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March 18, 2016

Dr. Mildred Garcia, President
California State University, Fullerton
800 North State College Boulevard
Fullerton, CA 92834

Dear Dr. Garcia:

Subject: Audit Report 15-05, Auxiliary Organizations, California State University, Fullerton

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, Fullerton

Audit Report 15-05
January 29, 2016

EXECUTIVE SUMMARY

OBJECTIVE

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

CONCLUSION

California State University, Fullerton 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 California State University, Fullerton (CSUF) campus as of September 4, 2015, taken as a whole, were sufficient to meet the objectives of this audit. The audit showed that the campus did not have a process in place for the campus chief financial officer (CFO) to approve auxiliary cost allocation plans on an annual basis, and California State Fullerton Philanthropic Foundation (Foundation) allocation plans were not always documented.

CSU Fullerton Auxiliary Services Corporation

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 CSU Fullerton Auxiliary Services Corporation (ASC) as of September 4, 2015, taken as a whole, were sufficient to meet the objectives of this audit. The audit showed that ASC did not include all the functions it performed in its operating agreement with the California State University (CSU) Trustees, did not document audit committee meeting minutes, and did not always document or execute agreements with vendors in a timely manner, which did not include a right-to-audit provision. Additionally, cashiering controls, safe combination changes, and renewal of California Food Handler Cards were not consistently implemented throughout ASC dining locations. Also, ASC did not obtain informal price quotes from three or more vendors for purchases that exceeded \$5,000 or obtain a formal request for proposal/quotation for purchases that exceeded \$25,000, as required by the *ASC Purchasing Policy*.

Cal State Fullerton Philanthropic 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 Foundation as of September 4, 2015, taken as a whole, were sufficient to meet the objectives of this audit. The audit showed that the Foundation did not have an executive management transition plan to ensure that processes and document retention would not be impacted if there were to be a change in executive management. Additionally, Foundation gifts-in-kind valued over \$5,000 were not always recorded in a timely manner, properly approved, supported by sufficient documentation, and correctly recorded; the CSUF University Advancement *Fundraising Policy* for administering Foundation matching gifts did not fully address the process for documenting matching-gift eligibility for matching gifts

received electronically via email; and Foundation pledge payments were not accurately reflected in the pledges receivable records. Further, the Foundation did not obtain annual conflict-of-interest statements from all board members, did not have written policies and procedures for goods purchased by campus departments with Foundation funds, and did not update its Articles of Incorporation to reflect a proper dissolution clause in accordance with Title 5 §42600.

Associated Students, California State University, Fullerton, Inc.

Based upon the results of the work performed within the scope of the audit, the fiscal, operational, and administrative controls at Associated Students, California State University, Fullerton, Inc. (ASI) as of September 4, 2015, taken as a whole, were sufficient to meet the objectives of this audit. The audit revealed that certain duties and responsibilities related to cash receipts were not adequately segregated at ASI, ASI timesheets were not always in agreement with corresponding employee earnings statements and were not always properly approved, vacation accruals were not always accrued in accordance with the ASI *Vacation and Holiday Policy*, and personnel change reports were not independently reviewed by management. Additionally, ASI did not have a process for the administration and escheatment of long-outstanding checks and ASI did not always close student club accounts and dispose of the funds when the clubs were no longer recognized by the campus. Further, a master operating agreement between the campus and ASI for the administration of the Children's Center contracts and grants had not been established, and ASI did not have a written delegation of authority from the campus president giving its management the authority to sign/approve children's center contracts and grants proposals, as required by Executive Order (EO) 890. Also, ASI did not require signed release forms or waivers from students traveling by air as required by EO 1041.

Specific observations, recommendations, and management responses are detailed in the remainder of this report. Information security-related observations, recommendations, and management responses are detailed in Appendix A.

OBSERVATIONS, RECOMMENDATIONS, AND RESPONSES

Campus

1. COST ALLOCATION

OBSERVATION

Campus cost allocation plans were prepared and approved on an annual basis by the campus CFO but excluded auxiliaries for fiscal years (FY) 2013/14 and 2014/15.

We found that the campus cost allocation plans for FY 2013/14 and 2014/15 stated that the university excluded ASC, ASI, and the Foundation in the scope of the cost allocation plans. We also found that the auxiliaries had their own campus cost recovery analyses, with the exception of the Foundation, but the analyses were not approved by the campus CFO. For the Foundation, management stated that the Foundation was not responsible to reimburse the campus because the expenses incurred by the Foundation were equal to or less than the services provided by the Foundation to the university in terms of the fiscal management of philanthropic funds. ICSUAM 3552.01, *Cost Allocation/Reimbursement Plans for the CSU Operating Fund*, states that the CFO must ensure that all costs incurred by the CSU Operating Fund for services, products, and facilities provided to auxiliary organizations, enterprise programs/activities/fund sources or entities external to the university are properly and consistently recovered with cash and/or a documented fair exchange of value. This includes all costs for services, products, and facilities borne by the CSU Operating Fund on behalf of enterprise programs/activities/fund sources and auxiliary organizations.

The lack of properly approved and documented cost allocation plans increases the risk that the campus operating fund will not be fully compensated for support provided to auxiliaries.

RECOMMENDATION

We recommend that the campus include the auxiliaries in its annual cost allocation plan or develop a process for the campus CFO to approve auxiliary cost allocation plans on an annual basis and ensure the documentation of cost allocation plans for all auxiliaries.

MANAGEMENT RESPONSE

In August 2013, the campus requested that the Office of Audit and Advisory Services review its cost allocation methodology and chargeback practices and develop recommendations. A report was issued in FY 2014/15, and the campus has adopted a new plan, effective FY 2015/16. Prior to FY 2015/16, the campus recovered costs from the auxiliaries (ASC, ASI, and the Foundation) but through a separate process from the campus cost recovery plan that did not require formal CFO approval. Beginning in FY 2015/16, a new cost allocation plan has been adopted that includes the auxiliaries.

Anticipated completion date: July 31, 2016

CSU Fullerton Auxiliary Services Corporation

2. AUTHORIZED FUNCTIONS

OBSERVATION

ASC did not include all the functions it performed in its operating agreement with the CSU Trustees.

We found that the following two functions were not included in the operating agreement as required by Title 5 §42502:

- Gifts, bequests, devices, endowments, trusts, and similar funds.
- Public relations, fund-raising, fund management, and similar development programs.

Title 5 §42502 states that the operating agreement should specify the function or functions that the organization is to manage, operate, or administer.

Including an incomplete list of functions administered by the auxiliary in the operating agreement increases the risk of misunderstandings and miscommunication regarding rights and responsibilities.

RECOMMENDATION

We recommend that ASC amend its operating agreement to include the above-cited functions.

MANAGEMENT RESPONSE

We concur. The campus ASC operating agreement, which is effective through June 30, 2018, was completed using the chancellor's office (CO) 2011 template and guidelines (which limited auxiliaries to two functions). The CO has since amended the template in 2015 and allowed for additional functions. ASC will work with the CO to draft a new operating agreement, including the additional applicable functions.

Anticipated completion date: April 6, 2016

3. AUDIT COMMITTEE

OBSERVATION

ASC audit committee meeting minutes were not documented.

Corporation Code §5215 states that the original, or a copy in writing, or in any other form capable of being converted into a clearly legible, tangible form of the bylaws or of the minutes of any incorporators', members', directors', committee or other meeting or of any resolution adopted by the board or a committee thereof, or members, certified to be a true copy by a

person purporting to be the secretary or an assistant secretary of the corporation, is prima facie evidence of the adoption of such bylaws or resolution or of the due holding of such meeting and of the matters stated therein.

The lack of documented audit committee minutes in accordance with legal mandates increases the risk of misunderstandings and may increase legal liability.

RECOMMENDATION

We recommend that ASC record audit committee meeting minutes.

MANAGEMENT RESPONSE

We concur. Audit committee minutes will be maintained and a copy of the minutes will be provided. All documentation will be provided to the CO by April 30, 2016.

4. OPERATING AND ADMINISTRATIVE AGREEMENTS

OBSERVATION

ASC did not always document or execute agreements with vendors in a timely manner, nor did it include a right-to-audit provision in the agreements.

We reviewed 20 food truck and vending services agreements for FY 2014/15, and we found that:

- In five instances, agreements were not documented.
- In three instances, agreements were not executed in a timely manner.
- None of the agreements included a right-to-audit provision.

The absence of agreements fully executed in a timely manner with right-to-audit provisions increases the risk of misunderstandings and miscommunications regarding rights and responsibilities and subjects the ASC and CSU to potential liability.

RECOMMENDATION

We recommend that ASC fully execute all food truck and vending services agreements in a timely manner and include a right-to-audit provision in each agreement.

MANAGEMENT RESPONSE

We concur. ASC will update the food truck and vending services agreements to include the right-to-audit provision. Additionally, we will implement a process to ensure that all agreements are executed in a timely manner.

Anticipated implementation date: April 30, 2016

5. DINING SERVICES

OBSERVATION

Cashiering controls, safe combination changes, and renewal of California Food Handler Cards were not consistently implemented throughout ASC dining locations.

We reviewed five dining services locations, and we found that:

- Although the dining services point-of-sale (POS) system supported unique user logins, dining services management at one location did not require cashiers to login with their unique user logins. Further, non-managerial employees could void and refund sales transactions using the manager’s login.
- At two dining locations, safe combinations were not changed after turnover in employees who had access to the safe.
- California Food Handler Cards were not renewed for two employees at one dining location. The *California Food Handler Card Law* is designed to ensure that restaurant employees receive a reasonable level of training in food safety practices to reduce the potential for foodborne illness. Each food facility must maintain records documenting that each employee possesses a valid California Food Handler Card that can be provided to local enforcement officials upon request.

Failure to use unique user logins for processing dining services 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 unauthorized transactions. Inadequate administration of safe combinations increases the risk of loss or misappropriation of funds, and expired food handler cards result in non-compliance with the California Food Handler Card Law and expose the campus community to unsafe food practices.

RECOMMENDATION

We recommend that ASC ensure that all dining locations:

- a. Require cashiers to login with their unique user logins.
- b. Change safe combinations after turnover in employees with access to the safe.
- c. Maintain current California Food Handler Cards.

MANAGEMENT RESPONSE

We concur. Our action plan is to ensure that ASC will:

- a. Update the cashier’s login process to include unique user logins.
- b. Change the vault combination procedures to have combinations changed on an annual basis, or when there has been a change in supervisors/managers.

- c. Continue to have current certification “Food Handler Cards” for all campus dining employees working in food preparation.

Anticipated implementation date: April 30, 2016

6. BIDDING

OBSERVATION

ASC did not obtain informal price quotes from three or more vendors for purchases that exceeded \$5,000, nor did it obtain a formal request for proposal/quotation for purchases that exceeded \$25,000, as required by the *ASC Purchasing Policy*.

We reviewed six purchases that exceeded \$5,000, and we found that in three instances, informal price quotes or a formal request for proposal/quotation were not obtained.

Competitive bids provide transparency, mitigate favoritism towards certain vendors, and increase the chance of obtaining the best prices.

RECOMMENDATION

We recommend that ASC obtain informal price quotes from three or more vendors for purchases that exceed \$5,000 and obtain a formal request for proposal/quotation for purchases that exceed \$25,000.

MANAGEMENT RESPONSE

We concur. ASC will submit a letter of instruction to account directors and personnel regarding purchasing policies and procedures. Additionally, a Bidding/Sole Source form to ease the process was designed and implemented.

Anticipated date of completion: April 30, 2016

Cal State Fullerton Philanthropic Foundation

7. MANAGEMENT TRANSITION PLAN

OBSERVATION

The Foundation did not have an executive management transition plan to ensure that processes and document retention would not be impacted if there were to be a change in executive management.

We found that certain supporting documents from FY 2012/13 could not be located during the audit. Per the Foundation, there was a change in executive management in FY 2013/14.

The absence of a comprehensive executive management transition plan increases the risk of misunderstandings and miscommunication regarding business processes and document retention.

RECOMMENDATION

We recommend that the Foundation develop an executive management transition plan.

MANAGEMENT RESPONSE

We concur. The Foundation and University Advancement will develop a management transition plan no later than July 31, 2016.

8. GIFTS-IN-KIND

OBSERVATION

Foundation gifts-in-kind valued at more than \$5,000 were not always recorded in a timely manner, properly approved, supported by sufficient documentation, and correctly recorded.

We reviewed 20 gifts-in-kind received from February 2012 to April 2014, and we found that:

- In three instances, the gifts-in-kind were not recorded in a timely manner. The physical gift was received and recorded in different fiscal periods.
- In three instances, the gifts-in-kind were received before approval was received from the gift acceptance committee. Prior approval is required by the CSUF University Advancement *Fundraising Policy*.
- In one instance, documentation was not on file to support the acceptance of a gift-in-kind.
- In one instance, a gift-in-kind totaling \$31,000 was recorded twice.

Insufficient administration of gifts-in-kind increases the risk of errors and misplaced gifts, the chance that gifts-in-kind contrary to campus policy will be accepted, misappropriation of funds, and misrepresentation in financial statements.

RECOMMENDATION

We recommend that the Foundation:

- a. Record future gifts-in-kind in a timely manner.
- b. Obtain approval from the gift acceptance committee before accepting gifts-in-kind.
- c. Retain documentation to support the acceptance of all gifts-in-kind.
- d. Correct the duplicate gift-in-kind recording entry.

MANAGEMENT RESPONSE

We concur. University Advancement will record all gifts-in-kind in a timely manner and retain documentation to support the acceptance of all gifts-in-kind. Additionally, University Advancement will work with campus partners to develop a process in which all gifts-in-kind are approved through the gift acceptance committee before the gift is accepted. University Advancement has corrected the duplicate gifts-in-kind entry as of February 12, 2016.

Anticipated completion date: July 31, 2016

9. MATCHING GIFTS

OBSERVATION

The CSUF University Advancement *Fundraising Policy* for administering Foundation matching gifts did not fully address the process for documenting matching-gift eligibility for matching gifts received electronically via email.

We reviewed 16 Foundation electronic matching gifts received from February 2012 to June 2015, and we found that in ten instances, documentation was not maintained to show that a review of matching-gift eligibility was performed.

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 ensure that University Advancement update its *Fundraising Policy* to address the process for documenting matching gift-eligibility for matching gifts received electronically via email.

MANAGEMENT RESPONSE

We concur. University Advancement will update its matching gift process to reflect reviewing of eligibility of a matching gift in an online environment. This new process will be put into place by July 31, 2016.

10. PLEDGES RECEIVABLE

OBSERVATION

Foundation pledge payments were not always accurately reflected in the pledges receivable records.

We reviewed 20 pledges receivable, and we found that in four instances, the pledges receivable tracking sheets and listing of outstanding pledges erroneously showed that the donors had missed two to five annual installments, even though the payments had already been received. Specifically, these installments were either paid with a different source of funds, such as donor-advised funds, or erroneously credited to a related donor account.

Insufficient administration of pledges 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 donor relations.

RECOMMENDATION

We recommend that the Foundation ensure that pledge payments are accurately reflected in the pledges receivable tracking sheets and listing of outstanding pledges.

MANAGEMENT RESPONSE

We concur. University Advancement will update its process to track pledges paid with donor-advised funds. The process will reflect that third-party payments will be reduced or replaced with letters of intent. This process will be in place by July 31, 2016.

11. CONFLICT OF INTEREST

OBSERVATION

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

We found that:

- Three of 30 board members had not signed a conflict-of-interest statement for FY 2012/13.
- Two of 29 board members had not signed a conflict-of-interest statement for FY 2013/14.

- Ten of 36 board members did not have a signed conflict-of-interest statement form on file for FY 2014/15.

The lack of conflict-of-interest statements from all auxiliary board members increases noncompliance with CSU, auxiliary, and governmental requirements.

RECOMMENDATION

We recommend that the Foundation obtain and maintain annual conflict-of-interest statements from all board members.

MANAGEMENT RESPONSE

We concur. The Foundation will obtain and maintain the annual conflict-of-interest statements from all board members.

Anticipated completion date: July 31, 2016

12. PROCUREMENT POLICIES AND PROCEDURES

OBSERVATION

The Foundation did not have written policies and procedures for goods purchased by campus departments with Foundation funds.

Specifically, policies and procedures had not been documented for the following:

- Required authorization to request and/or approve the purchases of goods.
- Informal and formal bidding requirements based on dollar thresholds.
- Sole-brand and sole-source purchase justifications.

Documented policies and procedures for the purchase of goods inform campus departments of purchase requirements, improve accountability over goods purchased, and reduce the risk of errors and irregularities.

RECOMMENDATION

We recommend that the Foundation develop written policies and procedures for goods purchased by campus departments with Foundation funds.

MANAGEMENT RESPONSE

We concur. The Foundation will develop written policies and procedures for goods purchased by campus departments with Foundation funds no later than July 31, 2016.

13. DISSOLUTION OF AN AUXILIARY

OBSERVATION

The Foundation did not update its Articles of Incorporation to reflect a proper dissolution clause in accordance with Title 5 §42600.

The lack of a proper dissolution clause in accordance with Title 5 §42600 increases the risk that net assets will not be properly distributed in the event the auxiliary is dissolved.

RECOMMENDATION

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

MANAGEMENT RESPONSE

We concur. The Foundation changed its Articles of Incorporation to reflect a dissolution clause in accordance with Title 5 §42600; the updated Articles of Incorporation were filed with the state and submitted to the CO in October 2015.

Associated Students, California State University, Fullerton, Inc.**14. CASH RECEIPTS****OBSERVATION**

Certain duties and responsibilities related to cash receipts were not adequately segregated at ASI.

We found that one employee performed the following incompatible duties:

- Collected payments.
- Reconciled cash receipts.
- Prepared deposits.
- Deposited large checks into the ATM on campus.

Additionally, ASI Children's Center deposits were not always made daily to the ASI accounting office, as required by the ASI *Business Activities Manual*.

The lack of segregation of duties increases the risk that erroneous and inappropriate actions will not be detected in a timely manner, and untimely deposits increase the risk of loss/misappropriation of funds.

RECOMMENDATION

We recommend that ASI:

- a. Adequately segregate duties and responsibilities related to cash receipts or institute mitigating procedures approved by the campus CFO.
- b. Reiterate to ASI Children's Center staff that deposits must be made daily to the ASI accounting office.

MANAGEMENT RESPONSE

We concur.

- a. We will adequately segregate duties and responsibilities related to ASI cash receipts or institute mitigating procedures approved by the campus CFO. The anticipated implementation date is on or before June 30, 2016.
- b. ASI Children's Center staff immediately enacted daily deposit delivery to the ASI cashier. In addition, email notifications to the ASI cashier will confirm that there are no receipts to deliver on days with no cash deposits. Corrective action on this item is complete.

15. PERSONNEL AND PAYROLL

OBSERVATION

ASI timesheets were not always in agreement with corresponding employee earnings statements and were not always properly approved. In addition, vacation accruals were not always accrued in accordance with the *ASI Vacation and Holiday Policy*, and personnel change reports were not independently reviewed by management.

We reviewed ten overtime payments and ten vacation accruals, and we found that:

- In three instances, the number of hours worked recorded on the timesheets did not agree with the employees' earnings statements.
- In four instances, employee timesheets were not approved by the employees' supervisors.
- In three instances, employees were accruing vacation at a higher rate than what was specified in the *ASI Vacation and Holiday Policy*.

Additionally, ASI did not perform an independent management review of the personnel change report.

Insufficient administration of payroll limits the auxiliary's ability to detect errors and irregularities, increases the potential for employee over- or underpayments, and compromises accountability.

RECOMMENDATION

We recommend that ASI:

- a. Ensure that the number of hours worked recorded on employee timesheets agree to the employees' earnings statements.
- b. Review timesheets to ensure that they are properly approved.
- c. Ensure that employees are accruing vacation in accordance with ASI policy.
- d. Perform an independent management review of the personnel change report.

MANAGEMENT RESPONSE

We concur.

- a. We will ensure that the number of hours worked recorded on employee timesheets agree to the employees' earnings statements by creating an automated report that will be reviewed and validated each pay period. This will be in place on or before June 30, 2016.

- b. A new payroll process has been implemented that will ensure that timesheets are properly approved. Corrective action on this item is complete.
- c. We will conduct an audit of vacation accruals to ensure that employees are accruing vacation in accordance with ASI Policy. The anticipated implementation date is June 30, 2016.
- d. We will perform an independent management review of the personnel change report by June 30, 2016.

16. LONG-OUTSTANDING CHECKS

OBSERVATION

ASI did not have a process for the administration and escheatment of long-outstanding checks.

We found that 395 checks totaling \$92,300 were outstanding for more than a year as of May 31, 2015. Code of Civil Procedure Title 10, *Unclaimed Property*, and Chapter 7, *Unclaimed Property Law*, Article 2, §1510 and §1511, state that property held by a business association escheats to the state, subject to various requirements and limitations.

The lack of a process for the administration and escheatment of long-outstanding checks reduces accountability over long-outstanding checks, increases the risk of errors and irregularities, and may result in noncompliance with unclaimed property law.

RECOMMENDATION

We recommend that ASI develop and implement procedures for the administration and escheatment of long-outstanding checks.

MANAGEMENT RESPONSE

We concur. We will develop and implement procedures for periodic research, review, and escheatment of outstanding checks. This will be corrected on or before June 30, 2016.

17. STUDENT CLUB ACCOUNTS

OBSERVATION

ASI did not always close student club accounts and dispose of the funds when student clubs were inactive and no longer recognized by the campus.

We reviewed ten student club accounts and found that in two instances, the student clubs were no longer recognized by the campus and had no account activity for one or more years.

The student club accounts should have been closed and the funds disposed of in accordance with the student club account agreements.

Insufficient control over student club accounts increases the risk that errors, inconsistencies, misunderstandings, or misappropriation will occur.

RECOMMENDATION

We recommended that ASI review its student club accounts to ensure that any accounts for inactive student clubs no longer recognized by the campus are properly closed and funds are disposed of in accordance with the student club account agreements.

MANAGEMENT RESPONSE

We concur. On or before June 30, 2016, all inactive student club accounts no longer recognized by the campus will be disposed of in accordance with account agreements on file.

18. CHILDREN’S CENTER GRANTS

OBSERVATION

A master operating agreement between the campus and ASI for the administration of the Children’s Center contracts and grants had not been established, and ASI did not have a written delegation of authority from the campus president giving its management the authority to sign/approve Children’s Center contracts and grant proposals, as required by EO 890.

The absence of a master operating agreement and formal delegation of authority to sign/approve contracts and grants increases the risk of misunderstandings, unauthorized activities/actions, and inconsistencies.

RECOMMENDATION

We recommend that ASI:

- a. Establish a master operating agreement with the campus for the administration of Children’s Center contracts and grants.
- b. Obtain written delegation of authority from the president or the president’s designee for the ASI management to sign/approve Children’s Center contracts and proposals.

MANAGEMENT RESPONSE

While we find that the ASI current operating agreement provides the administration of Children’s Center contracts and grants and written delegation of authority from the president, ASI will execute an addendum to the operating agreement that will include the administration of Children’s Center contracts and grants and delegation of authority.

| Anticipated completion date: June 30, 2016

19. TRAVEL AUTHORIZATION

OBSERVATION

ASI did not require signed release forms or waivers from students traveling by air, as required by EO 1041, *California State University Student Travel Policy*.

Travel release forms or waivers protect 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 ASI require signed release forms or waivers from all students traveling by air.

MANAGEMENT RESPONSE

We concur. We will have a new procedure to require release forms or waivers from all students traveling by air in place by June 1, 2016.

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. 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.

CSU Fullerton Auxiliary Services Corporation

ASC was established in 1959 as a non-profit public benefit corporation for the purpose of promoting and assisting CSUF in fulfilling its mission. ASC is responsible for commercial operations, including bookstore and dining services, post-award administration of sponsored programs, and fiscal administration of numerous campus programs, such as centers and institutes. Further, ASC administers the College Park building to provide additional offices and classrooms for the campus. ASC is governed by a board of directors composed of representatives from university administration, the community, faculty, and student body.

CSU Fullerton Philanthropic Foundation

The Foundation was established in 1998 as a tax-exempt, charitable, and educational organization. The Foundation supports CSUF through fund-raising, acceptance of donor gifts, and management of endowments. The Foundation also works closely with and is supported in its fund-raising efforts by University Advancement. The Foundation works with alumni and the community to secure gifts and generate funds that allow CSUF to continue its educational mission. The Foundation is governed by a board of directors composed of representatives from the community, faculty, student body, and alumni, as well as the campus president.

Associated Students California State University, Fullerton, Inc.

ASI is a non-profit auxiliary corporation incorporated in September 1975 and formed for the specific and primary purpose of operating a charitable and educational organization. ASI is charged with operating the student body government, the Children's Center, the Titan Student Union, and the Student Recreation Center, as well as providing the campus community with social, cultural, educational, and entertainment opportunities. ASI is governed by a student board of directors and employs an executive director and numerous management and staff personnel to manage daily operations.

CSU Fullerton Housing Authority

The CSU Fullerton Housing Authority (Housing Authority) is a non-profit public benefit corporation responsible for the development, provision, and maintenance of affordable housing and other related facilities and activities for the use and convenience of faculty and staff of the university, in order to foster an academic community and environment on or near the campus, and to attract and retain the highest-quality faculty and staff at the university. Due to a downturn in the housing market and significant losses from the operation of the University Heights housing project that have resulted in a net capital deficiency, in June 2014,

the Housing Authority was dissolved, and its assets and liabilities were distributed and accepted by the Corporation.

SCOPE

We visited the CSUF campus and its auxiliary organizations from July 27, 2015, through September 4, 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 September 4, 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.).
- Information technology.
- 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 §13401(b)(3)
- Education Code §89720

- Education Code §89756
- Education Code §89900
- Education Code §89904
- Corporation Code §5215
- Code of Civil Procedure Title 10, Chapter 7, *Unclaimed Property Law*
- California Food Handler Card Law
- IRS, Governance and Related Topics 501(c)(3)
- Payment Card Industry Data Security Standard
- CCR, Title 5 §42401, *Declaration of Policy*
- CCR, Title 5 §42402, *Authority of Campus President*
- CCR, Title 5 §42502, *Contents of Written Agreements*
- CCR, Title 5 §42600, *Organizations*
- EO 698, *Board of Trustees Policy for the California State University Auxiliary Organizations*
- EO 890, *Administration of Grants and Contracts in Support of Sponsored Programs*
- EO 1000, *Delegation of Fiscal Authority and Responsibility*
- EO 1041, *California State University Student Travel Policy*
- EO 1059, *Utilization of Campus Auxiliary Organizations*
- EO 1068, *Student Activities*
- RFIN 7-81-4
- *CSU Auxiliary Organizations Compliance Guide*
- *CSU Auxiliary Organizations Sound Business Practices Guidelines*
- CSU Conflict of Interest Handbook, §2B
- CSU HR 2015-08, *Background Check Policy*
- ICSUAM §1401, *Administration of Student Organization Funds*
- ICSUAM §3552.01, *Cost Allocation/Reimbursement Plans for the California State University Operation Fund*
- ICSUAM §8000, *Information Security*
- CSUF University Advancement *Fundraising Policy*
- *Foundation Policy Regarding Pledge Receivables*
- *Foundation Code of Ethics*
- *ASC Purchasing Policy*
- *ASI Business Activities Manual*
- *ASI Vacation and Holiday Policy*

AUDIT TEAM

Senior Director: Janice Mirza
Audit Manager: Caroline Lee
IT Audit Manager: Greg Dove
Senior Auditors: Sean Lee, Dominick Owens, Kim Pham, Dave White, and Gina Yi
Internal Auditors: May Flores and Samer Harb

APPENDIX A – INFORMATION SECURITY

Information security-related observations are not publically posted as they may contain information exempt from disclosure under the California Public Records Act (PRA), California Government Code §6254.19. To make a PRA request, please contact itaudits@calstate.edu.