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October 5, 2018

Dr. Joseph I. Castro, President
California State University, Fresno
5241 N. Maple Avenue
Fresno, CA 93740

Dear Dr. Castro:

Subject: Audit Report 18-23, *Athletic Corporation*, California State University, Fresno

We have completed an audit of *Athletic Corporation* 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

The California State University
Audit and Advisory Services

ATHLETIC CORPORATION

California State University, Fresno

Audit Report 18-23
August 28, 2018

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 the California State University, Fresno Athletic Corporation (Athletic Corporation); 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 some of the areas reviewed to be in need of improvement.

Based upon the results of the work performed within the scope of the audit, except for the weaknesses described below, the operational, administrative, and financial controls for the Athletic Corporation as of June 22, 2018, taken as a whole, provided reasonable assurance that risks were being managed and objectives were met.

Our review indicated that the Athletic Corporation lacked adequate oversight due to turnover in certain senior management positions during the audit period and did not have a plan to ensure that important business records were maintained. As such, we found poor record-keeping in several areas of the auxiliary and could not verify many operational and fiscal activities.

Specifically, the Athletic Corporation did not perform background checks or monitor payroll for employees involved in athletic camps and clinics and did not maintain executed agreements or make associated accounting entries timely for athletic facility rentals. In addition, compliance and the adequacy of internal controls for cash disbursements, procurement, property and equipment, cash handling, and accounts receivables needed improvement. For example, the Athletic Corporation did not always obtain proper approval for agreements and purchases, establish written procedures, review personnel and payroll activities, tag and track assets, provide required training, and timely record accounting transactions.

Further, the Athletic Corporation had no reserve balance and indicated that it had no reserve policy in effect. We noted a similar observation in a prior auxiliary audit conducted in 2014. The audit recommended that the Athletic Corporation document and communicate the planning and analysis of reserves to the board of directors and campus president. At that time, there was an established reserve policy in place that included objectives, a target reserve balance, a contribution method, and requirements for the review of reserves.

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

OBSERVATIONS, RECOMMENDATIONS, AND RESPONSES

1. RECORDKEEPING AND RECORD RETENTION

OBSERVATION

The Athletic Corporation did not always maintain required records to support its operational and fiscal activities and did not have a record retention plan to address the impact of staff turnover.

We found an overall lack of supporting documentation in the Athletic Corporation's business office for the operational and fiscal areas we reviewed during the audit period. As such, we were not able to verify certain elements of our planned audit work.

We noted that the Athletic Corporation experienced significant staff turnover during the audit period of January 2016 to June 2018, as the athletics director, senior associate athletics director for business operations, and other senior managers separated from the auxiliary. We also noted that payroll and certain personnel functions transferred from the business office to auxiliary human resources and payroll department beginning in April 2018. As such, the Athletic Corporation did not have adequate resources to provide oversight responsibilities for recordkeeping and did not have a plan to address the need for record retention.

Proper recordkeeping and a record retention plan help to ensure that business and fiscal activities are sufficiently supported and are complying with regulatory requirements.

RECOMMENDATION

We recommend that the campus, in conjunction with the Athletic Corporation:

a. Maintain all required and necessary records to support operational and fiscal activities.

b. Implement a record retention plan and communicate it to all personnel involved in Athletic Corporation activities.

MANAGEMENT RESPONSE

We concur.

a. Effective immediately, the athletics business office will maintain all required and necessary records to support operational and fiscal activities.

b. By December 15, 2018, the Athletic Corporation will develop a records retention policy based on the campus' records retention schedule and will communicate the policy to all athletic department staff.

2. ATHLETIC CAMPS AND CLINICS

OBSERVATION

Administration of background checks, payroll, and record retention at athletic camps and clinics needed improvement.

At California State University, Fresno, head coaches in the athletics department may operate athletic camps and clinics in the sports they coach. The Athletic Corporation administers the camps and is responsible for planning, approval, risk management, and accounting associated with billing, payments, and compensation. In administering the camps, the Athletic Corporation also must coordinate with the auxiliary human resources and payroll department to complete background checks for all employees involved in the camps when minors participate, and to ensure coaches are compensated for their services.

We reviewed ten summer 2017 athletic camps, and we found that:

- In nine instances, the Athletic Corporation did not have documentation on file to show that a camp had been properly reviewed and approved, including an application, listing of participants and employees, operational budget, risk management (liability waivers) forms, and incident/accident reports. For one camp, only partial records were found, and they were incomplete.

- One state employee was compensated for working at the athletic camp but did not claim leave or vacation time from his regular position, as required by the *Fresno State Athletics Camps and Clinics* manual.

For the same sample of summer 2017 athletic camps above, we also requested records to show that employee background checks were performed. As noted earlier, certain personnel functions transferred from the business office to auxiliary human resources and payroll department beginning in April 2018. As such, we found HR had difficulty locating the records we requested. For reasonableness, we reviewed records provided for two camps and found that records were not maintained showing that employee background checks were performed, as required by systemwide Coded memorandum HR 2017-17, *Background Check Policy*, and the *Fresno State Athletics Camps and Clinics* manual. Based on the conditions, we elected not to pursue the records for the remaining eight athletic camps.

Proper administration and documentation of athletic camp operations, including the review and approval process, performing background checks and reviewing timekeeping entries helps to ensure compliance with CSU and auxiliary requirements.

RECOMMENDATION

We recommend that the campus, in conjunction with the Athletic Corporation:

a. Maintain all required records related to athletic camps, including, but not limited to, an approved application, a listing of participants and employees, camp and budget approvals, and liability waivers.

b. Perform background checks for all employees involved in athletic camps that include participants who are minors, and maintain records showing that employee background checks have been performed.

c. Establish a procedure to review the timekeeping entries of employees who work at athletic camps and clinics to ensure they properly claim leave/vacation time from their regular employment and do not receive dual compensation.

MANAGEMENT RESPONSE

We concur.

a. By November 1, 2018, the Athletic Corporation will develop a checklist and will maintain all required records related to sport camps, including an approved participant application, a listing of participants and employees, budget approvals, employee background checks, and participant liability waivers. Auxiliary HR will develop procedures for hiring employees for the Athletic Corporation.

b. Effective immediately, all employees hired for sports camps will undergo background checks prior to commencing their employment. These records will be maintained by auxiliary HR.

c. By December 1, 2018, the Athletic Corporation will establish a procedure to ensure accurate timekeeping entries of employees who work for sports camps to ensure they properly claim personal leave time from their regular employment to mitigate dual compensation.

3. FACILITY RENTALS

OBSERVATION

Administration of executed agreements and accounting entries for accounts receivables (AR) for athletic facility rentals needed improvement.

We reviewed ten athletic facility rentals, and we found that:

- For three of the rentals, the Athletic Corporation did not retain a copy of the executed rental agreement for three rentals.

- The related financial entries for AR were not made timely for two rentals. For example, one of the two rentals occurred in November 2017 but did not have an AR account established and no payment had been received as of June 2018.

Maintaining facility rental agreements helps to ensure understanding and compliance with terms and conditions, and timely establishment of AR accounts improves the accuracy of accounting and reduces the potential for loss or misappropriation.

RECOMMENDATION

We recommend that the campus, in conjunction with the Athletic Corporation:

a. Maintain fully executed athletic facility rental agreements for all athletic facility rentals.
b. Record all financial activities for athletic facility rentals timely.

MANAGEMENT RESPONSE

We concur.

a. By November 1, 2018, the Athletic Corporation will demonstrate retention of executed athletic facility rental agreements for any facility rentals since July 1, 2018.

b. By October 15, 2018, the athletic business office will ensure that invoices to organizations that are renting athletic facilities are prepared within 30 days of the event date or in accordance with applicable contract payment terms.

4. PERSONNEL AND PAYROLL

OBSERVATION

Administration of personnel and payroll processes, including new hires, overtime (OT), vacation leave, termination, and salary changes, was inadequate, and the Athletic Corporation employee handbook was not current and did not include a whistleblower policy.

We reviewed a sample of employee files for the period of January 2016 to June 2018, and we found that:

- In seven of the 15 new hire transactions we reviewed, required documentation was not maintained to support that a background check had been performed.

  In two instances, Form I-9, *Employment Eligibility Verification*, was not completed or was completed 97 days after the employee's first day of employment. The Department of Homeland Security, U.S. Citizenship and Immigration Services, requires that employers complete Section 2 of Form I-9 by examining evidence of identity and employment authorization within three business days of the date employment begins.
  In one instance, supporting documentation, such as an employment offer letter or employee request transaction (ETR) form, had not been maintained. As such, we could not verify that the new hire transaction had been properly approved and that information was accurately entered into the human resources and payroll systems.

  In ten instances, the notice containing specific information on the Notice to Employee form at the time of hire, as required by the Wage Theft Protection Act of 2011, Labor Code §2810.5, was not maintained.

In five instances, the new hire's first timesheet was not maintained; therefore, we could not verify that the employee's first paycheck was calculated or prorated properly based on days of attendance.

- In five of the 10 OT transactions we reviewed, the number of OT hours reported on the timesheet did not match the number of OT hours paid on the employee's payroll check.

  In three instances, the employee timesheet with the reported OT hours was not timely processed for payment. For example, one employee had reported OT hours from January 2017 to June 2017; however, payment was not processed until July 2017.

  In one instance, the employee's timesheet was not maintained, and as such, we could not verify whether OT hours were properly approved.

  In one instance, supporting records for the employee's pay rate were not maintained, and as such, we could not verify whether the OT payment was properly calculated.

- During our general review of vacation-leave accrual, we found that at least one employee accrued more than the maximum allowed accrual of 440 vacation hours. We found that vacation leave is currently tracked both in a third-party payroll system and an external spreadsheet. The third-party payroll system does not have maximum accrual tables, which allowed the employee to accrue more vacation than allowed. As such, vacation accruals could not be reconciled.

- We reviewed 15 termination transactions, and in four instances, supporting documentation such as the separation memo or ETR form was not maintained. As such, we could not verify the employee's last day of employment.

  In one instance, the separation checklist form confirming that the auxiliary retrieved the office keys, computer equipment, and procurement card assigned to the employee was not completed.

- We reviewed ten salary changes, and in one instance, support for the salary change approval was not maintained. As such, we could not verify whether the transaction was properly approved or that the employee's new salary was properly calculated.

We also found that the Athletic Corporation employee handbook was last updated in May 2006 and did not address whistleblower reporting procedures.

Proper administrative oversight of personnel and payroll processes and an updated employee handbook can help to ensure compliance with legal requirements and reduce the risk of errors, improper payments, and auxiliary exposure to potential litigation.

RECOMMENDATION

We recommend that the campus, in conjunction with the Athletic Corporation:

a. Implement adequate administration of and maintain documentation for personnel and payroll processes, including new hire, OT payment, vacation leave, termination, and salary

change transactions. Also, reiterate key employee handbook processes identified above to all employees.

b. Update the employee handbook, and include whistleblower reporting procedures.

MANAGEMENT RESPONSE

We concur.

a. By November 1, 2018, the Athletic Corporation will demonstrate implementation of required internal procedures when hiring Athletic Corporation employees. Auxiliary HR, in accordance with the Management Services Agreement, is now processing Athletic Corporation payroll, as of July 1, 2018.

b. By January 15, 2019, the Athletic Corporation will update its employee handbook, including whistleblower-reporting procedures.

5. CASH DISBURSEMENT

OBSERVATION

Administration of cash disbursement for travel expenses and general cash and procurement card purchases was inadequate.

We reviewed a sample of documents for the period of January 2016 to June 2018, and we found that:

- Of the 20 general cash disbursements we reviewed, one expense related to a fund-raising event lacked appropriate supporting documentation, such as pre-approval of the event including a budget review, applicable agreements with outside vendors and venue, deposit of cash receipts, and required tax forms. Instead, this event was supported only by a one-page approval form signed by the head coach, sport supervisor and sport club liaison. Further, it was our understanding that the Athletic Corporation does not administer fund-raising events.

  In two instances, an individual without approval authority per the Athletic Corporation's contract signature delegation matrix signed a direct pay form.

  In one instance, a direct pay form was missing an approval signature.

- We reviewed 25 travel expenses, and we found that the meal per diem rate in the Athletic Corporation travel policy did not reflect current practice. Specifically, the travel policy indicated a $6 per diem rate for breakfast; however, in current practice, it is $8.

  In one instance, a travel application form requesting an advance did not include a list of attendees, and the individual who requested the advance did not complete additional documentation after the trip to reconcile expenses and return any money from the advance that was unused.

In two instances, reimbursement was not timely paid. The delay was between two and five months after the completion of the trip.

In two instances, the travel expense reimbursement was requested on a direct pay form instead of the travel application form.

- We reviewed one monthly statement for 15 procurement cardholders. In two instances, cards were used to purchase capitalized equipment and chartered bus services, which are prohibited in the Athletic Corporation procurement card manual. The charges totaled $6,010.

  In three instances, cards were used for meal purchases related to recruitment, which are also prohibited. The charges totaled $1,287. We noted that the auxiliary allowed these purchases.

  Also, during our review of ten ARs, we found that a fraudulent procurement card charge of $495 was not timely investigated and disputed by the Athletic Corporation business office, and the auxiliary did not receive a credit from the credit card company.

Compliance with the administration of cash disbursements reduces the risk of errors, irregularities, and misappropriation of funds.

RECOMMENDATION

We recommend that the campus, in conjunction with the Athletic Corporation:

a. Implement adequate administration of cash disbursement areas, including travel, general cash, and procurement card purchases. Also, communicate cash disbursement policies and procedures to personnel involved in cash disbursement activities to reiterate key processes identified above.

b. Determine whether procurement cards can be used for meal purchases related to recruitment, and if so, update the Athletic Corporation procurement card manual.

MANAGEMENT RESPONSE

We concur.

a. By December 15, 2018, the Athletic Corporation will update its accounts payable, travel, community relations, and procurement policies to reflect good business practices. We will communicate these policies and procedures to all athletic department staff.

b. By December 15, 2018, the Athletic Corporation will update its P-Card manual to reflect allowable meal purchases for team travel only. Meal purchases related to recruitment will be handled separately as a direct reimbursement to the employee with proper management approval.

6. PROCUREMENT

OBSERVATION

The Athletic Corporation did not always obtain documentation to show compliance with competitive bidding requirements, and agreements were not always approved in accordance with the Athletic Corporation contract signature delegation matrix.

We reviewed nine purchases that exceeded $50,000 and found that:

- In three instances, the required competitive bid process was not performed by the campus procurement office.

- In seven instances, the former senior associate athletics director for business operations and/or the associate athletics director for facilities and operations, who were not listed as authorized signatories in the contract signature delegation matrix, approved purchase requisitions. According to auxiliary approval requirements, reimbursements or purchase requests of $50,000 to $100,000 and contracts of $100,000 or more require the approval of either the director of athletics, Athletic Corporation board chair, or university associate vice president/chief financial officer. Designees were not applicable.

Additionally, we reviewed ten executed agreements, and we found that one agreement that required two approving signatures per the auxiliary's contract signature delegation matrix was signed by only one individual.

Performing the competitive bid process and maintaining proper records helps to ensure compliance with CSU and auxiliary procurement requirements, provides transparency, and helps to ensure that the best price is obtained. Further, proper approval of purchases in accordance with auxiliary contract signature delegation reduces the risk related to loss, theft, or misappropriation.

RECOMMENDATION

We recommend that the campus, in conjunction with the Athletic Corporation:

a. Perform the required bidding process for purchases of goods and services over $50,000.

b. Obtain signatures from authorized signatories listed on the Athletic Corporation contract signature delegation matrix for all purchases and agreements.

c. Review the current Athletic Corporation contract signature delegation matrix for accuracy and completeness, and update it as necessary.

MANAGEMENT RESPONSE

We concur.

a. Effective October 1, 2018, procurement will obtain bids for any goods over $50,000, in accordance with the pending revised procurement policy.

b. By October 15, 2018, the campus will remind the athletic business office of the authorized approvers for Athletic Corporation purchases and agreements.

c. By December 15, 2018, the Athletic Corporation will update the board-approved signature authority resolution.

7. PROPERTY AND EQUIPMENT

OBSERVATION

Administration of property and equipment needed improvement related to comprehensive policies and procedures, purchase approval documentation, and proper tagging and tracking.

We found that the Athletic Corporation's policies and procedures did not adequately address several key functions involved in the administration of property and equipment, including authorization for the disposal of equipment, tagging and tracking of equipment, and performance of periodic physical inventories.

In addition, we reviewed 15 purchases recently added to the inventory of property and equipment and found that:

- For all 15, we could not establish whether the purchases had been properly approved. Specifically, the signatures on the direct pay forms and invoices were illegible, and as such, we could not determine whether the signer had the authority to approve the purchases.

- One item did not have an asset tag, although the equipment inventory listing indicated that the item was tagged.

- One item had an asset tag, but the equipment inventory listing did not include the corresponding tag number.

- Four items were not at the locations shown in the equipment inventory listing. We found them in different areas.

Adequate written procedures and administrative oversight of property and equipment helps to improve the accuracy of inventory records and reduces the risk of loss or misappropriation.

RECOMMENDATION

We recommend that the campus, in conjunction with the Athletic Corporation:

a. Develop comprehensive policies and procedures for the administration of property and equipment, including authorization for the disposal of equipment, tagging and tracking of equipment, and performance of periodic physical inventories.

b. Obtain signatures from individuals with approved authority on the Athletic Corporation contract signature delegation matrix for all property and equipment purchases.

c. Properly tag all property and equipment and maintain an accurate equipment inventory listing.

MANAGEMENT RESPONSE

We concur.

a. By December 15, 2018, the Athletic Corporation will develop policies and procedures for the administration of property and equipment, including authorization for the disposal of equipment, tagging and tracking of equipment, and performance of periodic physical inventories.

b. By October 15, 2018, the campus will remind the athletic business office of the authorized approvers for Athletic Corporation property and equipment purchases.

c. By December 15, 2018, the Athletic Corporation will properly tag all property and equipment and maintain an accurate equipment inventory listing for assets valued over $5,000.

8. CASH HANDLING

OBSERVATION

Cash-handling policies and procedures were not comprehensive and follow-up of non-sufficient funds (NSF) checks was inadequate.

We found that policies and procedures for cash handling did not address several key processes and controls, such as opening/close-out procedures, securing of funds, reconciliations, and timely deposits. Further, employees with cash-handling responsibilities at the Athletic Corporation's ticket office and business office were not trained in policies and procedures.

In addition, we reviewed the processing of five NSF checks and found that two did not have adequate documentation to indicate what follow-up actions, if any, were taken and whether replacement funds had been received.

Adequate written policies and procedures and training help to ensure understanding and compliance with internal controls and reduces the risk related to loss, theft, or misappropriation.

RECOMMENDATION

We recommend that the campus, in conjunction with the Athletic Corporation:

a. Develop comprehensive cash-handling policies and procedures.

b. Provide training on applicable cash-handling policies to personnel involved in cash-handling activities.

c. Properly perform and document follow-up actions taken to timely address NSF checks.

MANAGEMENT RESPONSE

We concur.

a. By December 15, 2018, the Athletic Corporation will develop cash-handling policies and procedures.

b. By January 15, 2019, the Athletic Corporation will provide training on applicable cash-handling policies to personnel involved in cash-handling activities.

c. By December 15, 2018, the Athletic Corporation will develop a procedure for the handling of NSF checks and will communicate these procedures to athletic business office personnel.

9. ACCOUNTS RECEIVABLE

OBSERVATION

Administration of ARs needed improvement.

We reviewed ten ARs from the April 2018 aging report, and we found that:

- In five instances, follow-up activity to facilitate collection of outstanding receivables was not always performed or documentation was not maintained to detail follow-up activity. Also, in some instances, the accuracy of the invoice amount or follow-up to confirm whether payment was received and deposited could be improved. These outstanding receivables totaled $18,422 and were outstanding from 125 to 765 days.

- In one instance, the customer overpaid by $58, and the overpayment was not refunded to the customer.

We also found that AR policies and procedures were last revised in August 2014 and did not address key elements, including the creation of invoices, assessment of unbilled receivables, and valuation of allowances for doubtful accounts.

Timely and appropriate administration of AR activities improves the likelihood of collection and positively impacts cash flow, and comprehensive policies and procedures help to ensure employees understand their duties and responsibilities.

RECOMMENDATION

We recommend that the campus, in conjunction with the Athletic Corporation:

a. Perform collection and follow-up activities of outstanding ARs and maintain related documentation.

b. Refund the AR overpayment noted above to the customer.

c. Develop comprehensive AR policies and procedures that address the creation of invoices, assessment of unbilled receivables, and valuation of allowances for doubtful accounts.

MANAGEMENT RESPONSE

We concur.

a. By October 15, 2018, the Athletic Corporation will demonstrate regular collection efforts and follow up on outstanding accounts receivable/aging and will maintain necessary documentation.

b. By October 15, 2018, the Athletic Corporation will refund the accounts receivable overpayment noted above to the customer.

c. By December 15, 2018, the Athletic Corporation will develop accounts receivable policies and procedures that address the creation of invoices, assessment of unbilled receivables, and allowance for doubtful accounts. The Athletic Corporation reviews allowances for doubtful accounts each year during the approval of the annual report.

10. RESERVE POLICY

OBSERVATION

The Athletic Corporation had no reserve balance and indicated that it had no reserve policy in effect.

The Athletic Corporation had incurred operating losses of approximately $7.6 million and $7.5 million in fiscal years 2017 and 2016, respectively, per the Athletic Corporation's audited financial statements. The existence of operating losses highlights the need to establish a reserve fund to address unexpected events, losses of income/revenue, and unbudgeted expenses. According to Education Code §89904, governing boards of auxiliary organizations shall implement financial standards to assure the fiscal viability of the auxiliary, including, among others, the provision for adequate reserve funds for current operations and capital replacements and adequate provisions for new business requirements.

We noted a similar observation in a prior auxiliary audit conducted in 2014. The report recommended that the Athletic Corporation document and communicate the planning and analysis of reserves to the board of directors and campus president. At that time, there was an established reserve policy in place that included objectives, a target reserve balance, a contribution method, and requirements for the review of reserves.

Establishing a reserve fund and written reserve policy helps to ensure the financial stability and viability of an auxiliary and its programs.

RECOMMENDATION

We recommend that the campus, in conjunction with the Athletic Corporation develop a reserve policy and document and communicate the planning and analysis of reserves to the board of directors and campus president.

MANAGEMENT RESPONSE

Currently, the Athletic Corporation is operating with a non-cash deficit and is not able to generate a net surplus in order to create a working capital reserve. The Athletic Corporation will develop a reserve policy by December 15, 2018, which will include that any planning and analysis of reserves will be documented and communicated to the board of directors and campus president.

GENERAL INFORMATION

BACKGROUND

Auxiliary organizations are separate business and legal entities that perform activities essential to the education program of each 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 California State University (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.

Executive Order 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.

California State University, Fresno (Fresno State) has six separate auxiliary organizations, each of which provides a function that contributes to the educational mission of the university. In 1982, the Athletic Corporation was established as a non-profit public benefit corporation to provide educational and life-skill development programs for young men and women with exceptional athletic abilities. It also helps in the regional development of the campus community and in the pursuit of national recognition and prestige for the university. An independent board of directors composed of representatives from the community, student body, university administration, faculty, and alumni governs the Athletic Corporation. In

addition, Fresno State staff provide the Athletic Corporation with accounting, procurement, and risk management support, while auxiliary staff of the California State University Fresno Association, Inc. provide human resources and payroll services.

SCOPE

We visited the Fresno State campus and the Athletic Corporation from May 21, 2018, through June 22, 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 the Athletic Corporation. The audit focused on procedures in effect from January 1, 2016, to June 22, 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, conflict of interests, and risk management practices.
- Internal controls and segregation of duties over fiscal administration of areas such as cash receipts, accounts receivables, property and equipment, procurement, disbursements, and personnel and payroll.
- Auxiliary enterprise unit administration including, but not limited to, athletic event ticket sales, athletic camps, and facility rental.

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.

CRITERIA

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

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

- The Department of Homeland Security, U.S. Citizenship and Immigration Services, Form I-9
- 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
- Executive Order (EO) 676, *Delegation of Gift Evaluation and Acceptance to Campuses*
- EO 1059, *Utilization of Campus Auxiliary Organizations*
- ICSUAM §1301.00, *Hospitality, Payment or Reimbursement of Expenses*
- ICSUAM §13680.00, *Placement and Control of Receipts for Campus Activities and Programs*
- ICSUAM §15000, *University Advancement*
- Human Resources Coded Memorandum HR 2017-17, *Background Check Policy*
- CSU *Auxiliary Organizations Compliance Guide*
- CSU *Auxiliary Organizations Sound Business Practices Guidelines*
- Fresno State *Athletics Policies and Procedures Manual*
- Fresno State *Athletics Camps & Clinics Manual*
- Fresno State *Ticketing Office Cash Handling Procedures*
- Athletic Corporation *Community Relations Policy*
- Athletic Corporation *Employee Handbook*
- Athletic Corporation *Procurement Card Quick Reference Guide*

AUDIT TEAM

Audit Manager: Joanna McDonald
Senior Auditors: Rick Pyles and May Flores