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January 16, 2020

Dr. William A. Covino, President
California State University, Los Angeles
5151 State University Drive
Los Angeles, CA 90032

Dear Dr. Covino:

**Subject: Audit Report 19-23, California State University, Los Angeles Foundation,
California State University, Los Angeles**

We have completed an audit of *California State University, Los Angeles Foundation* as part of our 2019 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 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

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The California State University
Audit and Advisory Services

**CALIFORNIA STATE UNIVERSITY,
LOS ANGELES FOUNDATION**

California State University, Los Angeles

Audit Report 19-23
November 20, 2019

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 California State University, Los Angeles Foundation (Foundation); 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 the Foundation as of September 26, 2019, taken as a whole, provided reasonable assurance that risks were being managed and objectives were met.

Overall, we noted that the Foundation had an appropriate framework for accepting and administering gifts received on behalf of the campus. However, we identified opportunities for improvement. We noted that the campus and Foundation did not always comply with the established travel expense claim (TEC) reimbursement process, and TEC reimbursements were not always accurate. We further noted that the campus and Foundation did not always timely submit hospitality forms before the proposed event. In addition, member composition of the Foundation's audit committee did not always comply with Foundation bylaws, and the Foundation bylaws were unclear regarding the requirements of elected student trustee representatives.

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

OBSERVATIONS, RECOMMENDATIONS, AND RESPONSES

1. TRAVEL EXPENSE CLAIM REIMBURSEMENTS

OBSERVATION

The campus and Foundation did not always comply with the established TEC reimbursement process, and TEC reimbursements were not always accurate.

We reviewed 15 TECs, including TECs for general, domestic, and international travel, and we found that:

- For one of nine international TEC reimbursements, the campus and Foundation did not enforce timely submission of the TEC, obtain required documentation to fully support all expenditures, and enforce compliance with campus travel procedures.

Specifically, although the travel related to this TEC ended in July 2017, the TEC was not submitted and processed until February 2018, more than seven months later. According to the campus travel policy, a TEC should be submitted within 60 days of the end of travel.

We also found that appropriate receipts were not obtained for approximately \$1,187 of the \$4,097 in expenses, including \$919 for airfare that was only substantiated by a missing receipt statement from the traveler and a bank statement charge that did not include sufficient information to validate the expense, such as the travel destination. The airfare expense could have been better substantiated with the traveler's boarding pass or travel itinerary.

In addition, the college department principal investigator who traveled on this trip had advanced funds to the traveler noted above who did not submit appropriate receipts for approximately \$1,187 of expenses, and the principal investigator later received reimbursement from the Foundation, which is not in accordance with campus travel procedures.

- For one of six general TECs, the campus and Foundation overpaid the traveler \$200 because the TEC reimbursement was not properly adjusted to reflect a refundable deposit.

Proper administrative oversight and compliance with established TEC reimbursement processes provide greater assurance that funds are expended for appropriate purposes and reduces the likelihood of damage due to reputational risk.

RECOMMENDATION

We recommend that the campus, in conjunction with the Foundation:

- a. Remind travelers of their responsibilities to comply with the established campus TEC reimbursement process to address the issues noted above, including, but not limited to,

timely submission of all TECs and required documentation to fully support all expenditures.

- b. Review the overpaid TEC reimbursement noted above, determine whether recovery efforts will be made, and document the results.
- c. Reiterate to campus and Foundation staff involved in the review and approval of TECs to comply with the established campus TEC reimbursement process to address the issues noted above, including, but not limited to, timely submission of all TECs, proper documentation to fully support all expenditures, and ensuring adjustments are made to all TEC payments for refunds and other deposits.

MANAGEMENT RESPONSE

The campus, in conjunction with the Foundation, will:

- a. Remind travelers of their responsibilities to comply with the established campus TEC reimbursement process to address the issues noted above, including, but not limited to, timely submission of all TECs and required documentation to fully support all expenditures.
- b. Review the overpaid TEC reimbursement noted above, determine whether recovery efforts will be made, and document the results.
- c. Reiterate to campus and Foundation staff involved in the review and approval of TECs to comply with the established campus TEC reimbursement process to address the issues noted above, including, but not limited to, timely submission of all TECs, proper documentation to fully support all expenditures, and ensuring adjustments are made to all TEC payments for refunds and other deposits.

Estimated completion date: January 31, 2020

2. HOSPITALITY EXPENSES

OBSERVATION

The Foundation did not always comply with campus administrative procedures for timely approval of hospitality-related expenses.

According to the campus Administrative Procedure (AP) 209, *Hospitality, Payment or Reimbursement of Expenses*, the form requesting authorization to hold a hospitality event and reimbursement for hospitality-related expenses (hospitality form) must be submitted to the appropriate vice president no later than ten working days before the proposed event.

We reviewed 23 hospitality-related expenditure disbursements and found that for seven disbursements, the hospitality form was not approved timely. Specifically, the hospitality forms were approved between two and 20 days after the end of the event.

Compliance with hospitality event procedures provides greater assurance that hospitality-related expenditures will meet campus and systemwide requirements.

RECOMMENDATION

We recommend that the campus, in conjunction with the Foundation, reiterate to appropriate campus and Foundation personnel the requirements of AP 209, *Hospitality, Payment or Reimbursement of Expenses*, including the requirement to timely submit hospitality forms for approval before the proposed event.

MANAGEMENT RESPONSE

The campus, in conjunction with the Foundation, will reiterate to appropriate campus and Foundation personnel the requirements of AP 209, *Hospitality, Payment or Reimbursement of Expenses*, including the requirement to timely submit hospitality forms for approval before the proposed event.

Estimated completion date: January 31, 2020

3. CORPORATE GOVERNANCE

OBSERVATION

Member composition of the Foundation’s audit committee did not always comply with Foundation bylaws, and the Foundation bylaws were unclear regarding the requirements of elected student trustee representatives.

We found that:

- Until the last day of fieldwork, the Foundation’s president was also a member of the audit committee, which is not allowed by the Foundation bylaws.
- The Foundation bylaws are unclear as to whether the Associated Students, Inc. (ASI) president or designee can also serve as the elected student representative. We noted that the ASI president or designee was already an ex-officio trustee, and that concurrently serving multiple positions may limit the committee size, composition, breadth, and diversity.

Audit committee membership that complies with Foundation bylaws can help to safeguard the independence of the committee, and clear board composition requirements ensure that trustees are properly selected and elected.

RECOMMENDATION

We recommend that the campus, in conjunction with the Foundation:

- a. Appoint audit committee members in accordance with the Foundation bylaws.
- b. Review and update the Foundation bylaws as needed to address the issue noted above.

MANAGEMENT RESPONSE

We concur. The Foundation will:

- a. Appoint audit committee members in accordance with the Foundation bylaws.
- b. Review and update the Foundation bylaws as needed to address the issue noted above.

Estimated completion date: February 28, 2020

GENERAL INFORMATION

BACKGROUND

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

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

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

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

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

California State University, Los Angeles (Cal State LA) contracts with four separate auxiliary organizations, each of which provides a function that contributes to the educational mission of the university. The Foundation was established in 1985 as a non-profit public benefit corporation to promote and assist the educational programs of Cal State LA, and specifically provides the campus with the expertise, oversight, and advocacy to increase private giving and manages the philanthropic assets of the university. The Foundation does not have employees

and relies on campus personnel for administrative and accounting support services. In addition, the Foundation is governed by a board of directors composed of representatives from the university administration, faculty, student body, alumni, and community.

SCOPE

We visited the Cal State LA campus and the Foundation from September 3, 2019, through September 26, 2019. Our audit and evaluation included the audit tests we considered necessary in determining whether operational, administrative, and financial controls are in place and operative at the Corporation. The audit focused on procedures in effect from January 1, 2017, to September 26, 2019.

Specifically, we reviewed and tested:

- Corporate governance, including compliance with education, government, and corporation codes.
- Fiscal, operational, and program compliance, such as review of budget, cost reimbursement, timely and proper execution of contractual agreements and memoranda of understanding, risk management practices, conflict of interest, cash receipts, pledges receivable, investment, and expenditures.
- Internal controls and segregation of duties over fiscal administration of areas such as cash receipts, accounts receivables, investments, and disbursements.
- Gifts administration, including, but not limited to cash and non-cash gifts, matching gifts, and endowments.

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 Foundation. Our review was limited to gaining reasonable assurance that essential elements of the Foundation were in place and did not examine all aspects of the operation.

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:

- Education Code §89720
- Education Code §89756
- Education Code §89900
- Education Code §89904
- 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 1041, *California State University Student Travel*
- EO 1059, *Utilization of Campus Auxiliary Organizations*
- *CSU Auxiliary Organizations Compliance Guide*
- *CSU Auxiliary Organizations Sound Business Practices Guidelines*
- ICSUAM §1301.00, *Hospitality*
- ICSUAM §13680.00, *Placement and Control of Receipts for Campus Activities and Programs*
- ICSUAM §15000, *University Advancement*
- Cal State LA AP 209, *Hospitality, Payment or Reimbursement of Expenses*
- Cal State LA Foundation *Amended and Restated By-Laws*
- Cal State LA *Travel Policy and Procedures*

AUDIT TEAM

Audit Manager: Joanna McDonald

Senior Auditor: Marcos Chagollan