

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

August 19, 2022

Mr. Framroze M. Virjee, President  
California State University, Fullerton  
800 N. State College Boulevard  
Fullerton, CA 92834

Dear Mr. Virjee:

**Subject: Audit Report 21-25, Auxiliary Services Corporation, California State University, Fullerton**

We have completed an audit of the *Auxiliary Services 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

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**AUXILIARY SERVICES CORPORATION**

**California State University,  
Fullerton**

Audit Report 21-25  
August 19, 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 Auxiliary Services Corporation (ASC) at California State University, Fullerton (CSUF); 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 ASC as of June 14, 2022, taken as a whole, provided reasonable assurance that risks were being managed and objectives were met.

In general, we noted that ASC had an appropriate administrative framework; however, we identified several areas that needed improvement. For example, we found that ASC did not have policies and procedures to periodically audit sales commissions, and that these commissions were not always accurate. Additionally, we found that commission payments were not timely paid to the campus athletics department. We also found that property inventory records were not always accurate or retained, and policies and procedures for this area were not comprehensive. Furthermore, we noted issues in cash-handling processes, including documented review and follow-up of cash overages and shortages, timely deposits, and safe access logs.

In addition, we found that ASC was not in full compliance with systemwide policy regarding documented user-access reviews of its financial system, One Solution. Also, several policies and procedures were outdated and did not align with current processes, and there were issues with the timeliness of campus department travel expense claim submissions and contract execution. ASC also had not formally documented its audit charter, and annual conflict-of-interest (COI) statements were not always completed by all board members.

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

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

### **1. DINING SERVICES**

#### **OBSERVATION**

Processes surrounding commission receipts and payments in dining services needed to be strengthened, and certain policies and procedures had not been developed.

Specifically, we found that written policies and procedures had not been developed to periodically audit sales commissions to ensure that commission receipts were made in accordance with contractual requirements. We reviewed commissions for four entities, and we found that for one vendor, commission receipts were not calculated based on the agreed-upon 17 percent commission rate stated in the agreement. Instead, they were calculated at 16.26 percent, due to the fact that the vendor had two locations with different commission rates. As a result, the commission received by ASC was understated by approximately \$1,500.

We also found that ASC had not paid monthly commission payments for concessions of approximately \$25,000 for fiscal year (FY) 2021/22 in accordance with a memorandum of understanding (MOU) with the campus athletics department. ASC indicated that it thought the payments were to be made on an annual basis instead of monthly, and at the time of the audit, ASC was evaluating May sales to pay the commission payments owed for FY 2021/22.

In addition, we found that ASC had not developed written policies and procedures related to opening and closing processes for dining sales, or for management oversight of inventory receiving and return processes.

Periodic reviews of sales commissions help to ensure that commission payments and commission receipts are accurate, and policies and procedures provide guidance and improve operations compliance.

#### **RECOMMENDATION**

We recommend that the campus, in conjunction with ASC:

- a. Develop and implement written policies and procedures that address periodic audits of sales commissions to ensure that vendor commissions receipts are calculated in accordance with contractual requirements; opening and closing processes for dining sales; and management oversight of inventory receiving and returns.
- b. Determine the concessions commission for athletics for FY 2021/22 and provide payment to the athletics department, and implement a process to ensure that future concessions commission payments are paid timely in accordance with contractual requirements.
- c. Communicate and distribute the new policies and procedures to appropriate ASC staff.

#### **MANAGEMENT RESPONSE**

We concur. The campus, in conjunction with ASC, will:

- a. Develop and implement written policies and procedures that address periodic audits of sales commissions to ensure that vendor commissions receipts are calculated in accordance with contractual requirements; opening and closing processes for dining sales; and management oversight of inventory receiving and returns.
- b. Determine the concessions commission for athletics for FY 2021/22 and provide payment to the athletics department and implement a process to ensure that future concessions commission payments are paid timely in accordance with contractual requirements.
- c. Communicate and distribute the new policies and procedures to appropriate ASC staff.

The anticipated date of completion is October 31, 2022.

## 2. PROPERTY AND EQUIPMENT

### OBSERVATION

Administration of property and equipment needed improvement to ensure that inventory records were accurate and retained, and that policies and procedures were comprehensive.

We reviewed 15 assets disposed or transferred during the audit period and found that:

- Two assets that were disposed were not updated timely in the Fixed Asset module of ASC's accounting software, One Solution. These assets were disposed in 2017 and 2019 and were still included in the physical inventory report dated April 2021.
- Four assets were transferred to the IT storage approximately four years ago, and the new location of the assets was not updated in the Fixed Asset module within One Solution.

We also found that the annual physical inventory documentation retained by ASC did not clearly indicate whether the inventory was independently validated by someone other than the custodian, although ASC stated that it was verified by financial services. Additionally, three of the 33 pages of the 2021 annual physical inventory were not retained. The ASC *Fixed Asset* policy did not address retention of inventory records. Further, ASC policies and procedures did not address lost or stolen assets.

Proper administration of property and equipment decreases the risk that assets may be lost, stolen, or misrepresented in the financial statements.

### RECOMMENDATION

We recommend that the campus, in conjunction with ASC:

- a. Review and update current processes to ensure that asset disposals and transfers are updated timely in One Solution, and that the independent validation of physical inventory is documented.

- b. Review and update policies and procedures to address retention of inventory records and lost or stolen assets.
- c. Communicate and distribute the updated policies and procedures to appropriate ASC staff.

**MANAGEMENT RESPONSE**

We concur. The campus, in conjunction with ASC, will:

- a. Review and update current processes to ensure that asset disposals and transfers are updated timely in One Solution, and that the independent validation of physical inventory is documented.
- b. Review and update policies and procedures to address retention of inventory records and lost or stolen assets.
- c. Communicate and distribute the updated policies and procedures to appropriate ASC staff.

The anticipated date of completion is October 31, 2022.

**3. CASH HANDLING**

**OBSERVATION**

Administration of cash-handling processes needed improvement.

We noted that:

- ASC did not have written policies and procedures that addressed management review and follow-up of cash overages or shortages. We reviewed 10 cash overages or shortages and found that in three instances, supporting documentation was not maintained to demonstrate that the overage or shortage was adequately researched. These instances ranged from a shortage of \$237.97 to an overage of \$225.20. ASC indicated that the follow-up was completed by the supervisor and was verbally discussed with the employees.
- Of the 21 campus department deposits we reviewed, five were not deposited to the ASC cashier office timely. We noted that deposits were provided to the ASC cashier office up to one month after the funds were received; however, the *ASC Cash/Check Handling Policy* requires that deposits be made weekly or when they accumulate to \$500, whichever comes first.
- For six of eight safes reviewed, the combination or access code had not been changed within the past two years, or safe access logs were not maintained. The safe access code and combination should be changed periodically or when the employment of staff with access to the safe is terminated. Additionally, during a walkthrough of four locations, we

noted that the safe in the Titan Shops, which has a \$500 change fund, was unlocked. However, the safe was in an office that requires an access code to enter.

Compliance with cash-handling requirements helps to reduce exposure to risk related to loss, theft, or misappropriation of funds.

**RECOMMENDATION**

We recommend that the campus, in conjunction with ASC:

- a. Update cash-handling policies and procedures to address documented management review and follow-up of cash overages and shortages.
- b. Recommunicate cash-handling policies and procedures to personnel involved in cash-handling activities to reiterate key procedures, including timely providing deposits to the ASC cashier office and safeguarding of funds.
- c. Document and implement a process to change safe access codes or combinations periodically or when the employment of staff with access to the safe is terminated.

**MANAGEMENT RESPONSE**

We concur. The campus, in conjunction with ASC, will:

- a. Update cash-handling policies and procedures to address documented management review and follow-up of cash overages and shortages.
- b. Recommunicate cash-handling policies and procedures to personnel involved in cash-handling activities to reiterate key procedures, including timely providing deposits to the ASC cashier office and safeguarding of funds.
- c. Document and implement a process to change safe access codes or combinations periodically or when the employment of staff with access to the safe is terminated.

The anticipated date of completion is November 30, 2022.

**4. SYSTEM ACCESS REVIEW**

**OBSERVATION**

Administration of user access for systems used by ASC needed improvement.

We found that reviews of user-access roles and permissions within ASC’s primary financial system, One Solution, were informal, performed on an ad-hoc basis, and not documented annually as required by systemwide policy. However, we confirmed that all current One Solution system users as of May 2022 were active employees with appropriate access, and that terminated ASC employees did not have access.

In addition, during our review of the Micros system used by dining services, we noted that 23 users who had been terminated between August 2021 and January 2022 were still on the active user listing provided during the audit.

*CSU Information Security Policy and Standards* states that campuses must develop procedures to detect unauthorized access and privileges assigned to authorized users that exceed the required access rights needed to perform their job functions. Appropriate campus managers and data owners must review, at least annually, user-access rights to information assets containing Level 1 or Level 2 data. The results of the review must be documented.

Documented periodic review of user-access privileges for systems containing protected data and removal of terminated employees from systems reduces the risk of unauthorized access and helps to ensure compliance with CO regulatory security requirements.

#### **RECOMMENDATION**

We recommend that the campus, in conjunction with ASC:

- a. Develop and implement policies and procedures to document annual user-access reviews of the One Solution system.
- b. Review current user listings for the Micros system used by dining and remove access for any terminated employees.

#### **MANAGEMENT RESPONSE**

We concur. The campus, in conjunction with ASC, will:

- a. Develop and implement policies and procedures to document annual user-access reviews of the One Solution system.
- b. Review current user listings for the Micros system used by dining and remove access for any terminated employees.

The anticipated date of completion is September 30, 2022.

## **5. FINANCIAL ADMINISTRATION**

#### **OBSERVATION**

Timely submission of travel expenditures and execution of contracts needed improvement.

We reviewed 15 campus department travel expenses and found that five were not submitted to ASC timely. These expenses were submitted between two months and a year and a half after the travel had occurred.

In addition, we reviewed 10 contracts and found that two were not executed timely, with signatures dated from two to 11 months after the effective date of the contract.

Timely submission of travel expense claims forms decreases the risk of unauthorized, unnecessary, or non-business expenditures, and timely execution of contracts decreases the risk of misunderstandings and ensures that both parties are held accountable to the terms of the agreement.

**RECOMMENDATION**

We recommend that the campus, in conjunction with ASC:

- a. Communicate to appropriate personnel the requirements to submit travel expense claims timely.
- b. Develop and implement a documented process to ensure that contracts are timely executed.

**MANAGEMENT RESPONSE**

We concur. The campus, in conjunction with ASC, will:

- a. Communicate to appropriate personnel the requirements to submit travel expense claims timely.
- b. Develop and implement a documented process to ensure that contracts are timely executed.

The anticipated date of completion is October 31, 2022.

**6. POLICIES AND PROCEDURES**

**OBSERVATION**

Several ASC policies and procedures had not been timely reviewed or updated, or did not reflect current ASC processes.

We found that of approximately 58 ASC policies, 34 had not been reviewed within the past three years. In addition, we reviewed several ASC policies and procedures, and we found that:

- ASC had two record retention policies, and the most recent one, dated May 23, 2019, did not align with various areas of the CSU retention policy. For example, the ASC *Record Retention* policy requires grievance, litigation, and complaints to be maintained for five years, while the CSU policy requires them to be retained for 10 years.
- The ASC *Check Signing Authority* contained outdated information and did not reflect current processes. Additionally, the system-generated listing showing projects and authorized signers that was provided at the time of the audit was not updated and still included the name of the former campus vice president for administration and finance.

Complete and updated policies and procedures can provide guidance and improve operational compliance.

**RECOMMENDATION**

We recommend that the campus, in conjunction with ASC:

- a. Establish a process to periodically review and update policies and procedures to ensure they are comprehensive and accurate and reflect current practices.
- b. Review and update the record retention policy, check signing authority policy, and listing of authorized project signers.
- c. Communicate and distribute the updated policies and procedures to appropriate ASC and campus administrators and staff.

**MANAGEMENT RESPONSE**

We concur. The campus, in conjunction with ASC, will:

- a. Establish a process to periodically review and update policies and procedures to ensure they are comprehensive and accurate and reflect current practices.
- b. Review and update the record retention policy, check signing authority policy, and listing of authorized project signers.
- c. Communicate and distribute the updated policies and procedures to appropriate ASC and campus administrators and staff.

The anticipated date of completion is November 18, 2022.

**7. GOVERNANCE**

**OBSERVATION**

ASC had not formally documented its audit charter, and annual conflict-of-interest (COI) statements were not always completed by all board members.

Specifically, we found that:

- A formal written audit charter had not been established. We found that the current practice was to document audit committee responsibilities in the board of directors (BOD) meeting minutes when audit committee members were appointed. However, we reviewed BOD meeting minutes and noted that in one of three instances where a new audit committee member was appointed, audit committee responsibilities were not documented in the minutes, and it was unclear whether they were communicated to the new member.

- Annual COI statements were not completed by three of the 22 board members for FY 2020/21. However, we noted that all FY 2021/22 COI statements were obtained from all board members.

A written audit charter helps to ensure that roles and responsibilities are clearly understood, and obtaining annual COI statements from all board members provides greater assurance of transparency and ethical behavior on the part of the board.

#### **RECOMMENDATION**

We recommend that the campus, in conjunction with ASC:

- a. Establish a formal written audit charter explaining the roles and responsibilities of the audit committee members, composition of the audit committee, and frequency of required audit committee meetings.
- b. Document and implement a process to track and monitor the completion of COI forms by all board members.

#### **MANAGEMENT RESPONSE**

We concur. The campus, in conjunction with ASC, will:

- a. Establish a formal written audit charter explaining the roles and responsibilities of the audit committee members, composition of the audit committee, and frequency of required audit committee meetings.
- b. Document and implement a process to track and monitor the completion of COI forms by all board members.

The anticipated date of completion is 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 (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.

CSUF has three separate auxiliary organizations, each of which provides a function that contributes to the educational mission of the university. The ASC 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, and commercial services. The ASC is governed by a board of directors consisting of university administrators, community members, faculty, alumni, and students.

## SCOPE

We performed fieldwork from April 11, 2022, through June 14, 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 ASC. The audit focused on procedures in effect from July 1, 2020, to June 14, 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.
- Commercial operations, such as the bookstore, dining, and property management 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 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:

- California Code of Regulations (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
- RFIN 7-81-4
- EO 1059, *Utilization of Campus Auxiliary Organizations*
- ICSUAM §1301.00, *Hospitality, Payment or Reimbursement of Expenses*
- ICSUAM §8000, *Information Security*
- ICSUAM §13680.00, *Placement and Control of Receipts for Campus Activities and Programs*
- CSU *Auxiliary Organizations Compliance Guide*
- CSU *Auxiliary Organizations Sound Business Practices Guidelines*
- *ASC Accounts Receivable*
- *ASC Cash/Check Handling*
- *ASC Campus Program Handbook*
- *ASC Campus Program Procedure*
- *ASC Employee Handbook*
- *ASC Fixed Assets*
- *ASC Hospitality*
- *ASC Purchasing*
- *ASC Retention Records*
- *ASC Titan Shops – Cashier Manual*

## AUDIT TEAM

Senior Audit Manager: Joanna McDonald  
Senior Auditor: Alexandra Gonzalez