September 1, 2016

Dr. Elliot Hirshman, President
San Diego State University
5500 Campanile Drive
San Diego, CA 92182

Dear Dr. Hirshman:

Subject: Audit Report 16-04, Auxiliary Organizations, San Diego State University

We have completed an audit of Auxiliary Organizations as part of our 2016 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
AUXILIARY ORGANIZATIONS

San Diego State University

Audit Report 16-04
August 9, 2016
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

San Diego State University
Based upon the results of the work performed within the scope of the audit, the fiscal, operational, and administrative controls in effect at San Diego State University (SDSU) as of May 27, 2016, taken as a whole, were sufficient to meet the objectives of this audit. However, the audit revealed that a faculty-owned company improperly included the university name in its name, and the company obtained a deeply discounted facility rental rate from Associated Students, San Diego State University (AS), which appeared to be a conflict of interest.
Additionally, the campus had not developed a written fund-raising policy or established a written delegation of authority for fund-raising events; fund-raising events were not always reviewed and approved by a delegated authority prior to the events; and revenues for certain fund-raising events were incorrectly reported on Internal Revenue Service (IRS) Form 990. Further, the campus had not established written delegations of authority from the campus president to the campus vice president for university relations and development and the KPBS management council assigning responsibility to accept monetary gifts and sign gift acknowledgment agreements and letters.

The Campanile Foundation
Based upon the results of the work performed within the scope of the audit, the fiscal, operational, and administrative controls in effect at The Campanile Foundation as of May 27, 2016, taken as a whole, were sufficient to meet the objectives of this audit. However, the audit revealed that the Campanile Foundation did not always document collection and follow-up activity on delinquent pledges receivable and write-offs, incorrectly processed a pledge payment, and improperly applied a matching gift. Additionally, approval for write-offs was not always documented, and write-offs were not always timely performed. Further, the Campanile Foundation did not obtain annual conflict-of-interest statements from all board members, and conflict-of-interest statements were not always properly completed.

San Diego State University Research Foundation
Based upon the results of the work performed within the scope of the audit, the fiscal, operational, and administrative controls in effect at the San Diego State University Research Foundation (Research Foundation) as of May 27, 2016, taken as a whole, were sufficient to meet the objectives of this audit. However, the audit revealed that Research Foundation petty cash and change funds were not adequately administered.
Aztec Shops, Ltd.
Based upon the results of the work performed within the scope of the audit, except for the
effect of the observations described below, the fiscal, operational, and administrative controls in
effect at Aztec Shops, Ltd. (Aztec Shops) as of May 27, 2016, taken as a whole, were sufficient to
meet the objectives of this audit. The audit revealed that Aztec Shops had not considered
charging non-sufficient funds (NSF) fees on returned checks, nor required the writer of a
returned check to make the bad check good with a guaranteed form of payment. In addition,
Aztec Shops did not charge NSF fees and interest for returned lease payments in accordance
with rental agreements. Further, Aztec Shops had not reviewed Aztec credit accounts, a local
billing and receivable mechanism for employees, departments, and third-party tenants, for
timely deactivation and validity, and donations made by Aztec Shops were not always
adequately supported and approved by the Aztec Shops associate director of marketing. Also,
Aztec Shops hospitality-related expenditures were not always approved by the appropriate
signatory or supported by itemized receipts and a listing of recipients.

Associated Students
Based upon the results of the work performed within the scope of the audit, the fiscal,
operational, and administrative controls in effect at AS as of May 27, 2016, taken as a whole,
were sufficient to meet the objectives of this audit. However, the audit revealed that AS
procurement card and Home Depot card reconciliations were not always timely submitted and
supported by adequate documentation. Additionally, AS rented the Aquaplex facility to a
faculty-owned company without executing a space-rental agreement, and AS did not obtain
signed annual conflict-of-interest statements from two board members, who were also
campus administrators, for fiscal years 2014/15 and 2015/16. Also, AS hospitality
expenditures were not always supported by a listing of attendees or employees who received
hospitality and the business purpose, and the AS Hospitality Policy did not specifically address
the handling of gift-card purchases for employee recognition events. Further, AS did not
perform independent spot checks for items greater than $5,000 to validate annual inventory
counts performed by the fixed-asset custodians.

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

Campus

1. FACULTY-OWNED COMPANY

OBSERVATION

A company owned by a campus faculty member improperly included the university name in its name, and the company obtained a deeply discounted facility rental rate from AS, which appeared to be a conflict of interest.

We found that:

- The faculty-owned company included “San Diego State” in its name without approval from the CSU Board of Trustees.

- The company had obtained a deeply discounted rental rate for the AS Aquaplex facility since 2011. Specifically, the published discounted hourly rental rate for off-campus groups for the Diving Well was $30/hour, but the company was charged a further discounted rate of $8/hour. For a one-year period from August 2014 to August 2015, this resulted in a discount of $12,116, which appeared to be a conflict of interest in which the faculty member obtained a personal benefit because of his association with the campus.

Education Code §89005.5 states that no person shall, without the permission of the Trustees of the CSU, use this name, or any abbreviation of it or any name of which these words are a part, to designate any business, corporation, firm, partnership, group, activity, or enterprise.

Government Code §87100 and §87103 state that no public official at any level of state or local government shall make, participate in making, or in any way attempt to use his official position to influence a governmental decision in which he knows or has reason to know has a financial interest. A public official has a financial interest in a decision if it is reasonably foreseeable that the decision will have a material financial effect, distinguishable from its effect on the public generally, on the official, a member of his or her immediate family, or a business entity in which the public official holds a position of management or has a direct or indirect investment worth $2,000 or more. Government Code §8314 additionally prohibits the use of state resources for non-state purposes, except uses that are incidental and minimal.

RECOMMENDATION

We recommend that the campus:

a. Work with campus counsel to inform the faculty member of the restriction regarding the use of the university’s name.

b. Discuss the conflict-of-interest prohibition with the faculty member and work with AS to adjust the Aquaplex facility rental rate to the published rate.
MANAGEMENT RESPONSE

We concur. The campus will:

a. Work with campus counsel to inform the faculty member of the restriction regarding the use of the university’s name. This will be completed by October 31, 2016.

b. Discuss the conflict-of-interest prohibition with the faculty member and work with AS to adjust facility rental rates to the published rate. This will be completed by January 31, 2017.

2. FUND-RAISING

OBSERVATION

The campus had not developed a written fund-raising policy or established a written delegation of authority for fund-raising events; fund-raising events were not always reviewed and approved by a delegated authority prior to the events; and revenues for certain fund-raising events were incorrectly reported on IRS Form 990.

We found that:

- The campus had not developed a written fund-raising policy and established a written delegation of authority for fund-raising events, as required by ICSUAM §15701.00, Fundraising Events.

- Two fund-raising events with gross receipts greater than $5,000 at SDSU Children’s Center and Aztec Recreation Sports were not approved in advance by a delegated authority and did not receive a review of the event budget, draft of solicitation materials, and action plans for compliance with federal, state, and local regulations.

Additionally, we reviewed three athletics fund-raising events and found that revenue was understated by $280 for one event and overstated by $800 and $2,325 for two events on the Campanile Foundation IRS Form 990. Further, although these events were reviewed and approved in advance during the athletics operating budget process, the draft of solicitation materials and actions plans for compliance with federal, state, and local regulations were not approved by a delegated authority prior to the events.

The absence of a fund-raising policy, required fund-raising event approvals, and advance review of event budgets, drafts of solicitation materials, and action plans limits the campus’ and auxiliary’s ability to effectively allocate resources and coordinate events; ensure compliance with federal, state, and local regulations; and assess and mitigate any risks associated with events. In addition, inaccurate information on an IRS Form 990 may result in penalties.
RECOMMENDATION

We recommend that the campus:

a. Develop a written fund-raising policy and establish a written delegation of authority for fund-raising events.

b. Obtain written approval from a delegated authority for all fund-raising events with gross receipts greater than $5,000, including a review of event budgets, drafts of solicitation materials, and action plans for compliance with federal, state, and local regulations.

c. Implement a process to verify that athletics fund-raising event revenues are accurately reflected in the Campanile Foundation IRS Form 990.

MANAGEMENT RESPONSE

We concur. The campus will:

a. Develop a written fund-raising policy and establish a written delegation of authority for fund-raising events.

b. Obtain written approval from a delegated authority for all fund-raising events with gross receipts greater than $5,000, including a review of the items noted.

c. Implement a process to verify that athletics fund-raising event revenues are accurately reflected in the Campanile Foundation’s IRS Form 990.

This will be completed by January 31, 2017.

3. DELEGATION OF AUTHORITY

OBSERVATION

The campus had not established written delegations of authority from the campus president to the campus vice president for university relations and development and the KPBS management council assigning responsibility to accept monetary gifts and sign gift acknowledgment agreements and letters, as required by Executive Order (EO) 676, Delegation of Gift Evaluation and Acceptance to Campuses.

The absence of documented delegations of authority for gift evaluation and acceptance responsibilities increases the risk that gifts will be mishandled or misused.

RECOMMENDATION

We recommend that the campus provide written delegations of authority from the campus president to the campus vice president for university relations and development and the KPBS
management council to accept monetary gifts and sign gift acknowledgment agreements and letters.

MANAGEMENT RESPONSE

We concur. The campus used the Campanile Foundation’s operating agreement as the authority for the vice president for university relations and development to accept monetary gifts and sign gift acknowledgment agreements and letters. However, the campus will develop written delegations of authority from the campus president to the vice president and the KPBS management council. This will be completed by October 31, 2016.
The Campanile Foundation

4. PLEDGES RECEIVABLE

OBSERVATION

The Campanile Foundation did not always document collection and follow-up activity on delinquent pledges receivable and write-offs, correctly apply a pledge payment toward a pledge, or properly apply a matching gift. Additionally, approval for write-offs were not always documented, and write-offs were not always timely performed.

We reviewed 15 outstanding pledges receivable from the pledges receivable aging report as of June 30, 2015, and we found that:

- In four instances, collection and follow-up activity was not documented to facilitate collection of delinquent pledges receivable. The delinquent pledges receivable, totaling $275,000, were outstanding from 410 to 2,035 days.

- In one instance, a pledge payment of $30,000 was not properly allocated toward the designated pledge account. The payment was applied as a regular gift receipt.

- In one instance, a matching gift of $29,907 was applied toward the original donor’s pledge, even though the matching company prohibited matching funds from being used to meet a personal obligation or as a pledge to a charity.

We also reviewed five pledges receivable write-offs, and we found that:

- In one instance, approval was not documented for the write-off of $75,000, as required by the Campanile Foundation Pledge Policy.

- In one instance, collection and follow-up activity was not documented to support an account write-off of $30,000. The write-off occurred 1,095 days after the last payment.

- In one instance, a write-off of $15,750 was not timely written off. The write-off occurred 2,057 days after the last payment.

Inadequate control over 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 financial statements.

RECOMMENDATION

We recommend that the Campanile Foundation:

a. Document collection activity and follow-up on delinquent pledges receivable to support collections and write-offs.
b. Implement a process to verify that pledge payments are properly allocated toward designated pledge accounts and matching gifts are not applied toward pledges.

c. Document approval for all write-offs.

d. Timely write off long-outstanding pledges.

**MANAGEMENT RESPONSE**

We concur. The Campanile Foundation will:

a. Document collection activity and follow-up on delinquent pledges receivable to support collections and write-offs.

b. Implement a process to verify that pledge payments are properly allocated toward designated pledge accounts and matching gifts are not applied toward pledges.

c. Document approval for all write-offs.

d. Timely write off long-outstanding pledges.

This will be completed by December 31, 2016.

5. **CONFLICT OF INTEREST**

**OBSERVATION**

The Campanile Foundation did not obtain annual conflict-of-interest statements from all board members, and conflict-of-interest statements were not always properly completed.

We found that:

- Six of 34 board members had not signed conflict-of-interest statements, and six board members had not properly marked the box indicating whether or not a conflict existed for calendar year (CY) 2015.

- Nine of 33 board members had not signed conflict-of-interest statements, and 11 board members had not properly marked the box indicating whether or not a conflict existed for CY 2016.

The lack of conflict-of-interest statements from all auxiliary board members and incorrectly completed conflict-of-interest statements increase noncompliance with CSU and auxiliary policies and the Political Reform Act of 1974.
RECOMMENDATION

We recommend that the Campanile Foundation:

a. Obtain annual conflict-of-interest statements from all board members.
b. Review conflict-of-interest statements for proper completion.

MANAGEMENT RESPONSE

We concur. The Campanile Foundation will obtain annual conflict-of-interest statements from all board members and review the statements for proper completion. This will be completed by October 31, 2016.
San Diego State University Research Foundation

6. PETTY CASH AND CHANGE FUNDS

OBSERVATION

Research Foundation petty cash and change funds were not adequately administered.

We visited three of the eight petty cash and change fund locations on campus, and we found that:

- Policies and procedures had not been developed for change funds.
- The campus library change funds were no longer in use but had not been closed. The change funds were originally established, in the amount of $2,100, for the campus library copiers, but the copiers are now operated using the SDSUcard and no longer accept coins.
- Petty cash reconciliations were not adequately performed at KPBS, as receipts for petty cash expenses incurred in October 2011 and September 2013, in the amount of $95, had not been submitted to the Research Foundation for reimbursement.

Inadequate administration of petty cash and change funds increases the risk of loss or misappropriation of funds.

RECOMMENDATION

We recommend that the Research Foundation:

a. Develop policies and procedures for change funds.

b. Close the library change funds.

c. Reiterate to the KPBS petty cash custodian that petty cash should be properly reconciled and timely submitted for reimbursement.

MANAGEMENT RESPONSE

We concur.

a. The Research Foundation will develop policies and procedures for change funds by October 31, 2016.

b. The library change fund has been closed.

c. The KPBS petty cash custodian has been reminded that petty cash should be properly reconciled and that reimbursements should be submitted timely.
Aztec Shops, Ltd.

7. RETURNED CHECKS

OBSERVATION

Aztec Shops had not considered charging NSF fees on returned checks, nor required the writer of a returned check to make the bad check good with a guaranteed form of payment. In addition, Aztec Shops did not charge NSF fees and interest for returned lease payments in accordance with rental agreements.

We reviewed 15 of the 18 returned checks from January 1, 2014, to February 29, 2016, and we found that in three instances, lease payments totaling $9,481 were returned for NSF but were not charged the late fees and interest established in the rental agreements. Failure to charge the applicable late fees and interest resulted in $602 of lost revenue.

Insufficient administration of returned checks and non-enforcement of late fees and interest for returned lease payments may increase the number of NSF checks and lost revenue.

RECOMMENDATION

We recommend that Aztec Shops:

a. Consider charging NSF fees on returned checks and require the writer of any returned check to make the bad check good with a guaranteed form of payment.

b. Charge late fees and interest on returned lease payments.

MANAGEMENT RESPONSE

We concur. Aztec Shops has completed its evaluation of charging NSF fees on returned checks and charging late fees and interest on returned lease payments.

8. AZTEC SHOPS CREDIT ACCOUNTS

OBSERVATION

Aztec Shops had not reviewed Aztec credit accounts, a local billing and receivable mechanism for employees, departments, and third-party tenants, for timely deactivation and validity.

We found a total of 10,324 active Aztec credit accounts in the Aztec Shops accounting system. These accounts had expiration dates ranging from the year 1940 to 2029 that had not been either timely deactivated or reviewed by management for validity.

Inadequate administration of long-outstanding credit accounts increases the risk that errors, irregularities, misunderstandings, and misappropriation of funds will occur, reduces the likelihood of collection, and negatively impacts cash flow.
RECOMMENDATION

We recommend that Aztec Shops review credit accounts and deactivate any expired and invalid accounts.

MANAGEMENT RESPONSE

We concur. Aztec Shops has completed its review of credit accounts and has deactivated expired and invalid accounts.

9. DONATIONS

OBSERVATION

Donations made by Aztec Shops were not always adequately supported and approved by the Aztec Shops associate director of marketing, as required by the Aztec Shops Donations and Sponsorship Policy.

We reviewed ten donations from January 2014 to March 2016, and we found that:

- In four instances, there were no written donation requests documenting the nature of the event or organization seeking sponsorship, the ways in which Aztec Shops would be recognized, and approval by the Aztec Shops associate director of marketing. Three of the four instances were on-campus affiliate transactions. The other instance was external, and the intent was marketing for catering operations.

- In one instance, there was no written donation request showing approval by the Aztec Shops associate director of marketing. The donation was an on-campus affiliate transaction.

- In one instance, the donation request did not explain the nature of the event or organization seeking sponsorship and the ways in which Aztec Shops would be recognized. The donation was an on-campus affiliate transaction.

The lack of adequate supporting documentation and proper approval for donations increases the risk of errors, irregularities, and misappropriation of funds.

RECOMMENDATION

We recommend that Aztec Shops:

a. Require for all donations a written explanation of the nature of the event or organization seeking sponsorship and the ways in which Aztec Shops will be recognized.

b. Reiterate to employees that all donations should be supported with written donation requests and approved by the Aztec Shops associate director of marketing.
MANAGEMENT RESPONSE

We concur. Aztec Shops now requires that all donations have a written explanation of the event and the ways Aztec Shops will be recognized. Employees have also been reminded that all donation requests should be submitted to and approved by the associate director of marketing.

10. HOSPITALITY

OBSERVATION

Aztec Shops hospitality-related expenditures were not always approved by the appropriate signatory or supported by itemized receipts and a listing of recipients, as required by the Aztec Shops Employee Code of Conduct.

We reviewed ten hospitality-related expenditures from January 2014 to March 2016, and we found that:

- In two instances, hospitality-related expenditures were not approved by the appropriate signatory. Specifically, in one instance, the expenditure was not approved by the Aztec Shops director, who had authority over the individual submitting the request, and in the other instance, the requester and approver were the same employee.

- In two instances, itemized receipts were not provided for hospitality-related expenditures of $200 and $550.

- In one instance, a listing of employees who received employee business meals was not provided to show that the meals stayed within the maximum per-person rate for hospitality.

The lack of proper approval and adequate documentation for hospitality-related expenditures increases the risk of errors, irregularities, and misappropriation of auxiliary assets.

RECOMMENDATION

We recommend that Aztec Shops reiterate to employees that:

a. All hospitality-related expenditures must be approved by the appropriate signatory.

b. Itemized receipts must be provided for all hospitality-related expenditures.

c. A listing of employees who receive employee business meals must be provided to show that the meals stayed within the maximum per-person rate for hospitality.

MANAGEMENT RESPONSE

We concur. Employees have been reminded that all hospitality-related expenditures must be appropriately approved and that itemized receipts must be provided. A list of employees is
also required for those receiving business meals to support that the meals did not exceed the maximum per-person hospitality rate.
Associated Students

11. CREDIT CARDS

OBSERVATION

AS procurement card and Home Depot card reconciliations were not always timely submitted and supported by adequate documentation.

We reviewed 34 procurement card reconciliations for January 2016, and we found that:

- In six instances, procurement card reconciliations were not timely submitted to the AS accounting office.
- In two instances, travel approval forms were not included to support travel expenditures.

We also reviewed Home Depot card reconciliations for January and February 2016, and we found that:

- The January Home Depot card reconciliation did not include receipts for 15 of 44 transactions. AS management indicated that this was primarily due to lost receipts stemming from a flood in the childcare center on January 5, 2016.
- The February Home Depot card reconciliation did not include receipts for four of 51 transactions.

Inadequate administration of credit cards increases the risk that errors, irregularities, misunderstandings, and misappropriation of funds will occur.

RECOMMENDATION

We recommend that AS:

a. Remind cardholders to timely submit procurement card and Home Depot card reconciliations with supporting receipts.

b. Instruct cardholders to include travel approval forms for travel-related expenditures.

MANAGEMENT RESPONSE

We concur. AS will:

a. Remind cardholders to timely submit procurement card and Home Depot card reconciliations with supporting receipts.

b. Instruct cardholders to include travel approval forms for travel-related expenditures.

This will be completed by October 31, 2016.
12. SPACE RENTAL

**OBSERVATION**

AS rented the Aquaplex facility to a company owned by a campus faculty member without executing a space-rental agreement.

We found that AS did not execute an Aquaplex Facility Rental Agreement with the faculty-owned company. Proper insurance and waivers were obtained.

The absence of a space-rental agreement increases the risk of misunderstandings and miscommunication regarding rights and responsibilities and subjects the auxiliary and CSU to potential liability.

**RECOMMENDATION**

We recommend that AS execute an Aquaplex Facility Rental Agreement for all groups renting the facility, including the faculty-owned company.

**MANAGEMENT RESPONSE**

We concur. AS will execute facility-rental agreements for all groups renting the Aquaplex, including the faculty-owned company. This will be completed by January 31, 2017.

13. CONFLICT OF INTEREST

**OBSERVATION**

AS did not obtain signed annual conflict-of-interest statements from two board members, who were also campus administrators, for fiscal years 2014/15 and 2015/16.

The lack of annual conflict-of-interest statements from all auxiliary board members increases noncompliance with CSU and auxiliary policies and the Political Reform Act of 1974.

**RECOMMENDATION**

We recommend that AS obtain annual conflict-of-interest statements from the two campus administrators.

**MANAGEMENT RESPONSE**

We concur. AS will obtain annual conflict-of-interest statements from the two campus administrators. This will be completed by October 31, 2016.
14. HOSPITALITY

OBSERVATION

AS hospitality expenditures were not always supported by a listing of attendees or employees who received hospitality and the business purpose, and the AS Hospitality Policy did not specifically address the handling of gift-card purchases for employee recognition events.

We reviewed ten hospitality expenditures and all hospitality expenditures included in the January 2016 procurement card reconciliation, and we found that:

- Ten expenditures for meetings and events were not supported by a listing of attendees and the business purpose for the expenditure.
- Two expenditures for gift-card purchases of $120 and $100 were not supported by a listing of employees who received the gift cards and the business purpose for the expenditure.

The lack of adequate documentation for hospitality expenditures and absence of policies and procedures related to gift cards increase the risk of errors, irregularities, and misappropriation of funds.

RECOMMENDATION

We recommend that AS:

a. Instruct employees to document a listing of attendees or recipients of gifts and the business purpose for all hospitality expenditures.

b. Address gift-card purchases for employee recognition events in the AS Hospitality Policy.

MANAGEMENT RESPONSE

We concur. AS will:

a. Instruct employees to document a list of attendees or gift recipients and the business purpose for all hospitality expenditures.

b. Address gift-card purchases for employee recognition events in the AS Hospitality Policy.

This will be completed by January 31, 2017.
15. PROPERTY AND EQUIPMENT

OBSERVATION

AS did not perform independent spot checks for items with a value greater than $5,000 to validate annual inventory counts performed by the fixed-asset custodians.

We found that the annual fixed-asset counts were performed by department staff under the guidance of division directors, but independent spot checks for items with a value greater than $5,000 were not performed by an employee outside of the individual department, as required by AS Custodian of Property policies and procedures.

Independent physical inventory counts support the performance of physical inventories, improve fixed asset accountability, and reduce the possibility of lost or stolen assets.

RECOMMENDATION

We recommend that AS perform independent spot checks for items with a value greater than $5,000 to validate annual inventory counts performed by the fixed-asset custodians.

MANAGEMENT RESPONSE

We concur. AS will perform independent spot checks to validate annual inventory counts. This will be completed by October 31, 2016.
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. CSU auxiliary organizations are required to comply with Board of Trustee policy (California Code of Regulations (CCR), Title 5, §42402 and Education Code, §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. In January 1999, the Committee on Audit of the Board of Trustees resolved that resources be provided to the Office of the University Auditor for the purpose of conducting internal compliance/internal control reviews of CSU Auxiliary Organizations. The review will be used to determine compliance with the law, including statutes in the Education Code and rules and regulations of CCR, 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.

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 (CCR, 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 CCR, 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 CCR, 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.

The Campanile Foundation
The Campanile Foundation was established in 1999 as a non-profit public benefit corporation to assist SDSU in the acquisition of gifts, management of philanthropic gifts, and investment of certain endowment gifts for the benefit of the university or other organizations having an official relationship with SDSU. The Campanile Foundation is governed by a board of directors composed of representatives from the alumni, community, campus administration, faculty, and student body. The Campanile Foundation does not have employees and relies on the university relations and development office and the Research Foundation for administrative and accounting support services.

San Diego State University Research Foundation
The Research Foundation was established in 1943 as a non-profit corporation for the purpose of furthering educational, research, and community services of SDSU. The Research Foundation performs services that are vital to students, faculty, staff, and the entire campus community, including administration of grants and contracts; development and management of major centers, institutes, community partnerships, and programs; administration of student scholarships and loan funds; and financial management and investment of gifts, trusts, and endowments, most on behalf of the Campanile Foundation. The Research Foundation also acquires, develops, and manages real property, enabling the provision of space for grant and contract activity. Further, the Research Foundation has financial oversight of the KPBS public broadcasting television and radio stations. The Research Foundation is governed by a board of directors composed of representatives from the faculty, community, campus administration, and student body.

Aztec Shops, Ltd.
Aztec Shops was established in 1931 as a non-profit public benefit corporation to operate retail and commercial operations in support of the university’s mission. Aztec Shops operates the SDSU Bookstore, which has one of the highest sales volumes of all campus bookstores in the country, and is also responsible for all restaurants and other dining service outlets on the SDSU campus, including the meal plan program, residence hall dining programs, franchised and individually branded restaurants, convenience stores, and catering. Further, Aztec Shops operates a satellite bookstore at the SDSU branch campus in Calexico; the Road Scholar program; University Towers; Montezuma Publishing; Aztec Shops Concessions at campus arenas, theaters, and stadiums; and ATM and vending machine services on campus. Aztec Shops also acquires, develops, and manages real property, enabling the leasing of property to the university and other commercial entities, and oversees some student housing. Aztec
Shops is governed by a board of directors composed of representatives from the university, student body, and community/alumnus.

Associated Students, San Diego State University
AS was established in 1932 as a non-profit public benefit corporation primarily to create, promote, and fund social, cultural, and recreational programs and facilities both on campus and in the community; advocate for student interests; and participate in shared governance. AS operates the SDSU Children’s Center, Viejas Arena, Aztec Recreation Center, Aztec Aquaplex, Aztec Student Union, Open Air Theater, Scripps Cottage, and Mission Bay Aquatic Center. AS also provides recreational, youth, and team-building classes and programs; cultural arts and special events; ticket sales and event planning services; legal and financial services; and study-abroad scholarships. AS is governed by a student board of directors assisted by an advisory council composed of representatives from campus and AS administration, faculty, and the community.

SCOPE

We visited the SDSU campus and its auxiliary organizations from April 25, 2016, through May 27, 2016. 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, 2015, to May 27, 2016.

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.).
- Information technology.
- 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:

- Education Code §89720
- Education Code §89756
- Education Code §89900
- Education Code §89904
- Governance and Related Topics - 501(c)(3) Organizations
- CCR, Title 5 §42401, *Declaration of Policy*
- CCR, Title 5 §42402, *Authority of Campus President*
- CCR, Title 5 §42500, *Functions of Auxiliary Organizations*
- RFIN 7-81-4
- EO 676, *Delegation of Gift Evaluation and Acceptance to Campuses*
- EO 698, *Board of Trustees Policy for the California State University Auxiliary Organizations*
- EO 1059, *Utilization of Campus Auxiliary Organizations*
- EO 1069, *Risk Management and Public Safety*
- CSU Auxiliary Organizations Compliance Guide
- CSU Auxiliary Organizations Sound Business Practices Guidelines
- ICSUAM §1301.00, *Hospitality, Payment, or Reimbursement of Expenses*
- ICSUAM §13680.00, *Placement and Control of Receipts for Campus Activities and Programs*
- ICSUAM §15701.00, *Fundraising Events*
- The Campanile Foundation *Conflict of Interest Policy Statement*
- The Campanile Foundation *Pledge Policy*
- Research Foundation *Petty Cash Funds policy*
- Aztec Shops *Employee Code of Conduct*
- Aztec Shops *Donations and Sponsorship Policy*
- AS *Conflict of Interest Policy Statement*
- AS *Custodian of Property* policies and procedures
- AS *Hospitality Policy*
- AS *Procurement Card Policy*
- AS *Aquaplex Facility Rental Agreement*

AUDIT TEAM

Senior Director: Janice Mirza  
Audit Manager: Caroline Lee  
IT Audit Manager: Greg Dove  
Senior Auditors: Sean Lee and Dominick Owens  
Internal Auditor: May Flores, Samer Harb, and Laura Vazquez