AUXILIARY ORGANIZATIONS

CALIFORNIA MARITIME ACADEMY

Audit Report 14-07
April 20, 2015

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ABBREVIATIONS

ASCMA The Associated Student of the California Maritime Academy, Inc.
CFO Chief Financial Officer
CMA California Maritime Academy
CSU California State University
EO Executive Order
Foundation The California Maritime Academy Foundation, Inc.
FY Fiscal Year
ICSUAM Integrated California State University Administrative Manual
IRS Internal Revenue Service
RFIN Resolution of the Committee on Finance
EXECUTIVE SUMMARY

In July 1981, the Board of Trustee policy concerning auxiliary organizations was adopted in the Resolution of the Committee on Finance (RFIN) 7-81-4. Executive Order 698, Board of Trustees Policy for The California State University Auxiliary Organizations, dated March 3, 1999, required that the Office of Audit and Advisory Services conduct internal compliance/internal control reviews of auxiliary organizations, and the Board of Trustees instructed that such reviews be conducted on a triennial basis pursuant to procedures established by the chancellor.

California Maritime Academy (CMA) 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. This responsibility, in accordance with California Code of Regulations, Title 5, Section 42402 et seq. and Executive Order 698, Board of Trustees Policy for The California State University Auxiliary Organizations et seq., includes requiring the documentation of internal control, communicating requirements to employees, and assuring that its system of internal compliance/internal control is functioning as prescribed. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures.

The objectives of a system of internal compliance/internal control are to provide management with reasonable, but not absolute, assurance that:

- Auxiliary operations are conducted in accordance with policies and procedures established in the State Administrative Manual, Education Code, Title 5, and Trustee policy.
- Assets are adequately safeguarded against loss from unauthorized use or disposition.
- Transactions are executed in accordance with management’s authorization and recorded properly to permit the timely preparation of reliable financial statements.

We visited the CMA campus and its auxiliary organizations from November 17, 2014, through December 10, 2014, and made a study and evaluation of the system of internal compliance/internal control in effect as of December 10, 2014. This report represents our triennial review.

In our opinion, except for the effect of the weaknesses described below, the fiscal, operational, and administrative controls at the CMA campus as of December 10, 2014, taken as a whole, were sufficient to meet the objectives stated above and in the “Purpose” section of this report. Areas of concern include: fiscal compliance and property and equipment.

In our opinion, except for the effect of the weaknesses described below, the fiscal, operational, and administrative controls at The California Maritime Academy Foundation, Inc. as of December 10, 2014, taken as a whole, were sufficient to meet the objectives stated above and in the “Purpose” section of this report. Areas of concern include: corporate governance, operational compliance, and purchasing and accounts payable.
EXECUTIVE SUMMARY

In our opinion, except for the effect of the weaknesses described below, the fiscal, operational, and administrative controls at The Associated Students of the California Maritime Academy as of December 10, 2014, taken as a whole, were sufficient to meet the objectives stated above and in the “Purpose” section of this report. Areas of concern include: operating and administrative agreements, corporate governance, operational compliance, and purchasing and accounts payable.

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 their attention. Areas of review not mentioned in this section were found to be satisfactory. Numbers in brackets [ ] refer to page numbers in the report.

CAMPUS

FISCAL COMPLIANCE [10]

The annual campus allocation plan to recover direct and indirect costs incurred by the Associated Students of the California Maritime Academy (ASCMA) and the California Maritime Academy Foundation, Inc. (Foundation) needed improvement. For example, the campus had not recovered or documented an exchange of value for university advancement services provided to the Foundation and personnel services provided to ASCMA, and the campus had not established written service level agreements with ASCMA for procurement, risk management, information technology, and facilities management services, although ASCMA had been paying the campus for these services.

OPERATIONAL COMPLIANCE [11]

The campus had not developed a comprehensive written risk management policy that addressed an ongoing process to proactively identify risks, analyze the frequency and severity of identified risks, and implement a risk mitigation program.

PROPERTY AND EQUIPMENT [12]

The campus had not performed a documented independent physical inventory count of ASCMA property and equipment for fiscal years (FY) 2011/12, 2012/13, and 2013/14.
EXECUTIVE SUMMARY

**THE CALIFORNIA MARITIME ACADEMY FOUNDATION, INC.**

**CORPORATE GOVERNANCE [14]**

The Foundation did not update its Articles of Incorporation to reflect a proper dissolution clause and had not filed amended Articles of Incorporation and Bylaws with the chancellor’s office.

**FISCAL COMPLIANCE [15]**

The Foundation had not adequately documented and communicated the planning and analysis of reserves, nor had it provided analysis of the reserves to the board of directors and the campus president for review.

**OPERATIONAL COMPLIANCE [17]**

The Foundation had not obtained annual conflict-of-interest statements from all board members.

**PURCHASING AND ACCOUNTS PAYABLE [18]**

Administration of Foundation credit cards needed improvement. Specifically, a credit card was used to purchase items that were not consistent with the campus CMA Procard Manual but were consistent with Foundation practices or the hospitality policy, and in two instances, a single purchase or monthly purchase exceeded the approved spending limit.

**THE ASSOCIATED STUDENTS OF THE CALIFORNIA MARITIME ACADEMY, INC.**

**OPERATING AND ADMINISTRATIVE AGREEMENTS [20]**

The operating agreement between ASCMA and the Trustees expired on June 30, 2012, and had not been renewed, and the campus did not perform a review of ASCMA at least once every five years to ensure that the written operating agreement was current and functions were in compliance with the agreement.

**CORPORATE GOVERNANCE [21]**

ASCMA did not update its Articles of Incorporation to reflect a proper dissolution clause and had not filed amended Bylaws with the chancellor’s office.

**OPERATIONAL COMPLIANCE [22]**

ASCMA administration of conflict-of-interest statements needed improvement. For example, ASCMA had not developed conflict-of-interest policies and procedures that included requirements for signing annual conflict-of-interest statements and steps for reporting and resolving conflicts of interest. In addition, none of the board members had signed a conflict-of-interest statement for FY 2012/13 and 2013/14, and conflict-of-interest statements for FY 2014/15 had not been signed in a timely manner.
PURCHASING AND ACCOUNTS PAYABLE [24]

Administration of ASCMA travel expenditures needed improvement. Specifically, the travel authorization forms documenting advance approval of travel and related expenditures to be incurred were not always completed, students traveling by air did not always complete and sign release forms or waivers, and a student was reimbursed for a meal even though meals were already provided as part of the event.


INTRODUCTION

BACKGROUND

Education Code §89900 states, in part, that the operation of auxiliary organizations shall be conducted in conformity with regulations established by the Trustees.

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 such auxiliary organizations.
- Implement financial standards that will assure the fiscal viability of such various 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 the auxiliary organizations are within the educational mission of the state colleges.
- Develop policies for the appropriation of funds derived from indirect cost payments.

The Board of Trustee policy concerning auxiliary organizations was originally adopted in July 1981 in the Resolution of the Committee on Finance (RFIN) 7-81-4. Executive Order (EO) 698, Board of Trustees Policy for The California State University Auxiliary Organizations, dated March 3, 1999, represents policy of the Trustees addressing CSU auxiliary organization activity and governing the internal management of the system. CSU auxiliary organizations are required to comply with Board of Trustee policy (California Code of Regulations, Title 5, Section 42402 and Education Code, Section 89900).

This executive order requires that the Office of Audit and Advisory Services will perform an internal compliance/internal control review of auxiliary organizations. The review will be used to determine compliance with law, including statutes in the Education Code and rules and regulations of Title 5, and compliance with policy of the Board of Trustees and of the campus, including appropriate separation of duties, safeguarding of assets, and reliability and integrity of information. According to Board of Trustee instruction, each auxiliary organization shall be examined on a triennial basis pursuant to procedures established by the chancellor.

EO 1059, Utilization of Campus Auxiliary Organizations, dated June 6, 2011, also represents policy of the Trustees addressing appropriate use of CSU auxiliary organizations. CSU auxiliary organizations are required to comply with Board of Trustee policy (California Code of Regulations, Title 5, §42401 and §42500 and Education Code §89720, §89756, and §89900).

This executive order requires CSU auxiliary organizations to operate within the regulations and oversight of the campus. The campus president is responsible for ensuring the fiscal viability of auxiliary
organizations and compliance with applicable CSU policies. The campus chief financial officer is responsible for administrative compliance and fiscal oversight of auxiliary organizations. The campus, with the approval of the chancellor (or designees), may assign certain functions to auxiliary organizations pursuant to the California Code of Regulations, Title 5, §42500. A written operating agreement is established detailing the functions that auxiliary organizations can perform. The campus may assign responsibility for an activity or program to auxiliary organizations, and the acceptance of the responsibility requires the assumption of the associated legal obligation and liabilities, fiscal liabilities, and fiduciary responsibilities by auxiliary organizations. Auxiliary organizations shall ensure that fiscal procedures and management systems are in place, consistent with California Code of Regulations, Title 5, §42401.

The Integrated California State University Administrative Manual §13680.00, Placement and Control of Receipts for Campus Activities and Programs, dated September 29, 2011, states that accountability and responsibility for campus activities and programs should be clearly established, and that related receipts are appropriately placed and controlled in university or auxiliary organization accounts. This policy guides campuses as to the administration of such receipts and instructs as to their proper placement in accordance with legal and regulatory requirements.

The California Maritime Academy Foundation, Inc.
The California Maritime Academy Foundation, Inc. (Foundation) was established in 1972 as a tax-exempt, charitable, and educational organization. The Foundation supports the California Maritime Academy (CMA) through fund-raising, acceptance of donor gifts, and management of endowments. The Foundation also runs the Marine Development Program, in which donated boats are received and subsequently leased to third parties for about two years with the option for the lessee to buy at the end of the lease term. The Foundation is governed by a board of directors composed of the campus president and representatives from the university administration, community members, student body, and faculty. The Foundation does not have employees and relies on campus personnel for all accounting and business administration services.

The Associated Students of the California Maritime Academy
The Associated Students of the California Maritime Academy (ASCMA) is a non-profit corporation originally incorporated in 1966 as the California Maritime Academy Midshipman’s Fund. The ASCMA became a recognized CSU auxiliary in 1998 with the purpose of sponsoring, promoting, and conducting essential activities closely related to the CMA instructional program and operating the student body government. The ASCMA is governed by a board of directors composed of students and faculty. The student board runs the ACE (Adventure, Camaraderie, Entertainment) program, which plans activities such as coffee house nights, dances, ski trips, camping, and a variety of other activities for the benefit of students, and the ARC (Adventure & Recreation Center) program, which provides students with resources and events for outdoor activities. The ASCMA does not have employees and relies on campus personnel for all accounting and business administration services.
INTRODUCTION

PURPOSE

The principal audit objectives were to determine compliance with the Education Code, Title 5, and directives of the Board of Trustees and the Office of the Chancellor and to assess the adequacy of controls and systems. Specifically, we sought assurances that:

- Legal and regulatory requirements are complied with.
- Accounting data is provided in an accurate, timely, complete, or otherwise reliable manner.
- Assets are adequately safeguarded from loss, damage, or misappropriation.
- Duties are appropriately segregated consistent with appropriate control objectives.
- Transactions, accounting entries, or systems output is reviewed and approved.
- Management does not intentionally override internal controls to the detriment of control objectives.
- Accounting and fiscal tasks, such as reconciliations, are prepared properly and completed timely.
- Deficiencies in internal controls previously identified were corrected satisfactorily and timely.
- Management seeks to prevent or detect erroneous recordkeeping, inappropriate accounting, fraudulent financial reporting, financial loss, and exposure.

SCOPE AND METHODOLOGY

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. The management review emphasized, but was not limited to, compliance with state and federal laws, Board of Trustee policies, and Office of the Chancellor policies, letters, and directives. For those audit tests that required annualized data, fiscal years 2012/13 and 2013/14 were the primary periods reviewed. In certain instances, we were concerned with representations of the most current data; in such cases, the test period was July 1, 2013, to December 10, 2014. Our primary focus was on internal compliance/internal control.

Specifically, we reviewed and tested:

- Formation of the auxiliary.
- Functions the auxiliary performs on the campus.
- Creation and operation of the auxiliary’s board.
- Establishment of policies and procedures based upon sound business practices.
- Maintenance of “arms-length” in business transactions between the auxiliary and the campus.
- Campus oversight of auxiliary operations.

Additionally, for the period reviewed, we examined other aspects of compliance of the campus and each auxiliary with the Education Code and Title 5 as they relate to the operation of CSU auxiliary organizations. Individual codes and regulations added to the scope of our review were identified through an assessment of risk. Similarly, internal controls were included within our scope based upon risk. Therefore, the scope of our review varied from auxiliary to auxiliary.
A preliminary survey of CSU auxiliaries at each campus was used to identify risks. Risk was defined as the probability that an event or action would adversely affect the auxiliary and/or the campus. Our assessment of risk was based upon a systematic process, using professional judgments on probable adverse conditions and/or events that became the basis for development of our final scope. We sought to assign higher review priorities to activities with higher risks. As a result, not all risks identified were included within the scope of our review.

Based upon this assessment of risks, we specifically included within the scope of our review the following:

**The California Maritime Academy Foundation, Inc.**
- Operating and Administrative Agreements
- Facilities Agreements
- Corporate Governance
- Fiscal Compliance
- Operational Compliance
- Program Compliance
- Segregation of Duties
- Investments
- Purchasing and Accounts Payable
- Personnel and Payroll
- Trusts and Other Liabilities

**The Associated Students of the California Maritime Academy, Inc.**
- Operating and Administrative Agreements
- Facilities Agreements
- Corporate Governance
- Fiscal Compliance
- Operational Compliance
- Program Compliance
- Segregation of Duties
- Investments
- Cash Receipts and Handling
- Petty Cash and Change Funds
- Fees, Revenues, and Receivables
- Purchasing and Accounts Payable
- Property and Equipment
- Trusts and Other Liabilities

**Campus**
- Campus Oversight
- Auxiliary Support Services
- Information Technology
We have not performed any auditing procedures beyond December 10, 2014. Accordingly, our comments are based on our knowledge as of that date. Since the purpose of our comments is to suggest areas for improvement, comments on favorable matters are not addressed.
The annual campus allocation plan to recover direct and indirect costs incurred by the Associated Students of the California Maritime Academy (ASCMA) and the California Maritime Academy Foundation, Inc. (Foundation) needed improvement.

We reviewed campus cost allocation plan documentation for fiscal years 2012/13, 2013/14 and 2014/15, and we found that the campus had not:

- Recovered or documented an exchange of value for university advancement services provided to the Foundation.
- Recovered or documented an exchange of value for personnel services provided to ASCMA.
- Established written service level agreements with ASCMA for procurement, risk management, information technology, and facilities management services, although ASCMA had been paying the campus for these services.

Integrated California State University Administrative Manual (ICSUAM) §3552.01, Cost Allocation/Reimbursement Plans for the California State University Operation Fund, dated April 1, 2011, states that a university’s cost allocation/reimbursement plan must articulate the practices and methodologies utilized in determining the basis for allocating costs. Due consideration must be given to the relative benefits received, the materiality of costs, and the amount of time and effort necessary to make such an allocation/reimbursement. The plan will also specifically identify direct and indirect costs requiring reimbursement. And, while there are different methodologies available for allocating costs that a university might use, the methodology used should result in a justifiable distribution of costs as determined by the campus chief financial officer (CFO). Detailed documentation that demonstrates the factors that were taken into consideration in determining cost recovery are to be included as part of the plan.

Executive Order (EO) 1000, Delegation of Fiscal Authority and Responsibility, dated July 1, 2007, states that the campus president shall ensure that costs incurred by the California State University (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. Allowable direct costs incurred by the CSU Operating Fund shall be allocated and recovered based on actual costs incurred. Allowable and allocable indirect costs shall be allocated and recovered according to a cost allocation plan that utilizes a documented and consistent methodology including identification of indirect costs and a basis for allocation. The campus CFO, or designee, shall annually approve and implement the cost allocation plan.
Title 5 §42401 and §42402 indicate that the campus president shall require that auxiliary organizations operate in conformity with policy of the Board of Trustees and the campus. One of the objectives of the auxiliary organizations is to provide fiscal procedures and management systems that allow effective coordination of the auxiliary activities with the campus in accordance with sound business practices. Sound business practice mandates that business arrangements be supported by complete, written agreements.

The campus interim vice president for administration and finance stated that there was no cost recovery for university advancement services provided to the Foundation because the value provided to the campus as a result of Foundation activities exceeded any related incremental costs. He further stated that there was no cost recovery for personnel services provided to the ASCMA because the related costs were not significant. Additionally, he stated that failure to document an exchange of value for services provided to the Foundation and ASCMA and failure to establish written service level agreements with ASCMA for procurement, risk management, information technology, and facilities management services were due to oversight.

The lack of cost recovery or a documented exchange of value increases the risk that the campus operating fund will not be fully compensated for support provided to auxiliaries, and the absence of a current, written agreement with defined responsibilities increases the likelihood of misunderstandings for services provided.

**Recommendation 1**

We recommend that the campus:

a. Recover or document an exchange of value for university advancement services provided to the Foundation.

b. Recover or document an exchange of value for personnel services provided to the ASCMA.

c. Establish written service level agreements with the ASCMA for procurement, risk management, information technology, and facilities management services.

**Campus Response**

We have documented the exchange of services provided by university advancement, as well as the services provided by the Foundation.

**OPERATIONAL COMPLIANCE**

The campus had not developed a comprehensive written risk management policy that addressed an ongoing process to proactively identify risks, analyze the frequency and severity of identified risks, and implement a risk mitigation program.
EO 1069, Risk Management and Public Safety, dated March 1, 2012, delegated responsibility to the campus presidents to implement and maintain campus risk management policies consistent with systemwide risk management policies and procedures.

The Compilation of Policies and Procedures for California State University Auxiliary Organizations sets sound business practice guidelines for auxiliary organizations operating within the CSU system. Section 8.7, Risk Management, states that auxiliary organizations should develop programs to manage risk related to activities in which the organizations are engaged.

The campus associate vice president of financial services/controller stated that a comprehensive written risk management policy had not been implemented due to resource restrictions at the campus.

The absence of a comprehensive written risk management policy increases the likelihood that current risk-related activities may not be adequately evaluated.

**Recommendation 2**

We recommend that the campus develop and adopt a comprehensive written risk management policy that includes procedures to actively identify, analyze, quantify, and manage risk.

**Campus Response**

The campus will develop and adopt a written risk management policy that will include procedures to actively identify, analyze, quantify, and manage risk.

Expected completion date: September 2015

**PROPERTY AND EQUIPMENT**

The campus had not performed a documented independent physical inventory count of ASCMA property and equipment for fiscal years (FY) 2011/12, 2012/13, and 2013/14.

ICSUAM §3151.04, Equipment, dated October 6, 2011, states that a physical inventory of recorded property must be performed at least once every three years by a party who is not the custodian of the item, or more often as required by agreement or law, and must be reconciled to campus property inventory records. The completed reconciliation should receive management review and approval. Any discrepancies must be evaluated for further investigation and escalated to the appropriate authorities based on the specific situation and value of missing items. It further states that it is the policy of the CSU that equipment is properly recorded, maintained, and safeguarded, and that appropriate disposal methods are followed.

The Compilation of Policies and Procedures for California State University Auxiliary Organizations sets sound business practice guidelines for auxiliary organizations operating within the CSU system. Section 8.9.7, Property and Equipment, states that the auxiliary should establish a written system that
ensures physical inspection of property and equipment on a service-life schedule and the proper recording of property and equipment, establish a written system that ensures physical inspection of property and equipment on a service life schedule, and reconcile physical inventories to the general ledger on a timely basis with review by management.

Title 5 §42401 and §42402 indicate that the campus president shall require that auxiliary organizations operate in conformity with policy of the Board of Trustees and the campus. One of the objectives of the auxiliary organizations is to provide fiscal procedures and management systems that allow effective coordination of the auxiliary activities with the campus in accordance with sound business practices. Sound business practice mandates sufficient administration of property and equipment.

The campus associate vice president of financial services/controller stated that a physical inventory had not been taken within the last three years due to a lack of resources and the relatively small dollar value of property and equipment.

Insufficient administration of property and equipment increases the risk that property may be lost or stolen or misrepresented in the financial statements.

**Recommendation 3**

We recommend that the campus perform a documented independent physical inventory count of ASCMA property and equipment.

**Campus Response**

A documented independent physical inventory count of ASCMA property and equipment will be performed.

Expected completion date: September 2015
CORPORATE GOVERNANCE

DISSOLUTION OF AUXILIARY

The Foundation did not update its Articles of Incorporation to reflect a proper dissolution clause.

Title 5 §42600(b) states that by December 31, 2012, the Articles of Incorporation or constitution of an auxiliary organization shall contain a provision that upon dissolution of the organization, net assets, other than trust funds, shall be distributed to a successor approved by the president of the campus and by the chancellor.

The campus vice president for university advancement/Foundation executive director stated that the dissolution clause was updated based on emails from the chancellor’s office specifically stating to replace the Board of Trustees with the chancellor in the successor process. She added that in the removal of the Board of Trustees, the president was not included in the rewording of the amendment.

The lack of a proper dissolution clause in accordance with Title 5 increases the risk that net assets will not be properly distributed in the event the corporation is dissolved.

Recommendation 4

We recommend that the Foundation update its Articles of Incorporation to reflect a proper dissolution clause.

Campus Response

The amendments to the Articles of Incorporation have been updated to include the word “president” and will be approved by the Foundation board at the June 2015 meeting.

Expected completion date: June 2015

ARTICLES OF INCORPORATION AND BYLAWS

The Foundation had not filed amended Articles of Incorporation and Bylaws with the chancellor’s office.

We found that an amendment made to the Articles of Incorporation on December 19, 2012, and amendments made to the Bylaws on June 13, 2013, had not been filed with the chancellor’s office.

The Compilation of Policies and Procedures for California State University Auxiliary Organizations sets sound business practice guidelines for auxiliary organizations operating within the CSU system. Section 11.6.1, Reporting Changes in Articles of Incorporation (or Constitution) and Bylaws, states
that when an auxiliary organization makes changes to its Articles of Incorporation (or Constitution) or Bylaws, a complete amended copy is to be submitted to Contract Services and Procurement at the Office of the Chancellor within 30 calendar days. The submission should indicate the date the changes were approved by the governing board and/or members.

The vice president for university advancement/Foundation executive director stated that the Articles of Incorporation and Bylaws had not been submitted to the chancellor’s office because she was unaware of the requirement.

Untimely filing of amendments to Articles of Incorporation and Bylaws increases the risk of misunderstandings and may increase legal liability.

**Recommendation 5**

We recommend that the Foundation promptly file the amended Articles of Incorporation and Bylaws and reiterate to staff that all future changes and amendments to the Articles of Incorporation and Bylaws should be filed with the Contract Services and Procurement department at the chancellor’s office within 30 calendar days.

**Campus Response**

The amended Articles of Incorporation and Bylaws have been submitted to the chancellor’s office Contract Services and Procurement department. In addition, an email memorandum will be sent to staff reiterating that all future changes to the Articles of Incorporation and Bylaws should be filed with the Contract Services and Procurement department at the chancellor’s office within 30 calendar days.

Expected completion date: June 2015

**FISCAL COMPLIANCE**

The Foundation had not adequately documented and communicated the planning and analysis of reserves, nor had it provided analysis of the reserves to the board of directors and the campus president for review.

We found that the Foundation could not demonstrate that reserve balances were annually reviewed by the board of directors, or that a plan to build and maintain reserves had been submitted annually to the campus president for approval.

The California Maritime Academy (CMA) *Trust Fund Reserve Policy* requires maintenance of a reserve balance for working capital and current operations equal to twenty-five percent (25 percent) of the annual operating budget and an annual review of reserves by the governing board and/or management team. It further requires that the CFO review the reserve plan and make a recommendation to the president to approve or disapprove.
The *Compilation of Policies and Procedures for California State University Auxiliary Organizations* sets sound business practice guidelines for auxiliary organizations operating within the CSU system. Section 8.1.1.2 A-2, *Basis for Financial Standards and Fiscal Viability – Financial Statements*, states that annually each auxiliary governing board shall review the fiscal viability of the auxiliary organization to include an evaluation of the need for reserves in the following areas: a) working capital, b) current operations, c) capital replacement, and d) planned future operations.

The *Compilation of Policies and Procedures for California State University Auxiliary Organizations* sets sound business practice guidelines for auxiliary organizations operating within the CSU system. Section 8.1.1.2 A-4, *Basis for Financial Standards and Fiscal Viability – Financial Standards*, states that annually each auxiliary governing board shall review the fiscal viability of the auxiliary organization to include the submission of a report annually to the president, which includes a plan to build and maintain appropriate reserves. Such a report may be a part of the annual budget submission.

Title 5 §42401 and §42402 indicate that the campus president shall require that auxiliary organizations operate in conformity with policy of the Board of Trustees and the campus. One of the objectives of the auxiliary organizations is to provide fiscal procedures and management systems that allow effective coordination of the auxiliary activities with the campus in accordance with sound business practices. Sound business practice mandates that designated reserves be maintained and that the campus president annually review and approve auxiliaries’ reserves.

The vice president for university advancement/Foundation executive director stated that as a member of the board, the campus president was made aware of the reserve balance because it was a line item in the balance sheet presented at each board meeting. She further stated that board meetings did not include detailed discussion of the reserves because the balance was deemed appropriate and therefore, documentation of such discussions was not applicable.

Lack of adequate documentation, communication, and review for planning and analysis of reserves increases the risk of misunderstandings and miscommunication regarding available reserves, as well as the risk that the auxiliary will be unable to fund future needs.

**Recommendation 6**

We recommend that the Foundation adequately document and communicate the planning and analysis of reserves and provide the analysis to the board of directors and the campus president for review.

**Campus Response**

The reserve policy has been updated and will be approved by the Foundation board at the June 2015 meeting.

Expected completion date: August 2015
OPERATIONAL COMPLIANCE

The Foundation had not obtained annual conflict-of-interest statements from all board members.

We found that seven of 20 board members had not signed a conflict-of-interest statement for fiscal year 2014/15. This is a repeat finding from the prior Auxiliary Organizations audit.

The Foundation Conflict of Interest Policy states that every year during the Foundation’s annual meeting (June), all members of the board of directors will be asked to provide an acknowledgment that they are not involved in any conflict-of-interest relationships as defined in California Education Code §89906 to §89909.

CSU Conflict of Interest Handbook §2B states that the Political Reform Act requires CSU to adopt a formal conflict-of-interest code. The CSU’s code requires certain employees, who are most likely to be involved in university decision-making where potential conflicts may be present, to file an annual disclosure form.

The Internal Revenue Service (IRS), Governance and Related Topics 501(c)(3), dated February 4, 2008, and Return of Organization Exempt from Income Tax, Form 900, encourages a charity’s board of directors to adopt and regularly evaluate a written conflict-of-interest policy that requires directors and staff to act solely in the interests of the charity without regard for personal interests; includes written procedures for determining whether a relationship, financial interest, or business affiliation results in a conflict of interest; and prescribes a course of action in the event a conflict of interest is identified.

Title 5 §42401, §42402, §42500 and Education Code §89900 establish a responsibility to operate in accordance with sound business practices in the interest of the campus. Sound business practice mandates compliance with conflict-of-interest policies and procedures.

The vice president for university advancement/Foundation executive director stated that the missing conflict-of-interest statements were for newly elected board members who were not in attendance at the June meeting when conflict-of-interest statements were collected. She further stated that failure to obtain conflict-of-interest statements at the next board meeting was due to administrative oversight.

A lack of conflict-of-interest statements from all auxiliary board members increases liability for acts contrary to the code.

Recommendation 7

We recommend that the Foundation obtain annual conflict-of-interest statements from all board members.
Campus Response

The business process has been updated to have the forms calendared on the master calendar along with other required annual submissions.

Expected completion date: June 2015

PURCHASING AND ACCOUNTS PAYABLE

Administration of Foundation credit cards needed improvement.

In the absence of its own credit card policy, the Foundation followed the CMA Procard Manual. During a review of credit card reconciliations for June, July, August, and September 2014, we found that:

- In five instances, a credit card was used to purchase items that were not consistent with the campus CMA Procard Manual but were consistent with Foundation practices or the hospitality policy.
- In two instances, a single purchase or monthly purchase exceeded the approved spending limit. Specifically, in one instance, the monthly limit was exceeded by $1,107, and in the second instance, two transactions exceeded the single transaction limit by $295 and $465.

The CMA Procard Manual states that the standard dollar limits for each Procard are $2,000 per transaction and $5,000 total spending per monthly cycle. To further accommodate varying departmental spending needs, single transaction and monthly cycle limits may be requested for up to, but not exceeding, $4,500 and $8,000, respectively. In the event that a greater limit is required, a Spending Limit Adjustment Request Form signed by the approving official shall be forwarded to the Procard director for review. Additionally, the traveler must pay for his or her own meals with his or her own funds. Travelers may not use the Procard for meals while on university-related travel (except while dining with official university guests). Personal expenses such as gift items, in-room movie rentals, personal phone calls, and room service are not authorized and shall not be charged to the Procard.

The Compilation of Policies and Procedures for California State University Auxiliary Organizations sets sound business practice guidelines for auxiliary organizations operating within the CSU system. Section 8.9.1, Cash, states that the auxiliary should disburse cash in a consistent manner utilizing systems that ensure the integrity of existing internal controls.

Title 5 §42401 and §42402 indicate that the campus president shall require that auxiliary organizations operate in conformity with policy of the Board of Trustees and the campus. One of the objectives of the auxiliary organizations is to provide fiscal procedures and management systems that allow effective coordination of the auxiliary activities with the campus in accordance with sound business practices. Sound business practice mandates adequate administration of procurement cards.
The vice president for university advancement/Foundation executive director stated that purchased items and purchase amounts were appropriate, but written policies and procedures for procurement cards had not been updated to reflect current business practices, such as allowable charges and single transaction and monthly cycle limits.

Inadequate administration of procurement cards increases the risk that errors, irregularities, misunderstandings, and misappropriation of funds will occur.

**Recommendation 8**

We recommend that the Foundation:

a. Develop and implement a credit card policy consistent with Foundation practices.

b. Enforce single purchase and monthly purchase spending limit policies, or if warranted, inform the cardholder of the process to request greater spending limits.

**Campus Response**

A credit card policy has been developed to address the recommendations and will be approved by the Foundation board at the June 2015 meeting.

Expected completion date: June 2015
THE ASSOCIATED STUDENTS OF THE CALIFORNIA MARITIME ACADEMY, INC.

OPERATING AND ADMINISTRATIVE AGREEMENTS

The operating agreement between The Associated Students of the California Maritime Academy (ASCMA) and the Trustees needed improvement.

We found that:

- The operating agreement expired on June 30, 2012, and had not been renewed.
- The campus did not perform a review of ASCMA at least once every five years to ensure that the written operating agreement was current and functions were in compliance with the agreement.

Title 5 §42501 indicates that a written operating agreement on behalf of the state of California by the chancellor of the CSU and the auxiliary organization is required for the performance by such auxiliary organization of any functions listed in §42500.

EO 1059, Utilization of Campus Auxiliary Organizations, dated June 6, 2011, states that auxiliary organizations shall not perform any of the functions listed in Title 5 §42500 unless the function has been specifically assigned in the operating agreement with the campus. The campus shall review, at least every five years, the auxiliary organizations to ensure that written operating agreements are current and that auxiliary organization activities are in compliance with those agreements. Confirmation that this review has been conducted will consist of either an updated operating agreement or a letter from the campus president to the executive vice chancellor/Chief Financial Officer certifying that the review has been conducted. As part of these periodic reviews, the president should examine the need for each auxiliary and look at the efficiency of the auxiliary operations and administration.

The campus dean of students/ASCMA advisor stated that the operating agreement between the ASCMA and the Trustees had not been renewed and the campus had not performed a review of ASCMA at least every five years to ensure that the written operating agreement was current and functions were in compliance with the agreement due to oversight.

The absence of fully executed operating agreements and inadequate review of auxiliaries’ written operating agreements and functions increase the risk of misunderstandings and miscommunication regarding rights and responsibilities.

Recommendation 9

We recommend that:

a. ASCMA promptly renew its operating agreement with the Trustees.
b. The campus perform a review of ASCMA at least once every five years to ensure that the written operating agreement is current and functions are in compliance with the agreement.

Campus Response

ASCMA will renew its operating agreement and developed procedures to ensure that the operating agreement is reviewed at least once every five years.

Expected completion date: July 2015

CORPORATION GOVERNANCE

ARTICLES OF INCORPORATION

ASCMA did not update its Articles of Incorporation to reflect a proper dissolution clause.

Title 5 §42600(b) states that by December 31, 2012, the Articles of Incorporation or constitution of an auxiliary organization shall contain a provision that upon dissolution of the organization, net assets, other than trust funds, shall be distributed to a successor approved by the president of the campus and by the chancellor.

The ASCMA president and the campus dean of students/ASCMA advisor stated that they were unaware of the requirement to update the dissolution clause in the Articles of Incorporation.

The lack of a proper dissolution clause in accordance with Title 5 increases the risk that net assets will not be properly distributed in the event the corporation is dissolved.

Recommendation 10

We recommend that ASCMA update its Articles of Incorporation to reflect a proper dissolution clause.

Campus Response

ASCMA will update its Articles of Incorporation to reflect a proper dissolution clause.

Expected completion date: September 2015

BYLAWS

ASCMA had not filed amended Bylaws with the chancellor’s office.
We found that an amendment made to the Bylaws on October 1, 2012, had not been filed with the chancellor’s office.

The *Compilation of Policies and Procedures for California State University Auxiliary Organizations* sets sounds business practice guidelines for auxiliary organization operating within the CSU system. Section 11.6.1, *Reporting Changes in Articles of Incorporation (or Constitution) and Bylaws*, states that when an auxiliary organization makes changes to its Articles of Incorporation (or Constitution) or Bylaws, a complete amended copy is to be submitted to Contract Services and Procurement at the Office of the Chancellor within 30 calendar days. The submission should indicate the date the changes were approved by the governing board and/or members.

The campus dean of students/ASCMA advisor stated that changes in the Bylaws were not reported to the chancellor’s office due to oversight.

Untimely filing of amendments to the Bylaws increases the risk of misunderstandings and may increase legal liability.

**Recommendation 11**

We recommend that ASCMA promptly file the amended Bylaws and reiterate to staff that all future changes and amendments to the Bylaws should be filed with the Contract Services and Procurement department at the chancellor’s office within 30 calendar days.

**Campus Response**

ASCMA will file the amended Bylaws and reiterate to staff that all future changes and amendments to the Bylaws should be filed with the Contract Services and Procurement department at the chancellor’s office within 30 calendar days of the change.

Expected completion date: September 2015

**OPERATIONAL COMPLIANCE**

ASCMA administration of conflict-of-interest statements needed improvement.

We found that:

- ASCMA had not developed conflict-of-interest policies and procedures that included requirements for signing annual conflict-of-interest statements and steps for reporting and resolving conflicts of interest.

- None of the board members had signed a conflict-of-interest statement for FY 2012/13 and 2013/14.
Conflict-of-interest statements for FY 2014/15 had not been signed in a timely manner. The statements were signed two to seven months after the board members were appointed.

CSU Conflict of Interest Handbook §2B states that the Political Reform Act requires CSU to adopt a formal conflict-of-interest code. The CSU’s code requires certain employees, who are most likely to be involved in university decision-making where potential conflicts may be present, to file an annual disclosure form.

The IRS Governance and Related Topics 501(c)(3), dated February 4, 2008, and Return of Organization Exempt from Income Tax, Form 900, encourages a charity’s board of directors to adopt and regularly evaluate a written conflict-of-interest policy that requires directors and staff to act solely in the interests of the charity without regard for personal interests; includes written procedures for determining whether a relationship, financial interest, or business affiliation results in a conflict of interest; and prescribes a course of action in the event a conflict of interest is identified.

Title 5 §42401, §42402, §42500 and Education Code §89900 establish a responsibility to operate in accordance with sound business practices in the interest of the campus. Sound business practice mandates compliance with conflict-of-interest policies and procedures.

The campus dean of students/ASCMA advisor stated that ASCMA had not developed conflict-of-interest policies and procedures due to oversight. She further stated her belief that conflict-of-interest forms were not obtained or not obtained in a timely manner for all board members because the campus human resources department was already obtaining these forms for all ASCMA board members.

The absence of policies and procedures addressing conflicts of interest increases the risk that errors, inconsistencies, or misunderstandings may occur, and a lack of conflict-of-interest statements or untimely completion of conflict-of-interest statements from all auxiliary board members increases liability for acts contrary to the code.

**Recommendation 12**

We recommend that ASCMA:

a. Develop conflict-of-interest policies and procedures that include requirements for signing annual conflict-of-interest statements and steps for reporting and resolving conflicts of interest.

b. Obtain annual conflict-of-interest statements from all board members.

c. Obtain annual conflict-of-interest statements in timely manner.
**Campus Response**

ASCMA will develop conflict-of-interest policies and procedures that include requirements for signing annual conflict-of-interest statements in a timely manner and steps for reporting and resolving any identified conflicts of interest.

Expected completion date: September 2015

**PURCHASING AND ACCOUNTS PAYABLE**

Administration of ASCMA travel expenditures needed improvement.

We reviewed ten ASCMA travel-related transactions, and we found that:

- In two instances, the travel authorization forms documenting advance approval of travel and related expenditures to be incurred were not completed.
- In two instances, students traveling by air did not complete and sign release forms or waivers.
- In one instance, a student was reimbursed for a meal even though meals were provided as part of the event.

The *Compilation of Policies and Procedures for California State University Auxiliary Organizations* sets sound business practice guidelines for auxiliary organizations operating within the CSU system. Section 8.9.1, *Cash*, states that the auxiliary should disburse cash in a consistent manner utilizing systems that ensure integrity of existing controls, with annual management review.

The *Compilation of Policies and Procedures for California State University Auxiliary Organizations* sets sound business practice guidelines for auxiliary organizations operating within the CSU system. Section 9.7.1, *Travel*, states that because auxiliary organizations have a special relationship with the CSU, their travel reimbursement policies should generally parallel policies applicable to the CSU.

EO 1041, *California State University Student Travel Policy*, dated July 1, 2009, states that all students participating in CSU-affiliated programs that require air travel shall be required to acknowledge that they have been informed of the risks of air travel required by such programs and to sign a statement certifying that they have been informed of and undertake such air travel voluntarily with full knowledge of such risks, and release and hold harmless the state of California, the CSU, the campus affiliated with the program requiring air travel, and each and every officer, agent, and employee of each of them, from any and all claims and causes of action that the student, or any person(s) claiming through the student, may have against any of the above institutions or persons, by reason of any accident, illness, or injuries, death, or other consequences resulting directly or indirectly from or in any manner arising out of, or in connection with, the student being a passenger on a flight.
Title 5 §42401 and §42402 indicate that the campus president shall require that auxiliary organizations operate in conformity with policy of the Board of Trustees and the campus. One of the objectives of the auxiliary organizations is to provide fiscal procedures and management systems that allow effective coordination of the auxiliary activities with the campus in accordance with sound business practices. Sound business practice mandates that all requested travel be approved in advance of incurring travel expenditures and that release forms or signed waivers be obtained from each student traveling by air.

The ASCMA president stated that above findings were due to oversight.

The absence of documented approval of travel and related expenditures, the lack of release forms or waivers from students traveling by air, and inadequate completion and review of travel expense claims increases the risk of unauthorized, unnecessary, or non-business travel expenditures, noncompliance with campus and auxiliary policy, and legal liability.

**Recommendation 13**

We recommend that the ASCMA:

a. Obtain travel authorization forms documenting advance approval of all travel and related expenditures.

b. Require signed release forms and waivers from all students traveling by air.

c. Reinforce travel expense claim requirements to student travelers and employers processing travel claims.

**Campus Response**

The campus will provide ASCMA officers training on travel policies and procedures at the beginning of each semester, which will include the recommendations.

Expected completion date: September 2015
## APPENDIX A:
### PERSONNEL CONTACTED

<table>
<thead>
<tr>
<th>Name</th>
<th>Title</th>
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</thead>
<tbody>
<tr>
<td><strong>CAMPUS</strong></td>
<td></td>
</tr>
<tr>
<td>Thomas A. Cropper</td>
<td>President</td>
</tr>
<tr>
<td>Beverly Byl</td>
<td>Vice President for University Advancement</td>
</tr>
<tr>
<td>Vineeta Dhillon</td>
<td>Director of Procurement and Risk Management</td>
</tr>
<tr>
<td>Susan Foft</td>
<td>Accounting Manager</td>
</tr>
<tr>
<td>Deborah Hebert</td>
<td>Dean of Students</td>
</tr>
<tr>
<td>Steve Kreta</td>
<td>Vice President of Student Affairs</td>
</tr>
<tr>
<td>Franz Lozano</td>
<td>Vice President, Administration and Finance</td>
</tr>
<tr>
<td>Ken Toet</td>
<td>Associate Vice President for Fiscal Services/Controller</td>
</tr>
<tr>
<td>Ingrid Williams</td>
<td>Executive Director of Human Resources</td>
</tr>
<tr>
<td></td>
<td></td>
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<tr>
<td><strong>THE CALIFORNIA MARITIME ACADEMY FOUNDATION</strong></td>
<td></td>
</tr>
<tr>
<td>Beverly Byl</td>
<td>Executive Director</td>
</tr>
<tr>
<td>Ken Toet</td>
<td>Controller</td>
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<tr>
<td><strong>THE ASSOCIATED STUDENTS OF THE CALIFORNIA MARITIME ACADEMY, INC.</strong></td>
<td></td>
</tr>
<tr>
<td>Deborah Hebert</td>
<td>Advisor</td>
</tr>
<tr>
<td>Mitchell Kobayashi</td>
<td>President</td>
</tr>
<tr>
<td>Matt Saxton</td>
<td>Vice President of Finance</td>
</tr>
</tbody>
</table>
STATEMENT OF INTERNAL CONTROLS

A. INTRODUCTION

Internal accounting and related operational controls established by the State of California, the California State University Board of Trustees, and the Office of the Chancellor are evaluated by the Vice Chancellor and Chief Audit Officer, in compliance with professional standards for the conduct of internal audits, to determine if an adequate system of internal control exists and is effective for the purposes intended. Any deficiencies observed are brought to the attention of appropriate management for corrective action.

B. INTERNAL CONTROL DEFINITION

Internal control, in the broad sense, includes controls that may be characterized as either accounting or operational as follows:

1. Internal Accounting Controls

   Internal accounting controls comprise the plan of organization and all methods and procedures that are concerned mainly with, and relate directly to, the safeguarding of assets and the reliability of financial records. They generally include such controls as the systems of authorization and approval, separation of duties concerned with recordkeeping and accounting reports from those concerned with operations or asset custody, physical controls over assets, and personnel of a quality commensurate with responsibilities.

2. Operational Controls

   Operational controls comprise the plan of organization and all methods and procedures that are concerned mainly with operational efficiency and adherence to managerial policies and usually relate only indirectly to the financial records.

C. INTERNAL CONTROL OBJECTIVES

The objective of internal accounting and related operational control is to provide reasonable, but not absolute, assurance as to the safeguarding of assets against loss from unauthorized use or disposition, and the reliability of financial records for preparing financial statements and maintaining accountability for assets. The concept of reasonable assurance recognizes that the cost of a system of internal accounting and operational control should not exceed the benefits derived and also recognizes that the evaluation of these factors necessarily requires estimates and judgment by management.
D. INTERNAL CONTROL SYSTEMS LIMITATIONS

There are inherent limitations that should be recognized in considering the potential effectiveness of any system of internal accounting and related operational control. In the performance of most control procedures, errors can result from misunderstanding of instruction, mistakes of judgment, carelessness, or other personal factors. Control procedures whose effectiveness depends upon segregation of duties can be circumvented by collusion. Similarly, control procedures can be circumvented intentionally by management with respect to the executing and recording of transactions. Moreover, projection of any evaluation of internal accounting and operational control to future periods is subject to the risk that the procedures may become inadequate because of changes in conditions and that the degree of compliance with the procedures may deteriorate. It is with these understandings that internal audit reports are presented to management for review and use.
May 27, 2015

Mr. Larry Mandel
Vice Chancellor and Chief Audit Officer
Audit & Advisory Services
The California State University
401 Golden Shore
Long Beach, California 90802-4210

Dear Mr. Mandel:

Enclosed is our campus response to Audit Report No. 14-07, Auxiliary Organizations at California State University Maritime Academy. We are taking actions to implement the recommendations.

If you have any questions regarding our campus response, please don’t hesitate to contact Franz Lozano, Vice President for Administration & Finance at 707/654-1038 or Ken Toet, Associate Vice President, Financial Services at 707/654-1085.

Sincerely,

[Signature]

Thomas A. Copper
President

Attachments

cc: Ms. Beverly Byl, Vice President for University Advancement & Exec. Dir. CMA Foundation
Mr. Stephen Kreta, Vice President of Student Affairs
Mr. James Dalske, Dean of Student Development & Conduct Administrator
Mr. Franz Lozano, Vice President of Administration & Finance
Mr. Ken Toet, Associate Vice President of Financial Services

THE CALIFORNIA MARITIME ACADEMY
Office of the President - 280 Maritime Academy Drive - Vallejo, CA 94590-3181 - Phone (707)654-1010 - Fax (707)654-1013 • www.csun.edu
AUXILIARY ORGANIZATIONS
CALIFORNIA MARITIME ACADEMY
Audit Report 14-07

FISCAL COMPLIANCE

Recommendation 1

We recommend that the campus:

a. Recover or document an exchange of value for university advancement services provided to the Foundation.

b. Recover or document an exchange of value for personnel services provided to the ASCMA.

c. Establish written service level agreements with the ASCMA for procurement, risk management, information technology, and facilities management services.

Campus Response

We have documented the exchange of services provided by university advancement as well as the services provided by the CMA Foundation.

OPERATIONAL COMPLIANCE

Recommendation 2

We recommend that the campus develop and adopt a comprehensive written risk management policy that includes procedures to actively identify, analyze, quantify, and manage risk.

Campus Response

The campus will develop and adopt a written risk management policy which will include procedures to actively identify, analyze, quantify, and manage risk.

Expected completion date: September 2015

PROPERTY AND EQUIPMENT

Recommendation 3

We recommend that the campus perform a documented independent physical inventory count of ASCMA property and equipment.
Campus Response

A documented independent physical inventory count of ASCMA property and equipment will be performed.

Expected completion date: September 2015
THE CALIFORNIA MARITIME ACADEMY FOUNDATION, INC.

CORPORATE GOVERNANCE

DISSOLUTION OF AUXILIARY

Recommendation 4

We recommend that the Foundation update its Articles of Incorporation to reflect a proper dissolution clause.

Campus Response

The amendments to the Articles of Incorporation have been updated to include the word “President” and will be approved by the Foundation board at the June 2015 meeting.

Expected completion date: June 2015

ARTICLES OF INCORPORATION AND BYLAWS

Recommendation 5

We recommend that the Foundation promptly file the amended Articles of Incorporation and Bylaws and reiterate to staff that all future changes and amendments to the Articles of Incorporation and Bylaws should be filed with the Contract Services and Procurement department at the chancellor’s office within 30 calendar days.

Campus Response

The amended Articles of Incorporation and Bylaws have been submitted to the chancellor’s office Contract Services and Procurement department. In addition, an email memorandum will be sent to staff reiterating that all future changes to the Articles of Incorporation and Bylaws should be filed with the Contract Services and Procurement department at the chancellor’s office within 30 calendar days.

Expected completion date: June 2015

FISCAL COMPLIANCE

Recommendation 6

We recommend that the Foundation adequately document and communicate the planning and analysis of reserves and provide the analysis to the board of directors and the campus president for review.
Campus Response

The reserve policy has been updated and will be approved by the CMAF Foundation board at the June 2015 meeting.

Expected completion date: August 2015

OPERATIONAL COMPLIANCE

 Recommendation 7

We recommend that the Foundation obtain annual conflict-of-interest statements from all board members.

Campus Response

The business process has been updated to have the forms calendared on the master calendar along with other required annual submissions.

Expected completion date: June 2015

PURCHASING AND ACCOUNTS PAYABLE

 Recommendation 8

We recommend that the Foundation:

a. Develop and implement a credit card policy consistent with Foundation practices.

b. Enforce single purchase and monthly purchase spending limit policies, or if warranted, inform the cardholder of the process to request greater spending limits.

Campus Response

A credit card policy has been developed to address the recommendations and will be approved by the CMAF Foundation board at the June 2015 meeting.

Expected completion date: June 2015
THE ASSOCIATED STUDENTS OF THE CALIFORNIA MARITIME ACADEMY, INC.

OPERATING AND ADMINISTRATIVE AGREEMENTS

Recommendation 9

We recommend that:

a. ASCMA promptly renew its operating agreement with the Trustees.

b. The campus perform a review of ASCMA at least once every five years to ensure that the written operating agreement is current and functions are in compliance with the agreement.

Campus Response

ASCMA will renew its operating agreement and developed procedures to ensure that the operating agreement is reviewed at least once every 5 years.

Expected completion date: July 2015

CORPORATION GOVERNANCE

ARTICLES OF INCORPORATION

Recommendation 10

We recommend that ASCMA update its Articles of Incorporation to reflect a proper dissolution clause.

Campus Response

ASCMA will update its Articles of Incorporation to reflect a proper dissolution clause.

Expected completion date: September 2015

BYLAWS

Recommendation 11

We recommend that ASCMA promptly file the amended Bylaws and reiterate to staff that all future changes and amendments to the Bylaws should be filed with the Contract Services and Procurement department at the chancellor’s office within 30 calendar days.
Campus Response

ASCMA will file the amended Bylaws and reiterate to staff that all future changes and amendments to the Bylaws should be filed with the Contract Services and Procurement department at the chancellor's office within 30 calendar days of the change.

Expected completion date: September 2015

OPERATIONAL COMPLIANCE

Recommendation 12

We recommend that ASCMA:

a. Develop conflict-of-interest policies and procedures that include requirements for signing annual conflict-of-interest statements and steps for reporting and resolving conflicts of interest.

b. Obtain annual conflict-of-interest statements from all board members.

c. Obtain annual conflict-of-interest statements in timely manner.

Campus Response

ASCMA will develop conflict-of-interest policies and procedures that include requirements for signing annual conflict-of-interest statements in a timely manner and steps for reporting and resolving any identified conflicts of interest.

Expected completion date: September 2015

PURCHASING AND ACCOUNTS PAYABLE

Recommendation 13

We recommend that the ASCMA:

a. Obtain travel authorization forms documenting advance approval of all travel and related expenditures.

b. Require signed release forms and waivers from all students traveling by air.

c. Reinforce travel expense claim requirements to student travelers and employers processing travel claims.
Campus Response

The campus will provide ASCMA officers training on travel policies and procedures at the beginning of each semester which will include the recommendations.

Expected completion date: September 2015
June 23, 2015

MEMORANDUM

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

FROM: Timothy P. White  
       Chancellor

SUBJECT: Draft Final Report 14-07 on Auxiliary Organizations, California Maritime Academy

In response to your memorandum of June 23, 2015, I accept the response as submitted with the draft final report on Auxiliary Organizations, California Maritime Academy.

TPW/amd