September 20, 2016

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

Dear Dr. Rossbacher:

Subject: Advisory Report 16-74, University Center Business Processes, Humboldt State University

Per your request, we have completed our advisory review of University Center Business Processes at Humboldt State University, and the report is attached for your review. Our review was conducted in accordance with the Institute of Internal Auditors’ International Standards for the Professional Practice of Internal Auditing as they pertain to consulting and advisory services.

The campus is not required to formally respond to observations for advisory reviews; however, we recommend that campus management review all observations and take any necessary corrective actions to remediate and/or mitigate the risk(s) associated with the noted observations. Any observations requiring immediate attention were communicated to management during the course of the review.

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

Sincerely,

Larry Mandel
Vice Chancellor and Chief Audit Officer
EXECUTIVE SUMMARY

PURPOSE AND OBJECTIVES

On May 9, 2016, the president of Humboldt State University (HSU) requested that we perform a review of internal controls and business practices at Humboldt State University Center (UC). We discussed this request with the campus president on May 3, 2016, and with the vice president for administrative affairs on May 17, 2016.

Based on discussions with campus management, the objectives of the engagement were to review internal controls over the UC’s business practices and the effectiveness of segregation of duties, cash handling, security over assets and property, and general business procedures. The objectives would also include reviewing the results from a recent internal compliance review performed by HSU, as well as results from other past audits.

CONCLUSION

We identified some opportunities to improve internal controls and business practices in several areas as outlined below. In general, we found that UC business processes were in place and that roles and responsibilities in the business office were defined.

Specifically, we reviewed seven key areas within the UC and identified opportunities to improve internal controls over the safeguarding of cash, balance sheet account reconciliations, training of backup personnel, documentation of policies and procedures, payment verification processes, asset inventory list maintenance, check printer security, and financial and dining services operating systems.

In addition, we evaluated the composition of the UC board of directors and the responsibilities of the campus president and chief financial officer in overseeing auxiliary operations. As a result, we suggested that campus management consider the need to improve the balance and continuity of board members and establish agreements to define the terms and conditions of state employees assigned at the UC.

Also, we reviewed past audit reports, including an internal control compliance review recently performed by the campus accounting department. We agreed with the results of the review.

A summary of observations noted during the review is included in Appendix A: Observations.

BACKGROUND

The UC is a non-profit 501(c)(3) auxiliary organization governed by a 14-member board of directors composed of:

- Seven HSU students
- One administrative representative
- One financial services representative
- Three faculty representatives
- One alumni representative
- One community representative
The board employs a UC executive director responsible for supervising, directing, and carrying out UC programs. The UC provides a variety of services to the campus community, including the information counter, HSU dining services, center activities, and center arts.

The UC’s administrative and business office is primarily responsible for providing the business infrastructure necessary to support UC programs, services, and commercial operations. The core functions of the business office include managing finances, human resources, information technology, risk management, and accounting. The UC also provides administrative and financial services for the Associated Students of HSU.

The campus accounting department conducted a review of the UC’s compliance with internal controls described in the CSU Auxiliary Organizations Sound Business Practices Guidelines. The review identified recommendations for improvement in five of 12 areas.

Specific recommendations included:

- Ensuring that no one employee was ever alone within the cash vault.
- Developing computer processes to verify that items ordered were received and invoiced, a practice commonly referred to as a “three-way match.”
- Ensuring that all check requests included appropriate supporting documentation.
- Ensuring that blank-check stock was stored in a secured area.
- Developing management reports related to dining services activities to help management identify trends within the operation.
- Creating controls and limitations around the information technology systems manager’s roles and responsibilities.
- Ensuring that balance sheet accounts were reconciled to the general ledger monthly.

CalPERS also performed an audit of the UC that resulted in six findings related to payment, compensation, membership, contributions, and unused sick-leave credits. According to UC management, all of the CalPERS findings have been resolved except one related to the eligibility of three UC managers, who provide all of their work on behalf of the UC, to receive CalPERS benefits through the university. The outcome of this finding is currently in dispute and could potentially have systemwide implications.

In light of the recent issues identified at the UC, particularly those in the campus internal compliance review, and the UC’s responsibilities providing services for Associated Students of HSU, HSU management requested this engagement to review internal controls over the UC business practices.
GENERAL INFORMATION

SCOPE

The scope of the engagement included a review of UC business practices, including policies and procedures, business process flows, systems, and past audit reports. Specifically, this included evaluating business processes and internal controls related to seven key areas within the UC: cash and cash equivalents, information technology, procurement and accounts payable, accounts receivables, property and equipment, personnel and payroll, and commercial operations.

The review focused on processes in effect at the time of our review.

We gained an understanding of UC’s policies and practices through discussions with UC management and business office personnel and review of available documentation.

We visited the HSU campus from May 23, 2016, through June 10, 2016, and reviewed the policies and practices in effect at that time. We focused primarily on the UC’s administrative and business office operations. Specifically, we performed the following procedures:

- Interviewed individuals responsible for performing and administering business processes and evaluated the various steps involved in the processes.
- Reviewed internal controls over business processes and the effectiveness of segregation of duties, cash handling, security over assets and property, and general business procedures.
- Reviewed findings from past audit reports, including results from a recent internal compliance review performed by HSU.
- Identified opportunities to improve the UC’s business policies and practices.

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 advisory review may not always detect these limitations.

CRITERIA

This review was conducted in conformance with the Institute of Internal Auditors’ International Standards for the Professional Practice of Internal Auditing as they pertain to consulting and advisory services.
Guidelines and requirements pertaining to this review were primarily found in CSU Auxiliary Organizations Sound Business Practices Guidelines. Guidelines also included, but were not limited to:

- Executive Order (EO) 1000, Delegation of Fiscal Authority and Responsibility
- EO 1052, University and Auxiliary Organization Funds
- California Code of Regulations, Title 5, Sections 42401-42402
- Integrated California State University Administrative Manual §5240

**ADVISORY TEAM**

Senior Director: Mike Caldera  
Advisory Manager: Dane MacDonald
## OBSERVATIONS

### CASH AND CASH EQUIVALENTS

#### A.1 Balance Sheet Account Reconciliations

Balance sheet account reconciliations were not consistently performed on a monthly basis. We reviewed reconciliations performed over the past six months (November 2015 to April 2016) on seven balance sheet accounts, and we noted that:

- Account 1800 Claim on Cash was not reconciled in three of the six months reviewed (November 2015, December 2015, and January 2016).

  *(Note: Per discussion with University Center (UC) management, because this is a zero-clearing account (allocating out cash balances to areas), it was not considered necessary to provide supporting documentation monthly. A transaction report was later provided for the months of November 2015, December 2015, and January 2016 showing that the monthly ending balances were zero.)*

- Account 2210 Center Arts Show Clearing was not reconciled in four of the six months reviewed (December 2015, January 2016, February 2016, and March 2016).

  *(Note: Per discussion with UC management, this reconciliation was not performed due to the reconciler’s leave of absence from the office.)*

#### RECOMMENDED ACTIONS

We recommend that the UC reconcile balance sheet accounts to the general ledger on a monthly basis and that management perform independent review of reconciliations according to the *California State University Auxiliary Organization Sound Business Practices Guidelines*. If management determines that certain accounts are low risk or do not otherwise necessitate a monthly reconciliation, justification for this decision and the prescribed frequency of reconciliations should be documented in department policies and procedures.
### A.2 Safe Access

Access to the UC business office safe and other UC safes was not adequately restricted. Specifically, we noted that:

- The UC business office safe was not locked during business hours, and the cashier or account clerk occasionally entered the safe unaccompanied.

  (Note: According to UC management, the UC business office safe was occasionally unlocked during business hours; however, this practice is no longer permitted. In addition, the business office safe is always locked outside of regular business hours.)

- In our review of access to three UC safes (College Creek, Student Rec Center, and Library Café), two safe combinations were in place for a period of nine months without being changed, as noted below:
  
  o College Creek: The combination was unchanged for nine months (from August 25, 2015 to May 23, 2016).
  
  o Student Rec Center: The combination was unchanged for nine months (the last change noted was on September 15, 2015, and management said that the combination was changed during the week of June 6, 2016).

  (Note: According to UC policies, the safe combination in areas where safe access is provided to employees who change each semester must be changed at the end of each semester. All other areas are required to change safe combinations on an annual basis or whenever there is a change in personnel.)

We recommend that the UC strengthen security over access to safes by ensuring that:

a. The UC business office safe is locked during business hours.

b. Safe combinations are changed at the end of each semester in areas where safe access is provided to employees who change each semester, or whenever turnover occurs, according to UC policies.

### A.3 Transporting Cash

Cash and cash equivalents received by the UC business office from Center Activities, the Student Rec Center, and Humboldt Bay Aquatic Center (HBAC) were not always transported jointly by at least two employees.

(Note: UC Management reports that due to HBAC’s distance from campus, and because the Student Rec Center and Center Activities are closed in the summer at the time of the UC business office courier run (both open at 10 a.m. during the summer), deposits were occasionally delivered from these locations by one unaccompanied person. Going forward (effective June 14, 2016), deposits from the Student Rec Center and Center Activities will be transported by dual custody.)

We recommend that cash and cash equivalents be transported jointly by at least two employees or through a professional courier service. If management determines that there should be an exception to this standard, justification for this exception should be documented in department policies and procedures.
## APPENDIX A: OBSERVATIONS

### INFORMATION TECHNOLOGY

**A.4 Key Employee Dependency**

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

Specifically, we noted that:

- The IT consultant was responsible for all UC systems, software, hardware, networks, check printer settings, and alarming systems, and no one had been trained as a backup for these responsibilities.
- Policies and procedures related to the IT consultant’s roles and responsibilities were not documented.

We recommend that the UC:

| a. Train a backup to handle the ongoing support, maintenance, and recovery of key IT systems and related duties. |
| b. Develop written policies and procedures for key duties related to systems, software, hardware, networks, check printer settings, and alarming systems. |

**A.5 IFAS System**

UC’s accounting software, Integrated Financial Administrative System (IFAS) version 7.7, is no longer being developed and improved by SunGard; however, the software does continue to be supported.

We recommend that the UC implement PeopleSoft Financial Management software as soon as possible to ensure that the UC’s financial systems are actively being developed and improved, and to allow for compatibility with the university’s system.

### PROCUREMENT & ACCOUNTS PAYABLE

**A.6 Three-Way Match Payment Verification**

The UC was not performing three-way match payment verification, involving the matching of an invoice, purchase order (PO), and receiving report, before processing payments. The purpose of the three-way match is to ensure that only authorized purchases are reimbursed and to prevent overpayment for goods and services.

Specifically, we noted that the UC does not generally use POs for procuring goods and services, and due to the large volume of purchases within the dining area, Dining Services does not use POs or purchase requisitions. In addition, based on our understanding, Dining Services does not always verify shipments received.

We recommend that the UC implement a three-way match payment verification process to ensure that the invoice, PO, and receiving report match prior to payment. For high-volume food orders, we recommend that the UC investigate mitigating options such as review of reports generated from the food service provider’s (Sysco) online systems to ensure that only authorized purchases were reimbursed.
### A.7 Advance Check Requests

The advance check requests listing had not been maintained and updated. Specifically, we noted that two of the five items on the listing were outstanding more than two months as shown below:

- On October 16, 2015, a $9,611.33 advance was made to the UC to purchase a piece of equipment for the library. As of June 6, 2016, the item remained on the advance check request listing pending notification that a tag number had been assigned for the item.

  *(Note: According to UC management, this amount was listed as an outstanding item in error. The item was not an advance payment, but rather was flagged to hold until fixed asset tagging information was received. A tag form was turned in to the UC accountant in a timely manner; however, due to a lack of communication, the UC accountant was unaware that the item had been flagged or that a copy was needed for the AP file.)*

- On December 16, 2015, a $3,480 advance was made to Associated Students of Humboldt State University for conference room costs at a network conference. As of June 6, 2016, the item remained outstanding pending a receipt for the hotel costs incurred on March 27-31, 2016.

We recommend that the UC improve practices for maintaining and following up on items tracked on the advance check requests listing.

### A.8 Check Printer

UC business office checks were generated from a printer that was also used as a common printer by personnel within the administrative business office.

*(Note: According to UC management, only a few individuals within the business office have been set up through IFAS to print checks. In addition, a new check printer has been ordered that will require key activation.)*

We recommend that the UC establish a check printer equipped with security and access controls that is separate from the business office’s common-use printer.
## OBSERVATIONS

### PROPERTY & EQUIPMENT

#### A.9 Asset Inventory List

The UC asset inventory list had not been updated to reflect changes in the existence and location of certain items.

We reviewed six items on the asset inventory list and found that:

- One item, a 1997 Hobart deep fryer, could not be located.
- Three items were not in the location specified on the inventory report.

(Note: Per UC personnel, the deep fryer was recently replaced with a new fryer.)

We recommend that the UC conduct inventory reviews every year and that the location of inventory be updated on a continuous basis as items are moved around.

### COMMERCIAL INVENTORY MANAGEMENT

#### A.10 Dining Services Systems

Dining services systems needed improvement to allow for:

- Menu management tracking of production and waste.
- Communication between the point-of-sale system and inventory, to help identify the amount of shrinkage.

(Note: UC management reports that it is working to implement a management software system to enhance production and tracking of production/waste information and is working to improve the communication between the point-of-sale system and inventory to help identify the amount of product shrinkage.)

We recommend that the UC improve dining services systems to allow for:

a. Menu management tracking of production and waste.

b. Communication between the point-of-sale system and inventory, to help identify and reduce the amount of shrinkage.
## OTHER AREAS

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<td><strong>A.11 UC Board of Directors</strong></td>
<td>We recommend that campus management evaluate the composition of the UC BoD and determine whether adjustments to the composition of the board are necessary. Specifically, we recommend that the campus evaluate the need to add additional administrative and faculty personnel to ensure balance and continuity. If adjustments are necessary, we recommend that the campus consider consulting with chancellor’s office personnel, including legal counsel, to determine the most appropriate method for implementing a change.</td>
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The composition of the UC board of directors (BoD) appears to meet the minimum standards for governing boards; however, the board did not appear to have an adequate number of administrative and/or faculty representatives to ensure balance and continuity.

Auxiliary organizations with similar commercial responsibilities typically have more administrative and faculty representation on their boards.

According to the [CSU Auxiliary Organizations Compliance Guide](#), the composition of governing boards other than student body organizations shall consist of the following:

(a) Administration and staff (one representative from either area)  
(b) Faculty  
(c) Non-campus personnel  
(d) Students  

Although the UC BoD appears to meet these minimum requirements, the UC BoD Bylaws require that seven of the 14 board members (50 percent) be students and require only one administrative representative.
### A.12 State Employee Agreements

Written agreements had not been established between the campus and the UC for the assignment of state employees.

We found that although the campus was reimbursed for state employees who worked on behalf of the UC, written agreements were not in place between the parties defining the terms and conditions for such arrangements.

Integrated California State University Administrative Manual §5240 indicates that contracts should include terms and conditions necessary to convey a clear understanding of each party's expected role, its obligations, and the parameters in which the activities must be carried out under the contract.

The responsibility and authority of the campus president regarding auxiliary organizations is outlined in Title 5, Section 42402, which in part requires that auxiliary organizations operate in conformity with policy of the Board of Trustees and the campus. The campus president has been delegated authority by the CSU Board of Trustees to carry out all necessary functions for the operation of the campus. The operations and activities of the auxiliary under this agreement shall be integrated with campus operations and policies established by the president and shall be overseen by the campus chief financial officer or designee so as to assure compliance with objectives stated in Title 5, Section 42401.

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<td>Written agreements had not been established between the campus and the UC for the assignment of state employees.</td>
<td>We recommend that the campus establish written agreements for the use of state employees by auxiliary organizations that clearly define the terms and conditions necessary to convey each party's expected role, obligations, and activities.</td>
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