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November 14, 2018

RADM Thomas A. Cropper, President
California State University Maritime Academy
200 Maritime Academy Drive
Vallejo, CA 94590

Dear Admiral Cropper:

Subject: Audit Report 18-25, *Associated Students*, California State University Maritime Academy

We have completed an audit of *Associated Students* as part of our 2018 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 has been 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,



Larry Mandel
Vice Chancellor and Chief Audit Officer

c: Timothy P. White, Chancellor



The California State University
Audit and Advisory Services

ASSOCIATED STUDENTS

**California State University
Maritime Academy**

Audit Report 18-25
October 18, 2018

EXECUTIVE SUMMARY

OBJECTIVE

The objectives of the audit were to confirm compliance with regulatory requirements for the establishment and governance of auxiliary organizations; ascertain effectiveness of operational, administrative, and financial controls for the activities conducted by the Associated Students of California Maritime Academy (ASCMA); evaluate adherence to auxiliary policies and procedures and applicable Integrated California State University Administrative Manual (ICSUAM) policies, or, where appropriate, to an industry-accepted standard; and to ensure compliance with relevant governmental regulations, Trustee policy, Office of the Chancellor directives, and campus procedures.

CONCLUSION

We found the control environment for some of the areas reviewed to be in need of improvement.

Based upon the results of the work performed within the scope of the audit, except for the weaknesses described below, the operational, administrative, and financial controls for the ASCMA as of September 6, 2018, taken as a whole, provided reasonable assurance that risks were being managed and objectives were met.

We found that the ASCMA did not have established policies and procedures for several key financial processes, and administration of certain fiscal activities needed improvement, including disbursements and travel claims and maintenance of an accurate inventory of property and equipment. In addition, stipends paid to student government officers were not properly reported to the campus financial aid office or documented in students' financial aid recipient records. We also noted areas for improvement in the management and oversight of student organization events: Practices did not always align with written policies; records showing that proper planning, review, and approval had occurred were not always maintained; and required liability waivers were not always collected. Furthermore, the ASCMA had not filed amended Articles of Incorporation and updated bylaws with the Office of the Chancellor, and it had not performed a documented review or analysis of the need to establish reserves.

Specific observations, recommendations, and management responses are detailed in the remainder of this report.

OBSERVATIONS, RECOMMENDATIONS, AND RESPONSES

1. FINANCIAL CONTROLS

OBSERVATION

The ASCMA did not have documented policies and procedures for several key financial processes, and administration of certain fiscal activities needed improvement.

We found that written policies and procedures had not been established to address the ASCMA’s day-to-day financial processes surrounding cash handling, disbursements, procurement, property and equipment, and accounts receivable collections.

We reviewed a sample of transactions and items in various areas of the ASCMA operation, and found that:

- For 23 of 30 disbursements, a trust fund agreement had not been maintained, or the agreement was incomplete. As such, we could not verify whether proper approval had been obtained. A trust fund agreement is required for all student organization disbursements and indicates, among other things, the list of authorized signatures required for approval of a disbursement.

In addition, four of the 30 disbursements included only one authorized signature, though in practice, the ASCMA requires two.

- A signed liability waiver from a student traveling by air was not maintained for one of eight travel claims, as required by Executive Order (EO) 1041, *California State University Student Travel Policy*.
- The ASCMA’s property and equipment listing did not accurately reflect the inventory, and ten of 13 items on the list could not be located.

Documented policies and procedures for financial processes may help to ensure understanding and compliance with internal controls, and proper administration of fiscal activities increases assurance that components of risk have been addressed.

RECOMMENDATION

We recommend that the campus, in conjunction with the ASCMA:

- a. Develop and communicate written policies and procedures to address the ASCMA’s financial processes surrounding cash handling, disbursements, procurement, property and equipment, and accounts receivable collections.
- b. Ensure that trust fund agreements are complete and maintained for all disbursement accounts.

- c. Determine and establish the appropriate number of signature approvals required for disbursements, and ensure that all disbursements are approved accordingly.
- d. Maintain signed liability waivers from all students traveling by air.
- e. Review and update the ASCMA’s property and equipment listing to accurately reflect the inventory.

MANAGEMENT RESPONSE

We agree. The campus, in conjunction with the ASCMA, will:

- a. Develop and communicate written policies and procedures to address the ASCMA’s financial processes surrounding cash handling, disbursements, procurement, property and equipment, and accounts receivable collections.
- b. Ensure that trust fund agreements are complete and maintained for all disbursement accounts.
- c. Determine and establish the appropriate number of signature approvals required for disbursements, and ensure that all disbursements are approved accordingly.
- d. Maintain signed liability waivers from all students traveling by air.
- e. Review and update the ASCMA’s property and equipment listing to accurately reflect the inventory on a yearly basis.

Expected completion date: February 2019

2. STIPENDS

OBSERVATION

Stipend payments were not reported to the financial aid office or documented in student financial aid records.

Certain student government officers were paid stipends for their service, in accordance with ASCMA bylaws. In addition, California Code of Regulations (CCR), Title 5, §42500(d) requires that a record of financial assistance, such as student loans, scholarships, stipends, and grants-in-aid, be timely forwarded to the campus financial aid office and documented in student financial aid recipient records in that office. We reviewed stipends paid to five students and found that the financial aid office had not been notified about any of them.

Reporting student stipend payments to the campus financial aid office and documenting them on student financial aid records helps to ensure compliance with regulatory requirements.

RECOMMENDATION

We recommend that the campus, in conjunction with the ASCMA, report all stipend payments made to ASCMA student government officers to the financial aid office and document stipends on student financial aid recipient records.

MANAGEMENT RESPONSE

We agree to report all stipend payments made to ASCMA student government officers to the financial aid office and to document stipends on the student financial aid recipient records.

Expected date of completion: January 2019

3. STUDENT ORGANIZATION EVENTS

OBSERVATION

Certain practices for the administration of student organization events did not align with the *ASCMA Handbook for On-Campus Clubs and Organizations*, and recordkeeping for events needed improvement.

We reviewed ten student organization events and found that:

- Events were typically approved by the executive director, in conjunction with various student government officers, but not by the director of student affairs. Additionally, only one event was approved by a student club advisor. However, the ASCMA handbook indicated that events were subject to approval by the executive director, director of student affairs, and advisor of the student organization. Moreover, ASCMA personnel stated that certain student organization events did not require the advisor’s approval.
- For three of the events, records showing that planning, review, and approval had occurred had not been maintained.
- For one off-campus event that involved student travel, a signed liability waiver had not been collected, as required by the ASCMA handbook. We also noted that in practice, the ASCMA did not always require liability waivers for student travel to off-campus events.

Proper administration and recordkeeping of student organization events helps to ensure that necessary factors are considered, requirements are met, and required records are maintained.

RECOMMENDATION

We recommend that the campus, in conjunction with the ASCMA:

- a. Review the *ASCMA Handbook for On-Campus Clubs and Organizations* sections on approval of student organization events and determine whether they should be revised to align with current practices. If so, update the handbook.

- b. Comply with the ASCMA handbook regarding the administration of student organization events.
- c. Ensure that required records are collected and retained for all student organization events, including, but not limited to, event approval forms and liability waivers.

MANAGEMENT RESPONSE

We agree. The campus, in conjunction with the ASCMA, will:

- a. Review and update ASCMA’s *Handbook for On-Campus Clubs and Organization* sections on approval of student organization events to align with current and best practices.
- b. Comply with ASCMA’s handbook regarding the administration of student organization event.
- c. Ensure that required records are collected and retained for all student organization events, including event approval forms and liability waivers.

Expected date of completion: February 2019

4. GOVERNANCE

OBSERVATION

The ASCMA had not timely filed amended Articles of Incorporation and bylaws with the Office of the Chancellor.

The ASMCA’s Articles of Incorporation were amended in January 2016, and its bylaws were updated in September 2017. At the time of the audit, neither of the updated documents had been filed with the Office of the Chancellor. When we notified the campus of this, the new documents were submitted.

RECOMMENDATION

We recommend that the campus, in conjunction with the ASCMA, establish a process to ensure that all amended and newly created auxiliary governance documents are timely submitted to the Office of the Chancellor.

MANAGEMENT RESPONSE

We agree to establish a process to ensure that all amended and newly created auxiliary governance documents are timely submitted to the Office of the Chancellor.

Expected date of completion: January 2019

5. RESERVES

OBSERVATION

The ASCMA had not established a reserve balance, and there was no documented planning or analysis by the board of directors and the campus president regarding the need to establish a reserve.

According to Education Code §89904, governing boards of auxiliary organizations shall implement financial standards to assure the fiscal viability of the auxiliary, including the provision for adequate reserve funds for current operations and capital replacements and adequate provisions for new business requirements.

Establishing a reserve fund helps to ensure the financial stability and viability of the auxiliary entity.

RECOMMENDATION

We recommend that the campus, in conjunction with the ASCMA, document and communicate the planning and analysis of reserves to the board of directors and campus president.

MANAGEMENT RESPONSE

We agree to document and communicate the planning and analysis of reserves to the board of directors and campus president.

Expected date of completion: February 2019

GENERAL INFORMATION

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 §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 California State University (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.

Executive Order (EO) 1059, *Utilization of Campus Auxiliary Organizations*, dated June 6, 2011, represents Trustee policy addressing appropriate use of CSU auxiliary organizations. This EO requires CSU auxiliary organizations to operate within the regulations and oversight of the campus. The EO 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.

California State University Maritime Academy (Cal Maritime) has two separate auxiliary organizations, each of which provides a function that contributes to the educational mission of the university. The ASCMA is a non-profit corporation originally incorporated in 1966 and recognized as a CSU auxiliary in 1998. The ASCMA is responsible for student advocacy on-campus, with faculty and administration, and off-campus at the state and federal levels. It also serves as the leadership organization whose purpose is to sponsor, promote, and conduct

essential activities closely related to the instructional program of Cal Maritime and that support student learning and development. A board of directors composed of appointed or elected students and staff manage and control the business and affairs of the ASCMA and make decisions in the best interest of Cal Maritime and the entire student body. The ASCMA does not have employees and relies on campus personnel for all accounting and business administration services. The associate dean of student engagement within the division of student affairs/student life has general oversight responsibility for the ASCMA. In addition, the student activities coordinator and executive director of the ASCMA manages all student activities, including clubs and organizations, as well as programs that plan activities (adventure, camaraderie and entertainment) and provide students with resources and events for outdoor activities (Adventure and Recreation Center).

SCOPE

We visited the Cal Maritime campus and the ASCMA from August 13, 2018, through September 6, 2018. Our audit and evaluation included the audit tests we considered necessary in determining whether operational, administrative, and financial controls are in place and operative at the ASCMA. The audit focused on procedures in effect from January 1, 2016, to September 6, 2018.

Specifically, we reviewed and tested:

- Fiscal, operational, and program compliance, such as reserve provisions, unrelated business income tax, conflicts of interest, and risk management practices, as applicable.
- Internal controls and segregation of duties over fiscal administration of areas such as cash receipts, accounts receivables, property and equipment, procurement, disbursements, and personnel and payroll, as applicable.
- Organizational roles and responsibilities for oversight of student organizations and activities, including required program evaluations.
- Processes to formally charter and/or recognize student organizations, and to ensure that student organizations receive training and comply with cash-handling policies.
- Processes to ensure that advisors and student leadership meet minimum qualifications and receive appropriate orientation and training.
- Processes to ensure compliance with requirements regarding alcohol usage and substance-abuse prevention and awareness programs, and student travel.
- Administration and oversight of student activities and events occurring both on- and off-campus, and of student organizations' account management and financial processes.

As a result of changing conditions and the degree of compliance with procedures, the effectiveness of controls changes over time. Specific limitations that may hinder the effectiveness of an otherwise adequate system of controls include, but are not limited to, resource constraints, faulty judgments, unintentional errors, circumvention by collusion, and management overrides. Establishing controls that would prevent all these limitations would not be cost-effective; moreover, an audit may not always detect these limitations.

CRITERIA

Our audit was based upon standards as set forth in CSU Board of Trustee policies; Office of the Chancellor policies, letters, and directives; campus procedures; and other sound administrative practices. 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:

- Education Code §89720
- Education Code §89756
- Education Code §89900
- Education Code §89904
- CCR, Title 5 §42401, *Declaration of Policy*
- CCR, Title 5 §42402, *Authority of Campus President*
- CCR, Title 5 §42500, *Functions of Auxiliary Organizations*
- RFIN 7-81-4
- EO 1041, *California State University Student Travel Policy*
- EO 1059, *Utilization of Campus Auxiliary Organizations*
- *CSU Auxiliary Organizations Compliance Guide*
- *CSU Auxiliary Organizations Sound Business Practices Guidelines*
- ICSUAM §1301.00, *Hospitality, Payment or Reimbursement of Expenses*
- ICSUAM §15000, *University Advancement*
- ICSUAM §13680.00, *Placement and Control of Receipts for Campus Activities and Programs*
- *ASCMA Handbook for On-Campus Clubs and Organizations*
- *ASCMA Travel Procedures*
- *Procurement Card Handbook For Campus, Foundation, and ASCMA Cardholders and Approving Officials*

AUDIT TEAM

Audit Manager: Joanna McDonald
Senior Auditor: Rick Pyles