

Office of Audit and Advisory Services  
401 Golden Shore, 4th Floor  
Long Beach, CA 90802-4210

562-951-4430  
562-951-4955 (Fax)  
lmandel@calstate.edu

April 25, 2017

Dr. William A. Covino, President  
California State University, Los Angeles  
5151 State University Drive  
Los Angeles, CA 90032

Dear Dr. Covino:

**Subject: Audit Report 16-07, Auxiliary Organizations, California State University, Los Angeles**

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,  
Los Angeles**

Audit Report 16-07  
March 13, 2017

## 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, Los Angeles

Based upon the results of the work performed within the scope of the audit at California State University, Los Angeles (Cal State LA), 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. However, the audit revealed that the sponsored programs policies and procedures for the campus Office of Research, Scholarship, and Creative Activities (ORSCA) and Cal State LA University Auxiliary Services, Inc. (UAS) were outdated and lacked required information. Further, ORSCA did not always obtain initial, renewal, and updated conflict-of-interest forms from principal investigators (PI), nor did it provide required conflict-of-interest training. Additionally, the campus did not always ensure that hospitality payments were adequately supported, require signed release forms or waivers from students traveling by air, and timely and properly escheat UAS long-outstanding checks to the state.

#### California State University, Los Angeles Foundation

Based upon the results of the work performed within the scope of the audit at the California State University, Los Angeles Foundation (Foundation), controls evaluated were adequate, appropriate, and effective to provide reasonable assurance that risks were being managed and objectives were met. However, the audit revealed that the Foundation did not always timely document approval of pledge write-offs.

#### Cal State LA University Auxiliary Services, Inc.

Based upon the results of the work performed within the scope of the audit at UAS, specific control weaknesses were noted. Some controls evaluated were unlikely to provide reasonable assurance that risks were being managed and objectives were met. The audit revealed that UAS administration of sub-recipients did not ensure completion of sub-recipient risk assessments and compliance with conflict-of-interest requirements. In addition, UAS did not always ensure that contributed cost-sharing amounts were properly supported and cost-sharing commitments were met. Also, UAS did not have a written delegation of authority from the campus president giving its management the authority to sign and approve grant proposals and accept monetary gifts and sign acknowledgment agreements and letters. Further, UAS did not have documented policies and procedures for acceptance of monetary gifts. Additionally, UAS did not obtain annual conflict-of-interest statements from all student board members, the appointment of UAS audit committee members was not in compliance with the

Government Code, and the number of community board members was not in compliance with the UAS *Bylaws*.

Associated Students, Incorporated

Based upon the results of the work performed within the scope of the audit at Associated Students, Incorporated (ASI), controls evaluated were adequate, appropriate, and effective to provide reasonable assurance that risks were being managed and objectives were met. However, the audit revealed that ASI had not obtained annual conflict-of-interest statements from all board members and did not have a comprehensive written risk management policy.

University-Student Union, California State University, Los Angeles

Based upon the results of the work performed within the scope of the audit at University-Student Union, California State University, Los Angeles (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. However, the audit revealed that the USU Center for Student Involvement (CSI) did not always provide adequate oversight of off-campus activities. Additionally, an agreement between the USU and a third-party equipment maintenance service provider did not include appropriate insurance and indemnification provisions, and the USU did not have a process to require and obtain proof of insurance from off-campus groups hosting meetings and events at USU facilities. Also, the USU did not document removal of IT access on employee separation exit checklists and did not obtain annual conflict-of-interest statements from all board members. Further, USU audit committee meeting minutes were not documented; audit committee composition was not in compliance with the USU *Bylaws*; and the appointment of audit committee members was not in compliance with the Government Code.

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

## OBSERVATIONS, RECOMMENDATIONS, AND RESPONSES

### Campus

#### 1. SPONSORED PROGRAMS POLICIES AND PROCEDURES

##### OBSERVATION

The ORSCA and UAS sponsored programs policies and procedures were outdated and lacked required information. Sponsored programs administration is a joint effort between ORSCA and UAS.

We found that the ORSCA and UAS:

- Conflict-of-interest policies and procedures had not been updated since October 2002 and did not address the National Institutes of Health (NIH) Public Health Service (PHS) regulations related to significant financial interest thresholds, annual updates of conflict-of-interest statements, conflict-of-interest training, and sub-recipients, as required by 42 Code of Federal Regulations (CFR) Part 50, Subpart F, *Responsibility of Applicants for Promoting Objectivity in Research for Which PHS Funding is Sought*. Also, they did not contain a provision for the public disclosure of any significant financial interest within five business days of a request.
- Sub-recipient monitoring policies and procedures had not been updated since April 2003. They did not address the sub-recipient risk assessment to identify key risks and determine the level of monitoring required, nor did they include procedures for monitoring sub-recipients, such as the methodology for resolving findings of sub-recipient noncompliance or weaknesses in internal control, as required by 2 CFR 200.331, *Requirements for Pass-Through Entities*. Further, the threshold for federal Office of Management Budget (OMB) A-133 compliance audits of entities that receive federal award money had not been updated to the current amount of \$750,000 per fiscal year.
- Policies and procedures for cost-sharing and in-kind commitments, effort reporting related to grants and contracts, and fiscal close-out of sponsored projects had not been updated since April 2003. Further, these policies and procedures still referred to the Office of Research and Sponsored Programs, which had been renamed ORSCA.

Outdated and incomplete sponsored programs policies and procedures increase the risk of noncompliance with CFR, NIH, and OMB requirements, as well as the risk that errors, inconsistencies, and misunderstandings will occur.

##### RECOMMENDATION

We recommend that ORSCA work with UAS to review and update:

- a. Conflict-of-interest policies and procedures to include PHS requirements, including a provision for the public disclosure of any significant financial interest within five business days of a request.

- b. Sub-recipient monitoring policies and procedures to address the sub-recipient risk-assessment process to identify key risks and determine the level of monitoring required and procedures for monitoring subrecipients, such as the methodology for resolving findings of sub-recipient noncompliance or weaknesses in internal control.
- c. Policies and procedures for cost-sharing and in-kind commitments, effort reporting related to grants and contracts, and fiscal close-out procedures.

**MANAGEMENT RESPONSE**

ORSCA will work with UAS to review and update the sponsored programs policies and procedures for conflict of interest, sub-recipient monitoring, cost sharing and in-kind commitments, effort reporting related to grants and contracts, and fiscal close-out procedures. The anticipated completion date is June 30, 2017.

**2. SPONSORED PROGRAMS CONFLICT OF INTEREST AND TRAINING**

**OBSERVATION**

The ORSCA did not always obtain initial, renewal, and updated conflict-of-interest forms from PIs, nor did it provide required conflict-of-interest training.

We reviewed 20 grants and contracts, and we found that:

- Two PIs on non-governmental awards had not completed initial conflict-of-interest forms before final acceptance of the grants, as required by the Regulations of the Fair Political Practices Commission (FPPC), Title 2, Division 6; California Code of Regulations (CCR) §18755; and coded memorandum 2015-05, *Principal Investigators – Nongovernmental*.
- An initial conflict-of-interest form had not been timely completed for one PI non-governmental award, as required by the FPPC, Title 2, Division 6; CCR §18755; and coded memorandum 2015-05, *Principal Investigators – Nongovernmental*. The form was completed four months after the award start date.
- Three PIs who received PHS-funded awards did not complete annual conflict-of-interest renewal forms and required conflict-of-interest training, as required by 42 CFR Part 50, Subpart F, *Responsibility of Applicants for Promoting Objectivity in Research for Which PHS Funding is Sought*.
- For three multiyear National Science Foundation (NSF) grants, conflict-of-interest statements were not updated annually, as required by the *NSF Award and Administration Guide*.

Inadequate administration of conflict-of-interest forms and required training increases the risk of noncompliance with CFR, FPPC, NIH, NSF, and California State University (CSU) requirements and could lead to possible regulatory scrutiny.

**RECOMMENDATION**

We recommend that ORSCA:

- a. Obtain initial conflict-of-interest forms before final acceptance of the grant or contract from all PIs on non-governmental awards.
- b. Obtain annual conflict-of-interest forms and provide required conflict-of-interest training to all PIs working on PHS-funded awards.
- c. Ensure that conflict-of-interest statements are updated annually for all PIs working on NSF grants.

**MANAGEMENT RESPONSE**

ORSCA and UAS will obtain initial conflict-of-interest forms before acceptance of the grant or contract from all PIs on non-governmental awards. ORSCA will provide required conflict-of-interest training to all PIs working on PHS-funded awards and ensure that conflict-of-interest statements are updated annually for all PIs working on NSF grants. The implementation start date is scheduled no later than May 1, 2017.

**3. HOSPITALITY**

**OBSERVATION**

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

We reviewed ten hospitality expenditures each for the Foundation and the USU, and we found that auxiliary hospitality events were not approved prior to each event. Instead, the Foundation and USU filled out a blanket Request to Hold Hospitality Event form at the beginning of the 2016 fiscal year, and this was used to approve all hospitality events. The blanket form did not specify each event and did not include required information such as a listing of attendees, a documented business purpose, and the direct or indirect benefit to the CSU or auxiliary.

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 campus ensure that all hospitality expenditures are adequately supported by a listing of attendees, a documented business purpose, and the direct or indirect benefit to the CSU or auxiliary.

**MANAGEMENT RESPONSE**

The campus will ensure that all hospitality expenditures are adequately supported by a list of attendees, the business purpose, and the benefit to the CSU or auxiliary. The anticipated completion date is June 30, 2017.

**4. STUDENT TRAVEL WAIVERS**

**OBSERVATION**

The campus 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 reviewed ten general disbursements and ten auxiliary travel-related disbursements each for the Foundation, UAS, ASI, and USU, and we found that signed release forms or waivers were not obtained from 32 students traveling by air.

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

**RECOMMENDATION**

We recommend that the campus instruct the auxiliaries to obtain signed release forms or waivers from all students traveling by air.

**MANAGEMENT RESPONSE**

The campus will instruct the auxiliaries to obtain and maintain signed release forms or waivers from all students traveling by air. The anticipated completion date is June 30, 2017.

**5. ESCHEATMENT**

**OBSERVATION**

The campus did not always timely and properly escheat UAS long-outstanding checks to the state, as required by the Code of Civil Procedure Title 10, *Unclaimed Property*, and Chapter 7, *Unclaimed Property Law*, Article 2, §1510 and §1511.

We reviewed UAS operating and grants and contracts bank reconciliations for June 2016, and we found that:

- Thirteen unclaimed payroll checks dated from December 2009 to December 2012, totaling \$1,117, had not been escheated to the state from the operating bank account. Additionally, ten out-of-state unclaimed accounts payable checks dated from July 2003 to February 2012, totaling \$3,309, had not been escheated to the other states.

- Thirteen unclaimed payroll checks dated from July 2009 to June 2013, totaling \$5,724, and one unclaimed accounts payable check from June 2010, in the amount of \$776, had not been escheated to the state from the grants and contracts bank account. Additionally, ten out-of-state unclaimed accounts payable checks dated from September 2009 to February 2012, totaling \$16,650, had not been escheated to the other states.

Inadequate administration of unclaimed property to states could result in fines.

**RECOMMENDATION**

We recommend that the campus timely and properly escheat UAS long-outstanding checks to applicable states.

**MANAGEMENT RESPONSE**

Management will ensure that staff escheats UAS long-outstanding checks to applicable states timely and properly. The anticipated completion date is June 30, 2017.

## **California State University, Los Angeles Foundation**

### **6. PLEDGE WRITE-OFFS**

#### **OBSERVATION**

The Foundation did not always timely document approval of pledge write-offs, as required by the Foundation *Accounts Receivable Policy*.

We found that in two instances, approval of pledge write-offs, in the amount of \$10,000 and \$5,000, were not timely documented. The approvals were documented 100 and 114 days after the write-offs.

The absence of timely documented approval of pledge write-offs increases the risk that receivables will not be accurately reflected in the auxiliary financial statements.

#### **RECOMMENDATION**

We recommend that the Foundation timely document approval of pledge write-offs.

#### **MANAGEMENT RESPONSE**

The Foundation has created a form that is being used to write-off pledges and will adhere to the 90-day policy.

## **Cal State LA University Auxiliary Services, Inc.**

### **7. SUB-RECIPIENT MONITORING**

#### **OBSERVATION**

UAS administration of sub-recipients did not ensure completion of sub-recipient risk assessments and compliance with conflict-of-interest requirements in accordance with 2 CFR 200, Uniform Guidance §200.331, *Requirements for Pass-through Entities*.

We reviewed 15 sub-recipients on federal awards, and we found that:

- We could not determine whether risk assessments were performed for any of the sub-recipients. Specifically, risk assessments to identify key risks and determine the level of monitoring required were not documented.
- UAS did not obtain explicit assurance that sub-recipients of NSF and NIH awards had appropriate conflict-of-interest requirements.

Insufficient monitoring of sub-recipients increases the risk that sub-recipients will not be adequately monitored and could result in reduced reimbursements and noncompliance with CFR, NSF, and NIH requirements.

#### **RECOMMENDATION**

We recommend that UAS:

- a. Perform and document sub-recipient risk assessments prior to issuing sub-awards.
- b. Obtain explicit assurance that sub-recipients have appropriate conflict-of-interest requirements for NSF and NIH awards.

#### **MANAGEMENT RESPONSE**

UAS will perform and document sub-recipient risk assessments and obtain assurance that sub-recipients have appropriate conflict-of-interest requirements. The anticipated completion date is June 30, 2017. In addition, UAS management has communicated to staff to assure that sub-recipient monitoring will be done when working with the sub-recipients.

### **8. COST-SHARING**

#### **OBSERVATION**

UAS did not always ensure that contributed cost-sharing amounts were properly supported and cost-sharing commitments were met.

We reviewed 15 grants and contracts with cost shares, and we found that:

- In three instances, supporting documentation to substantiate the actual cost shares was not on file.
- In three instances, PIs did not meet their cost-sharing commitments as originally expected/proposed, and there were no supporting documents to show that the sponsoring agency renegotiated the amount.

Inadequate cost share administration increases the risk of non-compliance with relevant requirements and exposes the auxiliary to penalties and disallowance for non-compliance with grants and contracts terms.

**RECOMMENDATION**

We recommend that UAS:

- a. Maintain supporting documentation to substantiate cost share.
- b. Ensure that PIs meet their cost sharing commitments as originally expected/proposed or document any renegotiated amounts with the sponsor.

**MANAGEMENT RESPONSE**

UAS will maintain supporting documentation for cost sharing and to ensure that PIs meet cost-sharing commitments. The anticipated completion date is June 30, 2017. In addition, UAS management has communicated to staff to work with the university to obtain and maintain cost-sharing information.

**9. DELEGATION OF AUTHORITY**

**OBSERVATION**

UAS did not have a written delegation of authority from the campus president giving its management the authority to sign and approve grant proposals, as required by ICSUAM 11002.01, *General Policy Requirements for the Administration of Grants and Contracts in Support of Externally Funded Research and Sponsored Program Activities*.

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

**RECOMMENDATION**

We recommend that UAS obtain a written delegation of authority from the campus president giving its management the authority to sign and approve contracts and grant proposals.

**MANAGEMENT RESPONSE**

UAS will obtain written delegation of authority from the campus president for management to sign and approve contracts and grants proposals. The anticipated completion date is May 31, 2017.

**10. GIFT ADMINISTRATION**

**OBSERVATION**

UAS did not have a written delegation of authority from the campus president giving the UAS executive director authority to accept monetary gifts and sign acknowledgment agreements and letters, as required by EO 676, *Delegation of Gift Evaluation and Acceptance to Campuses*. Additionally, UAS did not have documented policies and procedures for acceptance of monetary gifts.

The absence of a documented delegation of authority for gift evaluation and acceptance responsibilities and policies and procedures for acceptance of monetary gifts increases the risk that gift receipts will be mishandled or misused.

**RECOMMENDATION**

We recommend that UAS:

- a. Obtain written delegation of authority from the campus president giving the UAS executive director authority to accept monetary gifts and sign acknowledgment agreements and letters.
- b. Develop documented policies and procedures for acceptance of monetary gifts.

**MANAGEMENT RESPONSE**

UAS will obtain written delegation of authority from the campus president for acceptance of monetary gifts. UAS will also be working on policies and procedures. The anticipated completion date is June 30, 2017.

**11. CONFLICT OF INTEREST**

**OBSERVATION**

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

We found that:

- Two student board members had not signed conflict-of-interest statements for fiscal year (FY) 2015/16.

- Two student board members had not signed conflict-of-interest statements for FY 2013/14.

The lack of conflict-of-interest statements from all auxiliary board members increases non-compliance with CSU and auxiliary policies and the Political Reform Act of 1974.

**RECOMMENDATION**

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

**MANAGEMENT RESPONSE**

UAS will obtain the annual conflict-of-interest statement from all board members. The anticipated completion date is June 30, 2017.

**12. CORPORATE GOVERNANCE**

**OBSERVATION**

The appointment of UAS audit committee members was not in compliance with Government Code §12586 (e), and board composition was not in accordance with the UAS *Bylaws*.

We found that:

- The chair of the audit committee was also a member of the finance and investment committee for FY 2013/14, 2014/15, and 2015/16.
- The treasurer of the UAS board of directors was also a member of the audit committee for FY 2013/14, 2014/15, and 2015/16.

Additionally, UAS did not have the required number of directors on its governing board. According to the UAS *Bylaws*, the board of directors should consist of 17 voting directors. We found that two community board member positions were vacant for FY 2013/14, 2014/15, and 2015/16.

Audit committee membership that is not in compliance with the Government Code may jeopardize the independence of the audit committee, and failure to maintain mandated board composition increases the risk that all views will not be adequately represented.

**RECOMMENDATION**

We recommend that UAS:

- a. Appoint someone other than a member of the finance and investment committee to be the chair of the audit committee.

- b. Ensure that the treasurer of the UAS board of directors is not a member of the audit committee.
- c. Fill the required community director positions on its governing board.

**MANAGEMENT RESPONSE**

The treasurer of the board of directors resigned from the audit committee. In addition, a new chair of the audit committee has been appointed who is not a member of the finance and investment committee. UAS updated its bylaws for the number of board members in March 2017.

## **Associated Students, Incorporated**

### **13. CONFLICT OF INTEREST**

#### **OBSERVATION**

ASI had not obtained annual conflict-of-interest statements from all board members.

We found that:

- Two of the 28 board members had not signed a conflict-of-interest statement for FY 2015/16.
- Three of the 26 board members had not signed a conflict-of-interest statement for FY 2014/15.
- One of the 26 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 CSU and auxiliary policies and the Political Reform Act of 1974.

#### **RECOMMENDATION**

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

#### **MANAGEMENT RESPONSE**

ASI will obtain annual conflict-of-interest statements from all board members. The anticipated completion date is June 30, 2017.

### **14. RISK MANAGEMENT**

#### **OBSERVATION**

ASI 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 written 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 ASI develop and adopt a comprehensive written risk management policy that includes procedures to identify, analyze, quantify, and manage risk.

**MANAGEMENT RESPONSE**

ASI will develop and adopt a comprehensive written risk management policy that includes procedures to identify, analyze, quantify, and manage risk. The anticipated completion date is June 30, 2017.

**University-Student Union Board, California State University, Los Angeles****15. OFF-CAMPUS ACTIVITIES****OBSERVATION**

The USU CSI did not always provide adequate oversight of off-campus activities.

We reviewed ten off-campus activities, and we found that:

- For seven events, the USU did not provide a listing of attendees or obtain release-of-liability forms from attendees.
- For three events, there were unsold event tickets that were unaccounted for. Specifically, 28 of 71 event tickets (39.4 percent) were unsold and unaccounted for.
- For one event, the number of tickets purchased exceeded the number of tickets approved in the event budget, and there was no documented justification for the increased number of tickets.

Limited oversight of off-campus activities increases the risk of noncompliance with relevant requirements, misunderstandings and miscommunication regarding rights and responsibilities, and revenue loss.

**RECOMMENDATION**

We recommend that the USU:

- a. Provide a listing of attendees for each event and obtain release-of-liability forms from all attendees.
- b. Establish and implement a process to account for unsold event tickets.
- c. Document justification when the number of tickets purchased exceeds the number of tickets approved in the event budget.

**MANAGEMENT RESPONSE**

- a. The Center for Student Involvement (CSI) will create a roster of participants for each campus trip, including original registered attendees, original registered absentees, and added-on attendees. CSI will obtain and maintain records of general release liability forms for all attendees.
- b. CSI will create and implement a process of accounting for each trip's sold, unsold, and unclaimed tickets.
- c. CSI will document changes and justifications to the original trip budget.

| The anticipated completion date is July 1, 2017.

## 16. THIRD-PARTY AGREEMENTS

### **OBSERVATION**

An agreement between the USU and a third-party equipment-maintenance service provider for the Xtreme Fitness Center did not include appropriate insurance and indemnification provisions.

The absence of appropriate insurance and indemnification provisions with third-party service providers increases the risk of misunderstandings and miscommunication regarding rights and responsibilities and subjects the auxiliary and the CSU to potential liability.

### **RECOMMENDATION**

We recommend that the USU include appropriate insurance and indemnification provisions in the agreement between the USU and a third-party equipment-maintenance service provider.

### **MANAGEMENT RESPONSE**

The proof of insurance and indemnification is now included in the agreement provisions between the USU and third-party service provider.

## 17. INSURANCE REQUIREMENTS

### **OBSERVATION**

The USU did not have a process to require and obtain proof of insurance from off-campus groups hosting meetings and events at USU facilities, as required by the USU *Reservations Policies and Procedures*.

The lack of a process to require and obtain proof of insurance from off-campus groups increases the risk of misunderstandings and miscommunication regarding rights and responsibilities and subjects the USU and CSU to potential liability.

### **RECOMMENDATION**

We recommend that the USU implement a process to require and obtain proof of insurance from off-campus groups hosting meetings and events at USU facilities.

### **MANAGEMENT RESPONSE**

USU will update off-campus events forms and procedures to include proof of insurance as USU Reservations Policies and Procedures. The anticipated completion date is July 1, 2017.

## 18. EMPLOYEE SEPARATIONS

### OBSERVATION

The USU did not document removal of IT access on employee separation exit checklists.

We reviewed ten employee separations, and we found that removal of IT access was not documented on any of the exit checklists.

Insufficient administration of employee separation increases the risk of inappropriate access to auxiliary IT resources and may increase legal liability.

### RECOMMENDATION

We recommend that the USU document removal of IT access on all employee separation exit checklists.

### MANAGEMENT RESPONSE

USU will update the Employee Clearance Form to include the IT access removal as part of the exit checklist. The anticipated completion date is July 1, 2017.

## 19. CONFLICT OF INTEREST

### OBSERVATION

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

We found that:

- Eight of 15 board members had not signed conflict-of-interest statements for FY 2015/16.
- Two of 14 board members had not signed conflict-of-interest statements for FY 2014/15.
- Four of 14 board members had not signed conflict-of-interest statements for FY 2013/14.

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

### RECOMMENDATION

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

### MANAGEMENT RESPONSE

USU will implement a process to ensure that all board members complete conflict-of-interest statements. The anticipated date of completion is July 1, 2017.

## 20. AUDIT COMMITTEE

### OBSERVATION

USU audit committee meeting minutes were not documented, as required by Corporation Code §5215; audit committee composition was not in compliance with the USU *Bylaws*; and the appointment of audit committee members was not in compliance with Government Code §12586 (e).

We reviewed the audit committee roster and meeting minutes from August 2013 to August 2016, and we found that:

- Audit committee meeting minutes had not been documented since September 13, 2013.
- The chair of the audit committee was not a student voting member for FY 2014/15 and 2015/16, as required by the USU *Bylaws*. Additionally, the chair was also a member of the finance committee for FY 2013/14, which is not permitted per Government Code §12586 (e).
- Three of the five voting positions and one non-voting position were vacant for FY 2015/16.
- Two of the five voting positions were vacant for FY 2014/15.

The lack of documented audit committee meeting minutes and audit committee membership that is not in compliance with auxiliary bylaws and the Government Code increases the risk of misunderstandings and jeopardizes the independence of the audit committee.

### RECOMMENDATION

We recommend that the USU:

- a. Record audit committee meeting minutes.
- b. Ensure that the chair of the audit committee is a student voting member and is not a member of the finance committee.
- c. Fill all vacant positions on the audit committee.

### MANAGEMENT RESPONSE

This oversight was corrected in FY 2016/17.

## 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 transaction 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 the 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, Los Angeles Foundation

The Foundation was established in 1985 as a non-profit public benefit corporation to promote and assist the educational programs of Cal State LA. The Foundation provides and augments funding for educationally related services at Cal State LA not otherwise available through or funded by the state university system. The Foundation provides Cal State LA with the expertise, oversight, and advocacy to increase private giving and manage the philanthropic assets of the university. The Foundation is governed by a board of directors composed of representatives from the university administration, faculty, student body, alumni, and community. The Foundation does not have employees and relies on campus personnel from university advancement and financial services for administrative and accounting support services.

Cal State LA University Auxiliary Services, Inc.

UAS was established in 1985 as a non-profit public benefit corporation responsible for the administration of externally sponsored programs (grants and contracts), campus programs, the childcare center, and the operation of commercial services in support of the university's educational mission. UAS operates the Golden Eagle Building, a venue used for food services, meetings, catering, and other events; the University Club, an on-campus dining service; and the Anna Bing Arnold Children's Center. UAS outsources the operations of the University Bookstore, Starbucks, and Metro convenience store to Barnes & Noble and the operations of the food court restaurants to several national brand vendors in exchange for commissions on the revenues generated by these enterprises. UAS is governed by a board of directors composed of representatives from the university and auxiliary administration, faculty, student body, and community. UAS contracts with the university for certain administrative and accounting support services.

Associated Students of California State University, Los Angeles, Inc.

ASI was established in 1959 as a non-profit public benefit corporation to promote the establishment of, and provide the means for, effective avenues of student input into the governance of the campus; provide an official voice through which student opinions may be expressed; provide an opportunity where students may gain experience and training in responsible political participation and community leadership; assist in the protection of the rights and interests of individual students; and stimulate the educational, social, physical, and cultural well-being of the university community. ASI resides within the USU building and operates the book exchange program, book voucher program, and advocacy and outreach program. ASI is governed by a board of directors composed of representatives from the

student body, university administration, faculty, and alumni. ASI contracts with the university for certain administrative and accounting support services and the USU for payroll services.

University-Student Union Board, California State University, Los Angeles

The USU was established in 1975 as a non-profit public benefit corporation to provide a setting for the encouragement of broad social, cultural, recreational, and informal educational programming for the university and its surroundings. The USU operates the USU building, which includes the Center for Student Involvement, the Cross Cultural Center, the Xtreme Fitness Center, the Pit, and meeting and event services. The USU is governed by a board of directors composed of representatives from the student body, university administration, faculty, and alumni. The USU provides payroll services to ASI and the University Advancement Office of Annual Giving in conjunction with its own payroll process and contracts with the university for certain administrative and accounting support services.

## SCOPE

We visited the Cal State LA campus and its auxiliary organizations from September 26, 2016, through October 28, 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 October 28, 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:

- Government Code §12586 (e)
- Code of Civil Procedures §1510 and §1511
- Education Code §89720
- Education Code §89756
- Education Code §89900
- Education Code §89904
- Corporation Code §5215
- Internal Revenue Services, *Governance and Related Topics 501(c)(3)*
- FPPC, Title 2, Division 6, California Code Regulations §18755
- 2 CFR 200.331, *Requirements for Pass-Through Entities*
- 2 CFR 200.501, *Audit Requirements*
- 42 CFR Part 50, Subpart F, *Responsibility of Applicants for Promoting Objectivity in Research for Which PHS Funding is Sought*
- Federal Guidelines Related to Audits of States, Local Governments, and Non-Profit Organizations, OMB Circular A-133
- NSF *Award and Administration Guide*
- NSF *Investigator Financial Disclosure Policy*
- NIH *Financial Conflict of Interest Regulation*
- 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 676, *Delegation of Gift Evaluation and Acceptance to Campuses*
- EO 1041, *Student Travel*
- 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
- ICSUAM §1301.00 *Hospitality, Payment, or Reimbursement of Expenses*
- ICSUAM §11002.01, *General Policy Requirements for the Administration of Grants and Contracts in Support of Externally Funded Research and Sponsored Program Activities*
- ICSUAM §11002.05, *Subrecipient Monitoring*
- ICSUAM §11003.06, *Effort Reporting*
- ICSUAM §11003.07, *Cost Sharing*
- Cal State LA *Conflict of Interest*
- Cal State LA *Cost Sharing and In-Kind Commitments Administrative Procedures*
- Cal State LA *Effort Reporting Related to Grants and Contracts*

- Cal State LA *Fiscal Close-Out Procedures for Sponsored Projects*
- Cal State LA *Subrecipient Monitoring*
- *Foundation Accounts Receivable Policy*
- *UAS Bylaws*
- *UAS Conflict of Interest Policy*
- *UAS Travel Policy*
- *ASI Conflict of Interest Policy and Procedures*
- *USU Bylaws*
- *USU Conflict of Interest Policy*
- *USU Employee Handbook*
- *USU Reservations Policies and Procedures*

## AUDIT TEAM

Assistant Vice Chancellor and Deputy Chief Audit Officer: Janice Mirza  
Audit Manager: Caroline Lee  
Senior Auditors: Sean Lee and Dominick Owens  
Internal Auditors: May Flores and Samer Harb