

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

June 13, 2024

Dr. Vanya Quiñones, President
California State University, Monterey Bay
100 Campus Center, Administration Building
Seaside, CA 93955

Dear Dr. Quiñones:

**Subject: Audit Report 23-80, Follow-Up: Otter Student Union,
California State University, Monterey Bay**

We have completed an audit of *Follow-Up: Otter Student Union* 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 the campus 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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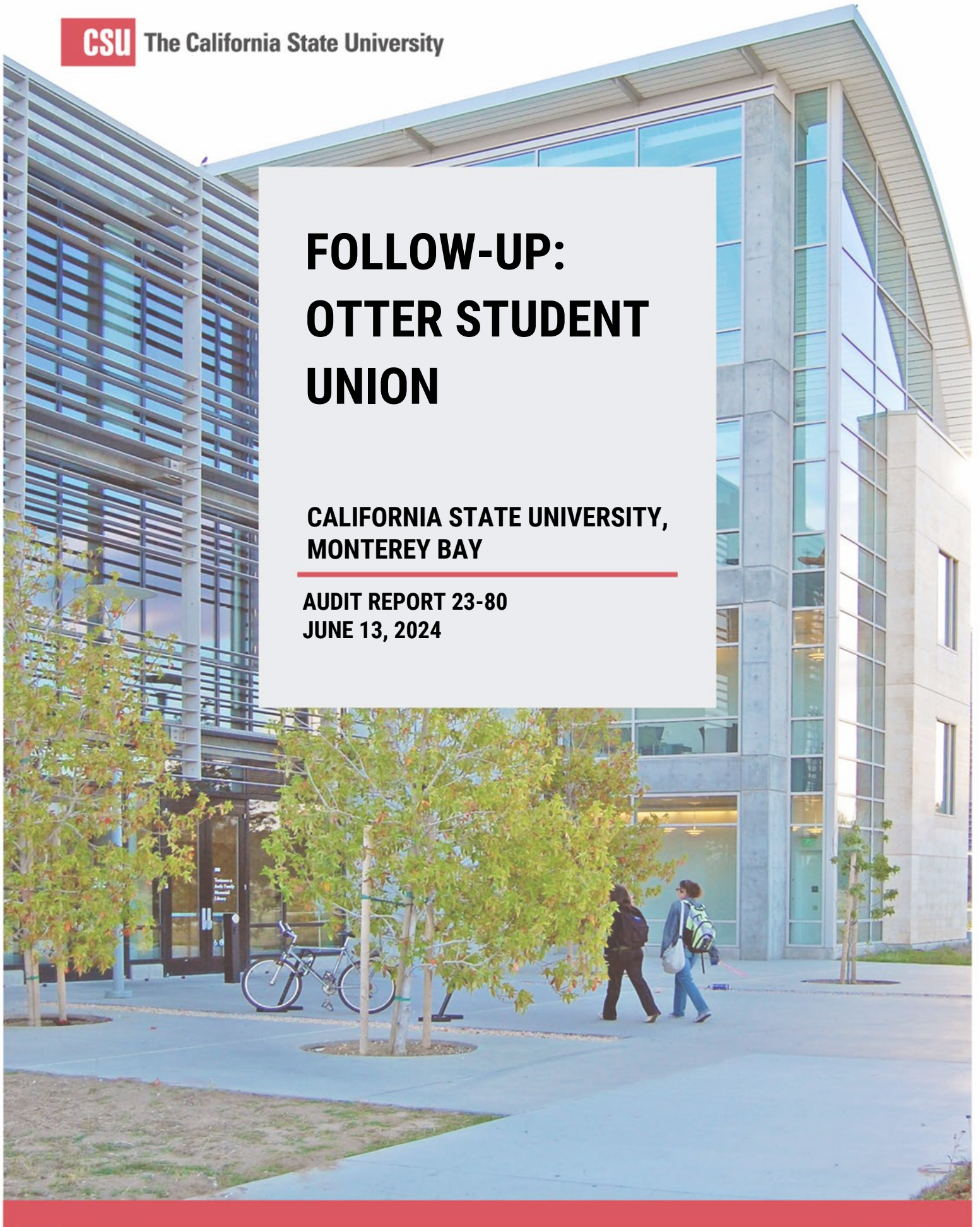


The California State University

FOLLOW-UP: OTTER STUDENT UNION

**CALIFORNIA STATE UNIVERSITY,
MONTEREY BAY**

**AUDIT REPORT 23-80
JUNE 13, 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 (A&AS) performed a follow-up review of the Otter Student Union (OSU) at California State University, Monterey Bay (CSUMB).

In FY 2021/22, A&AS audited the OSU to review and assess compliance with regulatory requirements for the establishment and governance of auxiliary organizations; ascertain the effectiveness of operational, administrative, and financial controls for the activities conducted by the OSU; evaluate adherence to California State University (CSU) and auxiliary policies and procedures; and ensure compliance with relevant governmental regulations, Trustee policy, Office of the Chancellor directives, and campus procedures.

Based on the results of the audit work we performed, we found that the operational, administrative, and financial controls for the OSU as of November 10, 2021, were unlikely to provide reasonable assurance that risks were being managed and objectives were met.

The objective of this follow-up audit was to review the work performed by the campus and the OSU to remediate each of the 10 observations contained in the FY 2021/22 audit. This included evaluating the operational and business practices implemented in response to each observation and providing campus management with the results of the review.

OVERALL CONCLUSION

Our review included an evaluation of the following areas: operating agreement, campus fiscal oversight, event administration, personnel administration, board of directors administration, cash disbursements, cash handling, risk assessment, third-party agreements, and bank reconciliations.

Overall, the campus and the OSU had made significant efforts to address the observations, and in our opinion, these efforts had a positive impact on the OSU. Our review found that controls had been fully implemented to address seven of the 10 observations and had partially addressed the remaining three observations related to cash handling, bank reconciliations, and board of directors administration. However, further work to fully address management's action plan is required. Additional information is detailed in the remainder of this report.

FOLLOW-UP EVALUATION

Below is a summary of the three remaining management action plans that had not been fully completed at the time of our OSU follow-up review, as well as the status of work performed to address management's action plan.

1. CASH HANDLING

SUMMARY OF FY 2021/22 OBSERVATION

We found that the OSU *Cash Receipts Narrative* did not specifically address certain elements relating to cash-handling processes, including opening and close-out procedures; monitoring of overages and shortages; safe-access records; reconciliations; time frame of deposits; and returned checks, credit card chargebacks, and ACH returns.

In our review of cash deposits, we also found instances where evidence that the deposit was verified by a second person was not provided, and instances where deposits were not made in a timely manner.

MANAGEMENT ACTION PLAN

The campus will review and update the current procedures to include the elements noted in the audit observation and communicate and distribute the procedures to the appropriate OSU and University Corporation (UCorp) administrators and staff. Additionally, the campus will provide training to key personnel involved in the cash receipts process to ensure that deposits are verified by a second person and deposited timely. The campus will complete this by April 30, 2022.

STATUS OF WORK PERFORMED

In May 2022, the campus submitted documentation for the corrective action indicating that UCorp accounting, along with the OSU staff, updated the *Cash Receipts Narrative* to address the elements noted in the FY 2021/22 report, including a requirement that all deposits must be verified by a second person and must be made in a timely manner. Additionally, UCorp provided training to the OSU staff to review the updated narrative.

During our follow-up audit, we found that the OSU *Cash Receipts Narrative* addressed appropriate cash-handling elements, and we found that documentation that deposits were verified by a second person was adequate.

However, we found instances in which deposits continued to be made in an untimely manner. The *Cash Receipts Narrative* requires cash and checks to be deposited within seven business days after collection; however, we reviewed 10 deposits and found that in six instances, deposits were made between two to four weeks from the time of collection. According to OSU management, these delays were mainly due to the availability of staff and the cashier's office schedule. We noted that while deposits were not made in a timely manner, the deposits were properly supported by receipts or invoices and verified by a second person, and the amounts were consistent with the bank statements.

PROCEDURES REMAINING TO FULLY IMPLEMENT MANAGEMENT’S ACTION PLAN

We recommend that the campus, in conjunction with the OSU and UCorp:

- a. Review and update processes as needed to improve timeliness of deposits.
- b. Remind appropriate staff of timely deposit requirements.

MANAGEMENT RESPONSE
<p>We concur. The campus, OSU, and UCorp will:</p> <ul style="list-style-type: none">a. Review current processes and update as needed to ensure deposits are made timely.b. Provide reminders to appropriate staff of timely deposit requirements. <p>Expected completion date: September 30, 2024</p>

2. BOARD OF DIRECTORS ADMINISTRATION

SUMMARY OF FY 2021/22 OBSERVATION

We found that the OSU did not have the composition of board of directors (BOD) members required by its bylaws and annual conflict-of-interest (COI) forms for BOD members were not always obtained.

MANAGEMENT ACTION PLAN

The campus will appoint and designate BOD members to comply with the bylaws, or review and update the bylaws as needed to address the issue noted above. Additionally, the campus will implement a follow-up process to help ensure that BOD members complete and submit COI forms annually. The campus will complete this by May 13, 2022.

STATUS OF WORK PERFORMED

In April 2022, the campus submitted documentation for the corrective action indicating that the campus president had appointed a community representative (the position that was unfilled at the time of the audit) to the BOD for academic year (AY) 21/22 and stating that OSU would continue to comply with and follow Section 4.3 of the OSU bylaws relating to BOD composition. Additionally, the OSU executive committee of the BOD created and implemented an OSU BOD Onboarding Checklist to introduce and track all required training and documents, including the annual COI forms.

During our follow-up audit, we found that COI forms were not completed for AY 2022/23 by two members of the board as they were not present during the annual board of directors’ retreat. There were no issues with COI forms for AY 2023/24.

PROCEDURES REMAINING TO FULLY IMPLEMENT MANAGEMENT’S ACTION PLAN

We recommend that the campus, in conjunction with OSU, review and update the process to monitor and track annual COI forms.

MANAGEMENT RESPONSE

We concur. The campus and OSU will review current processes and update them as needed to ensure proper monitoring and tracking of annual COI forms. Utilizing technology (e.g., Adobe Sign) will reduce administrative burden and will also allow for better compliance.

Expected completion date: September 30, 2024

3. BANK RECONCILIATIONS

SUMMARY OF FY 2021/22 OBSERVATION

We found that preparation and approval dates were not documented for monthly bank reconciliations, and therefore we could not determine whether the reconciliations were performed timely. The monthly bank reconciliations for OSU are prepared and reviewed by UCorp accounting personnel.

MANAGEMENT ACTION PLAN

The campus, in conjunction with UCorp, will document the preparation and approval dates on bank reconciliations by April 30, 2022.

STATUS OF WORK PERFORMED

In March 2022, the campus submitted documentation for the corrective action demonstrating that preparation and approval dates were being documented on OSU bank reconciliations.

During our follow-up audit, we found that although all bank reconciliations reviewed included preparation and approval dates, UCorp did not consistently perform the bank reconciliations in a timely manner. Of the six bank reconciliations we reviewed, three were completed more than 30 days after the end of the month, approximately 15 to 26 days late. Though reconciliations were not always timely, each reconciliation report we reviewed was properly supported, mathematically accurate, and properly approved.

PROCEDURES REMAINING TO FULLY IMPLEMENT MANAGEMENT’S ACTION PLAN

We recommend that the campus, in conjunction with UCorp, continue to remind related staff of UCorp’s bank reconciliation procedures with an emphasis on the timeliness of bank reconciliation preparation and review.

MANAGEMENT RESPONSE

We concur. The campus and UCorp will remind staff of bank reconciliation procedures, including timeliness of preparation and review.

Expected completion date: July 31, 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. 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 (EC) §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.

CSU policy *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 also 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

This follow-up 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:

- Government Code 13402 and 13403, *State Leadership Accountability Act*
- CCR, Title 5 §42401, *Declaration of Policy*
- CCR, Title 5 §42402, *Authority of Campus President*
- CCR, Title 5 §42500, *Functions of Auxiliary Organizations*
- Education Code (EC) §89720
- EC §89756
- EC §89900
- EC §89904
- Corporation Code §5215
- CSU *Designation of Chief Financial Officer*
- CSU *Delegation of Fiscal Authority and Responsibility*
- CSU *Utilization of Campus Auxiliary Organizations*
- CSU *Auxiliary Organizations Compliance Guide*
- CSU *Auxiliary Organizations Sound Business Practices Guidelines*
- CSU *Insurance Requirements*
- CSUMB OSU *Board of Directors Bylaws*
- CSUMB OSU *Cash Receipts Narrative*
- CSUMB OSU *Conflict of Interest Policy*

AUDIT TEAM

Senior Audit Manager: Christina Chen

Senior Auditor: Marlon Perez