

Audit and Advisory Services
401 Golden Shore
Long Beach, CA 90802-4210

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

February 3, 2020

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

Dear Dr. Castro:

Subject: Audit Report 19-24, Associated Students, Inc., California State University, Fresno

We have completed an audit of *Associated Students, Inc.*, as part of our 2019 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

**ASSOCIATED STUDENTS INC. OF
CALIFORNIA STATE UNIVERSITY, FRESNO**

California State University, Fresno

Audit Report 19-24
January 6, 2020

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 Associated Students Incorporated of California State University, Fresno (ASI); evaluate adherence to auxiliary policies and procedures and applicable Integrated California State University Administrative Manual (ICSUAM) policies, or, where appropriate, to industry-accepted standards; and to ensure compliance with relevant governmental regulations, Trustee policy, Office of the Chancellor directives, and campus procedures.

CONCLUSION

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 ASI as of November 15, 2019, taken as a whole, provided reasonable assurance that risks were being managed and objectives were met.

In general, we noted that ASI had an appropriate framework for the administration of the auxiliary; however, we identified a few areas needing improvement. We found that the student-managed enterprise did not have a written agreement with ASI, and security of the physical store needed improvement. We also found that ASI did not always dispose of funds in inactive student club accounts, student research grant awards were not always reported to the campus financial aid office, and documentation regarding student research grant awards was not always maintained. In addition, background checks were not always performed and Form I-9 was not always completed for new hires. Also, ASI administration of fiscal areas such as accounts receivables (AR), cash disbursements, and procurement needed improvement related to proper segregation of duties, establishment of written policies and procedures, and compliance with policies and procedures or maintenance of required documents to support activities. Further, ASI did not obtain annual conflict-of-interest (COI) statements from all board members, and the ASI Bylaws had an outdated dissolution clause.

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

OBSERVATIONS, RECOMMENDATIONS, AND RESPONSES

1. STUDENT-MANAGED ENTERPRISE

OBSERVATION

A student-managed enterprise within the Craig School of Business (CSB) did not have a written agreement with ASI, and security of the physical CSB store needed improvement.

In January 2019, the CSB established a non-profit student-managed enterprise, a small retail store carrying merchandise such as shirts, sweaters, and other items bearing the CSB name. An online version of the store was added later. Students get hands-on business learning experience and academic course credits for managing the stores. Both stores were primarily managed by the CSB, with the help of ASI.

We found that:

- There was no written agreement between ASI and the CSB indicating, among other things, individual and mutual responsibilities related to the operation of the stores, including policies and procedures and merchandise that may be offered for sale; funding; and dissolution of the student-managed enterprise.
- Multiple staff and faculty members had access to the store, located inside the CSB building, where merchandise was kept.

A written agreement can help to reduce the risk of misunderstanding and miscommunication regarding rights and responsibilities, and adequate security of a physical store reduces unauthorized access and the risk of lost merchandise.

RECOMMENDATION

We recommend that the campus, in conjunction with ASI:

- a. Develop a written agreement with the CSB specifying individual and mutual responsibilities for the administration of the student-managed enterprise.
- b. Secure the physical CSB store by limiting access to only authorized individuals.

MANAGEMENT RESPONSE

We concur.

- a. We will develop a written agreement between ASI and the university (CSB) by February 29, 2020.
- b. The campus will secure the physical CSB store by limiting access to only authorized individuals by January 31, 2020.

2. INACTIVE STUDENT CLUB ACCOUNTS

OBSERVATION

ASI did not always dispose of the funds in inactive student club accounts.

We reviewed ten inactive student club accounts and found nine that had no activity for two or more years. The funds in those accounts had not been disposed of in accordance with the student club account agreement.

Sufficient monitoring of inactive student club accounts helps to ensure that remaining account balances are properly handled or disposed of.

RECOMMENDATION

We recommend that the campus, in conjunction with ASI, annually review inactive student club accounts and properly dispose of funds in accordance with the student club account agreement.

MANAGEMENT RESPONSE

We concur. At the end of each fiscal year, the auxiliary controller will present to ASI a list of inactive student clubs and will recommend proper disposition according to respective club account agreements.

3. STUDENT RESEARCH GRANT AWARD

OBSERVATION

The campus financial aid office was not notified of recipients of student research grant awards, and documentation regarding student research grant awards was not always maintained.

We found that ASI and the Division of Research and Graduate Studies (RGS) had memoranda of understanding (MOU) related to funding, managing, and awarding undergraduate and graduate student research grants. According to these MOUs, RGS was responsible for issuing payments to awardees based upon the review committee's decision.

We reviewed ten undergraduate and five graduate student research grant awards for the spring 2018, fall 2018, and spring 2019 semesters, and we found that:

- Payments were not reported to the campus financial aid office for any of the undergraduate research grant awards, as required by California Code of Regulations (CCR) Title 5, §42500(d), *Functions of Auxiliary Organizations*, and coded memorandum Academic and Student Affairs (ASA) 2016-28, *Coordination of External Grant/Scholarships with Financial Aid*.

RGS indicated that notification was not made because the funds were transferred directly to the college departments, and not to the students. However, we found that individual students applied for the grants, not the departments, and student awardees, rather than the departments, used the grant money for individual research. As such, the campus financial aid office should have been notified of all of these awards, regardless of how the aid was disbursed.

- Documentation showing that the campus financial aid office had been notified about graduate research grant awards had not been maintained.

Although RGS indicated that a list of all award recipients had been submitted to the financial aid office, it had not maintained a copy of this list. As such, we could not verify whether RGS complied with the requirement to notify the financial aid office.

Reporting student research grant award recipients to the campus financial aid office helps to ensure compliance with regulatory requirements.

RECOMMENDATION

We recommend that the campus, in conjunction with ASI and RGS, determine who is responsible for notifying the campus financial aid office about student research grant award recipients, and maintain documentation showing that this notification has been provided.

MANAGEMENT RESPONSE

We concur. Effective immediately, the RGS will be responsible for notifying the campus financial aid office in writing about student research grant awards.

4. NEW HIRES

OBSERVATION

Background checks were not always performed and Form I-9, *Employment Eligibility Verification*, was not always completed for ASI new hires.

We noted that ASI and the California State University Fresno Association, Inc. (also known as Auxiliary Services) had a management services agreement (MSA) in which Auxiliary Services provided accounting and administrative support services, including human resources and payroll activities.

We reviewed ten new-hire employee files for the period between July 2017 and November 2019, and we found that:

- In six instances, a background check was not completed or was not completed timely.
- In three instances, the original Form I-9 was used for the rehired employee, but a section of the form related to reverification and rehire was not completed.

The Department of Homeland Security, U.S. Citizenship and Immigration Services, requires that employers retain a Form I-9 for every current employee and states that Form I-9 may be reused if completed within three years of the original date of hire.

Performing background checks helps protect the health, well-being, and safety of the campus community, including minors, and reduces the potential for reputational damage to the campus and the auxiliary. Proper completion of Form I-9 helps to ensure compliance with legal requirements.

RECOMMENDATION

We recommend that the campus, in conjunction with ASI:

- a. Timely complete a background check, when required, for all new employees.
- b. Complete a new Form I-9 all new hires, or complete Section 3 of the original Form I-9 when it is reused for a rehiring an employee within three years of the original date of hire.
- c. Reiterate key processes identified above and provide training to Auxiliary Services personnel, as needed.

MANAGEMENT RESPONSE

We concur. The director of auxiliary human resources will send applicable reminders to the auxiliary human resources/payroll staff by February 1, 2020.

5. ACCOUNTS RECEIVABLE

OBSERVATION

Certain duties related to AR were not adequately segregated at ASI.

Specifically, we found that one person at the ASI business office generated invoices and received mailed-in payments. In addition, the ASI business office did not have a log to record mailed-in payments.

Adequate segregation of duties and maintenance of a log for mailed-in payments helps to decrease the risk that erroneous and inappropriate actions will not be timely detected.

RECOMMENDATION

We recommend that the campus, in conjunction with ASI, adequately segregate duties and responsibilities related to AR and maintain a log of mailed-in payments.

MANAGEMENT RESPONSE

We concur. The ASI business office will establish a check log for mailed-in payments by February 1, 2020. In addition, the auxiliary controller will review current duties of ASI staff to ensure proper segregation of duties by March 1, 2020.

6. CASH DISBURSEMENT

OBSERVATION

ASI did not have written policies and procedures for hospitality expenses, corporate credit cards holders did not always comply with credit card policy for meal reimbursement, and ASI did not always retain records showing that new cardholders received training and agreed with ASI's credit card policy.

We reviewed cash disbursement policies and procedures and a sample of disbursement records for the period between July 2017 and November 2019, and we found that:

- ASI hospitality policy was substantially completed and approved at the time of the audit, but it did not address requirements for reimbursing hospitality expenses, including purpose of the expense, listing of attendees, and when approval is needed prior to incurring an expense.
- ASI corporate credit card policy did not allow travelers to purchase meals using their credit cards; instead, it required the employee to claim reimbursement for meals. However, for five of the eight individual corporate credit card accounts we reviewed, the card was used to purchase meals during travel.
- In six instances, documentation was not retained to show that new credit card holders received training and agreed to ASI's corporate credit card policy, including allowed and prohibited charges.

Complete documented policies and procedures, compliance with policies and procedures, and maintenance of appropriate supporting records helps to reduce the risk of errors, misappropriation of funds, and auxiliary exposure to potential litigation.

RECOMMENDATION

We recommend that the campus, in conjunction with ASI:

- a. Update ASI hospitality policies and procedures to address the requirements noted above, including the purpose of expenses, listing of attendees, and when approval is needed prior to incurring an expense, and communicate the updated policies and procedures to key ASI personnel.
- b. Remind all ASI corporate credit card holders of the policies and procedures restricting use of the corporate credit card to purchase meals during travel.

- c. Provide training to appropriate ASI personnel on hospitality and corporate credit card policies and procedures as needed.
- d. Develop a process to document training for new credit card holders and to maintain documentation showing that they have agreed to ASI's corporate credit card policy, including allowed and prohibited charges.

MANAGEMENT RESPONSE

We concur.

- a. Auxiliary services will work with ASI to develop a community relations policy that will include the necessary information to support the expense, and will communicate the policy to key ASI personnel.
- b. ASI will remind corporate credit card holders that they are not to use their corporate credit card to purchase meals for travel.
- c. The auxiliary services controller will work with the ASI business office to train appropriate ASI personnel on hospitality and corporate credit card policies and procedures, as needed.
- d. The auxiliary services controller will work with the ASI business office to document training for new credit card holders and to maintain documentation showing that they have agreed to ASI's corporate credit card policy, including allowed and prohibited charges.

Expected completion date: March 1, 2020

7. PROCUREMENT

OBSERVATION

ASI procurement processes needed improvement related to documented policies and procedures and maintenance of required procurement documentation.

We found that ASI did not have a separate procurement policy related to obtaining vendor quotes, bidding, and sole-source requirements. However, ASI had an MSA with Auxiliary Services for administrative and support services, including procurement.

The Auxiliary Services policy required two or three written quotes for purchases between \$5,000 and \$20,000, and purchases over \$20,000 required formal solicitation. Sole-source purchases exceeding \$10,000, on a non-competitive basis, required written justification and approval of the executive director.

However, during our review of 25 general disbursements, we found that:

- For one disbursement over \$20,000, sole-source documentation was not completed.

- For five disbursements between \$5,000 and \$20,000, documentation of vendor quotes were not maintained.
- One disbursement was based on a contract written by the vendor; however, the contract did not include language indemnifying the auxiliary and/or campus, and additional insurance was not obtained from the vendor.

Documented policies and procedures and maintenance of required records of vendor quotes, competitive and sole-source bidding, and additional requirements for third-party vendors helps to ensure compliance with systemwide and auxiliary procurement requirements, provides transparency, and helps to ensure that the best price is obtained.

RECOMMENDATION

We recommend that the campus, in conjunction with ASI:

- a. Establish a separate ASI procurement policy or comply with Auxiliary Services policy.
- b. Maintain all required procurement records, including vendor quotes, competitive bid activities, and sole-source justification.
- c. If applicable, complete a standard agreement that includes language indemnifying the auxiliary and/or campus, and collect and retain proof of additional insurance from third-party vendors.
- d. Provide training on ASI procurement policies and procedures to appropriate staff as needed.

MANAGEMENT RESPONSE

We concur. By April 1, 2020, the auxiliary services controller will work with ASI staff to provide training on applicable procurement requirements in accordance with the association's procurement policy and, if necessary, develop a separate policy for ASI. Training will include the issues noted above related to maintaining all required procurement records, and, if applicable, completing a standard agreement and collecting and retaining proof of additional insurance from third-party vendors.

8. CONFLICT OF INTEREST

OBSERVATION

ASI did not obtain annual conflict-of-interest (COI) statements from all board members.

We found that:

- One student officer had not signed a COI statement for fiscal year (FY) 2018/19.
- Two student officers had not signed a COI statement for FY 2017/18.

Completion of COI statements by all board members provides greater assurance of transparency and helps to ensure ethical behavior on the part of the board of directors.

RECOMMENDATION

We recommend that the campus, in conjunction with ASI, obtain annual COI statements from all board members.

MANAGEMENT RESPONSE

We concur. Effective immediately, the association will ensure it has all COI forms from ASI board members on file by September 30 of each year. If there are any missing statements, the ASI president will be notified accordingly.

9. DISSOLUTION CLAUSE

OBSERVATION

The dissolution clause in the ASI Bylaws had not been updated to reflect the Articles of Incorporation's dissolution clause and Title 5 §42600(b) requirement.

Title 5 §42600(b) requires that upon dissolution of the organization, net assets, other than trust funds, shall be distributed to a successor approved by the president of the campus and by the chancellor.

Having a proper dissolution clause in accordance with Title 5 decreases the risk that net assets will not be properly distributed in the event the corporation is dissolved.

RECOMMENDATION

We recommend that the campus, in conjunction with ASI, update the ASI Bylaws accordingly.

MANAGEMENT RESPONSE

We concur. The bylaws will be revised to remove the dissolution clause, which is properly included in the Articles of Incorporation.

Estimated completion date: February 28, 2020

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 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. ASI is a nonprofit corporation; provides the campus community with social, cultural, educational, and entertainment opportunities aimed at meeting the needs of students; and serves as a vehicle for the participation in the governance of the university. ASI also serves as the fiscal agent for student club and organization accounts and student-related programs and activities.

All regularly matriculated students are members of ASI with the right to participate in programs and activities, and to vote as provided by established bylaws on matters brought to the membership by the Student Senate. ASI operations are integrated with campus operations and policies that are overseen by the campus chief financial officer, with daily operations managed by an ASI director and about 30 employees. ASI is governed by a board of directors composed of representatives from the student body and university administration. The California State University Fresno Association, Inc. (also known as Auxiliary Services) provides accounting and administrative support services.

SCOPE

We visited the Fresno State campus and ASI from October 14, 2019, through November 15, 2019. 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 ASI. The audit focused on procedures in effect from July 1, 2017 to November 15, 2019.

Specifically, we reviewed and tested:

- Timely and proper execution of agreements, contracts, and memoranda of understanding.
- Fiscal, operational, and program compliance, such as club accounts, new club and research grants, instructionally related activities, 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, accounts receivables, property and equipment, procurement, disbursements, and personnel and payroll.

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, which was designed to provide a review of key operational, administrative, and financial controls, included interviews, walkthroughs, and detailed testing on certain aspects of the ASI operations. Our review was limited to gaining reasonable assurance that essential elements of the ASI operations were in place and did not examine all aspects of the program.

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 and auxiliary procedures; as well as sound administrative practices and consideration of the potential impact of significant risks. 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*
- CCR, Title 5 §42600, *Organization*
- RFIN 7-81-4
- EO 1059, *Utilization of Campus Auxiliary Organizations*
- *CSU Auxiliary Organizations Compliance Guide*
- *CSU Auxiliary Organizations Sound Business Practices Guidelines*
- CSU HR 2017-17, *Background Check Policy*
- ICSUAM §8000.00, *Information Security*
- ICSUAM §1301.00, *Hospitality, Payment or Reimbursement of Expenses*
- Coded memorandum ASA 2016-28, *Coordination of External Grant/Scholarships with Financial Aid*
- *ASI Bylaws*
- *ASI Policies*
- *ASI Student Club/Organization Account Agreement & Signature Authorization*
- *Auxiliary Services Travel Policy*
- *Auxiliary Services Purchasing and Procurement Policy*

AUDIT TEAM

Audit Manager: Joanna McDonald
Senior Auditor: May Flores