

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

September 17, 2024

Dr. Tomás D. Morales, President
California State University, San Bernardino
5500 University Parkway
San Bernardino, CA 92407

Dear Dr. Morales:

**Subject: Audit Report 23-40, University Enterprises Corporation,
California State University, San Bernardino**

We have completed an audit of the *University Enterprises Corporation* 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 ENTERPRISES CORPORATION

**CALIFORNIA STATE UNIVERSITY,
SAN BERNARDINO**

**AUDIT REPORT 23-40
SEPTEMBER 17, 2024**

COLLEGE OF EDUCATION

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 the University Enterprises Corporation (UEC) at California State University, San Bernardino (CSUSB).

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 UEC at CSUSB and ensure compliance with relevant federal and state regulations, Trustee policy, Office of the Chancellor (CO) directives; and university and auxiliary procedures.

CSUSB has four separate auxiliary organizations, each of which provides a function that contributes to the educational mission of the university. UEC is a nonprofit corporation responsible for commercial services, campus program accounts, and certain externally funded programs. Additionally, UEC provides childcare services to students, faculty, staff, and the local community through the Children's Center and Infant-Toddler Lab Center. UEC is governed by a board of directors composed of representatives from the university and auxiliary administration, faculty, community, and student body.

At CSUSB, the office of research and sponsored programs (ORSP) and the office of sponsored programs administration (SPA), a department within CSUSB's office of academic research, share responsibility for the administration of sponsored programs. UEC, as an auxiliary organization, is the designated recipient of all sponsored projects that are awarded on behalf of CSUSB and administered by SPA. Pre-award activities are administered by the ORSP. Post-award activities, including financial administration and reporting, expenditure processing and review, cost sharing, issuance of subcontracts, subrecipient monitoring, and personnel administration, are administered by the SPA. In FY 2022/23, CSUSB had \$21 million in federal sponsored programs expenditures.

OVERALL CONCLUSION

Based upon the results of the work performed within the scope of the audit, the operational, administrative, and financial controls for UEC as of June 10, 2024, were unlikely to provide reasonable assurance that risks were being managed and objectives were met.

AUDIT SCOPE AND RESULTS

In general, we found that compliance with California State University (CSU) policies and procedures was inadequate. Our review noted that improvement was needed in key areas related to auxiliary governance, financial controls, and sponsored programs.

Specifically, we found that UEC did not have documented agreements in place with the university to detail the financial services provided by the university, and UEC's ground and facility leases with the university had expired. In addition, some delegations of authority (DOA) from the UEC board to the UEC executive director (ED) were not documented and did not always reflect sound business practices. For example, we noted that there was no documented DOA in place for the ED's authority to approve expenditures, and the ED had the authority to execute investment transactions without additional board oversight. In our review, we identified a \$900,000 contribution to university housing that was approved by the ED without prior approval from the board, although the board was informed subsequent to the transaction. We also found that the university budget approval process did not allow for timely approval of the UEC budget by the

university president.

Through review of UEC’s operating budgets and audited financial statements, we found that UEC had incurred an operating loss for the last three fiscal years, mainly due to dining services operations. This raises doubts about dining services’ ability to be financially self-supporting in the future, which is required by California Education Code. UEC management indicated that it has explored various opportunities to generate revenue and reduce costs in future years; however, there is currently no documented strategic or long-term plan in place for dining services operations.

With regard to financial controls, we noted issues in a number of areas, including cash receipts, procurement and contracting, credit cards, and reconciliation processes. In the administration of sponsored programs, we found that effort reports did not always contain accurate information, and a complete physical inventory for property and equipment had not been performed since 2018. Furthermore, expenditure transactions did not consistently meet documentation and approval requirements. 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, conflicts of interest, and risk management	<i>Observations noted in governing documents, audit committee composition, agreements with the university and third parties, budgets, operating losses, and required discrimination training</i>
Financial/Internal Controls	Cash receipts, accounts receivable, procurement, property and equipment, disbursements, personnel and payroll, investments, and campus program accounts	<i>Observations noted in cash receipts, procurement, property and equipment, and campus program accounts</i>
Commercial Services	Outsourced bookstore and dining services	<i>Observations noted in dining commission review</i>
Children’s Center	Student files, personnel and payroll, grant administration, expenditures, and applications	<i>Effective – no reportable observations noted</i>
Sponsored Programs	Administration, allowable costs, effort reporting, subrecipient monitoring, and conflict-of-interest reporting and training	<i>Observations noted in allowable costs, effort reporting, subrecipient monitoring, and conflict-of-interest training</i>

The audit focused on procedures in effect from July 1, 2022, through June 10, 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 UEC were in place and did not examine all aspects of the program.

OBSERVATIONS, RECOMMENDATIONS, AND RESPONSES

1. AGREEMENTS WITH THE UNIVERSITY

Lease agreements for the use of university facilities and memoranda of understanding (MOU) for university services were not always properly documented.

Section 13 in the operating agreement between the CSU and UEC states that the auxiliary may use facilities identified for its use in a lease agreement executed between the university and auxiliary. Section 14 further states that the auxiliary may contract with the university for services to be performed by state employees for the benefit of the auxiliary, and that any agreement must be documented in a written MOU between the auxiliary and the university. However, we found that:

- Two leases that UEC had with the CSU Board of Trustees – a facilities operation agreement and lease for the Children’s Center and the ground lease for UEC’s building and neighboring academic research building – expired in 2016 and 2017, respectively. UEC did not have a current agreement in place for either lease. However, based on review of the original and expired lease agreements, there were no financial implications as the terms of the leases documented an exchange of value between the two entities and did not require UEC to pay rent to the university.
- Financial services were provided to UEC by CSUSB’s accounting services department, and costs were recovered through the university’s cost allocation plan. However, there was no MOU in place to detail the terms of that agreement, as required.
- UEC operates the university dining commons hall without an executed MOU with the university. According to UEC management and as included in UEC’s budget, UEC pays the operating, repairs, and maintenance expenses for the dining commons, in lieu of paying rent to the university. However, the terms of the arrangement are not documented.

In addition, after the retirement of the previous UEC ED, the university’s associate vice president (AVP) for finance and administrative services was appointed as the interim ED as of February 1, 2024. According to UEC management, this was not intended to be a short-term appointment. However, a written service agreement had not been established between the university and UEC for the assignment of the state employee. Due to potential CalPERS implications, the university should confirm that all documentation and practices support the employment understanding established between the university and the auxiliary organization and comply with the common law employment test.

Proper execution of agreements between the auxiliary and the university decreases the risk of misunderstandings and miscommunication regarding the rights and responsibilities of each party and helps to ensure compliance with applicable state and systemwide guidance.

RECOMMENDATION

We recommend that the university, in conjunction with UEC:

- a. Execute and maintain current agreements that establish the arrangements for the continued use of university facilities and space.
- b. Establish and execute an MOU detailing the terms agreed upon between the university and UEC for the operation of the dining commons.

- c. Establish and execute an MOU detailing the types of financial services that the university provides to UEC.
- d. Establish a state service agreement to document the assignment of the university AVP as the interim ED, ensuring it contains the provisions specified in Section 14 of the operating agreement, and consulting with counsel to ensure that documentation and practices support the employment understanding established between the university and UEC.

MANAGEMENT RESPONSE

We concur. Our campus will, in conjunction with UEC:

- a. Execute and maintain current agreements that establish the arrangements for the continued use of university facilities and space.
- b. Establish and execute an MOU detailing the terms agreed upon between the university and UEC for the operation of the dining commons.
- c. Establish and execute an MOU detailing the types of financial services that the university provides to UEC.
- d. Establish a state service agreement to document the assignment of the university AVP as the interim ED, ensuring it contains the provisions specified in Section 14 of the operating agreement, and consulting with counsel to ensure that documentation and practices support the employment understanding established between the university and UEC.

Estimated completion date: May 30, 2025

2. DELEGATION OF AUTHORITY

OBSERVATION

Administration of UEC DOAs and fiscal oversight needed improvement.

Specifically, DOAs for various activities were not always documented, or the delegation in place did not reflect sound business practices. Specifically:

- As stated in the UEC procurement policy, for capital purchases over \$50,000, the ED is authorized to expend beyond the budget an accumulated total of \$50,000 per semester. If the purchase exceeds \$50,000, the ED will request the purchase be approved by the board. However, the policy does not address the ED’s authority regarding non-capital purchases. Based on management discussion, the ED authorized both capital and non-capital purchases.
- Through a review of disbursements, we found that there was no documented DOA in place for the ED’s authority to approve expenditures. Although the ED was authorized to approve expenditures in the financial system (PeopleSoft), there was no delegation memo from the board or delegation policy approved by the board to support the ED’s expenditure authority.
- The investment policy states that the authority to execute investment transactions is under the general direction of the ED, without additional board oversight. In our review, we noted total transfers of \$4,000,000 from the investment account to the operating account, without a documented purpose or board approval. According to management, this was for cash flow purposes. Although it is not uncommon for management to move funds to meet short-term cash

flow purposes, without sufficient documentation, it is not a sound business practice.

- We identified a contribution of \$900,000 made to student housing that was not pre-approved by the UEC board or included in the UEC budget. UEC management stated that the contribution was to cover housing’s operating losses due to COVID and the debt service payment and that the contribution was reported to the board after it had occurred.

A current and comprehensive documentation of DOAs provides assurance that all decisions made on behalf of UEC are consistent with the mission of the university and do not pose reputational or financial risk.

RECOMMENDATION

We recommend that the university, in conjunction with UEC:

- a. Develop and implement a documented process to ensure that fiscal authority is delegated to the appropriate level of specificity, including the types of transactions and thresholds.
- b. Update policies and procedures to address issues related to DOAs noted above and obtain board approval when appropriate.
- c. Communicate and distribute the policies and procedures to appropriate personnel.

MANAGEMENT RESPONSE

We concur. Our campus will, in conjunction with UEC:

- a. Develop and implement a documented process to ensure that fiscal authority is delegated to the appropriate level of specificity, including the types of transactions and thresholds.
- b. Update policies and procedures to address issues related to DOAs noted above and obtain board approval when appropriate.
- c. Communicate and distribute the policies and procedures to appropriate personnel.

Estimated completion date: May 30, 2025

3. OPERATING LOSS

OBSERVATION

UEC had incurred operating losses mainly due to the operations of dining services, which raises substantial doubt about dining services’ ability to be financially self-supporting in the future.

Education Code §89905 states that operations of commercial services on a campus of the CSU, such as a food service or bookstore, or any commercial services that may be provided in a state university union, shall, when operated by an auxiliary organization, be self-supporting.

Based on UEC board-approved budget documents, UEC dining services had actual operating losses of:

- \$1,392,469 in FY 2020/21
- \$3,883,397 in FY 2021/22

- \$695,151 in FY 2022/23

Additionally, based on the board-approved budget for FY 2024/25, dining services has:

- A \$940,764 projected loss for FY 2023/24
- A \$1,337,468 budgeted loss for FY 2024/25

According to UEC management, there have been discussions exploring potential revenue-generating activities and cost reductions in the future, and these discussions are demonstrated in board meeting minutes. However, there are no detailed long-term plans to ensure dining services’ self-sufficiency.

Proper management of auxiliary funds helps to enhance financial planning processes and allows the auxiliary to make decisions that are consistent with the university’s mission.

RECOMMENDATION

We recommend that the university, in conjunction with UEC:

- Evaluate outsourced dining services and establish a documented process to analyze its performance periodically to identify any root causes that may be leading to underperformance.
- Develop a documented long-term strategic plan to ensure that dining services operations comply with Education Code requirements.

MANAGEMENT RESPONSE

We concur. Our campus will, in conjunction with UEC:

- Evaluate outsourced dining services and establish a documented process to analyze its performance periodically to identify any root causes that may be leading to underperformance.
- Develop a documented long-term strategic plan to ensure that dining services operations comply with Education Code requirements.

Estimated completion date: May 30, 2025

4. UNIVERSITY BUDGET APPROVAL

OBSERVATION

The self-support budget packet was not timely approved by the university.

We reviewed UEC’s budget documentation for FY 2022/23 and FY 2023/24 and found that the UEC board approved the FY 2022/23 budget in September 2022 and the FY 2023/24 budget in May 2023. However, the university president’s documented review and approval of both years’ budgets took place eight months into the new fiscal year, in February of the following year. According to management, each self-support area of the university is responsible for preparing and presenting their budget individually to the president. Once all budgets are presented, the president reviews each one and approves them in one packet, resulting in a significant delay in presidential approval.

Timely submission and approval of the auxiliary’s budget, including appropriate reviews and approvals, helps to ensure proper oversight and appropriate use of financial resources and enhance financial-

planning processes.

RECOMMENDATION

We recommend that the university evaluate the current budget-approval processes and update them as necessary to ensure budgets are timely reviewed and approved.

MANAGEMENT RESPONSE
We concur. Our campus will evaluate the current budget-approval processes and update them as necessary to ensure budgets are timely reviewed and approved. Estimated completion date: March 5, 2025

5. COMMISSION RECEIPTS

OBSERVATION

UEC did not have a documented review process for dining services commission receipts, and the support provided for the commission receipts was not always adequate or timely submitted.

UEC has outsourced the operations of dining services to Chartwells. We reviewed commission revenue for January 2024 to March 2024 and found that, although UEC tracks payments received from Chartwells, the spreadsheet provided by Chartwells did not identify sales by location and was not supported by a sales ledger so that UEC could verify commission amounts. Additionally, there was no evidence to show that actual sales were reviewed by UEC to ensure the commission received was accurate and complete. Further, the commission rates paid by Chartwells did not agree with the commission rates in the executed contract and amendments that were provided.

Furthermore, the reporting and payment from Chartwells for alcohol sales was inconsistent and did not comply with the contract terms. Section 7f of amendment one to the contract indicates that Chartwells shall provide a monthly report to UEC that includes total alcohol sales for that month, the respective sales tax collected for said sales, and a payment for the exact amounts as detailed in the report. However, we found that the report did not contain sales tax information, and sales and payments were paid incrementally at different times throughout the month. Specifically:

- The January payment included alcohol sales from October and December.
- January alcohol sales were combined with February sales and paid in the month of March.
- March alcohol sales were paid in three different payments.

Adequate review of commission receipts helps to ensure that commission payments are accurate and timely and that UEC receives all amounts due to them.

RECOMMENDATION

We recommend that the university, in conjunction with UEC:

- a. Develop a documented process that addresses review of commission receipts to ensure that commissions are paid in accordance with contractual requirements.

- b. Communicate to the vendor the contract terms and requirements for the appropriate sales reports and backup for commission calculations that must be provided.

MANAGEMENT RESPONSE
<p>We concur. Our campus will, in conjunction with UEC:</p> <ul style="list-style-type: none"> a. Develop a documented process that addresses the review of commission receipts to ensure that commissions are paid in accordance with contractual requirements. b. Communicate to the vendor the contract terms and requirements for the appropriate sales reports and backup for commission calculations that must be provided. <p>Estimated completion date: March 5, 2025</p>

6. GOVERNANCE AND COMPLIANCE

OBSERVATION

UEC’s governance and compliance with applicable government codes needed improvement.

Specifically, we found that:

- Three of five audit committee members in FY 2022/23 were also finance committee members, and three of six audit committee members in FY 2023/24 were also on the finance committee. Government Code §12586 states that members of the finance committee may serve on the audit committee; however, the members of the finance committee shall constitute less than one-half of the membership of the audit committee.
- UEC’s risk management policy addressed insurance requirements and special events; however, it did not include a detailed process to annually assess risk. In addition, UEC did not perform an annual risk assessment and was not included in the university’s annual risk assessment.
- As of May 15, 2024, 152 out of 805 UEC employees had not completed required training. Specifically, 51 employees had not completed the Discrimination and Harassment Prevention Program, 72 had not completed the Gender Equity and Title IX training, and 29 were missing both. Although the training is administered through CSU Learn, UEC is responsible for following up with employees to ensure training is completed.

Appropriate governance and adherence to bylaws and policies and procedures help to ensure compliance with legal mandates and provides oversight to the organization’s internal controls.

RECOMMENDATION

We recommend that the university, in conjunction with UEC:

- a. Review the composition of the UEC’s audit committee and finance committee and reappoint members as necessary so the committee composition is in accordance with the California Government Code.
- b. Update the UEC risk management policy to include a process for performing an annual risk assessment and complete an annual documented risk assessment for UEC.

- c. Develop a documented process for monitoring employees with overdue or incomplete training, including addressing escalation procedures for noncompliance.
- d. Follow up with the employees noted above to ensure that they complete mandatory training.

MANAGEMENT RESPONSE

We concur. Our campus will, in conjunction with UEC:

- a. Review the composition of the UEC’s audit committee and finance committee and reappoint members as necessary so the committee composition is in accordance with the California Government Code.
- b. Update the UEC risk management policy to include a process for performing an annual risk assessment and complete an annual documented risk assessment for UEC.

Estimated completion date: May 30, 2025

- c. Develop a documented process for monitoring employees with overdue or incomplete training, including addressing escalation procedures for noncompliance.
- d. Follow up with the employees noted above to ensure that they complete mandatory training.

Estimated completion date: March 5, 2025

7. PROCUREMENT

OBSERVATION

Procurement processes needed improvement.

We reviewed five open purchase orders (PO) outstanding for more than 160 days as of May 15, 2024, and found that four POs totaling \$58,257 were outstanding from 168 to 2,043 days and had not been disencumbered or removed from the PO system. In all four instances, services or goods had been provided and billed, but the invoices were not applied against the PO when accounts payable processed the vendor payment, leaving a remaining open balance. During our audit fieldwork, accounting services closed out the POs in the financial system.

In addition, we reviewed 13 purchases that required informal or formal bidding and found that for 11 of them, a sole-source justification (SSJ) form was submitted instead of the required three quotes or bids. According to the UEC *Procurement Policy*, purchases between \$10,000 and \$50,000 require a PO and a minimum of three written quotes, and purchases in excess of \$50,000 require a PO and three formal bids. An SSJ form may be used when unsuccessful efforts have been made to obtain quotes or bids, or when there are unique performance factors or other circumstances that limit quotations to one source and/or a brand or trade name. For the purchases we reviewed, the SSJ did not always demonstrate unique features or specifications of the goods or services being procured that would allow the purchaser to forego the required three quotes or bids.

Proper administration of purchasing reduces the risk of errors and irregularities, provides transparency, and decreases the potential for fraud, waste, and abuse.

RECOMMENDATION

We recommend that the university, in conjunction with UEC:

- a. Develop a documented process to periodically review open POs and close out long-outstanding POs as appropriate.
- b. Provide refresher training to appropriate personnel preparing and approving purchasing documents regarding the university’s requirements, including obtaining the required quotes or bids and properly completing and supporting the SSJ forms.

MANAGEMENT RESPONSE
<p>We concur. Our campus will, in conjunction with UEC:</p> <ul style="list-style-type: none"> a. Develop a documented process to periodically review open POs and close out long-outstanding POs as appropriate. b. Provide refresher training to appropriate personnel preparing and approving purchasing documents regarding the university’s requirements, including obtaining the required quotes or bids and properly completing and supporting the SSJ forms. <p>Estimated completion date: March 5, 2025</p>

8. THIRD-PARTY AGREEMENTS

OBSERVATION

Administration of third-party agreements needed improvement.

We reviewed 10 contractual agreements with third-party entities and found that:

- Two agreements did not contain a right-to-audit clause.
- One agreement was signed by the vice president for student affairs, who does not have delegated authority to sign contracts on behalf of UEC.

In addition, we found that UEC did not have a written agreement with a food truck vendor who provided food services to students and staff at the Palm Desert campus. Payments to the vendor totaled \$63,584 in FY 2022/23 and \$6,669 in FY 2023/24 as of December 31, 2023.

Appropriately 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 university, in conjunction with UEC:

- a. Establish a process to ensure that the right-to-audit clause is included in future contracts, and work with the vendors identified above to include a right-to-audit clause with the next contract amendment or renewal.

- b. Perform a risk evaluation for the food truck vendor to ensure that significant risks are mitigated and that appropriate insurance is in place.
- c. Remind appropriate employees who review and process contracts about who can sign contracts on behalf of UEC.
- d. Evaluate the current processes for contracts and implement changes as necessary to ensure that contracts are executed when appropriate.

MANAGEMENT RESPONSE

We concur. Our campus will, in conjunction with UEC:

- a. Establish a process to ensure that the right-to-audit clause is included in future contracts, and work with the vendors identified above to include a right-to-audit clause with the next contract amendment or renewal.
- b. Perform a risk evaluation for the food truck vendor to ensure significant risks are mitigated and that appropriate insurance is in place.
- c. Remind appropriate employees who review and process contracts about who can sign contracts on behalf of UEC.
- d. Evaluate the current processes for contracts and implement changes as necessary to ensure that contracts are executed when appropriate.

Estimated completion date: March 5, 2025

9. CREDIT CARD PROGRAMS

OBSERVATION

UEC did not always follow the university’s corporate card policies.

In 2023, CSUSB replaced all forms of purchasing cards with one corporate card. As part of that transition, all UEC employees who were previous cardholders also had their cards replaced with corporate cards and were expected to abide by the university corporate card policy.

We reviewed 15 credit card statements for five individuals and found that:

- In three instances, credit cards were not reconciled timely by the 26th of the following month as required by the university’s *Corporate Card Policy*. Specifically, the statements were reconciled between 17 and 37 days past the due date.
- In three instances, purchases of energy-consuming devices for a total of \$7,471 and cleaning supplies and equipment were made without obtaining pre-approval from other university departments (facilities services and custodial services), as required by the corporate card policy.
- In one instance, a food purchase in the amount of \$462 for program participants was not supported with an itemized receipt.

Timely reconciliation and adequate support and approvals for credit card purchases helps to ensure compliance with policies and procedures and can help reduce the risk of errors.

RECOMMENDATION

We recommend that the university, in conjunction with UEC:

- a. Remind cardholders and approving officials of the reconciliation deadlines and itemized receipt requirements and ensure timely reconciliation of corporate cards each month.
- b. Evaluate and update the pre-approval process as necessary to address the issues noted above and communicate any changes to UEC corporate cardholders.

<p>MANAGEMENT RESPONSE</p>

<p>We concur. Our campus will, in conjunction with UEC:</p>

- | |
|--|
| <ul style="list-style-type: none">a. Remind cardholders and approving officials of the reconciliation deadlines and itemized receipt requirements and ensure timely reconciliation of corporate cards each month.b. Evaluate and update the pre-approval process as necessary to address the issues noted above and communicate any changes to UEC corporate cardholders. |
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<p>Estimated completion date: March 5, 2025</p>

10. CAMPUS PROGRAM ACCOUNTS

OBSERVATION

Administration of campus program accounts needed improvement.

Specifically, in our review of campus program accounts, we found that:

- UEC did not obtain a DOA from the university president to manage campus programs, as required by CSU’s *Placement and Control of Receipts for Campus Activities and Programs*.
- UEC did not have policies or procedures in place to review funds with deficits and work with university colleges or departments to resolve the deficit balances. We obtained a trial balance for the GEN05 funds that UEC considered campus programs and found that three of the 15 funds were in deficit.
- UEC did not have policies and procedures in place to periodically review campus program funds to identify and address non-active or discontinued campus activities or programs and did not perform such reviews.

Proper management of campus program accounts decreases the risk of non-compliance with relevant requirements and misunderstandings regarding rights and responsibilities.

RECOMMENDATION

We recommend that the university, in conjunction with UEC:

- a. Document a DOA to UEC to manage campus program funds.

- b. Develop and implement written procedures to consistently monitor funds to identify accounts with a deficit balance and/or inactivity and document follow-up activities performed.

MANAGEMENT RESPONSE
<p>We concur. Our campus will, in conjunction with UEC:</p> <ul style="list-style-type: none"> a. Document a DOA to UEC to manage campus program funds. b. Develop and implement written procedures to consistently monitor funds to identify accounts with a deficit balance and/or inactivity and document follow-up activities performed. <p>Estimated completion date: March 5, 2025</p>

11. CASH HANDLING

OBSERVATION

Approval of cash-handling locations and petty cash fund authorizations was not always documented appropriately, and petty cash surprise counts were not performed.

Specifically, the university cash-handling policy requires all university and auxiliary departments collecting payments for goods or services to be delegated authority to do so by the director of accounting. This delegation is to be documented and approved in a Request to Establish/Maintain Cashiering Collections Point form and filed each new fiscal year beginning July 1. However, the university did not have an authorized form on file for UEC or for the Infant-Toddler Lab since FY 2019/20. In addition, although a form had been filed for the Children’s Center for FY 2023/24, it was not authorized by accounting as required.

Additionally, the Children’s Center and Infant-Toddler Lab each had a petty cash fund of \$200 and \$350, respectively; however, the form on file to establish the petty cash fund for the Children’s Center was not signed by accounting to indicate its approval. Furthermore, there was no evidence that independent counts had been performed for either petty cash fund as required by the university’s cash-handling policy and procedures.

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 university:

- a. Work with UEC to ensure a Request to Establish/Maintain Cashiering Collection Point form is updated for each authorized location and filed each year.
- b. Ensure that all authorizations of petty cash funds are signed by the appropriate accounting official.
- c. Perform and document independent petty cash fund counts with the frequency noted in the university’s policy and procedures.

MANAGEMENT RESPONSE

We concur. Our campus will:

- a. Work with UEC to ensure a Request to Establish/Maintain Cashiering Collection Point form is updated for each authorized location and filed each year.
- b. Ensure that all authorizations of petty cash funds are signed by the appropriate accounting official.
- c. Perform and document independent petty cash fund counts with the frequency noted in the university’s policy and procedures.

Estimated completion date: March 5, 2025

12. BANK RECONCILIATIONS

OBSERVATION

The bank reconciliation process needed improvement.

We reviewed the three most recent bank reconciliations in the audit period and found that reconciling items were not always adjusted timely. In the bank reconciliation from February 2024, we identified outstanding checks that were expired. Although accounts payable checks indicate under the signature lines that checks are void after six months of issuance, the outstanding checks listed in the February 2024 bank reconciliation, which totaled \$21,297.11, were dated from July 2020 to August 2023.

Adjustment 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 university, in conjunction with UEC:

- a. Update policies and procedures to address timely adjustment of reconciling items and communicate the updated policies and procedures to appropriate personnel.
- b. Adjust the unresolved reconciling items noted above.

MANAGEMENT RESPONSE

We concur. Our campus will, in conjunction with UEC:

- a. Update policies and procedures to address timely adjustment of reconciling items and communicate the updated policies and procedures to appropriate personnel.
- b. Adjust the unresolved reconciling items noted above.

Estimated completion date: March 5, 2025

13. PAYROLL RECONCILIATIONS

OBSERVATION

Payroll reconciliations were not signed and dated.

We reviewed payroll reconciliation reports for the three most recent quarters (September 2023, December 2023, and March 2024) and found that they did not include a preparer or reviewer signature and date.

Timely preparation and reconciliation of ledger accounts helps to reduce the risk of financial loss and helps to ensure accountability of funds and accurate financial reporting.

RECOMMENDATION

We recommend that the university, in conjunction with UEC, ensure that payroll records are timely reconciled to the general ledger accounting system and preparation and review are documented.

MANAGEMENT RESPONSE
<p>We concur. Our campus will, in conjunction with UEC, ensure that payroll records are timely reconciled to the general ledger accounting system and preparation and review are documented.</p> <p>Estimated completion date: March 5, 2025</p>

14. PROPERTY AND EQUIPMENT

OBSERVATION

Administration of property and equipment needed improvement.

Management of property and equipment for UEC and sponsored program (SP) assets is performed by university asset management. This includes maintenance of records and performance of physical inventories.

We found that physical inventory counts were not completed during the audit period. Specifically, the UEC equipment management policy states that the university performs cyclical physical inventory counts every two years across campus, a process that includes the auxiliaries. Although the university's property management department performed a physical inventory of one college in 2023, which included SP assets, a complete physical inventory count for UEC and SP assets had not been performed since 2018.

In addition, UEC's property and equipment policy states that SP assets will be transferred to the university when the sponsored project is completed or terminated. However, in our discussion with UEC management, we confirmed that SP assets remain on the UEC records after the related SPs are completed. As such, the policy does not reflect the current practice.

Proper administration of property and equipment, including up-to-date policies and procedures and periodic physical inventories, decreases the risk that assets may be lost, stolen, or misrepresented in financial statements and helps to ensure compliance with university policy and federal grant requirements.

RECOMMENDATION

We recommend that the university, in conjunction with UEC:

- a. Conduct and document a physical inventory for both capitalized assets and non-capitalized/sensitive equipment UEC assets, including SP assets.
- b. Update the UEC *Property and Equipment* policy to address current practices, including the transfer of SP assets to the university upon termination of federal programs.

MANAGEMENT RESPONSE
We concur. Our campus will, in conjunction with UEC: <ul style="list-style-type: none">a. Conduct and document a physical inventory for both capitalized assets and non-capitalized/sensitive equipment UEC assets, including SP assets.b. Update the UEC <i>Property and Equipment</i> policy to address current practices, including the transfer of SP assets to the university upon termination of federal programs. Estimated completion date: May 30, 2025

15. EFFORT REPORTING

OBSERVATION

Effort reports were not always accurate or adequately supported.

We reviewed seven effort certificates for the spring 2023 semester and found that:

- In one instance, cost-sharing effort reported was not supported by verifiable records, as required by the uniform guidance and CSU SP policy. Currently, the UEC policy does not require supporting documentation for cost-shared effort other than the self-certified effort report completed by the individual.
- In another instance, the effort certificate did not capture all sources of effort during the reporting period, and as a result, the effort allocation percentages were inaccurate. SPA notified us of the error and issued a corrected effort certification during our audit fieldwork.
- In two instances, the effort report did not accurately reflect the principal investigator’s (PI) additional employment during the reporting period and mistakenly showed that the PI had exceeded the 25% overload limit by 59%. However, based on further review of the faculty additional pay process and supporting documents, these two PIs did not appear to have exceeded the overload limit.

Adequate documentation and monitoring of effort, including cost sharing, supports compliance with program requirements and matching commitments and enhances accuracy of information.

RECOMMENDATION

We recommend that the university, in conjunction with UEC/SPA:

- a. Evaluate current procedures to ensure the tracking and maintenance of supporting documentation for cost-sharing effort is consistent with uniform guidance and CSU policies, and update procedures as necessary.
- b. Evaluate the current process to compile effort reports and implement changes as necessary to ensure accurate information related to additional employment is captured and reflected in the effort report.
- c. Provide training and communicate updated procedures to PIs and appropriate SP staff involved in the preparation and approval of effort certificates.

MANAGEMENT RESPONSE

We concur. Our campus will, in conjunction with UEC/SPA:

- a. Evaluate current procedures to ensure the tracking and maintenance of supporting documentation for cost-sharing effort is consistent with uniform guidance and CSU policies, and update procedures as necessary.
- b. Evaluate the current process to compile effort reports and implement changes as necessary to ensure accurate information related to additional employment is captured and reflected in the effort report.
- c. Provide training and communicate updated procedures to PIs and appropriate SP staff involved in the preparation and approval of effort certificates.

Estimated completion date: March 5, 2025

16. SPONSORED PROGRAMS EXPENDITURES

OBSERVATION

Requirements for proper approvals and documentation of SP expenditures were not consistently followed.

We examined 30 SP expenditures for compliance with funding agreements, uniform guidance, and UEC policies and procedures, and we found that:

- In five instances, the purchase requisitions, POs, and/or SSJ forms were completed and approved after the vendor invoices were received for payment, and not during the purchase and procurement process as required by UEC policy.
- In two separate instances, invoices from subrecipients were processed for payment without proper supporting documents. One invoice for \$387,371 did not have support for salaries, supplies, consultants, and other direct-cost components and mainly included estimated charges rather than actual expenses as documentation. The other invoice was missing receipts for meals, parking, and ground transportation.
- A travel expense for a foreign trip lacked prior written approval from the sponsoring agency. Furthermore, the traveler did not use a U.S. Flag carrier, as required by the agency.

Adequate processing and proper review of expenditures decreases the risk that costs incurred will be disallowed and decreases the risk of noncompliance with CSU and governmental requirements.

RECOMMENDATION

We recommend that the university, in conjunction with UEC/SPA:

- a. Evaluate current processes for proper documentation and authorization of SP purchases and implement improvements to ensure timely submission of purchases in compliance with governmental requirements and UEC policies.
- b. Provide refresher training and communicate updated procedures to the appropriate SP and UEC staff involved in the processing and approval of expenditures.
- c. Remind PIs of SP expenditure policies and procedures, emphasizing the areas discussed above.

MANAGEMENT RESPONSE

We concur. Our campus will, in conjunction with UEC/SPA:

- a. Evaluate current processes for proper documentation and authorization of SP purchases and implement improvements to ensure timely submission of purchases in compliance with governmental requirements and UEC policies.
- b. Provide refresher training and communicate updated procedures to the appropriate SP and UEC staff involved in the processing and approval of expenditures.
- c. Remind PIs of SP expenditure policies and procedures, emphasizing the areas discussed above.

Estimated completion date: March 5, 2025

17. SUBRECIPIENTS

OBSERVATION

Administration of subrecipients needed improvement.

Per the CSUSB *Administration of Grants and Contracts in Support of Sponsored Programs* policy, the SPA is legally and financially responsible for compliance with, and fulfillment of, all contracts it enters on behalf of the university. Furthermore, SPA has the primary responsibility to provide overall fiscal management, including the review of allowable costs and award documents for compliance, as well as contract interpretations.

We reviewed five subrecipients for compliance with specific award agreements, uniform guidance, and CSU and UEC policies. We found that in one instance, a subrecipient was paid \$366,875 before the subaward was issued. According to SPA management, the subrecipient was initially considered a contractor. When the contractor agreement was being developed for SPA review, it was determined that the contractor should be classified as a subrecipient. As such, the subaward agreement was subsequently initiated. While this reclassification was happening, the initial invoice from the subrecipient was submitted by the program to CSUSB Accounts Payable for payment processing with only the PI’s approval.

Adequate oversight and monitoring of subrecipient activities safeguards the university from potential liabilities and enhances compliance with regulations and contractual obligations.

RECOMMENDATION

We recommend that the university, in conjunction with UEC/SPA:

- a. Strengthen the review and monitoring procedures of SPA, including proper classification of contractors and subrecipients at the proposal stage by ORSP (pre-award) and during rebudgeting by post award, and appropriate review and approval of invoices, and implement improvements as necessary to ensure compliance with governmental requirements and UEC policies.
- b. Provide refresher training and communicate procedures to appropriate SP staff and PIs for issues noted above.

MANAGEMENT RESPONSE
<p>We concur. Our campus will, in conjunction with UEC/SPA:</p> <ul style="list-style-type: none">a. Strengthen the review and monitoring procedures of SPA, including proper classification of contractors and subrecipients at the proposal stage by ORSP (pre-award) and during rebudgeting by post-award, and appropriate review and approval of invoices, and implement improvements as necessary to ensure compliance with governmental requirements and UEC policies.b. Provide refresher training and communicate procedures to appropriate SP staff and PIs for issues noted above. <p>Estimated completion date: March 5, 2025</p>

18. CONFLICT-OF-INTEREST TRAINING

OBSERVATION

PIs did not always complete required ethics training for non-government-funded programs.

We reviewed 10 PIs, including four receiving non-governmental awards, for compliance with conflict-of-interest policies and procedures. We found that two individuals were assigned ethics training by university HR but did not complete it as required. One PI’s COI refresher training tracked by university HR has been overdue since September 2020, while the other PI’s training has been overdue since September 2023.

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

RECOMMENDATION

We recommend that the university strengthen the process for tracking and monitoring PIs with overdue or incomplete training, including addressing escalation procedures for noncompliance.

MANAGEMENT RESPONSE

We concur. Our campus will strengthen the process for tracking and monitoring PIs with overdue or incomplete training, including addressing escalation procedures for noncompliance.

Estimated completion date: March 5, 2025

GENERAL INFORMATION

ADDITIONAL BACKGROUND

Auxiliary organizations are separate business and legal entities that perform activities essential to the educational program of a university 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 university 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 university president's authority and responsibility for auxiliary organization operations. University 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 university. The policy reiterates that the university president is responsible for ensuring the fiscal viability of auxiliary organizations and their compliance with applicable CSU policies, and it further designates the university 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 university 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:

- California Code of Regulations (CCR) Title 5, §42401, *Declaration of Policy*

- CCR Title 5, §42402, *Authority of Campus President*
- CCR Title 5, §42500, *Functions of Auxiliary Organizations*
- Code of Federal Regulations Title 2, Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*
- Education Code (EC) §89720
- EC §89756
- EC §89900
- EC §89904
- *CSU Sponsored Program Administration Policy*
- *CSU Utilization of Campus Auxiliary Organizations Policy*
- *CSU Hospitality, Payment or Reimbursement of Expenses Policy*
- *CSU Placement and Control of Receipts for Campus Activities and Programs Policy*
- *CSU Auxiliary Organizations Compliance Guide*
- *CSU Auxiliary Organizations Sound Business Practices Guidelines*
- *CSUSB Cash-Handling Policy*
- *CSUSB Corporate Card Policy*
- *CSUSB Conflict of Interest Policy for Sponsored Projects*
- *UEC Effort Reporting Policy*
- *UEC Subrecipient Monitoring Policy*
- *UEC Procurement Policy*
- *UEC Property and Equipment Policy*

AUDIT TEAM

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