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April 15, 2019

Dr. Jane Close Conoley, President
California State University, Long Beach
1250 Bellflower Boulevard
Long Beach, CA 90840

Dear Dr. Conoley:

Subject: Audit Report 18-54, *The Forty-Niner Shops, Inc.*, California State University, Long Beach

We have completed an audit of *The Forty-Niner Shops, Inc.* 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 logo for The California State University, featuring the letters "CSU" in white on a red square background.

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Audit and Advisory Services

THE FORTY-NINER SHOPS, INC.

**California State University,
Long Beach**

Audit Report 18-54

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 the Forty-Niner Shops, Inc. (Shops); 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 the Shops as of December 7, 2018, were unlikely to provide reasonable assurance that risks were being managed and objectives were met.

Overall, we found that the Shops administrative and financial controls, for the areas reviewed, required major attention. Specifically, we found that documentation of certain risk management processes needed improvement, and many financial areas, such as cash disbursements, accounts receivable, cash handling, and bidding, needed enhanced administration and oversight. Further, information technology (IT) areas such as system access, Payment Card Industry (PCI) compliance, and the IT disaster recovery plan, needed to be reviewed.

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

OBSERVATIONS, RECOMMENDATIONS, AND RESPONSES

1. INJURY AND ILLNESS PREVENTION PROGRAM

OBSERVATION

The Shops documentation of risk management processes and procedures needed improvement.

We found that the IIPP did not address the frequency of periodic workplace safety inspections to identify and evaluate workplace hazards, and prior to October 2018, required periodic inspections were difficult to validate for most of the locations identified by the Shops as requiring an inspection. Although the Shops had recently started to formally conduct these inspections, it had not reviewed all identified locations.

Additionally, the Shops' process lacked detailed documentation to track corrective action for hazards identified during safety inspections. There was no documentation on file listing the hazards identified during the recent inspections and the corrective actions taken to address these hazards.

In addition, we reviewed eight workplace accident/injury investigations, and we found that:

- Three employee accident report forms used to document the details of the accident/injury were not signed by the employee's department manager.
- None of the investigations had a documented root cause analysis, which is required by the IIPP. The form used to document these investigations did not have a section for such an analysis, which would ideally explain why the accident/injury occurred and identify any corrective actions management had taken to minimize the risk of reoccurrence. No separate reports containing this information were maintained.
- None of the injuries were reviewed by the Shops' risk management committee, as required by the IIPP.

Further, although some safety training is provided to Shops employees, documentation showing that IIPP required employee safety training was completed was not retained as required.

The Shops' IIPP and the California Code of Regulations (CCR) require that all employees complete safety training and that records be retained for a specified period of time; however, the Shops did not provide any training records, such as sign-in sheets or certificates of completion, to show that any of the ten employees we reviewed had completed required training, including new-employee safety training and job-specific safety training.

Proper administration of the IIPP, including regular and systematic workplace inspections, employee safety training, and accident/injury investigations, helps to ensure compliance with the IIPP and state regulations, increases the likelihood of identifying and correcting unsafe working conditions, increases employee safety and awareness, and reduces potential risk due to workplace accidents and injuries, including litigation and regulatory fines and penalties.

RECOMMENDATION

We recommend that the campus, in conjunction with the Shops:

- a. Define the frequency of periodic safety inspections in the IIPP and communicate this information to key personnel.
- b. Perform regular and systematic workplace safety inspections in accordance with the IIPP for all identified locations.
- c. Develop a process to document the identified hazards and corrective actions, if any, for each periodic workplace safety inspection performed, and communicate this information to key personnel.
- d. Require that department managers sign employee accident reports and document a root cause analysis, including management’s corrective actions, for all workplace accident/injury investigations.
- e. Require that the risk management committee review all workplace accident/injury investigations, as outlined by the IIPP.
- d. Provide and document completion of employee safety training, including new-employee and job-specific safety training, and retain training records, as required by the IIPP.

MANAGEMENT RESPONSE

We concur. The Shops will update our IIPP to include the frequency of safety inspections, perform regular and systematic workplace safety inspections in accordance with the IIPP for all identified locations, document any identified hazards and corrective actions identified during these inspections, and communicate this information to key personnel.

We will further develop our accident/injury reporting process to require appropriate manager signature, documentation of a root-cause analysis, and recommended corrective actions, as well as a review by our risk management committee for all workplace accident/injury investigations as outlined within our IIPP.

Finally, we will ensure completion of employee safety trainings, including new-employee and job-specific safety training, and retain training records, as required within our IIPP.

Anticipated completion: June 30, 2019

2. SYSTEM ACCESS

OBSERVATION

System access to the Shops financial/accounting system was not always properly restricted, and segregation of duties was not always adequate.

We found that:

- There was inadequate segregation of duties for Shops employees who could process changes to the customer master file. Specifically, one employee was responsible for handling incoming payments and for entering payments into the receivable records, and there was no documentation of a secondary review.
- There was inadequate segregation of duties for Shops employees who could process changes to the vendor master file. Specifically, employees who processed accounts payable transactions, including approving disbursements and processing checks, were able to add/edit vendor data in the auxiliary vendor master file, and there was no evidence of mitigating controls to ensure that vendor changes were appropriate and properly approved.
- Individuals who did not need to have access to various financial/accounting system modules, including the vendor master file, customer master file, and fixed asset module, had access to process changes. Specifically, several of these employees had power-user rights, which granted them full access to the accounting system.

Adequate oversight and controls over system access decrease the risk of inappropriate modifications and provide accountability of transactions entered into the system.

RECOMMENDATION

We recommend that the campus, in conjunction with the Shops, perform and document a review of system access, including access to the customer master file, vendor master file, and fixed asset module, restrict access as needed to ensure adequate segregation of duties as noted above, and implement controls to ensure that changes to the customer and vendor master file are adequate and properly approved.

MANAGEMENT RESPONSE

We concur. We will conduct and document system access reviews of the customer master file, vendor master file, and fixed asset module. We will restrict access and ensure adequate segregation of duties where applicable. We will implement controls to ensure that changes to the customer and vendor master file are adequate and properly approved.

Anticipated completion: May 30, 2019

3. CASH DISBURSEMENTS

OBSERVATION

Cash disbursement policies needed improvement, and disbursements did not always have adequate documentation on file.

We found that the Shops *Hospitality Expenses Policy* did not align with the campus *Hospitality Expenses Policy* or systemwide requirements. Specifically, the Shops policy did not define a

maximum per-person rate for meals and light refreshments and did not include documentation requirements to support hospitality-related expenditures, such as original itemized receipts and an attendee list or equivalent. Additionally, the *Shops Petty Cash Fund Policy* did not clearly outline the type of allowable expenditures and supporting documentation required for various petty cash reimbursements, including, but not limited to, mileage and hospitality. Specifically, several petty cash reimbursements did not have sufficient documentation on file to establish a clear business purpose and to reconcile the expenditure amounts reimbursed.

We reviewed 30 cash disbursements, and we found that:

- The Shops did not maintain a current list of individuals authorized to approve cash disbursements. As a result, we were unable to verify that the individuals authorizing expenditures had documented authority to approve the purchases.
- Disbursements, including travel claim reimbursements, were not always processed with proper documentation, such as statements of lost receipts, itemized receipts, and travel authorizations. As such, we were not always able to reconcile the cash disbursement to supporting documentation. The travel authorization observation is a repeat finding from the prior audit.
- Hospitality-related expenditures did not always include a documented business purpose and a listing of attendees, as required by campus and systemwide policies. This is a repeat finding from the 2015 Auxiliary Organizations audit.
- Monthly procurement card statement reconciliations were not always completed or submitted timely. Specifically, several monthly procurement card statements were submitted after the required timeframe established by the *Shops Procurement Card* policy, and for one cardholder, monthly procurement card statement reconciliations were not being performed. The Shops did not have a process to timely follow up with this cardholder.

Proper administration of cash disbursements, including complete and properly defined policies and procedures, adequate supporting documentation, and enforcement of cash disbursement policies and procedures, enhances compliance with campus and systemwide requirements and reduces the risk of loss or misappropriation of funds.

RECOMMENDATION

We recommend that the campus, in conjunction with the Shops:

- a. Update the *Shops Hospitality Expenses Policy* to align with campus and systemwide requirements as noted above, and communicate this information to key personnel.
- b. Update the *Petty Cash Fund Policy* to address the areas noted above, and communicate this information to key personnel.
- c. Review and update the delegation of authority list to reflect current individuals authorized to approve disbursements, and communicate this information to key personnel.

- d. Provide training to key personnel responsible for processing disbursements in the areas noted above.

MANAGEMENT RESPONSE

We concur.

- a. The Shops will update the *Hospitality Expenses Policy* to align with campus and systemwide requirements, and communicate these updates to key personnel.
- b. The Shops will refine the *Petty Cash Fund Policy* to outline the types of allowable expenditures and supporting documentation required for petty cash reimbursement. These updates will be communicated to key personnel.
- c. The Shops will also update and maintain the delegation of authority list to reflect current individuals authorized to approve disbursements, and communicate this information to key personnel.
- d. Employees responsible for approving cash disbursements will be trained on updated policies in accordance with their authorization level.

Anticipated completion: May 30, 2019

4. ACCOUNTS RECEIVABLE

OBSERVATION

Accounts receivable (AR) reconciliations, including web sales reconciliations, were not always performed or timely performed, and the Shops did not have a process to address account overpayments from two governmental agencies.

We found that:

- The AR aging report was not always monthly reconciled to the general ledger as required.
- AR reconciliations were not always signed and dated to document review and approval.
- Beginning balances in AR reconciliations did not agree to supporting documents provided, and reconciliations had unreconciled differences that did not appear to have been investigated.
- The Shops did not have procedures to address account overpayments received from two government agencies. The current practice was to retain these funds instead of remitting them back to the government agencies or the state for escheatment.

Additionally, we found that the Shops did not reconcile third-party web sales. Specifically, third-party monthly web sale payments and returns were not reconciled to accounts

receivable records to ensure the accuracy and completeness of payments received. Management indicated that an annual review of the web sales was performed to determine reasonableness; however, there was no documentation on file to show that this review was performed.

Proper administration of AR reduces the risk of financial loss and ensures accountability of the funds and accurate financial reporting.

RECOMMENDATION

We recommend that the campus, in conjunction with the Shops:

- a. Perform monthly reconciliations of the AR aging report to the general ledger, document managerial review and approval of the reconciliations, and ensure that all reconciliation balances agree to supporting documents and unreconciled differences are timely investigated.
- b. Develop a process to reconcile web sales and returns to AR records to ensure the accuracy and completeness of third-party payments collected.
- c. Develop and document a process to address the disposition of account overpayments for the two government agencies noted above, and communicate this process to key personnel.

MANAGEMENT RESPONSE

We concur.

- a. The Shops will perform and document monthly managerial review and approval of all reconciliations of the AR aging report to the general ledger, as well as ensure reconciliation balances agree to supporting documents. Any unreconciled difference will be investigated in a timely manner.
- b. The Shops will also refine the web sales and returns procedures to ensure that all web sales accounts reconcile to payments received. The account balances will be monitored throughout the year and approved by the controller.
- c. The Shops will develop and document a process to address the disposition of account overpayments for the two government agencies noted above and communicate this process to key personnel.

Anticipated completion: May 30, 2019

5. CASH HANDLING

OBSERVATION

Cash-handling practices did not always align with the Shops' policies and procedures.

We reviewed cash-handling practices at three locations (the Bookstore, The Beach on 2nd Street, and the Nugget Pub & Grill), and we found that:

- Two locations did not have documentation showing that employees had received cash-handling training. Additionally, at one location, cash-handling training was completed two to 15 months after the employees' hire dates. The Shops *Cash Handling Policies and Procedures* requires that, at a minimum, all employees involved in cash-handling processes receive a copy of the unit's cash-handling procedures and sign the employee liability agreement form.
- Cash deposit final reconciliation sheets were not always reviewed and signed by a manager/supervisor, as required by the Shops *Cash Handling Policies and Procedures*.
- None of the locations had sufficient documentation to explain overages/shortages or management review of these overages and shortages, as required by the Shops *Cash Over/Short Policy and Procedures*.
- The safe access record for one location was not updated and included employees who were no longer employed at the location.
- At one location, cashiers could process refunds without approval, and there was no evidence of management review to ensure that refunds were appropriate.

Compliance with auxiliary cash-handling requirements helps to reduce auxiliary exposure to risk related to loss, theft, or misappropriation of funds.

RECOMMENDATION

We recommend that the campus, in conjunction with the Shops:

- a. Communicate cash-handling requirements to key personnel involved in cash-handling activities to reiterate key procedures, ensure that personnel involved in cash-handling activities are properly trained, and provide adequate oversight to maintain compliance with cash-handling policies. Training should emphasize, but not be limited to, timely provision and documentation of cash-handling training; management review of cash deposits, overages/shortages, and refunds; and sufficient documentation to explain overages/shortages and refunds.
- b. Establish a process to update safe records and change safe combinations/locks, as necessary, whenever there is turnover in personnel with access to the safe.
- c. Implement controls to ensure that refunds are appropriate and properly approved.

MANAGEMENT RESPONSE

We concur.

- a. The Shops will communicate cash-handling requirements to key personnel involved in cash-handling activities to reiterate key procedures, ensure that personnel involved in cash-handling activities are properly trained, and provide adequate oversight to maintain compliance with cash-handling policies. Training should emphasize, but not be limited to, timely provision and documentation of cash-handling training; management review of cash deposits, overages/shortages, and refunds; and sufficient documentation to explain overages/shortages and refunds.
- b. The Shops will establish a process to update safe records and change safe combinations/locks, as necessary, whenever there is turnover in personnel with access to the safe.
- c. The Shops will implement controls to ensure that refunds are appropriate and properly approved.

Anticipated completion: June 30, 2019

6. MOTOR VEHICLE PROGRAM

OBSERVATION

Administration of the motor vehicle program needed improvement.

We found that current policies and procedures did not address the frequency of motor vehicle maintenance, and it was unclear how often this maintenance should be performed. In our review of five vehicles, we found insufficient documentation to show that motor vehicle maintenance was performed in a consistent manner. In some instances, there was no documentation showing that the vehicles had undergone any maintenance the period reviewed.

We also found that the warehouse and catering locations did not have adequate safeguards to prevent unauthorized access to the vehicles, as the motor vehicle keys were accessible to all employees working in these locations. In addition, we found that management did not always check the clearance report of approved drivers to verify that employee drivers met all eligibility requirements to operate auxiliary vehicles.

Further, we found that there was no process to report drivers with violations to California State University Risk Management Authority (CSURMA) Auxiliary Organization Risk Management Alliance (AORMA) program administrators within 15 calendar days of Department of Motor Vehicle notification, as required by the current vehicle-use policy.

Proper administration of the motor vehicle program helps protect the safety of participants and ensures that employees follow established policies and procedures and that motor vehicle inspections are timely performed.

RECOMMENDATION

We recommend that the campus, in conjunction with the Shops:

- a. Update motor vehicle use policies and procedures to clearly define the frequency of motor vehicle maintenance and communicate this information to key personnel. In addition, the campus should require the performance of motor vehicle maintenance in accordance with these established policies and procedures, including the retention of adequate documentation regarding motor vehicle maintenance.
- b. Require adequate safeguarding of vehicle keys for the locations noted above.
- c. Require management to review the clearance report of approved drivers before issuing vehicle keys.
- d. Develop a process to timely report drivers with violations to CSURMA AORMA program administrators.

MANAGEMENT RESPONSE

We concur:

- a. The Shops will update our policy to incorporate motor vehicle maintenance administration, including frequency of motor vehicle maintenance and retention of supporting documentation. The policy will be communicated to key personnel.
- b. Key access safeguards will be placed into service so that keys are directly controlled by a supervisor.
- c. The Shops will require management to review the clearance report of approved drivers before issuing vehicle keys.
- d. The Shops will develop a process to timely report drivers with violations to CSURMA AORMA program administrators.

Anticipated completion: May 30, 2019

7. EMPLOYEE SEPARATIONS

OBSERVATION

The Shops did not always complete or timely process employee separation documents and did not have written policies and procedures for processing employee separations.

We found that the Shops did not have clear policies and procedures for processing employee separations. Although various checklists and forms were used, it was unclear when these forms were required to be completed and approved.

We reviewed ten employee separations, including full-time and part-time employees, and we found that in nine instances, an end-of-employment checklist to ensure the return of all property and timely completion of required personnel procedures was not completed. Management indicated that completion of this form was not required for part-time employees. However, the checklist contained procedures for both part-time and full-time employees.

Proper processing of employee separations, including completion of end-of-employment checklists and employee separation forms, helps ensure that auxiliary property is timely returned and reduces the risk of liability. Additionally, clear documented policies and procedures help reduce the risk of errors and auxiliary exposure to potential litigation.

RECOMMENDATION

We recommend that the campus, in conjunction with the Shops:

- a. Develop policies and procedures for the processing of employee separations, including the areas noted above, and communicate these policies and procedures to key personnel.
- b. Require completion of the end-of-employment checklist upon employee separation, and if necessary, define when this checklist is not required.

MANAGEMENT RESPONSE

We concur:

- a. The Shops will develop policies and procedures for the processing of employee separations, including the areas noted above, and communicate these policies and procedures to key personnel.
- b. The Shops will develop checklists and processes to ensure that all aspects of our employee separations are documented appropriately.

Anticipated completion: June 30, 2019

8. WHISTLEBLOWER POLICY

OBSERVATION

The Shops did not have an established whistleblower policy addressing employee complaint procedures for making protected disclosures of improper activities and/or conditions that may significantly threaten health or safety and how these complaints would be addressed.

A documented and clear whistleblower policy encourages employees to report improper activities and reduces reputational and financial risk.

RECOMMENDATION

We recommend that the campus, in conjunction with the Shops, establish a whistleblower policy as noted above and communicate the policy to Shops personnel.

MANAGEMENT RESPONSE

We concur. The Shops will develop a whistleblower policy and implement a program that aligns with the campus, and communicate the policy to Shops personnel.

Anticipated completion: April 30, 2019

9. FUND-RAISING EVENTS

OBSERVATION

Fund-raising events held by the Shops were not approved in writing by the campus delegated authority, sales tax was not remitted for items sold through auctions, and requirements for raffles were not met.

We reviewed the annual Bowling for Books fund-raising event held during fiscal years (FY) 2016/17 and 2017/18 with gross receipts greater than \$5,000, which included a silent auction in both years and a raffle in the most recent year, and we found that:

- The annual fund-raising events did not have a completed fund-raising event approval form documenting the delegated authority’s review of event budgets, drafts of solicitation material, and action plans, as required by campus and systemwide policy. As a result, sales tax was not remitted for items sold through fund-raising event auctions in both years.
- One of the two annual events had a 50/50 cash prize raffle. 50/50 drawings are not permissible under California Penal Code Section 320.5.

Proper administration of fund-raising events helps to effectively allocate resources, coordinate events, and assess and mitigate any risks associated with events.

RECOMMENDATION

We recommend that the campus, in conjunction with the Shops:

- a. Develop and implement methods such as guidance, orientation, or training to adequately communicate fund-raising policies and procedures and the role of university relations and development in fund-raising, including the completion of the fund-raising event approval form.
- b. Complete fund-raising event approval forms to ensure that fund-raising events are approved in writing by the delegated authority and sales tax for items sold through auctions is remitted.

- c. Discontinue 50/50 cash prize raffles.

MANAGEMENT RESPONSE

We concur.

- a. We will develop and implement methods such as guidance, orientation, or training to adequately communicate fund-raising policies and procedures and the role of university relations and development in fund-raising, including the completion of the fund-raising event approval form.
- b. The Shops will complete fund-raising event approval forms to ensure that fund-raising events are approved in writing by the delegated authority and sales tax for items sold through auctions is remitted.
- c. The 50/50 cash raffle will be discontinued.

Anticipated completion: June 30, 2019

10. RISK MANAGEMENT

OBSERVATION

The Shops did not conduct an annual evaluation and reporting of the risk management program as required.

Specifically, the Shops *Risk Management Policy and Procedures* requires an annual evaluation and reporting of the risk management program in order to assess goals, issues, and activities associated with risk management efforts. However, we found that this assessment was not performed and reported to the board of directors for FY 2016/17 and 2017/18.

Review of risk management efforts helps to ensure that risks inherent to operations are adequately identified and managed to an acceptable level.

RECOMMENDATION

We recommend that the campus, in conjunction with the Shops, conduct an annual evaluation of the risk management program and present an annual report to the board of directors as required.

MANAGEMENT RESPONSE

We concur. The Shops will conduct an annual evaluation of the risk management program and present an annual report to the board of directors as required.

Anticipated completion: June 30, 2019

11. CONTRACTS FOR CAMPUS SERVICES

OBSERVATION

The campus and the Shops did not have an executed agreement or contract for services performed by state employees for the benefit of the auxiliary.

Specifically, campus state employees provided various services to the Shops, including, but not limited to, general accounting services, risk management, facilities maintenance, and other support services. Although the Shops reimbursed the campus for these services, we found that the campus and the Shops did not have a written agreement that included all of the provisions required by the systemwide policy, including:

- An indication of full reimbursement to the campus for services performed by state employee(s).
- The specific services to be provided by the state employee(s).
- The specific performance measures used by the Shops to measure or evaluate the level of service.
- Acknowledgment that the Shops does not retain the right to hire, supervise, or otherwise determine how to fulfill the obligations of the campus to provide the specified services.

A written agreement for reimbursement of services provided by the campus to an auxiliary helps to ensure compliance with systemwide policies.

RECOMMENDATION

We recommend that the campus, in conjunction with the Shops, execute a written agreement for services provided to the Shops that includes all of the required provisions noted above.

MANAGEMENT RESPONSE

We concur. The Shops will work with the campus to review services provided and execute a written shared services agreement for reimbursement of campus services that includes all of the required provisions noted above.

Anticipated completion: May 30, 2019

12. AGREEMENTS

OBSERVATION

The Shops' agreements with campus and third parties were not always timely executed.

We reviewed 15 agreements, and we found that four with the campus and three with third parties were signed after the effective date.

Timely execution of written agreements reduced potential misunderstanding of the agreement terms, conditions, rights, and responsibilities and reduces the CSU's and auxiliary's exposure to potential loss and liability.

RECOMMENDATION

We recommend that the campus, in conjunction with the Shops, timely execute all agreements with third parties and auxiliaries.

MANAGEMENT RESPONSE

We concur. The Shops will execute all agreements with third parties and auxiliaries within a timely manner.

Anticipated completion: June 30, 2019

13. ASSET DISPOSALS

OBSERVATION

Disposed assets did not undergo disposal procedures timely, and removal and demagnetization of hard drives from disposed computer equipment was not documented.

We found that departments did not timely complete a fixed-asset disposal form and communicate capital asset disposals to accounting. The Shops *Fixed Asset Policy* requires the completion of a fixed-asset disposal form prior to disposal/removal; this form is approved by the appropriate department head and sent to accounting for follow-up action. However, we found that the fixed-asset disposal form was sometimes completed and approved after the asset had been removed/disposed of, when the removal was identified during the annual physical inventory count.

Additionally, we found that the Shops did not document the removal and demagnetization of hard drives from computer equipment. The Shops *IT Equipment Policy* requires that all hard drives from PCs, laptops, and tablets be removed and demagnetized before the equipment is disposed of.

Timely reporting and detailed tracking of disposal efforts help ensure that assets listings remain accurate and assets are disposed of in accordance with applicable policies and procedures.

RECOMMENDATION

We recommend that the campus, in conjunction with the Shops:

- a. Communicate asset disposal procedures with key personnel responsible for the assets to reiterate key procedures and encourage timely disposal reporting.
- b. Document the removal of hard drives from computer equipment before disposal.

MANAGEMENT RESPONSE

We concur.

- a. The Shops will communicate asset disposal procedures with key personnel responsible for the assets to reiterate key procedures and encourage timely disposal reporting.
- b. The Shops will document the removal of hard drives from computer equipment before disposal.

Anticipated completion: May 30, 2019

14. BUDGET AND RESERVES

OBSERVATION

The Shops did not have a process to submit its annual budget and reserves to the campus president for review and approval.

We found that the Shops' annual budget and reserves for FY 2017/18 and 2018/19 were not approved by the campus president as required by Title 5 §42402.

Presidential review and approval of auxiliary budgets and reserves help to ensure adequate oversight and compliance with regulatory requirements.

RECOMMENDATION

We recommend that the campus, in conjunction with the Shops, establish a process to annually report the Shops' budget and reserve allocations to the campus president for review and approval.

MANAGEMENT RESPONSE

We concur. The Shops management will establish a process to annually report the Shops' budget and reserve allocations to the campus president for review and approval.

Anticipated completion: May 30, 2019

15. DONATIONS

OBSERVATION

Donation practices did not always align with the Shops' donation policy requirements.

The Shops promotes the mission of the university by providing both monetary and non-monetary donations to university and community groups. We found that the Shops donation requests were not always processed using the donation request form, which contains all elements required by the Shops donation policy.

Specifically, we reviewed ten donations and found that in four instances, there was insufficient documentation to show that the donations were properly pre-approved by either a director, general manager, or the board of directors. For three of the four instances, there was insufficient documentation to indicate how the donation benefited or promoted the university.

Compliance with donation policies and procedures helps to reduce exposure to risk related to loss, theft, or misappropriation of funds and helps to improve the transparency of donations.

RECOMMENDATION

We recommend that the campus, in conjunction with the Shops, enforce the donation policy, including the areas noted above.

MANAGEMENT RESPONSE

We concur. The Shops will enforce the donation policy, including the areas noted above.

Anticipated completion: May 30, 2019

16. BIDDING

OBSERVATION

The Shops did not obtain competitive bids for purchases that exceeded \$50,000, and exceptions to the bidding process were not documented.

The Shops *Procurement Policy and Procedures* requires at least three formal bids for purchases of \$50,000 or more, unless the purchase falls within one of the defined exceptions to the policy. We reviewed three fixed asset purchases that were sole source exceeded \$50,000 and found that formal competitive bids were not obtained for any of them, and there was no documentation showing that these purchases met the exceptions identified in the purchasing policy. This is a repeat finding from the 2015 Auxiliary Organizations audit.

Competitive bids provide transparency, mitigate favoritism toward certain vendors, and increase the chance of obtaining the best prices.

RECOMMENDATION

We recommend that the campus, in conjunction with the Shops, obtain competitive bids or document exceptions to the bidding requirements for purchases exceeding \$50,000.

MANAGEMENT RESPONSE

We concur. The Shops will obtain competitive bids or document exceptions to the bidding requirements for purchases exceeding \$50,000.

Anticipated completion: May 30, 2019

17. PAYMENT CARD INDUSTRY (PCI) COMPLIANCE

OBSERVATION

The campus did not ensure that all PCI requirements were being adequately addressed and that new technologies implemented met PCI Data Security Standards. In addition, the campus PCI policy was not explicit in stating that compliance with PCI standards is required at all times and must be evidenced by completion and attestation of the Self-Assessment Questionnaires (SAQ).

The Shops PCI attestation we reviewed was incomplete, had not been signed and dated, and contained conflicting information.

Maintaining current documentation of compliance with PCI Data Security Standards is required to ensure continued ability to accept credit card transactions.

RECOMMENDATION

We recommend that the campus, in conjunction with the Shops, assess the completeness and accuracy of their PCI SAQ attestation. In addition the campus policy should be updated to indicate that PCI compliance is required at all times and is assured through annual completion of PCI SAQs that have been independently reviewed for completeness and accuracy.

MANAGEMENT RESPONSE

We concur. The Shops will work with our campus partners to assess the completeness and accuracy of our PCI SAQ attestation annually. In addition, the campus policy will be updated to indicate that PCI compliance is required at all times and is assured through annual completion of PCI SAQs that have been independently reviewed for completeness and accuracy.

Anticipated completion: July 31, 2019

18. IT DISASTER RECOVERY PLAN

OBSERVATION

The Shops did not have a current disaster recovery plan for the restoration of data-processing services.

Maintaining current documentation of the recovery environment and practices helps to ensure that data-processing services can be restored timely.

RECOMMENDATION

We recommend that the campus, in conjunction with the Shops, update their disaster plan for the recovery of data-processing services to include current infrastructure and practices.

MANAGEMENT RESPONSE

We concur. The Shops will work with our campus partners to update our disaster recovery plan of data-processing services to include current infrastructure and practices.

Anticipated completion: July 31, 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. 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 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.

The Shops was established in 1953 as a non-profit public benefit corporation. It engages in commercial operations, including, but not limited to, main campus and satellite bookstores, campus and residential dining services, convenience stores, vending operations, and catering. Additionally, the Shops manages the University ID card services program and provides printing services to the campus community in partnership with the university through the University

Print Shop. The Shops is governed by a board of directors composed of representatives from the student body, university administration, faculty, staff, and community.

SCOPE

We visited the California State University, Long Beach campus and the Shops from November 5, 2018, through December 7, 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 Shops. The audit focused on procedures in effect from July 1, 2016, to December 7, 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, conflicts of interest, and risk management practices.
- Administration of fund-raising events, scholarships, and donations.
- Internal controls and segregation of duties over fiscal administration of areas such as cash receipts, accounts receivables, property and equipment, disbursements, and personnel and payroll.
- Commercial operations such as the bookstore and dining services.
- Communications and training processes for employee safety, including evaluation of the hazard communication and injury and illness prevention programs.
- Motor vehicle use and maintenance controls.
- Information systems.

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

CRITERIA

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

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

- Education Code §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*
- CCR Title 8, *Industrial Relations*
- RFIN 7-81-4
- California Penal Code §320.5
- EO 1059, *Utilization of Campus Auxiliary Organizations*
- ICSUAM §1301.00, *Hospitality, Payment or Reimbursement of Expenses*
- ICSUAM §8000.00, *Information Security*
- ICSUAM §15000, *University Advancement*
- *CSU Auxiliary Organizations Compliance Guide*
- *CSU Auxiliary Organizations Sound Business Practices Guideline*
- *CSULB Hospitality Expenses Policy*
- *Shops Accounts Payable Policy and Procedures*
- *Shops Accounts Receivable Policy*
- *Shops Company Travel*
- *Shops Driver and Vehicle Use Policy*
- *Shops Hospitality Expenses Policy*
- *Shops Injury and Illness Prevention Program*
- *Shops Cash Handling Policies and Procedures*
- *Shops Fixed Asset Policy and Process*
- *Shops Procurement Policies and Procedures*
- *Shops Risk Management Policies and Procedures*

AUDIT TEAM

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