation will document review of suspense/holding accounts and take appropriate action to clear outstanding collections by March 26, 2015.

DEPOSITS

Recommendation 22

We recommend that the Foundation forward cash receipts to the campus cashiering office for deposit in a timely manner.

Campus Response

We concur. The Foundation will develop a control system that facilitates the delivery of cash receipts to the campus cashiering office for deposit within 24 hours of completion by March 26, 2015.

FEES, REVENUES, AND RECEIVABLES

CASH GIFTS

Recommendation 23

We recommend that the Foundation send gift acknowledgment letters to donors after receipt of cash gifts.

Campus Response

We concur. The Foundation will develop a full, stewardship focused gift acknowledgment letter to be sent to donors after receipt of cash gifts. This will be in addition to the gift receipt slips which are currently sent to donors in a timely manner that include a statement signed by the vice president of

university advancement/Foundation executive director acknowledging the cash gift for tax purposes by March 26, 2015.

GIFTS-IN-KIND

Recommendation 24

We recommend that the Foundation:

- a. Record gifts-in-kind in the accounting system.
- b. Maintain gift acceptance forms on file.
- c. Send gift acknowledgment letters to donors.
- d. Notify property control of receipt of gifts and request tagging of assets.

Campus Response

We recommend that the Foundation:

- a. We concur. The Foundation will begin recording gifts-in-kind in the accounting system by December 31, 2014.
- b. We concur. The Foundation will maintain gift acceptance forms on file. This will be implemented by March 26, 2015.
- c. We concur. The Foundation will send gift acknowledgment letters to donors. This will be implemented by March 26, 2015.
- d. We concur. The Foundation will notify property control of receipt of gifts and request tagging of assets. This will be implemented by March 26, 2015.

GIFT PROCESSING AND VALUATION

Recommendation 25

We recommend that the Foundation:

- a. Ensure that future gifts are brought before the gift acceptance committee.
- b. Complete gift acceptance forms for all gifts and retain them on file.
- c. Obtain the campus president's approval prior to the acceptance of real property.
- d. Formulate a strategic plan for the continued usage or disposition of the timeshare.
- e. Execute a facility-use agreement for the approved usage of the timeshare.
- f. Document a cost-benefit analysis to determine the short-term or long-term financial impact of holding and/or selling the timeshare.
- g. Minimize the carrying cost or sell the timeshare.

Campus Response

We recommend that the Foundation:

- a. We concur. The Foundation will ensure that future gifts are brought before the gift acceptance committee. This will be implemented by March 26, 2015.
- b. We concur. The Foundation will complete gift acceptance forms for all gifts and retain them on file. This will be implemented by March 26, 2015.
- c. We concur. The Foundation will obtain the campus president's approval prior to the acceptance of real property. This recommendation will be implemented by March 26, 2015.
- d. We concur. The Foundation will formulate a strategic plan for the continued usage or disposition of the timeshare by March 26, 2015.
- e. We concur. The Foundation will execute a facility-use agreement for the approved usage of the timeshare by March 26, 2015.
- f. We concur. The Foundation will document a cost-benefit analysis to determine the short-term or long-term financial impact of holding and/or selling the timeshare by March 26, 2015.
- g. We concur. The Foundation will minimize the carrying cost or sell the timeshare by March 26, 2015.

PLEDGE RECEIVABLES

Recommendation 26

We recommend that the Foundation:

- a. Obtain approval from the Foundation finance committee and board of directors for all write-offs.
- b. Document management review of the pledges that meet the write-off criteria.
- c. Write off long-outstanding pledges in a timely manner.

Campus Response

- a. We concur. The Foundation will obtain approval from the Foundation finance committee and board of directors for all write-offs. This recommendation will be implemented by March 26, 2015.
- b. We concur. The Foundation will document management review of the pledges that meet the write-off criteria by March 26, 2015.
- c. We concur. The Foundation will write off long-outstanding pledges in a timely manner. This will be implemented by March 26, 2015.

MATCHING GIFTS

Recommendation 27

We recommend that Foundation:

- a. Obtain and maintain corporate matching gift agreements.
- b. Document review of eligibility of matching gifts.
- c. Perform a documented dual review of matching gifts during the acceptance process to ensure that funds are designated in accordance with donor intent.
- d. Send gift acknowledgment letters to donors.

Campus Response

We recommend that Foundation:

- a. We concur. The Foundation will obtain and maintain corporate matching gift agreements. This will be implemented by March 26, 2015.
- b. We concur. The Foundation will document review of eligibility of matching gifts. This will be implemented by March 26, 2015.
- c. We concur. The Foundation will perform a documented dual review of matching gifts during the acceptance process to ensure that funds are designated in accordance with donor intent. This will be implemented by March 26, 2015.
- d. We concur. The Foundation will send gift acknowledgment letters to donors. This will be implemented by March 26, 2015.

DONOR SYSTEM RECONCILIATION

Recommendation 28

We recommend that the Foundation perform independent reconciliations of its donor database to the campus general ledger accounting system for non-pledge payments.

Campus Response

We concur. The Foundation, with the aid of the campus, will perform independent reconciliations of its donor database to the campus general ledger accounting system for non-pledge payments by March 26, 2015.

**CALIFORNIA STATE UNIVERSITY, BAKERSFIELD AUXILIARY FOR
SPONSORED PROGRAMS ADMINISTRATION**

CORPORATE GOVERNANCE

BOARD OF DIRECTORS

Recommendation 29

We recommend that SPA promptly fill the community member position on the governing board.

Campus Response

We concur. SPA will fill the community member position on the governing board by February 28, 2015.

ARTICLES OF INCORPORATION

Recommendation 30

We recommend that SPA 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 filed with the Contract Services and Procurement department on July 8, 2014.

CONTRACTS AND GRANTS

POLICIES AND PROCEDURES

Recommendation 31

We recommend that SPA update its sub-recipient policies and procedures to include a sub-recipient risk assessment to identify key risks and determine the level of monitoring required.

Campus Response

We concur. SPA has developed a sub-recipient risk assessment and evaluation tool and will work with procurement to develop policies and procedures to implement the tools and update the Program Administration Guide. SPA will implement this by February 27, 2015.

CONFLICT OF INTEREST

Recommendation 32

We recommend that SPA obtain initial and renewal conflict-of-interest forms from PIs as required by auxiliary policy.

Campus Response

We concur. SPA will comply with audit recommendation by the following mechanisms: A change in internal process will include the addition of a completed conflict-of-interest form to be included in the PI packet at initial account set-up, the conflict-of-interest form will be updated annually at the beginning of the continuation cycle. SPA will implement this by February 27, 2015.

CALIFORNIA STATE UNIVERSITY BAKERSFIELD STUDENT UNION, INC.

CORPORATE GOVERNANCE

Recommendation 33

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

Campus Response

We concur. The Union has filed the amended Articles of Incorporation and Bylaws with the Contract Services and Procurement department at the chancellor's office on July 8, 2014 and November 24, 2014, respectively.

OPERATIONAL COMPLIANCE

Recommendation 34

We recommend that the Union:

- a. Update its conflict-of-interest policy to include procedures for signing annual conflict-of-interest statements and steps for reporting conflicts of interest.
- b. Obtain annual conflict-of-interest statements from all board members.

Campus Response

- a. We concur. The Union will update its conflict of interest policy to include procedures for signing annual conflict of interest statements and steps for reporting conflicts of interest by March 26, 2015.
- b. We concur. The Union will obtain conflict of interest statements from all board members by March 26, 2015.

**ASSOCIATED STUDENTS, INCORPORATED AT
CALIFORNIA STATE UNIVERSITY BAKERSFIELD**

CORPORATE GOVERNANCE

Recommendation 35

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

Campus Response

We concur. All future changes/amendments to Bylaws will be filed with the Contract Services and Procurement department at the chancellor's office within 30 calendar days. This recommendation will be implemented by December 31, 2014.

THE CALIFORNIA STATE UNIVERSITY
OFFICE OF THE CHANCELLOR



BAKERSFIELD

CHANNEL ISLANDS

December 12, 2014

CHICO

DOMINGUEZ HILLS

EAST BAY

FRESNO

FULLERTON

HUMBOLDT

LONG BEACH

LOS ANGELES

MARITIME ACADEMY

MONTEREY BAY

NORTHRIDGE

POMONA

SACRAMENTO

SAN BERNARDINO

SAN DIEGO

SAN FRANCISCO

SAN JOSÉ

SAN LUIS OBISPO

SAN MARCOS

SONOMA

STANISLAUS

M E M O R A N D U M

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

FROM: Timothy P. White
Chancellor

SUBJECT: Draft Final Report 14-04 on *Auxiliary Organizations*,
California State University, Bakersfield

A handwritten signature in blue ink that reads "Timothy P. White".

In response to your memorandum of December 12, 2014, I accept the response as submitted with the draft final report on *Auxiliary Organizations*, California State University, Bakersfield.

TPW/amd