The California State University
OFFICE OF THE CHANCELLOR

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June 17, 2016

Dr. Karen S. Haynes, President
California State University, San Marcos
333 South Twin Oaks Valley Road
San Marcos, CA 92096

Dear Dr. Haynes:

Subject: Audit Report 16-01, *Auxiliary Organizations*, California State University, San Marcos

We have completed an audit of *Auxiliary Organizations* as part of our 2016 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

The California State University
Office of Audit and Advisory Services

AUXILIARY ORGANIZATIONS

California State University, San Marcos

Audit Report 16-01
April 21, 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, San Marcos

Based upon the results of the work performed within the scope of the audit, the fiscal, operational, and administrative controls at California State University, San Marcos (CSUSM) as of February 26, 2016, taken as a whole, were sufficient to meet the objectives of this audit. The audit revealed that the campus did not perform a review of the California State University San Marcos Foundation (Foundation) at least once every five years, as required by Executive Order (EO) 1059.

California State University San Marcos Foundation

Based upon the results of the work performed within the scope of the audit, except for the effect of the observations described below, the fiscal, operational, and administrative controls at the Foundation as of February 26, 2016, taken as a whole, were sufficient to meet the objectives of this audit. The audit revealed that Foundation gifts-in-kind were not always supported by sufficient documentation, and the Foundation had not developed a written process for the disposition of gifts-in-kind. Additionally, the Foundation did not always maintain endowment agreements, and endowment agreements did not always delineate management fees; the Foundation had not developed written policies for hospitality expenditures, nor had it ensured that hospitality expenditures were adequately supported; and the Foundation commercial fund-raiser/fund-raising counsel used for its phonathon program was not registered with the Attorney General's Registry of Charitable Trusts.

University Auxiliary and Research Services Corporation

Based upon the results of the work performed within the scope of the audit, except for the effect of the observations described below, the fiscal, operational, and administrative controls at University Auxiliary and Research Services Corporation (UARSC) as of February 26, 2016, taken as a whole, were sufficient to meet the objectives of this audit. The audit revealed that UARSC faculty annual salary rates did not always agree with the rates in the campus PeopleSoft system, Employment Authorization Forms (EAF) were not always completed timely, and certain timesheets used to certify effort were completed prior to work performance without after-the-fact confirmation. Additionally, UARSC did not ensure that campus activities and programs were properly approved, nor did it perform a periodic review to identify any non-active campus activity and program accounts; UARSC did not always maintain Form I-9s for continuing employees or complete a new Form I-9 for rehires; and UARSC grant closeout procedures did not address the transfer of ownership for equipment purchased with sponsored projects funds to the university, which is a repeat observation from the prior Auxiliary Organizations audit.

Also, UARSC did not have a comprehensive written risk management policy, UARSC Conflict of Interest Disclosure Forms for principal investigators did not include certain required disclosure sections, and UARSC did not report stipends paid to students to the campus financial aid office.

San Marcos University Corporation

Based upon the results of the work performed within the scope of the audit, the fiscal, operational, and administrative controls in effect at San Marcos University Corporation (Corporation) as of February 26, 2016, taken as a whole, were sufficient to meet the objectives of this audit. The audit revealed that the Corporation did not have comprehensive written policies and procedures for accounts receivable and did not document its review and reconciliation of accounts receivable.

Associated Students, Incorporated

Based upon the results of the work performed within the scope of the audit, except for the effect of the observations described below, the fiscal, operational, and administrative controls at Associated Students, Incorporated (ASI) as of February 26, 2016, taken as a whole, were sufficient to meet the objectives of this audit. The audit revealed that ASI recordkeeping/ retention practices for sponsored events needed improvement because requested documents could not be provided. Additionally, ASI had not developed written policies and procedures for hospitality expenditures; ASI Request for Travel and Per Diem and Travel Expense Claim forms were not completed and approved in a timely manner; Travel Expense Claim forms were not always signed by the traveler; and receipts were not always submitted. Further, ASI did not always forward cash receipts to campus student financial services for deposit within prescribed timeframes, nor were deposits always supported with sufficient documentation.

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

OBSERVATIONS, RECOMMENDATIONS, AND RESPONSES

Campus

1. OPERATING AGREEMENT

OBSERVATION

The campus did not perform a review of the Foundation at least once every five years, as required by EO 1059.

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.

Inadequate review of auxiliary organization written operating agreements and functions increases the risk of unauthorized activities and misunderstandings and miscommunication regarding rights and responsibilities.

RECOMMENDATION

We recommend that the campus 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 review 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.

Expected completion date: On or before June 1, 2016, and every five years thereafter

California State University San Marcos Foundation

2. GIFTS-IN-KIND

OBSERVATION

Foundation gifts-in-kind were not always supported by sufficient documentation, and the Foundation had not developed a written process for the disposition of gifts-in-kind.

We reviewed 30 gifts-in-kind received from April 2013 to November 2015, and we found that:

- In six instances, supporting documentation, such as Gift-In-Kind Acceptance forms or Gift-in-Kind Item Description sheets and accompanying Gift Acknowledgement letters, were not on file to support the acceptance of gifts-in-kind, as required by the Foundation *Gifts-In-Kind* policy.

- The Foundation did not have a written process for the disposition of gifts-in-kind. Further, we found that in six other instances, gifts-in-kind that were either sold at auctions or given out at opportunity drawings were not supported by documentation showing the names of the winners and corresponding winning prizes.

Insufficient administration of gifts-in-kind increase the risk of errors and misplaced gifts, misappropriation of funds, and noncompliance with donor terms.

RECOMMENDATION

We recommend that the Foundation:

a. Retain supporting documentation, such as Gift-In-Kind Acceptance forms or Gift-in-Kind Item Description sheets and accompanying Gift Acknowledgement letters, for all gifts-in-kind.

b. Establish a written process for the disposition of gifts-in-kind, including documentation requirements for items sold at auctions or given out at opportunity drawings.

MANAGEMENT RESPONSE

We concur. The Foundation will retain supporting documentation for all gifts-in-kind. The Foundation will develop a written process for the disposition of gifts-in-kind, including requirements for items sold at auctions or given out at opportunity drawings.

Expected completion date: On or before October 1, 2016

3. ENDOWMENTS

The Foundation did not always maintain endowment agreements as required by the Foundation *Management of Endowment and Similar Funds Policy*, and endowment agreements did not always delineate management fees.

We reviewed 19 endowments dated from December 2012 to December 2015, and we found that:

- In four instances, the Foundation could not locate the endowment agreements.
- In four other instances, management fees were not delineated in the endowment agreements.

The lack of written endowment agreements with delineated management fees increases the likelihood that funds will be misdirected and the auxiliary will be exposed to liabilities resulting from noncompliance with donor intent.

RECOMMENDATION

We recommend that the Foundation:

a. Maintain endowment agreements for all endowments.
b. Delineate management fees in the endowment agreements.

MANAGEMENT RESPONSE

We concur. The Foundation will maintain endowment agreements for all new endowments. The Foundation will delineate management fees in the endowment agreements.

Expected completion date: On or before June 30, 2016

4. HOSPITALITY

OBSERVATION

The Foundation had not developed written policies for hospitality expenditures, as required by ICSUAM §1301.00, *Hospitality, Payment, or Reimbursement of Expenses*, nor had it ensured that hospitality expenditures were adequately supported.

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

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

In addition, we reviewed 20 hospitality expenditures dated from September 2014 to December 2015, and we found that none of the expenditures were supported by a listing of attendees and a documented business purpose.

Documented policies and procedures and 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 develop written policies and procedures for hospitality expenditures, as required by ICSUAM §1301.00, and ensure that all hospitality expenditures are adequately supported by a listing of attendees and a documented business purpose.

MANAGEMENT RESPONSE

We concur. The Foundation will develop and implement written policies and procedures for hospitality expenditures. The Foundation will ensure that all hospitality expenditures are supported by a listing of attendees and a documented business purpose.

Expected completion date: On or before October 20, 2016

5. COMMERCIAL FUND-RAISER/FUND-RAISING COUNSEL

OBSERVATION

The Foundation commercial fund-raiser/fund-raising counsel used for its phonathon program was not registered with the Attorney General's Registry of Charitable Trusts, as required by Government Code §12599.

A commercial fund-raiser/fund-raising counsel not registered with the Attorney General's Registry of Charitable Trusts results in noncompliance with Government Code.

RECOMMENDATION

We recommend that the Foundation only engage a commercial fund-raiser/fund-raising counsel registered with the Attorney General's Registry of Charitable Trusts.

MANAGEMENT RESPONSE

We concur. The Foundation has engaged with a commercial fund-raiser/fund-raising counsel registered with the Attorney General's Registry of Charitable Trusts.

Expected completion date: Completed February 22, 2016

University Auxiliary Research Services Corporation

6. EFFORT REPORTING

OBSERVATION

UARSC faculty annual salary rates in the *Faculty Additional Employment Worksheet* did not always agree with the rates in the campus PeopleSoft system, EAFs were not always completed timely, and certain timesheets used to certify effort were completed prior to work performance without after-the-fact confirmation.

We reviewed effort reporting documentation for 15 grants, and we found that:

- In four instances, the faculty annual salary rate in the *Faculty Additional Employment Worksheet* did not agree with the corresponding rate in the campus PeopleSoft system.
- In four instances, EAFs were not completed timely. Delays ranged from 17 to 52 days.
- In two instances, the timesheets used to certify effort were completed prior to work performance, and there was no after-the-fact confirmation that the work was actually performed. Foundation management stated that the timesheets were completed prior to work performance because the faculty members were working away from the campus for an extended period of time.

Inadequate administration of effort certification increases exposure to non-compliance with federal regulations.

RECOMMENDATION

We recommend that UARSC:

a. Confirm with the campus that the faculty annual salary rates in the *Faculty Additional Employment Worksheet* are correct.

b. Complete EAFs timely.

c. Require that timesheets be completed after work performance, or obtain after-the-fact confirmation that the work was performed.

MANAGEMENT RESPONSE

We concur.

a. Human resources will confirm that the salary rates on *the Faculty Additional Employment Worksheet* are correct by verifying salary with Academic Affairs at the time of hire.

b. Human resources staff will work closely with Office of Sponsored Projects staff to ensure that the EAFs are completed in a timely manner.

c. Human resources will request that timesheets be submitted after the work has been performed for each pay period in which the work is performed. For timesheets that are received prior to the pay period in which the work was performed, human resources will obtain confirmation that the work was indeed performed after the fact.

Expected completion date: September 2016

7. CAMPUS PROGRAM ACCCOUNTS

OBSERVATION

UARSC did not ensure that campus activities and programs were properly approved, nor did it perform a periodic review to identify any non-active campus activity and program accounts.

We reviewed 30 campus activity and program accounts, and we found that although there was a written delegation of authority from the campus president to the campus vice president for finance and administrative services to authorize campus activities and programs, none of the UARSC campus activities and programs had been reviewed and approved by the delegated authority.

Additionally, UARSC had not performed periodic reviews to identify any non-active campus activity and program accounts that required further action. Specifically, we noted that 16 accounts carried balances from $37 to $10,000 and had no transactions in the past five years. The last transaction dates ranged from June 30, 1999, to December 31, 2010.

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 UARSC:

a. Ensure that all campus activities and programs are reviewed and approved 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. A procedure will be developed that includes review and approval of campus program activity requests by the delegated authority. Periodic reviews for non-active campus activity will be performed yearly, and the program accounts will be closed, updated, or funds transferred accordingly.

Expected completion date: September 2016

8. PERSONNEL AND PAYROLL – NEW HIRES

OBSERVATION

UARSC did not always maintain Form I-9, *Employment Eligibility Verification*, for continuing employees, nor did it complete a new Form I-9 for rehires.

We reviewed 30 new hires from June 2013 to November 2015, and we found that:

- In one instance, UARSC could not locate the original Form I-9 for a faculty member who had been a continuing employee since 2004 and had been working on a new grant since October 1, 2015.

- In one other instance, a new Form I-9 was not completed for an employee who was rehired on October 1, 2015. This employee was initially hired by UARSC on August 21, 2002, and separated from the auxiliary on June 11, 2013.

The Department of Homeland Security, U.S. Citizenship and Immigration Services, requires that employers retain a Form I-9 for every current employee and states that Form I-9 may be reused if completed within three years of the date of rehire.

Insufficient administration of Form I-9 requirements increases the risk of fines and penalties.

RECOMMENDATION

We recommend that UARSC:

a. Maintain a Form I-9 for all continuing employees.

b. Complete a new Form I-9 or complete Section 3 of the Form I-9 when rehiring an employee within three years of the date a prior Form I-9 was completed.

MANAGEMENT RESPONSE

We concur.

a. Human resources will maintain a Form I-9 for all active and continuing employees.

b. For re-hires within three years of the date a prior Form I-9 was completed, Section 3 of the Form I-9 will be completed.

Expected completion date: September 2016

9. PROJECT CLOSEOUT

OBSERVATION

UARSC grant closeout procedures did not address the transfer of ownership for equipment purchased with sponsored projects funds to the university, as required by ICSUAM §11005.00.

We reviewed 20 grants that expired between January 2014 and June 2015, and we found that UARSC did not include the transfer of ownership for equipment purchased with sponsored projects funds to the university after the project end date in its project close-out procedures (checklist). This is a repeat observation from the prior *Auxiliary Organizations* audit.

The lack of procedures for transferring equipment associated with contracts and grants increases the risk of noncompliance with California State University (CSU) policy and misrepresentation in the financial statements.

RECOMMENDATION

We recommend that UARSC update its project close-out procedures (checklist) to include the transfer of ownership for equipment purchased with sponsored projects funds to the university after the project end date.

MANAGEMENT RESPONSE

We concur. UARSC has updated its project close-out checklist to include the transfer of ownership for equipment purchased with sponsored projects funds to the university after the project end date.

10. RISK MANAGEMENT

OBSERVATION

UARSC did not have a comprehensive written risk management policy that addressed an ongoing process to proactively identify risks, analyze the frequency and severity of identified risks, and implement a risk mitigation program that coordinates with the campus risk assessment and mitigation plan.

The absence of a comprehensive risk management policy increases the likelihood that all current and future risk-related activities may not be adequately evaluated and prevented.

RECOMMENDATION

We recommend that UARSC develop and adopt a comprehensive written risk management policy that includes procedures to actively identify, analyze, quantify, and manage risk.

MANAGEMENT RESPONSE

We concur. UARSC will develop and adopt a comprehensive risk management policy that identifies, analyzes, and manages risk, including the role of management and risk management practices.

Expected completion date: September 2016

11. CONFLICT OF INTEREST

OBSERVATION

UARSC Conflict-of-Interest Disclosure forms for principal investigators did not include certain required disclosure sections, as required by Title 2 §18755.

We found that:

- The Conflict-of-Interest Disclosure form for Nongovernmental Funding Sources did not include a section for payments received for travel.

- The Conflict-of-Interest Disclosure form for Department of Health and Human Services/ Public Health Services/National Institute of Health Funding Sources did not include a section to indicate whether the person completing the form was a director, officer, employee, partner, trustee, consultant, or in a management position.

Inadequate conflict-of-interest forms increase the risk of noncompliance with federal and state requirements and could lead to possible regulatory scrutiny.

RECOMMENDATION

We recommend that UARSC ensure that conflict-of-interest forms include all required disclosure sections.

MANAGEMENT RESPONSE

We concur. UARSC has updated the conflict-of-interest forms to include all required disclosure sections.

12. STIPENDS

OBSERVATION

UARSC did not report stipends paid to students to the campus financial aid office, as required by Title 5 §42500(d).

We found that UARSC did not report stipends paid to students for fiscal years 2012/13, 2013/14, and 2014/15.

The lack of appropriate reporting of student stipends to the campus financial aid office may result in an overpayment of financial aid funds and increases the risk of fines and penalties.

RECOMMENDATION

We recommend that UARSC report all stipends paid to students to the financial aid office.

MANAGEMENT RESPONSE

We concur. UARSC will report all stipend payments to students to the financial aid office on a monthly basis and document this procedure.

Expected completion date: September 2016

San Marcos University Corporation

13. ACCOUNTS RECEIVABLE POLICY AND PROCEDURES

OBSERVATION

The Corporation did not have comprehensive written policies and procedures for accounts receivable and did not document its review and reconciliation of accounts receivable.

We found that although the Corporation followed the CSUSM Auxiliary Accounting *Accounts Receivable Procedures*, the procedures did not address:

- Collection of past-due accounts receivable.
- Valuation of allowance for doubtful accounts receivable.
- Write-off of uncollectible accounts receivable.
- The materiality threshold below which collection efforts are not performed.

The lack of comprehensive written policies and procedures increases the risk that errors, inconsistencies, and misunderstandings will occur, while the lack of documented reviews and reconciliations limits management ability to verify the accuracy of invoicing/billing and the completeness of accounts receivable.

RECOMMENDATION

We recommend that that the Corporation develop comprehensive accounts receivable policies and procedures and perform and document its review and reconciliation of accounts receivable.

MANAGEMENT RESPONSE

We concur. A comprehensive accounts receivable policy is being developed, including review and reconciliation timelines and documentation procedures.

Expected completion date: October 15, 2016

Associated Students, Incorporated California State University San Marcos

14. RECORDKEEPING/RETENTION

OBSERVATION

ASI recordkeeping/retention practices for sponsored events needed improvement.

We found that supporting documentation for certain ASI sponsored events that occurred from January 2014 to November 2015 could not be located. Therefore, we were unable to verify general event information such as event attendees, whether cash receipts were properly and timely deposited, and whether applicable risk management forms were completed. According to ASI management, the documentation could not be located due to a change in the staff who had oversight of ASI events and the ASI executive director's unplanned leave during audit fieldwork.

The absence of sufficient recordkeeping/retention practices increases the risk that required documentation will not be readily available when requested by management or for internal/external audit purposes.

RECOMMENDATION

We recommend that ASI review, update, and document its recordkeeping/retention practices and communicate those practices to staff to ensure that document requests can be readily addressed even in the event of personnel changes.

MANAGEMENT RESPONSE

We concur. ASI will review, update, and document its recordkeeping/retention practices and communicate these practices to staff to ensure that document requests can be readily addressed even in the event of personnel changes.

Expected completion date: July 15, 2016

15. HOSPITALITY

OBSERVATION

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

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

- Definition of hospitality expenditures.
- Allowable and unallowable expenditures and occasions.
- Hospitality provided to the spouse or domestic partner of an employee.
- Hospitality provided to students or prospective students.

- Appropriate approval process for transactions.

We reviewed ten hospitality expenditures dated from January 2014 to December 2015, and we found that a variety of items such as office supplies, parking meter expenses, contractor fees, and group sporting event tickets were classified as hospitality expenditures, but ASI did not have corresponding policies and procedures to define the types of hospitality expenditures considered appropriate and the associated documentation requirements.

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.

Expected completion date: July 15, 2016

16. PURCHASING AND ACCOUNTS PAYABLE

OBSERVATION

ASI Request for Travel and Per Diem and Travel Expense Claim forms were not always completed and approved timely, Travel Expense Claim forms were not always signed by the traveler, and receipts were not always submitted with the Travel Expense Claim forms, as required by the ASI *Travel Policy*.

We reviewed ten travel expenditures dated from January 1, 2014, to December 31, 2015, and we found that:

- In three instances, Request for Travel and Per Diem forms were completed two to four days before the start of travel, which did not provide enough time for timely pre-approval.
- In two instances, Request for Travel and Per Diem forms were completed after the travel end date.
- In three instances, Travel Expense Claim forms were not completed timely. Delays ranged from 55 to 163 days after the travel end date.
- In two instance, Travel Expense Claim forms were not signed by the traveler.
- In two instances, receipts were not submitted with the Travel Expense Claim forms.

Untimely completion of travel approval and claim forms and the lack of signatures and receipts increase the risk of errors and irregularities and the likelihood of loss of funds, and compromises accountability.

RECOMMENDATION

We recommend that ASI reiterate to travelers that:

a. Request for Travel and Per Diem forms should be completed prior to travel with enough time for approval before travel begins.

b. Travel Expense Claims forms should be signed and completed timely, preferably within 30 days.

c. All required receipts should be submitted with Travel Expense Claim forms.

MANAGEMENT RESPONSE

We concur.

a. Request for Travel and Per Diem forms will be completed prior to travel with enough time for approval before travel begins.

b. Travel Expense Claims forms will be signed and completed timely, preferably within 30 days.

c. All required receipts will be submitted with Travel Expense Claim forms.

Expected completion date: July 15, 2016

17. CASH RECEIPTS

OBSERVATION

ASI did not always forward cash receipts to campus student financial services for deposit within prescribed timeframes, nor were deposits always supported with sufficient documentation.

We reviewed 30 ASI cash receipts deposited from June 2013 to November 2015, and we found that:

- Cash receipts received at the ASI corporate office were not forwarded timely to campus cashiering for deposit. Specifically, seven cash receipts with totals from $500 to $4,999.99 were deposited from 6 to 80 days after receipt, and two cash receipts totaling less than $500 were deposited from 13 to 16 days after receipt. ASI *Cash Handling* policies and procedures prescribe that cumulative receipts up to $499 should be deposited within three business days, cumulative receipts from $500 to $4,999.99 should be deposited

within 24 hours of collection, and cumulative receipts from $5,000 to $49,999.99 should be deposited immediately on the same day.

- In two instances, deposits were not supported with sufficient supporting documentation, such as the CSI Spectrum (ASI point-of-sale system) report. ASI *Cash Handling* policies and procedures state that the financial coordinator should reconcile the CSI Spectrum report, checks, and cash with the deposit spreadsheet.

Untimely deposits and lack of sufficient supporting documentation increase the risk that collections will be misplaced or misappropriated.

RECOMMENDATION

We recommend that ASI:

a. Forward cash receipts to the campus student financial services for deposit in accordance with ASI *Cash Handling* policies and procedures.

b. Include sufficient supporting documentation for all deposits.

MANAGEMENT RESPONSE

We concur.

a. ASI will forward cash receipts to the campus student financial services for deposit in accordance with ASI *Cash Handling* policies and procedures.

b. ASI will include sufficient supporting documentation for all deposits.

Expected completion date: July 15, 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. CSU auxiliary organizations are required to comply with Board of Trustee policy (California Code of Regulations (CCR), Title 5, §42402 and Education Code, §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. In January 1999, the Committee on Audit of the Board of Trustees resolved that resources be provided to the Office of the University Auditor for the purpose of conducting internal compliance/internal control reviews of CSU 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.

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 San Marcos Foundation

The Foundation was established in February 2009 as a non-profit public benefit corporation and the new philanthropic auxiliary primarily responsible for the development, use, and management of non-state-funded resources, including endowment and scholarship funds. The Foundation oversees all program and scholarship endowments and non-endowed scholarships and partners with public and private organizations to generate resources that help promote student success. The Foundation does not have employees and relies on University Advancement and CSUSM Finance and Administrative Services for accounting and administrative support services. The Foundation is governed by a board of directors composed of representatives from the university administration, faculty, student body, and community.

University Auxiliary and Research Services Corporation

UARSC was established in 1990 as a non-profit public benefit corporation under the name California State University, San Marcos Foundation. It was officially reincorporated and renamed UARSC in April 2009. UARSC provides various commercial services and outsources bookstore and dining operations to a third party. UARSC also provides post-award administration of sponsored programs. UARSC is governed by a board of directors composed of representatives from the community, university administration, faculty, and student body. UARSC relies on CSUSM Finance and Administrative Services for accounting-related support services. Additionally, UARSC provides human resources and payroll services to the Corporation and ASI.

San Marcos University Corporation

The Corporation was established in 2001 as a non-profit public benefit corporation for the purpose of developing, providing, and maintaining affordable housing and other related facilities and activities for the use and convenience of faculty, staff, and students of CSUSM. The Corporation owns the University Village Apartments and contracts with a third-party administrator for their operation and management. The Corporation is responsible for the operation of the M. Gordon Clarke Field House/University Student Union including campus recreation programs and summer conferences. The Corporation is governed by a board of directors composed of representatives from the university and auxiliary administration, faculty, student body, and community. The Corporation relies on CSUSM Finance and Administrative Services for accounting-related support services and UARSC for human resources and payroll services.

Associated Students, Incorporated California State University, San Marcos
ASI was established in 1991 as a non-profit public benefit corporation responsible for providing a means for participation in student government 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 student body; delivering services and programs to meet the needs of the student and campus community; and stimulating the educational, social, physical, and cultural well-being of the CSUSM community. ASI operates the ASI Corporate Office, LGBTQA Pride Center, and Gender Equity Center. In addition, ASI provides banking services to student organizations, additional funding for student organization events, and student participation in professional development opportunities. ASI is governed by a student board of directors, which is assisted by an advisory council composed of representatives from ASI and campus administration. ASI relies on campus personnel for accounting and administrative support services and on UARSC for human resources and payroll services.

SCOPE

We visited the CSUSM campus and its auxiliary organizations from January 25, 2016, through February 26, 2016. 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, 2015, to February 26, 2016.

Specifically, we reviewed and tested:

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

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

CRITERIA

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

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

- The Department of Homeland Security, U.S. Citizenship and Immigration Services, Form I-9
- Government Code §12599
- Government Code §13401(b)(3)
- Education Code §89720
- Education Code §89756
- Education Code §89900
- Education Code §89904
- CCR, Title 2 § 18755, *Statements of Economic Interests: Person or Persons at an Institution of Higher Education with Principal Responsibility for a Research Project.*
- CCR, Title 5 §42401, *Declaration of Policy*
- CCR, Title 5 §42402, *Authority of Campus President*
- CCR, Title 5 §42500, *Functions of Auxiliary Organizations*
- RFIN 7-81-4
- EO 698, *Board of Trustees Policy for the California State University Auxiliary Organizations*
- EO 1059, *Utilization of Campus Auxiliary Organizations*
- CSU *Auxiliary Organizations Compliance Guide*
- CSU *Auxiliary Organizations Sound Business Practices Guidelines*
- ICSUAM §1301.00, *Hospitality, Payment or Reimbursement of Expenses*
- ICSUAM § 11005.00, *Externally Funded Equipment & Property Management*
- ICSUAM §13680.00, *Placement and Control of Receipts for Campus Activities and Programs*
- CSU Coded Memorandum HR 2002-05, *Additional Employment*
- CSUSM Auxiliary Accounting *Accounts Receivable Procedures*
- Foundation *Gifts-In-Kind* policy
- Foundation *Management of Endowment and Similar Funds Policy*
- UARSC *Additional Employment and Overload Guidelines and Procedures*
- UARSC *Employee Handbook*
- UARSC *Project Close-out Procedures (Checklist)*
- ASI *Cash Handling* policies and procedures
- ASI *Travel Policy*

AUDIT TEAM

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