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December 9, 2015

Dr. Dianne F. Harrison, President  
California State University, Northridge  
18111 Nordhoff Street  
Northridge, CA 91330-8230

Dear Dr. Harrison:

**Subject: Audit Report 15-04, Auxiliary Organizations, California State University, Northridge**

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

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## **AUXILIARY ORGANIZATIONS**

### **California State University, Northridge**

Audit Report 15-04  
October 29, 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, Northridge Campus

Based upon the results of the work performed within the scope of the audit, except for the effect of the observations described below, the fiscal, operational, and administrative controls at California State University, Northridge (CSUN) as of July 10, 2015, taken as a whole, were sufficient to meet the objectives of this audit. The audit revealed that California State University, Northridge Foundation (Foundation) and the University Corporation (Corporation) fund agreements used to authorize campus activities programs and activities accounts were not approved by a campus delegated authority, and the campus had not developed written policies and procedures to provide specific guidance and documentation requirements for campus programs and activities. Additionally, Foundation fund-raising events were not approved in accordance with the campus *Fundraising Events Policy*, and events that took place at offsite locations did not have written agreements.

#### California State University, Northridge Foundation

Based upon the results of the work performed within the scope of the audit, except for the effect of the observations described below, the fiscal, operational, and administrative controls at the Foundation as of July 10, 2015, taken as a whole, were sufficient to meet the objectives of this audit. The audit revealed that Foundation endowments were not always supported by endowment agreements and account application forms, and the Foundation did not always send acknowledgment letters or gift receipts to companies that provided matching gifts, nor did it maintain documentation to show that a review of matching-gift eligibility was performed. Additionally, the Foundation did not always perform periodic independent audits of petty cash funds and ensure compliance with *Foundation Petty Cash Policies and Procedures*; did not always obtain adequate documentation for travel-related expenditures; and did not investigate and resolve open purchase orders in a timely manner. Further, the Foundation did not obtain and retain annual conflict-of-interest statements from all board members, and the appointment of Foundation audit committee members was not in compliance with Government Code §12586 (e).

#### The University Corporation

Based upon the results of the work performed within the scope of the audit, except for the effect of the observations described below, the fiscal, operational, and administrative controls in effect at the Corporation as of July 10, 2015, taken as a whole, were sufficient to meet the objectives of this audit. The audit revealed that Corporation cash-receipting controls were not adequately implemented throughout its dining locations. Also, Corporation catering services

were not always supported by written agreements with appropriate indemnification and insurance provisions, certificates of insurance were not always obtained, and payments were not obtained 14 days prior to events. Additionally, Corporation grant closeout procedures were not always performed in a timely manner, and the Corporation did not always provide the notice containing specific information (Notice to Employee form) at the time of hire, as required by the Wage Theft Protection Act of 2011 (Labor Code §2810.5).

Associated Students, California State University, Northridge, Incorporated

Based upon the results of the work performed within the scope of the audit, except for the effect of the observations described below, the fiscal, operational, and administrative controls at Associated Students, California State University, Northridge, Incorporated (AS) as of July 10, 2015, taken as a whole, were sufficient to meet the objectives of this audit. The audit revealed that the AS Children's Center did not always perform and document collection and follow-up activity for long-outstanding accounts receivable. Additionally, AS did not have a written delegation of authority from the campus president giving the AS general manager responsibility to accept monetary gifts and gifts-in-kind, and gift acceptance forms were not always completed. Further, AS did not obtain annual conflict-of-interest statements from all board members.

University Student Union, California State University, Northridge

Based upon the results of the work performed within the scope of the audit, except for the effect of the observations described below, the fiscal, operational, and administrative controls at University Student Union, California State University, Northridge (USU) as of July 10, 2015, taken as a whole, were sufficient to meet the objectives of this audit. The audit revealed that USU did not require continuing non-student board members to sign an annual conflict-of-interest statement. Additionally, USU did not document the deletion of sensitive data from its computers prior to the disposal or redeployment of the assets, and USU had not developed written policies for hospitality expenditures, as required by ICSUAM §1301.00, *Hospitality, Payment, or Reimbursement of Expenses*.

North Campus – University Park Development Corporation

Based upon the results of the work performed within the scope of the audit, the fiscal, operational, and administrative controls in effect at North Campus – University Park Development Corporation (North Campus) as of July 10, 2015, taken as a whole, were sufficient to meet the objectives of this audit. There were no reportable observations revealed during the review.

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

## OBSERVATIONS, RECOMMENDATIONS, AND RESPONSES

### Campus

#### 1. CAMPUS PROGRAM ACCOUNTS

##### **OBSERVATION**

Foundation and Corporation fund agreements used to authorize campus activities and programs were not approved by a campus delegated authority, and the campus had not developed written policies and procedures to provide specific guidance and documentation requirements for campus activities and programs.

We found that although there was a written delegation of authority from the campus president to the campus vice president for administration and finance/chief financial officer (CFO) to authorize campus activities and programs, none of the Foundation and Corporation fund agreements were approved by the delegated authority. Additionally, the campus had not developed written policies and procedures to provide specific guidance and documentation requirements for campus activities and programs accounts held in auxiliaries.

The absence of required delegated-authority approval of campus activities and programs and written policies and procedures regarding the use of campus program accounts increases the risk of noncompliance with relevant requirements and misunderstandings and miscommunication regarding rights and responsibilities.

##### **RECOMMENDATION**

We recommend that:

- a. All Foundation and Corporation fund agreements for campus activities and programs accounts be approved by the vice president for administration and finance/CFO.
- b. The campus develop written policies and procedures to provide specific guidance and documentation requirements for campus activities and programs accounts.

##### **MANAGEMENT RESPONSE**

We concur.

- a. Effective immediately, the vice president for administration and finance/CFO will approve all fund agreements for campus activities and programs accounts.
- b. The campus will develop written policies and procedures to provide specific guidance and documentation requirements for campus activities and programs accounts.

Expected completion date: November 30, 2015

## 2. FUND-RAISING

### OBSERVATION

Foundation fund-raising events were not approved in accordance with the campus *Fundraising Events Policy*, and events that took place at offsite locations did not have written agreements.

We found that although the campus *Fundraising Events Policy* required all fund-raising events with gross receipts greater than \$5,000 to be reviewed and approved by the campus vice president of university advancement or designee, the campus did not have a process in place for the campus vice president of university advancement or designee to review and approve Foundation fund-raising events. As a result, none of the fund-raising events we reviewed were approved by the campus vice president of university advancement or designee. Additionally, the campus did not have procedures in place to execute written agreements with proper insurance and indemnification provisions for events that took place at offsite locations.

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, and the lack of written agreements with insurance and indemnification provisions for events that take place at offsite locations subjects the California State University (CSU) to potential liability.

### RECOMMENDATION

We recommend that the campus establish procedures to:

- a. Obtain approval from the campus vice president of university advancement or designee for Foundation fund-raising events with gross receipts greater than \$5,000.
- b. Execute written agreements that include insurance and indemnification provisions for offsite fund-raising events.

### MANAGEMENT RESPONSE

We concur.

- a. The campus will develop a process to ensure the approval of the campus vice president of university advancement or designee for all fund-raising events.
- b. Further, we will execute written agreements that include insurance and indemnification provisions for offsite fund-raising events.

Expected completion date: March 31, 2016

## **California State University, Northridge Foundation**

### **3. ENDOWMENTS**

#### **OBSERVATION**

Foundation endowments were not always supported by endowment agreements and account application forms.

We reviewed 20 endowments, and we found that two endowments did not have endowment agreements, one endowment did not have a fully executed endowment agreement and account application form, and one endowment did not have a signed account application form. Account application forms document important information such as the purpose, administration, establishment, and approval of endowment accounts.

The lack of executed endowment agreements and completed account application forms increase the likelihood that funds will be misdirected and the auxiliary will be exposed to potential liability resulting from noncompliance with donor's intent.

#### **RECOMMENDATION**

We recommend that the Foundation execute endowment agreements and complete and sign account application forms for all endowments.

#### **MANAGEMENT RESPONSE**

We concur. The Foundation will implement a process in which all endowment agreements and fund account applications are fully executed.

Expected completion date: January 15, 2016

### **4. MATCHING GIFTS**

#### **OBSERVATION**

The Foundation did not always send acknowledgment letters or gift receipts to companies that provided matching gifts, nor did it maintain documentation to show that a review of matching-gift eligibility was performed.

We reviewed 25 corporate matching gifts of \$250 or more, and we found that acknowledgment letters or gift receipts had not been sent for 15 of the matching gifts. Additionally, for four of the matching gifts, documentation was not maintained to show that a review of matching-gift eligibility was performed.

Acknowledgment letters and gift receipts inform the donor that the auxiliary received the funds and understands the conditions of the matching gift. 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.

The lack of documentation to support matching-gift eligibility increases the risk of non-compliance with corporate donor policies.

**RECOMMENDATION**

We recommend that the Foundation:

- a. Send acknowledgment letters or gift receipts to companies that provide matching gifts of \$250 or more.
- b. Maintain documentation to show that a review of matching-gift eligibility was performed.

**MANAGEMENT RESPONSE**

We concur. The Foundation will:

- a. Send acknowledgement letters for all matching gifts of \$250 or more.
- b. Maintain documents on matching gift eligibility.

Expected completion date: December 15, 2015

**5. PETTY CASH**

**OBSERVATION**

The Foundation did not always perform periodic independent audits of petty cash funds and ensure compliance with Foundation *Petty Cash Policies and Procedures*.

We reviewed five of the 12 Foundation petty cash funds, and we found that:

- In three instances, periodic independent audits of petty cash were not conducted for fiscal years (FY) 2012/13 and 2013/14.
- In one instance, the Foundation had not obtained a signed Petty Cash Custodian Acknowledgment form from a petty cash custodian acknowledging her agreement to abide by Foundation *Petty Cash Policies and Procedures*.
- In four instances, petty cash expenditures exceeded the authorized limit of \$35.
- In four instances, petty cash fund replenishments were not performed on a monthly basis. In one of these instances, the petty cash fund custodian requested replenishment that exceeded the authorized amount of her total petty cash fund. Per Foundation *Petty Cash Policies and Procedures*, a petty cash fund should be replenished at no less than one month intervals.

Periodic independent audits of petty cash funds and compliance with policies and procedures improve cash accountability and reduce the possibility of lost or stolen funds.

**RECOMMENDATION**

We recommend that the Foundation:

- a. Conduct periodic and independent audits of petty cash funds.
- b. Obtain a signed Petty Cash Custodian Acknowledgment form from the cited petty cash custodian acknowledging her agreement to abide by the Foundation *Petty Cash Policies and Procedures*.
- c. Reiterate to petty cash custodians that petty cash funds should only be used for reimbursements to employees for authorized expenses of \$35 and below, and that petty cash fund replenishments must be performed at no less than one-month intervals.

**MANAGEMENT RESPONSE**

We concur. The Foundation will:

- a. Conduct periodic, independent audits of petty cash funds.
- b. Obtain signed Petty Cash Custodian Acknowledgement forms.
- c. Reiterate the Foundation’s Petty Cash Policy.

Expected completion date: January 31, 2015

**6. TRAVEL ADMINISTRATION**

**OBSERVATION**

The Foundation did not always obtain adequate documentation for travel-related expenditures.

We reviewed 15 travel claims, and we found that:

- In four instances, an *Approval of Travel Request* form documenting advance approval of travel and related expenditures to be incurred was not completed.
- In three instances, *Approval of Travel Request* forms were completed after the trip had occurred.
- In three instances, copies of conference or meeting agendas were not provided to verify whether travelers were reimbursed for meals that were provided as part of the event.
- In four instances, the Foundation did not ensure that students traveling by air completed and signed travel-release forms or waivers.

- In two instances, the Foundation did not ensure that mandatory international travel insurance was obtained.

The lack of adequate documentation for travel increases the risk of errors, irregularities, and misappropriation of funds. Travel release forms or waivers and international travel insurance protects the CSU, the campus, and each and every officer, agent, and employee of each of them from legal liability that could arise from the associated travel.

#### **RECOMMENDATION**

We recommend that the Foundation:

- a. Enforce the completion of *Approval of Travel Request* forms documenting advance approval of all travel and related expenditures prior to the trip.
- b. Require submission of conference or meeting agendas to ensure that the traveler is not reimbursed for meals already provided as part of the event.
- c. Ensure that signed release forms or waivers for students traveling by air are completed and mandatory insurance for international travel is obtained prior to the trip.

#### **MANAGEMENT RESPONSE**

We concur. The Foundation will:

- a. Enforce the completion of *Approval of Travel Request* forms.
- b. Require the submission of conference or meeting agendas.
- c. Ensure signed release forms or waivers for students.

Expected completion date: February 29, 2016

## **7. PURCHASE ORDERS**

#### **OBSERVATION**

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

We reviewed the open purchase order listing as of March 31, 2014, and we found that six purchase orders, totaling \$16,645, were outstanding from 383 to 678 days and had not been disencumbered or removed from the purchase-order system.

Insufficient administration of long-outstanding purchase orders may impair budget analysis and planning and hinder decision-making.

**RECOMMENDATION**

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

**MANAGEMENT RESPONSE**

We concur. The Foundation will investigate and resolve open purchase orders no later than January 31, 2016.

**8. CONFLICT OF INTEREST**

**OBSERVATION**

The Foundation did not obtain annual conflict-of-interest statements from all board members.

We found that five of 45 voting board members had not signed a conflict-of-interest statement for FY 2014/15, three of 47 voting members had not signed a conflict-of-interest statement for FY 2013/14, and six of 41 voting members had not signed a conflict-of-interest statement for FY 2012/13.

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 Foundation obtain annual conflict-of-interest statements from all board members.

**MANAGEMENT RESPONSE**

We concur. The Foundation will obtain annual conflict-of-interest statements from all Board members no later than January 31, 2016.

**9. AUDIT COMMITTEE**

**OBSERVATION**

The appointment of Foundation audit committee members was not in compliance with Government Code §12586 (e).

We found that the chair of the audit committee was also a member of the finance and investment committee for FY 2013/14 and 2014/15, and one-half of the audit committee members were also finance and investment committee members for FY 2012/13, 2013/14, and 2014/15.

Government Code §12586 (e) states that if the corporation has a finance committee, it must be separate from the audit committee, the chairperson of the audit committee may not be a member of the finance committee, and members of the finance committee shall constitute less than one-half of the membership of the audit committee.

Audit committee membership that is not in compliance with the Government Code may jeopardize the independence of the audit committee.

**RECOMMENDATION**

We recommend that the Foundation:

- a. Appoint someone other than a member of the finance and investment committee to be the chair of the audit committee.
- b. Ensure that finance and investment committee members do not constitute more than one-half of the membership of the audit committee.

**MANAGEMENT RESPONSE**

We concur. The Foundation will appoint an audit committee that meets the requirements.

Expected completion date: March 31, 2016

## **The University Corporation**

### **10. CASH RECEIPTS**

#### **OBSERVATION**

Cash-receipting controls were not adequately implemented throughout Corporation dining locations.

We found that although the dining services point-of-sale (POS) system supported unique user logins, dining services management did not consistently enforce the requirement for cashiers to log in with their unique user IDs. We observed the following at the dining locations:

- Multiple employees processed transactions under a single user ID throughout the dining services locations.
- Non-managerial employees processed transactions with a manager's credentials.

Failure to use unique user IDs for processing transactions increases the risk that POS system controls will be circumvented and limits the auxiliary's ability to localize transactions, as well as increases the risk of transactional errors and inappropriate access.

#### **RECOMMENDATION**

We recommend that the Corporation enforce the requirement for cashiers to log in with their unique user IDs.

#### **MANAGEMENT RESPONSE**

We concur. The Corporation will enforce the existing policy and requirement for cashiers to log in with their unique user IDs. All cashiers will receive refresher training by December 1, 2015.

### **11. CATERING**

#### **OBSERVATION**

Corporation catering services were not always supported by written agreements with appropriate indemnification and insurance provisions, certificates of insurance were not always obtained, and payments were not obtained prior to events.

We reviewed ten catering events from August 2012 to May 2015, and we found that:

- In nine instances, catering arrangements with third parties were not supported by written agreements that included appropriate indemnification and insurance provisions.
- In eight instances, certificates of insurance were not obtained for third-party events.

- In all instances, payments were not made in full 14 business days before the event date, as required by the Orange Grove Bistro Banquet Policies and Information.

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**

We recommend that the Corporation:

- a. Support all catering arrangements with written agreements that include appropriate indemnification and insurance provisions.
- b. Obtain certificates of insurance for all third-party events.
- c. Obtain payment for all catering services prior to the event.

#### **MANAGEMENT RESPONSE**

We concur.

- a. The Corporation's catering services has updated its catering agreement form with third parties to include the requirement for indemnification and insurance.
- b. The Corporation will coordinate with an insurance provider to ensure special event coverage is provided for third-party events. The Corporation will write a policy addressing the requirement to obtain insurance certificates. Expected completion date is December 1, 2015.
- c. The payment collection terms on the catering agreement form have been modified to require payment in full prior to the event date.

## **12. CONTRACTS AND GRANTS**

#### **OBSERVATION**

Corporation grant closeout procedures were not always performed in a timely manner.

We reviewed 35 grants that expired between December 31, 2013, and February 28, 2015, and we found that:

- In one instance, closeout procedures were still in process and had not been completed. The grant expired on August 31, 2014.
- In 15 instances, closeout procedures had not yet been initiated. The grants had expiration dates from June 30, 2014, to January 31, 2015.

- In four instances, final reports had not been submitted to the associated granting agency within the time frame stipulated by the granting agency.

Untimely closeout of grants increases the risk of non-compliance with relevant requirements and exposes the auxiliary organization to penalties and disallowances for non-compliance with grant terms.

**RECOMMENDATION**

We recommend that the Corporation perform grant closeout procedures in a timely manner and ensure that final reports are submitted to the granting agency within the time frame stipulated by the granting agency.

**MANAGEMENT RESPONSE**

We concur. The Corporation will ensure that projects will be closed in a timely manner and that final reports will be submitted to the granting agency within the time frame stipulated by the granting agency.

Expected completion date: January 1, 2016

**13. PERSONNEL AND PAYROLL – NEW HIRES**

**OBSERVATION**

The Corporation did not always provide the notice containing specific information (Notice to Employee form) at the time of hire, as required by the Wage Theft Protection Act of 2011, Labor Code §2810.5.

We reviewed ten Corporation new hires, and we found that:

- In three instances, the Notice to Employee form was provided to the employee after the time of hire.
- In three instances, the Notice to Employee form was not signed or dated by the Corporation, and we were unable to determine whether or when the Notice to Employee form was provided to the employees.

Failure to provide the Notice to Employee form to employees at the time of hire increases the risk of fines and penalties.

**RECOMMENDATION**

We recommend that the Corporation enforce the requirement to provide a signed and dated Notice to Employee form to all employees at the time of hire.

**MANAGEMENT RESPONSE**

We concur. The Corporation has reiterated the requirement to staff and now provides a signed and dated Notice to Employee form to all employees upon sign-in.

## **Associated Students, California State University, Northridge, Incorporated**

### **14. CHILDREN’S CENTER ACCOUNTS RECEIVABLE**

#### **OBSERVATION**

The AS Children’s Center did not always perform and document collection and follow-up activity for long-outstanding accounts receivable.

We reviewed three Children’s Center accounts receivable, and we found that collection and follow-up activity was not performed and documented to facilitate collection or support account write-off for any of them.

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

#### **RECOMMENDATION**

We recommend that the AS Children’s Center perform and document collection and follow-up activity for delinquent accounts receivable to facilitate collection or support account write-off.

#### **MANAGEMENT RESPONSE**

We concur. The AS Children’s Center and accounting will perform and document collection and follow-up activity for delinquent accounts receivable to facilitate collection or support account write-off.

Expected completion date: January 1, 2016

### **15. GIFT ADMINISTRATION**

#### **OBSERVATION**

AS did not have a written delegation of authority from the campus president giving the AS general manager responsibility to accept monetary gifts and gifts-in-kind, and gift-acceptance forms were not always completed.

We found that although the AS general manager was accepting monetary gifts and gifts-in-kind on behalf of student organizations, AS did not have a written delegation of authority from the campus president giving the general manager responsibility to accept monetary gifts and sign gift acknowledgement agreements and letters.

Further, we reviewed 12 cash gifts and gifts-in-kind received from August 2012 to June 2015, and we found that the Donation Form that was being used as a gift-acceptance form was not completed in four instances. In one other instance, the Donation Form was not signed by the general manager.

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

**RECOMMENDATION**

We recommend that AS:

- a. Obtain a delegation of authority from the campus president giving the AS general manager responsibility to accept monetary gifts and gifts-in-kind.
- b. Complete Donation Forms for all gifts.

**MANAGEMENT RESPONSE**

We concur.

- a. AS will obtain written delegation of authority from the campus president that authorizes the general manager to oversee the acquisition and management of gifts, grants, and donations.
- b. Gifts and donations will be processed through the Foundation. The AS Code on Finance will state that the process for accepting gifts and donations is through the Foundation, which will complete the donation forms.

Expected completion date: February 1, 2016

**16. CONFLICT OF INTEREST**

**OBSERVATION**

AS did not obtain annual conflict-of-interest statements from all board members.

We found that 11 board members had not signed a conflict-of-interest statement for FY 2013/14, and two board members had not signed a conflict-of-interest statement for FY 2012/13.

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 AS obtain annual conflict-of-interest statements from all board members.

**MANAGEMENT RESPONSE**

We concur. The Board will consider and adopt an amendment to its standing rules to clarify the procedure related to ensuring that conflict-of-interest forms are completed and properly filed.

Expected completion date: February 1, 2016

## **University Student Union, California State University, Northridge**

### **17. CONFLICT OF INTEREST**

#### **OBSERVATION**

USU did not require continuing non-student board members to sign an annual conflict-of-interest statement.

We found that USU had not obtained signed annual conflict-of-interest statements from five of its 16 continuing board members for FY 2014/15.

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 USU obtain annual conflict-of-interest statements from all board members.

#### **MANAGEMENT RESPONSE**

We concur. The USU has received signed conflict-of-interest statements for all 2015/16 board members. A policy and procedure document requiring that all board members sign conflict-of-interest statements every fiscal year has been created.

### **18. FIXED ASSETS DISPOSITION**

#### **OBSERVATION**

USU did not document the deletion of sensitive data from its computers prior to disposal or redeployment of the assets.

We reviewed four salvaged or donated laptops and found that although USU procedures required that hard drives be destroyed or reimaged before the computers were disposed of or redeployed, the USU could not provide documentation showing that sensitive data had been deleted from the hard drives.

Inadequate control over the disposal or redeployment of computing equipment, especially equipment containing protected data, increases the risk of loss and inappropriate use of sensitive data and exposure to information security breaches.

#### **RECOMMENDATION**

We recommend that USU document the deletion of sensitive data from its computers prior to the disposal or redeployment of the assets.

**MANAGEMENT RESPONSE**

We concur. The USU has created a Digital Media Sanitization Procedure to identify the process for sanitizing media to ensure that sensitive and confidential data on computer hard drives cannot be accessed by unauthorized personnel. Software was purchased that erases and wipes out all data on computer hard drives that are recycled or donated. A hard copy of the Erase/Wipe Certificate will be attached to the Equipment Dispensation Form when computers are recycled or donated.

**19. HOSPITALITY****OBSERVATION**

USU 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 for transactions.

In addition, we reviewed ten hospitality expenditures, and we found that five expenditures were not 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 USU develop written policies and procedures for hospitality expenditures as required by ICSUAM §1301.00.

**MANAGEMENT RESPONSE**

We concur. A hospitality policy and procedure has been created.

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

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

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

#### California State University, Northridge Foundation

The Foundation was established in 1995 as a non-profit public benefit corporation. It is responsible for helping CSUN raise private, philanthropic contributions from individuals, businesses, and other charitable organizations in support of the university's mission of helping students realize their educational goals. The Foundation is also authorized to accept, manage, and invest all private funds and endowments raised for the university. It does not have employees and relies on University Advancement for accounting and administrative support services. The Foundation is governed by a board of directors composed of representatives from the community, CSUN administration, faculty, and the student body.

#### The University Corporation

The Corporation was established in 1958 as a non-profit public benefit corporation. It engages in commercial operations, including the Matador Bookstore, campus and residential dining services, convenience stores, and catering and vending/ATM operations. It also provides post-award administration of sponsored programs, endowment administration, staff and faculty housing, licensing of university facilities for use by off-campus groups, and fiscal administration of campus programs, such as centers and institutes. Although the bookstore is operated by Follett, and staff and faculty housing is managed by a property management firm, the Corporation performs all accounting in-house. The Corporation is governed by a 17-member board of directors composed of representatives from the CSUN faculty, student body, community, and administration.

#### Associated Students, California State University, Northridge, Incorporated

AS was established in 1961 as a non-profit public benefit corporation with the specific and primary purpose of operating a charitable and educational organization. AS is charged with operating student body organization programs, the Children's Center, the ticket and box office, the recycling center, transportation services, and instructionally related programs and activities. AS also provides the campus community with social, cultural, educational, and entertainment opportunities. AS is governed by a student board of directors and employs a general manager and numerous management and staff personnel to manage daily operations.

University Student Union, California State University, Northridge

USU was established in 1975 as a non-profit public benefit corporation to provide a variety of programs and services at the CSUN campus. The USU operates the Student Recreation Center, Pride Center, and Veterans Resource Center while sponsoring various campus activities that complement the instructional programs and initiatives of the university, such as conference and meeting room rentals, commercial leases to retailers, and study and recreation locations and activities. The USU is governed by a board of directors composed of students, faculty, staff, and alumni.

North Campus – University Park Development Corporation

The North Campus was established in 1981 as a non-profit public benefit corporation and became an auxiliary organization of the CSU in 1988. It is responsible for the leasing, subleasing, and development of approximately 65 acres of CSUN land. However, as a result of real estate market conditions, the faculty and staff housing project has been suspended until the project becomes financially viable. The North Campus is governed by a seven-member board of directors composed of representatives from the CSUN administration, faculty, student body, and community. The North Campus does not have employees and relies on the Corporation for accounting and administrative support services.

**SCOPE**

We visited the CSUN campus and its auxiliary organizations from June 1, 2015, through July 10, 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 July 10, 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:

- Government Code §12586 (e)
- Labor Code section 2810.5
- Education Code §89720
- Education Code §89756
- Education Code §89900
- Education Code §89904
- The Federal Omnibus Budget Reconciliation Act of 1993
- 2 Code of Federal Regulations 200, Uniform Guidance §200.343, *Closeout*
- Internal Revenue Services (IRS), *Governance and Related Topics 501(c)(3)*
- CCR, Title 5 §42401, *Declaration of Policy*
- CCR, Title 5 §42402, *Authority of Campus President*
- CCR, Title 5 §42500, *Functions of Auxiliary Organizations*
- EO 676, *Delegation of Gift Evaluation and Acceptance to Campuses*
- EO 698, *Board of Trustees Policy for the California State University Auxiliary Organizations*
- EO 1041, *California State University Student Travel Policy*
- 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 §3103.11, *Petty Cash*
- ICSUAM §8065, *Information Asset Management*
- ICSUAM §5206.00, *Limits on Competition*
- ICSUAM §5230.0, *Insurance Requirements*
- ICSUAM §13680, *Placement and Control of Receipts for Campus Activities and Programs*
- ICSUAM §15701, *Fundraising Events*
- CSU Conflict of Interest Handbook, 2B
- The California State University Risk Management Authority Auxiliary Organization *Risk Management Authority Policy & Procedure L-5*
- CSUN *Fundraising Events Policy*
- CSUN *Travel Policies and Procedures*
- CSUN *Hospitality Expense Policies and Procedures*
- CSUN *Purchasing Manual*
- *Foundation Bylaws*

- Foundation *Conflict-of-Interest Policy*
- Foundation *Petty Cash Policies and Procedures*
- Foundation *Matching Gifts Guidelines*
- Foundation *Endowment Policy*
- Corporation *Procedures for Counting and Controlling Cash Receipts in Food Services Units*
- Corporation *Orange Grove Bistro Policies and Information*
- Corporation *Project Closing Procedures*
- AS *Conflict of Interest Policy*
- AS *Accounts Receivable Policy*

## **AUDIT TEAM**

Senior Director: Janice Mirza  
Audit Manager: Caroline Lee  
Senior Auditors: Sean Lee, Dominick Owens, and Gina Yi  
Internal Auditors: May Flores and Samer Harb