

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

August 31, 2021

Dr. Ellen J. Neufeldt, President  
California State University San Marcos  
333 S. Twin Oaks Valley Road  
San Marcos, CA 92096

Dear Dr. Neufeldt:

**Subject: Audit Report 20-26, Associated Students, Inc., California State University San Marcos**

We have completed an audit of *Associated Students, Inc.* as part of our 2020-2021 Audit Plan, and the final report is attached for your reference. The audit was conducted in accordance with the Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing*.

I have reviewed the management response and have concluded that it appropriately addresses our recommendations. The management response has been incorporated into the final audit report, which will be posted to Audit and Advisory Services' website. We will follow-up on the implementation of corrective actions outlined in the response and determine whether additional action is required.

Any observations not included in this report were discussed with your staff at the informal exit conference and may be subject to follow-up.

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

Sincerely,



Vlad Marinescu  
Vice Chancellor and Chief Audit Officer

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

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**ASSOCIATED STUDENTS, INC.  
CALIFORNIA STATE UNIVERSITY SAN MARCOS**

**California State University  
San Marcos**

Audit Report 20-26  
August 31, 2021

## EXECUTIVE SUMMARY

### OBJECTIVE

The objectives of the audit were to confirm compliance with regulatory requirements for the establishment and governance of auxiliary organizations; ascertain the effectiveness of operational, administrative, and financial controls for the activities conducted by the Associated Students, Incorporated California State University San Marcos (ASI); evaluate adherence to auxiliary policies and procedures and applicable Integrated California State University Administrative Manual (ICSUAM) policies, or, where appropriate, to an industry-accepted standard; and to ensure compliance with relevant governmental regulations, Trustee policy, Office of the Chancellor directives, and campus procedures.

### CONCLUSION

Based upon the results of the work performed within the scope of the audit, except for the weaknesses described below, the operational, administrative, and financial controls for ASI as of June 15, 2021, taken as a whole, provided reasonable assurance that risks were being managed and objectives were met.

In general, we noted that ASI had an appropriate framework for the administration of the auxiliary; however, we identified a few areas needing improvement. We found that campus oversight of auxiliary fiscal areas, specifically annual review and approval of reserves, budget and cost allocation plan were not properly documented. Also, some ASI policies and procedures no longer reflected current processes, and documentation of ASI fixed asset physical inventory and reconciliation were not maintained.

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

## OBSERVATIONS, RECOMMENDATIONS, AND RESPONSES

### 1. CAMPUS FISCAL OVERSIGHT

#### OBSERVATION

Campus fiscal oversight of ASI related to the reserves, budget, and cost allocation plan (CAP) needed improvement.

We found that:

- There was no documentation of the campus president's review and approval of ASI's reserves and budget for fiscal year (FY) 2020/21. ASI provided us with minutes from the September 2020 board of directors (BOD) meeting, in which the reserves allocation was presented to and approved by the board. This same BOD meeting was attended by the campus president's designee. However, the California State University (CSU) *Auxiliary Organizations Compliance Guide*, specifically sections 10.2.1, *Financial Standards; Annual Review*, and 11.7.1, *President's Budget Review and Authority*, requires that the campus president's review and approval be documented.
- There was no documentation of the campus chief financial officer (CFO) or designee's annual review and approval of the CAP. The campus provided us with a delegation of authority from the vice president of finance and administrative services (VPFAS)/CFO to the assistant vice president of business and financial services (AVPBFS) to approve the CAP; however, there was no additional documentation showing that the AVPBFS approved the CAP.

Documentation of the campus president's annual review and approval of ASI's reserves and budget, as well as the CFO or their designee's annual review and approval of the CAP, helps to ensure that auxiliary programs and planned auxiliary appropriations are consistent with CSU and auxiliary policies.

#### RECOMMENDATION

We recommend that the campus, in conjunction with ASI:

- a. Document the campus president's or their designee's annual review and approval of ASI's reserves and budget.
- b. Document the CFO or their designee's annual review and approval of the CAP.

#### MANAGEMENT RESPONSE

We concur. The campus, in conjunction with ASI, will document the campus president's or their designee's annual review and approval ASI's reserves and budget, and document the CFO or their designee's annual review and approval of the CAP.

Estimated date of completion: January 31, 2022

## 2. POLICIES AND PROCEDURES

### OBSERVATION

Some policies and procedures no longer reflected current ASI processes.

We found that:

- Most policies and procedures were last updated between 2012 and 2016.
- Three policies and procedures currently referenced a prior management position.
- ASI no longer sells tickets (amusement park, movie, etc.) and does not plan to in the future; therefore, this policy should be archived.
- The *Cash Handling* policy no longer reflected current processes as ASI has been following campus cash policies and procedures since 2017.
- ASI plans to assess the need for the *Accounts Receivables* policy because it has not created invoices within the last two years and instead uses a financial transfer process with other campus units.

Consistently updating policies and procedures helps to ensure that they are reflective of and consistent with current processes.

### RECOMMENDATION

We recommend that the campus, in conjunction with ASI:

- a. Review and update policies and procedures to address the issues noted above.
- b. Communicate and distribute the updated policies and procedures to appropriate ASI and campus administrators and staff.

### MANAGEMENT RESPONSE

We concur. The campus, in conjunction with ASI, will review and update policies and procedures to reflect current ASI processes and communicate and distribute the updated policies and procedures to appropriate ASI and campus administrators and staff.

Estimated date of completion: January 31, 2022

## 3. FIXED ASSETS

### OBSERVATION

Documentation of ASI fixed asset physical inventory and reconciliation was not maintained.

We found that a physical inventory of fixed assets was completed during the summer of 2019, but documentation was not maintained. Also, although a year-end reconciliation of fixed assets was completed for FY 2019/20, documentation was not maintained to support whether the reconciliation was performed timely and reviewed by the appropriate level of management.

Adequate control over the documentation of physical inventory and reconciliation of fixed assets helps to ensure the accuracy of fixed asset records and reduces the risk of loss and inappropriate use of resources.

**RECOMMENDATION**

We recommend that the campus, in conjunction with ASI, maintain documentation of completed physical inventories and reconciliation of fixed assets.

**MANAGEMENT RESPONSE**

We concur. The campus, in conjunction with ASI, will maintain documentation of completed physical inventories and reconciliation of fixed assets.

Estimated date of completion: January 31, 2022

## GENERAL INFORMATION

### BACKGROUND

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

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

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

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

Executive Order 1059, Utilization of Campus Auxiliary Organizations, dated June 6, 2011, represents Trustee policy addressing appropriate use of CSU auxiliary organizations. This EO requires CSU auxiliary organizations to operate within the regulations and oversight of the campus. The EO reiterates that the campus president is responsible for ensuring the fiscal viability of auxiliary organizations and their compliance with applicable CSU policies, and it further designates the campus chief financial officer as the individual responsible for administrative compliance and fiscal oversight of auxiliary organizations.

The California State University San Marcos (CSUSM) has three separate auxiliary organizations, each of which provides a function that contributes to the educational mission of the university. ASI is a nonprofit corporation and operates as an auxiliary organization and the student government of the campus. ASI is composed of student-focused entities that provide students various ways to serve the community, engage in university life, and become involved with lobbying and advocating for student concerns and social justice. The ASI board of directors is composed of elected and appointed student members who establish annual goals

and priorities for the organization and serves to express student opinions, foster awareness of student issues, and protect the rights and interests of students.

## SCOPE

Due to temporary operating procedures and limitations resulting from the COVID-19 public health emergency, we performed fieldwork remotely from May 3, 2021, through June 15, 2021. Our audit and evaluation included the audit tests we considered necessary in determining whether operational, administrative, and financial controls are in place and operative. The audit focused on procedures in effect from July 1, 2019, to June 15, 2021.

Specifically, we reviewed and tested:

- Timely and proper execution of agreements, contracts, and memoranda of understanding.
- Fiscal, operational, and program compliance, such as reserve provisions, unrelated business income tax, conflicts of interest, and risk management practices.
- Internal controls and segregation of duties over fiscal administration of areas such as cash receipts, accounts receivables, property and equipment, procurement, disbursements, and personnel and payroll.
- Auxiliary programs and services administration, including, but not limited to, student events (ASI Campus Activities Board), student assistance programs (ASI Leadership Funding, CalFresh, Student Emergency Fund, and Sustainability Projects Funding), and student organization account services.

As a result of changing conditions and the degree of compliance with procedures, the effectiveness of controls changes over time. Specific limitations that may hinder the effectiveness of an otherwise adequate system of controls include, but are not limited to, resource constraints, faulty judgments, unintentional errors, circumvention by collusion, and management overrides. Establishing controls that would prevent all these limitations would not be cost-effective; moreover, an audit may not always detect these limitations.

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

## CRITERIA

Our audit was based upon standards as set forth in CSU Board of Trustee policies; Office of the Chancellor policies, letters, and directives; campus and auxiliary procedures; as well as sound administrative practices and consideration of the potential impact of significant risks. This audit was conducted in conformance with the Institute of Internal Auditors' International Standards for the Professional Practice of Internal Auditing.



This review emphasized, but was not limited to, compliance with:

- CCR, Title 5 §42401, *Declaration of Policy*
- CCR, Title 5 §42402, *Authority of Campus President*
- CCR, Title 5 §42500, *Functions of Auxiliary Organizations*
- Education Code §89720
- Education Code §89756
- Education Code §89900
- Education Code §89904
- RFIN 7-81-4
- EO 1041, *California State University Student Travel Policy*
- EO 1059, *Utilization of Campus Auxiliary Organizations*
- *CSU Auxiliary Organizations Compliance Guide*
- *CSU Auxiliary Organizations Sound Business Practices Guidelines*
- ICSUAM §1301.00, *Hospitality, Payment or Reimbursement of Expenses*
- ICSUAM §3552.01, *Cost Allocation/ Reimbursement Plans for the CSU Operating Fund*
- ICSUAM §13680.00, *Placement and Control of Receipts for Campus Activities and Programs*
- *ASI Corporate Reserves*
- *ASI Fixed Assets, Property and Equipment*

## AUDIT TEAM

Senior Audit Manager: Joanna McDonald  
Senior Auditors: May Flores and Anthony Milan