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September 28, 2015

Dr. Jane Close Conoley, President
California State University, Long Beach
1250 Bellflower Boulevard
Long Beach, CA 90840-0115

Dear Dr. Conoley:

Subject: Audit Report 15-03, Auxiliary Organizations, California State University, Long Beach

We have completed an audit of *Auxiliary Organizations* as part of our 2015 Audit Plan, and the final report is attached for your reference. The audit was conducted in accordance with the Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing*.

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

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

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

Sincerely,



Larry Mandel
Vice Chancellor and Chief Audit Officer

c: Timothy P. White, Chancellor

CSU Campuses

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AUXILIARY ORGANIZATIONS

California State University, Long Beach

Audit Report 15-03
August 4, 2015

EXECUTIVE SUMMARY

OBJECTIVE

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

CONCLUSION

California State University, Long Beach (CSULB) campus

Based upon the results of the work performed within the scope of the audit, except for the effect of the weaknesses described below, the fiscal, operational, and administrative controls at the CSULB campus as of May 15, 2015, taken as a whole, were sufficient to meet the objectives of this audit. The audit revealed that department safe combinations were not always changed after turnover in personnel who had safe access, and certain duties and responsibilities related to cash receipts were not adequately segregated at the alumni relations office. Additionally, campus advancement services fund-raising events were not always approved in writing, events that took place at offsite locations did not have written agreements, and sales tax was not remitted for items sold through auctions.

CSULB 49er Foundation

Based upon the results of the work performed within the scope of the audit, except for the effect of the weaknesses described below, the fiscal, operational, and administrative controls at the CSULB 49er Foundation (49er Foundation) as of May 15, 2015, taken as a whole, were sufficient to meet the objectives of this audit. The audit revealed that 49er Foundation fund agreements used to authorize campus program accounts were not approved by a delegated authority. Additionally, the 49er Foundation did not always send acknowledgment letters or gift receipts to companies that provided matching gifts, could not locate the signed annual conflict-of-interest statements from its board members, and had not developed a formal board-approved reserve policy.

California State University, Long Beach Research Foundation

Based upon the results of the work performed within the scope of the audit, except for the effect of the weaknesses described below, the fiscal, operational, and administrative controls at the CSULB Research Foundation (Foundation) as of May 15, 2015, taken as a whole, were sufficient to meet the objectives of this audit. The audit revealed that the Foundation did not perform initial sub-recipient risk assessments, nor did it always review sub-recipient A-133 audit reports and ensure that all sub-recipient agreements included specific conflict-of-interest terms. Additionally, the Foundation did not always obtain initial and renewal conflict-of-interest forms from principal investigators (PI) and ensure completion of conflict-of-interest training as required by federal regulation and Foundation policy. Further, the Foundation did not perform a secondary review of employee overtime payments to ensure accuracy.

The Forty-Niner Shops, Inc.

Based upon the results of the work performed within the scope of the audit, except for the effect of the weaknesses described below, the fiscal, operational, and administrative controls at the Forty-Niner Shops, Inc. (Shops) as of May 15, 2015, taken as a whole, were sufficient to meet the objectives of this audit. The audit revealed that Shops did not always document periodic independent audits of petty cash and change funds, nor did it always perform and document collection and follow-up activity for long-outstanding accounts receivable. Additionally, Shops had not developed written policies and procedures for hospitality expenditures, did not ensure the completion of Travel Authorization and Travel Expense forms, did not obtain competitive bids for purchases exceeding \$5,000, and its *Purchasing Policy* did not include specific instances where competitive bids were not necessary. Further, Shops did not document physical inventory counts of fixed assets or the tracking and disposal of computer equipment containing sensitive information, and did not complete required registration and reporting requirements for an annual fundraising event.

Associated Students, California State University, Long Beach

Based upon the results of the work performed within the scope of the audit, except for the effect of the weaknesses described below, the fiscal, operational, and administrative controls in effect at Associated Students, California State University, Long Beach (AS) as of May 15, 2015, taken as a whole, were sufficient to meet the objectives of this audit. The audit revealed that administration of cash receipts at the AS recycling center and AS Isabel Patterson Child Development Center (IPCDC) needed improvement. Specifically, the recycling center did not have written policies and procedures for cash receipts and handling, certain duties and responsibilities related to cash receipts were not adequately segregated, computerized cash registers were not used, the cash drawers were not always adequately secured, and independent audits or reconciliations of the recycling center's buyback fund were not conducted. At IPCDC, deposits were not always made by 3:30 p.m. of the day following the day of receipt, checks were not restrictively endorsed immediately upon receipt, and cash was not adequately secured.

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

OBSERVATIONS, RECOMMENDATIONS, AND RESPONSES

Campus

1. CASH RECEIPTS

OBSERVATION

Department safe combinations were not always changed after turnover in personnel who had safe access, and certain duties and responsibilities related to cash receipts were not adequately segregated at the alumni relations office.

We found that the safe combinations at the department of athletics, Studio Theatre, and alumni relations office were not changed after turnover in personnel who had safe access. Additionally, one employee at the alumni relations office received and endorsed mailed donations, prepared the deposit transmittal, and deposited the donations at the bursar's office.

Prompt safe combination changes and adequate segregation of duties improves security over cash receipts and timely detection of erroneous and inappropriate actions.

RECOMMENDATION

We recommend that the campus work with the:

- a. Department of athletics, Studio Theatre, and alumni relations office to change safe combinations and reiterate to all departments with safes that safe combinations should be promptly changed when there is turnover in personnel with safe access.
- b. Alumni relations office to adequately segregate duties and responsibilities related to cash receipts or institute mitigating controls approved by the chief financial officer (CFO).

MANAGEMENT RESPONSE

We concur. Our periodic audit procedures for cash-handling locations will include a step to check if any personnel have changed, and further, vault combination changes will also be checked. During our audits, we will also ask if the university policy on cash-handling segregation of duties has been followed since the last audit. Estimated date of completion on this item is October 31, 2015.

2. FUND-RAISING

OBSERVATION

Campus advancement services fund-raising events were not always approved in writing, events that took place at offsite locations did not have written agreements, and sales tax was not remitted for items sold through auctions.

We reviewed eight fund-raising events that took place after July 1, 2012, with gross receipts greater than \$5,000, and we found that:

- Two fund-raising events were not approved in writing by the associate vice president of development, who is the delegated authority.
- Three fund-raising events that took place at offsite locations did not have written agreements that documented insurance and indemnification provisions or a documented justification to support the business decision not to execute a written agreement with such provisions.
- Sales tax was not remitted for items sold through auctions.

The absence of required fund-raising event approval limits the campus' ability to effectively allocate resources, coordinate events, and assess and mitigate any associated risks; the lack of written agreements with insurance and indemnification provisions for events that take place at offsite locations or a documented consideration of risks subjects the California State University (CSU) to potential liability; and unpaid sales tax subjects the CSU to fines and penalties.

RECOMMENDATION

We recommend that the campus ensure that:

- a. Written approval is obtained from a delegated authority for all fund-raising events with gross receipts greater than \$5,000.
- b. Written agreements including insurance and indemnification provisions are executed for offsite fund-raising events, or a documented justification to forgo a written agreement is prepared.
- c. Sales tax is remitted for taxable items sold through auctions.

MANAGEMENT RESPONSE

We concur. The process to approve fund-raising events will be altered and expanded to include specific review beyond appropriateness and budget. It will include a specific review for raffles and auctions, verification of operating fund, and procurement contract and insurance review. Additionally, verification of any sales taxes that may be due is now done by financial management staff for appropriate events. Estimated date of completion is October 1, 2015.

CSULB 49er Foundation

3. CAMPUS PROGRAM ACCOUNTS

OBSERVATION

49er Foundation fund agreements used to authorize campus program accounts were not approved by a delegated authority.

We found that although there was a written delegation of authority to the associate vice president for financial management to authorize campus activities or programs, none of the 20 fund agreements reviewed were approved by the delegated authority.

The absence of required delegated authority approval of campus program accounts increases the risk of noncompliance with relevant requirements and misunderstandings and miscommunication regarding rights and responsibilities.

RECOMMENDATION

We recommend that fund agreements be approved by the delegated authority.

MANAGEMENT RESPONSE

We concur. All new fund agreements were approved by the delegated authority. The 49er Foundation reformatted the fund agreement to add a signature line for this approval. Corrective action on this item is complete.

4. MATCHING GIFTS

OBSERVATION

The 49er Foundation did not always send acknowledgment letters or gift receipts to companies that provided matching gifts.

We reviewed 20 matching gifts of \$250 or more and found that acknowledgment letters or gift receipts had not been sent for eight of the matching gifts.

Acknowledgment letters and gift receipts inform the donor that the auxiliary received the funds and understands the conditions of the matching gift program. The federal Omnibus Budget Reconciliation Act of 1993 requires that the recipient of any single charitable gift of \$250 or more provide the donor with written acknowledgement of the receipt of the gift.

RECOMMENDATION

We recommend that the 49er Foundation send acknowledgment letters or gift receipts to companies that provide matching gifts.

MANAGEMENT RESPONSE

We concur. We will issue receipts for all matching gifts, unless the company has requested that we do not send receipts or the on-line HEP Matching Gift data indicates that the company does not require a receipt. Estimated date of completion is August 1, 2015.

5. CONFLICT OF INTEREST

OBSERVATION

The 49er Foundation could not locate the signed annual conflict-of-interest statements from its board members for fiscal year (FY) 2012/13 and 2013/14.

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

RECOMMENDATION

We recommend that the 49er Foundation retain copies of signed annual conflict-of-interest statements from all board members.

MANAGEMENT RESPONSE

We concur. All the required statements were obtained by the board members in compliance with the policy; however, due to staff turnover, we have been unable to locate them. Future statements will be scanned immediately for permanent storage. Corrective action on this item is complete.

6. RESERVES

OBSERVATION

The 49er Foundation had not developed a formal board-approved reserve policy.

A formal board approved reserve policy helps to ensure that employees and board members are aware of reserve requirements, activities are carried out consistently, and continuity is preserved through any changes in personnel.

RECOMMENDATION

We recommend that the 49er Foundation develop a formal board-approved reserve policy.

MANAGEMENT RESPONSE

We concur. We will adopt a Reserve Policy at the fall 2015 board of directors meeting.
Estimated date of completion is October 31, 2015.

California State University, Long Beach Research Foundation

7. SUB-RECIPIENT MONITORING

OBSERVATION

The Foundation did not perform initial sub-recipient risk assessments, nor did it always review sub-recipient A-133 audit reports and ensure that all sub-recipient agreements included specific conflict-of-interest terms.

We reviewed ten sub-recipients on federal awards and found that initial risk assessments to identify key risks and determine the level of monitoring required were not performed for any of the sub-recipients. Further, annual reviews of sub-recipient A-133 audit reports to ensure that relevant findings were adequately managed were not performed for the eight sub-recipients subject to A-133 audit. Additionally, we found that one sub-recipient agreement on a prime award funded by a Public Health Service (PHS) agency did not include specific conflict-of-interest terms to ensure that the sub-recipient complied with the PHS conflict-of-interest policy.

Insufficient monitoring of sub-recipients and the lack of specific conflict-of-interest terms in sub-recipient agreements increase the risk of reduced reimbursements, non-compliance with federal Office of Management and Budget requirements, conflicts of interest, and possible regulatory scrutiny; and subject the campus and CSU to potential liability.

RECOMMENDATION

We recommend that the Foundation:

- a. Perform initial risk assessments for all sub-recipients.
- b. Annually review A-133 audit reports for sub-recipients subject to A-133 audit.
- c. Require sub-recipients on PHS-funded awards to comply with the PHS conflict-of-interest policy, and include specific conflict-of-interest terms in sub-recipient agreements.

MANAGEMENT RESPONSE

We concur.

- a. We will develop a risk management assessment form for use prior to issuing a sub-award to establish and document risk assessment.
- b. We will develop an A-133 federal audit compliance certification letter for use in annual A-133 review for all sub-recipients.
- c. During the pre-award review, the compliance unit will review the sub-recipient commitment form to confirm compliance with the PHS conflict-of-interest policy and the completion of the

CSULB federal conflict-of-interest form, including the identification of specific conflicts of interest and the necessary mitigations therein.

Estimated date of completion is October 1, 2015.

8. CONFLICT OF INTEREST

OBSERVATION

The Foundation did not always obtain initial and renewal conflict-of-interest forms from PIs and ensure completion of conflict-of-interest training as required by federal regulations and Foundation policy.

We reviewed six awards funded by the National Science Foundation (NSF) and four awards funded by PHS agencies, and we found that:

- One PI working on a PHS-funded award did not complete an initial conflict-of-interest form. Another PI working on a different PHS-funded award did not complete an initial conflict-of-interest form within the time period required by the PHS agency.
- Four PIs on NSF awards and one PI on a PHS-funded award did not complete an annual conflict-of-interest renewal form for FY 2013/14.
- One PI on a PHS-funded award did not complete financial conflict-of-interest training.

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

RECOMMENDATION

We recommend that the Foundation:

- a. Obtain initial and renewal conflict-of-interest forms from PIs as required by federal regulations and Foundation policy.
- b. Ensure that all PIs working on PHS-funded awards complete financial conflict-of-interest training.

MANAGEMENT RESPONSE

We concur.

- a. The Office of Research and Sponsored Programs will obtain initial conflict-of-interest forms from PIs and address any renewals or revisions as necessary based on any changes of their conflicts of interest. The Financial Conflict of Interest Policy language has been modified to eliminate ambiguity to clarify the intent of the terms.

- b. The establishment of methods to confirm completion of conflict-of-interest training by PIs on PHS-funded awards will be implemented.

Estimated date of completion is December 1, 2015.

9. EMPLOYEE OVERTIME

OBSERVATION

The Foundation did not perform a secondary review of employee overtime payments to ensure accuracy.

We reviewed ten overtime payments and found that in three instances where complex overtime calculations were required, overtime hours were incorrectly calculated.

A secondary review of employee overtime payments increases the accuracy of calculations and decreases the potential for employee over- or underpayments.

RECOMMENDATION

We recommend that the Foundation perform a secondary review for all complex overtime payments.

MANAGEMENT RESPONSE

We concur. A new payroll department process was created that requires the payroll manager to review and approve all complex overtime calculations. The new process was implemented on May 21, 2015. Corrective action on this item is complete.

The Forty-Niner Shops, Inc.

10. PETTY CASH AND CHANGE FUNDS

OBSERVATION

Shops did not always document periodic independent audits of petty cash and change funds.

We found that Shops did not document periodic independent audits of the petty cash and change funds maintained in the Shops vault room. Further, independent audits of petty cash funds at the Parkside and Hillside dining halls were not documented for FY 2012/13.

Documented periodic independent audits of petty cash and change funds support performance of audits, improve cash accountability, and reduce the possibility of lost or stolen funds.

RECOMMENDATION

We recommend that Shops document periodic independent audits of petty cash and change funds.

MANAGEMENT RESPONSE

We agree that our ongoing practice of petty cash and change fund audits need to be formally documented. Shops will conduct, at minimum, quarterly independent audits of petty cash accounts and vault change fund, and resultant findings will be documented accordingly. Cash Audit Policy 202.3 will be updated to reflect audit schedules and documentation. Estimated date of completion is September 30, 2015.

11. ACCOUNTS RECEIVABLE

OBSERVATION

Shops did not always perform and document collection and follow-up activity for long-outstanding accounts receivable.

We reviewed 20 delinquent accounts receivable from the accounts receivable aging report as of January 31, 2015, and we found that:

- In eight instances, collection and follow-up activity was not performed and documented to facilitate collection or support account write-off. The delinquent accounts receivable were outstanding from 582 to 4,473 days. This is a repeat observation from the prior Auxiliary Organizations audit.
- In four instances, outstanding accounts with credit balances were not researched or resolved in a timely manner. The credit balances were outstanding from 2,177 to 3,171 days.

- In eight instances, accounts receivable previously written off were not removed from the aging report due to an accounting system glitch.

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

RECOMMENDATION

We recommend that Shops:

- a. Perform and document collection and follow-up activity for delinquent accounts receivable to facilitate collection or support account write-off.
- b. Research and resolve outstanding accounts with credit balances in a timely manner.
- c. Ensure that written-off accounts receivable are removed from the aging report.

MANAGEMENT RESPONSE

We concur.

- a. The majority of accounts receivable balances outstanding prior to June 30, 2014, have already been written off, before fiscal year-end's close. This was documented and approved by the accounting manager. On a monthly basis, the accounts receivable aging report will be reviewed for collectability. All transactions outstanding for over 365 days will be recommended to be written off by submitting them to the controller for approval. Collection and follow-up procedures are being supported by new staff. Estimated date of completion is October 31, 2015.
- b. The majority of credit balances were related to campus accounts. Shops has been working closely, on a weekly basis, with the campus accounts payable manager and associates to reconcile all campus account balances. To improve this area and support the year-end closing, a new process has been deployed whereby all invoices and credit memos are now directed to the CSULB controller's office on a weekly basis, instead of being mailed to each individual department. In addition, all departmental payments back to Shops will also be centralized, coming from the CSULB controller's office to pick up. The process will be streamlined and deployed effectively with the start of the new fiscal year in July 2015. Estimated date of completion is October 31, 2015.
- c. As noted in recommendation 11, an ongoing accounting system glitch prevented files from being removed from the aging report. To address this issue, Shops will upgrade the accounting software (i.e., Great Plains) to the latest release level as part of a planned accounting infrastructure upgrade. Estimated date of installation completion is December 31, 2015.

12. HOSPITALITY EXPENDITURES

OBSERVATION

Shops had not developed written policies and procedures for hospitality expenditures as required by ICSUAM §1301.00, *Hospitality, Payment, or Reimbursement of Expenses*.

These policies and procedures would include, but not be limited to:

- Allowable and unallowable expenditures and occasions.
- Hospitality provided to the spouse or domestic partner of an employee.
- Hospitality provided to students or prospective students.
- Appropriate approval process of transactions.

We reviewed nine hospitality expenditures selected from office expense accounts and 12 hospitality expenditures paid through procurement cards, and we found that none of the expenditures were supported by a listing of attendees and documented business purpose.

Documented policies and procedures for hospitality expenditures inform employees of hospitality expenditure requirements, improve accountability over hospitality expenditures, and reduce the risk of errors and irregularities.

RECOMMENDATION

We recommend that Shops develop written policies and procedures for hospitality expenditures as required by ICSUAM §1301.00.

MANAGEMENT RESPONSE

We concur. To provide better transparency into hospitality-related events, a policy outlining the above-recommended guidelines will be developed. Estimated date of completion is October 31, 2015.

13. TRAVEL ADMINISTRATION

OBSERVATION

Shops did not ensure the completion of Travel Authorization and Travel Expense forms.

We reviewed 14 travel expenditures, and we found that:

- In 11 instances, Travel Authorization forms were not obtained, and in one instance, the form was approved after the travel had occurred.
- In six instances, Travel Expense Report forms were not completed.

Sufficiently documented and approved travel forms improve accountability and reduce the risk of errors and irregularities.

RECOMMENDATION

We recommend that Shops enforce the completion of Travel Authorization and Travel Expense forms.

MANAGEMENT RESPONSE

A communication has been sent out to enforce the travel policy along with monitoring of proper form submittals as part of the expense approval process. Corrective action on this item is complete.

14. BIDDING

OBSERVATION

Shops did not obtain competitive bids for purchases that exceeded \$5,000, and its *Purchasing Policy* did not include specific instances where competitive bids were not necessary.

We reviewed five fixed asset purchases that exceeded \$5,000 and found that in all instances, competitive bids were not obtained and sole-source justifications were not documented. Additionally, Shops' *Purchasing Policy*, dated December 1, 2001, did not include specific instances where competitive bids were not necessary.

Competitive bids provide transparency, mitigate favoritism toward certain vendors, and increase the chance of obtaining best prices, and more-defined policies and procedures inform employees of purchasing requirements and reduce the risk of errors and irregularities.

RECOMMENDATION

We recommend that Shops:

- a. Obtain competitive bids or document sole-source justifications for purchases exceeding \$5,000.
- b. Update its *Purchasing Policy* to include specific instances where competitive bids are not necessary.

MANAGEMENT RESPONSE

We concur. Shops will re-assess its purchasing policy guidelines and practices to align with industry practice and business needs. Consideration will be given to revised thresholds for sole-source purchases that likely will be much higher than the above recommendation and more along the lines of current campus limits. Shops will update the policy to reflect exceptions to

competitive bid requirements. It is anticipated that Shops will conduct a companywide review of procurement activities and practices over the next few months and draft a new policy in line with those practices. Estimated date of completion is October 31, 2015.

15. PROPERTY AND EQUIPMENT

OBSERVATION

Shops did not document physical inventory counts of fixed assets or the tracking and disposal of computer equipment containing sensitive information.

We found that Shops annual fixed asset physical inventory counts for FY 2011/12, 2012/13, and 2013/14 were not documented. Further, Shops did not document its tracking and disposal of computer equipment containing sensitive information.

Documented physical inventory counts support the performance of physical inventories, improve fixed asset accountability, and reduce the possibility of lost or stolen assets, and documented tracking and disposal of computer equipment containing sensitive information reduces inappropriate use of sensitive data and exposure to information security breaches.

RECOMMENDATION

We recommend that Shops document physical inventory counts of fixed assets and the tracking and disposal of sensitive computer equipment containing sensitive information.

MANAGEMENT RESPONSE

We concur with the recommendation and will implement updated processes accordingly. As part of the FY 2014/15 year-end process, a fixed asset review was conducted similarly to past years. This time around, the findings were formally documented. A summary report was written in conjunction with individual disposal and discrepancy data sheets that were formally signed off. To guarantee proper disposal of data sensitive equipment, Shops will pull the individual hard drives from the units, record in detail, and degauss them before disposal. The above actions were incorporated as an update to Policy 202.06. Corrective action on this item is complete.

16. RAFFLES

OBSERVATION

Shops did not complete required registration and reporting requirements for an annual fundraising event.

We reviewed administration of the raffle conducted at the annual Bowling for Books fundraising event, and we found that Shops had not registered with the Attorney General's Registry of

Charitable Trust, as required. Further, Shops did not comply with the state nonprofit raffle program reporting requirements. Information required to be reported includes:

- Date and location of the raffle.
- Total funds received.
- Total expenses for conducting the raffle.
- Charitable or beneficial purpose for which proceeds will be used.
- Name of the eligible organization receiving the proceeds.

Registering with the Attorney General’s Registry of Charitable Trusts and reporting required information helps ensure compliance with nonprofit raffle program regulations.

RECOMMENDATION

We recommend that Shops register with the Attorney General’s Registry of Charitable Trusts and complete reporting requirements when raffles are conducted.

MANAGEMENT RESPONSE

We concur with the observation but will take a different approach than the recommendation.

Shops was unaware of the regulation associated with the raffle, which is an extension of the Bowling for Books event that Shops hosts. Other than the raffle, funds raised for the event are directly submitted to the 49er Foundation and managed through its accounts accordingly. To avoid violating nonprofit raffle program reporting requirements, Shops will eliminate the raffle from this fund-raising event. The raffle will no longer be held. Corrective action on this item is complete.

Associated Students, California State University, Long Beach**17. RECYCLING CENTER CASH RECEIPTS****OBSERVATION**

AS recycling center cashiering operations needed improvement.

We found that:

- The recycling center did not have written policies and procedures for cash receipts and handling.
- Certain duties and responsibilities related to cash receipts were not adequately segregated. The recycling center coordinator and assistant coordinator had the ability to distribute cash to patrons, replenish cash from the AS business office vault, transport cash across campus, and reconcile cash on hand to a manual ledger.
- Computerized cash registers were not used, and multiple individuals worked from a single cash drawer. In addition, pre-numbered receipts were not issued to customers to account for each transaction.
- The cash drawer was not always adequately secured, as it remained open and in plain sight to the general public.
- Independent audits or reconciliations of the recycling center's buyback fund were not conducted. The recycling center maintained a buyback fund of \$14,000, of which \$2,000 to \$8,000 remained onsite at the center. The onsite amount was replenished by the AS business officer without physical verification, audit, or independent reconciliation of the fund.

Documented policies and procedures for cash receipts and handling inform employees of cash-handling requirements and improve accountability over cashiering operations, and adequate segregation of duties and appropriate cash controls improve security over cash receipts and timely detection of erroneous and inappropriate actions.

RECOMMENDATION

We recommend that AS:

- a. Develop written policies and procedures for cash receipts and handling at the recycling center.
- b. Adequately segregate duties and responsibilities related to cash receipts or institute mitigating controls approved by the campus CFO.

- c. Consider purchasing computerized cash registers or assign each cashier his or her own cash drawer, and issue pre-numbered receipts to customers.
- d. Adequately secure the cash drawer when it is not in use.
- e. Conduct independent audits or reconciliations of the buyback fund.

MANAGEMENT RESPONSE

We concur. We will develop policies and procedures for cash receipts and handling at the recycling center, adequately segregate cash-handling duties and responsibilities or institute mitigating controls, look into purchasing computerized cash registers or adequately secure the cash drawer when it is not in use, and institute a practice of performing independent audits or reconciliations of the buyback fund. Estimated date of completion is December 31, 2015.

18. ISABEL PATTERSON CHILD DEVELOPMENT CENTER CASH RECEIPTS

OBSERVATION

Administration of cash receipts at the AS IPCDC was insufficient.

During our walk-through of cashiering on April 30, 2015, we found that IPCDC deposits were not always made by 3:30 p.m. of the day following the day of receipt, as required by the AS *Cash Handling* policy. Specifically, 17 cash and check payments for miscellaneous fees dating back to March 23, 2015, and totaling approximately \$210 were neither processed nor forwarded to the AS business office for deposit. We also noted that the checks were not restrictively endorsed immediately upon receipt. In addition, cash was not adequately secured. The lockable file cabinet where the cash was stored remained unlocked during business hours, and access was not restricted, as all office staff had access to the file cabinet keys.

Sufficient administration of cash receipts reduces the risk of loss or misappropriation of funds.

RECOMMENDATION

We recommend that AS reiterate to IPCDC staff that:

- a. Deposits must be made by 3:30 p.m. of the day following the day of receipt.
- b. Checks must be restrictively endorsed immediately upon receipt.
- c. Cash must be adequately secured.

MANAGEMENT RESPONSE

We concur. We will reiterate with IPCDC staff that deposits must be made by 3:30 p.m. of the day following the day of receipt. We will provide the IPCDC with an endorsement stamp and instruct them to endorse checks immediately upon receipt. We will provide the IPCDC with a

lockbox to ensure that cash is adequately secured. Estimated date of completion is September 30, 2015.

GENERAL INFORMATION

BACKGROUND

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

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

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

The Board of Trustee policy concerning auxiliary organizations was originally adopted in July 1981 in the Resolution of the Committee on Finance (RFIN) 7-81-4. 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 (CCR), Title 5, Section 42402 and Education Code, Section 89900). Campus management is responsible for establishing and maintaining an adequate system of internal compliance/internal control and assuring that each of its auxiliary organizations similarly establishes such a system. This EO requires that the Office of Audit and Advisory Services perform an internal compliance/internal control review of auxiliary organizations. The review will be used to determine compliance with the law, including statutes in the Education Code and rules and regulations of CCR, Title 5, and compliance with policy of the Board of Trustees and of the campus, including appropriate separation of duties, safeguarding of assets, and reliability and integrity of information. According to Board of Trustee instruction, each auxiliary organization shall be examined on a triennial basis 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 EO requires CSU auxiliary organizations to operate within the regulations and oversight of the campus. The campus president is responsible for ensuring the fiscal viability of auxiliary organizations and compliance with applicable CSU policies. The campus CFO is responsible for administrative compliance and fiscal oversight of auxiliary organizations. The campus, with the approval of the chancellor (or designees), may assign certain functions to auxiliary organizations pursuant to the CCR, Title 5, §42500. A written operating agreement is

established detailing the functions that auxiliary organizations can perform. The campus may assign responsibility for an activity or program to auxiliary organizations, and the acceptance of the responsibility requires the assumption of the associated legal obligation and liabilities, fiscal liabilities, and fiduciary responsibilities by auxiliary organizations. Auxiliary organizations shall ensure that fiscal procedures and management systems are in place, consistent with CCR, Title 5, §42401.

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

CSULB 49er Foundation

The 49er Foundation was established in 2012 as a non-profit public benefit corporation when the CSULB Foundation was split into two auxiliaries, the 49er Foundation and Foundation, to better reflect a focus on philanthropic, corporate, and auxiliary fiduciary matters. The 49er Foundation's mission is to actively promote philanthropy and manage donated resources for the advancement of the university. The 49er Foundation advocates for the people and programs at CSULB through the management of private support and the stewardship of donors. It relies on the Foundation and university advancement for accounting and administrative support services and is governed by a board of directors composed of representatives from the community, university administration, faculty, and student body. The board is the primary conduit for all philanthropic support to the university and has fiduciary responsibility for the university's endowment.

California State University, Long Beach Research Foundation

The organization was established in 1956 to administer grants, contracts, and non-philanthropic and non-state funds. Its mission gradually expanded to include the management of philanthropic and endowment funds. In 2012, the campus established a new organization (the 49er Foundation) in order to create a more focused approach to promoting philanthropy and managing donated funds. As a result, the Foundation's current mission is focused on serving the university by supporting and engaging in research, entrepreneurship, community service, post-award administration of sponsored programs, and acquisition of private resources. The Foundation is governed by a board of directors composed of representatives from the university administration, faculty, student body, and community and provides accounting services to the 49er Foundation.

The Forty-Niner Shops, Inc.

Shops was established in 1953 as a non-profit public benefit corporation. It engages in commercial operations, including main campus and satellite bookstores, campus and residential dining services, convenience stores, catering, and vending operations. Additionally, Shops operates the ID card services program for students via an agreement with the university. Shops is governed by a board of directors composed of representatives from the student body, university administration, faculty, staff, and community.

Associated Students, California State University, Long Beach

AS was established in 1949 as the associated student body organization and was later incorporated as a non-profit corporation in 1956 to provide programs and services integral to the campus' educational mission. AS promotes and maintains student self-government and essential activities closely related to, but not normally included as a part of, the regular instruction program of the university. AS is charged with developing student leadership; fulfilling the recreational and social needs of the students; overseeing building, leasing, or purchasing of buildings; applying funds and property received to further the educational services and/or welfare of the students; and performing other functions related to university student activities. AS owns and operates the University Student Union and operates the IPCDC, a recycling center, an intramural sports and wellness program, the Beach Pride Center, and several media outlets that provide students with experience in television and radio production and publishing. AS is governed by a board of directors composed of student representatives from the student body, university, and auxiliary administration.

SCOPE

We visited the CSULB campus and its auxiliary organizations from April 12, 2015, through May 15, 2015. Our audit and evaluation included the audit tests we considered necessary in determining whether fiscal, operational, and administrative controls are in place and operative at each auxiliary and may not have included examination of all fiscal and operational areas. The audit focused on procedures in effect from July 1, 2014, to May 15, 2015.

Specifically, we reviewed and tested:

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

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

CRITERIA

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

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

- State Board of Equalization – Publication 18, *Nonprofit Organizations*
- The Federal Omnibus Budget Reconciliation Act of 1993
- The Internal Revenue Service (IRS), Governance and Related Topics 501(c)(3), *Return of Organization Exempt from Income Tax*, Form 900
- Office of Management and Budget Circular A-133, *Compliance Supplement Part 6-M, Sub-recipient Monitoring*
- NSF Award and Administration Guide, Chapter IV(A), *Conflict of Interest Policies*
- Code of Federal Regulations, Title 42, Part 50, Section 50.604, *Institutional Responsibility Regarding Conflicting Interests of Investigators*
- IRS Publication 526, *Charitable Contributions*
- California Penal Code Section 320.5, *Charitable Raffles*
- Department of Justice Regulations for the Nonprofit Raffle Program, Title 11, Division 1, Chapter 4.6, *Nonprofit Raffle Program Regulations*
- Education Code §89720
- Education Code §89756
- Education Code §89900
- Education Code §89904
- CCR, Title 5 §42401, *Declaration of Policy*
- CCR, Title 5 §42402, *Authority of Campus President*
- CCR, Title 5 §42500, *Functions of Auxiliary Organizations*
- EO 698, *Board of Trustees Policy for the California State University Auxiliary Organizations*
- EO 1059, *Utilization of Campus Auxiliary Organizations*
- RFIN 7-81-4
- *Compilation of Policies and Procedures for CSU Auxiliary Organizations*
- ICSUAM §1301, *Hospitality, Payment or Reimbursement of Expenses*
- ICSUAM §8065, *Information Asset Management*
- ICSUAM §11002.05, *Sub-Recipient Monitoring*
- ICSUAM §13680, *Placement and Control of Receipts for Campus Activities and Programs*
- ICSUAM §15701, *Fundraising Events*
- Coded Memorandum Risk Management 2012-01, *California State University Insurance Requirements*
- CSU Conflict of Interest Handbook, 2B
- 49er Foundation *Conflict of Interest Policy*
- Foundation's Employee Handbook
- Office of Research and Sponsored Programs *Financial Conflict of Interest Policy*
- Shops *Petty Cash Policy*
- Shops Accounts Receivable Manual
- Shops *Travel Policy*

- *Shops Purchasing Policy*
- *Shops Property, Plant, and Equipment Inventory Policy*
- *AS Cash Handling Policy*

AUDIT TEAM

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Audit Manager: Caroline Lee

Senior Auditors: Erika Almaraz, Sean Lee, Dominick Owens, and Gina Yi

Internal Auditors: May Flores and Samer Harb