

# CSU Auxiliary Audit 2012

**AOA Annual Conference – January 10, 2012**

Office of the University Auditor

**Mike Caldera – Interim Senior Director**

**Caroline Lee – Auxiliary Audit Manager**

# AGENDA

- ✿ **OUA Department Update/Changes**
- ✿ **Auxiliary Audit – 10 Year Perspective**
- ✿ **2012 Audits**
- ✿ **Areas of Audit**
- ✿ **Results of Round 4 Audit**
- ✿ **Areas You Can Improve Before Audit**
- ✿ **Questions**

# OUA DEPARTMENT UPDATE/CHANGES

## Who am I and what am I doing here?

- Department Compliance Initiative. What is it? Will it impact Auxiliary Organizations?

## New auxiliary audit manager – Caroline Lee

- Experienced CPA with Not for Profit, Governmental and A133 audit experience
- Fully dedicated to auxiliary audit oversight

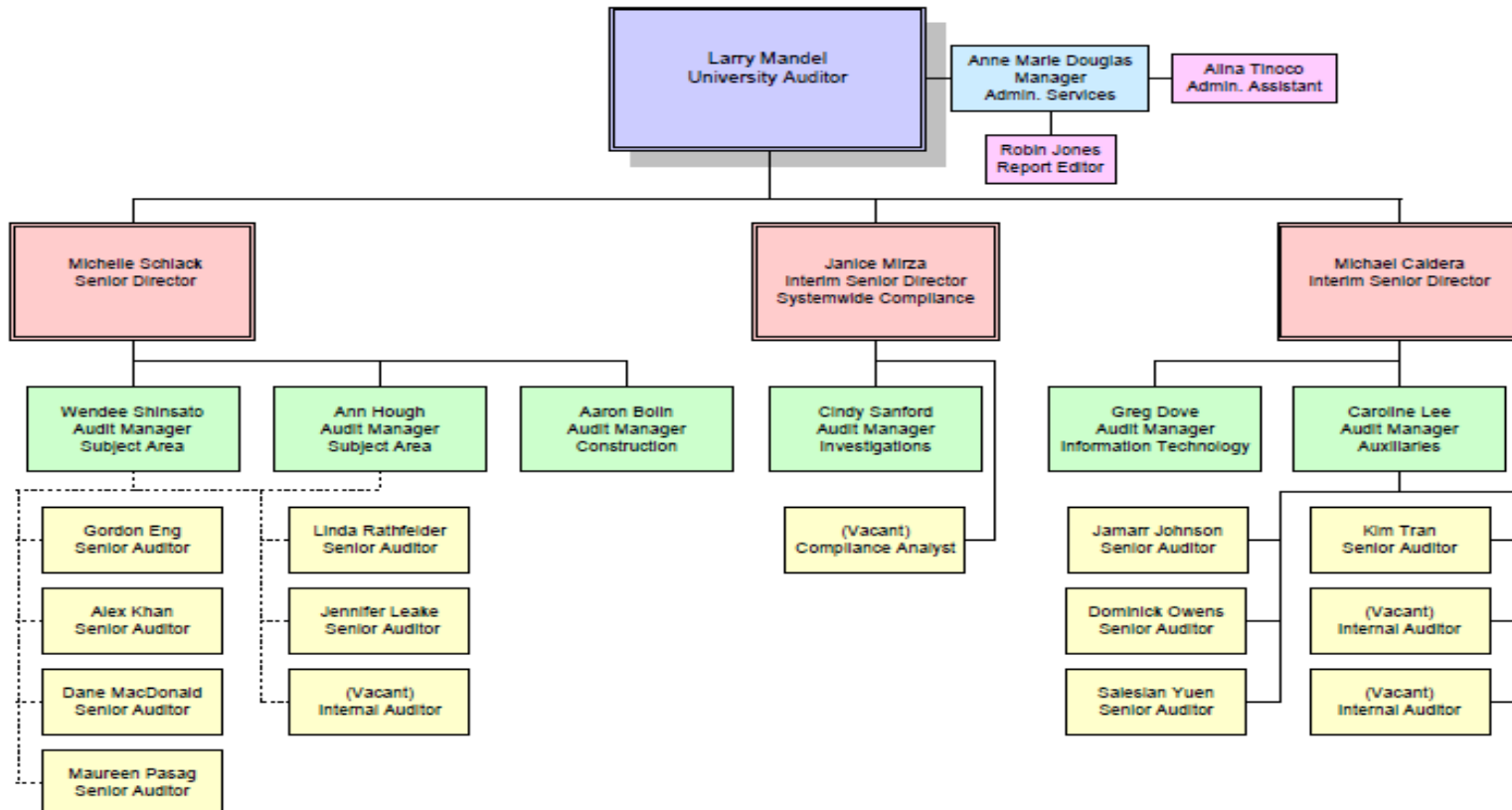
## Other department changes

- A few staff openings exist due to management promotion and turnover

# OUA DEPARTMENT UPDATE/CHANGES

## Department Org Chart

### Office of the University Auditor



## OUA DEPARTMENT UPDATE/CHANGES

- ❁ **OUA management team is committed to improving the auxiliary audit process** - Changed scoping methodology, continuing to refine audit work papers and audit programs
- ❁ **Services provided by the campus will be in scope** - (e.g., accounting, IT services and support, etc.)
- ❁ **Information Technology** – Will continue to be an increased area of focus
- ❁ **Continue to support external auxiliary reviews** - OUA reviews submitted remediation for noted material weaknesses

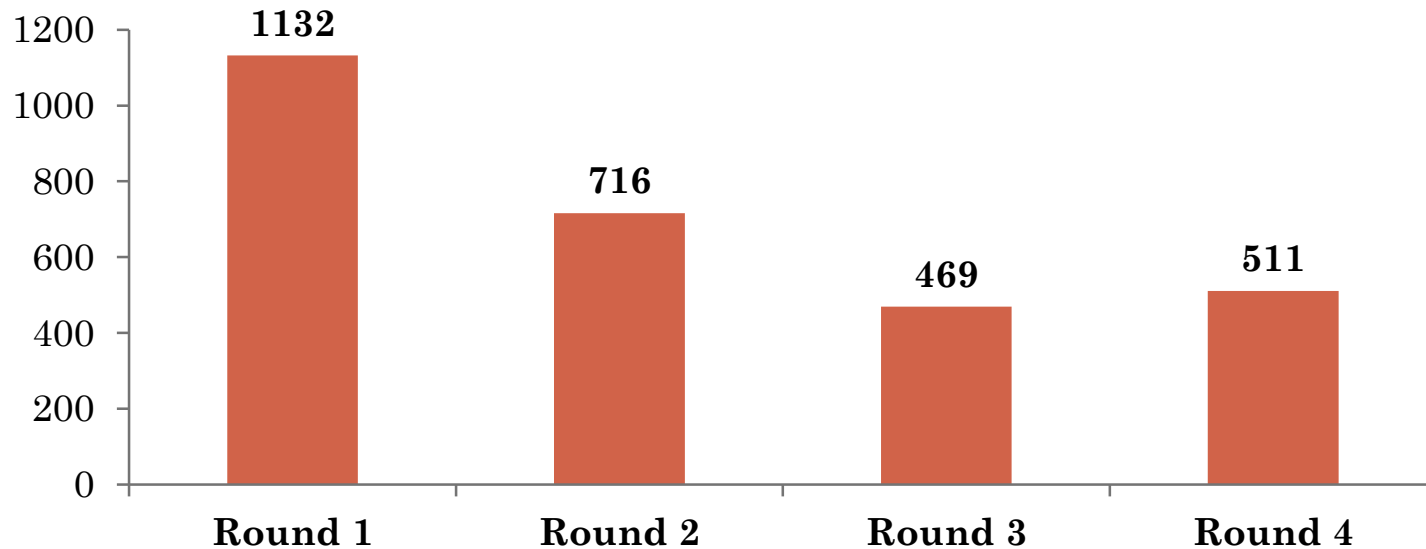
# AUXILIARY AUDIT – 10 YEAR PERSPECTIVE

## General Observations

- ✿ Budget concerns continue to challenge the system
- ✿ Improved control environment and increased awareness of policies and regulations
- ✿ Compliance findings continue to have a high frequency of occurrence
- ✿ Transparency (McKee Transparency Act)
- ✿ Synergy

# AUXILIARY AUDIT – 10 YEAR PERSPECTIVE

## Significant improvement from Round 1



**Footnotes:**

\* Round 1 data only included 22 campuses (CI was not audited)

\* Round 4 data is skewed due to "IT Effect". There 144 IT findings in Round 4. Would have been below round 3 had their not been a increased focus on information technology and security controls.

# AUXILIARY AUDIT – 10 YEAR PERSPECTIVE

## Campuses with Least Findings for all Four Rounds

### Small Campuses

Maritime – 54

Monterey Bay – 80

### Medium Size Campuses

Cal Poly Pomona – 93

Sonoma – 94

### Large Campuses

Cal Poly SLO – 78

SDSU – 95

### Chancellor's Office

CO - 32

## 2012 AUDITS

### Year 1 of Round 5 begins in 2012

- ☀ Fullerton – Start Date is January 17<sup>th</sup>
- ☀ Other Year 1 Campuses (in alphabetical order) - Chico, Dominguez Hills, Long Beach, Northridge, San Bernardino, San Francisco and Sonoma
- ☀ Audit order will be formally announced at upcoming CABO meetings

## AREAS OF AUDIT

### Legal and Regulatory Compliance

- Auxiliary Functions/Operating Agreement
- Administrative/Service Agreement
- Real Estate/Facility Leasing Transactions
- Corporate Governance Mandates
- Operating Losses
- Reserves
- Cost Reimbursement
- Taxes
- Risk Management
- Conflict of Interest
- Affirmative Action
- CA Non-Profit Integrity Act of 2004
- Student Financial Assistance
- Budgets
- Student Organizations
- External Firm Qualification (new)

## AREAS OF AUDIT – CONT.

### Internal Controls

- Cash Receipts
- Cash Disbursements
- Investments
- Accounts Receivables
- Procurement
- Personnel and Payroll
- Property and Equipment
- Retail and Commodity Inventory
- Debt and Other Liabilities
- Reserves and Net Assets

## AREAS OF AUDIT – CONT.

Other

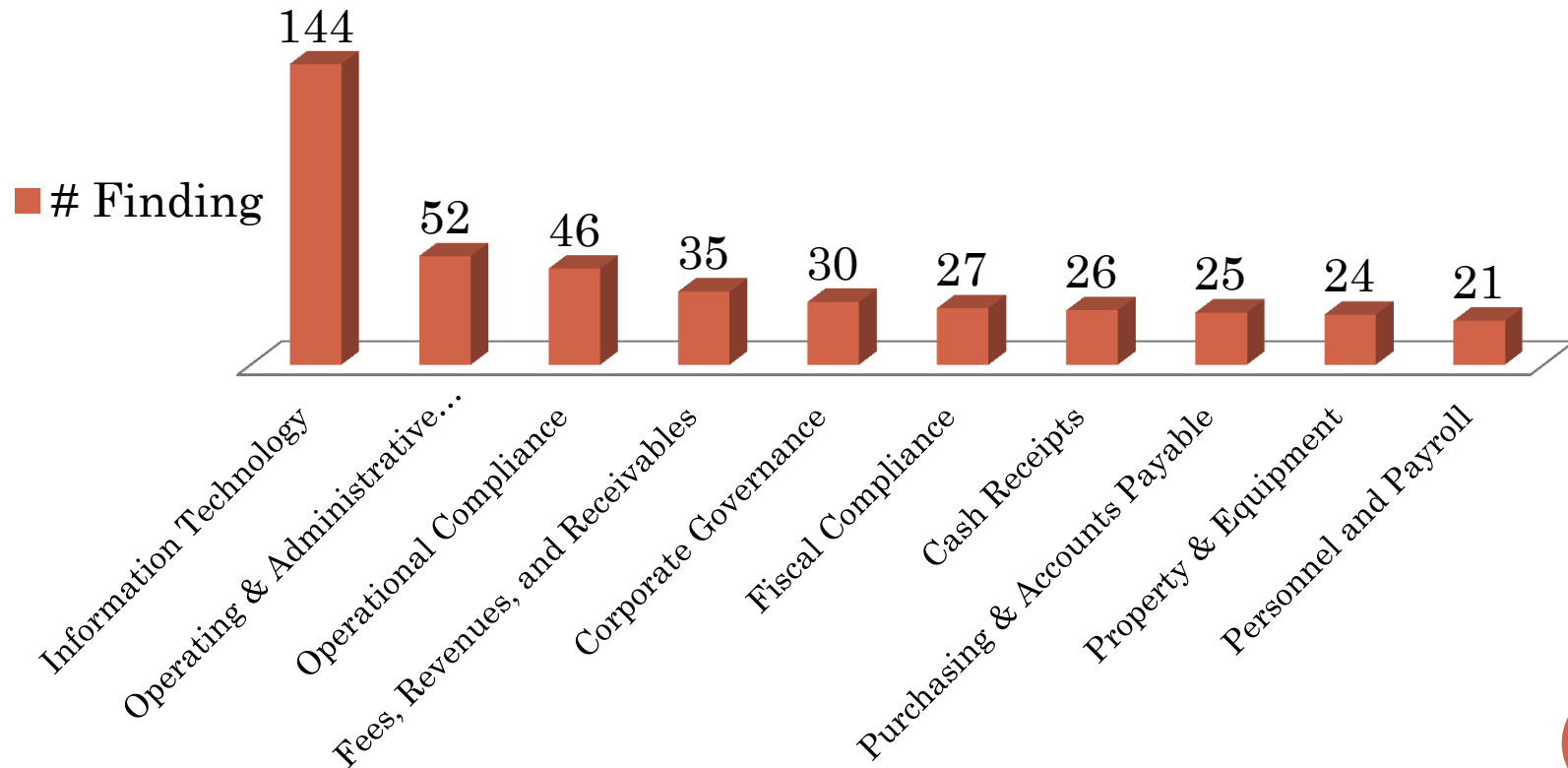
- IT
- Campus Programs/Activities
- Gifts/Endowments/Fundraising
- Contracts and Grants (Pre & Post)
- Bookstore
- Dining
- Radio Station
- Housing
- Agricultural Operations

# RESULTS OF ROUND 4 AUDITS

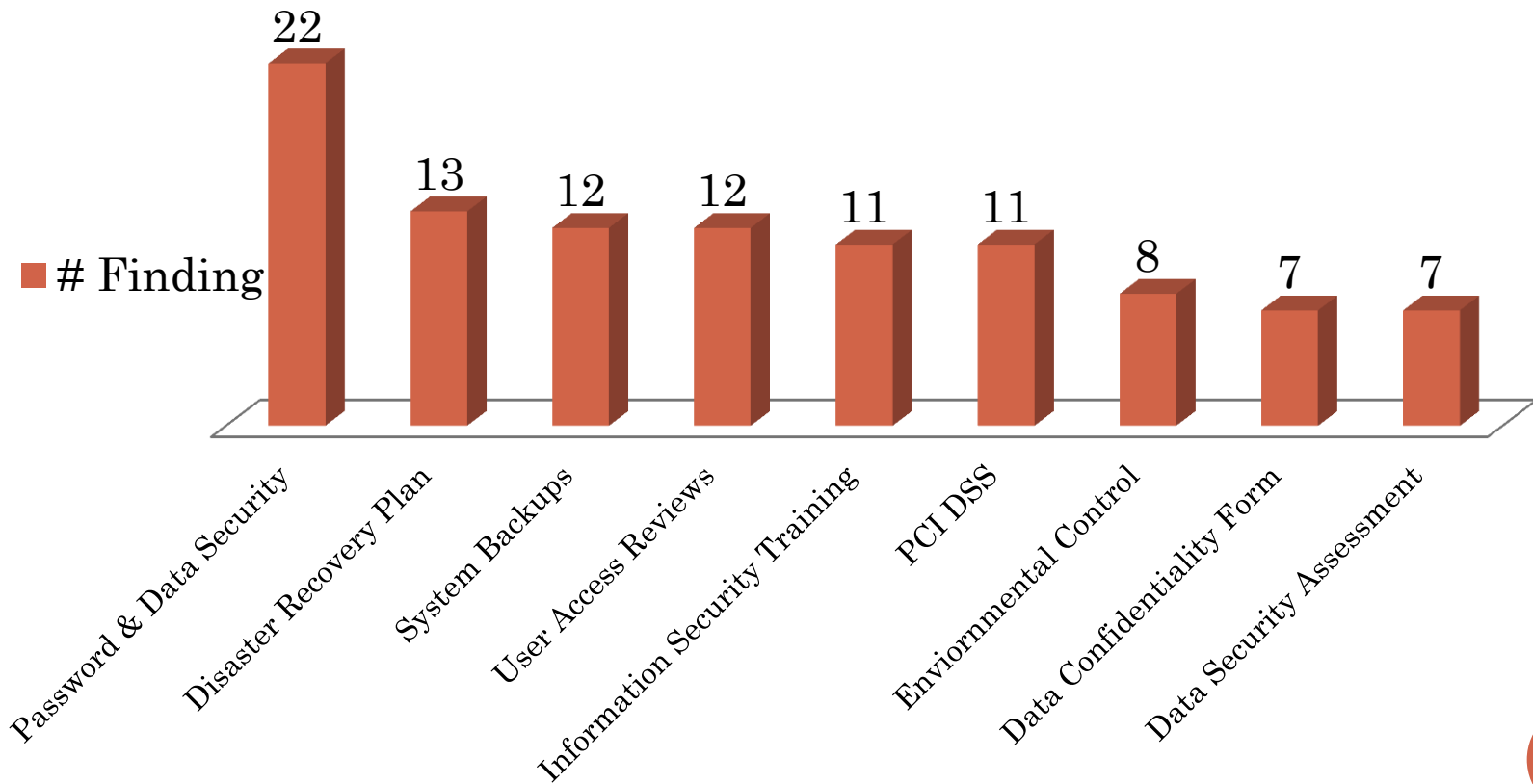
What is the Number One Finding?

- ✿ Total of 511 Findings
- ✿ Top Ten Findings by Categories
- ✿ IT Findings
- ✿ Top Findings Excluding IT Findings
- ✿ Top Findings by Type of Auxiliaries

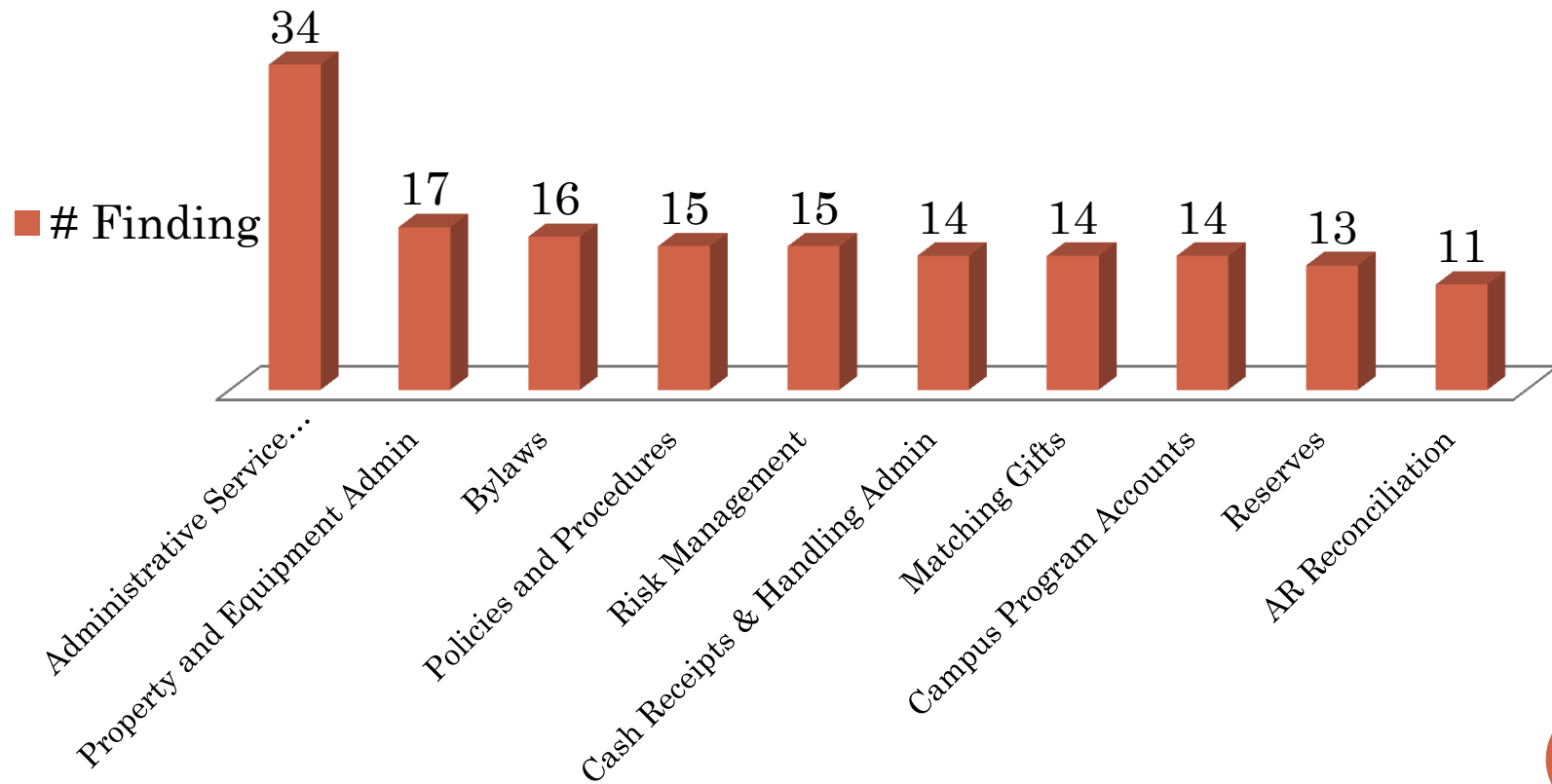
## TOP TEN FINDINGS – BY CATEGORY



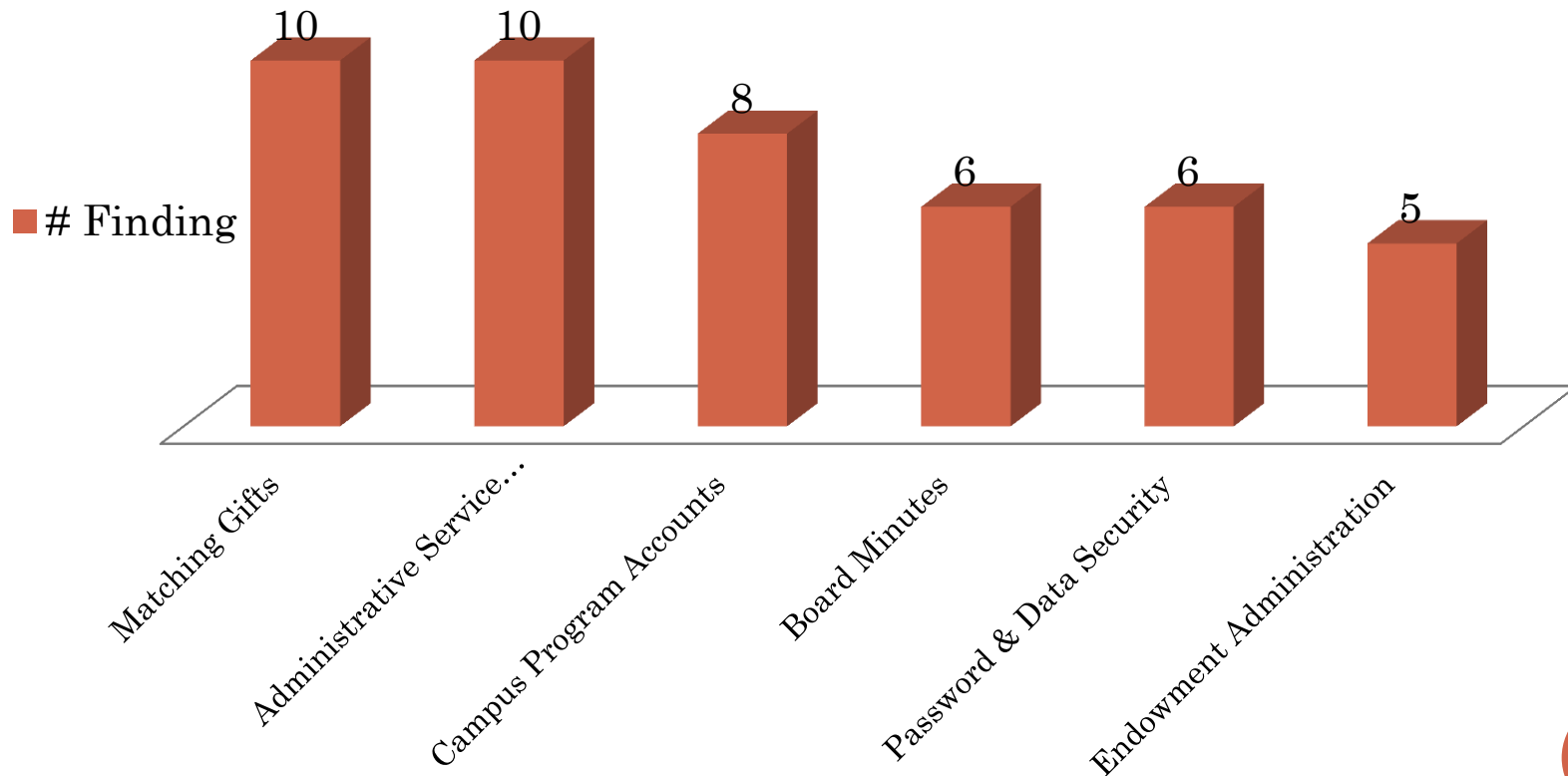
# IT FINDINGS



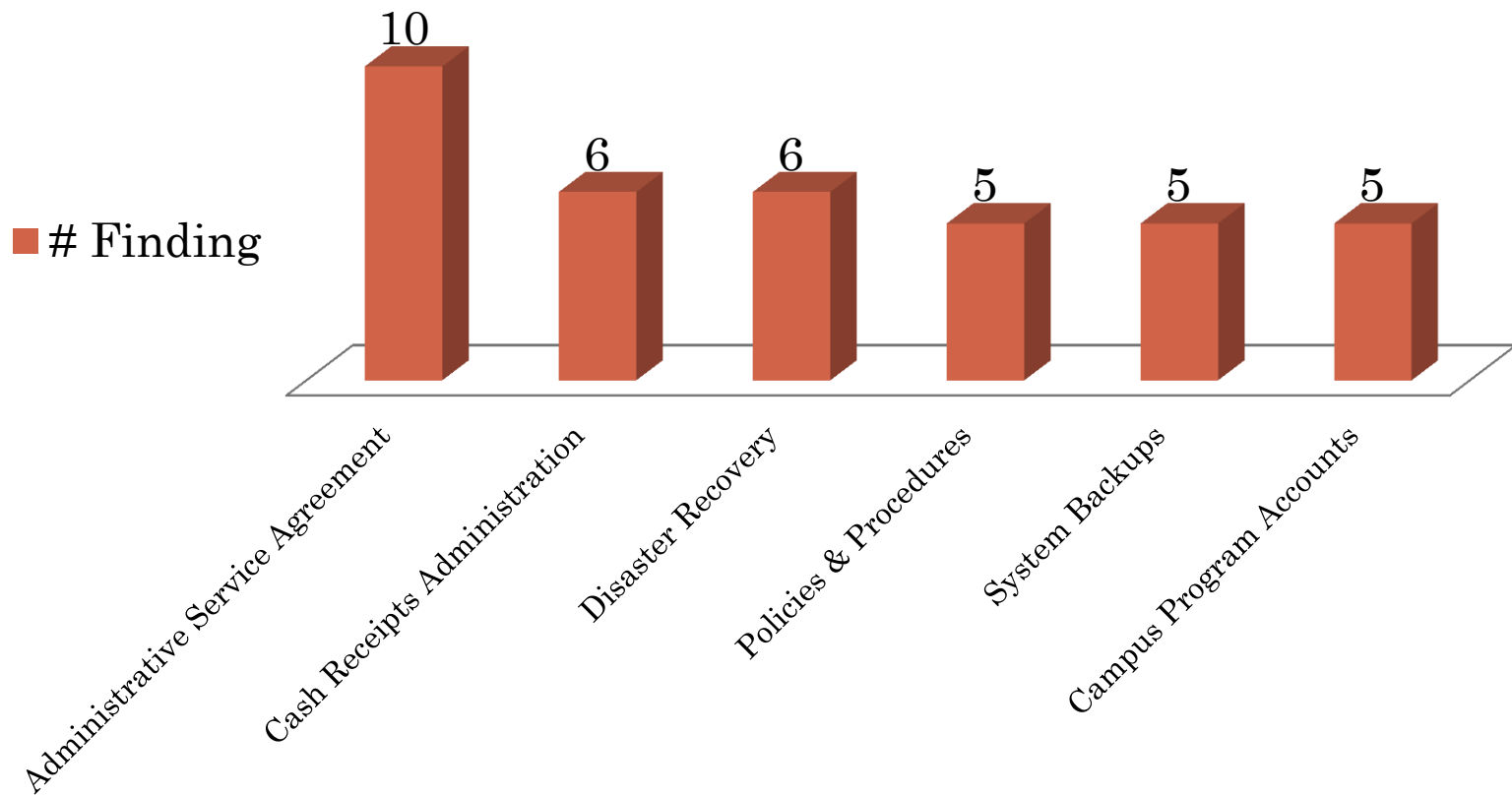
## TOP FINDINGS – EXCLUDING IT



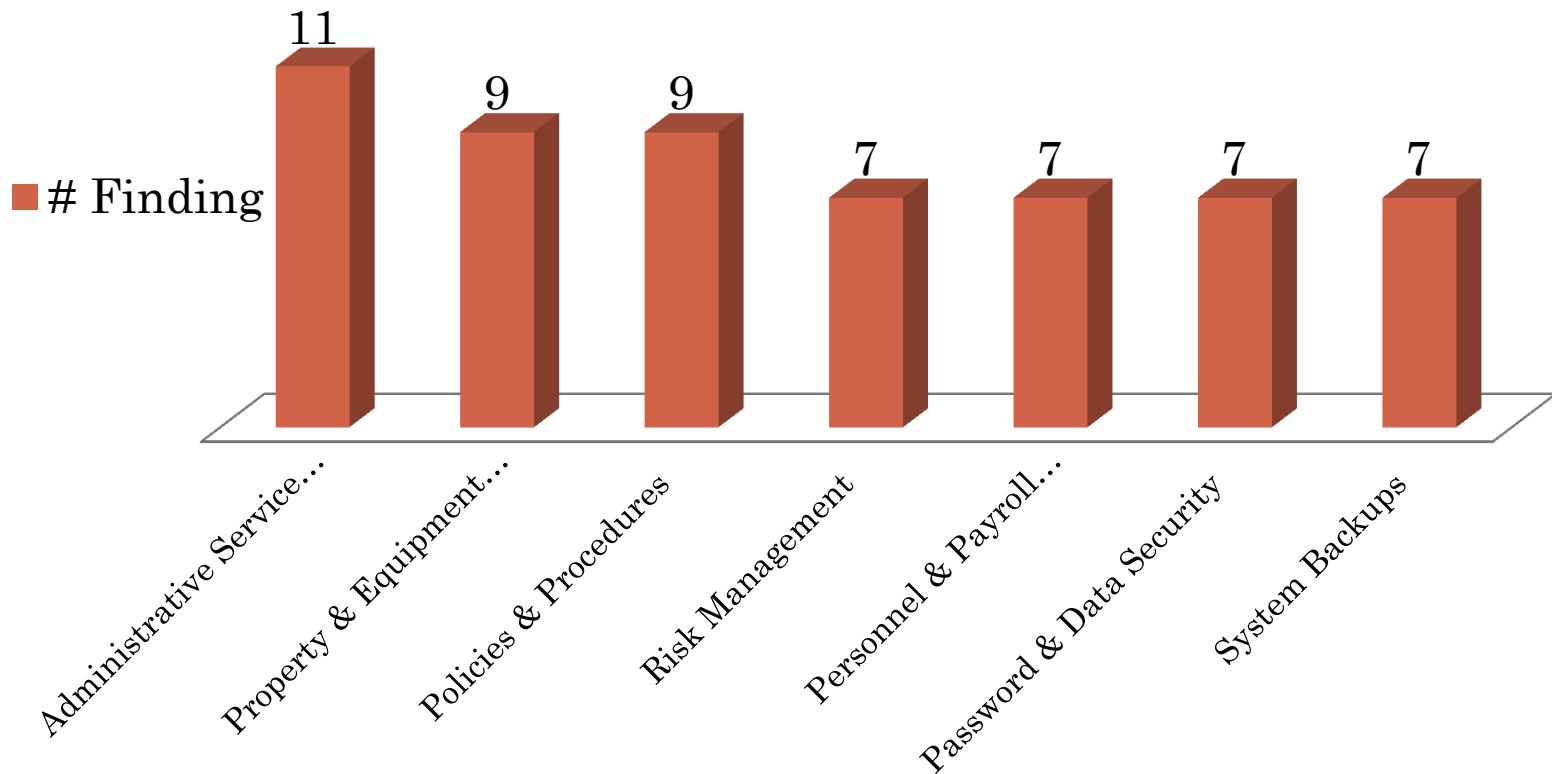
# TOP FINDINGS FOR FOUNDATION



# TOP FINDINGS FOR CORPORATION & SHOPS



# TOP FINDINGS FOR ASI & UNION



## AREAS YOU CAN IMPROVE BEFORE YOUR AUDIT

- ✿ Independent Physical Inventory
- ✿ Review and Update Policies and Procedures
- ✿ Changes to Bylaws/Articles of Incorporation send to CO
- ✿ Obtain Conflict of Interest Statements
- ✿ **Operating and Administrative Agreements**
- ✿ **Risk Management**
- ✿ **Reserves**
- ✿ **Matching Gifts – Dual Review**
- ✿ **Unrelated Business Income Tax**
- ✿ **Campus Programs/Activities**
- ✿ **External Audit Firm Qualification**

# OPERATING AND ADMINISTRATIVE AGREEMENTS

- ✿ Inappropriate Indemnification Provisions
- ✿ Not Including Insurance Provisions
- ✿ Not Including Right to Inspect Records/Audit Provision
- ✿ Not Supported by Fully Executed Agreements
- ✿ Not Renewed Timely
- ✿ Not Signed and Dated

# OPERATING AND ADMINISTRATIVE AGREEMENTS

## Indemnification Provision

- EO 849, California State University Insurance Requirements, dated February 5, 2003, states that auxiliary organizations shall agree to indemnify, defend, and save harmless the State of California, the Trustees of the CSU, the campus, and the officers, employees, volunteers, and agents of each of them from any and all loss, damage, or liability that may be suffered or incurred by state, caused by, arising out of, or in any way connected with the operations of the auxiliary.

## RISK MANAGEMENT

- Develop comprehensive written risk management policy.
- Covered by the campus policy then should state the auxiliary is under the campus policy.
- EO 715 states that ongoing process to identify risks, analyze the frequency and severity of the potential risks, and select the best management techniques to manage the risks is necessary.

## RESERVES

- Planning and analysis of reserves should be adequately documented, communicated, or reviewed.
- Established reserves should be adequately funded and accurately reflected in the general ledger.
- Education Code §89904(b), §89904.5, and §89905 indicate that reserve planning is necessary.
- The Compilation of Policies and Procedures for California State University Auxiliary Organizations Section 8.9.9, Reserves and Net Assets states that proper provision for professional management, adequate working capital, adequate reserve funds for current operations and capital replacements, and adequate provisions for new business requirements is necessary.

## MATCHING GIFTS

- A documented dual review be should be performed.
- To ensure that matching funds are directed to the appropriate university recipient and administered in accordance with corporate donor requirements.
- The Compilation of Policies and Procedures for California State University Auxiliary Organizations Section 8.9.3, Donations, Program Service Fees, Other Income, states that a written recordkeeping system should be established that enables gifts to be properly received, recorded, and acknowledged.

# UNRELATED BUSINESS INCOME TAX (UBIT)

What is Unrelated Business Income (UBI)?

- ✿ In order to be deemed as an UBI activity All Three Factors Must be Met:
  - Carried on as a Trade/Business
  - Regularly Carried On
  - Not Substantially Related
- ✿ Internal Revenue Code §512 through §514

“UBI in excess of \$1,000 must be reported to the IRS, whether or not a tax liability is incurred. In addition, the organization’s tax-exempt status may be jeopardized if too large a portion of its revenue is derived from UBI.”
- ✿ Create System to Track and Account for UBI

## CAMPUS ACTIVITIES AND PROGRAMS

- ✿ ICSUAM 13680.00 (Effective September 29, 2011)
- ✿ With “Ownership” Comes Assumption of:
  - Legal Obligation
  - Fiscal Liabilities
  - Fiduciary Responsibilities
- ✿ “If an auxiliary is to own an activity or program, a clear understanding of rights and responsibilities is to be incorporated within existing written agreements (or separately acknowledged as deemed appropriate” between the University and that auxiliary.”

## EXTERNAL AUDIT FIRM QUALIFICATION

- ✿ ICSUAM 13175.00 (Effective January 1, 2012)
- ✿ External auditors possess minimum proficiencies and experiences:
  - At least ten not-for-profit clients, including at least 5 GASB clients
  - Experience and proficiency in performing OMB Circular A-133 Single Audits
  - Five references
  - Engagement team members' competence and continuing education
  - External peer review
- ✿ Chancellor's Office Review- Campus CFO must submit to the CO by April 30<sup>th</sup> of each year "Qualifications Review Questionnaire for Proposed Audit Form."

<http://www.calstate.edu/icsuam/sections/13000/13175.00.shtml>

# QUESTIONS



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**THANK YOU!**