

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

August 24, 2023

Dr. Adela de la Torre
San Diego State University
5500 Campanile Drive
San Diego, CA 92182

Dear Dr. de la Torre:

Subject: Audit Report 22-08, Aztec Shops, Ltd., San Diego State University

We have completed an audit of *Aztec Shops, Ltd.* as part of our 2022-2023 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
Yammilette Rodriguez, Chair, Committee on Audit
Jean Picker Firstenberg, Vice Chair, Committee on Audit

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AZTEC SHOPS, LTD.

San Diego State University

Audit Report 22-08
August 24, 2023

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 Aztec Shops, Ltd. (Aztec Shops) at San Diego State University (SDSU); 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 Aztec Shops as of June 2, 2023, taken as a whole, provided reasonable assurance that risks were being managed and objectives were met.

In general, we noted that Aztec Shops had an appropriate administrative framework; however, we identified some areas that needed improvement. We found that although vendor information was verified and authenticated before payments are disbursed, Aztec Shops was not performing periodic reviews of the vendor master file to remove dormant vendors, identify duplicate vendors, and review for unauthorized changes to vendor information. We also identified some inconsistencies with conference and catering service contracts and the administration of Aztec Shops travel. We further noted that some food-handler exams were not always administered in accordance with county requirements, and Aztec Shop policies and procedures relating to procurement and travel did not address all necessary areas.

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

OBSERVATIONS, RECOMMENDATIONS, AND RESPONSES

1. VENDOR MASTER FILE

OBSERVATION

Aztec Shops did not regularly perform maintenance and review of the vendor master file.

In our review, we found that although vendor information was verified and authenticated before payments were disbursed, Aztec Shops had not performed a documented periodic review of the vendor master file to purge dormant vendors and identify duplicate vendors.

Aztec Shops was unable to generate a report or listing from the vendor master file that could be reviewed to determine the existence of duplicate or dormant vendors. Additionally, Aztec Shops was unable to generate a system audit log or audit trail within the current version of the auxiliary accounting system to review changes made to the vendor master file. In discussions with Aztec Shops management, we learned that the auxiliary is considering implementing in the next fiscal year an upgraded version of the accounting system that would allow personnel to view and track all changes made to the vendor master file.

Adequate oversight and regular review of the vendor master file decreases the risk of fraudulent payments and inappropriate modifications to vendor information.

RECOMMENDATION

We recommend that the campus, in conjunction with Aztec Shops:

- a. Evaluate the current accounting system and consult with the vendor to determine whether a vendor listing can be obtained to facilitate a periodic review of the vendor master file, and a system log or audit trail of vendor changes can be generated. If so, update policies and procedures to incorporate these vendor review processes.
- b. If the accounting system cannot generate the necessary vendor reports, review vendor policies and procedures to determine what mitigating controls can be implemented to strengthen vendor review processes, and update processes as necessary.

MANAGEMENT RESPONSE

We concur.

- a. The current accounting system will be evaluated to determine whether a vendor listing can be obtained to facilitate a periodic review of the vendor master file, and whether a system log can be generated. Policies and procedures will be updated to incorporate changes, if any.
- b. If the accounting system cannot generate the necessary vendor reports, then policies and procedures will be reviewed to determine additional mitigating controls to strengthen the vendor review process.

Estimated completion date: April 30, 2024

2. CONFERENCE SERVICES AND CATERING

OBSERVATION

Administration of conference and catering services contracts needed improvement.

We reviewed 20 conference service contracts from January 2021 to March 2023 and found that:

- In two instances, certificates of insurance were not obtained, as the reserving parties were considered to be affiliated parties of the campus and, thus, covered under the university insurance policy. However, Aztec Shops had not maintained documentation regarding the nature of the affiliation between the third parties and the campus. Further, we were unable to confirm the affiliation during our independent review.
- In one instance, an agreement with a campus department for facility use was not supported by a written contract. Per the SDSU *Facility Rental Procedures*, conference services is responsible for establishing agreements for facility use with both non-campus and campus groups.
- In one instance, the conference services contract was not properly executed, as it was not signed by a representative from Aztec Shops.

We also reviewed 10 catering events from January 2021 to March 2023 and noted that in three instances, the catering service contracts were not signed and dated by the client.

Proper administration of catering and conference service contracts decreases the risk of misunderstandings and miscommunication regarding rights and responsibilities, as well as revenue loss, and reduces potential liability for the auxiliary and California State University (CSU).

RECOMMENDATION

We recommend that the campus, in conjunction with Aztec Shops:

- a. Maintain documentation to support the existence and nature of affiliations between third parties and the campus when the determination is made that third parties do not require certificates of insurance.
- b. Ensure that catering and conference service arrangements are appropriately supported with written agreements that are properly executed with signatures and dates from all parties.

MANAGEMENT RESPONSE

We concur.

- a. Documentation will be maintained to support the existence and nature of affiliations between third parties and the campus when the determination is made that third parties do not require certificates of insurance.
- b. The campus, in conjunction with Aztec Shops, will ensure that catering and conference service arrangements are appropriately supported with written agreements that are properly executed.

Estimated completion date: January 27, 2024

3. TRAVEL DISBURSEMENTS

OBSERVATION

Documentation and review of Aztec Shops travel expenditures needed improvement.

We reviewed 12 travel disbursements, and we found that:

- For one business trip that included two of the disbursements we reviewed, the overnight travel pre-approval form documenting advance approval of travel and related expenditures to be incurred was not completed and submitted to the appropriate administrator for approval. For another trip, the overnight travel pre-approval form had missing approval dates. Although this is not a CSU systemwide requirement, Aztec Shops specifically requires employees to complete an overnight travel pre-approval form prior to paying for or booking a business trip as part of its travel expense policy.
- For two business trips that included four of the disbursements reviewed, we found that an employee approved payment of their own travel expenses made on procurement cards. In these cases, expenses were submitted for reimbursement via the procurement card process; however, the expense was made on the procurement card of a subordinate of the traveler. As a result, during the procurement card reconciliation and reimbursement process, the employee for whom the travel was booked approved the final procurement card reconciliation for reimbursement and payment. We confirmed with the supervisors that the expenses were appropriate.

Proper administration of travel decreases the risk of errors, irregularities, and misappropriation of funds.

RECOMMENDATION

We recommend that the campus, in conjunction with Aztec Shops, reiterate auxiliary travel policies to employees, emphasizing the incidents noted above.

MANAGEMENT RESPONSE

We concur. Auxiliary travel policies will be reiterated to employees emphasizing the incidents noted above.

Estimated completion date: December 31, 2023

4. FOOD-HANDLER TRAINING

OBSERVATION

Food-handler examinations were not always administered by certified managers.

Per San Diego County code, employees can earn a food-handler card by passing a County of San Diego food-handler test, which must be administered by a food-safety manager who has passed a state-approved food-safety certification exam. In our review of food-handler training and certifications for 15 employees, we found that two managers who had administered the food-handler exam for two employees did not possess a food-safety certification.

Appropriate oversight and timely administration of employee training ensures that employees are adequately trained and cognizant of related policies and procedures and reduces legal and financial exposure from inappropriate actions.

RECOMMENDATION

We recommend that the campus, in conjunction with Aztec Shops ensure that food-safety managers administering county food-handler tests possess a valid food safety certification.

MANAGEMENT RESPONSE

We concur. The campus, in conjunction with Aztec Shops, will ensure that food-safety managers administering county food-handler tests possess a valid food safety certification.

Estimated completion date: October 31, 2023

5. POLICIES AND PROCEDURES

OBSERVATION

Aztec Shop policies and procedures needed improvement to ensure that they were comprehensive and reflected current practices.

Specifically, we found that:

- Although Aztec Shops had a procurement policy and documented methodology related to the bidding process and sole-source purchases, the policy did not include a requirement to document individual justifications for sole-source purchases. As a result, we found that

documented justifications explaining why only a certain vendor could meet the specific performance requirements for a requested project or service were not maintained for any of the 10 sole-source contracts reviewed. We reviewed the 10 sole-source contracts and all appeared appropriate and within the requirements of the Aztec Shops purchasing policy.

- The Aztec Shops *Travel Expense Policy* did not address international travel, including foreign travel insurance requirements and the expense reimbursement process for transactions made on international trips, or special travel situations such as procedures for cancelled trips. Per confirmation with Aztec Shops management, we found that although international travel occurs infrequently, auxiliary personnel had participated in one international business trip during the audit period.

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

RECOMMENDATION

We recommend that the campus, in conjunction with Aztec Shops:

- a. Develop or update policies to address the areas noted above.
- b. Communicate and distribute the updated policies and procedures to appropriate personnel.

MANAGEMENT RESPONSE

We concur. Policies and procedures will be developed or updated to address the areas noted above and will be communicated and distributed to appropriate personnel.

Estimated completion date: January 27, 2024

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 (EC) §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.

EC §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.

SDSU has four separate auxiliary organizations, each of which provides a function that contributes to the educational mission of the university. Aztec Shops was founded in 1931 and is a nonprofit corporation that provides a diverse portfolio of products and services to the campus, including operation of the SDSU bookstore, SDSU dining, conference services, commercial and real estate property, campus housing, and concessions and on-site spirit stores at Snapdragon stadium. Aztec Shops is governed by a board of directors composed of

representatives from the university and auxiliary administration, faculty, student body, and community.

SCOPE

We performed fieldwork from March 29, 2023, through June 2, 2023. 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 Aztec Shops. The audit focused on procedures in effect from January 1, 2021, to June 2, 2023.

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, 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, and disbursements.
- Bookstore policies and procedures and controls over the Equitable Access Program.
- Dining operations policies and procedures and internal controls such as cash handling, purchasing, inventory, management oversight, and food inspection and food trainings.
- Administration of the conference services program.

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 Aztec Shops operations. Our review was limited to gaining reasonable assurance that essential elements of Aztec Shops 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 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 §89305-07
- EC §89756
- EC §89900
- EC §89903
- EC §89904
- EC §89920-23
- EO 669, *Delegation of Authority to Lease Real Property*
- EO 1000, *Delegation of Fiscal Authority and Responsibility*
- EO 1059, *Utilization of Campus Auxiliary Organizations*
- EO 1069, *Risk Management and Public Safety*
- EO 1088, *Systemwide Guidelines for Affirmative Action Programs in Employment*
- EO 1096, *Interim CSU Policy Prohibiting Discrimination, Harassment, Sexual Misconduct, Sexual Exploitation, Dating Violence, Domestic Violence, Stalking, and Retaliation*
- EO 1109, *Sales, Service, and Advertising of Alcoholic Beverages*
- ICSUAM §1301.00, *Hospitality, Payment or Reimbursement of Expenses*
- ICSUAM §1401.00, *Administration of Student Organizations Funds*
- ICSUAM §3552.01, *Cost Allocation/Reimbursement Plans for the CSU Operating Fund*
- ICSUAM §11000, *Sponsored Programs Administration*
- ICSUAM §13175.00, *Auxiliary Organization External Auditor Firm Qualifications*
- ICSUAM §13680.00, *Placement and Control of Receipts for Campus Activities and Programs*
- ICSUAM §3141.01, *Administration of Student Organization Funds*
- Coded memorandum Academic and Student Affairs 2016-28, *Coordination of External Grant/Scholarships with Financial Aid*
- Coded memorandum Human Resources 2015-05, *Principal Investigators – Nongovernmental*
- *CSU Auxiliary Organizations Compliance Guide*
- *CSU Auxiliary Organizations Sound Business Practices Guidelines*
- *Aztec Shops Accounts Payable Policy*
- *Aztec Shops Accounts Receivable Procedures*
- *Aztec Shops Cash Handling Policy*
- *Aztec Shops Contract Negotiation and Administration Policy*
- *Aztec Shops Dining Policies*
- *Aztec Shops Employee Handbook Policies*
- *Aztec Shops Purchasing Card and Amazon Business Account Program Policy*
- *Aztec Shops Purchasing Policy*
- *Aztec Shops Travel Expense Policy*

AUDIT TEAM

Audit Manager: Kyle Ishii
Senior Auditor: Janaki Nakum