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August 16, 2022

Dr. Stephen Perez, President  
California State University, Chico  
400 W. First Street  
Chico, CA 95929

Dear Dr. Perez:

**Subject: Audit Report 22-10, Associated Students, California State University, Chico**

We have completed an audit of *Associated Students* 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*.

There were no reportable observations revealed during the review. The final audit report has been posted to Audit and Advisory Services' website.

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  
Yamilette Rodriguez, Chair, Committee on Audit  
Jean Picker Firstenberg, Vice Chair, Committee on Audit

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**ASSOCIATED STUDENTS OF CALIFORNIA STATE UNIVERSITY,  
CHICO**

**California State University, Chico**

Audit Report 22-10  
August 16, 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 Associated Students of California State University, Chico (Associated Students); 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 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 Associated Students as of July 6, 2023, taken as a whole, provided reasonable assurance that risks were being managed and objectives were met.

There were no reportable observations revealed during the review.

## 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 California State University (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.

Associated Students was established at California State University, Chico in 1942 as a non-profit public benefit corporation to provide for student self-government; to provide essential activities closely related to but not normally included as a part of CSU regular instructional programs; and to promote the educational effectiveness, academic excellence, and general welfare of the campus. Associated Students is a comprehensive campus auxiliary serving thousands of students, faculty, staff, and community members and is a unique auxiliary in the

CSU system because it operates dining services as well as the student union, recreation, and aquatic centers; an early childhood teaching/learning laboratory; a community legal information center; and student government. Associated Students is governed by a board of directors composed of six annually elected representatives from the student body and three designated directors from the university administration and faculty.

## SCOPE

We performed fieldwork from May 2, 2023, through July 6, 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 Associated Students. The audit focused on procedures in effect from January 1, 2021, to July 6, 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 conflicts of interest, cost allocation, administration of student organization funds and risk management practices.
- Internal controls and segregation of duties over fiscal administration of areas such as cash receipts, procurement, disbursements, and personnel and payroll.
- Outsourced commercial operations, such as the bookstore, Wildcat Recreation Center and dining service contracts.
- Auxiliary dining administration, including, but not limited to, cash receipts, purchasing, inventory, disbursements, catering, and food handling and safety.

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 Associated Students operations. Our review was limited to gaining reasonable assurance that essential elements of Associated Students operations were in place and did not examine all aspects of the organization.

## 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:

- 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*
- *CSU Auxiliary Organizations Compliance Guide*
- *CSU Auxiliary Organizations Sound Business Practices Guidelines*
- *Associated Students Cash Room Procedures*
- *Associated Students Procurement Purchasing AP Policy*
- *Associated Students Accounts Payable Procedures*
- *Associated Students Travel Procedures*
- *Associated Students Dining Services Cash Controls Handling & Counting Retail Guidelines*
- *Associated Students Dining Services Catering Order Procedures*
- *Associated Students Dining Services Purchasing Receiving*

## AUDIT TEAM

Audit Manager: Kyle Ishii  
Senior Auditor: Cinthia Santamaria