

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

July 1, 2022

Dr. Gayle E. Hutchinson, President
California State University, Chico
400 W. First Street
Chico, CA 95929

Dear Dr. Hutchinson:

Subject: Audit Report 21-09, Chico State Enterprises, California State University, Chico

We have completed an audit of *Chico State Enterprises* as part of our 2021-2022 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: Jolene Koester, Interim Chancellor
Lateefah Simon, Chair, Committee on Audit
Yammilette Rodriguez, Vice Chair, Committee on Audit

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CHICO STATE ENTERPRISES

California State University, Chico

Audit Report 21-09
July 1, 2022

EXECUTIVE SUMMARY

OBJECTIVE

The objectives of the audit were to confirm compliance with regulatory requirements for the establishment and governance of auxiliary organizations and the post-award activities for sponsored programs; ascertain the effectiveness of operational, administrative, and financial controls for the activities conducted by Chico State Enterprises (CSE); 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 CSE as of April 14, 2022, taken as a whole, provided reasonable assurance that risks were being managed and objectives were met.

Auxiliary Functions

In general, we noted that CSE had an appropriate framework for the administration of the auxiliary; however, we identified a few areas needing improvement. We found that the CSE university farm had not fully established cash receipting controls and that certain duties and responsibilities related to cash receipts were not adequately segregated. In addition, CSE did not have written policies and procedures for maintenance of the vendor master file (VMF).

Sponsored Programs Post-Award

Overall, we found that CSE had an appropriate framework for sponsored programs administration. However, we found that CSE policies did not address the timeliness of effort report preparation and certification and that documentation of principal investigator (PI) COI training records was not always maintained.

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

OBSERVATIONS, RECOMMENDATIONS, AND RESPONSES

Auxiliary Functions

1. CASH-HANDLING ACTIVITIES

OBSERVATION

CSE cash-handling policies and procedures were incomplete, and the university farm practices did not always comply with existing procedures or sound business practices. This is a repeat observation from the 2015 Auxiliary Organizations audit.

We reviewed CSE policies and procedures and reviewed two cash-handling locations (CSE Administration and the meats lab on the university farm). We found that:

- CSE cashiering policies, consisting of a series of informal desktop procedures and a draft accounting manual, were incomplete. Specifically, the policies did not address segregation of duties, opening and close-out procedures, or monitoring of overages and returned items. Additionally, cashiering policies did not address the maintenance of lists detailing the location of safes in CSE venues and the individuals with access to those safes, the frequency with which safe combinations must be updated, and the dates on which the combination was changed.
- The university farm meats lab location had not established cash-receipting controls and did not have appropriate segregation of duties. We found that the administrative assistant at the university farm collected payments, prepared the daily deposit without validation from a supervisor or manager, recorded the daily deposits in the One Solution system, and delivered the deposit to the bank without dual custody. Additionally, cash overages and shortages were not communicated or followed up on; discrepancies were logged, but otherwise were just incorporated into the daily deposit, and no further action was taken. Further, although there was a check log available, check logs had not been completed. Cash sales in the meats lab for the period under review (July 2020 to December 2021) were \$100,753. The overages and shortages for that timeframe were a net overage of \$2,806.
- The university farm used a stand-alone cash register instead of a point-of-sale device, and controls to enhance cashier accountability needed improvement. Access to the cash register was not limited, and any user could process a sale or return transaction without oversight. Further, there was no documentation maintained to verify that the starting change funds were validated at the open and close of each shift; instead, the change funds were validated weekly by the administrative assistant, without the cashiers present.
- Cashiering training at the university farm was not formalized and documented. We found that cashiering training for new cashiers was provided informally, content was not standardized, and training records were not maintained.

Appropriate administration of cash handling and compliance with cash-handling policies and procedures helps to reduce exposure to risk related to loss, theft, or misappropriation of funds.

RECOMMENDATION

We recommend that the campus, in conjunction with CSE:

- a. Update cashiering policies and procedures to address the topics noted above.
- b. Establish appropriate cash-receipting controls, including appropriate segregation of duties and proper oversight, at the university farm retail location, ensuring that the policies are customized to address the less-automated methods used at the shop.
- c. Develop and implement comprehensive and standardized cashier training, and maintain evidence of training.

MANAGEMENT RESPONSE

We concur. CSE will:

- a. Update cashiering policies and procedures to address the topics noted above.
- b. Establish appropriate cash-receipting controls, including appropriate segregation of duties and proper oversight, at the university farm retail location, ensuring that the policies are customized to address the less-automated methods used at the farm retail location.
- c. Develop and implement comprehensive and standardized cashier training and maintain evidence of training.

Completion date: December 7, 2022

2. VENDOR MASTER FILE

OBSERVATION

CSE did not have written policies and procedures outlining the processes for set-up and maintenance of vendor files.

CSE described procedures for vendor master file (VMF) creation and maintenance, including use of the standard Payee Data Record Form 204 (PDR) to establish vendors, independent verification, and segregation of duties. However, CSE did not have written policies and procedures regarding the set-up and maintenance of vendor records, which required us to rely on verbal descriptions of the process for our review.

Formal policies and procedures help to ensure that roles, responsibilities, and requirements for staff are clearly defined and ensures a consistent process for the

establishment of vendor records and proper monitoring to ensure that changes are valid.

RECOMMENDATION

We recommend that the campus, in conjunction with CSE, develop and implement comprehensive written policies and procedures for the VMF maintenance process, communicate these policies and procedures to appropriate CSE personnel, and provide training on the updated procedures.

MANAGEMENT RESPONSE

We concur. CSE will develop and implement comprehensive written policies and procedures for the maintenance of Vendor Master Files, communicate the policies and procedures to appropriate CSE personnel and provide training to appropriate CSE staff on the updated procedures.

Completion date: December 7, 2022

Sponsored Programs – Post Award

3. EFFORT REPORTING POLICY AND PROCEDURES

OBSERVATION

Administration of effort reporting needed improvement.

We found that effort reporting policies and procedures did not fully address timeliness and deadlines for the preparation and certification of effort reports. Policies did state that PIs must certify their time by a date stated in the effort report email delivery. However, they did not address deadlines for the grant management department’s preparation or delivery of the reports to the PIs and other individuals working on the project.

We reviewed fall 2021 effort certificates for five PIs and found that effort reports had not yet been certified; the emails containing the draft effort reports and request for certification were not sent until April 14, 2022, which was 118 days after the end of the fall semester. Although there are no specific deadlines regarding the preparation of effort reporting information, delays have downstream implications with project closeout or cost transfers, depending on sponsor requirement.

Accurate effort reporting decreases exposure to noncompliance with California State University (CSU) and federal regulations, and potential financial consequences as a result.

RECOMMENDATION

We recommend that the campus, in conjunction with CSE, update CSE effort reporting policies and procedures to address when effort reports should be approved and by whom, and a required timeframe for preparation and submission of the effort reports.

MANAGEMENT RESPONSE

We concur. CSE will update CSE effort reporting policies and procedures to address when effort reports should be approved and by whom along with a required timeframe for the preparation and submission of the effort reports.

Completion date: December 7, 2022

4. CONFLICT-OF-INTEREST TRAINING

OBSERVATION

Administration of conflict-of-interest (COI) training needed improvement.

We reviewed COI policies and procedures and related training documentation for eight sponsored projects, and we found that COI training for two projects did not meet the requirements. CSE could not provide a copy of the training certificate for one PI, and training was significantly outdated, last taken in 2012, for another PI.

Adequate administration of required training decreases the risk of noncompliance with governmental requirements and possible regulatory scrutiny.

RECOMMENDATION

We recommend that the campus, in conjunction with CSE, review and update its processes to ensure that PIs complete COI training.

MANAGEMENT RESPONSE

We concur. CSE will review and update its processes to ensure that PI's complete the COI training.

Completion date: December 7, 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, Chico (Chico State) campus has three separate auxiliary organizations, each of which provides a function that contributes to the educational mission of the university. The CSU, Chico Research Foundation (Research Foundation) was incorporated as a non-profit public benefit corporation in 1997 following a reorganization of the responsibilities of the University Foundation. The Research Foundation was reorganized and renamed Chico State Enterprises (CSE) in June 2019. At that time, CSE assumed responsibility for all phases of grants and contracts administration for the campus and

continued to support entrepreneurial activities. It is governed by a board of directors consisting of campus administration, faculty, a student, and members of the community. The CSE chief executive officer reports to the board of directors with regard to the administration of CSE activities and to university administration with regard to adherence to campus policy.

SCOPE

Due to temporary operating procedures and limitations resulting from the COVID-19 public health emergency, we performed testwork remotely from January 10, 2022, through April 1, 2022. 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 CSE. The audit focused on procedures in effect from July 1, 2020, to April 14, 2022.

For CSE operations, we reviewed and tested:

- Timely and proper execution of agreements, contracts, and memorandums 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 receivable, property and equipment, procurement, disbursements, and personnel and payroll.
- Auxiliary enterprise unit administration, including, but not limited to, athletic event ticket sales, sports camps, and facility rentals.

For sponsored programs post-award activities, we reviewed and tested:

- Post-award administration and organization, including clear lines of organizational authority and responsibility, and current and comprehensive policies and procedures.
- Policies and procedures related to conflict-of-interest disclosure and training requirements.
- Controls surrounding risk assessment and monitoring of sub-recipients in accordance with CSU, federal, and sponsor requirements.
- Fiscal administration, including the financial systems and controls in place to ensure that costs charged to sponsored programs are allowable, allocable, and reasonable and accurately reported in financial statements, and that projects are closed out timely and in accordance with sponsor requirements.
- Processes to ensure that effort reporting certifications encompass sponsored and all other activities and are accurate, timely, and properly supported.

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 CSE. Our review was limited to gaining reasonable assurance that essential elements of the CSE program 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; and 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:

- Code of Federal Regulations (CFR) Title 2, Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*
- *NIH Grants Policy Statement*
- *NSF Proposal and Award Policies and Procedures Guide*
- Education Code (EC) §89900
- EC §89904
- 5 CCR §42401, *Declaration of Policy*
- 5 CCR §42402, *Authority of Campus President*
- 5 CCR §42500, *Functions of Auxiliary Organizations*
- ICSUAM §1301.00, *Hospitality, Payment or Reimbursement of Expenses*
- ICSUAM §11000, *Sponsored Programs Administration*
- EO 1059, *Utilization of Campus Auxiliary Organizations*
- Coded memorandum Human Resources (HR) 2015-05, *Principal Investigators – Nongovernmental*
- HR 2018-02, *Ethics Regulations and COI Code Training*
- *CSU Auxiliary Organizations Compliance Guide*
- *CSU Auxiliary Organizations Sound Business Practices Guidelines*
- *CSE Accounting Manual*
- *CSE Property Policy*
- *CSE Effort Reporting Policy*
- *CSE Conflict of Interest Grants and Contracts*

AUDIT TEAM

Senior Audit Manager: Ann Hough
 Senior Auditor: Cinthia Santamaria