

Office of Audit and Advisory Services
401 Golden Shore, 4th Floor
Long Beach, CA 90802-4210

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

June 4, 2015

Dr. Tomás D. Morales, President
California State University, San Bernardino
5500 University Parkway
San Bernardino, CA 92407-2397

Dear Dr. Morales:

Subject: Audit Report 15-01, Auxiliary Organizations, California State University, San Bernardino

We have completed an audit of *Auxiliary Organizations* as part of our 2015 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 the Office of 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

CSU Campuses

Bakersfield • Channel Islands • Chico • Dominguez Hills • East Bay • Fresno • Fullerton • Humboldt • Long Beach • Los Angeles • Maritime Academy • Monterey Bay
Northridge • Pomona • Sacramento • San Bernardino • San Diego • San Francisco • San José • San Luis Obispo • San Marcos • Sonoma • Stanislaus



AUXILIARY ORGANIZATIONS
California State University, San Bernardino

Audit Report 15-01
April 30, 2015

EXECUTIVE SUMMARY

OBJECTIVE

The objectives of the audit were to ascertain the effectiveness of existing policies and procedures related to fiscal, operational, and administrative controls; determine the adequacy of internal compliance/internal control; 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

California State University, San Bernardino (CSUSB) Campus

Based upon the results of the work performed within the scope of the audit, due to the effect of the weaknesses described below, the fiscal, operational, and administrative controls at the CSUSB campus as of February 6, 2015, taken as a whole, were not sufficient to meet the objectives of this audit. The audit revealed that the campus had not recovered or documented an exchange of value for services provided to two of the auxiliaries, had not adequately segregated duties related to the administration of personnel and payroll for one auxiliary, had not developed policies and procedures to properly remove sensitive information from discarded assets and to evaluate and report potential leakage of sensitive information maintained in lost auxiliary computers, and had not performed the required annual physical inventory of assets for one auxiliary. Additionally, campus university advancement fund-raising events were not approved in writing; event budgets, drafts of solicitation materials, and action plans were not properly reviewed prior to the event; event budgets were not always sufficiently documented; and events took place at offsite locations without written agreements. Further, the campus did not have a procedure in place to notify campus accounting services of capitalizable gifts-in-kind given to the campus, and one capitalizable gift-in-kind for future improvements to campus property worth \$732,349 was not recorded as a pledge receivable by campus accounting services.

CSUSB Philanthropic Foundation

Based upon the results of the work performed within the scope of the audit, due to the effect of the weaknesses described below, the fiscal, operational, and administrative controls at CSUSB Philanthropic Foundation (Foundation) as of February 6, 2015, taken as a whole, were not sufficient to meet the objectives of this audit. The audit revealed that the Foundation did not ensure that gifts-in-kind and cash gifts were properly approved, recorded in a timely manner, and sufficiently documented; gift expenditures were properly approved and supported; unidentified gifts were resolved in a timely manner; and records were maintained of non-cash disposals. Additionally, the Foundation did not sufficiently account for works of art at the Robert and Frances Fullerton Museum of Art, did not document collection and write-off activity for delinquent pledges receivable, and did not include the required indemnification provision in agreements between the Foundation and third parties. Further, the Foundation did not obtain annual conflict-of-interest statements from all board members, did not file amended Articles of Incorporation with the Secretary of State, and inappropriately appointed its treasurer as a member of the audit committee.

University Enterprises Corporation at CSUSB

Based upon the results of the work performed within the scope of the audit, due to the effect of the weaknesses described below, the fiscal, operational, and administrative controls at University Enterprises Corporation at CSUSB (UEC) as of February 6, 2015, taken as a whole, were not sufficient to meet the objectives of this audit. The audit revealed that UEC sponsored program administration did not ensure completion of effort certifications and did not have adequate sub-recipient monitoring and cost share and conflict-of-interest administration. Additionally, UEC did not sufficiently control the children's center accounts receivable, did not always certify employment eligibility within the required timeframe, and inappropriately appointed its treasurer as a member of the audit committee.

Associated Students, Incorporated

Based upon the results of the work performed within the scope of the audit, except for the effect of the weaknesses described below, the fiscal, operational, and administrative controls at Associated Students, Incorporated (ASI) as of February 6, 2015, taken as a whole, were sufficient to meet the objectives of this audit. The audit revealed that ASI did not have a comprehensive written risk management policy and did not ensure the completion of travel authorization forms even though the finding was reported in the two prior Auxiliary Organizations audits.

Santos Manuel Student Union of California State University, San Bernardino

Based upon the results of the work performed within the scope of the audit, except for the effect of the weakness described below, the fiscal, operational, and administrative controls at Santos Manuel Student Union of California State University, San Bernardino (Union) as of February 6, 2015, taken as a whole, were sufficient to meet the objectives of this audit. The audit revealed inadequate segregation of duties and management review related to accounts receivable.

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

OBSERVATIONS, RECOMMENDATIONS, AND RESPONSES

Campus

1. COST ALLOCATION

OBSERVATION

The campus had not recovered or documented an exchange of value for services provided to the Foundation and Union.

We reviewed campus cost allocation plan documentation for fiscal year (FY) 2014/15, and we found that the campus had not recovered or documented an exchange of value for:

- University advancement services provided to the Foundation.
- Information Technology Services (ITS) services provided to the Foundation.
- Student affairs administrative personnel services provided to the Union.

The lack of cost recovery or a documented exchange of value increases the risk that the campus operating fund will not be fully compensated for support provided to auxiliaries.

RECOMMENDATION

We recommend that the campus recover or document an exchange of value for university advancement and ITS services provided to the Foundation and student affairs administrative personnel services provided to the Union.

MANAGEMENT RESPONSE

We concur. We will recover or document an exchange of value for university advancement and ITS services provided to the Foundation and student affairs administrative personnel services provided to the Union.

The anticipated implementation date is September 15, 2015.

2. SEGREGATION OF DUTIES

OBSERVATION

Certain duties and responsibilities related to the administration of ASI personnel and payroll were not appropriately segregated at the campus Auxiliary Financial Services (AFS) department. AFS provides accounting services to the four CSUSB auxiliaries.

We found that one employee performed the following incompatible duties related to ASI personnel and payroll:

- Added, deleted, and changed personnel records.

- Modified pay rates.
- Had system access to record timesheets into the payroll system and submit payroll to the third-party payroll provider.
- Received payroll checks in the mail from the courier.
- Reviewed and reconciled payroll checks.

The lack of segregation of duties increases the risk of erroneous and inappropriate actions not being detected in a timely manner.

RECOMMENDATION

We recommend that the campus adequately segregate duties and responsibilities related to the administration of ASI personnel and payroll or institute mitigating procedures approved by the campus chief financial officer (CFO).

MANAGEMENT RESPONSE

We concur. We will adequately segregate duties and responsibilities related to the administration of ASI personnel and payroll or institute mitigating procedures approved by the CFO.

The anticipated implementation date is September 30, 2015.

3. PROPERTY AND EQUIPMENT

OBSERVATION

Campus property management, which provides property and equipment services to UEC and the Union, did not have documented policies and procedures for the proper removal of sensitive information from discarded assets and the evaluation and reporting of potential leakage of sensitive information maintained in lost auxiliary computers.

Specifically, we found that there was no documentation indicating that sensitive data had been deleted from the hard drive of a copier that was scrapped and removed from the inventory system. Similarly, there was no documented evaluation and report of potential sensitive data leakage for two lost computers.

Additionally, an independent annual physical inventory count was not performed for Union property and equipment in FY 2013/14, as required by the Union *Financial Policies Manual*. The last physical inventory was performed on March 21, 2013. This is a repeat finding from the prior Auxiliary Organizations audit.

Inadequate control over equipment assets, especially those containing sensitive data, increases the risk of loss, inappropriate use of state resources, and campus exposure to

information security breaches. Additionally, lack of annual physical inventory counts increases the risk that property may be lost or stolen or misrepresented in the financial statements.

RECOMMENDATION

We recommend that campus:

- a. Develop policies and procedures for the removal of sensitive data from discarded auxiliary assets containing sensitive data, and for the evaluation and reporting of potential leakage of sensitive information maintained in lost assets.
- b. Perform an annual independent physical inventory count for Union property and equipment.

MANAGEMENT RESPONSE

We concur. Our action plan is to:

- a. Develop policies and procedures for the removal of sensitive data from discarded auxiliary assets containing sensitive data, and for the evaluation and reporting of potential leakage of sensitive information maintained in lost assets.
- b. Perform an annual independent physical inventory count for Union property and equipment.

The anticipated implementation date for these objectives is September 30, 2015.

4. FUND-RAISING

OBSERVATION

Campus university advancement fund-raising events were not approved in writing; event budgets, drafts of solicitation materials, and action plans were not properly reviewed prior to the event; event budgets were not always sufficiently documented; and events that took place at offsite locations did not have written agreements.

We reviewed five fund-raising events that took place after July 1, 2012, with gross receipts greater than \$5,000, and we found that none of the events were approved in writing by the vice president of university advancement, who is the delegated authority. In addition, the event budgets, drafts of solicitation materials, and action plans for compliance with federal, state, and local regulations were not reviewed by a delegated authority prior to the events.

Also, three of the five events did not have documented budgets that sufficiently detailed anticipated revenues and expenditures.

Additionally, three of the five events took place at offsite locations but did not have written agreements that documented insurance and indemnification provisions. Further, there was

no documented justification to support the business decision made to not execute a written agreement that included such provisions.

The absence of required fund-raising event approval; review of event budgets, drafts of solicitation materials, and action plans prior to the event; and sufficiently documented event budgets limits the campus' ability to effectively allocate resources and coordinate the events; ensure compliance with federal, state, and local regulations; and assess and mitigate any risks associated with the events. The lack of written agreements with insurance and indemnification provisions for events that take place at offsite locations subjects the California State University (CSU) to potential liability.

RECOMMENDATION

We recommend that the campus:

- a. Obtain written approval from a delegated authority for all fund-raising events with gross receipts greater than \$5,000.
- b. Ensure that event budgets, drafts of solicitation materials, and action plans for compliance with federal, state, and local regulations are reviewed by a delegated authority prior to the event; and that event budgets include sufficient documentation.
- c. Execute written agreements that include insurance and indemnification provisions for offsite fund-raising events or document the justification to forgo a written agreement.

MANAGEMENT RESPONSE

We concur. The Foundation will ensure that:

- a. Written approvals are obtained from a delegated authority for all fund-raising events with gross receipts greater than \$5,000.
- b. Event budgets, drafts of solicitation materials, and action plans for compliance with federal, state, and local regulations are reviewed by a delegated authority prior to each event; and that event budgets will include sufficient documentation.
- c. There are executed written agreements that include insurance and indemnification provisions for offsite fund-raising events or documented justification to forgo a written agreement.

The anticipated implementation date for these objectives is July 30, 2015.

5. GIFT ADMINISTRATION

OBSERVATION

Campus university advancement did not have a procedure in place to notify campus accounting services of capitalizable gifts-in-kind given to the campus, and, one capitalizable

gift-in-kind for future improvements to campus property worth \$732,349 was not recorded as a pledge receivable by campus accounting services.

The lack of a procedure to notify the campus of capitalizable gifts-in-kind increases the risk that gifts-in-kind may not be recorded in the accounting system and may be misrepresented in the financial statements.

RECOMMENDATION

We recommend that the campus develop procedures to notify campus accounting services of all capitalizable gifts-in-kind given to the campus.

MANAGEMENT RESPONSE

We concur. Management for the Foundation and the Advancement Services office worked together to create an official procedure and updated the Gift in Kind gift transmittal form to ensure that when any capitalizable gift is received, campus accounting services will be notified.

This objective is complete as of February 17, 2015.

6. TRAVEL WAIVERS

OBSERVATION

The campus Office of Graduate Studies did not ensure that students traveling by air via ASI student research funds completed and signed release forms or waivers.

We found that the waivers were not completed because the Office of Graduate Studies was unaware that the travel was considered a CSU-affiliated program under Executive Order 1041, which requires travel waivers for students traveling by air.

Travel release forms or waivers inform students in writing that travel is voluntary and that travel involves risks, and releases and holds harmless the state of California, the CSU, the campus, and each and every officer, agent, and employee of each of them; and the absence of signed release forms or waivers increases the risk of legal liability.

RECOMMENDATION

We recommend that the campus instruct the Office of Graduate Studies to obtain signed release forms or waivers from all students traveling by air.

MANAGEMENT RESPONSE

We concur. We will instruct the Office of Graduate Studies to obtain signed release forms or waivers from all students traveling by air.

The anticipated implementation date is September 30, 2015.

CSUSB Philanthropic Foundation

7. GIFT ADMINISTRATION

OBSERVATION

The Foundation did not ensure that gifts-in-kind and cash gifts were properly approved, recorded in a timely manner, and sufficiently documented, nor did it ensure that gift expenditures were properly approved and supported.

We reviewed 30 gifts-in-kind received from July 2013 to November 2014 and 20 cash gifts received from December 2013 to December 2014, and we found that:

- 29 gifts-in-kind and 15 cash gifts were not approved by the Foundation executive director, who was responsible for gift acceptance through a delegation of authority.
- The Foundation gift administration policy did not define a reasonable time for recording gifts-in-kind upon receipt and did not include procedures to enforce the timely recording of gifts-in-kind received at various locations on campus. We found that nine of the 30 gifts-in-kind reviewed were not recorded in a timely manner; recording delays ranged from 42 to 139 days.

We also reviewed 14 expenditures from the aforementioned 20 cash gifts, and we found that:

- For five of the cash gifts, the Foundation had not maintained account set-up forms, and as a result, proper approval of three expenditures from these gift accounts could not be verified.
- Records to document authorized signers for expenditures were not updated, and as a result, proper approval of two expenditures could not be verified.
- Documentation to support five expenditures was not maintained.

Additionally, procedures were not in place to:

- Perform reconciliations of holding accounts into which unidentified gifts were recorded.
- Document follow-up activity for the uncleared gifts recorded in holding accounts.
- Escalate long-outstanding uncleared gifts to the next level of authority for resolution.

We found 21 long-outstanding uncleared gifts in holding accounts as of December 31, 2014, totaling \$27,085. These gifts were mostly from November and December 2013 and July 2014.

Further, the Foundation did not maintain a record of non-cash gift disposals, including the original donor, date of donation, date and method of disposal, recipient of the disposal, and amount paid by the recipient.

Insufficient administration of gifts-in-kind and cash gifts increases the risk of errors, misappropriation of funds, misrepresentation in financial statements, and non-compliance with donor terms and Internal Revenue Service reporting requirements.

RECOMMENDATION

We recommend that the Foundation:

- a. Ensure that the Foundation executive director approves the acceptance of all future gifts.
- b. Update its gift administration policy to define a reasonable time for recording gifts-in-kind upon receipt, including procedures to enforce the timely recording of gifts-in-kind received at various locations on campus.
- c. Maintain account set-up forms to document the account number, donor restrictions, department or individuals responsible for the account, and all authorized signers for expenditures; update records to document authorized signers for expenditures; and retain supporting documentation for all expenditures to demonstrate that expenditures are in accordance with donor intent.
- d. Develop procedures to perform holding account reconciliations, document follow-up activity for uncleared gifts in holding accounts, and escalate long-outstanding uncleared gifts to the next level of authority for resolution.
- e. Maintain a log of all non-cash gift disposals, including the original donor, date of donation, date and method of disposal, recipient of the disposal, and amount paid by the recipient.

MANAGEMENT RESPONSE

We concur. The Foundation will ensure that:

- a. The executive director and/or the delegated gift authority approves the acceptance of all future gifts.
- b. The gift administration policy will be updated to define a reasonable time for recording gifts-in-kind upon receipt, including procedures to enforce the timely recording of gifts-in-kind received at various locations on campus.
- c. We will work with auxiliary accounting to ensure that account set-up forms include account number, donor restrictions, department or individuals responsible for the account, and all authorized signers for expenditures. At the start of each fiscal year, an annual request sent via email from the executive director will be sent to all account holders requesting an update of records to document authorized signers for expenditures. Auxiliary accounting will retain supporting documentation for all expenditures to demonstrate that expenditures are in accordance with donor intent.
- d. A formal procedure will be created regarding holding account reconciliations, document follow-up activity for uncleared gifts in holding accounts, and when long-outstanding uncleared gifts should be referred to the executive director for resolution.

- e. A formal procedure will be created regarding the logging method of all non-cash gift disposals, including the original donor, date of donation, date and method of disposal, recipient of the disposal, and amount paid by the recipient.

The anticipated implementation date for these objectives is August 31, 2015.

8. PROPERTY AND EQUIPMENT

OBSERVATION

The Robert and Frances Fullerton Museum of Art (RAFFMA) inventory listing was not in agreement with Foundation accounting records because certain works of art accepted at the RAFFMA were not valued and works of art below the capitalization threshold were not inventoried by the Foundation.

Even though works of art are not capitalized and depreciated for financial statement purposes, the Foundation should include works of art in its inventory listing to properly account for the items and perform an independent physical inventory.

Inadequate valuation of works of art and the lack of reconciled inventory records and independent physical inventories increase the risk that works of art may be lost or stolen and misrepresented in financial statements.

RECOMMENDATION

We recommend that the Foundation:

- a. Properly value and record works of art at the RAFFMA.
- b. Develop written policies and procedures to include all works of art in the Foundation inventory listing even though they are below capitalization threshold, and perform an independent physical inventory at RAFFMA.

MANAGEMENT RESPONSE

We concur. Management for the Foundation and RAFFMA will work together to:

- a. Properly value and record works of art at the RAFFMA.
- b. Develop written policies and procedures to include all works of art in the Foundation inventory listing even though they are below capitalization threshold, and perform an independent physical inventory at RAFFMA.

The anticipated implementation date for these objectives is March 31, 2016.

9. PLEDGE RECEIVABLES

OBSERVATION

The Foundation did not document collection activity and follow-up on delinquent pledges receivable or management review and approval of the pledges receivable aging reports and pledge write-offs. As a result, timely collection activity and follow-up on delinquent pledges, as well as management review and approval of the pledges receivable aging reports and write-offs, could not be verified. This is a repeat finding from the prior Auxiliary Organizations audit.

Additionally, a reconciliation of the pledges receivable aging report to the general ledger was not performed and reviewed by management because the responsibility for preparing and reviewing the reconciliation was not assigned and documented.

Inadequate documentation, review, and approval of delinquent pledges receivable and pledge write-offs reduces the likelihood of collection, negatively impacts cash flow, and increases the risk that receivables will not be accurately reflected in the financial statements.

RECOMMENDATION

We recommend that the Foundation:

- a. Document collection activity and follow-up on delinquent pledges receivable, as well as management review and approval of the pledges receivable aging reports and pledge write-offs.
- b. Perform a reconciliation of the pledges receivable aging report to the general ledger at least quarterly, and document management review.

MANAGEMENT RESPONSE

We concur. Advancement Services will:

- a. Document collection activity and follow-up on delinquent pledges receivable; this will include a management review and approval of the pledges receivable aging reports and pledge write-offs.
- b. Perform a reconciliation of the pledges receivable aging report to the general ledger at least quarterly, and document management review.

The anticipated implementation date for these objectives is July 30, 2015.

10. OPERATING AND ADMINISTRATIVE AGREEMENTS

OBSERVATION

Agreements between the Foundation and third parties did not contain the required indemnification provision.

We reviewed five agreements with third-party service providers, and we found that none of the agreements specifically indemnified the state of California, CSU Trustees, and the campus, nor was there a documented analysis to support the justification for waiving the provision. This is a repeat finding from the prior Auxiliary Organizations audit.

The absence of appropriate indemnification provisions in written agreements increases the risk of misunderstandings and miscommunications regarding rights and responsibilities and subjects the Foundation and CSU to potential liability.

RECOMMENDATION

We recommend that the Foundation include the required indemnification provision in its agreements with third-party service providers, or document its justification to waive the provision.

MANAGEMENT RESPONSE

We concur. Management of the Foundation created a Contract and Business Procedure and posted this to the Foundation website so it would be readily available for all gift account holders, allowing the campus to stay in compliance. An Indemnification and Hold Harmless from Liability Agreement form was also created to make the indemnification process easier for anyone working with a business contract.

This objective is complete as of February 20, 2015.

11. CONFLICT OF INTEREST

OBSERVATION

The Foundation did not obtain annual conflict-of-interest statements from all board members.

We found that 31 of the 90 board members had not signed a conflict-of-interest statement for FY 2012/13; five of the 72 board members had not signed a conflict-of-interest statement for FY 2013/14; and 18 of the 61 board members had not signed a conflict-of-interest statement for FY 2014/15. This is a repeat finding from the prior Auxiliary Organizations audit.

The lack of annual conflict-of-interest statements from all auxiliary board members increases liability for acts contrary to the code.

RECOMMENDATION

We recommend that the Foundation obtain annual conflict-of-interest statements from all board members.

MANAGEMENT RESPONSE

We concur. The campus will ensure that the Foundation obtains its annual conflict-of-interest statements from all board members. The current conflict-of-interest procedure will be

updated, stating that the Foundation team will continue to work with board members throughout the year in order to obtain their conflict-of-interest statements. In addition, the new procedure will state:

- All signed conflict-of-interest statements must be submitted by December 31 of each year.
- Conflict-of-interest statements will be requested in July rather than waiting until our annual meeting in September.

The Foundation Bylaws were amended in March 2015 to stipulate that honorary members (non-voting) no longer had to complete a conflict-of-interest form by virtue of their status.

The anticipated implementation date is July 30, 2015.

12. CORPORATE GOVERNANCE

OBSERVATION

The Foundation did not file amended Articles of Incorporation with the Secretary of State and inappropriately appointed the Foundation treasurer a member of the audit committee.

Government Code §12586 (e) states that the audit committee may include persons who are not members of the governing board but cannot include staff members, the chair/president or the chief operating officer (CEO), the treasurer, or the CFO of the organization.

Untimely filing of amendments with the Secretary of State increases the risk of non-compliance with the state requirement, and appointing the Foundation treasurer as a member of the audit committee violates the Government Code and may jeopardize the independence of the audit committee.

RECOMMENDATION

We recommend that the Foundation:

- a. File the amended Articles of Incorporation with the Secretary of State.
- b. Appoint someone other than staff members, the chair/president or CEO, the treasurer, or the CFO of the Foundation as a member of the audit committee.

MANAGEMENT RESPONSE

We concur. The CSUSB action plan is as follows:

- a. The Foundation will amend the Articles of Incorporation at the June 2015 meeting. The updated Articles of Incorporation will be sent immediately to the California Secretary of State. The anticipated implementation date is August 31, 2015.

- b. Foundation management and the chair of the audit committee worked together to appoint new members to the audit committee who were not staff members. The CFO was also removed as a member of the audit committee in February 2015. In March 2015, the Foundation Bylaws were amended to update membership criteria for the audit committee. The bylaws now state: “The committee shall be comprised of no less than three (3). A quorum shall consist of two (2) committee members. Recommendations shall require approval of a minimum of two members of the committee. Members of the Audit Committee shall not have a material financial interest in any entity doing business with the corporation.” This objective is complete as of March 26, 2015.

University Enterprises Corporation at CSUSB

13. EFFORT REPORTING

OBSERVATION

The UEC sponsored program administration (SPA) effort reporting process did not always ensure that each individual who devoted effort to a sponsored project submitted effort reports each academic term or at least every six months.

We reviewed 12 awards and found that in eight instances, effort certifications were not completed each academic term or at least every six months from winter 2012 to spring 2014. This was the result of an absence of active engagement and coordination among UEC SPA, the campus Research and Sponsored Programs Office, principal investigators, sponsored project personnel, and staff from the applicable academic and/or administrative offices; this active engagement is required by ICSUAM §11003.06.

The lack of effort certifications increases exposure to non-compliance with federal regulations.

RECOMMENDATION

We recommend that UEC SPA actively engage and increase coordination between all parties with responsibilities in the effort-reporting process to ensure that effort reports are submitted each academic term or at least every six months.

MANAGEMENT RESPONSE

We concur. Our action plan is to ensure that UEC SPA actively engages and increases coordination between all parties with responsibilities in the effort-reporting process to ensure that effort reports are submitted each academic term or at least every six months.

The anticipated implementation date is September 30, 2015.

14. SUB-RECIPIENT MONITORING

OBSERVATION

The UEC SPA sub-recipient monitoring process did not include a sub-recipient risk assessment nor ensure adequate sub-recipient evaluation; and the sub-recipient agreement template lacked required provisions.

Specifically, we found that UEC SPA sub-recipient policies and procedures did not require a sub-recipient risk assessment to identify key risks and determine the level of monitoring required. None of the 12 sub-awards we reviewed had a documented risk assessment.

Further, in four instances, a search for sub-recipient exclusion in the federal System for Award Management (SAM) was not conducted prior to execution of the sub-agreements, and the

evaluation and follow-up of audit findings noted or identified as “not completed” in sub-recipient A-133 reports were not documented.

Additionally, the sub-recipient agreement template did not contain an indemnification clause and a right-to-audit provision.

The lack of policies and procedures for sub-recipient risk assessments, timely searches for exclusion of sub-recipients in SAM, and evaluation and follow-up of sub-recipient A-133 reports increases the risk that sub-recipients will not be adequately monitored and could result in reduced reimbursements and non-compliance with Office of Management and Budget (OMB) requirements. The lack of an indemnification clause and right-to-audit provision increases the risk of misunderstandings and miscommunication regarding rights and responsibilities and subjects the auxiliary and CSU to potential liability.

RECOMMENDATION

We recommend that UEC SPA:

- a. Update sub-recipient policies and procedures to include a sub-recipient risk assessment for the identification of key risks and the level of monitoring required.
- b. Conduct sub-recipient exclusion searches in SAM prior to sub-agreement execution.
- c. Document the evaluation and follow-up of audit findings noted or identified as not completed in sub-recipient A-133 reports.
- d. Update the sub-award agreement template to include an indemnification clause and right-to-audit provision.

MANAGEMENT RESPONSE

We concur. Our action plan is to ensure that UEC SPA will:

- a. Update sub-recipient policies and procedures to include a sub-recipient risk assessment for the identification of key risks and the level of monitoring required.
- b. Conduct sub-recipient exclusion searches in SAM prior to sub-agreement execution.
- c. Document the evaluation and follow-up of audit findings noted or identified as not completed in sub-recipient A-133 reports.
- d. Update the sub-award agreement template to include an indemnification clause and right-to-audit provision.

The anticipated implementation date for these objectives is September 30, 2015.

15. COST SHARING

OBSERVATION

The UEC SPA cost share process of proposing, accumulating, and reporting costs was not always in compliance with *UEC Cost Share Guidelines and Tracking Procedures for SPA*.

We reviewed ten awards with cost shares, and we found that:

- In two instances, Cost Share Addendums were not completed. The Cost Share Addendum shows the committed cost sharing by budget category, the acceptable documentation needed to substantiate this, and frequency or dates for submission.
- In two instances, supporting documentation to substantiate the cost share was not on file.
- In five instances, processing errors were not corrected. The most notable errors consisted of incorrect completion of the Cost Share Addendum and incorrect input into the grant-tracking module.

Inadequate cost share administration increases the risk of errors and non-compliance with relevant requirements and exposes the auxiliary to penalties and disallowances for non-compliance with contracts and grants terms.

RECOMMENDATION

We recommend that UEC SPA:

- a. Complete Cost Share Addendums for all sponsored programs requiring cost shares.
- b. Maintain supporting documentation to substantiate cost share.
- c. Reiterate cost share procedures to staff and provide training where needed to avoid errors.

MANAGEMENT RESPONSE

We concur. Our action plan is to ensure that UEC SPA will:

- a. Complete Cost Share Addendums for all sponsored programs requiring cost shares.
- b. Maintain supporting documentation to substantiate cost share.
- c. Reiterate cost share procedures to staff and provide training where needed to avoid errors.

The anticipated implementation date for these objectives is September 30, 2015.

16. CONFLICT OF INTEREST

OBSERVATION

UEC SPA did not have procedures to review disclosed potential conflicts-of-interest and raise those concerns to management for further consideration, and conflict-of-interest forms were not always obtained from principal investigators prior to the award start date as required by CSUSB/UEC *Financial Conflict of Interest Policy*.

We reviewed 20 contracts and grants files, and we found that in seven instances, principal investigators did not complete conflict-of-interest forms prior to the award start dates.

Inadequate administration of conflict-of-interest forms increases the risk of non-compliance with federal, state, and CSU requirements and could lead to possible regulatory scrutiny.

RECOMMENDATION

We recommend that UEC SPA:

- a. Develop and implement procedures to review disclosed potential conflicts of interest and raise potential concerns to management when warranted.
- b. Obtain conflict-of-interest forms from principal investigators prior to the award start date.

MANAGEMENT RESPONSE

We concur. Our action plan is to ensure that UEC SPA will:

- a. Develop and implement procedures to review disclosed potential conflicts of interest and raise potential concerns to management when warranted.
- b. Obtain conflict-of-interest forms from principal investigators prior to the award start date.

The anticipated implementation date for these objectives is September 30, 2015.

17. CHILDREN'S CENTER ACCOUNTS RECEIVABLE

OBSERVATION

The UEC children's center accounts receivable policies and procedures did not address the collection and write-off of accounts receivable.

We reviewed ten accounts receivable, and in nine instances, collection and follow-up activity was not performed and documented. Further, in six instances, long outstanding accounts receivable were not written off in a timely manner. These accounts receivable were outstanding from 511 to 2,864 days.

Additionally, children’s center accounts receivable were tracked in a separate independent system, and therefore, the accounts receivable were not recorded into the UEC accounting system.

The lack of policies and procedures for the collection and write-off of accounts receivable and failure to record children’s center accounts receivable into the UEC accounting system reduces the likelihood of collection, negatively impacts cash flow, and increases the risk that receivables will not be accurately reflected in auxiliary financial statements.

RECOMMENDATION

We recommend that UEC:

- a. Update the children’s center policies and procedures to address the collection and write-off of uncollectible receivables.
- b. Perform and document collection and follow-up activity for delinquent accounts receivable.
- c. Write-off uncollectible receivables in a timely manner.
- d. Record children’s center accounts receivable into the UEC accounting system.

MANAGEMENT RESPONSE

We concur. Our action plan is to ensure that UEC SPA will:

- a. Update the children’s center policies and procedures to address the collection and write-off of uncollectible receivables.
- b. Perform and document collection and follow-up activity for delinquent accounts receivable.
- c. Write-off uncollectible receivables in a timely manner.
- d. Record children’s center accounts receivable into the UEC accounting system.

The anticipated implementation date for these objectives is September 30, 2015.

18. PERSONNEL AND PAYROLL

OBSERVATION

UEC did not always certify a Form I-9, *Employment Eligibility Verification*, within three business days of a new employee’s first day of work.

We reviewed 20 UEC new hires, and we found that in five instances, the Form I-9 was reviewed and approved from seven to 27 days after the employee’s first day of employment.

The Department of Homeland Security, U.S. Citizenship and Immigration Services, requires that employers complete Section 2 of Form I-9 by examining evidence of identity and employment authorization within three business days of the date employment begins. This is a repeat finding from the prior Auxiliary Organizations audit.

Untimely certification of employment eligibility increases the risk that someone who is unauthorized to work will be hired and may lead to fines, penalties, and debarment from government contracts.

RECOMMENDATION

We recommend that UEC reiterate to personnel responsible for hiring that a Form I-9 for new employees must be certified within three business days of the date employment begins.

MANAGEMENT RESPONSE

We concur. Our action plan is to ensure that UEC will reiterate to personnel responsible for hiring that a Form I-9 for new employees must be certified within three business days of the date employment begins.

The anticipated implementation date is August 31, 2015.

19. CORPORATE GOVERNANCE

OBSERVATION

UEC inappropriately appointed its treasurer as a member of the audit committee.

Government Code §12586 (e) states that the audit committee may include persons who are not members of the governing board but cannot include staff members, the chair/president or CEO, the treasurer, or the CFO of the organization.

Appointing the UEC treasurer as a member of the audit committee violates the Government Code and may jeopardize the independence of the audit committee.

RECOMMENDATION

We recommend that UEC appoint someone other than staff members, the chair/president or CEO, the treasurer, or the CFO of the UEC as a member of the audit committee.

MANAGEMENT RESPONSE

We concur. Our action plan is to ensure that UEC appoint someone other than staff members, the chair/president or CEO, the treasurer, or the CFO of the UEC as a member of the audit committee.

The anticipated implementation date is September 30, 2015.

Associated Students, Incorporated

20. RISK MANAGEMENT

OBSERVATION

ASI did not have a comprehensive written risk management policy that addressed an ongoing process to proactively identify risks, analyze the frequency and severity of identified risks, and implement a risk mitigation program that coordinates with the campus' risk assessment and mitigation plan.

The absence of a comprehensive written risk management policy increases the likelihood that all current and future risk-related activities will not be adequately evaluated and prevented.

RECOMMENDATION

We recommend that ASI develop and adopt a comprehensive written risk management policy, including procedures to actively identify, analyze, quantify, and manage risk.

MANAGEMENT RESPONSE

We concur. ASI will develop and adopt a comprehensive written risk management policy, including procedures to actively identify, analyze, quantify, and manage risk.

The anticipated implementation date is September 30, 2015.

21. TRAVEL ADMINISTRATION

OBSERVATION

ASI did not ensure the completion of travel authorization forms to document advance approval of travel and related expenditures.

We reviewed ten travel expenditures, and travel authorization forms had not been completed for any of them. This is a repeat finding from two prior Auxiliary Organizations audits.

The absence of documented travel approval increases the risk of errors, irregularities, and misappropriation of funds.

RECOMMENDATION

We recommend that ASI ensure the completion of travel authorization forms documenting advance approval of all travel and related expenditures.

MANAGEMENT RESPONSE

We concur. ASI will ensure the completion of travel authorization forms documenting advance approval of all travel and related expenditures.

The anticipated implementation date is September 30, 2015.

Santos Manuel Student Union of California State University, San Bernardino

22. ACCOUNTS RECEIVABLE

OBSERVATION

Union administration of accounts receivable did not provide for an adequate segregation of duties and management review.

We found that one employee performed the following incompatible duties:

- Maintained the accounts receivable records.
- Sent invoices for payments/collections.
- Received and entered payments into the accounts receivable accounting system.
- Reconciled the accounts receivable records.

Additionally, management did not review and approve accounts receivable reconciliations.

The lack of segregation of duties and management review increases the risk of erroneous and inappropriate actions not being detected in a timely manner.

RECOMMENDATION

We recommend that the Union adequately segregate duties and responsibilities related to accounts receivables and require management review and approval of accounts receivable reconciliations, or institute mitigating procedures approved by the campus CFO.

MANAGEMENT RESPONSE

We concur. The Union will adequately segregate duties and responsibilities related to accounts receivables and require management review and approval of accounts receivable reconciliations, or institute mitigating procedures approved by the campus CFO.

The anticipated implementation date is September 30, 2015.

23. STUDENT RECREATION AND FITNESS CENTER OVERSIGHT

OBSERVATION

Student recreation and fitness center staff did not complete travel authorization forms, required by the Union *Financial Policies Manual*, to document advance approval of travel and related expenditures.

The absence of documented travel approval increases the risk of errors, irregularities, and misappropriation of funds.

RECOMMENDATION

We recommend that the Union reiterate to student recreation and fitness center staff that travel authorization forms must be completed to document advance approval of travel and related expenditures.

MANAGEMENT RESPONSE

We concur. The Union will reiterate to student recreation and fitness center staff that travel authorization forms must be completed to document advance approval of travel and related expenditures.

The anticipated implementation date is September 30, 2015.

GENERAL INFORMATION

BACKGROUND

Education Code §89900 states, in part, that the operation of auxiliary organizations shall be conducted in conformity with regulations established by the Trustees.

Education Code §89904 states, in part, that the Trustees of the CSU and the governing boards of the various auxiliary organizations shall:

- Institute a standard systemwide accounting and reporting system for businesslike management of the operation of such auxiliary organizations.
- Implement financial standards that will assure the fiscal viability of such various auxiliary organizations. Such standards shall include proper provision for professional management, adequate working capital, adequate reserve funds for current operations and capital replacements, and adequate provisions for new business requirements.
- Institute procedures to assure that transactions of the auxiliary organizations are within the educational mission of the state colleges.
- Develop policies for the appropriation of funds derived from indirect cost payments.

The Board of Trustee policy concerning auxiliary organizations was originally adopted in July 1981 in the Resolution of the Committee on Finance (RFIN) 7-81-4. Executive Order (EO) 698, *Board of Trustees Policy for The California State University Auxiliary Organizations*, dated March 3, 1999, represents policy of the Trustees addressing CSU auxiliary organization activity and governing the internal management of the system. CSU auxiliary organizations are required to comply with Board of Trustee policy (California Code of Regulations, Title 5, Section 42402 and Education Code, Section 89900). 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. This EO requires that the Office of Audit and Advisory Services perform an internal compliance/internal control review of auxiliary organizations. The review will be used to determine compliance with the law, including statutes in the Education Code and rules and regulations of Title 5, and compliance with policy of the Board of Trustees and of the campus, including appropriate separation of duties, safeguarding of assets, and reliability and integrity of information. According to Board of Trustee instruction, each auxiliary organization shall be examined on a triennial basis pursuant to procedures established by the chancellor.

EO 1059, *Utilization of Campus Auxiliary Organizations*, dated June 6, 2011, also represents policy of the Trustees addressing appropriate use of 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. The campus, with the approval of the chancellor (or designees), may assign certain functions to auxiliary organizations pursuant to the California Code of Regulations, Title 5, §42500. A

written operating agreement is established detailing the functions that auxiliary organizations can perform. The campus may assign responsibility for an activity or program to auxiliary organizations, and the acceptance of the responsibility requires the assumption of the associated legal obligation and liabilities, fiscal liabilities, and fiduciary responsibilities by auxiliary organizations. Auxiliary organizations shall ensure that fiscal procedures and management systems are in place, consistent with California Code of Regulations, Title 5, §42401.

ICSUAM §13680.00, *Placement and Control of Receipts for Campus Activities and Programs*, dated September 29, 2011, states that accountability and responsibility for campus activities and programs should be clearly established, and that related receipts should be appropriately placed and controlled in university or auxiliary organization accounts. This policy guides campuses as to the administration of such receipts and instructs as to their proper placement in accordance with legal and regulatory requirements.

CSUSB Philanthropic Foundation

The Foundation was established on July 1, 2011, as a non-profit public benefit corporation when the Foundation for the California State University, San Bernardino, established in 1962, was split into two auxiliaries to better reflect a focus on the philanthropic and business enterprise functions. The Foundation encourages gifts and financial support while creating learning opportunities for students, alumni, and the community that complement the university's teaching, research, and public service goals. The Foundation supports CSUSB through fund-raising, acceptance of donor gifts, and management of endowments. It relies on the university's 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 Corporation was established on July 1, 2011, when the Foundation for the California State University, San Bernardino, established in 1962, was split into two auxiliaries to better reflect the focus on the philanthropic and business enterprise functions. The Corporation 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 Corporation 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 alumni.

Associated Students, Incorporated

ASI was established in 1988 as a non-profit public benefit corporation for the specific and primary purpose of operating a charitable and educational organization. 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. In addition, ASI offers graphic design services to chartered student organizations. 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 Union was established in 1977 as a non-profit corporation with the specific and primary purpose of financing, constructing, and operating a campus union facility in order to promote and assist CSUSB in furthering its educational programs. The Union provides student resources through various programs and centers, including the Adult Re-entry Program, Cross Cultural Center, Women's Resource Center, Pride Center, and Program Board. The Union also provides various services, including graphic design, notary services, and the Recreation Center. The Union 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.

SCOPE

We visited the CSUSB campus and its auxiliary organizations from January 12, 2015, through February 6, 2015. Our audit and evaluation included the audit tests we considered necessary in determining whether fiscal, operational, and administrative controls are in place and operative at each auxiliary and may not have included examination of all fiscal and operational areas. The audit focused on procedures in effect from July 1, 2014, through February 6, 2015.

Specifically, we reviewed and tested:

- Timely and proper execution of agreements, contracts, and memoranda of understanding.
- Corporate governance, including compliance with education, government, and corporation codes.
- Fiscal, operational, and program compliance, such as review of cost reimbursement, reserves, conflict of interest, risk management, and trust accounts.
- Segregation of duties and administration of key fiscal and operational areas.
- Administration of sponsored programs.
- Management of gifts and endowments.
- Commercial operations (bookstore, dining services, etc.).
- Auxiliary programs (radio station, housing, children's center, etc.)
- Campus oversight and support services provided to auxiliaries.

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:

- Government Code §12586
- Government Code §13402 and §13403
- Internal Revenue Services (IRS), *Governance and Related Topics 501(c)(3)*
- IRS, *Donee Information Return*, Form 8282
- IRS, *Return of Organization Exempt from Income Tax*, Form 990
- OMB Circular A-21, *Cost Principles for Educational Institutions*, §J.10
- OMB Circular A-133, *Compliance Supplement Part 6-M, Sub-recipient Monitoring*
- The Department of Homeland Security, U.S. Citizenship and Immigration Services, Form I-9
- EO 676, *Delegation of Gift Evaluation and Acceptance to Campuses*
- EO 698, *Board of Trustees Policy for The California State University Auxiliary Organizations*
- EO 890, *Administration of Grants and Contracts in Support of Sponsored Programs*
- EO 1000, *Delegation of Fiscal Authority and Responsibility*
- EO 1041, *California State University Student Travel Policy*
- EO 1059, *Utilization of Campus Auxiliary Organizations*
- EO 1069, *Risk Management and Public Safety*
- ICSUAM §3552-01, *Cost Allocation/Reimbursement Plans for the CSU Operating Fund*
- ICSUAM §8065-00, *Information Asset Management*
- ICSUAM §11002-05, *Sub-Recipient Monitoring*
- ICSUAM §11003-06, *Effort Reporting*
- ICSUAM §11003-07, *Cost Sharing*
- ICSUAM §15701-00, *Fundraising Events*
- Coded Memorandum Human Resources 2005-38, *Conflict of Interest Update – Principal Investigators*
- Coded Memorandum Risk Management 2012-01, *CSU Insurance Requirements*
- CSU Risk Management Authority/Auxiliary Organizations Risk Management Authority Policy and Procedure L-5
- CSU Conflict of Interest Handbook 2B
- Title 5 §42401, *Declaration of Policy*
- Title 5 §42402, *Authority of Campus President*
- *Compilation of Policies and Procedures for California State University Auxiliary Organizations*
- *Foundation Gift Administration Policy*
- CSUSB/UEC *Financial Conflict of Interest Policy*
- UEC *Effort Reporting Policy* #670.12
- UEC *Sponsored Programs Administration (SPA) Effort Reporting Procedures*
- UEC *Sub-Recipient Monitoring Policy* #670.35
- UEC *SPA Sub-Recipient Monitoring Procedures*
- UEC *Cost Sharing Policy* #670.11

- *UEC Cost Share Guidelines and Tracking Procedures For SPA*
- *Union Financial Policies Manual*
- *Union Personnel Policies*

AUDIT TEAM

Senior Director: Janice Mirza

Audit Manager: Caroline Lee

Senior Auditors: Erika Almaraz, Jennifer Leake, Sean Lee, and Dominick Owens

Internal Auditor: May Flores