



The California State University

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February 14, 2020

Dr. Lynnette Zelezny, President
California State University, Bakersfield
9001 Stockdale Highway
Bakersfield, CA 93311

Dear Dr. Zelezny:

Subject: Audit Report 19-25, Student Union, California State University, Bakersfield

We have completed an audit of *California State University, Bakersfield Student Union* 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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CSU

The California State University
Audit and Advisory Services

**CALIFORNIA STATE UNIVERSITY,
BAKERSFIELD STUDENT UNION**

**California State University,
Bakersfield**

Audit Report 19-25
January 14, 2020

EXECUTIVE SUMMARY

OBJECTIVE

The objectives of the audit were to confirm compliance with regulatory requirements for the establishment and governance of auxiliary organizations; ascertain effectiveness of operational, administrative, and financial controls for the activities conducted by the California State University, Bakersfield Student Union (Student Union); 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 Student Union as of December 5, 2019, taken as a whole, provided reasonable assurance that risks were being managed and objectives were met.

In general, we noted that the Student Union had an appropriate framework for the administration of the auxiliary; however, we identified opportunities for improvement. We found that required liability waivers were not always obtained from participants in the Student Recreation Center (SRC) Challenge Program and Outdoor Adventures program. In addition, required insurance provided by third parties participating in the SRC Challenge Program did not always meet minimum thresholds or name the university as an additional insured party. We also found that defensive driver training and assessments were not always completed or documented for SRC Outdoor Adventures program staff, and campus driver's permits were not always obtained or documented. Also, the Student Union had not appointed the required audit committee, did not have the composition on its board of directors (BOD) required by Student Union bylaws, and had not developed a formal BOD-approved reserve policy. In addition, the Children's Center duties and responsibilities related to cash receipts were not adequately segregated, and the campus had not escheated long-outstanding Student Union auxiliary checks to the state.

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

OBSERVATIONS, RECOMMENDATIONS, AND RESPONSES

1. CHALLENGE PROGRAM

OBSERVATION

Liability waivers were not always obtained for individuals participating in the SRC Challenge Program, and insurance provided by third parties did not always meet minimum thresholds or name the university as an additional insured party, as required by campus policy and Executive Order (EO) 1069, *Risk Management and Public Safety* and EO 1051, *California State University Use of Approved Waiver of Liability*.

The SRC Challenge Program provides team-building and leadership development programs for campus clubs and organizations, departments and teams, as well as community organizations, including schools and businesses.

We reviewed ten SRC Challenge Program events, including eight events associated with non-California State University (CSU) third parties, and we found that:

- For three events, 49 participants under the age of 18 (underage) incorrectly completed a liability waiver form applicable to an adult participant, which did not include the signature of a parent or legal guardian.
- For one event, liability waiver forms were not obtained for 29 underage participants, and for another event, liability waivers were not obtained for all adult participants.
- For four events with non-CSU third parties, the provided proof-of-insurance did not always meet the minimum threshold of CSU insurance requirements and provisions. For example, the general liability coverage did not include \$1 million per occurrence and \$2 million aggregate, evidence of workers compensation, and inclusion of the hold-harmless endorsement, among others.
- For two other events with non-CSU third parties, the provided proof-of-insurance did not include an endorsement naming the CSU or the campus as an additional insured party.

Appropriate liability waivers and insurance coverage help to ensure that participants understand the risk associated with activities and help to mitigate activity-related risks and the university's financial and legal exposure.

RECOMMENDATION

We recommend that the campus, in conjunction with the Student Union:

- a. Remind appropriate campus and Student Union staff involved in the administration of the SRC Challenge Program of the importance of obtaining proper liability waivers and insurance coverage for non-CSU third parties, and provide refresher training as necessary to address the issues noted above.

- b. Implement a process to ensure that required SRC Challenge Program documentation is obtained and retained, including proper liability waivers and insurance coverage from third parties that meets CSU insurance requirements and provisions, to address the issues noted above.

MANAGEMENT RESPONSE

- a. The appropriate staff was trained on January 13, 2020, for the SRC Challenge Program on the importance of obtaining proper liability waivers. Beginning in January 2020, the SRC will begin using CampDoc, an online system, to secure proper signatures on waivers. The system will also allow the Challenge Program to send out required forms to participants prior to the event. This will allow more time to address any issues prior to the event. Verification will be sent March 31, 2020. The office of safety and risk management will review insurance coverage prior to an event to ensure that all the mandated CSU insurance coverage requirements and provisions are met. The change in this process will be implemented by May 31, 2020.
- b. The SRC will be reviewing and redesigning the filing system for the event paperwork to be stored in group folders by event and year. The SRC has developed a formalized checklist for the lead facilitator to ensure all necessary documentation has been completed. The office of safety and risk management will review insurance coverage prior to an event to ensure that all the mandated CSU insurance coverage requirements and provisions are met. The change in this process will be implemented by May 31, 2020.

2. OUTDOOR ADVENTURES

OBSERVATION

Liability waivers and medical history forms were not always obtained for individuals participating in the SRC Outdoor Adventures program field trips, as required by campus policy and EO 1069 and EO 1051. In addition, the SRC Outdoor Adventures program staff did not always complete or document defensive driver training and driving skills assessments, or obtain campus driver's permits.

The SRC Outdoor Adventures program is designed to enhance the college experience for students by providing adventurous outdoor activities where students can develop new skills while visiting different off-campus locations.

We reviewed nine SRC Outdoor Adventure field trips, and we found that:

- For three field trips, some underage participants incorrectly completed a liability waiver form applicable to an adult participant, and the form did not include the signature of a parent or legal guardian.
- For two field trips, liability waiver forms were not obtained for all adult participants.

- For three field trips, medical history forms were not completed and signed by all participants.
- For two field trips, required post-field trip records were not completed or documented.

In addition, we reviewed the records of 19 SRC Outdoor Adventures program staff members with driving duties, and we found that:

- Ten staff members had not completed the CSU defensive driving course or did not have a documented internal SRC driving skills assessment. Additionally, 17 staff members had not obtained or did not have documentation showing that they had obtained a campus driver's permit.

Obtaining appropriate liability waivers, medical history forms, and post-field trip records for participants, providing SRC staff with driver training, and ensuring that drivers have gone through an assessment and obtained a campus driver's permit help to ensure that participants understand the risk associated with activities, and help to mitigate activity-related risks and the university's financial and legal exposure.

RECOMMENDATION

We recommend that the campus, in conjunction with the Student Union:

- a. Remind appropriate campus and Student Union staff involved in the administration of the SRC Outdoor Adventures program field trips of the importance of obtaining proper liability waivers and other required program documentation, and provide refresher training as necessary to address the issues noted above.
- b. Implement a process to ensure that required SRC Outdoor Adventures program documentation is obtained and retained, including proper liability waivers, complete and signed medical history forms, and post-field trip records, to address the issues noted above.
- c. Implement a process to ensure that required defensive driver training, internal driving skills assessment, and campus driver's permits for required SRC Outdoor Adventures program staff are completed and documentation is retained.

MANAGEMENT RESPONSE

- a. The Outdoor Adventures trip staff was trained on January 17, 2020, on the importance of obtaining proper liability waivers and other required documentation necessary for participation in the trip program. Verification will be sent March 31, 2020.
- b. Beginning in January 2020, the Outdoor Adventures program will begin using CampDoc, an online system, to collect and store records discussed in the recommendation. The SRC Outdoor Adventures program staff will also develop a more formalized review process of ensuring all required documentation has been correctly and sufficiently completed both pre- and post- trip. This process will be implemented by May 31, 2020.

- c. The SRC will require students to provide CSU defensive driving course completion certificates for retention in their employee file. The SRC will also establish a process for obtaining campus driver's permits for the required SRC Outdoor Adventures Program staff and the retention of the documentation. This process will be implemented by May 31, 2020.

3. SEGREGATION OF DUTIES

OBSERVATION

The Children's Center duties and responsibilities related to cash receipts were not adequately segregated.

We found that the Children's Center cashiers, including main and backup cashiers, received and reconciled payments, maintained custody of the payments, and prepared and made departmental deposits. There were no mitigating controls in place, such as independent secondary reviews or verifications to address the lack of proper segregation of duties.

Adequate segregation of duties is an essential internal control that can provide the necessary oversight and review to catch errors and prevent abuse, theft, or fraud.

RECOMMENDATION

We recommend that the campus, in conjunction with the Student Union, adequately segregate duties and responsibilities related to Children's Center cash receipts, or implement appropriate mitigating controls.

MANAGEMENT RESPONSE

We concur. The Children's Center will adequately segregate duties and responsibilities related to cash receipts or implement an appropriate mitigating control. This will be completed by March 31, 2020.

4. CORPORATE GOVERNANCE

OBSERVATION

The Student Union had not appointed an audit committee selected by the BOD, established a written charter explaining the roles and responsibilities of the audit committee's members, or maintained audit committee minutes, in accordance with applicable government and corporation codes.

Additionally, the Student Union did not have the composition of BOD members required by its Bylaws, including membership from two long-term unfilled Student Union leadership positions.

An audit committee appointed by the BOD, a written audit charter, and documented audit committee minutes help to ensure compliance with legal mandates and reduce the risk of misunderstandings and legal liability. Proper composition of BOD membership helps to ensure compliance with Student Union Bylaws and helps to ensure that all views are adequately represented.

RECOMMENDATION

We recommend that the campus, in conjunction with the Student Union:

- a. Appoint an audit committee selected by the BOD, establish a written charter explaining the roles and responsibilities of the audit committee members, and maintain audit committee minutes in accordance with legal mandates.
- b. Appoint the necessary BOD members to comply with Student Union Bylaws, or review and update the Student Union Bylaws as needed to address the issue noted above.

MANAGEMENT RESPONSE

We concur. The Student Union Board will work with campus officials and establish a written charter for an audit committee and update the bylaws to address BOD membership. This will be completed by June 12, 2020.

5. RESERVE POLICY

OBSERVATION

The Student Union had not developed a formal BOD-approved reserve policy, as required by the *CSU Auxiliary Organizations Compliance Guide*.

A reserve policy helps to ensure that employees and BOD members are aware of reserve requirements, activities are carried out consistently, and continuity is preserved through any changes in personnel.

RECOMMENDATION

We recommend that the campus, in conjunction with the Student Union, develop and implement a formal BOD approved-reserve policy in accordance with CSU policy.

MANAGEMENT RESPONSE

We concur. The BOD will develop and implement a formal reserves policy to reflect current practices in conjunction with the chancellor's office reserve policy. This will be completed by June 12, 2020.

6. ESCHEATMENT

OBSERVATION

The campus did not always timely and properly escheat Student Union long-outstanding checks to the state, as required by the Code of Civil Procedure Title 10, *Unclaimed Property*, and Chapter 7, *Unclaimed Property Law*, Article 2, §1510 and §1511.

We found that six unclaimed SRC accounts payable checks totaling \$434 from July 2013 to August 2016 had not been escheated to the state.

Adequate administration of unclaimed property helps ensure regulatory compliance and reduces the likelihood of fines.

RECOMMENDATION

We recommend that the campus timely and properly escheat Student Union long-outstanding checks to the state.

MANAGEMENT RESPONSE

We concur. Management has reviewed the requirements for reporting unclaimed property and have incorporated the State Controller's Office reporting guidelines and processes into our internal reporting checklists. Due diligence letters for the six checks in question have been sent. This process will be fully implemented by March 31, 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 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, Bakersfield (CSUB) has four separate auxiliary organizations, each of which provides a function that contributes to the educational mission of the university. The Student Union is a nonprofit corporation that houses a variety of organizations and offices that benefit the campus by serving students, staff, and faculty. The Student Union operates the SRC facilities, including the playing fields and Challenge Course facility, which are intended to encourage student development, improve student life, and provide a variety of activities

and programs. In addition, the Student Union manages facilities and space around the Student Union for meetings and a variety of events and operates the campus Children's Center. A BOD composed of representatives from the student body, university administration, and alumni governs the Student Union.

SCOPE

We visited the CSUB campus and the Student Union from October 28, 2019, through December 5, 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 Student Union. The audit focused on procedures in effect from July 1, 2017, to December 5, 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 conflicts of interest, reserve provisions, budget, cost reimbursement, timely and proper execution of contractual agreements and memoranda of understanding, and risk management practices, as applicable.
- Internal controls and segregation of duties over fiscal administration of areas such as cash receipts, accounts receivables, property and equipment, procurement, disbursements, and personnel, as applicable.
- Auxiliary enterprise unit administration, including, but not limited to, SRC programs (Outdoor Adventures and Challenge), and a limited review of the Children's Center.

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 Student Union operations. Our review was limited to gaining reasonable assurance that essential elements of the Student Union operations were in place and did not examine all aspects of the program. Specifically, our review of the Children's Center was focused to transactions and activities beginning July 1, 2019, when management of the Children's Center was moved under the Student Union from the California State University, Bakersfield Auxiliary for Sponsored Programs Administration.

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:

- Government Code §12586 (e)
- Code of Civil Procedures §1510 and §1511
- Education Code §89720
- Education Code §89756
- Education Code §89900
- Education Code §89904
- Corporation Code §5215
- 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 1041, *California State University Student Travel*
- EO 1051, *California State University Use of Approved Waiver of Liability*
- 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*
- ICSUAM §13680.00, *Placement and Control of Receipts for Campus Activities and Programs*
- Technical Letter RM 2012-01, *CSU Insurance Requirements*
- CSUB Cash Handling Policy
- CSUB Risk Management Policies and Procedures
- CSUB Student Union Bylaws

AUDIT TEAM

Audit Manager: Joanna McDonald
Senior Auditor: Marcos Chagollan