

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

April 27, 2023

Dr. Soraya M. Coley, President
California State Polytechnic University, Pomona
3801 W. Temple Avenue
Pomona, CA 91768

Dear Dr. Coley:

**Subject: Audit Report 22-12, Cal Poly Pomona Foundation, Inc.,
California State Polytechnic University, Pomona**

We have completed an audit of the *Cal Poly Pomona Foundation, Inc.* 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
Lateefah Simon, Chair, Committee on Audit
Yammilette Rodriguez, Vice Chair, Committee on Audit

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CAL POLY POMONA FOUNDATION, INC.

California State Polytechnic University, Pomona

Audit Report 22-12
April 27, 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 the Cal Poly Pomona Foundation, Inc. (Foundation); 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 Foundation, as of February 14, 2023, taken as a whole, provided reasonable assurance that risks were being managed and objectives were met.

In general, we found that the Foundation had an appropriate framework for the administration of the auxiliary; however, we identified a few areas related to administration of sponsored projects that needed some improvement. We found that subrecipient monitoring procedures did not fully address how risk is initially assessed for subawards; sponsored programs effort-reporting policies needed to be updated to clarify roles and responsibilities; and travel expenditures did not always comply with Foundation policies and procedures.

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

OBSERVATIONS, RECOMMENDATIONS, AND RESPONSES

1. SUBRECIPIENT MONITORING

OBSERVATION

Policies and procedures for subrecipient monitoring needed to be updated to clearly address initial subrecipient risk assessments and determinations on the required level of monitoring.

Code of Federal Regulations (CFR) Title 2, Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) §200.332, sets forth certain requirements for subrecipient monitoring, including a requirement for an evaluation of each subrecipient's risk of noncompliance with federal statutes, regulations, and terms of conditions of the subaward for the purpose of determining the appropriate subrecipient monitoring to be performed. Factors to be considered include, but are not limited to, the subrecipient's prior experience, results of subrecipient audits, and changes to subrecipient personnel or systems.

We noted that the Foundation uses a subrecipient monitoring form for subrecipients on federal projects to document the tasks that have been completed for the fiscal year, including review of single audit reports and ongoing monitoring of invoices and expenditure documentation for appropriateness and allowability. However, the existing form and subrecipient monitoring policy did not clearly describe how risk is initially assessed and documented, nor did it include criteria to determine the level of risk and monitoring required for each subrecipient. Furthermore, none of the five subrecipient forms reviewed were completed prior to the subaward being fully executed.

Sufficient administration and monitoring of subrecipients decreases the risk of noncompliance with federal requirements and possible regulatory scrutiny and protects the campus, auxiliary organizations, and California State University (CSU) from potential liability.

RECOMMENDATION

We recommend that the campus, in conjunction with the Foundation:

- a. Update Foundation subrecipient monitoring policies and procedures and the subrecipient monitoring form to clearly describe and document how risk is initially assessed, and to include criteria used to determine the level of risk and monitoring required for the subrecipient.
- b. Communicate and distribute the updated policies and procedures to appropriate Foundation and campus administrators and staff.

MANAGEMENT RESPONSE

We concur.

- a. We will update Foundation subrecipient monitoring policies and procedures and the subrecipient monitoring form to clearly describe and document how risk is initially

assessed, and to include criteria used to determine the level of risk and monitoring required for the subrecipient.

- b. We will communicate and distribute the updated policies and procedures to appropriate Foundation and campus administrators and staff.

Expected completion date: June 30, 2023

2. EFFORT REPORTING

OBSERVATION

Foundation policies and procedures addressing effort reporting needed improvement.

Effort reporting is the method used to confirm to sponsors that the effort spent on a sponsored project reasonably reflects the salary and wages charged to that project. CSU employees are primarily paid for work on sponsored programs in one of two ways. One method is release time, which reduces the employee's normal workload by a certain percentage to free up time to work on the research project. In these cases, the university is reimbursed from grant funds for that portion of the salary. The other method is through additional employment, in which the employee retains their normal workload but receives additional pay for time spent outside their normal hours on sponsored project activities. The additional pay amount is charged to the grant budget.

Based on the First Amended Restated Memorandum of Understanding between the Foundation and the campus, the Foundation is responsible for monitoring release time, while the campus is responsible for monitoring additional employment. However, regardless of the method and the parties involved, it is the responsibility of the post-award administrator (the Foundation), in partnership with the campus, to demonstrate comprehensive tracking of effort and to provide supporting documentation for the salaries and wages paid on these projects.

We reviewed seven awards with effort-reporting requirements and asked the Foundation to provide effort certifications for key personnel named in the award budget. For one of these awards, although there were seven senior personnel named in the budget, an effort certification was provided for only one employee. We reviewed correspondence between the Foundation and the program manager and noted that these individuals may have been paid via additional pay instead of release time, and therefore did not have any effort certification sheets. However, we were unable to obtain specific documentation such as employment transaction forms, timesheets, and general ledger detail to substantiate the amounts worked and charged to the grant. We also noted that Foundation policies and procedures were unclear as to who was responsible for initiating and approving additional employment transactions for grants and contracts, how additional employment for grants and contracts was certified and tracked, and how these payments should be documented and retained.

Comprehensive policies addressing effort-reporting responsibilities enhance accountability and decrease exposure to noncompliance with CSU and federal regulations.

RECOMMENDATION

We recommend that the campus, in conjunction with the Foundation, update policies and procedures to better clarify processes and responsibilities for ensuring that additional employment for grants and contracts is appropriately approved, monitored, and documented.

MANAGEMENT RESPONSE

We concur. We will update policies and procedures to better clarify processes and responsibilities for ensuring that additional employment for grants and contracts is appropriately approved, monitored, and documented.

Expected completion date: July 31, 2023

3. EXPENDITURE PROCESSING

OBSERVATION

Administration of grants and contracts expenditures needed improvement.

We reviewed 40 expenditures and found that:

- In one instance, the travel authorization and expense report relating to student travel was not timely completed. Foundation personnel noted that they repeatedly reminded the responsible individual, but no other actions were taken. The form was not completed until February 2021 for an expense that occurred in October 2019.
- For two expenditures related to student travel, the Foundation did not review or retain the *Release of Liability, Promise Not to Sue, Assumption of Risk, and Agreement to Pay Claims* forms as part of the supporting documentation for approval of the expenditure. Per Foundation policy, the forms must be included with the travel authorization form when it is submitted for reimbursement.

In addition, we noted that the Foundation travel policy does not directly address the requirements for student travel using enterprise foundation funds, specifically, whether pre-authorization is required.

Adequate processing and proper review of expenditures decreases the risk that unallowable costs will be incurred and funds will be misused and decreases the risk of noncompliance with CSU and governmental requirements.

RECOMMENDATION

We recommend that the campus, in conjunction with the Foundation:

- a. Update the current travel policy to address the requirements for student travel using enterprise foundation funds and to establish escalation procedures for expenses not submitted in a timely manner.

- b. Clarify and recommunicate to Foundation and appropriate campus staff the requirements and responsibility for completion and retention of the *Release of Liability, Promise Not to Sue, Assumption of Risk, and Agreement to Pay Claims* form.

MANAGEMENT RESPONSE

We concur.

- a. We will update the current travel policy to address the requirements for student travel using enterprise foundation funds and to establish escalation procedures for expenses not submitted in a timely manner.
- b. We will clarify and re-communicate to Foundation and appropriate campus staff the requirements and responsibility for completion and retention of the *Release of Liability, Promise Not to Sue, Assumption of Risk, and Agreement to Pay Claims* form.

Expected completion date: June 30, 2023

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.

The Foundation was established in 1966 as a non-profit public benefit corporation responsible for operation of commercial services in support of the university's educational mission. The Foundation operates the Bronco Bookstore; Kellogg West Conference Center and Hotel; Kellogg House, a venue used for weddings, corporate meetings, and other events; Innovation Village, a research and development environment for public-private partnerships; and dining services, including restaurants, convenience stores, and vending. The Foundation also operates and/or administers sponsored programs, farm and agriculture operations, student

and faculty housing, and various campus program accounts. Further, the Foundation performs accounting and business administration services for all of its operations and for other auxiliary organizations as needed. The Foundation is governed by a board of directors composed of representatives from the community, university administration, faculty, student body, and staff.

SCOPE

We performed fieldwork from October 3, 2022, through February 14, 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 the Foundation. The audit focused on procedures in effect from January 1, 2021, to January 6, 2023.

Specifically, we reviewed and tested:

- Timely and proper execution of agreements, contracts, and memoranda of understanding.
- Fiscal, operational, and program compliance, such as reserve provisions, unrelated business income tax, and conflicts of interest.
- Internal controls and segregation of duties over fiscal administration of areas such as cash receipts, accounts receivables, property and equipment, procurement, and disbursements.
- Sponsored program and grants administration, including preliminary review and risk assessment, fiscal operations, conflict of interest management, effort reporting and subrecipient monitoring.
- Dining services administration, including financial and operational activities at both Foundation-run and vendor restaurants and convenience stores.
- Bookstore operations, including management oversight, cash handling, purchasing and disbursements.

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 Foundation. Our review was limited to gaining reasonable assurance that essential elements at the Foundation 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:

- Code of Federal Regulations (CFR) Title 2, Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*
- Education Code §89720
- Education Code §89756
- Education Code §89900
- Education Code §89904
- CCR, Title 5 §42401, *Declaration of Policy*
- CCR, Title 5 §42402, *Authority of Campus President*
- CCR, Title 5 §42500, *Functions of Auxiliary Organizations*
- RFIN 7-81-4
- EO 1059, *Utilization of Campus Auxiliary Organizations*
- *CSU Auxiliary Organizations Compliance Guide*
- *CSU Auxiliary Organizations Sound Business Practices Guidelines*
- ICSUAM §8000.00, *Information Security*
- ICSUAM §1301.00, *Hospitality, Payment or Reimbursement of Expenses*
- ICSUAM §15000, *University Advancement*
- ICSUAM §13680.00, *Placement and Control of Receipts for Campus Activities and Programs*
- *Grants & Contracts Post Award Project Administration Manual*

AUDIT TEAM

Senior Audit Manager: Ann Hough
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Internal Auditor: Jesse Santos