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April 4, 2019

Dr. Erika D. Beck, President  
California State University Channel Islands  
1 University Drive  
Camarillo, CA 93012

Dear Dr. Beck:

**Subject: Audit Report 18-12, University Auxiliary Services, California State University Channel Islands**

We have completed an audit of *University Auxiliary Services* as part of our 2018 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 Audit and Advisory Services' website. We will follow-up on the implementation of corrective actions outlined in the response and determine whether additional action is required.

Any observations not included in this report were discussed with your staff at the informal exit conference and may be subject to follow-up.

I wish to express my appreciation for the cooperation extended by the campus personnel over the course of this review.

Sincerely,



Larry Mandel  
Vice Chancellor and Chief Audit Officer

c: Timothy P. White, Chancellor

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**The California State University**  
Audit and Advisory Services

## **UNIVERSITY AUXILIARY SERVICES**

**California State University  
Channel Islands**

Audit Report 18-12  
March 1, 2019

## EXECUTIVE SUMMARY

### OBJECTIVE

The objectives of the audit were to confirm compliance with regulatory requirements for the establishment and governance of auxiliary organizations; ascertain effectiveness of operational, administrative, and financial controls for the activities conducted by University Auxiliary Services (UAS); 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

We found the control environment for the areas reviewed to be in need of major improvement.

Based upon the results of the work performed within the scope of the audit, the operational, administrative, and financial controls for UAS as of December 21, 2018, were unlikely to provide reasonable assurance that risks were being managed and objectives were met.

In general, we found that the framework for the administration of the auxiliary required significant attention. Recurring turnover in management and inconsistent adherence to systemwide, campus, and auxiliary requirements contributed to some repeat observations from the prior auxiliary organizations audit conducted in 2014. Specifically, in our review, we identified opportunities for improvement in key areas such as administration of operating and lease agreements; corporate governance; cash-handling activities and point-of-sale (POS) system controls; property and equipment; payroll and personnel; filing of unrelated business income tax return; and retention of credit card reconciliations.

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

## OBSERVATIONS, RECOMMENDATIONS, AND RESPONSES

### 1. OPERATING AND LEASE AGREEMENTS

#### OBSERVATION

Agreements between UAS and the Trustees of California State University (CSU), the campus, and other parties were not timely renewed. This is a repeat observation from the 2014 Auxiliary Organizations audit.

We found that:

- The operating agreement between UAS and the CSU Trustees expired on June 30, 2016, and had not been renewed. Additionally, the campus, in conjunction with UAS, did not have an executed agreement/contract for services provided to UAS by campus employees as required by Provision 14 of the auxiliary operating agreement model.
- Facility lease agreements between UAS and the campus for the Islands Café venue and with Associated Students, Inc. (ASI) for the dining venues in the student union expired on June 30, 2015, and had not been renewed. Additionally, the expired agreement for Islands Café did not adequately describe the payment terms for use of space, in which UAS made payments for a campus revenue bond debt resulting from the Islands Café renovation in lieu of rent payments for the space. Further, the expired agreement did not address UAS use of the capitalized equipment located in the rented space and owned by the campus.
- The operating agreement between UAS and Follett for the outsourced bookstore expired on May 30, 2016, and had not been renewed.
- The contract between UAS and Canteen of Coastal California for vending services expired on February 28, 2018, and had not been renewed.

Proper administration of operating and administrative agreements helps to ensure compliance with systemwide policies and inclusion of required terms and provisions, and reduces the risk of misunderstandings of responsibilities and liabilities.

#### RECOMMENDATION

We recommend that the campus, in conjunction with UAS:

- a. Renew the expired operating agreement between UAS and the CSU Trustees, and ensure that it addresses the terms for services provided to UAS by campus employees.
- b. Renew the expired facility lease between UAS and the campus for the Islands Café venue, and include clear language describing the terms of consideration the campus receives for leasing space to UAS, as well as terms for UAS use of campus-owned equipment residing in the space.

- c. Renew the expired facility lease between UAS and ASI for the dining venues located in the student union.
- d. Renew the expired operating agreement between UAS and Follett, or another vendor, for the outsourced bookstore.
- e. Renew the expired agreement between UAS and Canteen of Coastal California for vending services.
- f. Develop a process for monitoring agreements and contracts to ensure that they are renewed timely or terminated prior to expiration.

**MANAGEMENT RESPONSE**

We concur.

- a. The campus will renew the operating agreement between UAS and the CSU Trustees; terms for services provided by UAS employees to the campus will be included.
- b. The campus will renew the facility lease between UAS and the campus for the Islands Café venue; terms will clearly define consideration for use of space and equipment.
- c. The campus will renew the facility lease between UAS and ASI for the dining venues located in the student union.
- d. The campus will renew the operating agreement between UAS and Follett for the outsourced bookstore.
- e. The campus will renew the agreement between UAS and Canteen Coastal of California for vending services.
- f. The campus will develop a process for monitoring agreements and contracts to ensure that they are renewed timely or terminated prior to expiration.

Evidence will be provided by September 1, 2019.

**2. CORPORATE GOVERNANCE**

**OBSERVATION**

Corporate governance over UAS needed improvement. This is a repeat observation from the 2014 Auxiliary Organizations audit.

Specifically, we found that:

- The audit committee charter did not specify how often the audit committee must meet. As a result, the audit committee did not meet separately from the board of directors, and

we could not review minutes to substantiate that members of the staff did not participate in the audit committee in accordance with Government Code §12586(e).

- The UAS governing board did not include a student representative for the 2018/19 school year.
- The UAS Bylaws were outdated, as they still referenced the prior name of the auxiliary, University Glen Corporation, and included outdated board member terms in Article V, *Board of Directors*.

Appropriate audit committee and governing board composition help to ensure compliance with government code, systemwide policies, and adequate representation of the campus community. Updated bylaws help to ensure that the objectives of the corporation and fiduciary responsibilities of the directors are clearly communicated.

#### **RECOMMENDATION**

We recommend that the campus, in conjunction with UAS:

- a. Update the audit committee charter to specify the frequency of meetings, appropriate committee composition, and requirements for maintaining meeting minutes.
- b. Evaluate recruiting methods for student representatives on the governing board and fill the required student representative position.
- c. Update the bylaws to reflect the current auxiliary name and current board member terms.

#### **MANAGEMENT RESPONSE**

We concur.

- a. The campus will update the audit committee charter to specify the frequency of meetings, appropriate committee composition, and requirements for maintaining meeting minutes.
- b. The campus will evaluate recruiting methods for student representatives on the governing board and fill the required student representative position.
- c. The campus will update the bylaws to reflect the current auxiliary name and current board member terms.

Evidence will be provided by September 1, 2019.

### **3. CASH-HANDLING ACTIVITIES**

#### **OBSERVATION**

Cash-handling policies were incomplete, and practices did not always comply with existing procedures.

We visited three UAS cash-handling locations and found that:

- UAS cashiering policies were incomplete. Specifically, they did not address the maintenance of lists regarding the location of safes in UAS venues and the individuals with access to those safes, the frequency with which safe combinations must be updated, and documentation of the date when the combination is changed. Additionally, cashiering policies did not define the frequency of bank reconciliations and timeliness of clearing reconciling items and stale-dated checks.
- One location did not have appropriate segregation of duties, as the lead cashier prepared the daily deposit without validation from a supervisor or manager, as required by UAS policy.
- At one location, checks were not restrictively endorsed upon receipt by the cashier or during preparation of the deposit.
- At one location, cash receipts were not adequately safeguarded. Although there was a safe available, the starting change funds and cash receipts were stored in a rolling file cabinet under combination locks.
- Cashiering training was not formalized and documented. We found that cashiering training for new cashiers at all locations was provided informally, content was not standardized, and training records were not maintained.
- Cash receipts were not recorded to the general ledger timely. Cash receipts were collected from dining venues and transported to the bank by armored courier. UAS monitored bank account activity to confirm deposit of cash receipts, prepared a Deposit Detail Form (DDF), and submitted the form to campus financial services for posting to the general ledger. In our review of deposits, we found some cash receipts posted to the general ledger up to 17 days after deposits cleared the bank.
- Bank reconciliations and reconciling items were not completed or resolved timely. UAS checking and money market bank accounts were reconciled by campus financial services. However, we found that checking account reconciliations for July through October 2018 were not completed timely. Of the four reconciliations we reviewed, three were not completed before the end of the following month, with one aging for 79 days before reconciliation. Additionally, reconciling items from July 2018 remained unresolved through October 2018 and a stale-dated check from November 2017 remained outstanding.

Appropriate administration of cash-handling and compliance with cash-handling policies and procedures helps to reduce exposure to risk related to loss, theft, or misappropriation of funds.

#### **RECOMMENDATION**

We recommend that the campus, in conjunction with UAS:

- a. Update cashiering policies and procedures to address the maintenance of lists regarding the location of safes in UAS venues and the individuals with access to those safes, the frequency with which safe combinations must be updated, and documentation of the date when the combination is changed. Additionally, procedures need to be updated to define the frequency of bank reconciliations and timely resolution of reconciling items and stale-dated checks.
- b. Review segregation of duties at cash-handling locations, and ensure that responsibilities for a secondary supervisory review of deposits is conducted in accordance with UAS policy.
- c. Provide an endorsement stamp for locations that accept check payments or implement procedures for endorsing checks in writing.
- d. Ensure that starting funds and cash receipts are stored in safes or other adequately secured receptacles.
- e. Develop and implement a comprehensive and standardized cashier training and maintain evidence of training.
- f. Update the process for posting cash receipts to the general ledger to ensure more timely posting.
- g. Evaluate and resolve aged reconciling items and the stale-dated check, and ensure that bank reconciliations are completed timely going forward.

**MANAGEMENT RESPONSE**

We concur.

- a. UAS will update cashiering policies and procedures to address the maintenance of lists regarding the location of safes in UAS venues and the individuals with access to those safes, the frequency with which safe combinations must be updated, and documentation of the date when the combination is changed; procedures will define the frequency of bank reconciliations and timely resolution of reconciling items and stale-dated checks. This will be done in compliance with campus policy.
- b. The campus will review segregation of duties at cash-handling locations and ensure that responsibilities for a secondary supervisory review of deposits is conducted in accordance with UAS policy.
- c. The campus will provide an endorsement stamp for locations that accept check payments or implement procedures for endorsing checks in writing.
- d. The campus will ensure that starting funds and cash receipts are stored in safes or other adequately secured receptacles.

- e. The campus will develop and implement a comprehensive and standardized cashier training and maintain evidence of training.
- f. The campus will update the process for posting cash receipts to the general ledger to ensure timelier posting.
- g. The campus will evaluate and resolve aged reconciling items and the stale-dated check, and ensure that bank reconciliations are completed timely going forward.

Evidence will be provided by September 1, 2019.

#### 4. POINT-OF-SALE SYSTEM CONTROLS

##### **OBSERVATION**

Access to POS systems at UAS dining venues needed improvement.

UAS uses the Micros POS system at all dining and retail locations. In our review of three cash-handling locations, we found that:

- UAS policies did not address POS system access, termination of access, or assignment of user permissions.
- Cashiers did not have individual access credentials for Micros. At all three locations, we noted that Micros POS stations were logged in as “cashier,” and Micros did not require cashiers to provide individual credentials to process transactions.
- Micros system controls did not restrict cashiers from processing return transactions, and there were no other procedures to ensure that a manager or supervisor approved return transactions, as required by UAS policy.

Proper administration of POS system access and controls over returns increases the accountability of POS transactions and decreases exposure to loss from inappropriate access and misappropriation of funds.

##### **RECOMMENDATION**

We recommend that the campus, in conjunction with UAS:

- a. Update UAS policies to address POS system access, termination of access, and assignment of user permissions.
- b. Implement controls within the Micros POS system that require individual cashier credentials and manager or supervisor approval of returns.

**MANAGEMENT RESPONSE**

We concur.

- a. The campus will update UAS policies to address POS system access, termination of access, and assignment of user permissions.
- b. The campus will implement controls within the Micros POS system that require individual cashier credentials and manager or supervisor approval of returns.

Evidence will be provided by September 1, 2019.

**5. PROPERTY AND EQUIPMENT**

**OBSERVATION**

Administration of property and equipment needed improvement.

We found that:

- UAS had not conducted a physical inventory of commercial equipment since 2014. UAS follows the campus University Property Guidelines, which require a physical inventory every three years.
- Capitalized assets were not consistently tagged as required. We found that one asset purchased and capitalized by UAS in June 2018 and commercial equipment purchased by the campus as part of the Islands Café renovation were capitalized but were not tagged when placed into service.

Proper administration of property and equipment decreases the risk that assets may be lost, stolen, or misrepresented in the financial statements.

**RECOMMENDATION**

We recommend that the campus, in conjunction with UAS:

- a. Perform a physical inventory of all commercial equipment as required by campus policy.
- b. Tag the asset acquired in June 2018 and, in conjunction with the inventory, ensure all capitalized equipment purchased as part of the Islands Café renovation is tagged, as appropriate.

**MANAGEMENT RESPONSE**

We concur.

- a. The campus will perform a physical inventory of all commercial equipment as required by campus policy.

- b. The campus will tag the asset acquired in June 2018 and, in conjunction with the inventory, ensure all capitalized equipment purchased as part of the Islands Café renovation is tagged, as appropriate.

Evidence will be provided by September 1, 2019.

## 6. PERSONNEL AND PAYROLL

### OBSERVATION

Approval of employee timecards and overtime was not documented, as required by UAS policy.

UAS used the ADP system to record employee time and process payroll. The UAS *Employee Handbook* required management to submit approval of their employees' timecards each pay period to human resources and to approve overtime in advance. However, in our review of payroll processes and the ADP system, we found that management approval of employee timecards was not documented and ADP system controls did not require timecard approvals to process payroll. In addition, we reviewed 15 individual overtime records and found that approval for overtime was not documented.

Documented approval of employee timecards and overtime reduces the risk of unauthorized or excessive employee payments.

### RECOMMENDATION

We recommend that campus, in conjunction with UAS:

- a. Evaluate ADP system controls and implement employee timecard approval functionality, if available, or implement mitigating controls.
- b. Develop a process to document management approval of employee overtime hours as required by the UAS *Employee Handbook*.

### MANAGEMENT RESPONSE

We concur.

- a. The campus will evaluate ADP system controls and implement employee timecard approval functionality, if available, or implement mitigating controls.
- b. The campus will develop a process to document management approval of employee overtime hours as required by the UAS *Employee Handbook*.

Evidence will be provided by September 1, 2019.

## 7. UNRELATED BUSINESS INCOME

### OBSERVATION

Unrelated business income tax forms were not filed timely.

We found that UAS generated unrelated business income (UBI) primarily from catering services provided to external parties. For the fiscal year ending June 30, 2018, UAS generated approximately \$61,900 from catering services for external parties, which meets the IRS reporting threshold of \$1,000. The IRS requires the appropriate form, 990-T Exempt Organization Business Income Tax Return, to be filed by the 15th day of the fifth month after fiscal-year end. In our review, we found that Form 990-T was not filed by the November 15, 2018, deadline, and an application for an automatic extension was not filed.

Timely filing of required tax forms helps to reduce the auxiliary's exposure to potential penalties and actions by the IRS.

### RECOMMENDATION

We recommend that campus, in conjunction with UAS, work with its tax preparer to promptly file the required UBI tax return and develop a process to ensure that future returns are filed as required.

### MANAGEMENT RESPONSE

We concur. The campus will, in conjunction with UAS, work with its tax preparer to promptly file the required UBI tax return and develop a process to ensure that future returns are filed as required. Evidence will be provided by September 1, 2019.

## 8. CREDIT CARDS

### OBSERVATION

Credit card reconciliation and training documentation was not retained.

We found that UAS participated in the campus procurement credit card program and issued credit cards to approved employees for use in daily operations. Credit card holders are required to follow the campus procurement credit card handbook, complete required training, and complete monthly reconciliation reports timely. We reviewed four UAS credit card holders and found that reconciliations for two of them for the month of August 2018 were not retained. Additionally, training documentation for one cardholder was not retained.

Retention of credit card reconciliations and training documentation helps to ensure that credit card purchases are reviewed and approved and cardholders understand their responsibilities.

**RECOMMENDATION**

We recommend that the campus, in conjunction with UAS, retain credit card reconciliations and training documentation for an appropriate period of time or as required by campus retention schedules.

**MANAGEMENT RESPONSE**

We concur. The campus will, in conjunction with UAS, retain credit card reconciliations and training documentation for an appropriate period of time or as required by campus retention schedules. Evidence will be provided by September 1, 2019.

## GENERAL INFORMATION

### BACKGROUND

Auxiliary organizations are separate business and legal entities that perform activities essential to the educational program of a campus that cannot be legally or effectively administered using state funding. California Code of Regulations (CCR) Title 5, §42401, states that auxiliary organizations provide the fiscal means and the management procedures that allow the campus to carry on activities providing those instructional and service aids not normally furnished by the state budget.

Education Code §89900 states, in part, that the operation of auxiliary organizations shall be conducted in conformity with regulations established by the Trustees, and CCR Title 5, §42402, confirms the campus president's authority and responsibility for auxiliary organization operations. 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.

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 auxiliary organizations.
- Implement financial standards that will assure the fiscal viability of 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 auxiliary organizations are within the educational mission of the state colleges.
- Develop policies for the appropriation of funds derived from indirect cost payments.

Executive Order (EO) 1059, *Utilization of Campus Auxiliary Organizations*, dated June 6, 2011, represents Trustee policy addressing appropriate use of CSU auxiliary organizations. This EO requires CSU auxiliary organizations to operate within the regulations and oversight of the campus. The EO reiterates that the campus president is responsible for ensuring the fiscal viability of auxiliary organizations and their compliance with applicable CSU policies, and it further designates the campus chief financial officer as the individual responsible for administrative compliance and fiscal oversight of auxiliary organizations.

UAS is a re-formation of the former University Glen Corporation (UGC) auxiliary, the business model of which changed substantially in July 2016. Previously, the auxiliary acted as an agent for the CSU Channel Islands Site Authority (SA), a government entity created to assist in the conversion of the former state mental hospital into the new campus. Initially, a substantial portion of the UGC auxiliary operations were focused on property management and ground sub-lease administration for the SA. Since the sale of the commercial and residential-rental

properties by the SA to a private developer, the auxiliary changed its name to University Auxiliary Services and focused operations on commercial services, including dining and retail venues, catering services, the outsourced bookstore operations, and residential and commuter meal plan administration. The auxiliary also provides payroll services for other auxiliaries on campus and for the SA. UAS is governed by a board of directors composed of representatives from the faculty, staff, community, and student body.

## SCOPE

We visited the California State University Channel Islands (CI) campus and UAS from November 26, 2018, through December 21, 2018. Our audit and evaluation included the audit tests we considered necessary in determining whether operational, administrative, and financial controls are in place and operative at UAS. The audit focused on procedures in effect from July 1, 2016, to December 21, 2018.

Specifically, we reviewed and tested:

- Timely and proper execution of agreements, contracts, and memoranda of understanding.
- Fiscal, operational, and program compliance, such as reserve provisions, unrelated business income tax, conflicts of interest, and risk management practices.
- Internal controls and segregation of duties over fiscal administration of areas such as cash receipts, property and equipment, disbursements, and personnel and payroll.
- Auxiliary enterprise unit administration, including, but not limited to, retail food services and the outsourced bookstore.

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.

Our testing and methodology was designed to provide a review of key operational, administrative, and financial controls and included testing of a limited number of financial transactions and operational procedures. Specifically, our review of commercial operations focused on the time period after the transition to UAS and excluded the Site Authority.

## 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 1059, *Utilization of Campus Auxiliary Organizations*
- CSU Auxiliary Organizations Compliance Guide
- CSU Auxiliary Organizations Sound Business Practices Guidelines
- CSU Operating Agreement Model, Section 14, *Contracts for Campus Services*
- ICSUAM §1301.00, *Hospitality, Payment or Reimbursement of Expenses*
- IRS Publication 598, *Tax on Unrelated Business Income of Exempt Organizations*
- CI Procurement Credit Card Handbook
- CI University Property Guidelines
- UAS Bylaws
- UAS Policy Manual
- UAS Employee Handbook

#### **AUDIT TEAM**

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