

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

July 26, 2023

Dr. Saúl Jiménez-Sandoval, President
California State University, Fresno
5241 N. Maple Avenue
Fresno, CA 93740

Dear Dr. Jiménez-Sandoval:

**Subject: Audit Report 22-26, California State University, Fresno Association, Inc.,
California State University, Fresno**

We have completed an audit of the *California State University, Fresno Association, 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
Yammilette Rodriguez, Chair, Committee on Audit
Jean Picker Firstenberg, Vice Chair, Committee on Audit

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CALIFORNIA STATE UNIVERSITY, FRESNO ASSOCIATION, INC.

**California State University,
Fresno**

Audit Report 22-26
July 26, 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 California State University, Fresno Association, Inc. (Association) at California State University, Fresno; 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 Association as of June 14, 2023, taken as a whole, provided reasonable assurance that risks were being managed and objectives were met.

In general, we noted that the Association had an effective framework for the administration and management of the auxiliary that generally aligned with systemwide, state, federal, and campus requirements. Individuals within the various operational units at the Association have years of collective experience, demonstrated knowledge of their areas, and have familiarity with applicable regulatory requirements. However, we identified one area that needed improvement relating to cash overages and shortages that were not reported, researched, and accurately recorded in accordance with Association policy. Association management was receptive to the audit and proactively started to address areas noted during fieldwork.

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

OBSERVATIONS, RECOMMENDATIONS, AND RESPONSES

1. CASH OVERAGES AND SHORTAGES

OBSERVATION

Processes related to cash overages and shortages did not always follow Association policy.

The Association has two cash-handling policies that reference cash overages and shortages, one applicable to the Association as a whole and one specific to University Dining Services. Generally, the Association's policies require that cash overages and shortages of \$5 or more be reconciled and checked by a supervisor, verified by the revenue technician, and reported to the unit director/manager. In addition, record of the overage/shortage should be retained, and the reason for the overage/shortage should be documented in writing.

We reviewed 10 batches of overages/shortages, for a total of 28 transactions, and found that:

- For 10 transactions with a variance over \$5, ranging from an \$8 to \$40 variance, the overage/shortage was not reported to the unit director/manager. For five of these transactions, no explanation for the variance was documented.
- Two transactions were not properly recorded. Overages of \$60 and \$395 were recorded based on the deposit form provided. However, the supporting reconciliation sheets for these deposits did not show any variances. The campus was unable to provide an explanation for the differences between the deposit record and the supporting documentation.

Association management noted that they are in the process of reviewing their current policies to establish a more reasonable threshold for overages and shortages that need to be reported.

Compliance with cash overage and shortage policies helps to reduce exposure to risk related to loss, theft, or misappropriation of funds. Researching the explanation for a variance allows management to explain the issue and take the steps needed to correct the issue and prevent it from reoccurring.

RECOMMENDATION

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

- a. Update cash-handling policies with any changes to overage and shortage thresholds.
- b. Communicate updated cash-handling policies to appropriate personnel, emphasizing the process for reporting and researching cash overages and shortages.

MANAGEMENT RESPONSE

We concur.

By September 1, 2023, campus, in conjunction with Association, will update its cash-handling policies with changes to overage and shortage thresholds, and communicate to appropriate personnel those changes while emphasizing the process of researching and reporting overages and shortages.

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 Association was established in 1961 and was initially incorporated as Fresno State College Association, Inc., to provide a legal body to administer the bookstore, food services, and student body activities. The breadth of operations has expanded since incorporation, and the Association is currently composed of six operating units: Kennel Bookstore, Student Recreation Center, University Dining Services, Student Housing, University Student Union, and Save Mart Center. The Association also provides management, accounting services, information services, legal services, and professional services to other campus auxiliary

organizations and operations, including the Foundation, the Agricultural Foundation, Associated Students, and Fresno State Programs for Children. The Association is governed by a board of directors composed of representatives from the staff, faculty, student body, and community. The campus vice president of administration and chief financial officer serves as the executive director of the Association.

SCOPE

We performed fieldwork from April 17, 2023, through June 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 Association. The audit focused on procedures in effect from January 1, 2021, to June 14, 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, 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.
- Outsourced commercial operations, such as the bookstore and dining service contracts.
- Auxiliary dining administration, including, but not limited to, cash receipts, purchasing, inventory, disbursements, catering, and food handling and safety.
- Student housing administration, limited to summer conferences.

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 UAS operations. Our review was limited to gaining reasonable assurance that essential elements of Association operations were in place and did not examine all aspects of the program, such as student housing residential life and the Save Mart Center.

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*
- *Association Cash Handling Policy and Procedures*
- *Association University Dining Services Cash Handling Procedures*

AUDIT TEAM

Senior Audit Manager: Hannah Gardener
Senior Auditor: Jesse Santos