

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

August 2, 2022

Dr. William A. Covino, President
California State University, Los Angeles
5151 State University Drive
Los Angeles, CA 90032

Dear Dr. Covino:

Subject: Audit Report 21-22, Associated Students, California State University, Los Angeles

We have completed an audit of *Associated Students* as part of our 2021-2022 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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ASSOCIATED STUDENTS

California State University, Los Angeles

Audit Report 21-22
August 2, 2022

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, Los Angeles (ASI); 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 ASI as of May 20, 2022, taken as a whole, provided reasonable assurance that risks were being managed and objectives were met.

In general, we noted that ASI had an appropriate framework for the administration of the auxiliary; however, we identified a few areas needing improvement. We found that several ASI policies and procedures had not been recently reviewed or updated and did not align with current processes. Also, ASI did not process or timely process several Employee Transaction Reports (ETR) or maintain an accurate listing of submitted ETRs for reconciliation and did not obtain appropriate approval of payroll disbursements after shifting to remote work during the pandemic. During one year of the audit period, ASI did not maintain records to show that annual conflict-of-interest (COI) statements were completed or that ongoing verification of academic eligibility for all board members and student leaders was performed. In addition, ASI did not always obtain written preapproval for purchase card purchases when required, sometimes used a generic signature on request for payment (RPP) forms, and did not execute contracts timely.

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

OBSERVATIONS, RECOMMENDATIONS, AND RESPONSES

1. POLICIES AND PROCEDURES

OBSERVATION

Several ASI policies and procedures had not been timely reviewed or updated and did not reflect current ASI processes.

We found that of the 69 policies ASI had posted on its website, 41 had not been reviewed within the past three years, and 15 had never been reviewed. We also noted that 13 policies and procedures referenced job titles that no longer existed.

In addition, we reviewed selected ASI policies, and we found that:

- ASI Policy 022, *Ethics Policy*, last reviewed March 15, 2018, contained outdated information and invalid links.
- ASI Policy 205, *Asset Management Policy*, and ASI Policy 215, *Equipment Policy*, did not include guidance for documenting all completed reconciliations and physical inventories of equipment.
- ASI did not maintain written procedures for ASI student events.

Complete and updated policies and procedures can provide guidance and improve operational compliance, and periodic management review of policies and procedures can help to ensure that they align with current processes.

RECOMMENDATION

We recommend that the campus, in conjunction with ASI:

- a. Review the list of policies and procedures posted to the ASI website to determine whether they are appropriate, and establish a process to remove, consolidate, and/or update the policies and procedures to ensure they are complete, relevant, and address the issues noted above.
- b. Communicate and distribute the updated policies and procedures to appropriate ASI and campus administrators and staff.

MANAGEMENT RESPONSE

ASI, in conjunction with the university, will begin a comprehensive review of ASI's policies and identify any that need to be removed, consolidated, and/or updated to ensure they are complete, relevant, and compliant with current California State University (CSU) requirements. The review will result in a list of policies that will be prioritized and scheduled for removal, consolidation, or revision as needed. Updated policies and procedures shall be,

upon final approval, communicated to the university and posted to the ASI website to be accessible to the student body.

Estimated completion date: December 16, 2022

2. PAYROLL

OBSERVATION

Payroll administration needed improvement related to timely and proper processing of ETRs, ETR reconciliations, and payroll disbursement approvals.

ASI uses ETRs for processing hiring, termination, and salary changes. We reviewed 10 ETRs, and we found that:

- Two ETRs were not processed correctly. In one instance, a separated employee's ETR for a salary change was not processed for the three pay periods prior to separation, and retroactive pay for the wage difference was not subsequently paid to the employee. In the other instance, an ETR was not timely processed for a temporary employee who was hired as a full-time employee. As such, the employee was not paid at the appropriate rate for the first pay period, and retroactive pay was subsequently processed.
- In five instances, there was a mismatch in payrate between the ETR, the employee's offer letter, and/or payroll records.
- ASI did not periodically reconcile ETRs or maintain a master list of all ETRs that it could compare with payroll records.

We also reviewed two payroll disbursements and noted that they were approved by the executive director (ED) and associate ED, but did not have approval from the dean of students. Per ASI Policy 225, *ASI Signature Authorization*, payroll requires the signature of the dean of students or designee for the university, in addition to the ASI ED. ASI management stated that this was due to a procedural change that changed as the campus returned to in-person instruction.

Proper administration of ETRs, including monitoring and reconciliation, can help to ensure that ETRs are processed timely and accurately, and proper approval of payroll disbursements can help to ensure compliance with auxiliary policies.

RECOMMENDATION

We recommend that the campus, in conjunction with ASI:

- a. Establish and implement written procedures to improve payroll administration that address the timely and proper processing of ETRs, maintenance of a master list of all ETRs that is periodically reconciled to payroll records, and proper approval of payroll disbursements.

- b. Communicate and distribute the procedures above to appropriate ASI and campus administrators and staff.

MANAGEMENT RESPONSE

ASI, in conjunction with the University-Student Union and the university, will create written procedures for the completion and tracking of employment paperwork, which will include a routine reconciliation process with ADP payroll records, and will disseminate as appropriate.

Estimated completion date: December 16, 2022

3. CONFLICT OF INTEREST AND ELIGIBILITY

OBSERVATION

ASI did not always maintain records to show that annual COI statements were completed by board members (directors) or ongoing verification of student leaders' academic eligibility was performed.

Specifically, we found that:

- For academic year (AY) 2020/21, due to ASI working remotely, ASI did not maintain records showing completion of the annual COI statement for 13 directors, as required by ASI Policy 006, *Conflict of Interest*.
- Records were not consistently maintained to show the current and ongoing verification of academic eligibility for all students who were serving as student leaders. For example, there was no record that students who were appointed after the official eligibility checks were performed had their eligibility verified. As such, we could not confirm that eligibility was verified for 16 of the 37 directors and student leaders we reviewed. Eight of these 16 individuals also received grant-in-aid, which has similar academic eligibility requirements.

Maintaining complete and up-to-date records of all COI statements and academic eligibility verifications can help to ensure compliance with auxiliary, campus, and systemwide policies.

RECOMMENDATION

We recommend that the campus, in conjunction with ASI:

- a. Update COI policies and procedures to address timely COI statement completion and retention of COI statements.
- b. Develop and implement written procedures to ensure that academic eligibility is verified for all student leaders and that records of this verification are maintained.
- c. Communicate and distribute the procedures above to appropriate ASI and campus administrators and staff.

MANAGEMENT RESPONSE

ASI, in conjunction with the university, shall update the procedures for obtaining and retaining the conflict-of-interest statements in accordance with ASI Policy 006 – *Conflict of Interest*. In addition, Policy 006 will be reviewed for compliance and accuracy with recommendations from legal counsel.

The university, in conjunction with ASI, shall develop and implement procedures to verify and document student leaders’ eligibility prior to the student taking office, in accordance with the requirements stated in the CSU Minimum Qualifications for Student Office Holders.

The updated procedures will be communicated as appropriate.

Estimated completion date: December 16, 2022

4. PROCUREMENT AND CONTRACT APPROVAL

OBSERVATION

Required preapprovals for purchase card purchases, adequate approval of RPP forms, and timely execution of contracts needed improvement.

We reviewed 35 purchase card transactions and noted that:

- Two transactions for the purchase of gift cards and camera equipment were not preapproved in writing as required by ASI Policy 216, *Contract & Procurement*. The policy requires that the purchase of cash equivalents and equipment over \$500 be preapproved in writing by the ASI executive director or their designee.
- For four transactions, the RPP form had a generic electronic signature in the approval field, and we could not determine who signed the document or whether the individual had the authority to approve the purchase. Specifically, two forms were signed “ASI Pre,” and two were signed “ASI Finance.” ASI management stated that this occurred when students were being trained to use the DocuSign tool.

We also reviewed seven contracts (including agreements, memorandums of understanding, and contracts) and found that none were executed timely, with dated signatures ranging from nine days to 10 months after the effective date of the contract.

Documenting preapprovals in compliance with purchase card policies and procedures, obtaining adequate signatures on RPP forms, and timely signing approved contracts helps to ensure that auxiliary policies are being followed and contracts are properly and legally executed.

RECOMMENDATION

We recommend that the campus, in conjunction with ASI:

- a. Develop and implement a documented process to ensure that preapprovals are documented in compliance with purchase card policies and procedures, proper signatures are obtained on RPP forms, and records are maintained.
- b. Update contracting processes to ensure that contracts are executed timely.
- c. Communicate and distribute the processes above to appropriate ASI and campus administrators and provide training as needed.

MANAGEMENT RESPONSE

ASI, in conjunction with the university, shall articulate a process for preapprovals of purchase card purchases in accordance with ASI policy. An annual training will be implemented for all ASI signatories so they know how to appropriately use DocuSign. ASI and the university will review and revise the procedure for signing agreements to ensure contract approvals align with the effective date of the agreement.

Estimated completion date: December 16, 2022

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.

California State University, Los Angeles (Cal State LA) 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 is governed by a board of directors elected by the student body of Cal State LA, which sets strategic goals and policy priorities, while members represent student interests on ASI internal and university-wide committees.

SCOPE

Due to temporary operating procedures and limitations resulting from the COVID-19 public health emergency, we performed fieldwork remotely with limited on-site visits as needed from March 28, 2022, through May 20, 2022. 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 ASI. The audit focused on procedures in effect from July 1, 2020, to May 20, 2022.

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, unrelated business income tax, 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, disbursements, and personnel and payroll.
- Auxiliary programs and services administration, including, but not limited to scholarships, locker rentals, ticket sales, event services, 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 the 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:

- 5 CCR §42401, *Declaration of Policy*
- 5 CCR §42402, *Authority of Campus President*
- 5 CCR §42500, *Functions of Auxiliary Organizations*
- Education Code (EC) §89720
- EC §89756
- EC §89900
- EC §89904
- RFIN 7-81-4
- EO 1059, *Utilization of Campus Auxiliary Organizations*
- ICSUAM §8000, *Information Security*
- ICSUAM §1301.00, *Hospitality, Payment or Reimbursement of Expenses*
- ICSUAM §13680.00, *Placement and Control of Receipts for Campus Activities and Programs*
- *CSU Auxiliary Organizations Compliance Guide*
- *CSU Auxiliary Organizations Sound Business Practices Guidelines*
- *ASI Bylaws*
- *ASI Administrative Governing Policies 001 – 025*
- *ASI Personnel Policies 101 – 122*
- *ASI Finance Policies 201 – 226*

AUDIT TEAM

Senior Audit Manager: Joanna McDonald
Internal Auditor: Jesse Santos