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October 28, 2016

Dr. Lisa A. Rossbacher, President
Humboldt State University
One Harpst Street
Arcata, CA 95521

Dear Dr. Rossbacher:

Subject: Audit Report 16-05, Auxiliary Organizations, Humboldt State University

We have completed an audit of *Auxiliary Organizations* as part of our 2016 Audit Plan, and the final report is attached for your reference. The audit was conducted in accordance with the Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing*.

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

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

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

Sincerely,



Larry Mandel
Vice Chancellor and Chief Audit Officer

c: Timothy P. White, Chancellor

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The California State University
Office of Audit and Advisory Services

AUXILIARY ORGANIZATIONS

Humboldt State University

Audit Report 16-05
September 16, 2016

EXECUTIVE SUMMARY

OBJECTIVE

The objectives of the audit were to ascertain the effectiveness of existing policies and procedures related to fiscal, operational, and administrative controls; determine the adequacy of internal compliance/internal control; evaluate adherence to auxiliary policies and procedures and applicable Integrated California State University Administrative Manual (ICSUAM) policies, or where appropriate to an industry-accepted standard; and to ensure compliance with relevant governmental regulations, Trustee policy, Office of the Chancellor directives, and campus procedures.

CONCLUSION

Humboldt State University

Based upon the results of the work performed within the scope of the audit, the fiscal, operational, and administrative controls in effect at Humboldt State University (HSU) campus as of July 22, 2016, taken as a whole, were sufficient to meet the objectives of this audit. However, the audit revealed that the campus hospitality policy did not address authorization and documentation requirements for hospitality-related expenditures, nor did it include a maximum per-person rate for meals.

Humboldt State University Advancement Foundation

Based upon the results of the work performed within the scope of the audit, except for the effect of the observations described below, the fiscal, operational, and administrative controls at Humboldt State University Advancement Foundation (AF) as of July 22, 2016, taken as a whole, were sufficient to meet the objectives of this audit. However, the audit revealed that AF hospitality-related expenditures were not always supported by itemized receipts, a listing of attendees or recipients, and/or the business purpose. Also, AF gifts were not always accepted by the delegated authority or timely acknowledged. Additionally, the AF did not always document appraisals for gifts-in-kind; tag, record, and capitalize donated assets in the campus accounting system and/or the fixed-asset system; and track and acknowledge donated gift cards and vouchers. In addition, AF fund-raising events were not always approved in writing by the delegated authority; state required forms were not filed for raffle events; and fund-raising events were not reported on Internal Revenue Service (IRS) Form 990. Further, the AF did not require completion of HSU volunteer identification forms, background checks, and data-confidentiality agreements for KHSU volunteers, who had access to confidential data; and AF annual budgets and reserves were not always approved by the campus president.

Humboldt State University Sponsored Programs Foundation

Based upon the results of the work performed within the scope of the audit, except for the effect of the observations described below, the fiscal, operational, and administrative controls at Humboldt State University Sponsored Programs Foundation (SPF) as of July 22, 2016, taken as a whole, were sufficient to meet the objectives of this audit. However, the audit revealed that the SPF did not require its board members to complete annual conflict-of-interest statements to disclose potential conflicts of interest or certify that there were no conflicts of interest. Additionally, the SPF did not obtain explicit assurance that sub-recipients of National Science Foundation (NSF) and National Institutes of Health (NIH) awards had appropriate financial disclosure requirements. Also, SPF effort certification statements (ECS) that compiled the

percentage of time principal investigators (PI) devoted to federally funded sponsored programs were not always timely certified by PIs.

Humboldt State University Center Board of Directors

Based upon the results of the work performed within the scope of the audit, except for the effect of the observations described below, the fiscal, operational, and administrative controls at the Humboldt State University Center Board of Directors (UC) as of July 22, 2016, taken as a whole, were sufficient to meet the objectives of this audit. However, the audit revealed that certain duties and responsibilities related to personnel and payroll were not adequately segregated at the UC. Additionally, the UC did not update its *Travel* policy to reflect current business practice for meal per diem rates, and meals were reimbursed when meals were provided as part of an event. Also, the UC did not include hourly employee overtime hours when calculating sick-leave accrual rates, which resulted in understated sick leave hours.

Associated Students of Humboldt State University

Based upon the results of the work performed within the scope of the audit, the fiscal, operational, and administrative controls in effect at Associated Students of Humboldt State University (AS) as of July 22, 2016, taken as a whole, were sufficient to meet the objectives of this audit. However, the audit revealed that AS oversight of accounts receivable collections and write-offs for the campus newspaper, the Lumberjack, needed improvement.

Specific observations, recommendations, and management responses are detailed in the remainder of this report.

OBSERVATIONS, RECOMMENDATIONS, AND RESPONSES

Campus

1. HOSPITALITY

OBSERVATION

The campus *Payment or Reimbursement of Hospitality Expenses* policy did not address authorization and documentation requirements for hospitality-related expenditures, nor did it include a maximum per-person rate for breakfast, lunch, dinner, and light refreshments inclusive of the total cost of food, beverages, labor, sales tax, delivery fees, or other service fees, as required by ICSUAM §1301.00, *Hospitality, Payment or Reimbursement of Expenses*.

The lack of comprehensive written policies and procedures increases the risk that errors, inconsistencies, and misunderstandings will occur.

RECOMMENDATION

We recommend that the campus update its hospitality policy to address authorization and documentation requirements, as well as a maximum per-person rate for meals and light refreshments inclusive of the total cost of food, beverages, labor, sales tax, delivery fees, or other service fees in the hospitality policy.

MANAGEMENT RESPONSE

We concur. The campus will update its hospitality policy to address authorization and documentation requirements, as well as a maximum per-person rate for meals and light refreshments inclusive of the total cost of food, beverages, labor, sales tax, delivery fees, or other service fees.

Expected completion date: October 31, 2016

Humboldt State University Advancement Foundation

2. HOSPITALITY

OBSERVATION

AF hospitality-related expenditures were not always supported by itemized receipts, a listing of attendees or recipients, and/or the business purpose.

We reviewed 20 hospitality-related expenditures and hospitality-related expenditures charged to AF procurement cards in May and June 2016, and we found that:

- In two instances, itemized receipts were not provided for hospitality-related expenditures.
- In 11 instances, a listing of attendees and/or the business purpose were not provided for hospitality-related expenditures.
- A listing of recipients was not provided for a gift card purchase of \$250.

The lack of adequate documentation for hospitality-related expenditures increases the risk of errors, irregularities, and misappropriation of funds.

RECOMMENDATION

We recommend that the AF instruct employees to:

- a. Provide itemized receipts for all hospitality-related expenditures.
- b. Document the attendees and business purpose for all hospitality expenditures.
- c. Include a listing of gift-card recipients.

MANAGEMENT RESPONSE

We concur. The AF has instructed all holders of AF procurement cards to provide itemized receipts and document the names of attendees and business purpose for all hospitality expenditures. Also, a process step has been added to provide review of all AF procurement card statements by an AF analyst. Additionally, all holders for AF procurement cards have been instructed to provide the names of recipients upon distribution of gift cards.

3. GIFT ADMINISTRATION

OBSERVATION

AF gifts were not always accepted by the delegated authority or timely acknowledged.

We reviewed 15 cash gifts, 15 gifts-in-kind, and 15 matching gifts, and we found that:

- In 16 instances, the gifts were not accepted by the vice president for university advancement, the delegated authority.
- In two instances, acknowledgement letters were not timely sent to donors. The acknowledgement letters were sent 457 days from the gift receipt date.

Insufficient administration of cash gifts, gifts-in-kind, and matching gifts increases the risk of errors, misappropriation of funds, and noncompliance with donor terms.

RECOMMENDATION

We recommend that the AF reiterate to employees that:

- a. All gifts must be accepted by the delegated authority.
- b. Acknowledgement letters must be timely sent to donors.

MANAGEMENT RESPONSE

We concur. AF employees with the appropriate delegated authority have been instructed that all gifts must be accepted by a delegated authority. Additionally, process improvements have been implemented to ensure timely acknowledgement of all contributions and to make certain that acknowledgements are recorded in the donor record.

Expected completion date: November 1, 2016

4. GIFTS-IN-KIND

OBSERVATION

The AF did not always document appraisals for gifts-in-kind; tag, record, and capitalize donated assets in the campus accounting system and/or the fixed-asset system; and track and acknowledge donated gift cards and vouchers.

We reviewed 15 gifts-in-kind, and we found that:

- In three instances, where the estimated value of the gifts-in-kind exceeded \$5,000, there were no documented appraisals, as required by the HSU *Gift Acceptance Policy*.
- In five instances, where the value of the donated assets exceeded the campus capitalization threshold of \$5,000, the assets were not tagged, recorded, and capitalized in the campus accounting system and/or the fixed-asset system.
- In four instances, donated gift cards and vouchers totaling \$215 were not tracked and acknowledged by the recipients.

Insufficient administration of gifts-in-kind increases the risk of errors, misplaced gifts, and noncompliance with donor terms.

RECOMMENDATION

We recommend that the AF:

- a. Document appraisals for all gifts-in-kind exceeding \$5,000.
- b. Tag donated assets with values exceeding the campus capitalization threshold of \$5,000, and record and capitalize the assets in the campus accounting system and/or fixed asset system.
- c. Track donated gift cards and vouchers and ensure that donated gift cards and vouchers are acknowledged by recipients.

MANAGEMENT RESPONSE

We concur. An improvement has been implemented to the AF process for signing IRS Forms 8283 requiring retention of a copy of the qualified appraisal in the records of the AF, and a process improvement has been implemented requiring a written deed of gift transferring ownership to HSU. Acceptance of the deed of gift by HSU triggers HSU's asset management procedure, which includes asset tagging, capitalization, and campus accounting. In addition, a new process is being developed and will be implemented to track donated gift cards and vouchers. The process will also ensure proper acknowledgment by recipients.

Expected completion date: March 1, 2017

5. FUND-RAISING EVENTS**OBSERVATION**

AF fund-raising events were not always approved in writing by the delegated authority; state required forms were not filed for raffle events; and fund-raising events were not reported on IRS Form 990.

We reviewed 20 fund-raising events with gross receipts greater than \$5,000, and we found that:

- Sixteen fund-raising events were not approved in writing by the vice president of university advancement, the delegated authority.
- For three fund-raising events where raffles were conducted, the state nonprofit raffle registration form (CT-NRP-1) and nonprofit raffle report (CT-NRP-2) were not filed.
- None of the fund-raising events were reported on IRS Form 990.

The absence of required fund-raising event approval limits the campus' and auxiliary's ability to effectively allocate resources, coordinate events, and assess and mitigate any risks associated with events. Failure to file nonprofit raffle registration forms and raffle reports and include fund-raising events on IRS Form 990 may result in penalties.

RECOMMENDATION

We recommend that the AF:

- a. Obtain written approval from the vice president of university advancement for all fund-raising events with gross receipts greater than \$5,000.
- b. Register with the attorney general's Registry of Charitable Trusts and complete reporting requirements when raffles are conducted.
- c. Report fund-raising events on IRS Form 990.

MANAGEMENT RESPONSE

We concur. The fund-raising event form has been improved to require signature approval by a delegated authority, the Registry of Charitable Trusts registration has been reinstated and will be maintained in the future with two employees assigned to monitor the annual registration, and the AF tax preparer has been instructed to review and include required reporting of fund-raising events on IRS Form 990.

6. VOLUNTEERS**OBSERVATION**

The AF did not require completion of HSU volunteer identification forms, background checks, and data-confidentiality agreements for KHSU volunteers, who had access to confidential data.

We reviewed documentation for 16 volunteers who worked during the June 2016 KHSU pledge drive, and we found that in all instances:

- HSU volunteer identification forms were not required to be completed, signed, and approved by the campus.
- Background checks were not required.
- Data-confidentiality agreements that addressed the requirement for protecting confidential information obtained during the pledge drive were not required.

Insufficient administration of volunteers with access to confidential data increases the risk of inappropriate access and potential disclosure of confidential data.

RECOMMENDATION

We recommend that the AF require completion of HSU volunteer identification forms, background checks, and data-confidentiality agreements for all KHSU volunteers who have access to confidential data.

MANAGEMENT RESPONSE

We concur. Staffing changes have been implemented to reduce the number of volunteers with access to confidential data. Only those volunteers with a specific need for confidential data are allowed access, and those volunteers are required to submit written applications that are subject to background checking, and they are required to sign data confidentiality agreements before being granted access to confidential data.

7. BUDGETS AND RESERVES**OBSERVATION**

AF annual budgets and reserves for fiscal year (FY) 2014/15 and 2015/16 had not been approved by the campus president, as required by Title 5 §42402.

We found that the campus president was absent from the meetings in which FY 2014/15 and 2015/16 budgets and reserves were approved, and no documentation was subsequently submitted to the president for approval.

The lack of adequate review and approval of budgets and reserves by the campus president increases the risk that auxiliary programs and appropriations planned by the auxiliary will be inconsistent with Board of Trustees and campus policy.

RECOMMENDATION

We recommend that the AF ensure that its annual budget and reserves are reviewed and approved by the campus president.

MANAGEMENT RESPONSE

We concur. The executive director will provide to the president a written report comparing AF actual financial reserves to the reserves required by AF policy and verifying the fiscal viability of AF as required under California Education Code Section 89904(b). Additionally, the executive director will present the annual budget to the president for approval.

Expected completion date: November 1, 2016

Humboldt State University Sponsored Programs Foundation

8. CONFLICT OF INTEREST

OBSERVATION

The SPF did not require its board members to complete annual conflict-of-interest statements to disclose potential conflicts of interest or certify that there were no conflicts of interest.

We found that SPF board members signed statements acknowledging the SPF *Conflict-of-Interest Policy*, but there was no requirement to complete annual conflict-of-interest statements to disclose potential conflicts of interest or certify that there were no conflicts of interest.

The lack of annual conflict-of-interest statements from auxiliary board members increases the risk of non-compliance with federal and state requirements and could lead to possible regulatory scrutiny.

RECOMMENDATION

We recommend that the SPF require board members to complete annual conflict-of-interest statements.

MANAGEMENT RESPONSE

We concur. Beginning with FY 2016/17, SPF will require and collect annual conflict-of-interest statements from its board members that explicitly ask them to certify whether a conflict of interest exists. Each year, the office manager, or designated employee, will distribute, collect, and track the annual conflict-of-interest statements, reconciling them to the current board of directors roster.

Expected completion date: October 31, 2016

9. SUB-RECIPIENT MONITORING

OBSERVATION

The SPF did not obtain explicit assurance that sub-recipients of NSF and NIH awards had appropriate financial disclosure requirements, as required by the NSF *Investigator Financial Disclosure Policy* and the NIH *Financial Conflict of Interest Regulations*.

Although the SPF sub-recipient questionnaire included a question about the existence of a conflict-of-interest policy, and the research sub-award agreement included a link to the federal disclosure requirements, the SPF did not obtain explicit assurance that sub-recipients of NSF and NIH awards had appropriate financial disclosure requirements.

Insufficient monitoring of sub-recipient financial disclosure requirements increases the risk of reduced reimbursement and non-compliance with federal requirements.

RECOMMENDATION

We recommend that the SPF obtain explicit assurance that sub-recipients have appropriate financial disclosure requirements for NSF and NIH awards.

MANAGEMENT RESPONSE

We concur. Prior to issuing sub-awards on NSF and Public Health Service (PHS)/NIH awards, SPF will require sub-recipients to explicitly state whether their conflict-of-interest policies are consistent with NSF and PHS/NIH requirements. This will become part of the compliance officer's sub-recipient monitoring risk assessment that is done on every federal sub-award before being fully executed. A column will be added to the sub-recipient risk matrix and tracker to flag NSF and PHS/NIH awards. For federal awards that are funded through NSF and PHS/NIH, the compliance officer will have them fill out the sub-recipient questionnaire regardless of whether they are required to have an A-133 audit or not.

Expected completion date: October 1, 2016

10. EFFORT REPORTING**OBSERVATION**

SPF ECS that compiled the percentage of time PIs devoted to federally funded sponsored programs were not always timely certified by the PIs, as required by the *SPF Effort Reporting Policy*.

We reviewed 15 grants, and we found that four grants had eight ECS that were not timely certified.

Untimely certification of effort reports reduces confidence in the reliability of the effort-reporting system and increases exposure to non-compliance with federal regulations.

RECOMMENDATION

We recommend that the SPF work with the PIs to ensure that ECS are timely certified.

MANAGEMENT RESPONSE

We concur. SPF will put in place a tracking system to timely follow up on certifications not returned to our office. Effort certifications will now be scanned and stored digitally. This process will serve as a final reconciliation for SPF's outstanding certifications and tracked when returned fully signed against a master spreadsheet.

Expected completion date: October 31, 2016

Humboldt State University Center Board of Directors

11. SEGREGATION OF DUTIES

OBSERVATION

Certain duties and responsibilities related to personnel and payroll were not adequately segregated at the UC.

We found that individuals who processed AS and UC payroll could also make pay rate changes, and there were no mitigating controls, such as an independent management review of personnel change reports.

Inadequate segregation of duties increases the risk that erroneous and inappropriate actions will not be detected in a timely manner.

RECOMMENDATION

We recommend that the UC adequately segregate duties and responsibilities related to personnel and payroll or institute mitigating procedures approved by the campus chief financial officer.

MANAGEMENT RESPONSE

We concur. The UC will institute mitigating procedures to adequately segregate duties and responsibilities related to personnel and payroll by implementing independent management review of personnel change reports.

Expected completion date: November 2016

12. TRAVEL ADMINISTRATION

OBSERVATION

The UC did not update its *Travel* policy to reflect current business practice for meal per diem rates, and meals were reimbursed when meals were provided as part of an event.

We found that the UC *Travel* policy stated that the subsistence allowance was based on maximum allowable per diem amounts consistent with approved California State University (CSU) rates. However, the CSU *Travel Procedures* state that the reimbursement of daily meal and incidental expenses for travel is based on actual amounts incurred, and per diems are not allowed.

We reviewed ten UC travel expenditures, and we found that in three instances, meals were reimbursed even though meals were provided as part of the event, and there were no written justifications as to why these reimbursements were claimed.

The absence of an updated policy and insufficient administration of travel expenses increase the risk of errors, irregularities, and misappropriation of funds.

RECOMMENDATION

We recommend that the UC:

- a. Update its *Travel* policy to reflect current business practices for meal per diem rates.
- b. Require written justification for meal reimbursement when meals are provided as part of the event.

MANAGEMENT RESPONSE

We concur. The UC will update its *Travel* policy to reflect current business practices for meal per diem rates and require written justification for meal reimbursement when meals are provided as part of the event.

Expected completion date: November 2016

13. PERSONNEL AND PAYROLL

OBSERVATION

The UC did not include hourly employee overtime hours when calculating sick-leave accrual rates, which resulted in understated sick leave hours.

We found that hourly employee overtime hours were not included as part of the total hours worked to calculate an employee's sick-leave accrual rate, as required by the AS and UC employee handbooks. As a result, sick-leave hours were understated for hourly employees who worked overtime.

Insufficient administration of hourly employee overtime increases the risk of errors and improper payments to employees.

RECOMMENDATION

We recommend that the UC include overtime hours when calculating hourly employee sick-leave accrual rates.

MANAGEMENT RESPONSE

We concur. The UC now includes overtime hours when calculating hourly employee sick leave. UC has adjusted sick-leave balances retroactively of affected employees.

Associated Students of Humboldt State University

14. ACCOUNTS RECEIVABLE

OBSERVATION

AS oversight of accounts receivable collections and write-offs for the campus newspaper, the Lumberjack, needed improvement.

We reviewed seven delinquent Lumberjack accounts receivable from the accounts receivable aging report as of May 19, 2016, and we found that in four instances, collection and follow-up activity was either not documented to facilitate collection or collection efforts were not performed in a systematic and timely manner. The delinquent accounts receivable were due from third parties and were outstanding for more than 120 days.

We also reviewed eight Lumberjack write-offs as of May 19, 2016, and we found that collection and follow-up activity was not documented to support the account write-offs in any of the cases.

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

RECOMMENDATION

We recommend that AS oversee the Lumberjack's performance and documentation of collection and follow-up activity for delinquent accounts receivable to facilitate collection or support account write-off.

MANAGEMENT RESPONSE

We concur. AS will provide the required oversight to ensure that the Lumberjack newspaper follows the appropriate process for timely invoicing, documented follow-up collections efforts, and management's approval of account write-offs.

Expected completion date: On or before January 1, 2017

GENERAL INFORMATION

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 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. CSU auxiliary organizations are required to comply with Board of Trustee policy (California Code of Regulations (CCR), Title 5, § 42402 and Education Code, § 89900). Campus 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. In January 1999, the Committee on Audit of the Board of Trustees resolved that resources be provided to the Office of the University Auditor for the purpose of conducting internal compliance/internal control reviews of CSU Auxiliary Organizations. The review will be used to determine compliance with the law, including statutes in the Education Code and rules and regulations of CCR, 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.

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 (CCR, Title 5, §42401 and §42500 and Education Code §89720, §89756, and §89900). This EO requires CSU auxiliary organizations to operate within the regulations and oversight of the campus. The campus president is responsible for ensuring the fiscal viability of auxiliary organizations and compliance with applicable CSU policies. The campus chief financial officer is responsible for administrative compliance and fiscal oversight of auxiliary organizations. The campus, with the approval of the chancellor (or designees), may assign certain functions to auxiliary organizations pursuant to the CCR, 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 CCR, Title 5, §42401.

ICSUAM §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 should be 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.

Humboldt State University Advancement Foundation

The AF was established in 2004 as a non-profit public benefit corporation to support and advance the mission of HSU by securing and increasing private support, developing and managing entrepreneurial activities, and managing endowed and other assets as requested by the university. Prior to the incorporation of the AF in 2004, university endowments were managed by the SPF. The AF is governed by a board of directors composed of representatives from the community, university administration, faculty, student body, and alumni. The AF does not have employees and relies on campus personnel from university advancement, administrative affairs, and financial services for administrative and accounting support services.

Humboldt State University Sponsored Programs Foundation

The SPF was established in 1952 as a non-profit public benefit corporation for the purpose of providing a unique setting for the encouragement of broad social, cultural, recreational, and informal educational programming for the university and its surroundings. Primary functions of the SPF include the administration of externally funded grants and contracts and the acquisition, development, sale, and transfer of real and personal property. The SPF also administers various campus programs. The SPF is governed by a board of directors composed of representatives from the faculty, university administration, student body, and community. It employs an executive director, a compliance officer, grant analysts, pre-award specialists, and an office manager and outsources accounting, payroll, and human resources services to the campus.

Humboldt State University Center Board of Directors

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

Associated Students of Humboldt State University

AS was established in 1991 as a non-profit public benefit corporation for the purpose of providing the official voice through which students may express their opinions. AS serves three primary purposes: to allocate student-fee dollars to more than 20 programs; to educate students on campus, local, and state affairs that have significant impact on students; and to advocate the student perspective to the appropriate parties. AS resides within the University Center building and operates student activities, advocacy and outreach programs, and instructionally related activities. It also provides funding for the Children's Center, student events, multicultural centers, and art galleries. AS is governed by a board of directors composed of representatives from the student body and university and auxiliary administration. AS relies on campus and UC personnel for administrative and accounting support services.

SCOPE

We visited the Humboldt State University campus and its auxiliary organizations from June 20, 2016, through July 22, 2016. Our audit and evaluation included the audit tests we considered necessary in determining whether fiscal, operational, and administrative controls are in place and operative at each auxiliary and may not have included examination of all fiscal and operational areas. The audit focused on procedures in effect from July 1, 2015 to July 22, 2016.

Specifically, we reviewed and tested:

- Timely and proper execution of agreements, contracts, and memoranda of understanding.
- Corporate governance, including compliance with education, government, and corporation codes.
- Fiscal, operational, and program compliance, such as review of cost reimbursement, reserves, conflict of interest, risk management, and trust accounts.
- Segregation of duties and administration of key fiscal and operational areas.
- Administration of sponsored programs.
- Management of gifts and endowments.
- Commercial operations (bookstore, dining services, etc.).
- Auxiliary programs (radio station, housing, children's center, etc.).
- Campus oversight and support services provided to auxiliaries.

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.

CRITERIA

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

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

- Education Code §89720
- Education Code §89756
- Education Code §89900
- Education Code §89904
- IRS Governance and Related Topics 501(c)(3)
- NIH *Financial Conflict of Interest Regulations*
- NSF *Investigator Financial Disclosure Policy*
- 2 Code of Federal Regulations 200, Uniform Guidance §200.331, *Requirements for Pass-Through Entity*
- CCR, Title 5 §42401, *Declaration of Policy*
- CCR, Title 5 §42402, *Authority of Campus President*
- CCR, Title 5 §42500, *Functions of Auxiliary Organizations*
- California Corporation Code §5233
- California Department of Justice, *Charities Raffles*
- RFIN 7-81-4
- EO 676, *Delegation of Gift Evaluation and Acceptance to Campuses*
- EO 1059, *Utilization of Campus Auxiliary Organizations*
- CSU *Auxiliary Organizations Compliance Guide*
- CSU *Auxiliary Organizations Sound Business Practices Guidelines*
- CSU *Conflict of Interest Handbook*, §2B
- CSU Human Resources 2015-08, *Background Check Policy*
- CSU *Travel Procedures*
- ICSUAM §11002.05, *Subrecipient Monitoring*
- ICSUAM §11003.06, *Effort Reporting*
- ICSUAM §13680.00, *Placement and Control of Receipts for Campus Activities and Programs*
- ICSUAM §1301.00, *Hospitality, Payment, or Reimbursement of Expenses*
- ICSUAM §15701.00, *Fundraising Events*
- ICSUAM §8025.0, *Privacy of Personal Information*
- HSU *Fundraising Policy*
- HSU *Payment or Reimbursement of Hospitality Expense*
- AF *Gifts-In-Kind Guidelines*
- AF *Gift Acceptance Policy*
- AF *Operating Reserve Policy*
- SPF *Conflict-Of-Interest Policy*
- SPF *Effort Reporting Policy*
- UC *Employee Handbook*
- UC *Travel policy*
- AS *Employee Handbook*

AUDIT TEAM

Assistant Vice Chancellor/Deputy Chief Audit Officer: Janice Mirza
Audit Manager: Caroline Lee
Senior Auditors: Sean Lee and Dominick Owens
Internal Auditor: May Flores, Samer Harb, and Laura Vazquez