



CAL STATE LA

CALIFORNIA STATE UNIVERSITY, LOS ANGELES

University Internal Audit

**ASSOCIATED STUDENTS INCORPORATED (ASI)
PROCUREMENT and CREDIT CARDS**

September 2018

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BACKGROUND

The University Internal Auditor was authorized by the California State University, Los Angeles (Cal State LA) President to perform a review of the Associated Student Incorporated (ASI) procurement and credit cards.

ASI management administers all the ASI contracting, procurement system, and the US Bank credit card program. All purchases of \$5,000 or more require three (3) written bids per ASI Policy 216 titled Procurement & Purchasing. ASI Policy 210 titled Request for Payment or Purchase Order (RPP) outlines the procedures for operational and financial controls for the processing of RPPs. As of now, ASI does not use purchase orders.

ASI Policy 210 requires RPPs to be completed and to include supporting documentation before processing, such as original receipt(s)/invoice(s), performance agreements (contracts), written justification of how the expenses relates to ASI including a list of names for the expenses, memorandums of understanding, and other supporting documentation.

ASI Policy 210 and ASI Policy 225 Signature Authorization have established required signature authorizations based on dollar amount thresholds and expenditure categories.

ASI Policy 225 Signature Authorization notes that the Executive Director of ASI, the ASI Director of Government Affairs and Leadership Programs, the ASI Office Manager, the Dean of Students, the Vice President for Student Life, the ASI President, and other designated ASI officers provide authorization for procurement and expenditures.

RPPs are submitted to the Student Life Division for review and verification prior to submission to the Business Financial Services Department for payment processing.

The ASI Office Manager is the ASI US Bank Credit program operational administrator. In addition, the ASI Office Manager coordinates request for payments or reimbursement (RPP) and she is one of the authorized approvers for RPPs. ASI contracts out its accounting services to the Business Financial Services Department of the University.

Cal State LA established University's Administrative Procedure (AP) 209 titled *Hospitality, Payment or Reimbursement of Expenses*. AP 209 applies to Auxiliary Organizations of Cal State LA. Hospitality expenditures must be supported by the following:

- Statement indicating a clear university or auxiliary business purpose.
- List/documentation of individuals and affiliations attending the hospitality event.
- Statement of the significance of the event in terms of the costs that will be incurred including the derived direct or indirect benefits to the University.

- Other various controls for Cal State LA Auxiliary Organizations.

ASI had established an annual program titled Alternate Break Service that takes place internationally with Education First (EF) Tours. ASI management has worked with EF Tours in the last three (3) years for trips to Peru, Cuba, and Spain. The ASI Alternate Break Service program is part of the Programming and Advocacy budget that was approved by ASI Board of Directors initially in 2016.

Funding for the Alternate Break Service program goes through the ASI budgeting process. For 2016/2017, \$20,585 was budgeted for 35 (thirty-five) students, \$500 for each student, and a \$3,085 budget priority increase for insurance, per diem, emergency phone, and hospitality for meetings. For the 2018-2019 Proposed Operating Budget, \$18,500 was allocated for the Alternate Break Service program.

The Executive Director consulted with the former University Risk Management Director in regards to travel risk and insurance. ASI requires participants to sign the ASI Alternate Break Release and Assumption of Risk form. The participants agree to assume the risk associated with foreign travel, the indemnification terms to hold harmless ASI, State of California, Trustees of the California State University (CSU), and Cal State LA and the claims arising from the activity construed according to the laws of State of California.

ASI purchases the Foreign Travel Insurance Program (FTIP) insurance from the CSU Risk Management Authority Auxiliary Organizations Risk Management Alliance (AROMA).

Once the ASI Board has approved the budget, Alternate Break Service travel requests are submitted by the former ASI Senior Coordinator for Student Engagement and Outreach and/or the ASI Director of Government Affairs & Leadership Programs to the Student Life Division for review and approval.

The Alternate Break Service program is open to students who wish to participate. Students directly register with EF Tours and they must fund a large part of the cost themselves. The former ASI Senior Coordinator worked with EF Tours to finalize the student enrollment and class size. The former ASI Senior Coordinator for Student Engagement and Outreach and the ASI Director of Government Affairs & Leadership Programs selected Group Leaders and Chaperones through conversations with staff and faculty and informed the Executive Director of ASI.

Students do not receive University academic credit for the course. Students directly register with EF Tours. For the most recent trip to Peru in 2018, ASI received an email approval to offer College of Professional and Global Education (PaGE) service learning course named "HHSX101 – ASI Alternative Break Service Learning Project". The ASI Employees who are EF Tour Group leaders serve as the faculty teaching the PaGE service-learning course.

The EF Tour study abroad program is led by Group Leaders. ASI employees serve as Group Leaders and sign EF Tour Group Leader agreements. In addition, Chaperones can participate in EF Tour programs. ASI management allows ASI or University employees to attend as Chaperones on the trips. One (1) Chaperone receives travel and accommodations paid for by EF Tours for every six (6) students that register with EF Tours. Travel and accommodations costs for Group Leaders and Chaperones are paid by EF Tours. In addition, incentives are given directly to Group Leaders such as points that have a dollar value that Group Leaders can use for trips or conferences hosted by EF Tours.

The Executive Director of ASI and the Director of Government Affairs and Leadership Programs served as Chaperones for the 2017 Cuba trip. One (1) University employee from the Student Health Center participated as Chaperone for the Peru 2018 trip.

SCOPE AND METHODOLOGY

The overall audit objective was to ascertain the effectiveness of existing policies and procedures related to the administration of the ASI procurement process and the adequacy of controls.

Within the overall audit objective, our primary focus involved the internal administrative, compliance, and operational controls.

Specifically, the University Internal Audit reviewed whether:

- Procurement, contracting, disbursement transactions are executed with proper signature authorization.
- Procurement, contracting, disbursement transactions are in compliance with ASI procedures, and the University's Administrative Procedure (AP) 209 titled *Hospitality, Payment or Reimbursement of Expenses*.
- Disbursements were recorded properly.

During the course of the audit, we interviewed personnel, reviewed documentation, and performed audited procedures in effect at that time.

OBSERVATIONS

1. Credit Card Payments

The controls for credit card payments need improvement.

Audit reviewed a sample of forty (40) Request for Payment or Purchase Orders (RPPs) that totaled \$122,898.

It was noted that:

- There was a pattern of untimely approval for RPPs for credit card payments. RPPs must be submitted and approved within thirty (30) days. Thirty-four (34) RPPs, eighty-five percent (85%), were untimely approved by the designated ASI Student Official and the ASI Executive Director.

ASI was obligated to make payments on outstanding credit card balances even though thirty-four (34) RPPs were not approved in a timely manner.

- Twenty-five (25) credit card reconciliations from January 2016 to July 2017 were untimely performed. Eleven (11) credit card reconciliations were not performed and one (1) credit card reconciliation was incomplete.
- Credit card expenditures in twenty-one (21) RPPs were not accompanied with adequate business purpose explanation totaling \$35,135.
- There was a pattern of missing receipts for credit card purchases. Fifteen (15) RPPs had credit card purchases that had missing receipts totaling \$1,095. Fourteen (14) missing receipt forms were submitted late and one (1) missing receipt form did not have ASI management approval.

Title 5 section 42401 and section 42402 indicate that the campus president shall require that auxiliary organizations operate in conformity with policy of the Board of Trustees and the campus. One of the objectives of the auxiliary organizations is to provide fiscal procedures and management systems that allow effective coordination of the auxiliary activities with the campus in accordance with sound business practices. Sound business practice mandates the timely approval of expenditure requests for payment, credit card reconciliations, that all credit card charges be fully supported with receipts, and all credit charges be accompanied with adequate business purpose explanation.

ASI Policy 212 *Budgetary Control* notes the following procedures:

- Within fifteen to twenty days after the close of the billing cycle date each corporate card statement will need to be reconciled and the appropriate ASI signatures will be secured for a RPP and be submitted to the appropriate departments outside of ASI.
- Processing payment to ASI Corporate Cards is a priority and all receipts must be submitted to the Office Manager of Administration and Services or designee on a daily basis or within five business days of a program or travel.
- Charges must be submitted on an approved RPP and/or Travel Expense Claim Form with the following documentation original receipt(s) and written justification on how the charge relates to ASI, including a list of names for whom the expense has been charged.

Lack of timely authorization, insufficient supporting documentation and/or lack of reconciliations of credit card charges increases the risk of errors, non-compliance, irregularities, and misappropriation of funds.

2. Disbursements

Controls for travel and hospitality expenditures paid with credit cards need improvement.

A review of RPPs for credit card payments disclosed the following:

- Some RPPs requests did not have completed travel advance forms and travel expense claim forms.
- Some RPPs and catering services did not have the required AP 209 preauthorized hospitality event form.
- Some hospitality expenditures did not have written justification on how the expense relates to ASI, and did not have a list of attendee names for the expenses that had been charged.

Title 5 section 42401 and section 42402 indicate that the campus president shall require that auxiliary organizations operate in conformity with policy of the Board of Trustees and the campus. One of the objectives of the auxiliary organizations is to provide fiscal procedures and management systems that allow effective coordination of the auxiliary activities with the campus in accordance with sound business practices. Sound business practice mandates that all cash disbursements be fully supported and properly authorized.

ASI Policy 212 *Budgetary Control* section 5.6 requires credit card charges must be submitted on an approved RPP and/or Travel Expense Claim Form with the following documentation; original receipt(s) and written justification on how the charge relates to ASI, including a list of names for whom the expense has been charged.

Cal State LA AP 209 *Hospitality, Payment or Reimbursement of Expenses* section states that Department Administrators will ensure requests for reimbursement/payment and/or purchase requisitions for hospitality events are accompanied by the Authorization to Hold Hospitality Event and Request for Reimbursement for Hospitality-Related Expenses form prior to approval. In addition, Department Administrators will ensure that reimbursement/payment claims are legitimate and include proper documentation.

Insufficient supporting documentation and/or lack of appropriate authorization increases the risk of errors, non-compliance, irregularities, and misappropriation of funds.

3. Agreements

ASI controls over its agreements need improvement.

It was noted that:

- ASI had not established an agreement or memorandum of understanding with the University for Athletic games and other event ticket sales noted in observation seven (7).
- An agreement was not executed for the facility use and catering services provided by Victorian, a vendor, in the city of Santa Monica for a leadership retreat event.

In addition, three (3) required written bids for a \$6,151.95 expenditure incurred were not obtained. The procurement transaction was paid via credit card by a former ASI employee who did not have contracting approval authority.

- ASI procured services of Mundy Sound to provide DJ and stage service for the amount of \$10,362.50. ASI did not obtain the required approval from the Dean of Students as required. In addition, the required three (3) written bids were not obtained.

- An agreement was not executed with D.I.A. productions in the amount of \$2,046.
- An agreement was not executed with Kingwood Tours in the amount of \$1,545 for transportation services.
- An agreement was not executed with Kogi BBQ in the amount of \$1,157.41 for catering services.
- An agreement was not executed with Green Truck in the amount of \$2,400 for catering services.
- An agreement was not executed with Zingos Tacos in the amount of \$1,837.50 for catering services.
- An agreement was not executed with Nancy's Garden in the amount of \$1,200 for catering services.

CSU Executive Order (EO) 1000, titled *Delegation of Fiscal Authority and Responsibility*, requires the University to ensure that costs incurred by the (CSU) Operating Fund for services, products, and facilities provided to other CSU funds and to auxiliary organizations are properly and consistently recovered with cash and/or a documented exchange of value.

Title 5 section 42401 and section 42402 indicate that the campus president shall require that auxiliary organizations operate in conformity with policy of the Board of Trustees and the campus. One of the objectives of the auxiliary organizations is to provide fiscal procedures and management systems that allow effective coordination of the auxiliary activities with the campus in accordance with sound business practices. Sound business practice mandates that agreements be executed to record appropriate approvals, responsibilities of parties, insurance requirements, etc.

ASI Policy 216 *Procurement and Purchasing* requires supervisors who intend to make purchases of \$5,000 or more must first secure three (3) written price comparisons.

ASI Policy 210 *ASI Request for Payment or Purchase Order (RPP)* requires performance agreements (contracts) as supporting documentation for RPPs. Furthermore, ASI Policy 225 *Signature Authorization* requires the Executive Director of ASI or designee to sign standard agreements.

Cal State LA AP 209 *Hospitality, Payment or Reimbursement of Expenses* section states that Department Administrators will ensure requests for reimbursement/payment and/or purchase requisitions for hospitality events are accompanied by the Authorization to Hold Hospitality Event and Request for Reimbursement for Hospitality-Related Expenses form prior to approval.

The absence of written agreements increases the risk of misunderstandings and miscommunication regarding rights and responsibilities. Management not securing the required three (3) price comparisons causes non-compliance with ASI Procurement and Purchasing policy and risks potential overcharges.

4. Insurance Requirements

Proof of insurance was not obtained for ASI vendors.

It was noted that ASI did not obtain proof of insurance from ASI vendors Victorian, Mundy Sound, D.I.A. productions, Kingwood Tours, Kogi BBQ, Green Truck, and Nancy's Garden noted in observation number two (2).

CSU Technical Letter Risk Management 2012-01 dated June 1, 2012, establishes approved hold harmless provisions for contracts and states that under the terms and conditions of a contract or agreement for services, the contractor, consultant, or vendor must be required to show evidence of adequate insurance coverage by furnishing a certificate of insurance that includes additional insured endorsements.

Not obtaining proof of insurance exposes ASI to financial and legal risks.

5. Administration and fiscal oversight of Credit Cards

The controls for administering the ASI credit card program need improvement.

It was noted that:

- ASI had not established written personnel separation clearing procedures for the final card reconciliation and return-of-card process.
- A separated ASI employee was the point of contact for the administration of the US Bank credit card program.

During the audit fieldwork, ASI management notified US Bank to remove the former employee and to add the Executive Director of ASI and the Office Manager as the new point of contacts to administer the ASI US Bank Card program.

- ASI had not established written procedures for card issuance approvals, spending limits, usage controls, and prohibited credit card purchases.
- ASI credit card holders were not required to complete a credit card holder agreement or an acknowledgement regarding their responsibilities for the credit card usage.

Title 5 section 42401 and section 42402 indicate that the campus president shall require that auxiliary organizations operate in conformity with policy of the Board of Trustees and the campus. One of the objectives of the auxiliary organizations is to provide fiscal procedures and management systems that allow effective coordination of the auxiliary activities with the campus in accordance with sound business practices. Sound business practice mandates that procedures and controls be established for the administration of the ASI US Bank credit card program.

Inadequate administration of the ASI US Bank credit card program increases the risk of errors, irregularities, misunderstandings, and inefficient expenditure of funds.

6. Segregation of Duties

Duties and responsibilities related to the credit card program are not properly segregated.

One (1) employee administers the US Bank Card program, issues RPPs, approves RPPs, and performs reconciliations of credit card charges. In addition, the employee is a card holder.

Title 5 section 42401 and section 42402 indicate that the campus president shall require that auxiliary organizations operate in conformity with policy of the Board of Trustees and the campus. One of the objectives of the auxiliary organizations is to provide fiscal procedures and management systems that allow effective coordination of the auxiliary activities with the campus in accordance with sound business practices. Sound business practice mandates that internal controls and procedures established for adequate segregation of duties.

Inadequate segregation of duties increases the risk that errors and irregularities will not be detected in a timely manner.

7. Professional Athletics game tickets

Controls need improvement for professional Athletic game tickets.

ASI purchased professional athletic game tickets with ASI credit cards for resale at the University's Cashier's Office. Any unsold tickets were returned to ASI.

It was noted that:

- ASI did not establish an agreement or memorandum of understanding with the University for the sale of ASI game tickets.
- Cash receipts reconciliations were not performed.
- Eight (8) out of fifty-eight (58) unused Lakers tickets shown as returned to ASI were missing totaling \$466.
- Fifteen (15) out of fifteen (15) Los Angeles Clippers tickets (LA Clippers vs. the Thunder 1/16/2017) returned to ASI were missing totaling \$660.
- ASI had on file fifteen (15) tickets to the LA Clippers vs. the Minnesota Timberwolves game but there was no record of the University returning the fifteen (15) tickets to ASI.
- Twelve (12) out of thirty-five (35) Los Angeles Dodgers tickets returned to ASI management were missing totaling \$480.

Title 5 section 42401 and section 42402 indicate that the campus president shall require that auxiliary organizations operate in conformity with policy of the Board of Trustees and the campus. One of the objectives of the auxiliary organizations is to provide fiscal procedures and management systems that allow effective coordination of the auxiliary activities with the campus in accordance with sound business practices. Sound business practice requires the completion of timely cash receipts reconciliation and adequate safeguards for returned tickets.

Failure to regularly reconcile cash receipts and provide adequate safeguards for returned tickets increases the risk of errors or misappropriation.

8. ASI Alternate Break Service Program

The controls over the Alternate Break Service program need improvement.

It was noted that:

- ASI had not established a written agreement with Education First (EF) Tours for the annual Alternate Break Service program to Spain, Cuba, and Peru.
- There was no criteria for selection of student participants.
- There was no criteria for selection of group leaders or chaperones.
- There were no guidelines on the roles and responsibilities of the group leader and chaperone.
- There was no information provided to show that the ASI Executive Director approved ASI employees to enter in Group Leader agreements with EF Tours.
- 1,184 EF Tour points were accrued as of August 14, 2018, amounting to \$1,420. However, ASI did not use these points to reduce the costs of future trips. In addition, the availability of travel incentives was not disclosed to senior management during the travel request process.
- The credit incentive availability to the group leader creates a conflict of interest. The group leader administers the program and they are potentially benefiting from the incentives. The group leader can utilize these incentives for personal trips.

During the audit, the group leader agreed to take action to transfer 1,184 points accrued to reduce student costs for any upcoming trips.

- There is a conflict of interest for the ASI senior staff that administered the Alternate Break Service program and acted as group leaders and chaperones by receiving paid travel and accommodations from EF Tours.
- Chaperones agreements were not executed for the Alternate Break Service program.

During the audit, ASI management drafted a Chaperone agreement for the next Alternate Break Service program.

- There was no Memorandum of Understanding (MOU) between ASI and PaGE for the service learning course.

Title 5 section 42401 and section 42402 indicate that the campus president shall require that auxiliary organizations operate in conformity with policy of the Board of Trustees and the campus. One of the objectives of the auxiliary organizations is to provide fiscal procedures and management systems that allow effective coordination of the auxiliary activities with the campus in accordance with sound business practices. Sound business practice mandates that agreements be executed to record appropriate approvals, responsibilities of parties, insurance requirements, etc. Also any incentives, rewards, or benefits from transactions be managed prudently for the Auxiliary Organization.

The absence of written agreements increases the risk of misunderstandings and miscommunication regarding rights and responsibilities. Missed cost reduction opportunities for students can occur due to not timely managing incentives, rewards, or benefits.

CONCLUSION

The ASI procurement, disbursements, and credit card controls need improvement.

RECOMMENDATIONS

It is recommended that:

1. The Executive Director of ASI establish procedures for the credit card administration, including but not limited to, card issuance, card approval, spending limit, usage control, prohibited purchases, reconciliation, final card settlement, roles and responsibilities, and training.
2. The Executive Director of ASI and the ASI Director of Government Affairs and Leadership Programs establish procedures for the game tickets and ensure that the game tickets are properly accounted for.
3. The Executive Director of ASI and the ASI Director of Government Affairs and Leadership Programs ensure written agreements are executed for vendors and food service vendors and include applicable three (3) written bids.
4. The Executive Director of ASI and the ASI Director of Government Affairs and Leadership Programs obtain insurance from vendors for applicable contracting and procurement transactions.
5. The Executive Director of ASI ensure that:
 - RPPs are approved and processed timely with adequate supporting documentation and adequate business purpose explanation.
 - Credit card reconciliations are completed in a timely manner.
 - Original receipts are included.
 - Applicable travel advance forms and travel expense claim forms are included.
 - AP 209 preauthorized hospitality event form and applicable approval from UAS, Inc. are attached for outside catering services.
 - Written justification for hospitality expenditures document how the expense relates to ASI and includes a list of names related to the expenses.
6. The Executive Director of ASI update agreement 9900-0179 with addendum for the sale of ASI tickets.

7. The Executive Director of ASI and the ASI Director of Government Affairs and Leadership Programs ensure that:
- Procedures are established for administering the ASI Alternate Break Service program, including selection of participants, group leaders, chaperones, incentives, roles and responsibility of the group leaders/chaperones, etc. The conflict of interest issue should be analyzed and reviewed by the ASI Board and Senior Management.
 - An agreement is formalized with EF Tours.
 - A MOU is established with PaGE.
 - Chaperone agreements are executed for ASI or University employees that participate in the ASI Alternate Break Service program.
 - Accrued points are applied to reduce costs for student travel.

Given that ASI management potentially participates in the ASI Alternate Break Service program as group leaders or chaperones, the agreements, procedures, and budgets should be reviewed and approved by the ASI Board and Senior Management.

RECOMMENDATIONS IMPLEMENTATION PLAN

REC. ITEM NO.	REPORT RECOMMENDATIONS	IMPLEMENTATION RESPONSIBILITY	TARGETED IMPLEMENTATION DATE (S)
1	The Executive Director of ASI establish procedures for the credit card administration, including but not limited to, card issuance, card approval, spending limit, usage control, prohibited purchases, reconciliation, final card settlement, roles and responsibilities, and training.	██████████, Executive Director of ASI	October 31, 2018
2	The Executive Director of ASI and the ASI Director of Government Affairs and Leadership Programs establish procedures for the game tickets and ensure that the game tickets are properly accounted for.	██████████, Executive Director of ASI and ██████████, ASI Director of Government Affairs and Leadership Programs	October 31, 2018
3	The Executive Director of ASI and the ASI Director of Government Affairs and Leadership Programs ensure written agreements are executed for vendors and food service vendors and include applicable three (3) written bids.	██████████, Executive Director of ASI and ██████████, ASI Director of Government Affairs and Leadership Programs	October 31, 2018
4	The Executive Director of ASI and the ASI Director of Government Affairs and Leadership Programs obtain insurance from vendors for applicable contracting and procurement transactions.	██████████, Executive Director of ASI and ██████████, ASI Director of Government Affairs and Leadership Programs	October 31, 2018

REC. ITEM NO.	REPORT RECOMMENDATIONS	IMPLEMENTATION RESPONSIBILITY	TARGETED IMPLEMENTATION DATE (S)
5	<p>The Executive Director of ASI ensure that:</p> <ul style="list-style-type: none"> ➤ RPPs are approved and processed timely with adequate supporting documentation and adequate business purpose explanation. ➤ Credit card reconciliations are completed in a timely manner. ➤ Original receipts are included. ➤ Applicable travel advance forms and travel expense claim forms are included. ➤ AP 209 preauthorized hospitality event form and applicable approval from UAS, Inc. are attached for outside catering services. ➤ Written justification for hospitality expenditures document how the expense relates to ASI and includes a list of names related to the expenses. 	<p>██████████, Executive Director of ASI</p>	<p>October 31, 2018</p>
6	<p>The Executive Director of ASI update agreement 9900-0179 with addendum for the sale of ASI tickets.</p>	<p>██████████, Executive Director of ASI</p>	<p>October 31, 2018</p>
7	<p>The Executive Director of ASI and the ASI Director of Government Affairs and Leadership Programs ensure that:</p> <ul style="list-style-type: none"> ➤ Procedures are established for administering the ASI Alternate Break Service program, including selection of participants, group leaders, chaperones, incentives, roles and responsibility of the group leaders/chaperones, etc. The conflict of interest issue should be analyzed and 	<p>██████████, Executive Director of ASI and ██████████, ASI Director of Government Affairs and Leadership Programs</p>	<p>October 31, 2018</p>

University Internal Audit
 Associated Student Incorporated (ASI, Inc.) Procurement and Credit Cards

REC. ITEM NO.	REPORT RECOMMENDATIONS	IMPLEMENTATION RESPONSIBILITY	TARGETED IMPLEMENTATION DATE (S)
	<p>reviewed by the ASI Board and Senior Management.</p> <ul style="list-style-type: none"> ➤ An agreement is formalized with EF Tours. ➤ A MOU is established with PaGE. ➤ Chaperone agreements are executed for ASI or University employees that participate in the Alternate Break Service program. ➤ Accrued points are applied to reduce costs for student travel. <p>Given that ASI management potentially participates in the ASI Alternate Break Service program as group leaders or chaperones, the agreements, procedures, and budgets should be reviewed and approved by the ASI Board and Senior Management.</p>		