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September 26, 2018

Dr. Tomás D. Morales, President  
California State University, San Bernardino  
5500 University Parkway  
San Bernardino, CA 92407-2393

Dear Dr. Morales:

**Subject: Advisory Report 18-103, Auxiliary Organizations,  
California State University, San Bernardino**

Per your request, we have completed our advisory review of auxiliary organizations at California State University, San Bernardino, and the report is attached for your review. Our review was conducted in accordance with the Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing* as they pertain to consulting and advisory services.

The campus is not required to formally respond to observations for advisory reviews; however, we recommend that campus management review all observations and take any necessary corrective actions to remediate and/or mitigate the risk(s) associated with the noted observations. Any observations requiring immediate attention were communicated to management during the course of the review.

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

Sincerely,



Larry Mandel  
Vice Chancellor and Chief Audit Officer

**CSU**

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

# **AUXILIARY ORGANIZATIONS**

## **Advisory Services Review**

**California State University, San Bernardino**

Advisory Services Report 18-103

September 13, 2018

## EXECUTIVE SUMMARY

### **PURPOSE AND OBJECTIVES**

On March 23, 2018, the president of California State University, San Bernardino (CSUSB) requested that we review CSUSB's four auxiliary organizations in the areas of procurement, contracts, and disbursements to assess the strengths and weakness of controls and compliance. We discussed the request in detail with the CSUSB internal auditor on April 27, 2018.

Based on discussions with management, the objectives of this review were to evaluate the current policies, procedures, and process for operational opportunities in the areas of procurement, contracts, and disbursements.

### **CONCLUSION**

We identified several opportunities to improve the procurement, contracts, and disbursements process at the CSUSB auxiliary organizations. Specifically, we noted that auxiliary policies and procedures needed updating in the areas of purchasing, disbursement, travel, and hospitality. Furthermore, we noted opportunities to improve the adequacy of support provided to justify expenditures and assurance that proper approvals are in place. We also noted some gaps in the procurement process, such as a failure to obtain bids and to document sole-source justification.

Additionally, we identified opportunities to streamline and strengthen the disbursement process at the auxiliary organizations. Specifically, we noted that some of the auxiliaries had outdated bank signature cards and signature authorization forms. We also noted that a uniform disbursement form was not being used consistently across auxiliary organizations.

A summary of observations noted during the review can be found under Summary of Observations. Additional observations that were considered low-risk or unrelated to the scope can be found under Additional Observations.

## BACKGROUND

At CSUSB, there are four auxiliary organizations operating on campus: Associated Students, Incorporated (ASI); Santos Manuel Student Union of California State University, San Bernardino (SMSU); CSUSB Philanthropic Foundation (PF); and University Enterprises Corporation at CSUSB (UEC).

### CSUSB Philanthropic Foundation

The PF supports CSUSB through fund-raising, acceptance of donor gifts, and management of endowments while creating learning opportunities for students, alumni, and the community that complement the university's teaching, research, and public service goals. It relies on the university's auxiliary financial services (AFS) unit and university advancement personnel for accounting and administrative support services. The Foundation is governed by a board of directors composed of representatives from the community, faculty, alumni, staff, and student body, and the campus president.

### University Enterprises Corporation at CSUSB

The UEC is responsible for business enterprises on campus, including, but not limited to, the dining services, bookstore, convenience store, and vending services. It also serves as the grantee for federal, state, and local funding for research and sponsored projects. The UEC relies on the university's AFS unit for accounting and administrative support services and is governed by a board of directors composed of representatives from the staff, community, faculty, and students.

### Associated Students, Incorporated

ASI operates the student body government, the ticket box office, and the college legal clinic and provides grants to support the campus mission. ASI also provides the campus community with social, cultural, educational, and entertainment opportunities. ASI relies on the university's AFS unit for accounting and administrative support services and is governed by a board of directors composed of representatives from the student body, administration, and faculty.

### Santos Manuel Student Union of California State University, San Bernardino

The SMSU provides student resources through various programs and centers. SMSU also provides various services, including graphic design, marketing services, and the Recreation Center. SMSU relies on the university's AFS unit for accounting and administrative support services and is governed by a board of directors composed of representatives from the student body, faculty, staff, and alumni.

Executive Order (EO) 1059, *Utilization of Campus Auxiliary Organizations*, dated June 6, 2011, represents the policy of the Trustees addressing appropriate use of California State University (CSU) auxiliary organizations. CSU auxiliary organizations are required to comply with Board of Trustee policy (California Code of Regulations Title 5, §42401 and §42500 and Education Code §89720, §89756, and §89900). This EO requires CSU auxiliary organizations to operate within the regulations and oversight of the campus. The campus president is responsible for ensuring the fiscal viability of auxiliary organizations and compliance with applicable CSU policies. The campus chief financial officer is responsible for administrative compliance and fiscal oversight of auxiliary organizations. Auxiliary organizations shall ensure that fiscal procedures and management systems are in place, consistent with CCR Title 5, §42401.

## SUMMARY OF OBSERVATIONS

### Campus

#### S.1 BANK SIGNATURE CARD

##### **OBSERVATION**

The campus had not updated its bank signature cards to revoke the check-signing authority of an individual who was no longer with the campus.

##### **RECOMMENDATION**

We recommend that the campus review and update its bank signature card to reflect only authorized individuals.

#### S.2 COST ALLOCATION PLAN

##### **OBSERVATION**

The campus had not recovered or documented an exchange of value for services provided to PF, as required by EO 1000.

We reviewed campus cost allocation plan documentation for fiscal year (FY) 2017/18 and found that the campus had not recovered or documented an exchange of value for purchasing services provided to PF.

##### **RECOMMENDATION**

We recommend that the campus recover or document an exchange of value for purchasing services provided to PF.

### CSUSB Philanthropic Foundation

#### S.3 DISBURSEMENTS

##### **OBSERVATION**

Disbursement activities at the PF needed improvement to ensure that appropriate documentation and approvals were in place.

We reviewed 10 disbursements and found that:

- In two instances, insurance was not reviewed.
- In two instances, an agreement was not in place.

- In one instance, an agreement was not appropriately approved.
- In one instance, a disbursement was not approved by a delegated individual, and the requestor was also the approver.
- In one instance, an agreement did not include the complete indemnification clause.

**RECOMMENDATION**

We recommend that the PF:

- a. Request insurance from vendors in accordance with Technical Letter Risk Management 2012-01, California State University Insurance Requirements.
- b. Create an agreement that is approved by a delegated individual when a vendor is providing service to PF.
- c. Include a complete indemnification clause in future agreements.

We also recommend that AFS ensure that disbursement requests have proper approval before processing transactions for payment.

**S.4 POLICIES AND PROCEDURES**

**OBSERVATION**

PF policies and procedures for purchasing activities did not include information to address certain purchasing requirements.

Specifically, we found that policies and procedures did not adequately address:

- When a purchase order was required.
- When a direct expenditure was allowed.
- Who was to approve sole-source justification.
- The minimum number of bids required.

**RECOMMENDATION**

We recommend that the PF update its policies and procedures to include the areas noted above.

## S.5 SIGNATURE AUTHORIZATION FORM

### OBSERVATION

The PF had not updated its signature authorization form to revoke the disbursement signing authority of an individual who was no longer with the campus.

### RECOMMENDATION

We recommend that the PF review and update its signature authorization form to reflect only authorized individuals.

## S.6 HOSPITALITY

### OBSERVATION

The PF had not developed written policies for hospitality expenditures, as required by Integrated California State University Administrative Manual (ICSUAM) §1301.00, *Hospitality, Payment, or Reimbursement of Expenses*, nor had it ensured that hospitality expenditures were appropriately approved.

We found that PF did not have documented policies and procedures addressing:

- Allowable and unallowable expenditures and occasions.
- Hospitality provided to the spouse or domestic partner of an employee.
- Hospitality provided to students or prospective students.
- The appropriate approval process for transactions.
- The maximum per-person rate for breakfast, lunch, dinner, and light refreshments inclusive of the total cost of food, beverages, labor, sales tax, delivery fees, or other service fees.

In addition, we reviewed eight hospitality expenditures dated from September 2017 to February 2018, and we found that in one instance, an expenditure was not approved by an authorized individual.

### RECOMMENDATION

We recommend that the PF develop written policies and procedures for hospitality expenditures, as required by ICSUAM §1301.00.

Furthermore, we recommend that AFS ensure that expenditures are approved by only authorized individuals.

## S.7 TRAVEL

### OBSERVATION

The PF had not developed written policies for travel expenditures, and travel expenditures were not always appropriately supported.

We reviewed eight travel expenditures, and we found that:

- In one instance, a conference agenda was not attached to a travel expenditure.
- In one instance, a business purpose was not documented in a travel expenditure.

### RECOMMENDATION

We recommend that the PF:

- a. Develop written policies and procedures for travel expenditures.
- b. Remind individuals submitting travel expenditures that conference agendas and business purposes should be included.

## S.8 PURCHASING

### OBSERVATION

The PF did not always follow the procurement process outlined in the PF *Procurement Policy*.

During our purchasing review, we found one purchase that did not include a sole-source justification or three informal written bids, as required by PF policy.

### RECOMMENDATION

We recommend that the PF follow the sole-source and bidding requirements noted in the PF *Procurement Policy* for future purchases that meet the threshold.

## S.9 OPEN PURCHASE ORDER

### OBSERVATION

The PF did not always timely disencumber and remove outstanding paid purchase orders from the accounting system.

We reviewed the open purchase order listing and noted that there was an open purchase order outstanding for 1,658 days, with a remaining balance of \$285. This purchase order had not been disencumbered and removed from the accounting system, although it had been paid.



**RECOMMENDATION**

We recommend that the PF timely disencumber and remove paid purchase orders from the accounting system.

**University Enterprises Corporation**

**S.10 SEGREGATION OF DUTIES**

**OBSERVATION**

Certain duties and responsibilities related to disbursements were not adequately segregated at the UEC.

Specifically, we found that individuals who processed disbursements were also listed as authorized signors to approve transactions.

**RECOMMENDATION**

We recommend that the UEC adequately segregate duties and responsibilities related to disbursements or institute mitigating procedures approved by the campus chief financial officer.

**S.11 POLICIES AND PROCEDURES**

**OBSERVATION**

The UEC policies and procedures for purchasing activities did not adequately address when a direct expenditure was allowed.

**RECOMMENDATION**

We recommend that the UEC update their policies and procedures to specify when a direct expenditure is allowed.

**S.12 DISBURSEMENTS**

**OBSERVATION**

Disbursement activities at the UEC needed improvement to ensure that appropriate documentation and approvals were in place.

We reviewed 10 disbursements and found that:

- In one instance, a contractual agreement did not include a complete indemnification clause.
- In one instance, a contractual agreement was verbal, rather than written.
- In one instance, a disbursement check request was not completed.

**RECOMMENDATION**

We recommend that the UEC:

- a. Include a complete indemnification clause in future contractual agreements.
- b. Ensure that contractual agreements are written, rather than verbal.
- c. Complete disbursement check request forms when required.

**S.13 HOSPITALITY**

**OBSERVATION**

The UEC had not developed written policies for hospitality expenditures, as required by ICSUAM §1301.00, *Hospitality, Payment, or Reimbursement of Expenses*, nor had it ensured that hospitality expenditures were appropriately approved and adequately supported.

We found that the UEC did not have documented policies and procedures addressing:

- Allowable and unallowable expenditures and occasions.
- Hospitality provided to the spouse or domestic partner of an employee.
- Hospitality provided to students or prospective students.
- The appropriate approval process for transactions.
- The maximum per-person rate for breakfast, lunch, dinner, and light refreshments inclusive of the total cost of food, beverages, labor, sales tax, delivery fees, or other service fees.

In addition, we reviewed eight hospitality expenditures dated from July 2017 to March 2018, and we found that:

- In three instances, expenditures were supported by a disbursement form rather than a hospitality form.
- In one instance, an expenditure was not approved by an authorized individual.

**RECOMMENDATION**

We recommend that the UEC develop written policies and procedures for hospitality expenditures, as required by ICSUAM §1301.00, and ensure that all hospitality expenditures are adequately supported by a hospitality form.

Furthermore, we recommend that AFS ensure that expenditures are approved by only authorized individuals.

**S.14 TRAVEL**

**OBSERVATION**

The UEC had not developed written policies for travel expenditures, travel expenditures were not always appropriately approved, and travel advances were not always carried forward to travel expenditures.

We reviewed eight travel expenditures, and we found that:

- In three instances, complete mileage support or expenditure receipts were not included.
- In one instance, a travel advance was not carried forward to the travel expenditure, which resulted in an overpayment.

**RECOMMENDATION**

We recommend that the UEC:

- a. Develop written policies and procedures for travel expenditures.
- b. Remind individuals submitting travel expenditures that requested amounts should be appropriately supported before submission.
- c. Ensure that travel advances are carried forward to the travel expenditure.
- d. Consider calculating and recovering the amount owed to the auxiliary due to the overpayment.

**S.15 OPEN PURCHASE ORDERS**

**OBSERVATION**

The UEC did not always timely disencumber and remove outstanding paid purchase orders from the accounting system.

We reviewed the open purchase order listing and noted that there was an open purchase order outstanding for 684 days with a remaining balance of \$25,560 that had not been disencumbered and removed from the accounting system, although it had been paid.

**RECOMMENDATION**

We recommend that the UEC timely disencumber and remove paid purchase orders from the accounting system.

**S.16 PURCHASING**

**OBSERVATION**

The UEC did not always follow the procurement process outlined in the UEC *Procurement Policy*.

During our purchasing review, we found one purchase that did not include a sole-source justification or three informal written bids, as required by UEC policy.

**RECOMMENDATION**

We recommend that the UEC follow the sole-source and bidding requirements noted in UEC *Procurement Policy* for future purchases that meet the threshold.

**S.17 STUDENT TRAVEL WAIVERS**

**OBSERVATION**

The UEC and Sponsored Programs Administration (SPA) did not ensure that students traveling by air completed and signed release forms or waivers as required by EO 1041.

**RECOMMENDATION**

We recommend that the UEC and SPA work together with the campus to implement procedures to obtain signed release forms or waivers from students traveling by air.

**Associated Students, Incorporated**

**S.18 POLICIES AND PROCEDURES**

**OBSERVATION**

ASI policies and procedures for purchasing activities did not include information to address certain purchasing requirements.

Specifically, we noted that policies and procedures did not adequately address:

- When a purchase order was required.
- When a direct expenditure was allowed.
- The ASI process for obtaining quotes for items above \$500.

**RECOMMENDATION**

We recommend that ASI update its policies and procedures to include the areas noted in the observation above.

**S.19 PURCHASING**

**OBSERVATION**

ASI did not always follow the procurement process outlined in the *ASI Bidding Policy and Procedures*.

Although quotes were obtained from different vendors, ASI did not always create a bidding committee and publish a request for proposal or request for quote, depending on the specifications and criteria, as outlined in the formal bidding process.

**RECOMMENDATION**

We recommend that ASI follow the requirements noted in *ASI Bidding Policy and Procedures* for future purchases that meet the threshold.

**S.20 DISBURSEMENTS**

**OBSERVATION**

Disbursement activities at ASI needed improvement to ensure that appropriate documentation and approvals were in place.

We reviewed 25 disbursements and found that:

- In six instances, insurance was not reviewed.
- In six instances, an agreement did not include a complete indemnification clause.
- In three instances, an agreement was not in place.
- In three instances, an agreement was not timely signed.
- In two instances, a check of more than \$15,000 did not have dual signatures, as required by ASI policy.

- In two instances, an invoice did not have evidence of approval and was not supported by an approved purchase order.
- In one instance, in preparation for an event, ASI paid an invoice, and then invoiced the campus for the amount paid.

#### **RECOMMENDATION**

We recommend that ASI:

- a. Request insurance from vendors in accordance with Technical Letter Risk Management 2012-01, California State University Insurance Requirements.
- b. Include a complete indemnification clause in future agreements.
- c. Create an agreement for vendors that provide services to ASI.
- d. Sign agreements prior to rendering services from vendors.
- e. Either update ASI policy to reflect the current practice of obtaining dual signatures for disbursements of more than \$50,000, or ensure that checks of more than \$15,000 have dual signatures, as required by current ASI policy.

We also recommend that AFS ensure that disbursement requests have proper approvals before processing transactions for payment.

Furthermore, we recommend that the campus plan ahead for payment processing rather than circumvent controls by going through the auxiliary to process a payment and then invoice the campus.

## **S.21 HOSPITALITY**

#### **OBSERVATION**

ASI had not developed written policies for hospitality expenditures, as required by ICSUAM §1301.00, *Hospitality, Payment, or Reimbursement of Expenses*, and it did not ensure that hospitality expenditures were adequately supported.

ASI did not have documented policies and procedures addressing:

- Allowable and unallowable expenditures and occasions.
- Hospitality provided to the spouse or domestic partner of an employee.
- Hospitality provided to students or prospective students.
- The appropriate approval process for transactions.

- The maximum per-person rate for breakfast, lunch, dinner, and light refreshments inclusive of the total cost of food, beverages, labor, sales tax, delivery fees, or other service fees.

In addition, we reviewed 10 hospitality expenditures dated from July 2017 to January 2018, and we found that all expenditures were supported by a disbursement form rather than a hospitality form.

**RECOMMENDATION**

We recommend that ASI:

- a. Develop written policies and procedures for hospitality expenditures, as required by ICSUAM §1301.00.
- b. Ensure that all hospitality expenditures are adequately supported by a hospitality form.

**S.22 TRAVEL**

**OBSERVATION**

Administration of ASI travel expenditures needed improvement.

We reviewed ten travel expenditures, and we found that:

- In seven instances, a travel expenditure was not submitted within 14 days of the conclusion of travel, as required by ASI *Financial Policy and Procedures*. Expenditures were submitted between 15 and 38 days after the conclusion of travel.
- In two instances, a travel authorization form was not completed.
- In one instance, mileage support did not agree with the amount claimed.

Additionally, eight of the ten travel expenditures we reviewed were from fund 003, and all eight were signed by an individual who was not listed on the signature card.

Furthermore, ASI policy did not discuss the requirements for research grants travel.

**RECOMMENDATION**

We recommend that ASI:

- a. Consider updating the travel expenditure policy to allow staff to submit travel expenditure forms within 30 days of the conclusion of travel, or reiterate to staff that travel expenditure forms must be submitted within 14 days of the conclusion of travel.
- b. Ensure that travel authorization forms are completed.

- c. Remind individuals submitting travel expenditures that requested amounts should be appropriately supported before they are submitted.
- d. Evaluate whether the signature card needs to be updated, and if so, include the appropriate individuals.
- e. Create policy addressing travel requirements for research grant travel.

Furthermore, we recommend that AFS review signature cards prior to processing payments to ensure that individuals approving transactions are authorized to do so.

### **Santos Manuel Student Union**

#### **S.23 SIGNATURE AUTHORIZATION FORM**

##### **OBSERVATION**

SMSU had not updated its signature authorization form to revoke the check-signing authority of an individual who was no longer with the campus.

##### **RECOMMENDATION**

We recommend that SMSU review and update its signature authorization form to include only authorized individuals.

#### **S.24 PURCHASING**

##### **OBSERVATION**

SMSU did not always follow the procurement process outlined in the *SMSU Bidding Policy*.

In our purchasing review, we noted that:

- In one instance, the purchase was not supported by a sole-source justification or three informal written bids, as required by SMSU policy.
- In one instance, it was unclear whether the board had approved of the selected vendor, as board meeting notes did not include a vendor name, only an amount.

##### **RECOMMENDATION**

We recommend that SMSU follow the requirements in the *SMSU Bidding Policy* for future purchases that meet the threshold.



## S.25 POLICIES AND PROCEDURES

### OBSERVATION

Policies and procedures for purchasing activities did not include information to address certain purchasing requirements.

Specifically, we found that policies and procedures did not adequately address:

- When a purchase order was required.
- When a direct expenditure was allowed.
- When formal bidding was required, as there were two thresholds listed.

### RECOMMENDATION

We recommend that SMSU update its policies and procedures to include and clarify the areas noted above.

## S.26 OPEN PURCHASE ORDERS

### OBSERVATION

SMSU did not always timely disencumber and remove outstanding paid purchase orders from the accounting system.

We reviewed the open purchase order listing and noted that there were four open purchase orders outstanding between 515 to 984 days, with a total remaining balance of \$25,230, which had not been disencumbered and removed from the accounting system, although they had been paid.

### RECOMMENDATION

We recommend that SMSU timely disencumber and remove paid purchase orders from the accounting system.

## S.27 TRAVEL

### OBSERVATION

Administration of SMSU travel expenditures needed improvement.

We reviewed ten travel expenditures, and we found that:

- In six instances, a travel authorization form was not completed.

- In four instances, a travel expenditure was not submitted within 14 days of the conclusion of travel, as required by the SMSU *Financial Policies Manual*. Expenditures were submitted between 15 and 49 days of the conclusion of travel.
- In three instances, a business purpose was not included in a travel expenditure.
- In two instances, mileage support was only included for one way and not for the roundtrip mileage claimed.

**RECOMMENDATION**

We recommend that SMSU:

- a. Ensure that travel authorization forms are completed.
- b. Consider updating the travel expenditure policy to allow staff to submit travel expenditure forms within 30 days of the conclusion of travel, or reiterate to staff that travel expenditure forms must be submitted within 14 days of the conclusion of travel.
- c. Remind individuals submitting travel expenditures that requested amounts should be appropriately supported before submission.

**S.28 DISBURSEMENTS**

**OBSERVATION**

Disbursement activities at SMSU needed improvement to ensure that appropriate documentation and approvals were in place.

We reviewed 25 disbursements and found that:

- In ten instances, an agreement did not include the complete indemnification clause.
- In nine instances, insurance was not reviewed.
- In three instances, a check did not have dual signatures, though it was more than \$15,000.
- In two instances, an agreement was not signed.
- In two instances, a business purpose was not documented.
- In one instance, a receipt was not timely submitted.
- In one instance, an agreement was not in place.
- In one instance, an agreement was not appropriately approved.
- In one instance, an agreement was not timely signed.
- In one instance, tax withheld for a speaker was not accurately calculated.

**RECOMMENDATION**

We recommend that SMSU:

- a. Include a complete indemnification clause in future agreements.

- b. Request insurance from vendors in accordance with Technical Letter Risk Management 2012-01, California State University Insurance Requirements.
- c. Either update the SMSU policy to reflect the current practice of obtaining dual signatures for disbursements of more than \$50,000, or ensure that checks of more than \$15,000 have dual signatures, as required by the current SMSU policy.
- d. Ensure that agreements are timely signed.
- e. Create an agreement when a vendor is providing service to SMSU.
- f. Remind individuals to timely submit expenditures and document the business purpose of the expenditure before submission.

We also recommend that AFS ensure that the tax withholding rate is accurately calculated before transactions are processed for payment.

## S.29 HOSPITALITY

### OBSERVATION

SMSU written policies for hospitality expenditures had not addressed all the areas required by ICSUAM §1301.00, *Hospitality, Payment, or Reimbursement of Expenses*, nor had SMSU ensured that hospitality expenditures were appropriately supported.

SMSU documented policies and procedures did not address:

- Hospitality provided to the spouse or domestic partner of an employee.
- Hospitality provided to students or prospective students.
- The maximum per-person rate for breakfast, lunch, dinner, and light refreshments inclusive of the total cost of food, beverages, labor, sales tax, delivery fees, or other service fees.

In addition, we reviewed 10 hospitality expenditures dated from July 2017 to February 2018, and we found that:

- In ten instances, an expenditure was supported by a disbursement form rather than a hospitality form.
- In one instance, a business purpose was not documented.

### RECOMMENDATION

We recommend that SMSU update the written policies and procedures for hospitality expenditures according to ICSUAM §1301.00 and ensure that all hospitality expenditures are adequately supported by a hospitality form and include a business purpose.

### S.30 RECREATION AND WELLNESS WAIVER

#### **OBSERVATION**

The CSUSB Recreation and Wellness Assumption of Risk, Waiver, and Release from Liability form did not include the complete release of liability language.

Specifically, we noted that the form did not include directors and volunteers under the release-of-liability clause.

#### **RECOMMENDATION**

We recommend that SMSU update the CSUSB Recreation and Wellness Assumption of Risk, Waiver, and Release from Liability form to include directors and volunteers in the release-of-liability clause.

## GENERAL INFORMATION

### SCOPE

The scope of the engagement included a review of the four auxiliary organizations' procurement, contracts, and disbursements administration, policies and procedures, forms, and detailed transactions. The review focused on procedures in effect at the time of our review, with samples taken from July 5, 2017, through March 28, 2018.

We gained an understanding of practices and procedures relating to procurement, contracts, and disbursements through discussions with management and a review of available documentation. Based on this understanding, we developed a review program that included a combination of analytical and detailed testing procedures.

We visited the CSUSB campus from May 14, 2018, through June 21, 2018, and performed a review focused primarily on the internal administrative, compliance, and operational controls over auxiliary procurement, contracts, and disbursements. Specifically, we reviewed and tested:

- Auxiliary policies and procedures related to procurement and disbursements.
- The auxiliary procurement process of goods and services received.
- Timely and proper execution of auxiliary agreements and contracts.
- Detailed auxiliary documents for general, travel, and hospitality expenditures.

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 advisory review may not always detect these limitations.

### CRITERIA

This advisory review was conducted in conformance with the Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing* as they pertain to consulting and advisory services.

Although this was not a compliance review and we did not confirm compliance with any laws, policies, or regulations, we did reference the following during our review:

- EO 1000, *Delegation of Fiscal Authority and Responsibility*
- EO 1041, *California State University Student Travel Policy*
- *CSU Auxiliary Organizations Compliance Guide*
- *CSU Auxiliary Organizations Sound Business Practices Guidelines*
- *PF Procurement Policy*
- *UEC Procurement Policy*
- *ASI Bidding Policy and Procedures*
- *ASI Financial Policy and Procedures*

- *ASI Governing Travel Expenses and Allowances*
- *ASI Student Research and Travel*
- *SMSU Bidding Policy*
- *SMSU Financial Policies Manual*
- *SMSU Hospitality for Public Relations & Development Policy*
- *SMSU Hospitality Policy*
- *SMSU Internal Regulations Governing Travel Expenses and Allowances*

## **ADVISORY TEAM**

Assistant Vice Chancellor: Mike Caldera  
Advisory Manager: Dane MacDonald  
Senior Advisory Services Consultant: Samer Harb

## ADDITIONAL OBSERVATIONS

The additional observations summarized below were considered low risk in nature or were unrelated to the scope of the engagement. Nevertheless, these items are included for further review and follow-up as determined necessary by campus management.

### A.1 CAMPUS BANK ACCOUNT

#### OBSERVATION

During our review of cash disbursements, we noted that ASI, SMSU, and the campus maintained separate accounting records for each auxiliary, but shared a bank account.

#### RECOMMENDATION

We recommend that the campus consider either establishing separate bank accounts for the auxiliaries or creating sub-accounts for ASI and SMSU.

### A.2 POLICIES AND PROCEDURES

#### OBSERVATION

During our review of policies and procedures for the auxiliaries, we noted an opportunity to establish one uniform set of auxiliary policies and procedures with minor differences incorporated as appropriate. Areas that may benefit from a uniform set of policies and procedures include purchasing, disbursement, travel, and hospitality.

#### RECOMMENDATION

We recommended that the auxiliaries consider establishing a set of uniform policies and procedures, incorporating minor differences between the auxiliaries into the policy as appropriate.

### A.3 DISBURSEMENT FORMS

#### OBSERVATION

Although AFS had disbursement forms for the four auxiliaries, we found that ASI and SMSU were not using them. Making the forms universal may help standardize and streamline the accounts payable process.

#### RECOMMENDATION

We recommended that AFS consider meeting with the four auxiliaries to gain input in creating disbursement forms that could be used across the four auxiliaries.

#### A.4 SUPPORTING DOCUMENTATION

##### **OBSERVATION**

During our review of purchases that required quotes or formal bidding, we noted that documentation of bidding, quotes, or sole-source justification for transactions that require dual check signature was not always submitted.

##### **RECOMMENDATION**

We recommend that the auxiliaries submit documentation of bidding, quotes, or sole-source justification for transactions that require dual check signature.

#### A.5 SIGNATURE CARDS

##### **OBSERVATION**

We noted that signature cards for sponsored programs were paper-based. Because there was a large number of signature cards, we noted that the accounts payable technician could review them more efficiently if they were in an electronic format.

##### **RECOMMENDATION**

We recommend that the campus consider scanning signature cards into an electronic format so that the accounts payable technician can review them more efficiently.

#### A.6 ELECTRONIC SIGNATURE

##### **OBSERVATION**

During our review of agreements, we noted a number of agreements that were unsigned or late. The current process for completing contracts is entirely manual, without any electronic signature capabilities.

##### **RECOMMENDATION**

We recommend that the auxiliaries consider options for electronic signature capabilities on contracts. Because there are requirements associated with having electronic signature capabilities, the campus and auxiliaries may want to fully evaluate whether the benefits would outweigh the costs.



## A.7 KEY PERSON RISK

### **OBSERVATION**

During our review of organizational structure, we noted that there was a key person risk in AFS. Based on discussion with management, we noted that there was no cross-training in the department due to union restrictions, and there were no documented procedures or plans in place to mitigate the risk. Toward the end of fieldwork, the key person announced their retirement.

### **RECOMMENDATION**

We recommend that the campus create a plan to ensure that the key person's services are continually provided during the transition.

## A.8 TRAVEL POLICY

### **OBSERVATION**

During our review of travel, we noted that the auxiliaries used a per diem rate for meals; however, CSUSB uses actual amounts.

### **RECOMMENDATION**

We recommend that the auxiliaries consider reviewing their current policies and practices to evaluate whether they should continue using per diem for meals or follow practices similar to the ones the campus uses.

## A.10 VENDOR MASTER FILE

### **OBSERVATION**

During discussion with AFS, we noted that the vendor master file had not been reviewed.

### **RECOMMENDATION**

We recommend that AFS consider reviewing the vendor master file for inactive vendors, duplicate records, and any information errors.