





Minutes

Audit Committee

 Thu September 23rd, 2021

 3:00pm - 4:00pm PDT

 Zoom Meeting; <https://fullerton.zoom.us/j/84640791960>

In Attendance

1. **Call to Order**

Alison Sanchez, Chair, called the meeting to order at 3:05 p.m.

2. **Roll Call**

Members Present: Carlsen, Diaz, Merida, Sanchez, Scialdone, Shah, Wareh

Members Absent: None

Management Present: Edwards, Ehrlich, McDoniel

Internal Auditors: Kristen Guzman

According to the ASI Policy Concerning Board of Directors Operations, attendance is defined as being present prior to the announcement of Unfinished Business and remaining until the scheduled end of the meeting.

* Indicates that the member was in attendance prior to the start of Unfinished Business, but left before the scheduled end of the meeting.

** Indicates that the member was in attendance for a portion of the meeting, but not in attendance prior to the announcement of Unfinished Business.

3. **Approval of Agenda**

Decision: (Shah-m/Diaz-s) The agenda was approved by unanimous consent.

4. **Approval of Minutes**

Decision: (Shah-m/Diaz-s) The July 20, 2021 Audit Committee minutes were approved by unanimous consent.

a. **7/20/2021 Audit Committee Meeting Minutes**

5. **Public Speakers**

Members of the public may address the Audit Committee members on any item appearing on this posted agenda.

6. **Reports**

a. **Chair**

No Report.

7. **Unfinished Business**

There were no unfinished business items.

8. **New Business**

a. **Action: Acceptance of 2020-21 Audited Financial Statements**

The Committee will consider approving the financial statements prepared by Aldrich Advisors an independent audit firm.

AUD 001 21/22 (Shah-m/Diaz-s) A motion was made and seconded to accept the 2020-21 Audited Financial Statements.

Sanchez yielded to Carol McDoniel, Assistant Executive Director to introduce the Aldrich and Associates representatives to review the report to the Board of Directors and audited financial statements.

McDoniel introduced the representatives and yielded to Dr. Dave Edwards.

Dr. Edwards shared that corporations are legally required to complete the audit process. During an audit, the hired company will analyze our financial records and provide audited financial statements. ASI's financial statements then get sent to the university who then submits the whole package to the Chancellor.

Dr. Edwards yielded to Kristen Guzman, the Aldrich and Associates representative.

Kristen Guzman shared the report to the Board of Directors. The report is an attachment to the minutes.

Sanchez opened the floor for questions.

- Carlsen asked for clarification of the Segregation of Duties deficiency pertaining to the number of check signers. Guzman stated that the number of check signers is based on the dollar amount. The issue was that someone with the ability to be a check signer could also post entries to the system, and hide and wire money without approval. Now, someone has to initiate the wire transfer and someone else has to sign it, and there is a separation from who can print checks, sign checks and disburse checks.
- Carlsen asked if this was still an issue. Guzman answered that it was corrected in September of last year's audit.
- Merida asked what actions were taken to minimize the student access to payroll. McDoniel answered that having no student employees in HR during the pandemic played a part and we removed the ability of students to enter info into the payroll system. We are working now on researching students' ability to access the system but requiring multiple signatures for their actions as well. Dr. Edwards added that a notification goes to the HR Director when there's a pay rate change in the system regardless of who enters the information.

Guzman reviewed the Financial Statements and Supplemental Information. The presentation is an attachment to the minutes.

- Carlsen asked for clarification on the change in net assets from 2020 to 2021 on the Statement of Activities. Guzman shared change in net assets is similar to net income. Net income is when revenue exceeds expenses. In a non-profit, increase in net assets comes as a result of activities for the year. There were changes in OPEB calculations from the actuary because over the last year, the investment market did well which impacted the calculations. because assets went up so much, it resulted in income.
- Carlsen asked for a definition of unrealized loss. Guzman stated that if you invest money in a mutual fund and hold that for several years, the value will change. The only time you have a realized gain or loss is when you sell your investment. Unrealized gain/loss recognizes change in value over the years as you hold the investment. Dr. Edwards added that due to COVID and being virtual, we had to readjust how we did business. Investments that were normally reviewed quarterly didn't get reviewed or attached to a signature page. The reports still came in but we didn't have the same level of

oversight of investment funds. Additionally, the computer accounting system isn't set up to run effective financial reports. McDoniel and Ehrlich have been preparing documentation to put out a bid for product proposals. McDoniel added that Ehrlich has developed a method to manually print out and compile financial reports and sends them to the managers to review. Ehrlich stated that the income statements were being looked at but the balance sheet wasn't produced.

- Sanchez asked for clarification on the what is done with the findings from the financial statements. Guzman shared that they are additional procedures and communication to address the deficiency and develop a plan to correct it. Dr. Edwards added that we are significantly better than the last 2 years and thanked Guzman for her help in improving the audit. He also thanked McDoniel for her leadership and Ehrlich for turning the ship around in the last year.
- Carlsen asked who controls the investments listed under Level 1. Dr. Edwards stated that there is an investment committee made up of the ASI President, ASI Treasurer, Dr. Edwards, McDoniel, Ehrlich, HR Director, and Scialdone.
- Carlsen asked what software is being used to create financial statements and how we are looking to improve the system. Ehrlich shared that we use an older system called OneSolution which is more of a governmental operations product. It hasn't had the upgrades and patches applied that it should have.
 - Carlsen asked if going forward, the system will not have to be manual. Ehrlich answered that that is the goal. We are assessing our important business functional requirements and documenting them in order to consider products that meet those functional requirements. Dr. Edwards further explained that ASI has distributed a Business Functional Requirements document to companies to propose product options for ASI consideration. The product will be reviewed and a selection made.

Decision: AUD 001 21/22 (Shah-m/Diaz-s) Roll Call Vote: 5-0-2 The motion to accept the 2020-21 Audited Financial Statements was adopted.

9. **Announcements/Member's Privilege**

None

10. **Adjournment**

Alison Sanchez, Chair, adjourned the meeting at 4:09 p.m.

The Minutes were approved at the 10/05/2021 ASI Board of Directors meeting.

A handwritten signature in cursive script, appearing to read "Morgan Diaz", written over a horizontal line.

Morgan Diaz, Board Secretary

A handwritten signature in cursive script, appearing to read "Susan Collins", written over a horizontal line.

Susan Collins, Recording Secretary

Roll Call 2021-2022

09/23/2021 ASI Audit Committee Meeting Roll Call

Attendance	COMMITTEE MEMBERS			
			Present	Absent
CBE	CARLSEN	CHRISTOPHER	1	
ARTS	DIAZ	MORGAN	1	
CHAIR	SANCHEZ	ALISON	1	
NSM	SHAH	NAMAN	1	
ECS	WAREH	DANIA	1	
CAMPUS MEMBER	MERIDA	CINDY	1	
CAMPUS MEMBER	SCIALDONE	ROB	1	
			Present	Absent
			7	0

Attendance	Liaisons			
			Present	Absent
EXEC DIR	EDWARDS	DAVE	1	
DIR FINANCE	EHRlich	CAROLYN	1	
AED ADMIN	MCDONIEL	CAROL	1	
			Present	Absent
			3	0

*Recording Secretary: Imani Cooper

Guests: Kristen Guzman, Aldrich Advisors

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			Yes	No	Abstain
CBE	CARLSEN	CHRISTOPHER	1		
ARTS	DIAZ	MORGAN	1		
CHAIR	SANCHEZ	ALISON	1		
NSM	SHAH	NAMAN			1
ECS	WAREH	DANIA	1		
CAMPUS MEMBER	MERIDA	CINDY	1		
CAMPUS MEMBER	SCIALDONE	ROB			1
			5	0	2

The meeting was scheduled to end at 4:00pm. Shah and Scialdone, both exited at 4:00pm. The Chair allowed questions for an additional 10 minutes, prior to voting.

Associated Students, Inc., California State University, Fullerton

Report to the Board of Directors

Year Ended June 30, 2021



ASSOCIATED STUDENTS, INC., CALIFORNIA STATE UNIVERSITY, FULLERTON

Report to the Board of Directors

Year Ended June 30, 2021

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ASSOCIATED STUDENTS, INC., CALIFORNIA STATE UNIVERSITY, FULLERTON

Status of Prior Year Control Deficiencies

Year Ended June 30, 2021

To assist you in your responsibilities as a member of the Board of Directors, this section summarizes the most significant conclusions reached and issues addressed during our audit of Associated Students, Inc., California State University, Fullerton for the year ended June 30, 2021.

SIGNIFICANT CONCLUSIONS AND ISSUES

We have completed our audit and issued our report, dated September XX, 2021. Based on our work performed:

- Our audit scope was in accordance with that communicated in our engagement letter dated June 25, 2021.
- We rendered an unmodified opinion on the June 30, 2021 financial statements.
- As reported in the audited financial statements, we identified one condition which we consider to be material weakness in internal controls.
- Audit areas designated as greater than normal risk have been addressed and resolved to our satisfaction, in the context of the overall fairness of the presentation of the financial statements.
- We received the full cooperation of management and staff throughout the audit and were kept informed as to developments and plans affecting our audit scope.

The following report includes required communications and additional information for the benefit of the Board of Directors.

September XX, 2021

To the Board of Directors
Associated Students, Inc., California State University, Fullerton

We have audited the financial statements of Associated Students, Inc., California State University, Fullerton (ASI), for the year ended June 30, 2021, and have issued our report thereon dated September XX, 2021. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our engagement letter dated June 25, 2021. Professional standards also require that we communicate to you the following information related to our audit:

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by ASI are described in Note 2 to the financial statements. As described in Note 2, ASI adopted Accounting Standards Update (ASU) No. 2014-09, *Revenue Recognition for Contracts with Customers* (Topic 606). There was no impact to the accounting treatment of revenue as a result of this adoption. We noted no transactions entered into by ASI during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

Management's estimate of the collectability of outstanding receivables based on their assessment of the credit worthiness of the customer or entity. We evaluated the key factors and assumptions used to develop the allowance in determining that it is reasonable in relation to the financial statements taken as a whole.

Management's estimate of the useful lives of furniture and equipment is based on management's estimate of the life of the assets. We evaluated the key factors and assumptions used to develop the useful life in determining that it is reasonable in relation to the financial statements taken as a whole.

Management's determination of the assets that should be capitalized in the records of ASI versus those that should be transferred to the University and capitalized by the University. We evaluated the key factors and assumptions used to determine which assets should be capitalized in determining that it is reasonable in relation to the financial statements taken as a whole.

Management's estimate of the allocation of functional expenses, which is based on square footage, time and effort, and usage. We evaluated the key factors and assumptions used to develop the estimates related to the allocation of functional expenses in determining that it is reasonable in relation to the financial statements taken as a whole.

Management's estimate of the pension and other post-employment benefits liability is based on the results of the actuarially determined liability. We evaluated key factors and assumptions used to develop the estimates related to the pension and other post-employment benefits liability in determining that it is reasonable in relation to the financial statements taken as a whole.

Management's estimate of the value of in-kind contribution of space from the University for the usage of buildings at no cost. We evaluated key factors and assumptions used to develop the estimate related to the in-kind calculation in determining that it is reasonable in relation to the financial statements taken as a whole.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. There are two sensitive disclosures affecting the financial statements:

Note 3 which discloses ASI's cash management and available resources.

Notes 6 and 7 related to the pension plan and other post-employment benefit liability is sensitive as it is significant to the overall financial statements. This liability records a future liability for the pension and other post-employment benefits of ASI.

Note 8 which discloses the net assets and associated restrictions.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. The attached schedule summarizes corrected misstatements of the financial statements. There were no uncorrected misstatements.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated **September XX, 2021**. A copy of the letter is included for your reference.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the ASI's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as ASI's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

With respect to the supplemental information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with U.S. generally accepted accounting principles, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplemental information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

This information is intended solely for the use of the Board of Directors and management of Associated Students, Inc., California State University, Fullerton and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

ASSOCIATED STUDENTS, INC., CALIFORNIA STATE UNIVERSITY, FULLERTON

Status of Prior Year Control Deficiencies

Year Ended June 30, 2021

Financial Reporting

ASI uses fund accounting to record all financial activity during the year. Due to this, there are 4 different trial balances that are required to prepare the complete ASI financial statements. During the audit there were material changes made to a trial balance after the audit was started, which required Aldrich to record a significant journal entry to reconcile. It was also identified that the trial balances from the June 30, 2019 audit did not reconcile to the accounting system as of June 30, 2019 due to entries that were not posted to the accounting system. Net assets by fund also did not reconcile due to an unposted entry.

Status: This has been corrected in fiscal year 2021. There are still separate funds but the accounting team ensured that all the interfund activity was balanced and reconciled at year end.

Fund Accounting

ASI uses fund accounting to account for different departments (Instructionally Related Activities, ASI, Agency, and Titan Student Center). ASI has an agreement with the University to provide disbursement services for the CSU Fullerton Athletics Department (Athletics). During the audit we identified that expenses for this agreement are paid from ASI bank accounts and are then later reimbursed from the University. Recording the transactions in the ASI bank accounts increases the risk for error in accounting treatment and also makes it difficult to review and track the activity that is related to ASI and the activity related to Athletics.

Status: This is still an issue but management does not have control over the decisions related to the operations of IRA and Athletics funds as this is determined by campus. They also are expected to help to cover the expenses with ASI funds as they manage the billing and collection process.

The Children's Center activity is also co-mingled with ASI in the accounting records. The Children's Center is required to be audited separately and separate financial statements must be prepared. ASI breaks out and tracks the income statement activity separately but does not record the balance sheet activity throughout the period. Due to this treatment, there is no system generated or complete trial balance available, it must be manually created.

Status: This was corrected for the year ended June 30, 2021 and the Children's Center activity is now reported in a separate fund in the accounting system.

Segregation of Duties

There is one employee who:

- has access to all areas of the accounting system
- has access to the check stock
- has the ability to post journal entries, although these entries are to be reviewed by a supervisor
- is a check signer
- reviews and approves payment of credit card statements with no secondary review or approval and is also a cardholder

Status: This was corrected in September 2020 and management has segregated duties related to cash disbursements.

We also identified that student employees are given access to the HR and payroll system and have the ability to change payroll information for employees with no system alerts to notify the management team that changes have been made.

Status: This was not an issue for the fiscal year because there were no student employees and access was restricted to the HR and payroll system.

ASSOCIATED STUDENTS, INC., CALIFORNIA STATE UNIVERSITY, FULLERTON

Status of Prior Year Control Deficiencies

Year Ended June 30, 2021

Credit Cards and Cash Disbursements

During the audit for the year ended June 30, 2020 it was identified there were control deficiencies over disbursements which included lack of proper supporting documentation being retained and lack of proper approval.

Status: This was corrected in fiscal year 2021 as management now requires support for all expenses prior to payment and approval has been segregated.

We also noted that credit card statements are paid when received prior to any reconciliation of the activity to supporting documentation.

Status: This was corrected with the implementation of an online credit card system that now requires all receipts be submitted and approved prior to the payment of the credit card bill.

ASSOCIATED STUDENTS, INC., CALIFORNIA STATE UNIVERSITY, FULLERTON

Summary of Corrected Misstatements

Year Ended June 30, 2021

Account	Description	Debit	Credit
Adjusting Journal Entries JE # 1			
PERS adjustment			
14-9986	Pension Expenses - CalPERS Service Costs/Contributions	381,257.00	
14-9988	Pension Expenses - CalPERS Non-Service Costs	285,212.00	
24-9986	Pension Expenses - CalPERS Service Costs/Contributions	293,799.00	
24-9988	Pension Expenses - CalPERS Non-Service Costs	219,785.00	
14-2510	Pension Obligation		666,469.00
24-2510	Pension Obligation		513,584.00
Total		<u>1,180,053.00</u>	<u>1,180,053.00</u>
Adjusting Journal Entries JE # 2			
To reconcile net assets for ASI and TSC			
14-2114	Due to/from other fund	30,687.00	
24-3011	Unrestricted Fund Balance	30,687.00	
24-3011	Unrestricted Fund Balance	11.00	
14-3011	Unrestricted Fund Balance		30,687.00
24-2114	Due to/from other fund		30,687.00
24-6022	Miscellaneous Revenue		11.00
Total		<u>61,385.00</u>	<u>61,385.00</u>
Adjusting Journal Entries JE # 3			
E.ntry to correct net assets			
24-3011	Unrestricted Fund Balance	10,017.00	
24-3110	Camp Titan Contributions		10,017.00
Total		<u>10,017.00</u>	<u>10,017.00</u>