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April 11, 2016

Dr. Willie Hagan, President
California State University, Dominguez Hills
1000 East Victoria Street
Carson, CA 90747

Dear Dr. Hagan:

Subject: Audit Report 15-07, Auxiliary Organizations, California State University, Dominguez Hills

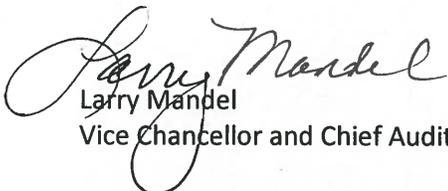
We have completed an audit of *Auxiliary Organizations* as part of our 2015 Audit Plan, and the final report is attached for your reference. The audit was conducted in accordance with the Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing*.

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, Dominguez Hills

Audit Report 15-07
March 15, 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, Dominguez Hills

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, Dominguez Hills* (CSUDH) as of October 30, 2015, taken as a whole, were sufficient to meet the objectives of this audit. The audit revealed that the operating agreement between the California State University, Dominguez Hills Foundation (Foundation) and the Trustees expired on June 30, 2015, and had not been renewed, and the campus did not perform a review of the Foundation at least once every five years. Additionally, campus University Advancement (UA) administration of Foundation endowments, matching gifts, gifts-in-kind, fund-raising, and pledges receivable needed improvement. Further, UA did not perform independent reconciliations between the Foundation donor database and the general ledger accounting system for the most recent three years. Additionally, the campus did not have a written delegation of authority for the authorization of Foundation campus activities and programs, and the campus had not developed written policies and procedures to provide specific guidance and documentation requirements for campus activities and programs. Also, the campus did not provide the Foundation and Associated Students, Inc. (ASI) management with written delegations of authority from the campus president giving the management authority to sign/approve contracts and grants proposals, and agreements between the campus and the auxiliaries were not always documented or renewed timely.

California State University, Dominguez Hills Foundation

Based upon the results of the work performed within the scope of the audit, due to the effect of the observations described below, the fiscal, operational, and administrative controls at Foundation as of October 30, 2015, taken as a whole, were not sufficient to meet the objectives of this audit. The audit revealed that Foundation administration of sponsored programs needed improvement in the areas of document storage, sub-recipient monitoring, conflict of interest, effort reporting, and policies and procedures. In addition, the Foundation did not always ensure that Foundation, ASI, and Loker Student Union, Inc. (LSU) overtime and double-time payments and salary changes were sufficiently documented, accurately calculated, and properly recorded in the payroll system. Also, the Foundation did not always ensure that campus activity or program Account Set-up forms were properly approved, nor did it perform a periodic review to identify any non-active accounts. Further, the Foundation did not always ensure that hospitality payments were adequately supported or obtain annual conflict-of-interest statements from all board members. In addition, Foundation reserves were not

approved by the campus president for the past three fiscal years, and the Foundation did not update its Articles of Incorporation to reflect a proper dissolution clause.

Associated Students, Inc.

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 ASI as of October 30, 2015, taken as a whole, were sufficient to meet the objectives of this audit. The audit revealed that ASI did not perform background checks on all ASI Child Development Center (CDC) employees; did not always obtain documented quotes for purchases that exceeded \$2,500 and did not have specific instances where competitive bids and sole-source/sole-brand justifications were required in its *Financial Policies and Procedures Manual*; and did not always remove disposed items from the property and equipment listing, properly tag items, account for all assets, and perform physical inventory counts. Additionally, the memorandum of understanding (MOU) between the Foundation and ASI for student club accounting services had not been renewed; ASI student club accounts were not always closed and funds were not always disposed of when student clubs were no longer recognized by the campus and inactive; and controls over overspending of student club accounts were not in place. Further, a master operating agreement between the campus and ASI for the administration of CDC contracts and grants had not been established, and ASI had not developed written policies for hospitality expenditures.

Loker Student Union, Inc.

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 LSU as of October 30, 2015, taken as a whole, were sufficient to meet the objectives of this audit. The audit revealed that LSU did not obtain annual conflict-of-interest statements from all board members; the LSU *Purchasing Policy* did not include specific instances where competitive bids or sole-source justifications were necessary for services or leasehold improvements; cash-receipting controls were not adequately implemented throughout LSU locations; and LSU did not document periodic independent audits of the petty cash fund or perform independent unannounced counts of the LSU change fund. Further, LSU had not developed written policies for hospitality expenditures.

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. OPERATING AGREEMENT

OBSERVATION

The operating agreement between the Foundation and the Trustees expired on June 30, 2015, and had not been renewed, and the campus did not perform a review of the Foundation at least once every five years, as required by Executive Order (EO) 1059.

Foundation management stated that the operating agreement was approved at its June 2015 board meeting and was submitted to the campus for approval. Title 5 §42501 states that a written agreement on behalf of the State of California by the Chancellor of the California State University (CSU) and the auxiliary organization is required for the performance by such auxiliary organization of any of the functions listed in Title 5 §42500.

EO 1059, *Utilization of Campus Auxiliary Organizations*, states that the campus shall review, at least every five years, the auxiliary organizations to ensure that written operating agreements are current and auxiliary organization activities are in compliance with those agreements.

The absence of fully executed operating agreements and inadequate review of auxiliaries' written operating agreements and functions increase the risk of misunderstandings and miscommunication regarding rights and responsibilities.

RECOMMENDATION

We recommend that the campus:

- a. Promptly renew the Foundation operating agreement with the Trustees.
- b. Perform a review of the Foundation at least once every five years to ensure that the written operating agreement is current and functions are in compliance with the agreement.

MANAGEMENT RESPONSE

We concur. The campus will renew the Foundation operating agreement with the Trustees and perform a review of the Foundation at least once every five years to ensure that the written operating agreement is current and functions are in compliance with the agreement.

Estimated completion date: September 2016

2. ENDOWMENTS

OBSERVATION

UA did not always document Foundation endowments with written agreements, and endowment agreements were not always signed by a delegated authority.

We reviewed ten Foundation endowments dated from December 2012 to September 2015, and we found that in five instances, agreements were not documented. In one other instance, the endowment agreement was not signed by the vice president of UA, the individual with delegated authority for gift acceptance.

Insufficient administration of endowments increases the likelihood that funds will be misdirected and the campus will be exposed to liabilities resulting from noncompliance with donor intent.

RECOMMENDATION

We recommend that the campus ensure that UA documents Foundation endowments with written agreements signed by the vice president of UA.

MANAGEMENT RESPONSE

We concur. The campus will ensure that UA documents Foundation endowments with written agreements signed by the vice president of UA.

Estimated completion date: September 2016

3. MATCHING GIFTS

OBSERVATION

UA did not maintain documentation to show that matching-gift eligibility reviews were performed, and it did not always send acknowledgement letters or gift receipts to companies that provided matching gifts.

We reviewed 15 Foundation matching gifts received from December 2012 to September 2015, and we found that none of them had documentation to show that a review of matching-gift eligibility was performed.

Additionally, in five of seven instances where the matching gift was \$250 or more, acknowledgement letters or gift receipts had not been sent to the company that provided 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, and acknowledgment letters and gift receipts inform

the donor that the auxiliary received the funds and understands the conditions of the matching-gift program.

RECOMMENDATION

We recommend that the campus ensure that UA:

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

MANAGEMENT RESPONSE

We concur. The campus will ensure that UA maintains documentation to show that a review of matching-gift eligibility was performed. The campus will also ensure that acknowledgment letters or gift receipts are sent to companies that provide matching gifts of \$250 or more.

Estimated completion date: September 2016

4. GIFTS-IN-KIND

OBSERVATION

UA did not always support Foundation gifts-in-kind with sufficient documentation, such as documented independent qualified appraisal and gift-acceptance forms, and gifts-in-kind were not always approved by the delegated authority.

We reviewed 20 Foundation gifts-in-kind received from December 2012 to September 2015, and we found that:

- In two instances where the estimated value of the gifts-in-kind exceeded \$5,000, there was no documented independent qualified appraisal. According to the UA *Gifts-in-Kind* Policy, gifts-in-kind valued at more than \$5,000 require an independent qualified appraisal. Appraisals made by campus personnel are inadmissible.
- In 15 instances, gifts-in-kind were not approved by the vice president of UA, who was the individual with delegated authority for gift acceptance. Additionally, in four of the 15 instances, gift acceptance forms were not on file.

Insufficient administration of gifts-in-kind increases the risk of errors and misplaced gifts, misappropriation of funds, and non-compliance with donor terms and increases the chance that gifts-in-kind contrary to campus policy will be accepted.

RECOMMENDATION

We recommend that the campus ensure that UA:

- a. Obtain documented independent qualified appraisals for all gifts-in-kind valued at more than \$5,000.
- b. Obtain the approval of the vice president of UA for all gifts-in-kind.
- c. Maintain gift acceptance forms for all gifts-in-kind.

MANAGEMENT RESPONSE

We concur. The campus will ensure that UA obtains documented independent qualified appraisals for all gifts-in-kind valued at more than \$5,000. The campus will also ensure that UA obtains the approval of the vice president of UA for all gifts-in-kind and maintains gift acceptance forms for all gifts-in-kind.

Estimated completion date: September 2016

5. FUND-RAISING

OBSERVATION

UA fund-raising policies and procedures included in the *UA Gift and Stewardship Policy Manual* had not been updated; Foundation fund-raising events were not properly approved and reviewed; required fund-raising event registration and reporting requirements were not completed; and sales tax was not remitted for items sold through an auction.

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

- Fund-raising policies and procedures included in the *UA Gift and Stewardship Policy Manual* had not been updated since 2002 to reflect requirements of ICSUAM §15701, *Fundraising Events*.
- None of the events were approved in writing by the vice president of UA, the delegated authority. Further, event budgets, drafts of solicitation materials, and action plans for compliance with federal, state, and local regulations were not reviewed by a delegated authority prior to the events.
- The state *Nonprofit Raffle Report* (CT-NRP-2) was not filed for the raffle event reviewed. Information required to be reported includes the date and location of the raffle, total funds received, total expenses for conducting the raffle, the charitable or beneficial purpose for which proceeds will be used, and the name of the eligible organization receiving the proceeds.
- Sales tax was not remitted for items sold through an auction.

The absence of current written policies and procedures and required fund-raising event approval and review of event budgets, drafts of solicitation materials, and action plans prior to the event limits the campus' and auxiliary's ability to effectively allocate resources and coordinate events; ensure compliance with federal, state, and local regulations; and assess and mitigate any risks associated with events. Failure to file a *Nonprofit Raffle Report* and remit sales tax to the state may result in fines and penalties.

RECOMMENDATION

We recommend that the campus ensure that UA:

- a. Update its fund-raising policy to reflect the requirements of ICSUAM §15701, *Fundraising Events*.
- b. Obtain written approval from a delegated authority for all fund-raising events with gross receipts greater than \$5,000, including a review of event budgets, drafts of solicitation materials, and action plans for compliance with federal, state, and local regulations prior to the events.
- c. Register with the attorney general's Registry of Charitable Trusts and complete reporting requirements when raffles are conducted.
- d. Remit sales tax for taxable items sold through auctions.

MANAGEMENT RESPONSE

We concur. The campus will ensure that UA updates its fund-raising policy to reflect the requirements of ICSUAM §15701, *Fundraising Events*. The campus will also ensure that UA obtains written approval from a delegated authority for all fund-raising events with gross receipts greater than \$5,000, including a review of event budgets, drafts of solicitation materials, and action plans for compliance with federal, state, and local regulations, prior to the events. UA will also register with the attorney general's Registry of Charitable Trusts and complete reporting requirements when raffles are conducted. Sales tax for taxable items sold through auctions will be remitted.

Estimated completion date: September 2016

6. PLEDGES RECEIVABLE

OBSERVATION

UA did not finalize and update its *Pledge Receivables* policy and procedures for Foundation pledges receivable and did not document the review of the pledges receivable aging report, collection and follow-up activity on delinquent pledges receivable, and approval of pledge write-offs.

We found that:

- The UA *Pledge Receivables* policy and procedures had not been finalized, and the draft procedures did not address who should approve pledge write-offs.
- Management review of the pledges receivable aging report was not documented. This is a repeat observation from the 2012 *Auxiliary Organizations* audit.

In addition, we reviewed 20 outstanding pledges receivables from the aging report as of June 30, 2015, and we found that in eight instances, collection activity and follow-up was not documented to facilitate the collection of delinquent pledges receivable. This is a repeat observation from the 2012 *Auxiliary Organizations* audit. Further, in two of the 20 instances, uncollectible pledges receivables were not written off timely, and in one instance, a sub-award receivable was erroneously recorded in the financial system as a pledge receivable.

We also reviewed ten pledge write-offs as of October 15, 2015, and we found that in seven instances, approval was not documented before the pledges receivable were written off. Further, none of the write-offs had documentation to show that sufficient collection and follow-up activity was performed before the outstanding pledges were written off.

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 cash flow.

RECOMMENDATION

We recommend that the campus ensure that UA:

- a. Finalize and address who should approve pledge write-offs in the *Pledge Receivables* policy and procedures.
- b. Document management review of the pledges receivable aging report.
- c. Document collection and follow-up activity on delinquent pledges receivable, timely write off long-outstanding pledges receivable, and accurately record pledges receivable in the system.
- d. Document review and approval of pledge write-offs, including evidence showing sufficient collection and follow-up activity was performed before the outstanding pledges receivable were written off.

MANAGEMENT RESPONSE

We concur. The campus will ensure that UA finalizes and addresses who should approve pledge write-offs in the *Pledge Receivables* policy and procedures and document management review of the pledges receivables aging report. UA will also document collection and follow-up activity on delinquent pledges receivable, timely write off long-outstanding pledges receivable, and accurately record pledges receivable in the system. UA will also document

review and approval of pledge write-offs, including evidence showing sufficient collection and follow-up activity was performed before the outstanding pledges receivable were written off.

Estimated completion date: September 2016

7. DONOR SYSTEM RECONCILIATION

OBSERVATION

UA did not perform independent reconciliations between the Foundation donor database and the general ledger accounting system for fiscal years (FY) 2012/13, 2013/14, and 2014/15.

The lack of reconciliations of donor and accounting records increases the risk of reporting errors and/or misappropriations of funds.

RECOMMENDATION

We recommend that the campus perform reconciliations between the Foundation donor database and the campus general ledger accounting system.

MANAGEMENT RESPONSE

We concur. The campus will perform reconciliations between the Foundation donor database and the campus general ledger accounting system.

Estimated completion date: September 2016

8. CAMPUS PROGRAM ACCOUNTS

OBSERVATION

The campus did not have a written delegation of authority for the authorization of Foundation campus activities or programs, and the campus had not developed written policies and procedures to provide specific guidance and documentation requirements for campus activities and programs.

We reviewed 15 Foundation campus activity and program accounts, and we found that the campus:

- Did not document the delegation of authority for the authorization of a campus activity or program from the campus president to the vice president of administration and finance, as required by ICSUAM §13680, *Placement and Control of Receipts for Campus Activities and Programs*.
- Had not developed written policies and procedures to provide specific guidance and documentation requirements for campus program (agency/trust) accounts, including

procedures to address non-active or discontinued campus activity and program accounts, as required by ICSUAM §13680.

The absence of a delegation of authority for the authorization of campus activities and programs and the lack of policies and procedures providing specific guidance and documentation for campus program accounts increase the risk of non-compliance with relevant requirements and increase the chance of misunderstandings and miscommunication regarding rights and responsibilities.

RECOMMENDATION

We recommend that the campus:

- a. Prepare a written delegation of authority from the campus president to the vice president of administration and finance for the authorization of Foundation campus activities or programs.
- b. Develop written policies and procedures to provide specific guidance and documentation requirements, including procedures to address non-active/discontinued campus activity and program accounts.

MANAGEMENT RESPONSE

We concur. The campus will prepare a written delegation of authority from the campus president to the vice president of administration and finance for the authorization of Foundation campus activities or programs. The campus will also develop written policies and procedures to provide specific guidance and documentation requirements, including procedures to address non-active/discontinued campus activity and program accounts.

Estimated completion date: September 2016

9. DELEGATION OF AUTHORITY

OBSERVATION

The campus did not provide Foundation and ASI management with written delegations of authority from the campus president giving the management authority to sign/approve contracts and grant proposals, as required by EO 890, *Administration of Grants and Contracts in Support of Sponsored Programs*.

The absence of documented delegations of authority for approval of contracts and grant proposals increases the risk that grant proposals will not be subject to adequate review and misunderstandings or that unauthorized activities or actions will occur.

RECOMMENDATION

We recommend that the campus provide written delegation of authority from the president or the president's designee to Foundation and ASI management to sign/approve contracts and grant proposals.

MANAGEMENT RESPONSE

We concur. The campus will provide written delegation of authority from the president or the president's designee to Foundation and ASI management to sign/approve contracts and grant proposals.

Estimated completion date: September 2016

10. AGREEMENTS

OBSERVATION

Agreements between the campus and the auxiliaries were not always documented or renewed timely.

We found that there was no documented agreement between the campus and the Foundation for the asset management services provided by the campus. Additionally, the MOU between the campus and LSU for asset management services expired on June 30, 2013, and had not been renewed.

The absence of current written agreements increases the risk of misunderstandings and miscommunications regarding rights and responsibilities.

RECOMMENDATION

We recommend that the campus:

- a. Document the agreement for asset management services provided to the Foundation.
- b. Promptly renew the asset management services agreement with LSU.

MANAGEMENT RESPONSE

We concur. The campus will document the agreement for asset management services provided to the Foundation and promptly renew the asset management services agreement with LSU.

Estimated completion date: September 2016

California State University, Dominguez Hills Foundation

11. SPONSORED PROGRAMS

OBSERVATION

The Foundation was unable to provide supporting documentation for 15 closed contracts and grants.

We found that the Foundation could not provide supporting documentation for 15 closed contracts and grants that were requested at the beginning of the audit. As such, we were unable to verify whether the closeout process and submission of final reports were completed in a timely manner. The Foundation chief operating officer and chief financial officer stated that due to changes in outsourced document storage contracts managed by the campus and the transition of staff that maintained the index of such records, retrieval of the requested documents was significantly delayed beyond the time of the audit fieldwork.

Inability to provide sufficient documentation for contracts and grants exposes the auxiliary organization to penalties and disallowances for non-compliance with contracts and grants terms.

RECOMMENDATION

We recommend that the Foundation review document storage for contracts and grants and take appropriate action in order to facilitate the retrieval of supporting documentation for closed contracts and grants.

MANAGEMENT RESPONSE

We concur. The Foundation will review document storage for contracts and grants and take appropriate action in order to facilitate the retrieval of supporting documentation for closed contracts and grants.

Estimated completion date: September 2016

12. SUB-RECIPIENT MONITORING

OBSERVATION

Foundation administration of sub-recipients did not ensure completion of sub-recipient risk assessments, compliance with conflict-of-interest requirements, and completion of required documentation, as required by 2 Code of Federal Regulations (CFR) 200, Uniform Guidance §200.331, *Requirements for Pass-through Entities*.

Specifically, we found that the Foundation's *Sub-recipient Monitoring* policies and procedures did not address the sub-recipient risk assessment process to identify key risks and determine the level of monitoring required or procedures for monitoring sub-recipients, such as the

methodology for resolving findings of sub-recipient noncompliance or weaknesses in internal control.

We also reviewed ten sub-recipients, and we found that:

- In all ten instances, sub-recipient risk assessments were not performed.
- In seven instances, the Sub-recipient Commitment Form was not maintained. We were unable to verify whether these sub-recipients had their own conflict-of-interest policy and completed the conflict-of-interest forms.
- In one instance, the Financial Management System Questionnaire – which is used to obtain organizational information, financial statement audit data, and accounting system data for a sub-recipient who was not required to file an A-133 report – was not completed.

Incomplete or outdated sub-recipient policies and procedures and insufficient monitoring of sub-recipients increases the risk that sub-recipients will not be adequately monitored and could result in reduced reimbursements and non-compliance with 2 CFR 200, Uniform Guidance §200.331; and subjects the campus and auxiliary to potential liability.

RECOMMENDATION

We recommend that the Foundation:

- a. Update its sub-recipient monitoring policies and procedures to reflect current sponsored program organization and staff; address sub-recipient risk assessment to identify key risks and determine the level of monitoring required; and include procedures for monitoring sub-recipients, such as the methodology for resolving findings of sub-recipient noncompliance or weaknesses in internal control.
- b. Perform sub-recipient risk assessments prior to issuing the sub-awards.
- c. Maintain Sub-recipient Commitment Forms to verify that sub-recipients have their own conflict-of-interest policies and have completed conflict-of-interest forms.
- d. Complete the Financial Management System Questionnaire for all sub-recipients who are not required to file an A-133 report.

MANAGEMENT RESPONSE

We concur. The Foundation will update its sub-recipient monitoring policies and procedures to reflect current sponsored program organization and staff; address sub-recipient risk assessment to identify key risks and determine the level of monitoring required; and include procedures for monitoring sub-recipients, such as the methodology for resolving findings of sub-recipient noncompliance or weaknesses in internal control. The Foundation will also perform sub-recipient risk assessments prior to issuing the sub-awards and maintain sub-recipient Commitment Forms to verify that sub-recipients have their own conflict-of-interest policies and have completed conflict-of-interest forms. The Foundation will also complete the

Financial Management System Questionnaire for all sub-recipients who are not required to file an A-133 report.

Estimated completion date: September 2016

13. CONFLICT OF INTEREST

OBSERVATION

The Foundation did not always obtain initial and renewal conflict-of-interest forms from principal investigators (PIs) and ensure that ethics training was completed by PIs in accordance with federal regulations; ICSUAM §11010.02, *Financial Conflict of Interest for Investigators*; CSU HR 2015-03, *Ethics Regulations and COI Code Training*; and the campus *Policy and Procedures on Financial Conflicts of Interest for Sponsored Programs*. This is a repeat observation from the 2012 *Auxiliary Organizations* audit.

The 2012 *Auxiliary Organizations* audit noted that this function was performed by the Office of Research and Funded Projects (ORFP) on campus, and current Foundation management noted that the same office was still responsible for this function. The Foundation provided a campus policy and a presidential memorandum that articulated that this responsibility rested with the ORFP; however, it did not have a signed agreement between the two entities delegating this responsibility.

We reviewed 15 active Foundation contracts and grants, and we found that:

- Two PIs on governmental projects did not complete a Disclosure of Financial Interests Certification Form, and one PI on a non-governmental project did not complete a Form 700-U.
- Three PIs on governmental projects completed the Disclosure of Financial Interests Certification Form from three to 13 months after the award start date, and one PI on a non-governmental project completed a Form 700-U five months after the award start date.
- Six PIs on governmental projects did not complete the annual renewal of the Disclosure of Financial Interests Certification Form, and one PI on a non-governmental project did not complete the annual renewal of Form 700-U.
- One PI on a governmental project did not complete the ethics training.
- Seven PIs on governmental projects did not complete ethics training within six months of the award receipt. Ethics training was completed from nine to 40 months after the award start date.
- Two PIs on governmental projects funded by a Public Health Service (PHS) agency did not complete additional training required by the PHS.

Non-completion and untimely completion of conflict-of-interest forms and required ethics training increases the risk of non-compliance with federal regulations and CSU and campus policy.

RECOMMENDATION

We recommend that Foundation:

- a. Obtain initial and renewal conflict-of-interest forms from all PIs in accordance with federal regulations and CSU and campus policy.
- b. Ensure that PIs complete ethics training in accordance with prescribed time periods and additional training as required by the PHS.
- c. Execute an agreement specifying that responsibility for conflict-of-interest compliance is delegated to the ORFP.

MANAGEMENT RESPONSE

We concur. The Foundation will obtain initial and renewal conflict-of-interest forms from all PIs in accordance with federal regulations and CSU and campus policy and ensure that PIs complete ethics training in accordance with prescribed time periods and additional training as required by the PHS. The Foundation will also execute an agreement specifying that responsibility for conflict-of-interest compliance is delegated to the ORFP.

Estimated completion date: September 2016

14. EFFORT REPORTING

OBSERVATION

Effort certification reports were not always certified and submitted to the Foundation in accordance with the Foundation *Effort Reporting* policy.

We reviewed effort certification reports for ten contracts and grants, and we found that in nine instances, PIs did not complete effort certifications timely. Effort certifications for the spring semester of 2014, fall semester of 2014, and spring semester of 2015 were neither dated nor certified by the PIs until October 2015.

Effort-reporting certifications that are not certified and submitted timely decrease assurance of the reliability of the effort-reporting systems and increase exposure to non-compliance with federal regulations.

RECOMMENDATION

We recommend that the Foundation actively engage and increase coordination between all parties with responsibilities in the effort-reporting process to ensure that effort reports are certified and submitted timely.

MANAGEMENT RESPONSE

We concur. The Foundation will actively engage and increase coordination between all parties with responsibilities in the effort-reporting process to ensure that effort reports are certified and submitted timely.

Estimated completion date: September 2016

15. SPONSORED PROGRAMS POLICIES AND PROCEDURES

OBSERVATION

The Foundation's procedures for sponsored programs did not reflect current post-award administration practices and did not make clear whether the campus or the Foundation was responsible for monitoring cost-shares.

We found that:

- The Foundation *Sub-recipient Monitoring, Cost Sharing, and Effort Reporting* procedures had not been updated since June 2007 and still referred to the grants and contracts office, which had been informally renamed the Office of Post Award Management Services, and the director of grants and contracts administration position, which had been eliminated approximately one year prior to the end of this audit's fieldwork.
- The *Cost Sharing* procedure was unclear as to whether the campus or the Foundation was responsible for monitoring cost-shares.
- The Foundation *Account Holders Handbook*, which included a section regarding "Project Director's Supplement for Sponsored Programs," was eliminated and replaced by individual policies. The Foundation *Post Award PI/Project Director Manual*, meant to replace the old handbook, was in draft form pending review by the post award advisory council.

Outdated procedures for sponsored programs and a lack of clearly defined responsibilities increase the risk of noncompliance with CSU and governmental requirements.

RECOMMENDATION

We recommend that the Foundation:

- a. Update its *Sub-Recipient Monitoring, Cost Sharing and Effort Reporting* procedures to reflect current practices and define the responsible parties for monitoring cost-shares.
- b. Finalize the *Post Award PI/Project Director Manual*.

MANAGEMENT RESPONSE

We concur. The Foundation will update its *Sub-Recipient Monitoring, Cost Sharing and Effort Reporting* procedures to reflect current practices and define the responsible parties for monitoring cost-shares. The Foundation will also finalize *the Post-Award PI/Project Director Manual*.

Estimated completion date: September 2016

16. PERSONNEL AND PAYROLL

OBSERVATION

The Foundation did not always ensure that Foundation, ASI, and LSU overtime and double-time payments and salary changes were sufficiently documented, accurately calculated, and properly recorded in the payroll system. The Foundation provides payroll services to ASI and LSU.

We reviewed documentation for ten Foundation, five ASI and five LSU overtime and double-time payments, and we found that:

- In two instances, Foundation employees’ overtime hours in the Payroll Timesheet did not match what was recorded in the payroll system. In one other instance, a Foundation employee was paid four hours of overtime when the four hours claimed were for sick leave. In one other instance, a change in the overtime hours paid was not sufficiently documented.
- For two of the five LSU overtime and double-time payments, we were unable to verify whether retroactive payments for additional overtime or double-time were properly processed due to inadequate supporting documentation.

Additionally, we reviewed documentation for 15 Foundation, five ASI, and five LSU salary changes, and we found that:

- One Foundation employee was not paid the new pay rate for eight holiday hours earned. This Foundation employee’s new rate was effective July 1, 2015.
- In three instances, ASI employees were not paid the appropriate retroactive payments.

Insufficient administration over overtime and double-time payments and salary changes increases the risk of errors and improper payments to employees, and may increase legal liability.

RECOMMENDATION

We recommend that Foundation ensure that:

- a. Overtime and double-time payments are sufficiently documented, accurately calculated, and properly recorded.
- b. New pay rates are promptly reflected in the payroll system, and applicable retroactive payments are properly calculated and paid.

MANAGEMENT RESPONSE

We concur. The Foundation will ensure that overtime and double-time payments are sufficiently documented, accurately calculated, and properly recorded. The Foundation will also ensure that new pay rates are promptly reflected in the payroll system, and applicable retroactive payments are properly calculated and paid.

Estimated completion date: September 2016

17. CAMPUS PROGRAM ACCOUNTS

OBSERVATION

The Foundation did not always ensure that campus activity and program Account Set-up Forms were properly approved, nor did it perform a periodic review to identify any non-active accounts.

We reviewed 15 Foundation campus activity and program accounts, and we found that:

- In seven instances, Account Set-up Forms were not approved and signed by either the dean or the vice president for administration of finance, who had delegated authority to authorize campus activities and programs.
- A periodic review was not performed to identify any non-active campus activity and program accounts that require further action.

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

RECOMMENDATION

We recommend that the Foundation:

- a. Ensure that Account Set-up Forms are properly approved and signed by the delegated authority.

- b. Perform periodic reviews for non-active campus activity and program accounts and take further action as required.

MANAGEMENT RESPONSE

We concur. The Foundation will ensure that Account Set-up Forms are properly approved and signed by the delegated authority. The Foundation will also perform periodic reviews for non-active campus activity and program accounts and take further action as required.

Estimated completion date: September 2016

18. HOSPITALITY

OBSERVATION

The Foundation did not always ensure that hospitality payments were adequately supported, as required by ICSUAM §1301.00, *Hospitality, Payment, or Reimbursement of Expenses*.

We reviewed nine hospitality expenditures, and we found that eight expenditures were not supported by a listing of attendees, a documented business purpose, and the direct/indirect benefit to the auxiliary/CSU.

Adequately supported hospitality-related expenditures improve accountability over hospitality expenses and reduce the risk of errors, irregularities, and misappropriation of funds.

RECOMMENDATION

We recommend that the Foundation ensure that all hospitality expenditures are adequately supported by a listing of attendees, a documented business purpose, and the benefit to the auxiliary/CSU.

MANAGEMENT RESPONSE

We concur. The Foundation will ensure that all hospitality expenditures are adequately supported by a listing of attendees, a documented business purpose, and the benefit to the auxiliary/CSU.

Estimated completion date: September 2016

19. CONFLICT OF INTEREST

OBSERVATION

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

We found that:

- Three board members appointed mid-term for FY 2013/14 had not completed and signed an annual conflict-of-interest statement.
- Eight board members had not signed an annual conflict-of-interest statement 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:

- a. Develop a process to ensure that board members who are appointed mid-term complete and sign annual conflict-of-interest statements.
- b. Obtain annual conflict-of-interest statements from all board members.

MANAGEMENT RESPONSE

We concur. The Foundation will develop a process to ensure that board members who are appointed mid-term complete and sign annual conflict-of-interest statements. The Foundation will also obtain annual conflict-of-interest statements from all board members.

Estimated completion date: September 2016

20. RESERVES

OBSERVATION

Foundation reserves for FY 2012/13, 2013/14, and 2014/15 had not been approved by the campus president, as required by Title 5 §42402.

Lack of review and approval of reserves increases the risk that auxiliary programs and planned auxiliary appropriations will be inconsistent with Title 5 §42402.

RECOMMENDATION

We recommend that Foundation obtain presidential approval of its reserves on an annual basis.

MANAGEMENT RESPONSE

We concur. The Foundation will obtain presidential approval of its reserves on an annual basis.

| Estimated completion date: September 2016

21. DISSOLUTION OF 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 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 will update its Articles of Incorporation to reflect a proper dissolution clause.

Estimated completion date: September 2016

Associated Students, Inc.

22. PERSONNEL AND PAYROLL

OBSERVATION

ASI did not perform background checks on all ASI CDC employees.

We reviewed new-hire documentation for four CDC employees and found that in two instances, the background checks had been completed more than 12 months previously, when the individuals were employed by the Foundation Infant Toddler Center. New background checks should have been performed, as required by CSU HR 2015-08, *Background Check Policy*. In one other instance, a background check was not performed.

Performing background checks helps protect the health, well-being, and safety of children and reduces the potential for reputational damage to the campus and the auxiliary.

RECOMMENDATION

We recommend that ASI perform background checks for all individuals working with children.

MANAGEMENT RESPONSE

We concur. ASI will perform background checks for all individuals working with children.

Estimated completion date: September 2016

23. BIDDING

OBSERVATION

ASI did not always obtain documented quotes for purchases that exceeded \$2,500, and its *Financial Policies and Procedures Manual* did not include specific instances where competitive bids and sole-source/sole-brand justifications were required.

We reviewed 17 purchases that exceeded \$2,500 and found that in five instances, documented quotes were not obtained, as required by the ASI *Financial Policies and Procedures Manual*. Additionally, the ASI *Financial Policies and Procedures Manual* did not include specific instances where competitive bids and sole-source/sole-brand justifications were required.

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 ASI:

- a. Obtain documented quotes for purchases exceeding \$2,500.
- b. Update its *Financial Policies and Procedures Manual* to include specific instances where competitive bids and sole-source/sole-brand justifications are required.

MANAGEMENT RESPONSE

We concur. ASI will obtain documented quotes for purchases exceeding \$2,500. ASI will also update its *Financial Policies and Procedures Manual* to include specific instances where competitive bids and sole-source/sole-brand justifications are required.

Estimated completion date: September 2016

24. PROPERTY AND EQUIPMENT

OBSERVATION

ASI did not always remove disposed items from the property and equipment listing, properly tag items, account for all assets, and perform physical inventory counts.

We reviewed ten capitalized assets from the property and equipment listing for physical verification, and we found that:

- An electric golf cart was disposed of in 2014 but had not been removed from the property and equipment listing.
- One computer server, valued at \$4,032, was purchased in 2008 for the campus radio station (KDHR) but had not been tagged. It was still in its unopened box.
- One computer server could not be located.

Additionally, ASI did not have documented policies and procedures requiring periodic physical inventories, and physical inventory counts were not performed during the past three fiscal years.

Inadequate control over equipment assets and lack of annual physical inventory counts increase the risk that property may be lost or stolen and misrepresented in the financial statements.

RECOMMENDATION

We recommend that ASI:

- a. Remove disposed items from the property and equipment listing.

- b. Ensure that all assets are properly tagged.
- c. Promptly locate the missing computer server or adjust the property and equipment listing as necessary.
- d. Develop documented policies and procedures for physical inventories and perform a documented independent physical inventory count.

MANAGEMENT RESPONSE

We concur. ASI will remove disposed items from the property and equipment listing and ensure that all assets are properly tagged. ASI will also promptly locate the missing computer server or adjust the property and equipment listing as necessary. ASI will also develop documented policies and procedures for physical inventories and perform a documented independent physical inventory count.

Estimated completion date: September 2016

25. STUDENT CLUB ACCOUNTS

OBSERVATION

The MOU between the Foundation and ASI for student club accounting services had not been renewed; ASI student club accounts were not always closed and funds were not always disposed of when the student clubs were no longer recognized by the campus and inactive; and controls over overspending of student club accounts were not in place.

We found that the MOU between the Foundation and ASI for student club accounting services had expired on June 30, 2013, and had not been renewed.

In addition, we reviewed ten student club accounts and found that in five 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 funds should have been disposed of in accordance with the student club account agreements.

Also, controls over overspending of student club accounts were not in place. As of September 30, 2015, three student clubs accounts carried deficit balances ranging from \$55 to \$2,431.

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

RECOMMENDATION

We recommend that ASI:

- a. Promptly renew the MOU with the Foundation for student club accounting services.

- b. Review student club accounts to ensure that accounts that are no longer recognized by the campus and inactive are properly closed and funds are disposed of in accordance with student club account agreements.
- c. Develop a process to control overspending of student club accounts.

MANAGEMENT RESPONSE

We concur. ASI will promptly renew the MOU with the Foundation for student club accounting services and review student club accounts to ensure that accounts that are no longer recognized by the campus and inactive are properly closed and funds are disposed of in accordance with student club account agreements. ASI will also develop a process to control overspending of student club accounts.

Estimated completion date: September 2016

26. CHILD DEVELOPMENT CENTER GRANTS

OBSERVATION

A master operating agreement between the campus and ASI for the administration of CDC contracts and grants had not been established as required by EO 890, *Administration of Grants and Contracts in Support of Sponsored Programs*.

The absence of a master operating agreement increases the risk of misunderstandings, unauthorized activities/actions, and inconsistencies.

RECOMMENDATION

We recommend that ASI establish a master operating agreement with the campus for the administration of CDC contracts and grants.

MANAGEMENT RESPONSE

We concur. ASI will establish a master operating agreement with the campus for the administration of CDC contracts and grants.

Estimated completion date: September 2016

27. HOSPITALITY

OBSERVATION

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

These 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.

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

RECOMMENDATION

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

MANAGEMENT RESPONSE

We concur. ASI will develop written policies and procedures for hospitality expenditures as required by ICSUAM §1301.00.

Estimated completion date: September 2016

Loker Student Union, Inc.

28. CONFLICT OF INTEREST

OBSERVATION

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

We found that:

- Three board members appointed mid-term for FY 2013/14 had not completed and signed an annual conflict-of-interest statement.
- Two board members had not signed an annual conflict-of-interest statement for FY 2014/15.
- Two board members had not signed an annual conflict-of-interest statement for FY 2015/16.

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

RECOMMENDATION

We recommend that LSU:

- a. Develop a process to ensure that board members who are appointed mid-term complete and sign annual conflict-of-interest statements.
- b. Obtain annual conflict-of-interest statements from all board members.

MANAGEMENT RESPONSE

We concur. LSU will develop a process to ensure that board members who are appointed mid-term complete and sign annual conflict-of-interest statements and obtain annual conflict-of-interest statements from all board members.

Estimated completion date: September 2016

29. BIDDING

OBSERVATION

The LSU *Purchasing Policy* did not include specific instances where competitive bids or sole-source justifications were necessary for services or leasehold improvements.

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 LSU update its purchasing policy to include specific instances where competitive bids or sole-source justifications are necessary for services or leasehold improvements.

MANAGEMENT RESPONSE

We concur. LSU will update its purchasing policy to include specific instances where competitive bids or sole-source justifications are necessary for services or leasehold improvements.

Estimated completion date: September 2016

30. CASH RECEIPTS

OBSERVATION

Cash-receipting controls were not adequately implemented throughout LSU locations.

We found that:

- Games Room cash receipts were not reconciled to a point-of-sales system summary report daily, and cash overages and shortages were not tracked and recorded.
- Monthly cash receipts from the LSU wireless printing program were not reconciled to a sales report, and cash receipt collections were not performed in dual custody.

Inadequate cash-receipting controls increase the risk that erroneous and inappropriate actions will not be detected.

RECOMMENDATION

We recommend that LSU:

- a. Reconcile cash receipts to a point-of-sales summary report daily, and track and record cash overages and shortages, at the Games Room.
- b. Reconcile monthly cash receipts from the LSU wireless printing program to a sales report, and collect cash receipts in dual custody.

MANAGEMENT RESPONSE

We concur. LSU will reconcile cash receipts to a point-of-sales summary report daily, and track and record cash overages and shortages, at the Games Room. LSU will also reconcile monthly cash receipts from the LSU wireless printing program to a sales report and collect cash receipts in dual custody.

Estimated completion date: September 2016

31. PETTY CASH AND CHANGE FUNDS

OBSERVATION

LSU did not document periodic independent audits of the petty cash fund or perform independent unannounced counts of the LSU change fund.

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 LSU document periodic independent audits of petty cash and perform independent unannounced counts of the LSU change fund.

MANAGEMENT RESPONSE

We concur. LSU will document periodic independent audits of petty cash and perform independent unannounced counts of the LSU change fund.

Estimated completion date: September 2016

32. HOSPITALITY

OBSERVATION

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

These 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.

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 LSU develop written policies and procedures for hospitality expenditures as required by ICSUAM §1301.00.

MANAGEMENT RESPONSE

We concur. LSU will develop written policies and procedures for hospitality expenditures as required by ICSUAM §1301.00.

Estimated completion date: September 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.

California State University, Dominguez Hills Foundation

The Foundation was established in 1968 as a non-profit public benefit corporation for the purpose of promoting and assisting the educational programs of the university. The Foundation performs services that are vital to students, faculty, staff, and the entire campus community, including self-operated dining and catering services; the oversight of outsourced vending, third-party food vendors, and bookstore operations; post-award administration of grants and contracts; endowment administration; and fiscal administration of educationally related functions, special programs, and specific campus accounts. The Foundation is governed by a board of directors composed of representatives from the university administration, faculty, student body, and community.

Associated Students, Inc.

ASI was established in 1989 as a non-profit public benefit corporation responsible for providing a means for participation in the governance of the campus and an official voice through which students' opinions may be expressed; assisting in the protection of the rights and interests of the individual student and the student body; and stimulating the educational, social, physical, and cultural well-being of the university community. ASI operates the CDC, KDHR radio station, and a movie ticket sales desk. ASI is governed by the student board of directors and an advisory executive council that includes university management; employs an executive director, associate director, program coordinator, and executive assistant to manage daily operations; and outsources other fiscal and administrative functions to the campus. ASI also relies on the campus for certain accounting and administrative support services.

Loker Student Union

LSU was established in 1992 as a non-profit public benefit corporation for the primary purpose of operating and maintaining the student union facility. As of fall 2009, functions performed by the LSU include operation of the student union facility, conference, and ballroom rentals; Toro productions; and a laptop-checkout program. The LSU is governed by a board of directors composed of representatives from the university administration, faculty, student body, and community and employs an executive director, associate director, assistant director, and supporting staff to manage its operations. The LSU also relies on the Foundation for certain accounting and administrative support services.

SCOPE

We visited the CSUDH campus and its auxiliary organizations from September 28, 2015, through October 30, 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 October 30, 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:

- Education Code §89720
- Education Code §89756
- Education Code §89900
- Education Code §89904

- Corporation Code §5233
- Internal Revenue Service, Governance and Related Topics 501(c)(3)
- The Federal Omnibus Budget Reconciliation Act of 1993
- 2 CFR 200, Uniform Guidance §200.112, *Conflict of Interest*
- 2 CFR 200, Uniform Guidance §200.303, *Internal Controls*
- 2 CFR 200, Uniform Guidance §200.331, *Requirements for Pass-through entities*
- 2 CFR 200, Uniform Guidance §200.343, *Closeout*
- CCR, Title 5 §42401, *Declaration of Policy*
- CCR, Title 5 §42402, *Authority of Campus President*
- CCR, Title 5 §42500, *Functions of Auxiliary Organizations*
- CCR, Title 5 §42501, *Requirement of Written Agreement*
- CCR, Title 5 §42600(b), *Organization*
- 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 1059, *Utilization of Campus Auxiliary Organizations*
- EO 1068, *Student Activities*
- RFIN 7-81-4
- *CSU Auxiliary Organizations Compliance Guide*
- *CSU Auxiliary Organization Sound Business Practices Guidelines*
- *CSU Conflict of Interest Handbook, §2B*
- *CSU HR 2015-03, Ethics Regulations and COI Code Training*
- *CSU HR 2015-08, Background Check Policy*
- *ICSUAM §1301, Hospitality, Payment, or Reimbursement of Expenses*
- *ICSUAM §1401, Administration of Student Organization Funds*
- *ICSUAM §3151.04, Equipment*
- *ICSUAM §11001.00, Sponsored Programs Administration*
- *ICSUAM §11002.05, Sub-recipient Monitoring*
- *ICSUAM §11003.06, Effort Reporting*
- *ICSUAM §11003.07, Cost Sharing*
- *ICSUAM §11010.02, Financial Conflict of Interest for Investigators*
- *ICSUAM §13680, Placement and Control of Receipts for Campus Activities and Programs*
- *ICSUAM §15401, Fundraising – Matching Gifts*
- *ICSUAM §15701, Fundraising Events*
- *ICSUAM §8000, Information Security*
- *CSUDH Policy and Procedures on Financial Conflicts of Interest for Sponsored Programs*
- *CSUDH UA Gift and Stewardship Policy Manual*
- *CSUDH UA Gifts-In-Kind policy*
- *CSUDH UA Pledge Receivables Policy*
- *CSUDH Office of Graduate Studies and Research Policy and Procedures on Financial Conflict of Interest for Sponsored Programs*
- *Foundation Community Relations Policy*
- *Foundation Cost Sharing Policy and Procedure*
- *Foundation Employee Handbook*
- *Foundation Effort Reporting Policy and Procedure*
- *Foundation Grant and Contract Award Closeout Procedure*
- *Foundation Sub-recipient Monitoring Policy and Procedure*
- *ASI Financial Policies and Procedures Manual*

- *LSU Petty Cash Policy*
- *LSU Purchasing Policy*

AUDIT TEAM

Senior Director: Janice Mirza
Audit Manager: Caroline Lee
IT Audit Manager: Greg Dove
Senior Auditors: Sean Lee, Gina Yi, and Dave White
Internal Auditor: May Flores

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.