

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

June 15, 2023

Dr. Erika D. Beck, President
California State University, Northridge
18111 Nordhoff Street
Northridge, CA 91330

Dear Dr. Beck:

Subject: Audit Report 22-36, *The University Corporation*, California State University, Northridge

We have completed an audit of *The University Corporation* 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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THE UNIVERSITY CORPORATION

**California State University,
Northridge**

Audit Report 22-36
June 15, 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 University Corporation (TUC) at California State University, Northridge; 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 TUC as of March 17, 2023, taken as a whole, provided reasonable assurance that risks were being managed and objectives were met.

In general, we noted that TUC had an appropriate framework in place for auxiliary administration; however, we identified several fiscal areas that needed improvement. We found that processes related to sponsored programs asset management needed improvement, as assets were not always tagged and entered into the campus asset management system. In addition, payroll and personnel transactions related to new hires, overtime, and payroll reconciliations were not always properly processed or reviewed. We also found that expenditures and procurement card purchases did not always contain the appropriate approvals or supporting documentation. We also noted opportunities for improvement in informal and formal bidding processes and bank reconciliations.

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

OBSERVATIONS, RECOMMENDATIONS, AND RESPONSES

1. PROPERTY AND EQUIPMENT

OBSERVATION

Management of property and equipment for sponsored programs did not always follow documented procedures.

As stated in the campus *Grants and Sponsored Program Capitalized Asset Tracking* procedure, upon acquisition of assets, TUC must notify campus asset management so that the asset can be tagged and entered in the campus asset management system for tracking purposes. However, during our review, we found that the procedures were not always followed.

Specifically, we reviewed 15 expenditures related to the purchase of assets to ensure the assets were tagged, tracked, and recorded in the asset management system, and we found that five sponsored program assets with a total purchase price of \$88,005 were not tagged and entered in the system.

Additionally, through review of TUC's tracking spreadsheet of sponsored program fixed assets, we found that assets acquired since July 2022 had not been tagged. According to TUC, this was due to staff turnover and a shortage of physical tags to affix to assets. TUC indicated that these assets will be tagged during the next physical inventory process in May 2023.

Proper administration of property and equipment decreases the risk that assets may be lost or stolen.

RECOMMENDATION

We recommend that the campus, in conjunction with TUC:

- a. Review current asset management procedures for sponsored programs, update specific roles and responsibilities of TUC and the campus to reflect current practices, and communicate updated procedures to the appropriate individuals involved in the process.
- b. Complete the sponsored programs physical inventory and appropriately tag sponsored programs assets.

MANAGEMENT RESPONSE

We concur.

- a. The current asset management procedures for sponsored programs, specific TUC roles and responsibilities, and campus current practices will be reviewed, updated, and communicated to the appropriate individuals involved in the relevant processes.
- b. The sponsored programs physical inventory will be conducted and assets will be tagged appropriately.

Expected completion date is November 17, 2023.

2. PERSONNEL ADMINISTRATION

OBSERVATION

Personnel administration, including processes related to hiring, overtime, and payroll reconciliation, needed improvement to ensure compliance with policies and procedures and adequate supervisory review.

For the hiring process, we noted two instances where communication between supervisors and TUC human resources was inadequate in order to timely and accurately process new-hire paperwork. We reviewed 10 new hires and found that in one instance, an employee started working before the official hire date documented on the personnel action form. Also, through review of overtime pay, we found that a supervisor did not communicate a new hire to TUC, and as such, TUC did not verify the employee's identity or work eligibility prior to work being performed, and the employee was not entered into the time reporting system. The employee worked for six months without being paid and submitted all timesheets at the end of the program.

Relating to overtime pay, we found that timesheets for overtime were not always submitted biweekly as required by the TUC *Employee Handbook*. Specifically, we found that seven of 10 employees reviewed submitted late timesheets, including five instances where multiple pay periods were submitted at the same time.

We also reviewed three payroll reconciliations between the ADP system and general ledger and found that they did not contain the time and date the reconciliation was performed, or documented management review.

An effective process to ensure timely completion and verification of required hiring documentation helps to ensure compliance with legal requirements and protects auxiliary information and assets. Furthermore, adequate review and reconciliation of payroll transactions helps to reduce the risk of errors.

RECOMMENDATION

We recommend that the campus, in conjunction with TUC:

- a. Remind supervisors of their responsibilities relating to personnel, including communicating with TUC human resources when planning to hire individuals and ensuring that approved overtime is submitted by employees in a timely manner.
- b. Update the payroll reconciliation process and template to include fields to document the date the reconciliation was performed, and the date and time that management review was completed.

MANAGEMENT RESPONSE

We concur.

- a. Supervisors will be reminded of their responsibilities emphasizing the areas discussed above.
- b. The payroll reconciliation process and template will be updated to include areas discussed above.

Expected completion date is November 17, 2023.

3. PROCUREMENT CARDS

OBSERVATION

Procurement card (p-card) policies were not always followed.

We reviewed three recent p-card reconciliations for five cardholders and found that for all PIs, the reconciliation packet did not have evidence of the supervisor’s review and approval as required by TUC’s *Purchasing Card Policy*. It was TUC’s practice that supervisory review and approval was not required for p-card reconciliations for PIs. Based on review of the itemized receipts, however, the expenses appeared to be appropriate and allowable.

We also reviewed eight p-card transactions in our disbursement testing and found that in three instances, a p-card was used for contracted services, which was not allowed per TUC’s *Purchasing Card Policy*.

Appropriate review and approval of credit card transactions helps to reduce the risk of errors, misappropriation of funds, and auxiliary exposure to potential liability.

RECOMMENDATION

We recommend that the campus, in conjunction with TUC, revise the p-card policy to align with current practices, which should include secondary approval by designated TUC personnel of p-card purchases made by PIs, and to ensure that p-cards are not used for purchases prohibited by the policy.

MANAGEMENT RESPONSE

We concur. The p-card policy will be aligned with current practices, and will include secondary approval by designated TUC personnel of p-card purchases made by PIs, and the policy will be revised to ensure that p-cards are not used for purchases prohibited by the policy. Expected completion date is November 17, 2023.

4. EXPENDITURE PROCESSING

OBSERVATION

Documentation and review of expenditures needed improvement.

We reviewed 50 disbursements for adequate support, appropriate approvals, and allowability of expenditures, and we found that expenditures were not always adequately supported and did not always contain appropriate approvals. Specifically:

- In three instances, TUC did not provide a fully executed vendor agreement for repairs, consulting, or recruitment services. In one instance, the vendor had a master contract with the California State University (CSU); however, an auxiliary-specific agreement or purchase order was not executed to document the relationship and legal obligations between the two parties.
- In two instances, travel authorization forms were not obtained for international trips as required. In addition, four travel authorization forms for campus employees did not have approval signatures, as required by campus policy. Based on review of supporting documents, the trips were necessary to conduct official university business and expenses appeared to be appropriate.
- In one instance, a travel claim included an unallowable expense for alcohol. During our audit, TUC recovered the funds from the employee.

Adequate administration and documentation of expenditures decreases the risk of errors, misappropriation of funds, and auxiliary exposure to potential litigation.

RECOMMENDATION

We recommend that the campus, in conjunction with TUC:

- a. Remind employees of TUC expenditure policies and procedures, including required supporting documentation and proper approval.
- b. Provide refresher training to accounting staff involved in processing expenditures.

MANAGEMENT RESPONSE

We concur.

- a. Employees will be reminded of TUC expenditure policies and procedures, including required supporting documentation and proper approval.
- b. Refresher training to accounting staff will be provided.

Expected completion date is November 17, 2023.

5. INFORMAL AND FORMAL BIDDING PROCESS

OBSERVATION

Purchasing procedures, such as informal and formal bidding processes, were not always followed.

TUC's purchasing policy includes requirements for different purchasing thresholds. Purchases between \$10,000 to \$15,000 require a purchase order (PO) and three price quotes; purchases between \$15,001 and \$75,000 require a PO and a minimum of three written price quotes; and purchases over \$75,000 require a PO and three formal bids.

We reviewed 15 purchasing transactions for goods and services, including six transactions subject to TUC's informal and formal bidding requirements, and we found that:

- For one purchase over \$75,000, TUC did not obtain three formal bids. Instead, it obtained three informal quotes.
- For one purchase of \$40,000, TUC did not obtain three quotes. Instead, it obtained a single price quote, and did not document a sole-source purchase justification.

In addition, during our expenditure testing, we reviewed 13 expenditures greater than \$10,000 and found that in two instances, procurement documents were not obtained or properly approved, as required for the purchase amounts. For one purchase of \$11,075, a PO and three quotes were not provided, and for one purchase of \$36,272, the required Sole Source Justification form was completed but was not signed by the executive director or designee as required by the TUC *Purchasing Policy*. TUC management indicated that its practice is to use approval of the PO with which the form is submitted to show authorization of the sole-source justification.

Proper administration of purchasing reduces the risk of errors and irregularities, provides transparency, and helps to ensure compliance with procurement requirements and decreases the potential for fraud, waste, and abuse.

RECOMMENDATION

We recommend that the campus, in conjunction with TUC, provide refresher training to accounting and procurement staff of TUC's purchasing requirements to obtain vendor quotes or competitive bids and to obtain documented approval of sole-source justification forms when applicable.

MANAGEMENT RESPONSE

We concur. TUC will provide refresher training to accounting and procurement staff of TUC's purchasing requirements to obtain vendor quotes or competitive bids and to obtain documented approval of sole-source justification forms when applicable. Expected completion date is November 17, 2023.

6. BANK RECONCILIATIONS

OBSERVATION

Bank reconciliation preparation and approval dates were not documented, and outstanding reconciling items were not adjusted timely.

The monthly bank reconciliations for TUC are prepared and reviewed by TUC accounting personnel. We reviewed bank reconciliations for October, November, and December 2022, and we found that the preparation and approval dates were not recorded on any of the reconciliations; therefore we could not determine whether the reconciliations were performed timely. Additionally, we found that eight reconciling items dated June, July, and August 2022 were still showing as outstanding in December 2022. According to TUC management, the adjustments were not completed timely due to staffing and resource shortages. We verified that the reconciling items were adjusted in January 2023.

Timely preparation and documentation of bank reconciliations and adjustments of reconciling items reduces the risk of financial loss and helps to ensure accountability of funds and accurate financial reporting.

RECOMMENDATION

We recommend that the campus, in conjunction with TUC, document the preparation and approval dates on bank reconciliations and adjust unresolved reconciling items timely.

MANAGEMENT RESPONSE

We concur. TUC will document the preparation and approval dates on bank reconciliations and adjust unresolved reconciling items in a timely manner. Expected completion date is November 17, 2023.

7. DISCRIMINATION AND HARASSMENT PREVENTION TRAINING

OBSERVATION

Administration of discrimination and harassment prevention training for supervisors needed improvement.

Specifically, the TUC *Employee Handbook* states that regular training on this topic is provided to supervisors and administered through CSU Learn. The campus HR department provides periodic reports on training status to TUC for tracking and monitoring purposes. We reviewed the latest training report dated January 30, 2023, and identified 10 supervisors whose training had expired between April 15, 2021, and July 1, 2022.

Adequate monitoring and timely completion of required training can help to ensure compliance with CSU and TUC policies.

RECOMMENDATION

We recommend that the campus, in conjunction with TUC:

- a. Strengthen the process for tracking and monitoring employees with overdue or incomplete training, including addressing escalation procedures for noncompliance.
- b. Provide employees noted above with mandatory training and maintain records of completed training.

MANAGEMENT RESPONSE

We concur.

- a. TUC will strengthen the process for tracking and monitoring employees with overdue or incomplete training, including addressing escalation procedures for noncompliance.
- b. TUC will provide employees noted above with mandatory training and maintain records of completed training.

Expected completion date is November 17, 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 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.

California State University, Northridge (CSUN), has five separate auxiliary organizations, each of which provides a function that contributes to the educational mission of the university. TUC is a nonprofit corporation responsible for the administration of externally sponsored programs (grants and contracts), licensing of university facilities for use by off-campus groups, fiscal administration of campus programs, and commercial services. TUC owns seven single-family homes and 33 condominium units available for lease to CSUN faculty and staff and outsources the operations of the University Bookstore and the food court restaurants to several national

vendors in exchange for commission on the revenues generated by these enterprises. TUC 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 January 23, 2023, through March 17, 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 TUC. The audit focused on procedures in effect from January 1, 2021, to March 17, 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.
- Management of outsourced commercial operations, such as the bookstore and dining services.
- Fiscal administration of auxiliary housing and real estate programs.
- Sponsored programs post-award administration, specifically focusing on expenditure processing and effort reporting for faculty release time.

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 TUC operations. Our review was limited to gaining reasonable assurance that essential elements of TUC 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 (CFR) 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 §89756
- EC §89900
- EC §89904
- EO 1059, *Utilization of Campus Auxiliary Organizations*
- ICSUAM §1301.00, *Hospitality, Payment or Reimbursement of Expenses*
- ICSUAM §11000, *Sponsored Programs Administration*
- ICSUAM §13680.00, *Placement and Control of Receipts for Campus Activities and Programs*
- Coded memorandum ASA 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*
- TUC AC007 – *Purchasing Policy*
- TUC AC005 – *HR & Payroll Procedures*
- TUC *Employee Handbook*
- TUC *Grants and Sponsored Programs Capital Asset Tracking Procedure*

AUDIT TEAM

Senior Audit Manager: Christina Chen
 Senior Auditor: Brenda Auner