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January 13, 2017

Dr. Ellen N. Junn, President
California State University, Stanislaus
One University Circle
Turlock, CA 95382

Dear Dr. Junn:

Subject: Audit Report 16-06, Auxiliary Organizations, California State University, Stanislaus

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

CSU Campuses

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AUXILIARY ORGANIZATIONS

California State University, Stanislaus

Audit Report 16-06
November 30, 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, Stanislaus

Based upon the results of the work performed within the scope of the audit at California State University, Stanislaus (CSUS), a few specific control weaknesses were noted; generally, however, controls were adequate, appropriate, and effective to provide reasonable assurance that risks were being managed and objectives were met. The audit revealed that deposit counts were not verified by a second person, mailed remittances were not verified and processed by an individual other than the cashier, and certain duties and responsibilities were not adequately segregated. Additionally, certain campus departments had not fully established cash-receipting controls; the campus *Hospitality Policy* did not specify a maximum per-person rate for breakfast, lunch, dinner, and light refreshments inclusive of the total cost of food, beverages, labor, sales tax, delivery fees, or other service fees; and campus administration of auxiliary hospitality expenditures required improvement. Further, the campus did not have a written delegation of authority for the authorization of California State University, Stanislaus Foundation (Foundation) campus activities or programs. Also, the campus did not always timely record fixed-asset additions and deletions, tag assets, complete required disposal forms, and document deletion of sensitive data from auxiliary computers prior to disposal. In addition, the campus *Risk Management Policy* did not specifically state that it applied to auxiliary organizations.

California State University, Stanislaus Foundation

Based upon the results of the work performed within the scope of the audit at the Foundation, a few specific control weaknesses were noted; generally, however, controls were adequate, appropriate, and effective to provide reasonable assurance that risks were being managed and objectives were met. The audit revealed that the Foundation did not obtain annual conflict-of-interest statements from all board members, and Foundation fund-raising events that took place at off-site locations were not supported by written agreements. Additionally, the Foundation did not always require signed release forms or waivers from students traveling by air.

California State University, Stanislaus Auxiliary and Business Services

Based upon the results of the work performed within the scope of the audit at California State University, Stanislaus Auxiliary and Business Services (ABS), controls evaluated were adequate, appropriate, and effective to provide reasonable assurance that risks were being managed and objectives were met. The audit revealed that agreements between ABS and the campus, the

California State University, Stanislaus University Student Union (USU), and third parties were not always timely executed or renewed.

Associated Students Incorporated of California State University, Stanislaus

Based upon the results of the work performed within the scope of the audit at Associated Students Incorporated of California State University, Stanislaus (ASI), a few specific control weaknesses were noted; generally, however, controls were adequate, appropriate, and effective to provide reasonable assurance that risks were being managed and objectives were met. The audit revealed that ASI Warrior Day ticket sales were neither logged nor recorded, and there was no independent reconciliation of ticket inventory to ticket sales. Additionally, ASI did not always ensure that ASI and USU pay rates and overtime payments were correct, nor did it ensure that offer letters were signed by the authorized signers and paychecks were timely paid upon separation. Also, ASI re-issued computer passwords to new employees.

California State University, Stanislaus University Student Union

Based upon the results of the work performed within the scope of the audit at USU, a few specific control weaknesses were noted; generally, however, controls were adequate, appropriate, and effective to provide reasonable assurance that risks were being managed and objectives were met. The audit revealed that cashiering controls were not adequately implemented throughout USU cashiering locations. Additionally, the USU did not always charge customers according to its facility-rate rental fees schedule; documentation related to facility rentals was not always maintained; agreements with third parties were not always signed by the USU; and an agreement was not timely signed.

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

OBSERVATIONS, RECOMMENDATIONS, AND RESPONSES

Campus

1. CASH RECEIPTS

OBSERVATION

Deposit counts were not verified by a second person, mailed remittances were not verified and processed by an individual other than the cashier, and certain duties and responsibilities were not adequately segregated, as required by ICSUAM §3102.02, *Segregation of Cash Handling Duties*.

We found that two employees performed the following incompatible duties:

- Opened mailed remittances
- Collected payments
- Prepared deposits
- Reconciled cash receipts

The lack of verification of deposits and mailed remittances, as well as inadequate segregation of duties, increase the risk that erroneous and inappropriate actions will not be timely detected.

RECOMMENDATION

We recommend that the campus:

- a. Implement a process to ensure that deposit counts are verified by a second person.
- b. Implement procedures to ensure that mailed remittances are verified and processed by an individual other than the cashier.
- c. Adequately segregate duties and responsibilities related to cash receipts or institute mitigating procedures approved by the campus chief financial officer.

MANAGEMENT RESPONSE

We concur. The campus will implement a process to ensure that deposit counts are verified by a second person. The campus will implement procedures to ensure mailed remittances are verified and processed by an individual other than the cashier. The campus will adequately segregate duties and responsibilities related to cash receipts or institute mitigating procedures approved by the campus chief financial officer.

Expected completion date: May 30, 2017

2. CAMPUS DEPARTMENTAL CASH RECEIPTS

OBSERVATION

Certain campus departments had not fully established cash-receipting controls.

We found that:

- Funds for deposit were transferred from the athletics department and the College of Business Administration to university advancement without the use of transfer receipts, as required by ICSUAM §3102.02, *Segregation of Cash Handling Duties*.
- Safe combinations at the athletics department and university advancement were not always changed after turnover in personnel who had safe access, and listings including the names of individuals with safe access and the last combination change date were not maintained, as required by ICSUAM §3102.04, *Physical Protection of Cash and Cash Equivalents*.
- Financial services and the athletics department did not log checks received in the mail, as required by ICSUAM §3102.03, *Acceptance of Cash and Cash Equivalents*.

Inadequate administration of cash receipts increases the risk of a loss or misappropriation of funds.

RECOMMENDATION

We recommend that the campus instruct:

- a. The athletics department and the College of Business Administration to implement the use of transfer receipts when funds are transferred between locations.
- b. The athletics department and university advancement to change safe combinations when there is turnover in personnel with safe access and maintain a listing including the names of individuals with safe access and the last combination change date.
- c. Financial services and the athletics department to log checks received in the mail.

MANAGEMENT RESPONSE

We concur. The campus will instruct the athletics department and the College of Business Administration to implement the use of transfer receipts when funds are transferred between locations. The campus will instruct the athletics department and university advancement to change safe combinations when there is turnover in personnel with safe access and maintain a listing including names of individuals with safe access and the last combination change date. The campus will instruct financial services and the athletics department to log checks received in the mail.

Expected completion date: April 30, 2017

3. HOSPITALITY

OBSERVATION

The campus *Hospitality Policy* did not specify a maximum per-person rate for breakfast, lunch, dinner, and light refreshments inclusive of the total cost of food, beverages, labor, sales tax, delivery fees, or other service fees, as required by ICSUAM §1301.00, *Hospitality, Payment or Reimbursement of Expenses*; and campus administration of auxiliary hospitality expenditures required improvement.

We reviewed 15 hospitality-related expenditures from each auxiliary, and we found that:

- For five Foundation hospitality-related expenditures, hospitality, food, and beverage expenditure forms were not completed. As such, a listing of attendees and/or the business purpose were not provided for these expenditures.
- ASI and USU incorrectly recorded hospitality-related expenditures as event expenditures. We found one USU and three ASI event expenditures that should have been recorded as hospitality expenditures.

The lack of comprehensive written policies and procedures and insufficient administration of hospitality expenditures increase the risk of errors, inconsistencies, and misappropriation of funds.

RECOMMENDATION

We recommend that the campus:

- a. Update its *Hospitality Policy* to address a maximum per-person rate for meals and light refreshments inclusive of the total cost of food, beverages, labor, sales tax, delivery fees, or other service fees.
- b. Require auxiliaries to complete a hospitality, food, and beverage expenditure form for all hospitality-related expenditures.
- c. Identify and record ASI and USU hospitality-related expenditures in the hospitality-related expenditure account, instead of the event-expenditure account.

MANAGEMENT RESPONSE

We concur. The campus will update its *Hospitality Policy* to address a maximum per-person rate for meals and light refreshments inclusive of the total cost of food, beverages, labor, sales tax, delivery fees, and other services. The campus will require auxiliaries to complete a hospitality expenditures form for all hospitality-related expenditures. The campus will review monthly financial data to identify and record ASI and USU hospitality-related expenditures in the hospitality-related expenditure account, instead of the event-expenditure account.

Expected completion date: May 30, 2017

4. CAMPUS PROGRAM ACCOUNTS

OBSERVATION

The campus did not have a written delegation of authority for the authorization of Foundation campus activities or programs, as required by ICSUAM §13680.00, *Placement and Control of Receipts for Campus Activities and Programs*.

The absence of a delegation of authority for the authorization of campus activities and programs increases the risk of non-compliance with relevant requirements and misunderstandings and miscommunication regarding rights and responsibilities.

RECOMMENDATION

We recommend that the campus prepare a written delegation of authority from the campus president to the vice president of university advancement for the authorization of Foundation campus activities or programs.

MANAGEMENT RESPONSE

We concur. The campus will prepare a written delegation of authority from the campus president to the vice president of university advancement for the authorization of Foundation campus activities or programs.

Expected completion date: April 30, 2017

5. PROPERTY AND EQUIPMENT

OBSERVATION

The campus did not always timely record fixed-asset additions and deletions, tag assets, complete required disposal forms, and document deletion of sensitive data from auxiliary computers prior to disposal; and one asset could not be located.

We reviewed five ABS and two USU fixed-asset additions, and we found that:

- Two ABS fixed-asset additions were not timely recorded in the fixed asset system. The delays were 113 and 160 days.
- One ABS asset was not tagged, and another ABS asset could not be located.

We reviewed seven ABS and two USU fixed-asset deletions, and we found that:

- Five ABS fixed-asset deletions were not timely removed from the fixed-asset system. The delays ranged from 391 to 581 days.
- One USU and four ABS fixed-asset disposals did not have the completed campus property survey/transfer request form.

- Two ABS computers and one USU copier did not have documentation showing that sensitive data on the assets had been deleted prior to disposal. The campus property survey/transfer request form requires that all data on the hard drive of any computer equipment be deleted before the asset is transferred or surveyed.

Insufficient administration of property and equipment increases the risk that property may be stolen or misrepresented in the financial statements. Further, inadequate control over equipment assets, especially those containing sensitive data, increases the risk of loss, inappropriate use of state resources, and campus exposure to information security breaches.

RECOMMENDATION

We recommend that the campus:

- Timely record and remove ABS and USU fixed-asset additions and deletions in the fixed-asset system.
- Ensure that all auxiliary assets are tagged, and locate the missing asset or adjust the fixed-asset listing as necessary.
- Require auxiliaries to complete a property survey/transfer request form for all disposed assets.
- Document the deletion of sensitive data from auxiliary computers before their disposal.

MANAGEMENT RESPONSE

We concur. The campus will timely record and remove ABS and USU fixed-asset additions and deletions in the fixed-asset system. The campus will ensure that all auxiliary assets are tagged, and locate the missing asset or adjust the fixed-asset listing as necessary. The campus will require auxiliaries to complete a property survey/transfer request form for all disposed assets. The campus will implement a process to document the deletion of sensitive data from auxiliary computers before their disposal.

Expected completion date: May 30, 2017

6. RISK MANAGEMENT

OBSERVATION

The campus *Risk Management Policy* did not specifically state that it applied to auxiliary organizations.

Although campus management stated that the policy applied to auxiliary organizations, there were no references to auxiliary organizations within the policy.

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

RECOMMENDATION

We recommend that the campus update its *Risk Management Policy* to specifically address auxiliary organizations, or develop specific auxiliary risk management policies.

MANAGEMENT RESPONSE

We concur. The campus will update its *Risk Management Policy* to specifically address auxiliary organizations, or develop specific auxiliary risk management policies.

Expected completion date: May 30, 2017

California State University, Stanislaus Foundation

7. CONFLICT OF INTEREST

OBSERVATION

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

We found that:

- Six of 21 board members had not signed conflict-of interest statements for fiscal year (FY) 2015/16.
- Two of 27 board members had not signed conflict-of-interest statements for FY 2014/15.
- One of 30 board members had not signed a conflict-of-interest statement for FY 2013/14.

The lack of conflict-of-interest statements from all auxiliary board members increases noncompliance with California State University (CSU) and auxiliary policies and the Political Reform Act of 1974.

RECOMMENDATION

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

MANAGEMENT RESPONSE

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

Expected completion date: April 30, 2017

8. FUND-RAISING

OBSERVATION

Foundation fund-raising events that took place at off-site locations were not supported by written agreements.

We reviewed six Foundation fund-raising events, and we found that two events that took place at off-site locations were not supported by written agreements with documented insurance and indemnification provisions or documented justification to support the business decision for forgoing a written agreement that included such provisions.

The lack of written agreements with insurance and indemnification provisions for events that take place at off-site locations or a documented consideration of risks subjects the CSU to potential liability.

RECOMMENDATION

We recommend that the Foundation execute written agreements that include insurance and indemnification provisions for off-site fund-raising events or document the justification to forgo a written agreement.

MANAGEMENT RESPONSE

We concur. The campus, on behalf of the Foundation, will communicate the requirement to execute written agreements that include insurance and indemnification provisions for off-site fund-raising events or document the justification to forgo a written agreement.

Expected completion date: April 30, 2017

9. STUDENT TRAVEL WAIVERS

OBSERVATION

The Foundation did not always require signed release forms or waivers from students traveling by air, as required by Executive Order (EO) 1041, *California State University Student Travel Policy*.

We found that campus risk management drafted a student off-campus program agreement that was meant to serve as a release form/waiver, but 11 students who participated in an overseas cultural exchange trip in January 2014 did not sign the form.

Travel release forms or waivers protect the CSU, the campus, and each and every officer, agent, and employee of each of them from legal liability that could arise from the associated travel.

RECOMMENDATION

We recommend that the Foundation obtain signed release forms or waivers from all students traveling by air.

MANAGEMENT RESPONSE

We concur. The campus, on behalf of the Foundation, will communicate the requirement to obtain signed release forms or waivers from all students traveling by air to all campus departments that are responsible for Foundation campus program funds.

Expected completion date: April 30, 2017

California State University, Stanislaus Auxiliary and Business Services

10. OPERATING AND ADMINISTRATION AGREEMENTS

OBSERVATION

Agreements between ABS and the campus, the USU, and third parties were not always timely executed or renewed.

We reviewed seven ABS agreements, and we found that:

- One agreement between ABS and the campus was signed after its effective date. The execution delay was 126 days.
- One service agreement between ABS and USU was not established for FY 2014/15.
- Five agreements between ABS and third parties were signed after their effective dates. Execution delays ranged from 71 to 238 days.
- Three service agreements between ABS and third parties had expired and had not been renewed. This is a repeat observation from the prior Auxiliary Organizations audit.

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

RECOMMENDATION

We recommend that ABS timely execute all future agreements and promptly renew the expired agreements.

MANAGEMENT RESPONSE

We concur. ABS will timely execute all future agreements and will promptly renew the expired agreements.

Expected completion date: May 30, 2017

Associated Students Incorporated of California State University, Stanislaus

11. TICKET SALES

OBSERVATION

ASI Warrior Day ticket sales were neither logged nor recorded, and there was no independent reconciliation of ticket inventory to ticket sales.

Inadequate administration of ticket sales increases the risk of loss or misappropriation of funds.

RECOMMENDATION

We recommend that ASI log and record ticket sales and independently reconcile ticket inventory to ticket sales.

MANAGEMENT RESPONSE

We concur. ASI will log and record ticket sales and independently reconcile ticket inventory to ticket sales.

Expected completion date: April 30, 2017

12. PERSONNEL AND PAYROLL TRANSACTIONS

OBSERVATION

ASI did not always ensure that ASI and USU pay rates and overtime payments were correct, nor did it ensure that offer letters were signed by the authorized signers and paychecks were timely paid upon separation. In addition, ASI re-issued computer passwords to new employees.

We reviewed 20 new hires, overtime payments, and separation transactions for ASI and USU, and we found that:

- In two instances, new-hire pay rates in the payroll system did not agree with the pay rates on the offer letters.
- In one instance, an employee's offer letter was not signed by the authorized signer.
- In two instances, overtime payments were incorrectly calculated. Specifically, in one instance, an incorrect pay rate was used, and in the other instance, incorrect overtime hours were used to calculate overtime payments.
- In one instance, an employee's last paycheck was not paid within three days of separation.

Additionally, the ASI/USU termination checklist required employees to submit their computer passwords upon separation so that the passwords could be re-issued to new employees. Reissuing computer passwords violates the concept of individual accountability.

Insufficient administration of personnel and payroll transactions increases the risk of errors and improper payments to employees and may increase legal liability, and re-issuing computer passwords to employees may increase campus exposure to information security breaches.

RECOMMENDATION

We recommend that ASI:

- a. Perform secondary reviews to ensure that new-hire pay rates agree with the corresponding rates on the offer letters and overtime payments are correctly calculated.
- b. Ensure that all offer letters are signed by the authorized signers.
- c. Discontinue the practice of re-issuing computer passwords.

MANAGEMENT RESPONSE

We concur. ASI will perform secondary reviews to ensure that new-hire pay rates agree with the corresponding rates on the offer letters and overtime payments are correctly calculated. ASI will ensure that all offer letters are signed by authorized signers. ASI will discontinue the practice of re-issuing computer passwords.

Expected completion date: April 30, 2017

California State University, Stanislaus University Student Union**13. CASH RECEIPTS****OBSERVATION**

Cashiering controls were not adequately implemented throughout USU cashiering locations.

We reviewed the USU Game Room and Service Desk cash receipting locations, and we found that:

- Unique user logins were not used in the point-of-sale (POS) system. Instead, location-specific logins were used. These logins were linked to a “remember password” feature, which allowed anyone with access to the cash register to have access to the POS system.
- Change funds were not assigned to individual cash handlers, and the key to the drawer where cash was kept was in the key lock of the USU Service Desk cash register.
- Deposit counts were not verified by a second person.
- Documentation of the reconciliation of cash receipts to the system-generated POS summary reports was not maintained.
- The USU Service Desk safe combination was not always changed after turnover in personnel who had safe access, and the listing of the names of individuals with access to the safe and the date the combination was last changed was not maintained.
- The USU did not have a formal process to document and monitor cash overages and shortages.

Inadequate administration of cash receipts increases the risk of loss or misappropriation of funds.

RECOMMENDATION

We recommend that the USU:

- a. Utilize unique user logins for the POS system and disable the “remember password” feature.
- b. Assign change funds to individual cash handlers and adequately safeguard the cash in the USU Service Desk cash register.
- c. Ensure that deposit counts are verified by a second person.
- d. Maintain documented reconciliations of cash receipts to the system-generated POS summary reports.

- e. Instruct the USU Service Desk to change its safe combination after turnover in personnel who had safe access and to update its listings of the names of individuals with safe access and the last combination change date.
- f. Develop a formal process to document and monitor cash overages and shortages.

MANAGEMENT RESPONSE

We concur. USU will utilize unique user logins for the POS system and disable the “remember password” feature. USU will assign change funds to individual cash handlers and adequately safeguard the cash in the USU Service Desk cash register. USU will ensure that the deposit counts are verified by a second person. USU will maintain documented reconciliations of cash receipts to the system-generated POS summary reports. USU will instruct the USU Service Desk to change its safe combination after turnover in personnel who had safe access and to update its listings of the names of individuals with safe access and the last combination change date. USU will develop a formal process to document and monitor cash overages and shortages.

Expected completion date: May 30, 2017

14. FACILITY RENTALS

OBSERVATION

The USU did not always charge customers according to its facility-rate rental fee schedule; documentation related to facility rentals was not always maintained; agreements with third parties were not always signed by the USU; and an agreement was not timely signed.

We reviewed 15 facility rentals, and we found that:

- In four instances, customers were not charged according to the USU facility-rate rental fee schedule. Specifically, an event-manager fee or a stage-rental fee was not assessed, or an event-manager fee was discounted without adequate, documented justification.
- In two instances, discounted rental rates were granted without adequate, documented justification.
- In three instances, documentation for invoices and payments was not maintained.
- In two instances, agreements with third parties were not signed by the USU.
- In one instance, an agreement was signed 45 days after the event.

Inadequate administration of facility rentals increases the risk of misunderstandings and miscommunication regarding rights and responsibilities and revenue loss and subjects the auxiliary and CSU to potential liability.

RECOMMENDATION

We recommend that the USU:

- a. Charge customers according to its facility-rate rental fees schedule or document the justification for not charging or discounting fees.
- b. Maintain documentation for invoices and payments.
- c. Execute all agreements in a timely manner and enforce the requirement that they be signed by all parties.

MANAGEMENT RESPONSE

We concur. USU will charge customers according to its facility-rate rental fees schedule or document the justification for not charging or discounting fees. USU will maintain documentation for invoices and payments. USU will execute all agreements in a timely manner and enforce the requirement that they be signed by all parties.

Expected completion date: April 30, 2017

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, Stanislaus Foundation

The Foundation was established in 1998 as a non-profit public benefit corporation responsible for the receipt, acknowledgment, and oversight of private gifts to the university. The original Foundation was established in 1960 as the Stanislaus State College Foundation, and it retained that name until 1985, when it became the California State University Stanislaus Foundation. The name was changed again in 1998 to California State University, Stanislaus Auxiliary and Business Services, at which time the current-day Foundation was established. The Foundation conducts fund-raising activities, identifies and cultivates prospective donors, and supports the faculty and administration in the development of new and innovative programs. It is governed by a board of directors composed of representatives from the community, university administration, faculty, alumni, and student body. The Foundation does not have employees and relies on campus personnel from university advancement and financial services for administrative and accounting support services.

California State University, Stanislaus Auxiliary and Business Services

ABS was established in 1960 as a non-profit public benefit corporation and operated under the name Stanislaus State College Foundation until 1985, at which point its name was changed to California State University Stanislaus Foundation. In 1998, the name was changed to its current designation when the present-day Foundation was established. ABS is charged with enhancing the mission of the university by actively managing and developing commercial enterprises that benefit the campus community and by prudently managing and investing auxiliary assets. It is also responsible for administering bookstore operations, dining and vendor services, the Warrior Card, the residential life village, and property management. ABS has outsourced bookstore operations, dining services, and administration of the Warrior Card to third-party vendors. ABS is governed by a board of directors composed of representatives from the university administration, community, faculty, and student body. ABS does not have employees and relies on campus personnel for administrative and accounting support services.

Associated Students Incorporated of California State University, Stanislaus

ASI was established in 1991 as a non-profit public benefit corporation to provide student leadership, self-governance, civic and cultural development opportunities, and student activities that promote university pride and spirit, as well as to encourage students to get involved on campus. ASI programs include wellness activities, maintenance of a student lounge at the Stockton Center, numerous special events, and administration of student club accounts. ASI is governed by the student senate, which is composed of elected/appointed students who are advised by non-voting faculty. ASI employs an executive director (who also

serves as the USU executive director), a recreation and wellness coordinator, and an administrative assistant to manage daily operations. It relies on campus personnel for administrative and accounting support services.

California State University, Stanislaus University Student Union

The USU was established in 1994 as a non-profit public benefit corporation and operated under the name University Union of California State University, Stanislaus until 1999. The USU operates the student union facility as a student body center for the benefit of the students, faculty, staff, and alumni, in order to promote and assist the educational programs of the university. It is governed by a board of directors composed of representatives from the student body, university administration, ASI, faculty, alumni, and community. The USU employs an executive director who also serves as the ASI executive director, as well as an office administrator, human resource specialist, lead graphic designer, and facilities and reservations coordinator. It relies on campus personnel for administrative and accounting support services.

SCOPE

We visited the CSUS campus and its auxiliary organizations from August 8, 2016, through September 9, 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 September 9, 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:

- Education Code §89720
- Education Code §89756
- Education Code §89900
- Education Code §89904
- CCR, Title 5 §42401, *Declaration of Policy*
- CCR, Title 5 §42402, *Authority of Campus President*
- CCR, Title 5 §42500, *Functions of Auxiliary Organizations*
- RFIN 7-81-4
- EO 1041, *California State University Student Travel Policy*
- EO 1059, *Utilization of Campus Auxiliary Organizations*
- EO 1069, *Risk Management and Public Safety*
- *CSU Auxiliary Organizations Compliance Guide*
- *CSU Auxiliary Organizations Sound Business Practices Guidelines*
- *CSU Conflict of Interest Handbook, §2B*
- *CSU Administration of University Property Equipment Procedures*
- ICSUAM §1301.00, *Hospitality, Payment, or Reimbursement of Expenses*
- ICSUAM §3102.02, *Segregation of Cash Handling Duties*
- ICSUAM §3102.03, *Acceptance of Cash and Cash Equivalents*
- ICSUAM §3102.04, *Physical Protection of Cash and Cash Equivalents*
- ICSUAM §3150.01, *Administration of University Property*
- ICSUAM §13680.00, *Placement and Control of Receipts for Campus Activities and Programs*
- ICSUAM §15701.00, *Fundraising Events*
- *CSUS Financial Services Procedures Manual*
- *CSUS Hospitality Policy*
- *CSUS Property Control Policy*
- *CSUS Risk Management Policy*
- *CSUS Travel Policy*
- *Foundation Standards for Gift Solicitation and Fundraising Manual*
- *ASI/USU Personnel Policies and Procedures Manual*

AUDIT TEAM

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 Audit Manager: Caroline Lee
 Senior Auditors: Sean Lee and Dominick Owens
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