APPENDICES

APPENDIX A: Personnel Contacted
APPENDIX B: Management Response
APPENDIX C: Chancellor’s Acceptance

ABBREVIATIONS

Act The California State Lottery Act of 1984
BOT Board of Trustees
CDIP Chancellor’s Doctoral Incentive Program
CFO Chief Financial Officer
CO Office of the Chancellor
CSU California State University
EO Executive Order
FY Fiscal Year
GC Government Code
GMC Green Music Center
ICSUAM Integrated California State University Administrative Manual
LF Lottery Funds
OAAS Office of Audit and Advisory Services
RAO Request for Allocation Order
SSU Sonoma State University
EXECUTIVE SUMMARY

As a result of a systemwide risk assessment conducted by the Office of Audit and Advisory Services (OAAS) during the last quarter of 2013, the Board of Trustees, at its January 2014 meeting, directed that Lottery Funds (LF) be reviewed. The OAAS has never reviewed lottery funds as a stand-alone audit.

We visited the Office of the Chancellor (CO) campus from May 5, 2014, through June 13, 2014, and audited the procedures in effect at that time.

In our opinion, except for the effect of the weaknesses described below, the fiscal, operational, and administrative controls for LF activities as of June 13, 2014, taken as a whole, were sufficient to meet the objectives stated in the “Purpose” section of this report. Areas of concern include: general environment, budgeting and allocation, and lottery fund expenditures.

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.

The following summary provides management with an overview of conditions requiring attention. Areas of review not mentioned in this section were found to be satisfactory. Numbers in brackets [ ] refer to page numbers in the report.

GENERAL ENVIRONMENT [6]

Lottery fund allocation orders were not always approved within the established delegations of authority.

BUDGETING AND ALLOCATION [7]

The annual lottery funds budget report presented to the Board of Trustees (BOT) needed improvement to provide greater clarity regarding receipt and use of lottery funds. In addition, administration of the lottery systemwide unallocated fund needed improvement. For example, the CO did not have policies and procedures for administration of the lottery systemwide unallocated fund that included a description of the purpose, expenditure and allocation authority, and carry-forward limitations and the need for a written expenditure plan. Also, the justification of the administrative fee charged by the CO for lottery fund management was not clear or properly approved. Further, campuses did not always adhere to CO carry-forward limitations for lottery fund allocations.

LOTTERY FUND EXPENDITURES [12]

The CO did not always expend lottery funds in accordance with state legislation and systemwide guidelines. Further, the trust fund agreement for the Chancellor’s Doctoral Incentive Program was not complete.
INTRODUCTION

BACKGROUND

The California State Lottery Act (Act) of 1984 directed the lottery administration to provide supplemental funding for the state’s public schools and colleges. The Act states that all lottery funds allocated to public education must be considered supplemental to other funds allotted to public education, and that no educational program shall receive less financial support from the state because it receives lottery proceeds.

Most of the lottery funds allocated to public education are given to K-12 and community college districts. In fiscal year (FY) 2012/13, K-12 education received 81 percent of the lottery fund allocation for public education. Community college districts received 13 percent, and the California State University (CSU) received less than four percent.

The CSU’s allotment, based on units of full-time-equivalent student enrollment, is given directly to the Board of Trustees (BOT). Since the passage of the Act in 1984, the CSU has received nearly $1 billion in lottery funds. The annual amount has generally increased each year, and the CSU allocation for FY 2012/13 was $43.9 million. Some of the funds are retained by the chancellor’s office (CO) for use in systemwide programs, but the majority are distributed to the individual campuses for use in enhancing instruction. More than $30 million was allocated to campuses in FY 2012/13.

The Act has been codified in Government Code (GC) §8880. In addition to outlining terms for the administration of lottery games, the legislation addresses the Act’s intent to ensure that lottery funds are considered supplemental to state education funding. It also mandates that lottery funds be managed separately from state appropriations and deposited in and expended from the California State Lottery Education Fund. Further, it emphasizes the intent that lottery fund allocations to educational institutions are to be used exclusively for the education of students and specifically prohibits the use of the funds for the acquisition of real property, construction of facilities, financing of research, or any other non-instructional purpose.

The CO Budget Office provides the following written guidance for campus lottery fund allocations:

- **Lottery Budgeting and Allocation Process** outlines the principles of the Act, including the provisions stating that the funds are supplemental to state appropriations and are intended to be used for instructional purposes. It also provides guidelines for both appropriate and prohibited expenditures; states that lottery funds are to be administered separately from state-appropriated funds; and outlines campus and systemwide reporting requirements for the annual report to the BOT, governor and Legislature. Sections discuss in detail the proper use of lottery funds in campus-based programs and in systemwide programs administered by the CO.

- **General Guidelines for Expenditures**, dated September 3, 2008, provides more detailed guidelines regarding appropriate lottery fund expenditures, including specific discussion about the use of lottery funds for faculty compensation. The guidelines prohibit using lottery funds to pay faculty for classroom instruction, to fund faculty overloads, or to increase the compensation rate for any staff, but do allow lottery funds to be used for faculty development, in certain circumstances.
Carry-Forward Fund Policy, dated August 28, 2007, states, in part, that lottery fund allocations should be spent in the year they are allotted, and that excess funds may be subject to de-allocation by the CO. It further states that campuses may carry forward no more than 80 percent of the fiscal year allocation, and that campuses with carry-forward balances will be required to provide to the CO, as part of the financial reporting package, an annual supplemental report addressing the balance.

Process for Reporting Expenditure Plan for Amounts that Exceed Carry-Forward Policy, dated April 21, 2008, provides campuses with more specific instructions on the treatment and reporting of lottery fund carry-forward balances.

The CSU also has policies for the fiscal management of funding sources, including lottery funds. Executive Order (EO) 1000, Delegation of Fiscal Authority and Responsibility, dated July 1, 2007, provides the authority and responsibility for effective oversight of all state funds held by the campuses and all funds held in a fiduciary capacity. Lottery funds are one of the many funding sources for CSU campuses and are, as such, subject to the budget and accounting requirements as outlined in the EO.
PURPOSE

Our overall audit objective was to ascertain the effectiveness of existing policies and procedures related to lottery funds and to determine the adequacy of controls that ensure compliance with relevant governmental regulations, Trustee policy, Office of the Chancellor directives, and campus procedures.

Within the overall audit objective, specific goals included determining whether:

- Administration of the lottery fund program is well-defined and includes clear lines of organizational authority and responsibility and documented delegations of authority.
- Policies and procedures related to lottery funds are current, comprehensive, and effectively distributed.
- The campus is providing accurate and timely lottery fund expenditure information to the CO for annual BOT and state reporting.
- The allocation process for lottery funds is well-documented and includes appropriate review and approval.
- The campus is appropriately budgeting and accounting for lottery fund allocations.
- The campus is properly administering and maintaining appropriate reserves of lottery fund allocations.
- The campus is complying with programmatic restrictions for funds received for specific CO lottery fund programs.
- Lottery funds expended in campus-based programs are in compliance with state and CSU requirements and restrictions.
SCOPE AND METHODOLOGY

The proposed scope of the audit as presented in Audit Agenda Item 4 of the January 28 and 29, 2014, meeting of the Committee on Audit stated that Lottery Funds includes activities for the budgeting, receipt, accounting, and expenditures of lottery fund proceeds allocated to the campuses. Proposed audit scope could include, but was not limited to, review of campus lottery fund allocation and expenditure policies and procedures to ensure compliance with CSU and state requirements; review of internal campus processes for monitoring, reviewing, and approving campus discretionary allocations to specific programs; and examination of specific programs receiving lottery funding to confirm the expenditures are in conformance with state and CSU restrictions.

Our study and evaluation were conducted in accordance with the International Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors and included the audit tests we considered necessary in determining whether fiscal, operational, and administrative controls are in place and operative. This review emphasized, but was not limited to, compliance with federal and state regulations and guidance, Board of Trustee policies, and Office of the Chancellor and campus policies, letters, and directives. The audit focused on procedures in effect from July 1, 2011, through June 13, 2014.

We focused primarily on the internal administrative, compliance, and operational controls over Lottery Funds activities. Specifically, we reviewed and tested:

- Administration of lottery fund allocations, including defined responsibilities and current policies and procedures.
- Processes to identify appropriate programs or areas for receipt of campus lottery fund allocations.
- Budgeting and accounting processes.
- Administration and reporting of carry-forward balances.
- Use of lottery fund allocations for administrative expenses.
- Expenditures from lottery fund allocations.
OBSERVATIONS, RECOMMENDATIONS, AND MANAGEMENT RESPONSES

GENERAL ENVIRONMENT

Lottery fund allocation orders were not always approved within established delegations of authority.

We noted that a Request for Allocation Order (RAO) was prepared and approved by the same person, and one of the items submitted for approval exceeded the person’s delegated $1 million authority limit.

Executive Order (EO) 1000, Delegation of Fiscal Authority and Responsibility, dated July 7, 2007, states that the chief financial officer (CFO) shall be the primary financial officer in respect to administration of delegations of authority and responsibility, and that this responsibility includes ensuring that appropriate internal controls are in place for the safeguarding of assets and the reliability of financial reporting.

Government Code (GC) §13402 and §13403 state that management is responsible for establishing and maintaining a system of internal administrative controls, which includes documenting the system, communicating system requirements to employees, and assuring that the system is functioning as prescribed and is modified, as appropriate, for changes in conditions. It further states that administrative controls are the methods through which reasonable assurance can be given that measures adopted by state agency heads to safeguard assets and promote operational efficiency are being followed.

The associate director of accounting stated that this transaction was approved by the Board of Trustees and the approval was attached to the RAO. She further stated her belief that the RAO contained documentation that the highest possible level of approval had been obtained.

Improper confirmation of delegation of authority limits could compromise internal accounting controls.

Recommendation 1

We recommend that the chancellor’s office (CO) approve lottery fund allocation limits within established delegation of authority limits.

Management Response

We concur. The CO will approve lottery fund allocation limits within established delegation of authority limits.

This recommendation will be completed by January 2015.
BUDGETING AND ALLOCATION

ANNUAL LOTTERY FUND BUDGET

The annual lottery funds budget report presented to the Board of Trustees (BOT) required additional information regarding the receipt and use of lottery funds.

We found that although the annual lottery fund budget reports provided to the BOT complied with budget office policy requirements, certain components of the overall lottery fund program were not included in the reports to provide more information about the sources and uses of funds and expenditures for both CO and campus-based programs. Specifically:

- The annual lottery fund expenditure reporting did not provide a complete picture of the use of lottery funds because the expenditure report was not provided in a format that allowed a comparison to the corresponding previous year’s approved budget to identify variances in expected spending.

- In describing reserves, the report did not reflect the carry-forward amount accumulated in the systemwide unallocated account or the amount of carry-forward available for de-allocation from the campuses. As of July 1, 2013, the carry-forward amount was $6.2 million, but the reserve amount in the most recent BOT lottery fund budget report was $3 million.

- The parameters for inclusion of programs/initiatives as budget line items in the report were unclear, and the Center for Community Engagement and e-Library were receiving consistent lottery funding but were not identified in the report.

- The Chancellor’s Doctoral Incentive Program (CDIP) was identified each year for a $2 million allocation even though it was self-sustaining via revenues from payments made on the student loans underlying the program. In addition, the annual allocation was transferred to the systemwide unallocated account each year and used to fund other programs/initiatives or retained as part of the carry-forward amount, and this fact was not evident in the expenditure reporting.

The Lottery Budgeting and Allocation Process states under “program expenditures” that funds should be allocated to a select group of instructional activities to achieve maximum impact on enhancing instruction. It further states that this means that lottery revenue should be used to supplement instruction beyond the expected level of state support and should not be used to replace state funding of the budget. In addition, it states that all systemwide program allocations will be well defined, programmatically and budgetary, at the time of approval by the BOT. In addition, it states that the BOT is to receive a report of actual expenditures for the past fiscal year and planned expenditures for the current fiscal year.

The acting deputy assistant vice chancellor stated that the systemwide unallocated account was not required to be reported, as only the current year budget and the previous year expenditures are required items for the annual BOT budget report. He further stated that the BOT gives the chancellor authority to provide funding at his discretion to programs and initiatives not reported in the annual budget and that the identified programs fall into this category. He also stated that the BOT was aware...
of the situation with the CDIP program and chose to provide the annual allocation, which was retained as a reserve, to show support and ensure success of the program.

Incomplete or unclear information in BOT annual reports could compromise the oversight and administration of lottery funds.

**Recommendation 2**

We recommend that the CO:

a. Evaluate the current requirements for the annual lottery funds budget report provided to the BOT and address the need for additional information regarding the receipt and use of lottery funds.

b. Re-assess the need for the $2 million allocation to CDIP based on an annual analysis of its needs and a detailed budget.

**Management Response**

We concur. The CO will evaluate the current requirements for the annual lottery funds budget report provided to the BOT and address the need for additional information regarding the receipt and use of lottery funds, as well as re-assess the need for the $2 million allocation to CDIP based on an annual analysis of its needs and a detailed budget.

This recommendation will be completed by January 2015.

**SYSTEMWIDE UNALLOCATED FUND**

Administration of the lottery systemwide unallocated fund needed improvement.

We noted that as of July 1, 2013, the balance of the systemwide unallocated fund, which consisted of all lottery funds that had not been directly allocated to specific programs at the CO or the campuses, was approximately $16.2 million and consisted of $3 million in reserves reported to the BOT in the 2013/14 annual budget; $2 million for the CDIP reserves; $5 million in accruals for the Early Start campus reimbursements; and $6.2 million in carry-forward/unallocated funds. We further noted that:

- The CO did not have policies and procedures for administration of the lottery systemwide unallocated fund that included a description of the purpose, expenditure and allocation authority, and carry-forward limitations and the need for a written expenditure plan.

- Since 2005, the CO allocated a total of $3.2 million from the systemwide unallocated fund to Sonoma State University (SSU) for projects related to the Green Music Center (GMC), an ongoing construction project. Although the funds were reported to be used for instructional purposes, we could not locate sufficient documentation for two $1.1 million allocations in 2005 and 2006 to determine who authorized the allocations from the CO. The support for a $1 million allocation to SSU in 2012 for a recital hall at the GMC provided justification based on a definition of equipment categories, which would exclude certain expenditures from falling into
the construction category (a prohibited use). However, our review of the State University Administrative Manual definitions for equipment raised questions regarding the application of the definition on a number of the items on the expenditure list, and we were not able to locate an analysis approved by management versed in the distinctions.

GC §8880.4 (b) states that funds allocated for the benefit of public education are in addition to other funds appropriated or required for educational purposes and that no program shall have the amount appropriated to support that program reduced as a result of funds. §8880.5 (m) states that all funds allocated from the California State Lottery Education Fund shall be used exclusively for the education of students, and no funds shall be spent for acquisition of real property, construction of facilities, financing of research, or any other non-instructional purpose.

Integrated California State University Administrative Manual (ICSUAM) 3103.01, *Disbursements-General*, dated January 1, 2014, states that the CFO must establish procedures that prescribe the manner and extent in which funds are disbursed, and the documentation requirements for disbursement. It further states that this includes ensuring that business expenses are in accordance with appropriate federal, state, CSU, or campus policy.

GC §13402 and §13403 state that management is responsible for establishing and maintaining a system of internal administrative controls, which includes documenting the system, communicating system requirements to employees, and assuring that the system is functioning as prescribed and is modified, as appropriate, for changes in conditions. It further states that administrative controls are the methods through which reasonable assurance can be given that measures adopted by state agency heads to safeguard assets and promote operational efficiency are being followed.

The acting deputy assistant vice chancellor stated that the systemwide unallocated fund was understood to be part of the funding available for allocation at the Chancellor’s discretion, and that it was not required to be reported separately in the BOT annual report. He further stated that although allocations made from the systemwide unallocated fund would not be captured in BOT reports, any expenditures would be disclosed in the following year’s report. In addition, he stated that although the documentation appeared to be insufficient to support the allocations and disbursements to SSU for the GMC, he was confident that the checks and balances in place to review all allocations were sound and that an analysis of the SSU expenditure plans was undertaken to ensure appropriate use of the funds.

Incomplete reporting regarding the proper use and stewardship of lottery fund reserve balances exposes the university to claims that usage is not fully transparent.

**Recommendation 3**

We recommend that the CO:

a. Revise and document policies and procedures for administration of the lottery systemwide unallocated fund, that include a description of the purpose, expenditure and allocation authority, and carry-forward limitations and the need for a written expenditure plan.
b. Maintain sufficient documentation for all allocations from the systemwide unallocated fund.

Management Response

We concur. The CO will revise lottery policies and procedures for administration of the lottery systemwide unallocated fund and the maintenance of sufficient documentation.

This recommendation will be completed by March 2015.

ADMINISTRATIVE FEE

The justification of the administrative fee charged by the CO for lottery fund management was not clear or properly approved.

We noted that the administrative fee presented to the BOT for approval, an estimate of indirect costs based on the number of employee hours necessary to administer lottery funds, did not include a detailed analysis to support the estimate, CFO approval, or an attempt to match the funding source to the individual salaries of the employees involved. Instead, the administrative fee was treated as a normal department funding source against which any type of expense could be charged. As a result, we noted the following expenditure exceptions in the CO lottery fund operating account that received the allocation for administrative fees:

- Entire salaries of at least three management personnel program employees and one hourly employee, including overtime, who worked in CO budget and financial services, although none were assigned full-time to lottery-related activities.

- Payment for a CO budget office employee to travel to and attend a leadership development conference.

- Payment for a CO budget office employee to travel to business meetings that were unrelated to lottery funds.

- Payment of relocation costs for a CO budget office employee.

GC §8880.4 (b) states that funds allocated for the benefit of public education are in addition to other funds appropriated or required for educational purposes and that no program shall have the amount appropriated to support that program reduced as a result of funds.

GC §8880.5 (m) states that all funds allocated from the California State Lottery Education Fund shall be used exclusively for the education of students, and no funds shall be spent for acquisition of real property, construction of facilities, financing of research, or any other non-instructional purpose.

EO 1000, Delegation of Fiscal Authority and Responsibility, dated July 7, 2007, states that it is the responsibility of the CFO 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. It further states that the
reimbursement will be documented in a cost allocation plan that utilizes a documented and consistent methodology including identification of indirect costs and a basis for allocation. In addition, it states that the campus CFO, or designee, shall annually approve and implement the cost allocation plan.

ICSUAM §3552.01, *Cost Allocation/Reimbursement Plans for the CSU Operating Fund*, revised June 5, 2012, states that it is the policy of the CSU that costs incurred by the CSU Operating Fund for services, products, and facilities provided to CSU enterprise programs/activities/funds, auxiliary organizations, and entities external to the university are properly and consistently recovered with cash and/or a documented exchange of value. It further states that allowable and allocable indirect costs shall be recovered according to a cost allocation/reimbursement plan that utilizes a documented methodology for identification of indirect costs and a basis for allocation, and that the CFO shall annually approve and ensure implementation of a documented cost allocation/reimbursement plan.

*Lottery Budgeting and Allocation Process* states that fund management of the lottery funds is required to be separate from the general fund, and therefore specific provision must be made for implementation costs for systemwide purposes to insure the fund is effectively managed within provisions of the Act and of policies of the BOT.

The acting deputy assistant vice chancellor stated his belief that the manner in which the administrative fee was calculated was within CSU requirements and systemwide best practices. He further stated that the BOT approval of the amount as an administrative fee eliminated the need to have a CFO-approved cost allocation/reimbursement plan because the administrative fee was a revenue source rather than a reimbursement of direct and indirect costs.

Lack of proper justification of administrative fees to lottery funds exposes the university to claims of lottery fund mismanagement and possible state de-allocation.

**Recommendation 4**

We recommend that the CO clarify and obtain approval of the justification of the administrative fee charged by the CO for lottery fund management.

**Management Response**

We concur. The CO will justify, document, and obtain approval for lottery-funded administrative charges.

This recommendation will be completed by January 2015.

**CARRY-FORWARD BALANCES**

Campuses did not always adhere to CO carry-forward limitations for lottery fund allocations.
Specifically, we found that:

- For fiscal year (FY) 2011/12, campus carry-forward balances totaled $24.3 million. Nine campuses had carry-forward balances that exceeded the allowed 80 percent of the prior-year allocation.

- For FY 2012/13, campus carry-forward balances totaled $21.9 million. Seven campuses had carry-forward balances that exceeded the 80 percent limit.

The California State University (CSU) Budget Office Carry-Forward Fund Policy, dated August 28, 2007, states that campuses are expected to spend all lottery funds during the fiscal year in which they are allocated. It further states that if a campus does carry forward lottery funds from one fiscal year to the next, the carry-forward amount is limited to no more than 80 percent of that fiscal year’s allocation, and that excess funds are subject to de-allocation by the chancellor’s office.

The acting deputy assistant vice chancellor stated that the system decided in FY 2010/11 to suspend policy requirements for campuses to report on and provide expenditure plans for carry-forward amounts due to the fiscal crisis at the CSU as a whole. He further stated that the requirement was reinstated for FY 2012/13, and expenditure plans had been received and reviewed for all campuses that had carry-forward balances beyond the limit.

Excessive carry-forward balances increase the risk that lottery funds are not being used appropriately and expose the campuses and the CO to the possibility of de-allocation.

**Recommendation 5**

We recommend that the CO enforce lottery fund allocation carry-forward limitations.

**Management Response**

We concur. The CO will enforce lottery fund carry-forward limitations in accordance with CSU policy.

This recommendation will be completed by January 2015.

**LOTTERY FUND EXPENDITURES**

**LOTTERY FUND TRANSACTIONS**

The CO did not always expend lottery funds in accordance with state legislation and systemwide guidelines.
We reviewed 50 lottery fund transactions, and we found that:

- In five instances, faculty were paid an honorarium for work on a program paid for by lottery funds. In all five instances, the work was conducted during the academic year instructional period, and therefore constituted overload.

- A CO employee was paid a monthly stipend from lottery funds for work that was not related to any lottery-funded project.

The General Guidelines for Expenditures, dated September 3, 2008, states that the activity funded must represent a bona fide educational experience for students, or result in the development of materials to be used with students, or lead to the development of a program course. It further states that lottery funds may not be used to finance faculty overloads or increases in the rate of compensation paid to existing staff; thus stipends and honoraria are not permissible.

The assistant vice chancellor for academic programs and faculty development stated that her staff had a different interpretation of the expenditure guidelines and therefore thought these expenditures were allowable. She further stated that she was working with the CO budget office to ensure that the wording of the guidelines was consistent with the intent. The state university dean for international programs and summer arts programs stated that the error regarding the stipend was due to oversight. He further stated that the employee’s regular salary was paid from lottery funds as part of her work on Summer Arts, a program pre-approved for lottery funding by the BOT, but that the step to charge the portion of her salary representing non-lottery duties to a different funding source was overlooked.

Using lottery funds in a manner prohibited by state and systemwide guidelines exposes the university to negative public scrutiny and possible de-allocation by the state.

**Recommendation 6**

We recommend that the CO expend lottery funds in accordance with state legislation and systemwide guidelines.

**Management Response**

We concur. The CO will expend lottery funds in accordance with state legislation and systemwide guidelines.

This recommendation will be completed by January 2015.

**ACCOUNT AUTHORIZATION AGREEMENT**

The trust fund agreement for CDIP was not complete.

We noted that the authorization form included incorrect information describing the source of revenues, disposition of funds upon termination, or lottery restrictions for fund expenditures.
State Administrative Manual §19440.1 states that each trust account established shall be supported by documentation as to the type of trust, donor, or source of trust monies, purpose of the trust, time constraints, persons authorized to withdraw or expend funds, specimen signatures, reporting requirements, instructions for closing the account, disposition of any unexpended balance, and restrictions on use.

The associate director of accounting stated that the omission of details from the trust document was due to oversight.

Incomplete agreements increase the risk of inappropriate expenditures.

**Recommendation 7**

We recommend that the CO update the trust fund agreement for CDIP to include all required information.

**Management Response**

We concur. The CO will update the trust fund agreement for CDIP to include all required information.

This recommendation will be completed by January 2015.
<table>
<thead>
<tr>
<th>Name</th>
<th>Title</th>
</tr>
</thead>
<tbody>
<tr>
<td>Steve Relyea</td>
<td>Executive Vice Chancellor and Chief Financial Officer</td>
</tr>
<tr>
<td>Judy Botelho</td>
<td>Director, Center for Community Engagement</td>
</tr>
<tr>
<td>Kelly Cox</td>
<td>Associate Director of Accounting</td>
</tr>
<tr>
<td>Ted Dang</td>
<td>Budget Administrator, Chancellor’s Office (CO) Budget</td>
</tr>
<tr>
<td>Laurie Faure</td>
<td>Chancellor’s Doctoral Incentive Program Analyst</td>
</tr>
<tr>
<td>Eric Forbes</td>
<td>Assistant Vice Chancellor, Student Academic Support</td>
</tr>
<tr>
<td>Jean Gill</td>
<td>Assistant Controller, Financial Services</td>
</tr>
<tr>
<td>Laurie Faure</td>
<td>Chancellor’s Doctoral Incentive Program Analyst</td>
</tr>
<tr>
<td>Gerald Hanley</td>
<td>Assistant Vice Chancellor, Academic Technology Services</td>
</tr>
<tr>
<td>Maridith Janssen</td>
<td>Director, Pre-Doctoral Program</td>
</tr>
<tr>
<td>Dean Kulju</td>
<td>Director, Financial Aid and Scholarship Programs</td>
</tr>
<tr>
<td>Thoa Le</td>
<td>CO Budget Director</td>
</tr>
<tr>
<td>Christine Mallon</td>
<td>Assistant Vice Chancellor, Academic Programs and Faculty Development</td>
</tr>
<tr>
<td>Margaret Merryfield</td>
<td>Senior Director, Academic Human Resources</td>
</tr>
<tr>
<td>Rachel Nardo</td>
<td>Director, Summer Arts Program</td>
</tr>
<tr>
<td>Bradley Olin</td>
<td>Budget Analyst</td>
</tr>
<tr>
<td>Kara Perkins</td>
<td>Associate Director, Initiatives and Resource Management</td>
</tr>
<tr>
<td>Michael Redmond</td>
<td>Acting Assistant Vice Chancellor, Headquarters Building Security and Strategic Initiatives</td>
</tr>
<tr>
<td>Rodney Rideau</td>
<td>Acting Deputy Assistant Vice Chancellor for Budget</td>
</tr>
<tr>
<td>Ryan Storm</td>
<td>Interim Assistant Vice Chancellor for Budget</td>
</tr>
<tr>
<td>Leo Van Cleve</td>
<td>State University Dean, International Programs and Summer Arts Programs</td>
</tr>
</tbody>
</table>
DATE:          October 17, 2014

TO:            Larry Mandel
               Vice Chancellor and Chief Audit Officer

FROM:          Steve Relyea
               Executive Vice Chancellor and Chief Financial Officer

SUBJECT:       Lottery Funds CSU Chancellor’s Office Audit Report #14-27

In response to the “Incomplete Draft” report dated September 5, 2014, we are providing the enclosed management response.

Should you have any questions, please contact us.

SR: mpr

Attachment

c:  Gerald Hanley, Assistant Vice Chancellor, Academic Technology Services
    Eric Forbes, Assistant Vice Chancellor, Student Academic Support
    Christine Mallon, Assistant Vice Chancellor, Academic Programs and Faculty Development
    Ryan Storm, Interim Assistant Vice Chancellor for Budget
    Mike Redmond, Acting Assistant Vice Chancellor, Headquarters Building Security and Strategic Initiatives
    Rodney Rideau, Acting Deputy Assistant Vice Chancellor for Budget
    Leo Van Cleve, State University Dean, International Programs and Summer Arts Programs
    Margaret Merryfield, Senior Director, Academic Human Resources
LOTTERY FUNDS

CALIFORNIA STATE UNIVERSITY,
OFFICE OF THE CHANCELLOR

Audit Report 14-27

GENERAL ENVIRONMENT

Recommendation 1

We recommend that the chancellor’s office (CO) approve lottery fund allocation limits within established delegation of authority limits.

Management Response

We concur. The CO will approve lottery fund allocation limits within established delegation of authority limits.

This recommendation will be completed by January 2015.

BUDGETING AND ALLOCATION

ANNUAL LOTTERY FUND BUDGET

Recommendation 2

We recommend that the CO:

a. Evaluate the current requirements for the annual lottery funds budget report provided to the BOT and address the need for additional information regarding the receipt and use of lottery funds.

b. Re-assess the need for the $2 million allocation to CDIP based on an annual analysis of its needs and a detailed budget.

Management Response

We concur. The CO will evaluate the current requirements for the annual lottery funds budget report provided to the BOT and address the need for additional information regarding the receipt and use of lottery funds, as well as re-assess the need for the $2 million allocation to CDIP based on an annual analysis of its needs and a detailed budget.

This recommendation will be completed by January 2015.
SYSTEMWIDE UNALLOCATED FUND

Recommendation 3

We recommend that the CO:

a. Revise and document policies and procedures for administration of the lottery systemwide unallocated fund, that include a description of the purpose, expenditure and allocation authority, and carry-forward limitations and the need for a written expenditure plan.

b. Maintain sufficient documentation for all allocations from the systemwide unallocated fund.

Management Response

We concur. The CO will revise lottery policies and procedures for administration of the lottery systemwide unallocated fund and the maintenance of sufficient documentation.

This recommendation will be completed by March 2015.

ADMINISTRATIVE FEE

Recommendation 4

We recommend that the CO clarify and obtain approval of the justification of the administrative fee charged by the CO for lottery fund management.

Management Response

We concur. The CO will justify, document and obtain approval for lottery funded administrative charges.

This recommendation will be completed by January 2015.

CARRY-FORWARD BALANCES

Recommendation 5

We recommend that the CO enforce lottery fund allocation carry-forward limitations.

Management Response

We concur. The CO will enforce lottery fund carry-forward limitations in accordance with CSU policy.

This recommendation will be completed by January 2015.
LOTTERY FUND EXPENDITURES

LOTTERY FUND TRANSACTIONS

Recommendation 6

We recommend that the CO expend lottery funds in accordance with state legislation and systemwide guidelines.

Management Response

We concur. The CO will expend lottery funds in accordance with state legislation and systemwide guidelines.

This recommendation will be completed by January 2015.

ACCOUNT AUTHORIZATION AGREEMENT

Recommendation 7

We recommend that the CO update the trust fund agreement for CDIP to include all required information.

Management Response

We concur. The CO will update the trust fund agreement for CDIP to include all required information.

This recommendation will be completed by January 2015.
November 5, 2014

MEMORANDUM

TO: Mr. Larry Mandel
   Vice Chancellor and Chief Audit Officer

FROM: Timothy P. White
       Chancellor

SUBJECT: Draft Final Report 14-27 on Lottery Funds, Office of the Chancellor

In response to your memorandum of November 5, 2014, I accept the response as submitted with the draft final report on Lottery Funds, Office of the Chancellor.

TPW/amd