

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

June 26, 2024

Dr. Richard Yao, President
California State University Channel Islands
1 University Drive
Camarillo, CA 93012

Dear Dr. Yao:

Subject: Audit Report 23-08, University Auxiliary Services, California State University Channel Islands

We have completed an audit of *University Auxiliary Services* as part of our 2023-2024 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 university personnel over the course of this review.

Sincerely,



Vlad Marinescu
Vice Chancellor and Chief Audit Officer

c: Mildred García, Chancellor
Lillian Kimbell, Chair, Committee on Audit
Anna Ortiz-Morfit, Vice Chair, Committee on Audit

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UNIVERSITY AUXILIARY SERVICES

**CALIFORNIA STATE UNIVERSITY
CHANNEL ISLANDS**

**AUDIT REPORT 23-08
JUNE 26, 2024**



EXECUTIVE SUMMARY

AUDIT OBJECTIVES AND BACKGROUND

In accordance with the fiscal year (FY) 2023/24 Audit Plan, as approved by the Board of Trustees, Audit and Advisory Services performed an audit of University Auxiliary Services, Inc. (UAS) at California State University Channel Islands (CSU Channel Islands).

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 related to UAS at CSU Channel Islands; and ensure compliance with relevant federal and state regulations, Trustee policy, Office of the Chancellor (CO) directives, and campus and auxiliary procedures.

CSU Channel Islands has three separate auxiliary organizations, each of which provides a function that contributes to the educational mission of the university. UAS is a nonprofit corporation responsible for commercial services on campus. UAS outsources the operations of the campus bookstore in exchange for commission on the revenues generated, provides a comprehensive dining services program for students and the campus community, and manages vending operations and catering services. Financial and administrative services for UAS are provided by the campus, and UAS is governed by a board of directors composed of representatives from the university and auxiliary administration, the faculty, the community, and the student body.

OVERALL 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 UAS as of March 14, 2024, taken as a whole, provided reasonable assurance that risks were being managed and objectives were met.

AUDIT SCOPE AND RESULTS

In our review, we found several issues relating to dining and vending services, as well as fiscal administration, that needed to be addressed. Specifically, we noted areas for improvement relating to expenditure review, dining policies and training, hiring and separation processes, and management of the vendor master file, as well as other issues detailed below. In our discussions with campus and UAS management, we learned that some of the issues noted were due in part to inadequate staffing and employee turnover. Campus and auxiliary management proactively started to address some of the observations noted during our fieldwork.

A summary of the observations noted in the report is presented in the table below. Further details are specified in the remainder of the report.

Area	Processes Reviewed	Audit Assessment
Governance and Compliance	Auxiliary governing documents, board of directors’ composition and meetings, cost allocation, budget and reserve policies, and conflicts of interest	<i>Observations noted in board of director conflict-of-interest forms</i>
Financial/Internal Controls	Cash receipts, accounts receivable, procurement, property and equipment, disbursements, personnel and payroll, and investments	<i>Observations noted related to expenditure processing, property reconciliations, hiring and separation processes, vendor master file review, escheatment processes, and the hospitality policy</i>
Commercial Services	Outsourced bookstore services, limited review of dining services, catering and conference services, and vending operations	<i>Observations noted related to administration of employee food handler and alcohol server training, food safety policies, and administration of vending contracts and commissions</i>

The audit focused on procedures in effect from January 1, 2022, through March 14, 2024. Our audit and evaluation included the audit tests we considered necessary in determining whether operational, administrative, and financial controls are in place and operative. Our review was limited to gaining reasonable assurance that essential elements of UAS were in place and did not examine all aspects of the program.

OBSERVATIONS, RECOMMENDATIONS, AND RESPONSES

1. EXPENDITURE PROCESSING

OBSERVATION

Documentation and review of expenditures needed improvement.

In accordance with the annual campus cost-allocation plan, campus financial services provides accounting support services to UAS and other auxiliaries.

We reviewed 40 expenditures for adequate support, appropriate approvals, and allowability of expenditures, and we found that:

- In nine instances, payment was not issued in a timely manner, ranging from 73 to 299 days past the invoice due date. The expenditures were related to equipment, supplies, contractual service, and food purchases. In our discussions with campus accounts payable, we learned that vendors may have submitted invoices late, contributing to the untimeliness of the payments.
- In one instance, a reimbursement request was submitted in an untimely manner. The business expense claim form, totaling \$3,093, was submitted in November 2023 for expenses that were incurred between December 2022 and June 2023.
- For seven expenditures related to food purchases, payment was issued without an approved purchase order. The *UAS Policy on Procurement* requires that purchases of more than \$3,000 have purchase order; the policy was updated during the audit period to increase the purchase order threshold to \$4,000. We noted that the purchases appeared to be appropriate in nature.
- In two instances, invoices related to food and beverage purchases had not been approved by UAS management. The *UAS Cash Receipts and Disbursements* policy requires that invoices be signed by the executive director or director of dining before payment is issued. We noted that the expenses appeared to be appropriate in nature.
- In four instances, we noted that disbursements were incorrectly recorded in the financial system, as follows:
 - In one instance, office and catering supply expenses were incorrectly recorded to a travel expense account.
 - In two instances, food and beverage purchases were improperly recorded to kitchen and office supplies accounts.
 - In one instance, travel expenses were incorrectly recorded to cost of goods sold.

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

RECOMMENDATION

We recommend that the campus, in conjunction with UAS:

- a. Provide training to full-time UAS staff and management on UAS expenditure policies and procedures, including proper approvals and timely submission of expenditure requests.

- b. Provide refresher training to campus accounts payable staff involved in processing UAS expenditures to address the areas noted above.

MANAGEMENT RESPONSE

We concur.

- a. The campus will provide training to full-time UAS staff and management on UAS expenditure policies and procedures, including proper approvals and timely submission of expenditure requests.
- b. The campus will provide refresher training to campus accounts payable staff involved in processing UAS expenditures to address the areas noted above.

The management actions will be completed by July 1, 2024.

2. DINING POLICIES, TRAINING, AND CERTIFICATIONS

OBSERVATION

Employees did not always timely complete food-handler and alcohol-server training, and UAS had not developed policies and procedures to address certain food safety areas.

Food Safety and Handling

Per the California Health and Safety Code (HSC), food handlers are required to obtain a food-handler card within 30 days after the date of hire. We reviewed food-handler training for 15 employees, and we found that six employees obtained the food-handler card more than 30 days after hire, ranging from 182 to 616 days past the hire date.

We also found that UAS food-handling policies did not include guidance on food contamination, allergens, and temperature controls.

Alcohol Serving

Per the California Business and Professions Code (BPC), alcohol servers must be at least 21 years old, complete Responsible Beverage Service (RBS) training from a training provider approved by the California Department of Alcohol Beverage Control (ABC), and pass an alcohol-server certification exam on the RBS portal to earn the server certification. In our discussions with UAS management, we found that UAS follows the campus alcohol policy; however, we noted that the campus policy did not include age, training, and certification requirements.

In addition, we reviewed alcohol certifications for six employees, and we found that:

- One employee, who separated from UAS in March 2023, had not completed RBS training or obtained the alcohol-server certification.
- Five employees did not complete RBS training from an ABC-approved provider in a timely manner. The RBS training requirement became effective in California beginning July 1, 2022. Three employees hired prior to July 2022 completed the training between 530 and 534 days after the deadline; in addition, one employee, who was hired after July 2022, finished the training 231 days after hire.

- Five employees had not completed the alcohol-server certification exam on the RBS portal, which became a requirement on July 1, 2022. During fieldwork, one of these employees passed the exam and obtained RBS certification.

Appropriate oversight and administration of employee training ensures that employees are adequately trained and cognizant of related policies and procedures and reduces legal and financial exposure from inappropriate actions. Complete policies can provide guidance and improve compliance with state laws and regulations.

RECOMMENDATION

We recommend that the campus, in conjunction with UAS:

- Update the campus *Policy on Alcohol* and UAS *Policy and Procedure Manual* to address food safety and alcohol-server requirements noted above, and communicate these updated policies and procedures to key UAS personnel.
- Establish a documented process to monitor and ensure timeliness of food-handler and alcohol-server training and certification completion.
- As applicable, ensure that the employees noted above complete required food-handler training and alcohol-server training and certifications, based on their roles.

MANAGEMENT RESPONSE

We concur.

- The campus will update the campus *Policy on Alcohol* and UAS *Policy and Procedure Manual* to address food safety and alcohol-server requirements noted above and communicate these updated policies and procedures to key UAS personnel.
- UAS will establish a documented process to monitor and ensure timeliness of food-handler and alcohol-server training and certification completion.
- UAS will ensure that the employees noted above complete required food-handler training and alcohol-server training and certifications, based on their roles.

The management actions b and c will be completed by September 1, 2024.

To allow time for appropriate bodies to approve policy changes in management action a, more time is needed. The target completion date for this is December 15, 2024.

3. VENDOR MASTER FILE

OBSERVATION

Vendor administration needed improvement.

In discussions with UAS management, we found that the campus is responsible for vendor approval and vendor file management processes. In our review, we noted that although vendor information was verified and authenticated before payments were disbursed, the campus had not performed a documented periodic review of the vendor master file to purge dormant vendors and identify duplicate vendors.

In discussions with campus management, we found that the campus attempted to develop an automated process to remove inactive vendors from the vendor master file in 2023 and had encountered a system issue that prevented modifications to the file. During fieldwork, the campus learned that the Office of the Chancellor (CO) had begun overseeing the process of removing inactive vendors from the vendor master file in 2023. Campus information technology (IT) submitted a ticket to the CO in March 2024, requesting that all campus and UAS vendors that had no activity for the previous three years be removed from the system.

Adequate oversight and regular review of the vendor master file decreases the risk of fraudulent payments and inappropriate modifications to vendor information.

RECOMMENDATION

We recommend that the campus, in conjunction with UAS:

- a. Update policies and procedures to reflect changes to processes to remove inactive and duplicate vendors from the vendor master file and communicate these updated policies and procedures to appropriate campus personnel.
- b. Provide evidence that vendor master file review, including removal of inactive and duplicate vendors, has been completed.

MANAGEMENT RESPONSE
<p>We concur.</p> <ul style="list-style-type: none">a. The campus will update policies and procedures to reflect changes to processes to remove inactive and duplicate vendors from the vendor master file and communicate these updated policies and procedures to appropriate campus personnel.b. The campus will provide evidence that vendor master file review, including removal of inactive and duplicate vendors, has been completed. <p>The management actions will be completed by July 1, 2024.</p>

4. EMPLOYEE HIRING AND SEPARATIONS

OBSERVATION

Administration of hiring and separation activities needed improvement.

New Hires

As part of the hiring process, an employment requisition form (which includes the new hire’s name, hiring department, position title, hourly rate or salary, and supervisor name) must be approved by the UAS executive director, UAS director of dining, and UAS budget analyst/human resources (HR) representative.

We reviewed 10 new hires, including six student employees and four staff employees, and found that in seven instances, employment requisition forms were missing approval from the UAS budget analyst/HR representative. In one of these instances, the form was also missing approval from the UAS executive director.

We also found that the UAS *Employee Handbook* did not reflect the current new-hire process, including procedures for ensuring that new-hire forms, onboarding tasks, and mandatory training were timely completed and reviewed.

Separations

When an employee separates from UAS, UAS HR is responsible for sending the employee’s information to a separations chair group email, which includes campus accounting, IT, facilities, and payroll, to ensure the return of UAS property and removal of IT access.

We reviewed 10 student employee separations and found that for eight employees, HR sent the separated employee information to the separations chair group email from 31 to 182 days after the last date of employment. In discussions with UAS management, we found that in some cases, UAS was notified of the employee’s resignation one to two months after their last day of work, which contributed to the delay in sending the email to the separations chair group. However, we confirmed that property had been returned and IT access was removed upon notification to the separations chair.

Effective administration of hiring and separation activities helps to ensure compliance with legal requirements, protects auxiliary information and assets, and reduces the risk of errors.

RECOMMENDATION

We recommend that the campus, in conjunction with UAS:

- a. Update the UAS *Employee Handbook* as applicable to address the issues noted above and communicate the updates to appropriate auxiliary personnel.
- b. Provide training on new-hire and separation policies to UAS management and HR staff to ensure that new-hire forms are approved by required personnel and separation activities are completed in a timely manner.

MANAGEMENT RESPONSE

We concur.

- a. The campus will update the UAS *Employee Handbook* as applicable to address the issues noted above and communicate the updates to appropriate auxiliary personnel.
- b. The campus will provide training on new-hire and separation policies to UAS management and HR staff to ensure that new-hire forms are approved by required personnel and separation activities are completed in a timely manner.

The management actions will be completed by September 1, 2024.

5. SERVICE AGREEMENTS

OBSERVATION

Administration of the services agreement between UAS and Canteen of Coastal California (Canteen) needed improvement. Further, we found that the campus had not executed a business service agreement with UAS related to the services provided to the auxiliary.

Contract Terms and Execution

We found that:

- The vending services agreement between UAS and Canteen did not include an indemnification clause and a right-to-audit clause.
- The first amendment to the contract between UAS and Canteen had an effective date of December 6, 2022, but was not executed until March 30, 2023. Additionally, the term of the first amendment to the contract ended on December 5, 2023, although services were still being provided.

During fieldwork, UAS began the process of extending the vending service contract, and a second amendment was executed on March 14, 2024, with an effective date of March 1, 2024. The second amendment included the addition of the missing clauses noted above.

Commission Payments

We found that written policies had not been developed for the periodic audit of sales commissions to ensure that commission receipts were computed in accordance with contractual requirements.

We reviewed three months of commission statements submitted by Canteen and found that commissions were not calculated based upon the agreed-upon commission rates for snack and beverage products stated in the contract. Instead, commissions were calculated with different rates that were inconsistent from month to month. As a result, the commission received by UAS, specifically for July to September 2023, was understated by approximately \$335.

Business Service Agreement

The campus provides services to UAS, including, but not limited to, accounting and risk management. Although UAS had reimbursed the campus for these services, a business services agreement or memorandum of understanding outlining the services provided by the campus to UAS was not in place.

Proper administration of operating and administrative agreements helps ensure compliance with systemwide policies and inclusion of required terms and provisions and reduces the risk of misunderstandings of responsibilities and liabilities. Periodic review of sales commissions helps to ensure that commission payments are accurate.

RECOMMENDATION

We recommend that the campus, in conjunction with UAS:

- a. Develop a process for monitoring agreements and contracts to ensure that when applicable, they are renewed or amended timely.
- b. Ensure that future agreements include all standard provisions.
- c. Develop and implement written policies and procedures that address periodic audits of sales commissions to ensure that vendor commissions receipts are calculated in accordance with contractual requirements.
- d. Develop an annual business service agreement with UAS that outlines the various services provided by the campus.

MANAGEMENT RESPONSE

We concur.

- a. The campus will develop a process for monitoring agreements and contracts to ensure that when applicable, they are renewed or amended timely.
- b. The campus will ensure that future agreements include all standard provisions.
- c. The campus will develop and implement written policies and procedures that address periodic audits of sales commissions to ensure that vendor commissions receipts are calculated in accordance with contractual requirements.
- d. The campus will develop an annual business service agreement with UAS that outlines the various services provided by the campus.

The management actions will be completed by September 1, 2024.

6. PROPERTY RECONCILIATION

OBSERVATION

Property and equipment reconciliations had not been completed during the audit period.

Per *CSUCI Administration of University Property Equipment Procedures*, the campus will complete monthly or quarterly reconciliations to ensure that all capital assets received have been entered into the asset management system and capitalized. The auxiliary accounting unit, which is part of campus financial services, is responsible for performing the property reconciliation.

We found that documented property reconciliations were not completed for UAS assets. In discussions with UAS and campus management, we found that the auxiliary accounting unit periodically asked the UAS executive director about recent asset acquisitions and disposals to ensure that the capital asset schedule was accurate and complete.

Reconciliation of fixed assets helps to ensure the accuracy of property records and reduces the risk of loss and inappropriate use of resources.

RECOMMENDATION

We recommend that the campus, in conjunction with UAS, implement a process to perform and document periodic property reconciliations between the fixed assets sub-ledger and the general ledger.

MANAGEMENT RESPONSE

We concur. The campus, in conjunction with UAS, will implement a process to perform and document periodic property reconciliations between the fixed assets sub-ledger and the general ledger.

The management actions will be completed by September 1, 2024.

7. ESCHEATMENT

OBSERVATION

The campus did not always timely escheat UAS long-outstanding checks to the state, as required by the

Code of Civil Procedure (CCP) Title 10, *Unclaimed Property*, and Chapter 7, *Unclaimed Property Law*, Article 2, §1510 and §1511.

We found that five unclaimed checks totaling \$2,400 issued from February to December 2019 had not been escheated to the state. Per CCP Title 10, checks that are outstanding for more than three years are required to be escheated to the state. Items that are not escheated to the state will be assessed interest of 12 percent per year from the date the property should have been reported, paid, or delivered, not to exceed \$10,000. In December 2023, the auxiliary accounting unit, which is part of campus financial services, developed a *UAS Escheat Process* policy to provide detailed guidelines on escheating unclaimed checks to the state controller’s office, in accordance with the law.

Adequate administration of unclaimed property helps ensure regulatory compliance and reduced likelihood of fines.

RECOMMENDATION

We recommend that the campus, in conjunction with UAS, timely and properly escheat UAS long-outstanding checks to the state in accordance with the UAS escheatment policy.

MANAGEMENT RESPONSE
<p>We concur. The campus, in conjunction with UAS, will timely and properly escheat UAS long-outstanding checks to the state in accordance with the UAS escheatment policy.</p> <p>The management actions will be completed by July 1, 2024.</p>

8. HOSPITALITY POLICY

OBSERVATION

The campus policy that UAS used for hospitality payments did not address all requirements in the California State University (CSU) *Hospitality Policy*.

We found that the CSUCI *Policy on Hospitality Prizes, Awards, Gifts, and Incentives* did not address authorization and documentation requirements for hospitality-related expenditures, nor did it include a maximum per-person rate for employee meetings that included breakfast, lunch, dinner, and light refreshments.

In discussions with UAS management, we found that hospitality expenditures are rarely incurred and UAS had no hospitality expenses during the audit period. Further, the campus was in the process of updating the hospitality policy. We obtained a draft version of the policy, and we noted that it included guidance on authorization and documentation requirements, as well as specified maximum per-person rates for meals.

Complete and properly defined hospitality policies and procedures enhance compliance with auxiliary and systemwide requirements.

RECOMMENDATION

We recommend that the campus, in conjunction with UAS, finalize the updates to the hospitality policy to address the issues noted above and communicate these procedures to appropriate auxiliary personnel.

MANAGEMENT RESPONSE

We concur. The campus, in conjunction with UAS, will finalize the updates to the hospitality policy to address the issues noted above and communicate these procedures to appropriate auxiliary personnel.

The management actions will be completed by September 1, 2024.

9. CONFLICT OF INTEREST

OBSERVATION

Administration of COI forms at UAS needed improvement.

COI forms are usually administered at the May board meeting to cover the previous fiscal year. New board members complete the forms at the time they start and then regularly complete them at the May board meetings.

We reviewed COI statements for the seven board members and found that:

- One board member had not completed a COI statement for FY 2022/23. The board member, who was a student representative, left the board shortly after the May 2023 board meeting.
- One board member did not complete a COI statement in a timely manner, as their statement for FY 2022/23 was not completed until December 2023.

Completion of COI statements from all auxiliary board members helps to ensure compliance with the organization’s policies.

RECOMMENDATION

We recommend that the campus, in conjunction with UAS, develop a process to monitor completion of COI forms for all board members and consider automation of the process to ensure forms are obtained in a timely manner.

MANAGEMENT RESPONSE

We concur. The campus, in conjunction with UAS, will develop a process to monitor completion of COI forms for all board members and consider automation of the process to ensure forms are obtained in a timely manner.

Management actions will be completed by July 1, 2024.

GENERAL INFORMATION

ADDITIONAL 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. 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 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.

Utilization of Campus Auxiliary Organizations, dated June 6, 2011, represents Trustee policy addressing appropriate use of CSU auxiliary organizations. This policy requires CSU auxiliary organizations to operate within the regulations and oversight of the campus. The policy 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.

CRITERIA

Our audit was based upon standards as set forth in federal and state regulations and guidance, Trustee policy, Office of the Chancellor directives, and campus 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*
- CCP Title 10, *Unclaimed Property*, §1510 and §1511
- Education Code (EC) §89720
- EC §89756
- EC §89900a
- EC §89904
- California BPC §25682
- California HSC §113948
- CSU *Utilization of Campus Auxiliary Organizations*
- CSU *Hospitality Policy*
- CSU *Placement and Control of Receipts for Campus Activities and Programs*
- CSU *Auxiliary Organizations Compliance Guide*
- CSU *Auxiliary Organizations Sound Business Practices Guidelines*
- CSU Channel Islands *Administration of University Property Equipment Procedures*
- CSU Channel Islands *Policy on Alcohol*
- CSU Channel Islands *Policy on Hospitality, Prizes, Awards, Gifts, and Incentives*
- CSU Channel Islands *Vendor Setup and Approval Process*
- UAS *Cash Receipts and Disbursements Policy*
- UAS *Conflict of Interest Policy*
- UAS *Cost Allocation Policy*
- UAS *Employee Handbook*
- UAS *Escheat Process*
- UAS *Food Safety Procedures*
- UAS *Policy on Procurement*

AUDIT TEAM

Audit Manager: Kyle Ishii
Senior Auditor: Janaki Nakum
Internal Auditor: Ron Best