

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

August 21, 2023

Dr. Thomas A. Parham, President
California State University, Dominguez Hills
1000 E. Victoria Street
Carson, CA 90747

Dear Dr. Parham:

Subject: Audit Report 22-42, Associated Students, Inc., California State University, Dominguez Hills

We have completed an audit of *Associated Students, 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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ASSOCIATED STUDENTS, INC.

**California State University,
Dominguez Hills**

Audit Report 22-42
August 21, 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, Inc. (ASI) at California State University, Dominguez Hills (CSUDH); 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, except for the weaknesses described below, the operational, administrative, and financial controls for ASI as of June 1, 2023, taken as a whole, provided reasonable assurance that risks were being managed and objectives were met.

In general, we found that ASI had an appropriate framework in place for auxiliary administration; however, we identified several areas that needed improvement, including administration and documentation for student events and timely deposit of cash and checks. We also found that processes related to purchasing and expenditure review needed improvement, as written quotes were not consistently obtained, contracts were not consistently completed or timely executed, and purchases did not always contain the appropriate approvals or supporting documentation. In addition, payroll and personnel transactions related to new hires, overtime, and terminations were not always properly processed, and annual risk assessments of ASI were not completed.

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

OBSERVATIONS, RECOMMENDATIONS, AND RESPONSES

1. ASI STUDENT EVENTS

OBSERVATION

ASI did not have comprehensive policies and procedures for events and did not maintain supporting documentation for student events.

We found that ASI did not have written policies or procedures for event administration, which would include elements such as event planning and approval, liability and insurance, alcohol and food handling, accessibility, advertising, contracts, and cash handling.

Additionally, we selected five events for detailed review, and we found that ASI did not maintain adequate supporting documentation, such as administrative approval of the events, fully executed contracts or agreements for third-party service providers, completed risk management documents such as those addressing liability or insurance, and additional documentation to support the event.

Clear and documented policies and procedures and maintenance of risk management documents help to reduce the risk of error, misappropriation of funds, and campus and auxiliary exposure to potential litigation.

RECOMMENDATION

We recommend that the campus, in conjunction with ASI:

- a. Develop and implement policies and procedures for events to address the elements noted above and communicate these policies to the appropriate ASI and campus personnel.
- b. Collect and retain required documentation for student events.

MANAGEMENT RESPONSE

We concur. The campus shall, in conjunction with ASI:

- a. Develop and implement policies and procedures for events to address the elements noted above and communicate these policies to the appropriate ASI and campus personnel.
- b. Collect and retain required documentation for student events.

Projected completion date: January 31, 2024

2. CASH-HANDLING ACTIVITIES

OBSERVATION

Administration of cash receipts and cash handling needed improvement.

ASI is responsible for receiving cash and cash equivalents, including monthly tuition and fees from the Child Development Center (CDC), state funding for the CDC, and ASI event revenue, that are deposited in the campus bank account and posted to the general ledger by campus accounting services.

We found that cash-handling policies did not address processes related to returned checks. Additionally, the policy requires a police escort for deposits that exceed \$2,500, which is no longer required in practice.

In addition, we reviewed documentation for 20 deposits and found that cash receipts were not always deposited timely. Specifically, the ASI *Cash-Handling Policy* requires deposits to be made to University Cashiering at least two times per week or whenever the cash level deposited exceeds \$500. In three instances, deposits were made an average of 11 business days after receipt.

Also, cash receipts were not always deposited timely whenever cash in the safe exceeded \$500, as required by the ASI *Cash-Handling Policy*. Specifically, during our walkthrough, we observed a deposit that included \$3,158 in cash, which had been held in the safe for more than two weeks.

Furthermore, ASI's policy requires cash-handling training for new ASI staff who handle cash. According to ASI management, cash-handling training for new staff was provided in the first week of employment; however, training records were not maintained.

Appropriate administration of cash handling and compliance with cash-handling policies and procedures helps to reduce exposure to risk related to loss, theft, or misappropriation of funds.

RECOMMENDATION

We recommend that the campus, in conjunction with ASI:

- a. Update the cash-handling policy to address the areas noted above and provide refresher training to key personnel involved in the cash receipts process to ensure that deposits are processed and deposited timely.
- b. Document evidence of cash-handling training provided to new staff who handle cash.

MANAGEMENT RESPONSE

We concur. The campus shall, in conjunction with ASI:

- a. Update the cash-handling policy to address the areas noted above and provide refresher training to key personnel involved in the cash receipts process to ensure that deposits are processed and deposited timely.
- b. Document evidence of cash-handling training provided to new staff who handle cash.

Projected completion date: January 31, 2024

3. FINANCIAL ADMINISTRATION

OBSERVATION

Purchasing procedures such as formal bidding processes and expenditure documentation and review requirements were not always followed.

ASI's purchasing policy includes requirements for different purchasing thresholds. Purchases of \$5,000 and more require a purchase order (PO) and three written price quotes or a sole-source justification form.

We reviewed five purchases of goods and services that exceeded \$5,000, and we found that in all five instances, three written quotes were not obtained, and a sole-source justification was not submitted. Additionally, in one of those instances, a PO was not issued.

Additionally, we reviewed 50 disbursements for adequate support, appropriate approvals, and allowability of expenditures, and we found that in addition to the observations described above, expenditures were not always adequately supported and did not always contain appropriate approvals. Specifically:

- In three instances, itemized receipts were not provided to support credit card charges.
- In three instances, travel request forms did not have approval signatures. Although California State University (CSU) travel policy does not require pre-approval, this is required by ASI travel policy.

Proper administration of purchasing and expenditure processing reduces the risk of errors and irregularities, provides transparency, and helps to decrease the potential for fraud, waste, and abuse.

RECOMMENDATION

We recommend that the campus, in conjunction with ASI:

- a. Provide refresher training to procurement staff regarding ASI's policies and procedures relating to procurement thresholds and documentation requirements.
- b. Remind key personnel involved in processing disbursements of ASI expenditure policies and procedures, including supporting documentation and approval requirements.

MANAGEMENT RESPONSE

We concur. The campus shall, in conjunction with ASI:

- a. Provide refresher training to procurement staff regarding ASI’s policies and procedures relating to procurement thresholds and documentation requirements.
- b. Remind key personnel involved in processing disbursements of ASI expenditure policies and procedures, including supporting documentation and approval requirements.

Projected completion date: January 31, 2024

4. AGREEMENTS

OBSERVATION

Agreements were not always completed or executed timely and did not always include all language required by CSU systemwide guidance.

We reviewed 13 agreements between ASI and other campus auxiliaries and third-party service providers, and we found that:

- Three agreements with other campus auxiliaries, for a facility sublease, business services, and infant and toddler center administration, were signed approximately two to ten months after the effective agreement date.
- Two third-party agreements for event performers did not contain an insurance clause, and one third-party agreement did not contain an indemnification clause.

In addition, during our review of 50 expenditures, we found that in six instances, contracts were not executed for third-party service providers. For three of these instances, agreements were documented in the form of a statement of work or proposal, instead of an executed contract. For the other three expenditures, the only documentation provided was the invoice for payment, including one instance where a vendor provided services for playground renovation and equipment installation for a total of \$433,709, without performing formal bidding or documenting a sole source justification.

Complete and timely executed agreements with the proper inclusion of required terms and provisions helps to ensure compliance with systemwide requirements, reduces the risk of misunderstandings and miscommunication of responsibilities, and decreases the risk of potential liabilities.

RECOMMENDATION

We recommend that the campus, in conjunction with ASI:

- a. Evaluate the current processes for contracts and implement changes as necessary to ensure that contracts are executed when appropriate and in a timely manner.

- b. Review and update the current service agreement template to include appropriate indemnification and insurance clauses.

MANAGEMENT RESPONSE

We concur. The campus shall, in conjunction with ASI:

- a. Evaluate the current processes for contracts and implement changes as necessary to ensure that contracts are executed when appropriate and in a timely manner.
- b. Review and update the current service agreement template to include appropriate indemnification and insurance clauses.

Projected completion date: January 31, 2024

5. PERSONNEL ADMINISTRATION

OBSERVATION

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

We reviewed 10 new hires and noted that in two instances, required background checks were completed after the employees' start date. Although the background checks were ordered before the employees' start dates, clearance was not provided until after the employee had started working.

Also, we found that preapproval for overtime was not always documented as required by the *ASI Employee Handbook*. Specifically, we found that four of five employees worked overtime without prior approval. In three of these instances, overtime was approved afterward.

Additionally, we reviewed the processing of 10 employee terminations, and we found that in two instances, a separation checklist was not completed. We confirmed with ASI management that equipment and property were returned by these individuals, and IT access was properly removed.

An effective process to ensure timely completion of hiring processes and verification of all required forms for overtime and the termination of employees helps to ensure compliance with legal requirements and protects auxiliary information and assets.

RECOMMENDATION

We recommend that the campus, in conjunction with ASI, remind appropriate employees of their responsibilities relating to personnel administration for the issues noted above.

MANAGEMENT RESPONSE

We concur. The campus shall, in conjunction with ASI, remind appropriate employees of their responsibilities relating to personnel administration for the issues noted above.

Projected completion date: January 31, 2024

6. RISK ASSESSMENT

OBSERVATION

ASI risk assessment documentation needed improvement.

ASI had a comprehensive policy and procedure in place detailing how risk will be assessed; however, a risk assessment was not formally documented during the audit period.

A documented risk assessment helps to ensure that the auxiliary considers risks related to auxiliary objectives and complies with relevant laws, regulations, and systemwide requirements.

RECOMMENDATION

We recommend that the campus, in conjunction with ASI, complete and document a risk assessment annually for risks related to ASI.

MANAGEMENT RESPONSE

We concur. The campus shall, in conjunction with ASI, complete and document a risk assessment annually for risks related to ASI.

Projected completion date: January 31, 2024

7. STUDENT CLUB AND ORGANIZATION FUNDS

OBSERVATION

Oversight of student club and organization funds needed improvement.

ASI receives cash and cash equivalents from student clubs and organizations, which are deposited to the Toro Auxiliary Partners (TAP) bank account and posted to the general ledger by TAP accounting staff. TAP is responsible for managing student funds and processing disbursements. Student clubs and organizations are required to adhere to TAP's *Cash Receipts and Check Handling Policy* and TAP and ASI's *Procedures for Student Club Accounts*. Each academic term, ASI provides training to new club officers to communicate policy requirements, including the prohibition of the use of off-campus accounts such as Zelle and Venmo.

We reviewed documentation for 10 cash receipts deposits and 10 disbursements, and we found that:

- In one instance, a club collected sales proceeds via Venmo, the use of which is prohibited by ASI.
- In five instances, cash receipts were not deposited timely by TAP. Specifically, the deposits were made an average of 13 days late. *ASI Cash Handling Policy* states that student club and organization funds must be deposited within three business days of receipt.

Proper administration of student club and organization fund activities reduces the risk of loss or misappropriation of funds and helps to ensure accountability.

RECOMMENDATION

We recommend that the campus, in conjunction with ASI and TAP:

- a. Provide training to key personnel involved in the process to ensure that cash receipts are deposited timely.
- b. Reiterate to student club officers and student advisors that the use of off-campus accounts is prohibited.

MANAGEMENT RESPONSE

We concur. The campus shall, in conjunction with ASI and TAP:

- a. Provide training to key personnel involved in the process to ensure that cash receipts are deposited in a timely manner.
- a. Reiterate to student club officers and student advisors that the use of off-campus accounts is prohibited.

Projected completion date: January 31, 2024

8. GRANT ELEGIBILITY VERIFICATION

OBSERVATION

CDC's verification of CSUDH student eligibility for tuition subsidies needed improvement.

CDC receives funding from various state and federal sources, including a federal grant, Child Care Access Means Parents in School (CCAMPIS), which provides subsidized childcare tuition for CSUDH students. For CSUDH students to be eligible for a federal tuition subsidy for childcare services, CDC is required to verify satisfactory academic progress for student applicants, in addition to other criteria.

We reviewed 10 grant applications, including four CCAMPIS participants, and we found that CDC did not verify satisfactory academic progress for all four CCAMPIS applicants.

Proper verification of grant applicants' eligibility helps to ensure compliance with grant requirements and proper use of federal funding.

RECOMMENDATION

We recommend that the campus, in conjunction with ASI, ensure that verification of eligibility for subsidies is completed and documented for all participants.

MANAGEMENT RESPONSE

We concur. The campus shall, in conjunction with ASI, ensure that verification of eligibility for subsidies is completed and documented for all participants.

Projected completion date: January 31, 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 §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.

CSUDH has four separate auxiliary organizations, each of which provides a function that contributes to the educational mission of the university. ASI is a nonprofit corporation that operates as an auxiliary organization and the student government for the campus. It also provides childcare services to students, faculty, staff, and the local community through the CDC. ASI is governed by a board of directors elected by the student body of CSUDH that sets strategic goals and policy priorities. Members represent student interests on ASI internal and university-wide committees.

SCOPE

We performed fieldwork from April 13, 2023, through June 1, 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 ASI. The audit focused on procedures in effect from January 1, 2021, to June 1, 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.
- Auxiliary programs and services administration, including, but not limited to, the child development center, event services, scholarships, and student organization funding.

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 ASI operations. Our review was limited to gaining reasonable assurance that essential elements of ASI 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 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*
- *ASI Cash-Handling Policy*
- *ASI Travel Policy*
- *TAP Cash Receipts and Check Handling Policy*
- *TAP and ASI Procedures for Student Club Accounts*

AUDIT TEAM

Senior Audit Manager: Christina Chen

Senior Auditor: Brenda Auner

Internal Auditor: Daniel Rosales