COST ALLOCATION

CALIFORNIA STATE UNIVERSITY, SACRAMENTO

Audit Report 12-24
February 23, 2012

Henry Mendoza, Chair
Melinda Guzman, Vice Chair
Margaret Fortune  Steven M. Glazer
William Hauck  Hsing Kung  Linda Lang

University Auditor: Larry Mandel
Senior Director: Michelle Schlack
Audit Manager: Wendee Shinsato
Senior Auditor: Alexander Khan

BOARD OF TRUSTEES
THE CALIFORNIA STATE UNIVERSITY
CONTENTS

Executive Summary ................................................................................................................. 1

Introduction .............................................................................................................................. 2
  Background .......................................................................................................................... 2
  Purpose .................................................................................................................................. 3
  Scope and Methodology ....................................................................................................... 4

APPENDICES

APPENDIX A: Personnel Contacted
APPENDIX B: Chancellor’s Acceptance

ABBREVIATIONS

CA            Cost Allocation
CSU           California State University
FISMA         Financial Integrity and State Manager’s Accountability Act
OUA           Office of the University Auditor
EXECUTIVE SUMMARY

As a result of a systemwide risk assessment conducted by the Office of the University Auditor (OUA) during the last quarter of 2011, the Board of Trustees, at its January 2012 meeting, directed that Cost Allocation (CA) be reviewed. The OUA had previously reviewed CA in the biennial Financial Integrity and State Manager’s Accountability Act (FISMA) audits, the last of which was performed on campus in 2008. Aspects of CA are also reviewed by the OUA in the triennial audits of auxiliary organization.

We visited the California State University, Sacramento campus from January 23, 2012, through February 3, 2012, and audited the procedures in effect at that time.

In our opinion, the operational and administrative controls for CA activities in effect as of February 3, 2012, taken as a whole, were sufficient to meet the objectives stated below in the “Purpose” section of this report. There were no major findings revealed during our review.

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.
INTRODUCTION

BACKGROUND

Executive Order 1000, *Delegation of Fiscal Authority and Responsibility*, dated July 1, 2007, states that each campus must develop a cost allocation plan to 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. The campus chief financial officer, or designee, shall annually approve and implement this plan.

Integrated California State University Administrative Manual §3552.01, *Cost Allocation/Reimbursement Plans for the CSU Operating Fund*, revised October 6, 2011, provides additional details on the required elements of the cost allocation plan and the recovery of the allocated costs.

Historically, management of the cost allocation function was reviewed by the CSU Office of the University Auditor (OUA) as part of cyclical audits based on the Financial Integrity and State Manager’s Accountability Act (FISMA) of 1983, passed by the California Legislature and detailed in Government Code §13400 through §13407. Aspects of the cost allocation function are also reviewed in the triennial Auxiliary Organization audits.

Beginning in calendar year 2010, cyclical FISMA audits were reevaluated and discontinued due to a change in the OUA audit risk assessment methodology. Using the new procedure, the OUA worked with CSU campus executive management to identify high-risk areas on each campus. In addition to these high-risk areas, the OUA audit plan considered high-profile areas and core financial areas to assure comprehensive audit coverage. Cost allocation was selected as the core financial area to review in 2012.
PURPOSE

Our overall audit objective was to ascertain the effectiveness of existing policies and procedures related to cost allocation for the CSU Operating Fund and to determine the adequacy of controls over related processes to ensure compliance with Trustee policy, Office of the Chancellor directives, and campus procedures.

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

▶ Management and oversight over campus cost allocation plans provides an effective control environment.

▶ Policies and procedures surrounding campus cost allocation plans are current and comprehensive.

▶ The methodology used to create cost allocation plans is reasonable and adheres to CSU policy and guidelines.

▶ Allocated costs are valid, timely, and accurately invoiced and recovered.
SCOPE AND METHODOLOGY

The proposed scope of the audit as presented in Attachment A, Audit Agenda Item 2 of the January 24 and 25, 2012, meeting of the Committee on Audit stated that Cost Allocation (CA) includes the processes for recovering all costs incurred by the CSU Operating Fund for services provided to ancillary organizations. Proposed audit scope would include, but was not limited to, review of compliance with Trustee policy, systemwide directives, and campus policies and procedures; development, approval, and maintenance of campus CA plans; indirect rate formation; direct cost capture; and billing and collection processes.

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 operational and administrative controls are in place and operative. This review emphasized, but was not limited to, compliance with Board of Trustee policies and Office of the Chancellor and campus policies, letters, and directives. The audit focused on procedures in effect from January 1, 2010, through December 31, 2011.

We focused primarily on the internal administrative, compliance, and operations controls over CA activities. Specifically, we reviewed and tested:

- Timely completion and proper approval of the campus cost allocation plan.
- Methodology used for direct cost recovery and indirect cost rate formation.
- Documentation of in-kind or exchange-of-value reimbursements.
- Billing and collection processes.
## APPENDIX A:
### PERSONNEL CONTACTED

<table>
<thead>
<tr>
<th>Name</th>
<th>Title</th>
</tr>
</thead>
<tbody>
<tr>
<td>Alexander Gonzalez</td>
<td>President</td>
</tr>
<tr>
<td>Bena Arao</td>
<td>Director, Administrative Services</td>
</tr>
<tr>
<td>Kendal Chaney-Buttleman</td>
<td>University Controller</td>
</tr>
<tr>
<td>Elena Compo</td>
<td>Resource Analyst</td>
</tr>
<tr>
<td>Darnell Cooper</td>
<td>Accountant II</td>
</tr>
<tr>
<td>Larry Gilbert</td>
<td>Vice President and Chief Information Officer for Information Resources and Technology</td>
</tr>
<tr>
<td>Yavette Hayward</td>
<td>Senior Management Auditor</td>
</tr>
<tr>
<td>Justine Heartt</td>
<td>Associate Vice President, Financial Services</td>
</tr>
<tr>
<td>Ming-Tung “Mike” Lee</td>
<td>Interim Vice President for Administration and Business Affairs/Chief Financial Officer</td>
</tr>
<tr>
<td>Scott Lines</td>
<td>Budget Analyst</td>
</tr>
<tr>
<td>Tony Lucas</td>
<td>Director, Business and Finance</td>
</tr>
<tr>
<td>Kathi McCoy</td>
<td>Director, Auditing Services</td>
</tr>
<tr>
<td>Abbi Stone</td>
<td>Associate Vice President for Business and Administrative Services</td>
</tr>
</tbody>
</table>
March 5, 2012

MEMORANDUM

TO: Mr. Larry Mandel
    University Auditor

FROM: Charles B. Reed
      Chancellor

SUBJECT: Draft Final Report 12-24 on Cost Allocation,
         California State University, Sacramento

In response to your memorandum of March 5, 2012, I accept the draft final report on Cost Allocation, California State University, Sacramento.

CBR/amd