

AUXILIARY ORGANIZATIONS
CALIFORNIA STATE UNIVERSITY,
LOS ANGELES

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CONTENTS

Executive Summary	1
Introduction.....	5
Background	5
Purpose.....	7
Scope and Methodology	8

OBSERVATIONS, RECOMMENDATIONS, AND CAMPUS RESPONSES

CAMPUS

Operating and Administrative Agreements	11
Fiscal Compliance.....	12
Purchasing and Accounts Payable	13
Trusts and Other Liabilities	14
Information Technology	16
Encryption.....	16
Server Room Security	17

CALIFORNIA STATE UNIVERSITY, LOS ANGELES FOUNDATION

Corporate Governance	19
Operational Compliance	19

CAL STATE L.A. UNIVERSITY AUXILIARY SERVICES, INC.

Corporate Governance	21
Purchasing and Accounts Payable	21
Property and Equipment	22
Commercial Operations	23

UNIVERSITY-STUDENT UNION BOARD, CALIFORNIA STATE UNIVERSITY, LOS ANGELES

Personnel and Payroll	26
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CONTENTS

Hiring 26
Student Working Hours 26

ASSOCIATED STUDENTS OF
CALIFORNIA STATE UNIVERSITY, LOS ANGELES, INC.

Corporate Governance 28
Operational Compliance 28
 Conflict of Interest 28
 Policies and Procedures 29
Commercial Operations 30

APPENDICES

APPENDIX A:	Personnel Contacted
APPENDIX B:	Statement of Internal Controls
APPENDIX C:	Campus Response
APPENDIX D:	Chancellor's Acceptance

ABBREVIATIONS

AORMA	Auxiliary Organization Risk Management Authority
ASI	Associated Students of California State University, Los Angeles, Inc.
CFO	Chief Financial Officer
CSU	California State University
CSULA	California State University, Los Angeles
CSURMA	California State University Risk Management Authority
EO	Executive Order
Foundation	California State University, Los Angeles Foundation
ICSUAM	Integrated California State University Administrative Manual
MOU	Memoranda of Understanding
RFIN	Resolution of the Committee on Finance
UAS	Cal State L.A. University Auxiliary Services, Inc.
Union	University-Student Union Board, California State University, Los Angeles
VP	Vice President

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 the University Auditor 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, Los Angeles (CSULA) 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 CSULA campus and its auxiliary organizations from May 20, 2013, through June 14, 2013, and made a study and evaluation of the system of internal compliance/internal control in effect as of June 14, 2013. 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 *CSULA campus* as of June 14, 2013, taken as a whole, were sufficient to meet the objectives stated above and in the "Purpose" section of this report. Areas of concern include: operating and administrative agreements, fiscal compliance, purchasing and accounts payable, trusts and other liabilities, and information technology.

In our opinion, the fiscal, operational, and administrative controls in effect at *California State University, Los Angeles Foundation* as of June 14, 2013, taken as a whole, were sufficient to meet the objectives stated above and in the "Purpose" section of this report.

In our opinion, except for the effect of the weaknesses described below, the fiscal, operational, and administrative controls at *Cal State L.A. University Auxiliary Services, Inc.* as of June 14, 2013, taken as a whole, were sufficient to meet the objectives stated above and in the “Purpose” section of this report. An area of concern is commercial operations.

In our opinion, the fiscal, operational, and administrative controls in effect at *University-Student Union Board, California State University, Los Angeles* as of June 14, 2013, taken as a whole, were sufficient to meet the objectives stated above and in the “Purpose” section of this report.

In our opinion, except for the effect of the weaknesses described below, the fiscal, operational, and administrative controls at *Associated Students of California State University, Los Angeles, Inc.* as of June 14, 2013, taken as a whole, were sufficient to meet the objectives stated above and in the “Purpose” section of this report. Areas of concern include: operational compliance and commercial operations.

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

OPERATING AND ADMINISTRATIVE AGREEMENTS [11]

Campus service agreements and memoranda of understanding for the recovery of costs from auxiliaries were not always signed and dated prior to the beginning of the service period.

FISCAL COMPLIANCE [12]

Certain direct and indirect costs for the University-Student Union Board, California State University, Los Angeles (Union) were not accurately stated in the campus cost allocation plan. Specifically, for fiscal year 2012/13, the direct budgeted charge for Union parking and indirect budgeted charges for Union human resources support and administrative technology services were inaccurately stated.

PURCHASING AND ACCOUNTS PAYABLE [13]

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

TRUSTS AND OTHER LIABILITIES [14]

Campus administration of campus activity and program funds at Cal State L.A. University Auxiliary Services, Inc. (UAS) needed improvement. For example, the campus did not document the delegation of authority for the authorization of a campus activity or program from the campus president to his/her designee; campus policies and procedures regarding activities and programs that provide specific guidance in regard to workshops and conferences, instructionally related events and activities, and documentation requirements; the specific determination of whether the campus or the auxiliary was accountable and responsible for the funds; and advantages to the university and support of the university mission.

INFORMATION TECHNOLOGY [16]

The campus did not store protected data in the Contributor Relations donor system in an encrypted format. Additionally, the campus server room doors contained windows that could potentially allow for unauthorized entry, and the room was not equipped with an alarm system.

CALIFORNIA STATE UNIVERSITY, LOS ANGELES FOUNDATION

CORPORATE GOVERNANCE [19]

The California State University, Los Angeles Foundation (Foundation) did not update its Articles of Incorporation and Bylaws to reflect a proper dissolution clause.

OPERATIONAL COMPLIANCE [19]

The Foundation had not developed written hiring and separation policies and procedures for student employees working for annual giving.

CAL STATE L.A. UNIVERSITY AUXILIARY SERVICES, INC.

CORPORATE GOVERNANCE [21]

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

PURCHASING AND ACCOUNTS PAYABLE [21]

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

PROPERTY AND EQUIPMENT [22]

Administration of UAS property and equipment needed improvement. Specifically, four of the five capitalized assets we selected for physical verification from the UAS property and equipment listing could not be located.

COMMERCIAL OPERATIONS [23]

Administration of UAS catering services needed improvement. For example, UAS had not developed written policies and procedures to address the accounting and processing of catering services. Additionally, catering arrangements with third parties were not supported by written agreements that included appropriate indemnification and insurance provisions.

UNIVERSITY-STUDENT UNION BOARD, **CALIFORNIA STATE UNIVERSITY, LOS ANGELES**

PERSONNEL AND PAYROLL [26]

The Union did not always certify I-9 forms within three business days of a new employee's first day of work. Additionally, the Union did not always document advance approvals for student employees working more than 20 hours per week during the academic period.

ASSOCIATED STUDENTS OF **CALIFORNIA STATE UNIVERSITY, LOS ANGELES, INC.**

CORPORATE GOVERNANCE [28]

Associated Students of California State University, Los Angeles Inc. (ASI) board meeting minutes were not certified by the board secretary or assistant secretary in accordance with Corporation Code §5215.

OPERATIONAL COMPLIANCE [28]

ASI had not obtained annual conflict-of-interest statements from all board members. Additionally, accounts receivables policies and procedures in the ASI administrative manual and website were not current.

COMMERCIAL OPERATIONS [30]

Administration of ASI sales commission receipts needed improvement. Specifically, ASI did not have written policies and procedures to periodically audit third-party sales commissions to ensure that commission receipts were in accordance with contractual requirements, a system to perform periodic documented reviews of commission receipts had not been established, and ASI had not established a written e-commerce sales agreement for ticket sales with Universal Studios.

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

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

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

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

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

California State University, Los Angeles Foundation

The California State University, Los Angeles Foundation (Foundation) was established in 1985 as a non-profit public benefit corporation to promote and assist the educational programs of California State University, Los Angeles (CSULA). The Foundation provides and augments funding for educationally related services at CSULA not otherwise available through or funded by the state university system. The Foundation provides CSULA with the expertise, oversight, and advocacy to increase private giving and manage the philanthropic assets of the university. The Foundation is governed by a board of directors composed of representatives from the student body, university administration, faculty, alumni, and community. The Foundation does not have employees and relies on campus personnel from institutional advancement and financial services for administrative and accounting support services.

Cal State L.A. University Auxiliary Services, Inc.

Cal State L.A. University Auxiliary Services, Inc. (UAS) was established in 1985 as a non-profit public benefit corporation responsible for the administration of externally sponsored programs (grants and contracts), campus programs, the child care center, and the operation of commercial services in support of the university's educational mission. UAS operates the Golden Eagle Building, a venue used for food services, meetings, catering, and other events; the University Club, an on-campus dining service; and the Anna Bing Arnold Children's Center. UAS outsources the operations of the University Bookstore, Starbucks, and the Metro convenience store to Barnes & Noble and the operations of the food court restaurants to several national brand vendors in exchange for commissions on the revenues generated by these enterprises. UAS is governed by a board of directors composed of representatives from the university and auxiliary administration, faculty, student body, and community. UAS contracts with the university for certain administrative and accounting support services.

University-Student Union Board, California State University, Los Angeles

The University-Student Union Board, California State University, Los Angeles (Union) was established in 1975 as a non-profit public benefit corporation to provide a setting for the encouragement of broad social, cultural, recreational, and informal educational programming for the university and its surroundings. The Union operates the University-Student Union building, which includes the Center for Student Involvement, the Cross Cultural Center, the Xtreme Fitness Center, the Pit, and meeting and event services. The Union is governed by a board of directors composed of representatives from the student body, university administration, faculty, and alumni. The Union provides payroll services to Associated Students of California State University, Los Angeles, Inc. (ASI) and the Institutional Advancement Office of Annual Giving in conjunction with its own payroll process and contracts with the university for certain administrative and accounting support services.

Associated Students of California State University, Los Angeles, Inc.

ASI was established in 1959 as a non-profit public benefit corporation to promote the establishment of, and provide the means for, effective avenues of student input into the governance of the campus; provide an official voice through which student opinions may be expressed; provide an opportunity where students may gain experience and training in responsible political participation and community leadership; assist in the protection of the rights and interests of individual students; and stimulate the educational, social, physical, and cultural well-being of the university community. ASI resides within the University-Student Union building and operates the book exchange program, book voucher program, and advocacy and outreach program. ASI is governed by a board of directors composed of representatives from the student body, university administration, faculty, and alumni. ASI contracts with the university for certain administrative and accounting support services and the Union for payroll services.

PURPOSE

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

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

SCOPE AND METHODOLOGY

Our study and evaluation were conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing* issued by the Institute of Internal Auditors and included the audit tests we considered necessary in determining whether fiscal, operational, and administrative controls are in place and operative. The management review emphasized, but was not limited to, compliance with state and federal laws, Board of Trustee policies, and Office of the Chancellor policies, letters, and directives. For those audit tests that required annualized data, fiscal years 2010/11 and 2011/12 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, 2012, to June 14, 2013. Our primary focus was on internal compliance/internal control.

Specifically, we reviewed and tested:

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

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

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

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

California State University, Los Angeles Foundation

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

California State University, Los Angeles Foundation (cont.)

- ▶ Segregation of Duties
- ▶ Cash Receipts and Handling
- ▶ Cash Disbursement
- ▶ Petty Cash and Change Funds
- ▶ Investments
- ▶ Fees, Revenues, and Receivables
- ▶ Purchasing and Accounts Payable
- ▶ Personnel and Payroll
- ▶ Trusts and Other Liabilities
- ▶ Endowment Administration
- ▶ Auxiliary Programs
- ▶ Information Technology

Cal State L.A. University Auxiliary Services, Inc.

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

University-Student Union Board, California State University, Los Angeles

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

University-Student Union Board, California State University, Los Angeles (cont.)

- ▶ 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

Associated Students of California State University, Los Angeles, Inc.

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

Campus

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

We have not performed any auditing procedures beyond June 14, 2013. 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

OPERATING AND ADMINISTRATIVE AGREEMENTS

Campus service agreements and memoranda of understanding (MOU) for the recovery of costs from auxiliaries were not always signed and dated prior to the beginning of the service period.

We reviewed 11 agreements and MOU for fiscal year 2012/13, and we found that:

- ▶ Nine agreements/MOU were signed after the effective date. Execution delays ranged from 45 to 167 days.
- ▶ One agreement was not signed and dated by the responsible parties.

Government Code §13402 and §13403 state, in part, that state agencies are responsible for the establishment and maintenance of a system of internal accounting and administrative control that includes an established system of practices to be followed and an effective system of internal review.

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

The campus director of procurement and contracts stated that the delay was due to a lengthy negotiation process between the entities. He further stated that the one agreement noted was not signed and dated due to oversight.

The absence of fully executed service agreements and MOU in support of the campus cost allocation plan increases the risk that the campus operating fund will not be fully compensated for support provided to auxiliary organizations.

Recommendation 1

We recommend that the campus reiterate to staff that service agreements and MOU for the recovery of costs from auxiliaries must be signed and dated prior to the beginning of the service period.

Campus Response

The Procurement and Contracts department has created a procedure whereby campus contracts are tracked and followed up to ensure service agreements and MOU are signed and dated prior to the beginning of the service period.

FISCAL COMPLIANCE

Certain direct and indirect costs for the University-Student Union Board, California State University, Los Angeles (Union) were not accurately stated in the campus cost allocation plan.

We found that for fiscal year 2012/13:

- ▶ The direct budgeted charge for Union parking was inaccurately stated as \$17,000. The correct charge was \$1,700.
- ▶ Indirect budgeted charges for Union human resources support and administrative technology services were inaccurately stated as \$20,000 and \$17,628, respectively. According to the service agreements, the correct charges were \$5,000 and \$28,996, respectively.

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

The California State University, Los Angeles (CSULA) *Service Agreement #9900-0111*, termed July 1, 2011, through June 30, 2014, states that the Union shall pay the university an annual fee of \$5,000, such fee to be paid quarterly. Quarterly installments shall be paid on the first day of the months of July, October, January, and April.

The CSULA *Service Agreement #9900-0113*, termed July 1, 2011, through June 30, 2012, states that the Union shall pay the university an annual fee of \$28,996, such fee to be paid quarterly. Quarterly installments shall be paid on the first day of the months of July, October, January, and April.

Executive Order (EO) 1000, *Delegation of Fiscal Authority and Responsibility*, dated July 1, 2007, states that each campus must develop a cost allocation plan to ensure that costs incurred by the California State University (CSU) operating fund for services, products, and facilities provided to

other CSU funds and to auxiliary organizations are properly and consistently recovered with cash and/or a documented exchange of value. Allowable and allocable indirect costs shall be allocated and recovered according to a cost allocation plan that utilizes a documented and consistent methodology, including identification of indirect costs and basis for allocation.

The campus assistant vice president for administration and finance and university budget director stated that the Union parking budget charge was inputted incorrectly; the budgeted amount for Union human resources support was misinterpreted to be \$5,000 per quarter instead of \$5,000 per year, and because human resources support and administrative technology services come from the same lump sum in the budget, this caused the administrative technology budget charge for fiscal year 2012/13 to be stated inaccurately, as well. She further stated that these budgeted charges are used for planning purposes and that the Union is billed and pays the actual charges.

The lack of an accurate cost allocation plan increases the risk of non-compliance with relevant requirements and misunderstandings and miscommunication regarding direct and indirect costs.

Recommendation 2

We recommend that the campus reiterate to staff that all direct and indirect costs must be accurately stated in the cost allocation plan.

Campus Response

The campus will reiterate to staff that all direct and indirect costs must be accurately stated in the cost allocation plan. The campus will strengthen the review and verification procedures to ensure direct and indirect costs are accurate in the cost allocation plan. Anticipated date of completion is September 13, 2013.

PURCHASING AND ACCOUNTS PAYABLE

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

We reviewed ten Cal State L.A. University Auxiliary Services, Inc. (UAS) open purchase orders outstanding over 365 days, and we found that:

- ▶ One purchase order in the amount of \$552 was outstanding for 623 days. The item had been received, but the corresponding vendor invoice had not.
- ▶ One purchase order in the amount of \$303 was outstanding for 636 days. The item had been received and the payment had been processed, but the purchase order had not been closed.
- ▶ Three purchase orders totaling \$2,167 and outstanding from 392 to 568 days had neither been fulfilled by the vendors nor canceled by the users.

The *Compilation of Policies and Procedures for California State University Auxiliary Organizations* sets sound business practice guidelines for auxiliary organizations operating within the CSU system. Section 8.9.5, *Procurement*, states, in part, that the auxiliary should establish a written system that ensures that coding, classification, recording, and competitive bidding requirements for purchases and service contracts are applied in a consistent manner.

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

The campus director of procurement and contracts stated that the long-outstanding purchase orders were not always investigated and resolved in a timely manner due to oversight.

Insufficient administration of long-outstanding purchase orders could impair budget analysis and planning and could have an adverse effect on decision-making.

Recommendation 3

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

Campus Response

The Procurement and Contracts department buyers have been instructed to review purchase orders for closure on a monthly basis. The purchase orders from the previous fiscal year will be closed November 30 of the following year unless UAS requests an extension.

TRUSTS AND OTHER LIABILITIES

Campus administration of campus activity and program funds at UAS needed improvement.

We reviewed 15 UAS campus activity and program funds, and we found that the campus did not document:

- ▶ The delegation of authority for the authorization of a campus activity or program from the campus president to his/her designee.
- ▶ Campus policies and procedures regarding activities and programs that provide specific guidance in regard to workshops and conferences, instructionally related events and activities, and documentation requirements.

- ▶ The specific determination of whether the campus or the auxiliary was accountable and responsible for the funds.
- ▶ Advantages to the university and support of the university mission.

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

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

The campus vice president (VP) for administration and CFO stated that the lack of a written delegation of authority from the president to the designee and the lack of campus policies and procedures specific to campus program activity were due to oversight. She further stated that the specific determination of whether the campus or the auxiliary was accountable and responsible for the funds and whether the activity supported the mission of the university was made prior to the creation of an account but was done verbally.

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

Recommendation 4

We recommend that the campus document:

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

- b. Campus policies and procedures regarding activities and programs that provide specific guidance in regard to workshops and conferences, instructionally related events and activities, and documentation requirements.
- c. The specific determination of whether the campus or the auxiliary is accountable and responsible for campus activity and program funds.
- d. Advantages to the university and support of the university mission for campus activity and program funds.

Campus Response

Per the ICSUAM policy, the campus will document the delegation of authority of a campus activity or program from the campus president to his/her designee. In addition, the campus will also document campus policies and procedures regarding activities and programs that provide specific guidance in regard to workshops and conferences, instructionally related events and activities, and documentation requirements; the specific determination of whether the campus or the auxiliary is accountable and responsible for campus activity and program funds; and advantages to the university and support of the university mission. Anticipated completion date is October 31, 2013.

INFORMATION TECHNOLOGY

ENCRYPTION

The campus did not store protected data in the Contributor Relations donor system in an encrypted format.

ICSUAM §8045.100, *Information Technology Security*, dated April 19, 2010, states that each campus must take reasonable steps to protect the confidentiality, integrity, and availability of its critical assets and protected data from threats. Additionally, each campus must implement and regularly review a documented process for transmitting data over the campus network. This process must include the identification of critical information systems and protected data that is transmitted through the campus network or is stored on campus computers. Campus processes for transmitting or storing critical assets and protected data must ensure confidentiality, integrity, and availability.

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

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

business practices. Sound business practice mandates the encryption of protected data maintained on auxiliary systems.

The campus director of information technology security and compliance stated that the campus did encrypt the protected data in the Contributor Relations donor system in the prior version; however, the current version of the application did not support encryption, and any attempt to encrypt the protected data broke the application.

Lack of encryption for protected data increases the risk of loss and inappropriate use of auxiliary resources and increases the risk of information security breaches, which could require the campus to notify all affected parties, adversely affecting the campus' reputation.

Recommendation 5

We recommend that the campus store protected data in the Contributor Relations donor system in an encrypted format.

Campus Response

The campus upgraded the application and encrypted the protected data on June 24, 2013.

SERVER ROOM SECURITY

The campus server room doors contained windows that could potentially allow for unauthorized entry, and the room was not equipped with an alarm system.

ICSUAM §8080.0, *Physical Security*, dated April 19, 2010, states that each campus must identify physical areas that must be protected from unauthorized physical access. Such areas would include data centers and other locations on the campus where information assets containing protected data are stored.

The campus VP for information technology services and chief technology officer stated that the windows on the server room doors were small wire mesh glass windows that were necessary so that emergency responders would have a visual alert to see into the room to identify that fire suppression gases had dissipated before re-entry, should the fire suppression system be dispersed. The assistant director of the network operations center stated that the server room was thought to be secure because access into the room required a pre-approved entry pin number or swipe card and video surveillance cameras were located in the hallway outside of the server room and inside the server room.

Inadequate security over all potential access points to the data center and network rooms increases the risk of security breaches and theft of computing equipment.

Recommendation 6

We recommend that the campus evaluate the feasibility of installing a security alarm system for the server room.

Campus Response

The campus installed a security alarm system in the server room on August 12, 2013.

CALIFORNIA STATE UNIVERSITY, LOS ANGELES FOUNDATION

CORPORATE GOVERNANCE

The California State University, Los Angeles Foundation (Foundation) did not update its Articles of Incorporation and Bylaws to reflect a proper dissolution clause.

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

The campus fiscal coordinator for institutional advancement stated that the Foundation was unaware of the recent change in the requirements for dissolution clauses.

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

Recommendation 7

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

Campus Response

By October 1, 2013, the Foundation will revise its Articles of Incorporation to reflect a proper dissolution clause and file these changes with the state. The Foundation will send the revised Articles of Incorporation to the chancellor's office within 30 days' receipt of acknowledgment from Sacramento. Anticipated date of completion is November 29, 2013.

OPERATIONAL COMPLIANCE

The Foundation had not developed written hiring and separation policies and procedures for student employees working for annual giving.

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 that written hiring and separation policies and procedures be developed for student employees.

The campus fiscal coordinator for institutional advancement stated that it was assumed that the Foundation would follow the Union hiring and separation policies and procedures because the Union administered payroll on behalf of the students working for annual giving.

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

Recommendation 8

We recommend that the Foundation develop written hiring and separation policies and procedures for student employees working for annual giving.

Campus Response

The Foundation added the University-Student Union policies and procedures for hiring and terminating student employees to the Annual Fund student employee handbook and training materials in August 2013.

CAL STATE L.A. UNIVERSITY AUXILIARY SERVICES, INC.

CORPORATE GOVERNANCE

Cal State L.A. University Auxiliary Services, Inc. (UAS) had not filed amended Bylaws with the chancellor's office in a timely manner.

We found that amendments to the Bylaws made on December 7, 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 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 UAS executive director stated that the amended Bylaws were not submitted to the chancellor's office in a timely manner due to oversight.

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

Recommendation 9

We recommend that UAS promptly file the amended Bylaws and reiterate to staff that all future changes/amendments to Bylaws should be filed with the Contract Services and Procurement department at the Office of the Chancellor within 30 calendar days.

Campus Response

UAS has filed the cited amendments with the chancellor's office, and management has communicated to staff to ensure that all future changes/amendments to Bylaws are filed within 30 calendar days. The Bylaws were filed and received by the chancellor's office on June 11, 2013.

PURCHASING AND ACCOUNTS PAYABLE

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

We reviewed 15 contracts and grants disbursements and found that in two instances, students traveling by air did not complete and sign release forms or waivers.

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

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

The university controller stated that the release forms or waivers were missing due to oversight.

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

Recommendation 10

We recommend that UAS reiterate to staff that signed release forms or waivers are to be obtained from all students traveling by air.

Campus Response

On August 16, 2013, UAS management communicated to staff that a signed release or waiver, in advance of the planned travel, from all students traveling by air is required.

PROPERTY AND EQUIPMENT

Administration of UAS property and equipment needed improvement.

We reviewed five capitalized assets for physical verification from the UAS property and equipment listing, and we found that four could not be located.

ICSUAM §3151.04, *Equipment*, dated January 1, 2011, states that it is the policy of CSU that equipment is properly recorded, maintained, and safeguarded, and that appropriate disposal methods are followed.

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 and proper recording of property and 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 of property and equipment.

The university controller stated that certain UAS capitalized assets could not be located because the user department did not notify the property management department when the properties were moved or surveyed out from their departments. He further stated that the missing items would be discovered during the triennial property inventory.

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

Recommendation 11

We recommend that UAS promptly locate the missing assets and adjust the property and equipment listing as necessary.

Campus Response

UAS will review and adjust the property management listing. Anticipated completion date is October 31, 2013.

COMMERCIAL OPERATIONS

Administration of UAS catering services needed improvement.

We reviewed five catering events provided to third parties from October 2010 to June 2013, and we found that:

- ▶ UAS had not developed written policies and procedures to address the accounting and processing of catering services.
- ▶ In all five instances, catering arrangements with third parties were not supported by written agreements that included appropriate indemnification and insurance provisions.

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 written policies and procedures to address the accounting and processing of catering services and that business arrangements be supported by complete, written agreements.

The California State University Risk Management Authority (CSURMA) Auxiliary Organization Risk Management Authority (AORMA) Policy & Procedure L-5 states that it is the policy of the CSURMA AORMA Self-Insured Liability Program that member organizations will protect CSURMA program assets by fully implementing the guidelines found in the insurance requirements in the contracts manual prepared by CSURMA's program administrator. This means that auxiliary organizations will require third-party contractors and vendors to provide appropriate indemnification, insurance, and documentation of coverage.

EO 849, *California State University Insurance Requirements*, dated February 5, 2003, states that auxiliary organizations shall agree to indemnify, defend, and save harmless the state of California, the Trustees of the CSU, the campus, and the officers, employees, volunteers, and agents of each of them from any and all loss, damage, or liability that may be suffered or incurred by state, caused by, arriving out of, or in any way connected with the operations of the auxiliary. Coded memorandum Risk Management (RM) 2012-01, *California State University Insurance Requirements*, dated June 1, 2012, replaced EO 849 and continues to require appropriate provisions for indemnification.

Coded memorandum RM 2012-01, *California State University Insurance Requirements*, dated June 1, 2012, states that many alternative hold harmless provisions are possible, with each alternative having a different purpose and potential risk transfer variant. Modification to hold harmless language in contract negotiation is crucial part of the risk transfer process and should only be undertaken with appropriate review and counsel. In some instances, a no "hold harmless" clause approach may be appropriate for low liability activity and for activities critical to CSU.

The UAS executive director stated that UAS had contracted with a consultant and was in the process of drafting policies and procedures for catering services. She further stated that catering arrangements were not supported by written agreements with appropriate indemnification and insurance provisions due to oversight.

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

Recommendation 12

We recommend that UAS:

- a. Develop written policies and procedures to address the accounting and processing of catering services.
- b. Support all catering arrangements with agreements that include appropriate indemnification and insurance provisions.

Campus Response

UAS will develop written policies and procedures, including catering agreements with indemnification and insurance provisions. Anticipated completion date is October 31, 2013.

UNIVERSITY-STUDENT UNION BOARD,
CALIFORNIA STATE UNIVERSITY, LOS ANGELES

PERSONNEL AND PAYROLL

HIRING

The University-Student Union Board, California State University, Los Angeles (Union) did not always certify I-9 forms within three business days of a new employee's first day of work.

We reviewed ten new hires from October 2010 to March 2013 and found that in two instances, I-9 forms were reviewed and approved between seven and 11 days after the employees' effective date of employment.

Department of Homeland Security, U.S. Citizenship and Immigration Services, *Form I-9, Employment Eligibility Verification*, states that employers must complete Section 2 by examining evidence of identity and employment authorization within three business days of the date employment begins.

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.

The Union interim executive director stated that I-9 forms were not always certified in a timely manner due to oversight.

Untimely certification of employment eligibility increases the risk of fines and penalties.

Recommendation 13

We recommend that the Union reiterate to staff that I-9 forms for new employees must be certified within three business days of a new employee's first day of work.

Campus Response

The Union will reiterate to staff that I-9 forms for new employees must be certified within three business days of the date employment begins. Anticipated date of completion is September 30, 2013.

STUDENT WORKING HOURS

The Union did not always document advance approval for student employees working more than 20 hours per week during the academic period.

We reviewed ten students with overtime hours and noted that nine worked from 21 to 42 hours per week.

Coded memorandum Human Resources 2012-08, *Revised Student Assistant Classification Standard (non-represented) and Guidelines for Student Assistants*, states that student assistants may work up to, but not in excess of, 20 hours per week during academic periods and may work up to 40 hours per week during academic break periods.

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 documenting approval of student employees working more than 20 hours per week.

The Union interim executive director stated that all additional working hours were approved in advance verbally, but approval was not documented.

Inadequate documentation of approvals for student employee work hours increases the risk of non-compliance with CSU, local, state, and federal employment regulations.

Recommendation 14

We recommend that the Union document advance approval for student employees working more than 20 hours per week.

Campus Response

The Union will document approvals in advance for student employees working more than 20 hours per week. Anticipated date of completion is September 30, 2013.

**ASSOCIATED STUDENTS OF
CALIFORNIA STATE UNIVERSITY, LOS ANGELES, INC.**

CORPORATE GOVERNANCE

Associated Students of California State University, Los Angeles, Inc. (ASI) board meeting minutes were not certified by the board secretary or assistant secretary in accordance with Corporation Code §5215.

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

The ASI executive director stated that turnover in the secretary position prevented ASI from certifying meeting minutes in accordance with Corporation Code §5215.

Failure to certify board meeting minutes increases the risk of misunderstandings and may increase legal liability.

Recommendation 15

We recommend that ASI reiterate to staff that board meeting minutes are to be certified by the board secretary or assistant secretary in accordance with Corporation Code §5215.

Campus Response

ASI will implement a process to ensure that all minutes will be properly reviewed, approved, and signed by the appropriate officials. Anticipated date of completion is September 30, 2013.

OPERATIONAL COMPLIANCE

CONFLICT OF INTEREST

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

We found that three of the 26 board members had not signed a conflict-of-interest statement for fiscal year 2012/13.

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 990, encourages a charity's board of directors to adopt and regularly evaluate a written conflict-of-interest policy that requires directors and staff to act solely in the interests of the charity without regard for personal interests; includes written procedures for determining whether a relationship, financial interest, or business affiliation results in a conflict of interest; and prescribes a course of action in the event a conflict of interest is identified.

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

The ASI executive director stated that the auxiliary's efforts to communicate with the three board members about their conflict-of-interest statements were unsuccessful.

Inability to obtain conflict-of-interest statements from all auxiliary board members annually increases liability for acts contrary to the code.

Recommendation 16

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

Campus Response

ASI will implement a process to ensure that all board members complete conflict-of-interest statements. Anticipated date of completion is September 30, 2013.

POLICIES AND PROCEDURES

Account receivables policies and procedures in the ASI administrative manual and website were not current.

Specifically, we found that the policies and procedures had not been updated to reflect the roles and responsibilities that were previously administered by the ASI student service center in the following areas:

- ▶ Creation of invoices.
- ▶ 30-day follow-up.
- ▶ Collection of payments.

- ▶ Laptop and printer rental fees.
- ▶ Write-off of uncollectible accounts receivable.

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

The ASI executive director stated that ASI outsourced these accounts receivable activities to the campus in fiscal year 2010/11, but updating the policies and procedures did not warrant a sense of urgency as the process was not applicable to daily operations.

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

Recommendation 17

We recommend that ASI update the accounts receivable policies and procedures in its administrative manual and website to reflect the roles and responsibilities that were previously administered by the ASI student service center.

Campus Response

ASI will update the accounts receivable policies and procedures in its administrative manual and website by October 24, 2013, to reflect current operations.

COMMERCIAL OPERATIONS

Administration of ASI sales commission receipts needed improvement.

We reviewed the sales commission receipts for March and April 2013, and we found that:

- ▶ ASI did not have written policies and procedures to periodically audit third-party sales commissions to ensure that commission receipts were in accordance with contractual requirements.
- ▶ A system to perform periodic documented reviews of commission receipts had not been established. Specifically, we found that the March 2013 commission check did not reflect the entire month of sales; instead, it included only the last ten days' of sales, from March 20 to March 31.
- ▶ ASI had not established a written e-commerce sales agreement for ticket sales with Universal Studios.

The *Compilation of Policies and Procedures for California State University Auxiliary Organizations* sets sound business practice guidelines for auxiliary organizations operating within the CSU system. Section 8.9.5, *Procurement*, states, in part, that the auxiliary should establish a written system that provides for purchases and service contracts to be made within governing board policies, source restrictions, funds availability, and other applicable 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 the auxiliary organizations is to provide fiscal procedures and management systems that allow effective coordination of the auxiliary activities with the campus in accordance with sound business practices. Sound business practice mandates that sales revenues be periodically reviewed, sales commissions from outsourced operations be verified, and business arrangements be supported by complete, written agreements.

The ASI executive director stated that ASI had neither documented procedures to audit sales activities associated with commission receipts nor established a system to perform periodic reviews of commissions due to the faith and comfort gained in the working relationships with its third-party vendors. He further stated that lack of a written agreement with Universal Studios was due to oversight.

The absence of written policies and procedures for oversight of sales activities of outsourced operations and periodic review of sales revenues increases the risk that errors, inconsistencies, misunderstandings, or misappropriation of funds will occur, while the absence of a written agreement increases the risk of misunderstanding and miscommunication regarding rights and responsibilities.

Recommendation 18

We recommend that ASI:

- a. Develop and implement written policies and procedures to periodically audit third-party sales commissions to ensure that commission receipts are in accordance with contractual requirements.
- b. Establish a system to perform periodic documented reviews of commission receipts.
- c. Establish a written e-commerce sales agreement for ticket sales with Universal Studios.

Campus Response

ASI will establish procedures to periodically audit third-party sales commissions to ensure that commission receipts are in accordance with contractual requirements. In addition, ASI will establish a process to perform periodic documented reviews of commission receipts. ASI will establish a written e-commerce sales agreement for ticket sales with Universal Studios. Anticipated completion date is December 5, 2013.

APPENDIX A: PERSONNEL CONTACTED

Name

Title

CAMPUS

William A. Covino	President
James M. Rosser	President (At time of review)
Lisa Chavez	Vice President, Administration and Chief Financial Officer
Barbara Contreras	Administrative Assistant, Institutional Advancement
Tanya Ho	University Internal Auditor
Robert Hoffman	Assistant Director, Network Operations Center
Thomas Johnson	Director, Procurement and Contracts
Thomas Leung	University Controller
Karen Melick	Director, Administrative Technology
Susana Moreno	Fiscal Coordinator, Institutional Advancement
Sheryl Okuno	Director, Information Technology Security and Compliance
Peter Quan	Vice President, Information Technology Services and Chief Technology Officer
Sal Rodriguez	Senior Internal Auditor
Mae Santos	Assistant Vice President, Administration and Finance and University Budget Director

CALIFORNIA STATE UNIVERSITY, LOS ANGELES FOUNDATION

Kyle Button	Executive Director
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CAL STATE L.A. UNIVERSITY AUXILIARY SERVICES, INC.

Lynne Duong	Post-Award and Compliance Manager
Daniel Keenan	Executive Chef/Director, Food Services
Maria Nunez	Human Resources Coordinator
Alma Sahagun	Executive Director
Patricia Ulloa-Ramirez	Director, Anna Bing Arnold Children's Center
Dorothy Wu	Payroll Manager

UNIVERSITY-STUDENT UNION BOARD, CALIFORNIA STATE UNIVERSITY, LOS ANGELES

John Ortiz	Operations Director
Rowena Tran	Interim Executive Director
Lena Zeng	Accounting Technician

ASSOCIATED STUDENTS OF CALIFORNIA STATE UNIVERSITY, LOS ANGELES, INC.

Silvia Llamas	Office Manager of Administration and Services
Intef Weser	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 University Auditor, in compliance with professional standards for the conduct of internal audits, to determine if an adequate system of internal control exists and is effective for the purposes intended. Any deficiencies observed are brought to the attention of appropriate management for corrective action.

B. INTERNAL CONTROL DEFINITION

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

1. Internal Accounting Controls

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

2. Operational Controls

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

C. INTERNAL CONTROL OBJECTIVES

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

D. INTERNAL CONTROL SYSTEMS LIMITATIONS

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



CALIFORNIA STATE UNIVERSITY, LOS ANGELES

OFFICE OF THE PRESIDENT

September 30, 2013

RECEIVED
UNIVERSITY AUDITOR

OCT - 2 2013

THE CALIFORNIA STATE
UNIVERSITY

Mr. Larry Mandel
University Auditor
The California State University
401 Golden Shore, 4th Floor
Long Beach, CA 90802-4210

Re: *University's Response to Recommendations Contained in Report Number 13-04, Auxiliary Organizations*

Dear University Auditor Mandel:

Attached are the University's responses to the recommendations contained in Report Number 13-04, Auxiliary Organizations audit.

Please contact Tanya Ho, University Internal Auditor, at (323) 343-5102, if you wish to discuss the matter contained herein.

Sincerely,

William A. Covino
President

Attachment

cc: (with attachments)
Lisa Chavez, Vice President for Administration and Chief Financial Officer
Tanya Ho, University Internal Auditor
Jill Carnahan, Administrative Compliance Officer

AUXILIARY ORGANIZATIONS
CALIFORNIA STATE UNIVERSITY,
LOS ANGELES

Audit Report 13-04

CAMPUS

OPERATING AND ADMINISTRATIVE AGREEMENTS

Recommendation 1

We recommend that the campus reiterate to staff that service agreements and MOU for the recovery of costs from auxiliaries must be signed and dated prior to the beginning of the service period.

Campus Response

The Procurement and Contracts department has created a procedure whereby campus contracts are tracked and followed up to ensure service agreements and MOU are signed and dated prior to the beginning of the service period.

FISCAL COMPLIANCE

Recommendation 2

We recommend that the campus reiterate to staff that all direct and indirect costs must be accurately stated in the cost allocation plan.

Campus Response

The campus will reiterate to staff that all direct and indirect costs must be accurately stated in the cost allocation plan. The campus will strengthen the review and verification procedures to ensure direct and indirect costs are accurate in the cost allocation plan. Anticipated date of completion is September 13, 2013.

PURCHASING AND ACCOUNTS PAYABLE

Recommendation 3

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

Campus Response

The Procurement and Contracts department buyers have been instructed to review purchase orders for closure on a monthly basis. The purchase orders from the previous fiscal year will be closed November 30 of the following year unless UAS requests for an extension.

TRUSTS AND OTHER LIABILITIES**Recommendation 4**

We recommend that the campus document:

- a. The delegation of authority for the authorization of a campus activity or program from the campus president to his/her designee.
- b. Campus policies and procedures regarding activities and programs that provide specific guidance in regard to workshops and conferences, instructionally related events and activities, and documentation requirements.
- c. The specific determination of whether the campus or the auxiliary is accountable and responsible for campus activity and program funds.
- d. Advantages to the university and support of the university mission for campus activity and program funds.

Campus Response

Per the ICSUAM policy, the campus will document the delegation of authority of a campus activity or program from the campus president to his/her designee. In addition, the campus will also document campus policies and procedures regarding activities and programs that provide specific guidance in regard to workshops and conferences, instructionally related events and activities, and documentation requirements; the specific determination of whether the campus or the auxiliary is accountable and responsible for campus activity and program funds; and advantages to the University and support of the University mission. Anticipated completion date is October 31, 2013.

INFORMATION TECHNOLOGY**ENCRYPTION****Recommendation 5**

We recommend that the campus store protected data in the Contributor Relations donor system in an encrypted format.

Campus Response

The campus upgraded the application and encrypted the protected data on June 24, 2013.

SERVER ROOM SECURITY

Recommendation 6

We recommend that the campus evaluate the feasibility of installing a security alarm system for the server room.

Campus Response

The campus installed a security alarm system in the server room on August 12, 2013.

CALIFORNIA STATE UNIVERSITY, LOS ANGELES FOUNDATION

CORPORATE GOVERNANCE

Recommendation 7

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

Campus Response

By October 1, 2013, the Foundation will revise its Articles of Incorporation to reflect a proper dissolution clause and file these changes with the state. The Foundation will send the revised Articles of Incorporation to the chancellor's office within 30 days receipt of acknowledgment from Sacramento. Anticipated date of completion is November 29, 2013.

OPERATIONAL COMPLIANCE

Recommendation 8

We recommend that the Foundation develop written hiring and separation policies and procedures for student employees working for annual giving.

Campus Response

The Foundation added the University-Student Union policies and procedures for hiring and terminating student employees to the Annual Fund student employee handbook and training materials in August 2013.

CAL STATE L.A. UNIVERSITY AUXILIARY SERVICES, INC.**CORPORATE GOVERNANCE****Recommendation 9**

We recommend that UAS promptly file the amended Bylaws and reiterate to staff that all future changes/amendments to Bylaws should be filed with the Contract Services and Procurement department at the Office of the Chancellor within 30 calendar days.

Campus Response

UAS has filed the cited amendments with the chancellor's office and management had communicated to staff to ensure that all future changes/amendments to bylaws are filed within 30 calendar days. The Bylaws were filed and received by the chancellor's office on June 11, 2013.

PURCHASING AND ACCOUNTS PAYABLE**Recommendation 10**

We recommend that UAS reiterate to staff that signed release forms or waivers are to be obtained from all students traveling by air.

Campus Response

On August 16, 2013, UAS management communicated to staff that signed release or waiver, in advance of the planned travel, from all students traveling by air is required.

PROPERTY AND EQUIPMENT**Recommendation 11**

We recommend that UAS promptly locate the missing assets and adjust the property and equipment listing as necessary.

Campus Response

UAS will review and adjust the property management listing. Anticipated completion date is October 31, 2013.

COMMERCIAL OPERATIONS

Recommendation 12

We recommend that UAS:

- a. Develop written policies and procedures to address the accounting and processing of catering services.
- b. Support all catering arrangements with agreements that include appropriate indemnification and insurance provisions.

Campus Response

UAS will develop written policies and procedures, including catering agreement with indemnification and insurance provisions. Anticipated completion date is October 31, 2013.

UNIVERSITY-STUDENT UNION BOARD,
CALIFORNIA STATE UNIVERSITY, LOS ANGELES

PERSONNEL AND PAYROLL

HIRING

Recommendation 13

We recommend that the Union reiterate to staff that I-9 forms for new employees must be certified within three business days of a new employee's first day of work.

Campus Response

The University-Student Union will reiterate to staff that I-9 forms for new employees must be certified within three business days of the date employment begins. Anticipated date of completion is September 30, 2013.

STUDENT WORKING HOURS

Recommendation 14

We recommend that the Union document advance approval for student employees working more than 20 hours per week.

Campus Response

The University-Student Union will document approvals in advance for student employees working more than 20 hours per week. Anticipated date of completion is September 30, 2013.

**ASSOCIATED STUDENTS OF
CALIFORNIA STATE UNIVERSITY, LOS ANGELES, INC.**

CORPORATE GOVERNANCE

Recommendation 15

We recommend that ASI reiterate to staff that board meeting minutes are to be certified by the board secretary or assistant secretary in accordance with Corporation Code §5215.

Campus Response

ASI will implement a process to ensure that all minutes will be properly reviewed, approved, and signed by the appropriate officials. Anticipated date of completion is September 30, 2013.

OPERATIONAL COMPLIANCE

CONFLICT OF INTEREST

Recommendation 16

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

Campus Response

ASI will implement a process to ensure that all board members complete conflict-of-interest statements. Anticipated date of completion is September 30, 2013.

POLICIES AND PROCEDURES

Recommendation 17

We recommend that ASI update the accounts receivable policies and procedures in its administrative manual and website to reflect the roles and responsibilities that were previously administered by the ASI student service center.

Campus Response

ASI will update the accounts receivable policies and procedures in its administrative manual and website by October 24, 2013 to reflect current operations.

COMMERCIAL OPERATIONS

Recommendation 18

We recommend that ASI:

- a. Develop and implement written policies and procedures to periodically audit third-party sales commissions to ensure that commission receipts are in accordance with contractual requirements.
- b. Establish a system to perform periodic documented reviews of commission receipts.
- c. Establish a written e-commerce sales agreement for ticket sales with Universal Studios.

Campus Response

ASI will establish procedures to periodically audit third-party sales commissions to ensure that commission receipts are in accordance with contractual requirements. In addition, ASI will establish a process to perform periodic documented reviews of commission receipts. ASI will establish a written e-commerce sales agreement for ticket sales with Universal Studios. Anticipated completion date is December 5, 2013.

THE CALIFORNIA STATE UNIVERSITY
OFFICE OF THE CHANCELLOR



BAKERSFIELD

CHANNEL ISLANDS

October 21, 2013

CHICO

DOMINGUEZ HILLS

MEMORANDUM

EAST BAY

TO: Mr. Larry Mandel
University Auditor

FRESNO

FULLERTON

FROM: Timothy P. White
Chancellor

HUMBOLDT

SUBJECT: Draft Final Report 13-04 on *Auxiliary Organizations*,
California State University, Los Angeles

LONG BEACH

LOS ANGELES

MARITIME ACADEMY

In response to your memorandum of October 21, 2013, I accept the response as submitted with the draft final report on *Auxiliary Organizations*, California State University, Los Angeles.

MONTEREY BAY

NORTHRIDGE

TPW/amd

POMONA

SACRAMENTO

SAN BERNARDINO

SAN DIEGO

SAN FRANCISCO

SAN JOSÉ

SAN LUIS OBISPO

SAN MARCOS

SONOMA

STANISLAUS