

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

August 2, 2022

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 21-23, Corporation, California State University San Marcos**

We have completed an audit of the *Corporation* 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

**CSU Campuses**

Bakersfield • Channel Islands • Chico • Dominguez Hills • East Bay • Fresno • Fullerton • Humboldt • Long Beach • Los Angeles • Maritime Academy • Monterey Bay  
Northridge • Pomona • Sacramento • San Bernardino • San Diego • San Francisco • San José • San Luis Obispo • San Marcos • Sonoma • Stanislaus

**CORPORATION**

**California State University San Marcos**

Audit Report 21-23  
August 2, 2022

## **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 San Marcos Corporation (Corporation); 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, the operational, administrative, and financial controls for the Corporation as of June 3, 2022, taken as a whole, provided reasonable assurance that risks were being managed and objectives were met.

Overall, we found that the Corporation had an effective framework for the administration of the auxiliary that generally aligned with systemwide, state, federal, and campus requirements. However, we identified one opportunity for improvement relating to documentation of the separation process.

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

## **OBSERVATIONS, RECOMMENDATIONS, AND RESPONSES**

### **1. SEPARATION PROCESS**

#### **OBSERVATION**

Documentation of the separation process needed improvement.

We noted that Corporation human resources and payroll services (HR) had stopped completing its standard printed termination checklist for separated employees during our audit scope period due to the COVID-19-related campus shutdown. HR indicated that the checklist was still used as a reference during the separation process; however, in lieu of completing the standard printed form, confirmation was documented using email messages and other electronic processes such as the separation Employee Status Page (ESP) and Person of Interest (POI) processes that are submitted via the campus MyCSUSM application. In the absence of a uniform record such as a written termination checklist, it was difficult to confirm whether completion of the steps on the checklist occurred or were consistently applied. As a result, for eight out of ten separated employees we reviewed, we were unable to confirm that steps in the employee clearance process were timely completed, such as return of equipment, keys and other items.

A documented process to ensure timely completion of all required steps in the separation process provides assurance that physical and information assets are protected and decreases exposure to potential loss or legal liability.

#### **RECOMMENDATION**

We recommend that the campus, in conjunction with the Corporation, update the process to document and verify that all activities required during the separation process have been timely completed.

#### **MANAGEMENT RESPONSE**

We concur. The campus will, in conjunction with the Corporation, update the process to document and verify that all activities required during the separation process have been timely completed.

Estimated completion date: December 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.

CSUSM has three separate auxiliary organizations, each of which provides a function that contributes to the educational mission of the university. The Corporation is a nonprofit entity that operates as an auxiliary organization whose primary function is to manage, operate, or administer housing, externally funded projects, real property acquisition and development, and commercial services. The Corporation is governed by a 13-member board of directors consisting of university administration, community members, faculty, alumni, and students.

## SCOPE

Due to temporary operating procedures and limitations resulting from the COVID-19 public health emergency, we performed fieldwork remotely with limited on-site visits as needed from April 4, 2022, through June 3, 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 the Corporation. The audit focused on procedures in effect from July 1, 2020, to June 3, 2022.

Specifically, we reviewed and tested:

- Corporate governance, including compliance with education, government, and corporation codes.
- 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, and a limited review of investments and long-term debt.
- Auxiliary enterprise unit administration and outsourced commercial operations including, but not limited to the bookstore, childcare center, campus food service, student housing, and campus program accounts.
- Sponsored programs post-award administration, including conflict-of-interest disclosures and fiscal processes surrounding allowable costs, effort reporting, sub-recipient monitoring, cost sharing and project close-out.

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 Corporation operations. Our review was limited to gaining reasonable assurance that essential elements of the Corporation 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:

- Code of Federal Regulations (CFR) Title 2, Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*
- 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 (EC) §89720
- EC §89756
- EC §89900
- EC §89904
- EO 1059, *Utilization of Campus Auxiliary Organizations*
- ICSUAM §1301.00, *Hospitality, Payment or Reimbursement of Expenses*
- ICSUAM §8000, *Information Security*
- ICSUAM §11000, *Sponsored Programs Administration*
- ICSUAM §13680.00, *Placement and Control of Receipts for Campus Activities and Programs*
- Coded memorandum Human Resources 2015-05, *Principal Investigators – Nongovernmental*
- CSU Auxiliary Organizations Compliance Guide
- CSU Auxiliary Organizations Sound Business Practices Guidelines
- CSUSM University Procard Manual
- CSUSM Finance & Administrative Services Accounts Receivable Procedures
- CSUSM Corporation Hospitality Policy
- CSUSM Corporation Delegation of Authority Policy
- CSUSM Corporation Procurement Policy
- CSUSM Corporation Separation Procedures
- CSUSM Corporation Sponsored Projects Administration Handbook

## AUDIT TEAM

Senior Audit Manager: Joanna McDonald

Senior Auditor: Kyle Ishii