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February 26, 2021

Dr. Jeffrey D. Armstrong, President
California Polytechnic State University, San Luis Obispo
1 Grand Avenue
San Luis Obispo, CA 93407

Dear Dr. Armstrong:

Subject: Audit Report 20-22, *Associated Students, Inc.*,
California Polytechnic State University, San Luis Obispo

We have completed an audit of *Associated Students, Inc.* as part of our 2020-2021 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 will be 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,

Vlad Marinescu
Vice Chancellor and Chief Audit Officer

c: Joseph I. Castro, Chancellor
    Adam Day, Chair, Committee on Audit
    Jane W. Carney, Vice Chair, Committee on Audit

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ASSOCIATED STUDENTS, INC. OF CALIFORNIA POLYTECHNIC STATE UNIVERSITY AT SAN LUIS OBISPO

California Polytechnic State University,
San Luis Obispo

Audit Report 20-22
February 26, 2021

EXECUTIVE SUMMARY

OBJECTIVE

The objectives of the audit were to confirm compliance with regulatory requirements for the establishment and governance of auxiliary organizations; ascertain the effectiveness of operational, administrative, and financial controls for the activities conducted by the Associated Students, Incorporated of California Polytechnic State University at San Luis Obispo (ASI); 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 (CO) 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 3, 2020, 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 some credit card purchases did not require secondary approval, and ASI's policy did not address the procedures for cardholders who make personal purchases or purchase gift cards with an ASI credit card. Also, administration of personnel processes for monitoring credentials of teachers in the Children's Center and separated ASI employees needed improvement. In addition, ASI was not in full compliance with CO policy regarding system access review, and the campus and ASI had not provided information security awareness training to all auxiliary employees with computer access. Further, ASI did not change the safe key and combination periodically or when staff with access to the safe was terminated, records were not maintained to show that required cash-handling training was completed, and ASI and the campus did not fully comply with the provision of its operating agreement regarding the review and approval of the executive director's (ED) salary.

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

OBSERVATIONS, RECOMMENDATIONS, AND RESPONSES

1. CREDIT CARD ADMINISTRATION

OBSERVATION

Some credit card purchases did not require secondary approval, and ASI's policy did not address procedures for cardholders who make personal purchases or purchase gift cards with an ASI credit card.

We reviewed 25 credit card transactions for the period of January 2019 to May 2020, and we found that:

- In seven instances, the ED and associate ED approved their own payment request form (PRF) for reimbursement of purchases made with their ASI credit cards. We found that these PRFs were submitted and completed by either an ASI accounting coordinator or administrative assistant on behalf of the cardholder. ASI explained that per their expenditure signature authority policy, the ED had ultimate purchasing authority and did not require review or secondary approval. Also, the associate ED had expenditure authority up to $1,000 and did not require review or secondary approval. Although we found that the nature of the expenditures appeared appropriate, we noted that sound business practice recommends that a cardholder should not function as an approver of his or her own purchases.

- ASI's current credit card policy was incomplete. Specifically, five credit card transactions totaling about $400 were personal in nature, and all were made by or on behalf of the same cardholder. Although we found that these transactions were adequately supported and the cardholder reimbursed ASI for all charges, it was not clear what actions, if any, were taken for the repeated noncompliance.

    Further, two of the five personal credit card transactions noted above were for gift cards that ASI flagged as inappropriate. ASI management indicated that gift card purchase was prohibited if prior approval was not obtained. Although ASI accounting staff indicated that they reviewed the campus *Hospitality Gift Card Policy* with the cardholder who incorrectly used a credit card to purchase gift cards, this procedure was not addressed in the credit card policy.

Proper approval of credit card purchases and a clear and complete credit card policy decrease the risk that errors, irregularities, or misappropriation of funds will occur.

RECOMMENDATION

We recommend that the campus, in conjunction with ASI:

a. Review the current expenditure signature authority of the ASI ED and associate ED and update it to include secondary approval by the employee's supervisor or a designated approver.

b. Document counseling for all cardholders who repeatedly make personal purchases, including the cardholder cited above.

c. Review and update the credit card policy to address the issues noted above, including procedures for personal purchases and gift card purchases using an ASI credit card.

d. Communicate the updated credit card policy to all ASI credit cardholders and the updated approval requirements to all ASI employees involved with processing ASI disbursements, including credit card purchase reimbursements.

MANAGEMENT RESPONSE

We concur, and the campus, in conjunction with ASI, will review and update the credit card policy to address the issues noted above, including:

a. Procedures for personal purchases and gift card purchases using an ASI credit card.

b. Signature authority of the ASI ED and associate ED and update it to include secondary approval by the employee's supervisor for the associate ED, and a designated approver, to be determined by the university chief financial officer, for the ASI ED.

c. Documented counseling for all cardholders who repeatedly make personal purchases.

In addition, we will document counseling for all cardholders who repeatedly make personal purchases, including the cardholder cited above.

The updated credit card policy will be communicated to all ASI credit cardholders and the updated approval requirements to all ASI employees involved with processing ASI disbursements, including credit card purchase reimbursements.

Anticipated implementation date: July 30, 2021

2. **PERSONNEL**

OBSERVATION

Administration of personnel processes related to monitoring credentials of teachers in the Children's Center and separated ASI employees needed improvement.

We reviewed a sample of ASI employee files for the period of January 2019 to September 2020, and we found that:

- For one of the 16 Children's Center teachers we reviewed, the employee's teaching credential expired on September 1, 2019. ASI indicated that the employee was on leave starting June 1, 2019 and returned to work on December 23, 2019. However, the employee's teaching credential was not reactivated until October 1, 2020. Although there were no regulatory violations noted during the last state agency compliance audit of

Children's Center in 2018, we noted that ASI's job description required a head teacher to have a California Child Development teacher permit.

- In five of 12 separated employees reviewed, a separation checklist was completed, but the checklist did not include the return of credit cards, removal of information technology (IT) access, and return of IT equipment. We found that two of these five separated employees were issued an ASI credit card, and we confirmed that neither credit card had purchase activity after the employee's separation date.

Proper administrative oversight of personnel processes related to monitoring credentials of teachers in the Children's Center and separated employees helps to ensure compliance with legal requirements and reduces the risk of errors and auxiliary exposure to potential litigation.

RECOMMENDATION

We recommend that the campus, in conjunction with ASI:

a. Establish a process to monitor and confirm that all current Children's Center teachers have active teaching credentials.

b. Update the ASI employee separation checklist to document the return of credit cards, removal of IT access, and return of IT equipment.

MANAGEMENT RESPONSE

We concur, and the campus, in conjunction with ASI, will:

a. Establish a process to monitor and confirm that all current Children's Center teachers have active teaching credentials, including steps to be taken if a teacher's credentials expire.

b. Update the ASI employee separation checklist to document the return of all ASI/campus property, including credit cards and IT equipment, and the removal of IT access.

Anticipated implementation date: July 30, 2021

3. USER ACCESS REVIEW AND TRAINING

OBSERVATION

ASI was not in full compliance with CO policy regarding system access review, and the campus and ASI had not provided information security awareness training to all auxiliary employees with computer access.

ASI did not have comprehensive documentation of any ongoing user access reviews. Instead, review of user access roles and permissions within accounting, payroll, and human resources systems was informal, performed on an ad-hoc basis, and not conducted at least annually. We confirmed that all current ASI system users as of December 2020 are active employees and that terminated ASI employees since January 2019 no longer have user access.

ICSUAM §8060, *Access Control*, states that campuses and auxiliaries are to develop procedures to detect unauthorized access and privileges assigned to authorized users that exceed the required access rights needed to perform their job functions.

ICSUAM §8060.S000, *Access Control Standard*, states that at least annually, appropriate campus managers and/or their designated delegates must review user access rights to information assets containing protected data, and results of the review must be documented.

Further, we selected and reviewed 14 ASI employees who had computer access based on their job descriptions, and we found that:

- In two instances, the annual campus information security awareness training had not been completed.

- In eight instances, employees hired between January 2019 and December 2019 did not complete ASI's additional information security awareness training until July 2020. ASI management indicated that initial training should have been completed during the new hire onboarding process, and periodically thereafter.

Documented management review of user access privileges for systems containing protected data and completion of information security awareness training for all ASI employees with access to computer resources decreases the risk of mismanagement of protected data and ensures compliance with CO information security requirements.

RECOMMENDATION

We recommend that the campus, in conjunction with ASI:

a. Develop and implement comprehensive documentation to address the issues noted above, including annual review of user access roles and permissions to systems used by ASI.

b. Provide all ASI employees who have computer access with campus information security awareness training, monitor compliance to ensure required training is completed, and maintain training records.

c. Timely complete ASI information security awareness training with new employees, monitor compliance to ensure required training is completed, and maintain training records.

MANAGEMENT RESPONSE

We concur, and the campus, in conjunction with ASI, will:

a. Develop and implement comprehensive documentation to address the issues noted above, including annual review of user access roles and permissions to systems used by ASI.

b. Provide all ASI employees who have computer access with campus information security awareness training, monitor compliance to ensure required training is completed, and maintain training records.

c. Timely complete ASI information security awareness training with new employees, monitor compliance to ensure required training is completed, and maintain training records.

The university is currently reorganizing and centralizing information technology functions, which will enable standardization and strengthen campuswide cybersecurity controls.

Anticipated implementation date: July 30, 2021

4. CASH HANDLING

OBSERVATION

ASI did not change safe keys or combinations for safes periodically or when employment of staff with access to the safe was terminated, and records were not maintained to show that required cash-handling training had been completed.

We reviewed cash-handling practices at the ASI business office and satellite locations, and we found that:

- For five of eight safes, the key or combination had not been changed for periods ranging from three to 14 years, per review of ASI's safe and vault log. The safe key and combination should be changed periodically or when the employment of staff with access to the safe is terminated. We noted that the above safes contained between $100 and $300 for change funds, which is less than normal operations due to inactive areas and a move to non-cash operations due to COVID.

- We could not validate that three of ten employees had completed cash-handling training because training records were not maintained. We noted that all ASI employees responsible for processing cash, check, or credit card payments are required to complete cash-handling training during the onboarding process. This training includes review of the cashier's responsibilities, cash-handling security, and processing of payments and refunds.

Changing safe keys or combinations periodically or when employment of staff with access to the safe is terminated helps to ensure that cash receipts are safeguarded, and maintaining training records provides evidence that employees have completed training.

RECOMMENDATION

We recommend that the campus, in conjunction with ASI:

a. Change the safe key or combination periodically or when the employment of staff with access to the safe is terminated.

b. Establish and implement procedures to monitor compliance with required cash-handling training, and maintain training records.

MANAGEMENT RESPONSE

We concur, and the campus, in conjunction with ASI, will:

a. Change the safe key or combination periodically or, at a minimum, when the employment of staff with access to the safe is terminated.

b. Establish and implement procedures to monitor compliance with required cash-handling training, and maintain training records.

Anticipated implementation date: July 30, 2021

5. OPERATING AGREEMENT

OBSERVATION

ASI did not fully comply with the provision of its operating agreement regarding the review and approval of the executive director's (ED) salary.

The operating agreement between ASI and the university stated that ASI agrees to participate in partnership and collaboration with the VPSA for the evaluation and hiring of the ED of ASI, in order to fulfill the mission of ASI as an auxiliary of the university. The ASI's ED position included responsibility over the strategic management of the organization, including its programs and facilities. ASI is charged with operating the Julian A. McPhee University Union, Cal Poly Recreation Center, Cal Poly Sports Complex, Doerr Family Field, and Orfalea Family and ASI Children's Center.

The agreement further states that the ED salary will be determined by external consultation in partnership with ASI officers and approved by the campus vice president for student affairs (VPSA) and the senior vice president of administration and finance (SVPAF). We noted that ASI management indicated their belief that the intent of this provision was for only the initial salary of the ED.

In February 2020, an external compensation consultant reviewed the title, classification, and compensation of all full-time ASI employees, and based on this equity review, ASI student officers approved the consultant's recommended salary increase for the ED. However, we found that the ED's current salary was not approved by the VPSA and SVPAF, as required by ASI's operating agreement. We noted that the ED's salary had increased an average of 3.73 percent annually since initial hire in June 2013, and according to ASI management, the ED's duties remained consistent during this period. We also found that the ED receives a comprehensive performance review from ASI student officers annually. However, the VPSA, as secondary supervisor, only participates in the preliminary review with the ASI student officers and is excluded from both drafting the final evaluation and participating in the evaluation meeting with the ED.

Compliance with agreed-upon terms and conditions of the auxiliary's operating agreement helps to ensure the element of oversight related to the ED's compensation.

RECOMMENDATION

We recommend that the campus, in conjunction with ASI, enforce the provision of the operating agreement, as noted above, or review and revise the operating agreement to clarify the intent of this provision.

MANAGEMENT RESPONSE

We concur, and the campus (including the vice president for student affairs), in conjunction with ASI, will review the operating agreement to clarify the intent of the provision noted above, and enforce it as written. In addition, the operating agreement will continue to be reviewed regularly going forward.

Anticipated implementation date: July 30, 2021

GENERAL INFORMATION

BACKGROUND

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

Education Code §89900 states, in part, that the operation of auxiliary organizations shall be conducted in conformity with regulations established by the Trustees, and CCR Title 5, §42402, confirms the campus president's authority and responsibility for auxiliary organization operations. Campus management is responsible for establishing and maintaining an adequate system of internal compliance/internal control and assuring that each of its auxiliary organizations similarly establishes such a system.

Education Code §89904 states, in part, that the Trustees of the 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.

California Polytechnic State University, San Luis Obispo (Cal Poly San Luis Obispo), has three separate auxiliary organizations, each of which provides a function that contributes to the educational mission of the university. ASI is a nonprofit corporation and operates as an auxiliary organization and the student government of the campus. ASI engages and connects Cal Poly students to various programs, services, and facilities to enhance and develop the student-learning experience and is funded by student fees, including the student body organization fee and the student body center fee. The needs and interests of the Cal Poly

student body are heard by the ASI Board of Directors and University Union Advisory Board, which act to appropriately prioritize and mandate certain activities that are most important to the students. ASI is charged with operating the Julian A. McPhee University Union, Cal Poly Recreation Center, Cal Poly Sports Complex, Doerr Family Field, and Orfalea Family and ASI Children's Center. In addition, ASI manages facility reservations for multiple venues.

SCOPE

Due to temporary operating procedures and limitations resulting from the COVID-19 public health emergency, we performed fieldwork remotely from September 21, 2020, through November 3, 2020. Our audit and evaluation included the audit tests we considered necessary in determining whether operational, administrative, and financial controls are in place and operative. The audit focused on procedures in effect from January 1, 2019, through November 3, 2020.

Specifically, we reviewed and tested:

• Timely and proper execution of agreements, contracts, and memoranda of understanding.

• Fiscal, operational, and program compliance, such as reserve provisions, unrelated business income tax, conflicts of interest, and risk management practices, as applicable.

• 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, Children's Center, recreation center, 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, which was designed to provide a review of key operational, administrative, and financial controls, included interviews, walkthroughs, and detailed testing on certain aspects of ASI operations. Our review was limited to gaining reasonable assurance that essential elements of 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:

- CCR, Title 5 §42401, *Declaration of Policy*
- CCR, Title 5 §42402, *Authority of Campus President*
- CCR, Title 5 §42500, *Functions of Auxiliary Organizations*
- California Commission on Teacher Credentialing
- Education Code §89720
- Education Code §89756
- Education Code §89900
- Education Code §89904
- RFIN 7-81-4
- EO 1041, *California State University Student Travel Policy*
- EO 1059, *Utilization of Campus Auxiliary Organizations*
- CSU *Auxiliary Organizations Compliance Guide*
- CSU *Auxiliary Organizations Sound Business Practices Guidelines*
- ICSUAM §1301.00, *CSU Hospitality Policy*
- ICSUAM §8060.00, *Access Control*
- ICSUAM §8060.S000, *Access Control Standard*
- ICSUAM §13680.00, *Placement and Control of Receipts for Campus Activities and Programs*
- Coded memorandum ASA 2016-28, *Coordination of External Grant/Scholarships with Financial Aid*
- ASI *Children's Center Policy Manual*
- ASI *Corporate Credit Card Agreement*
- ASI *Employee Handbook*
- ASI *Fiscal Policy*
- ASI *Policy Manual*

AUDIT TEAM

Senior Audit Manager: Joanna McDonald
Senior Auditors: Marcos Chagollan, May Flores, and Alexandra Gonzalez