COST ALLOCATION

CALIFORNIA STATE UNIVERSITY,
FRESNO

Audit Report 12-27
May 3, 2012

Members, Committee on Audit

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THE CALIFORNIA STATE UNIVERSITY
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ABBREVIATIONS

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<tr>
<th>Athletic Corporation</th>
<th>The California State University, Fresno Athletic Corporation</th>
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<tr>
<td>CA</td>
<td>Cost Allocation</td>
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<tr>
<td>CFO</td>
<td>Chief Financial Officer</td>
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<td>CGE</td>
<td>Continuing and Global Education</td>
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<td>CSU</td>
<td>California State University</td>
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<td>EO</td>
<td>Executive Order</td>
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<td>FISMA</td>
<td>Financial Integrity and State Manager’s Accountability Act</td>
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<td>Foundation</td>
<td>California State University, Fresno Foundation</td>
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<td>FY</td>
<td>Fiscal Year</td>
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<td>OUA</td>
<td>Office of the University Auditor</td>
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<td>UHPS</td>
<td>University Health &amp; Psychological Services</td>
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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 2010. Aspects of CA are also reviewed by the OUA in the triennial audits of auxiliary organization.

We visited the California State University, Fresno campus from February 27, 2012, through March 9, 2012, and audited the procedures in effect at that time.

Our study and evaluation revealed certain conditions that, in our opinion, could result in significant errors and irregularities if not corrected. Specifically, the campus did not maintain adequate internal control over the following areas: current cost allocation plans and cost recovery. These conditions, along with other weaknesses, are described in the executive summary and body of this report. In our opinion, except for the effect of the weaknesses described above, the operational and administrative controls for CA activities in effect as of March 9, 2012, taken as a whole, were sufficient to meet the objectives stated in the “Purpose” section of this report.

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 [5]

The campus lacked a current CA plan for fiscal year 2011/12 for the reimbursement of facilities, goods, and services provided by the campus to the auxiliary organizations. This is a repeat finding from the two prior Financial Integrity and State Manager’s Accountability Act audits. In addition, the campus delegation of authority did not accurately identify the chief financial officer (CFO).

COST RECOVERY [6]

The campus did not always require full reimbursement or document an exchange of value in lieu of reimbursement for indirect costs incurred by the campus on behalf of the auxiliary enterprises. In addition, CFO approval of the documented exchange of value for indirect costs incurred by the campus on behalf of auxiliary enterprises was not always documented.
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.
OBSERVATIONS, RECOMMENDATIONS, AND CAMPUS RESPONSES

GENERAL ENVIRONMENT

COST ALLOCATION PLAN

The campus lacked a current cost allocation (CA) plan for fiscal year (FY) 2011/12 for the reimbursement of facilities, goods, and services provided by the campus to the auxiliary organizations. This is a repeat finding from the two prior Financial Integrity and State Manager’s Accountability Act (FISMA) audits.

Executive Order (EO) 1000, Delegation of Fiscal Authority and Responsibility, dated July 1, 2007, states that each campus must develop a CA 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 (CFO), or designee, shall annually approve and implement this plan.

The lack of a current CA plan increases the risk that the campus operating fund will not be fully compensated for support provided to auxiliary enterprises.

Recommendation 1

We recommend that the campus update its CA plan annually.

Campus Response

We concur. It has been our past campus policy to compile a cost allocation plan on an annual basis. However, due to extenuating circumstances, this was not feasible given that the individual responsible for updating the information contained in the 2011/12 cost allocation plan was on extended medical leave and, as such, unable to complete the plan on a timely basis. Once notified about the upcoming audit, it appeared prudent to not finalize the plan for 2011/12 in order to confirm if the current campus methodology complied with CSU guidelines. The plan for 2011/12 will be completed by June 10, 2012. Subsequent years will be completed prior to June 30 of each year.

DELEGATION OF AUTHORITY

The campus delegation of authority did not accurately identify the CFO.

We found that the campus delegation of authority was not updated when the role of CFO was reassigned from the university controller to the vice president for administration.
EO 731, *Designation of Chief Financial Officer*, dated February 29, 2000, states that each president shall designate a CFO with responsibility for business and financial affairs of the institution. The president shall notify the executive vice chancellor/CFO of the designations made in response to this executive order within 30 days.

The vice president for administration/CFO stated that the failure to update the delegation of authority was due to oversight.

Failure to maintain current written delegations of authority increases the risk of misunderstandings and unauthorized activities.

**Recommendation 2**

We recommend that the campus update its delegation of authority to accurately identify the campus CFO.

**Campus Response**

We concur. Delegations of authority campuswide were reviewed and updated in late 2011. The “Designation of Chief Financial Officer (CFO) under Executive Order 731” was not updated due to oversight. A memorandum correcting this oversight was executed on March 5, 2012.

**COST RECOVERY**

**BILLING AND COLLECTIONS**

The campus did not always require full reimbursement or document an exchange of value in lieu of reimbursement for indirect costs incurred by the campus on behalf of the auxiliary enterprises.

We found that:

- FY 2010/11 indirect CAs to continuing and global education (CGE), parking and transportation, university health and psychological services (UHPS), and the CSU Fresno Athletic Corporation (Athletic Corporation) were not reimbursed to the campus, and documentation of an exchange of value in lieu of reimbursement did not exist.

- FY 2010/11 exchange of value documentation for the CSU Fresno Foundation (Foundation) showed that indirect costs incurred by the campus were partially offset by benefits provided by the Foundation, but the remainder of the amount owed was not collected by the campus.

EO 1000, *Delegation of Fiscal Authority and Responsibility*, dated July 1, 2007, states that each campus must develop a CA plan 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. The campus CFO, or designee, shall annually approve and implement this plan.
The budget and treasury manager stated that historically, the offsets provided by CGE, parking and transportation, UHPS, and the Athletic Corporation exceeded the amounts assessed in the CA plan. She further stated her belief that this pattern would have continued for fiscal year 2010/11, and therefore, no formal analysis was deemed necessary. The associate vice president for auxiliary operations stated that because all of the annual surplus generated by activities managed by the Foundation was allocated to the campus for campuswide initiatives, the Foundation had no remaining funds to give the campus other than its board-mandated reserves.

Failure to require reimbursement from auxiliary enterprises for indirect costs incurred by the campus increases the risk that the campus operating fund will not be fully compensated for support provided to auxiliary enterprises.

**Recommendation 3**

We recommend that the campus require full reimbursement or document an exchange of value in lieu of reimbursement for indirect costs incurred by the campus on behalf of the auxiliary enterprises.

**Campus Response**

We concur. Policies and procedures have been revised to include the documentation and implementation of the offset process. The updated policies and procedures will be adopted by June 30, 2012, and effective July 1, 2012.

The campus CFO will annually review both cash and non-cash reimbursements of all direct or indirect costs to the General Fund. These reimbursements or exchanges of value may include tangible benefits, which are financially quantifiable, and intangible benefits, which are qualitative.

**APPROVALS**

CFO approval of the documented exchange of value for indirect costs incurred by the campus on behalf of auxiliary enterprises was not always documented.

We found that although the campus documented an exchange of value for indirect costs incurred on behalf of the Agricultural Foundation of CSU Fresno, Associated Students CSU Fresno, CSU Fresno Association, Incorporated, the Foundation, and Fresno State Programs for Children, Incorporated, in the form of a memorandum, there was no evidence of CFO review and approval of this document.

EO 1000, *Delegation of Fiscal Authority and Responsibility*, dated July 1, 2007, states that each campus must develop a CA plan 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. The campus CFO, or designee, shall annually approve and implement this plan.

The vice president for administration/CFO stated that offsetting costs documented by the associate vice president for auxiliary operations were discussed and approved verbally, and as such, she did not consider it necessary to document her approval.
Lack of documented approval of offsetting costs increases the risk that the campus operating fund will not be fully compensated for support provided to auxiliary enterprises.

**Recommendation 4**

We recommend that the campus ensure that CFO approval of the documented exchange of value for indirect costs incurred by the campus on behalf of auxiliary enterprises is documented.

**Campus Response**

We concur. In the future, the CFO will sign approval on each offset memo as received, retain a copy for administration purposes, and provide a copy of the signed approved memo back to the appropriate auxiliary for their records.
## APPENDIX A: PERSONNEL CONTACTED

<table>
<thead>
<tr>
<th>Name</th>
<th>Title</th>
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<tbody>
<tr>
<td>John D. Welty</td>
<td>President</td>
</tr>
<tr>
<td>Deborah Adishian-Astone</td>
<td>Associate Vice President for Auxiliary Operations</td>
</tr>
<tr>
<td>Sharon Briscoe</td>
<td>Budget and Treasury Manager, Office of Budget and Treasury Management</td>
</tr>
<tr>
<td>Lora Kutka</td>
<td>Associate Controller, Accounting Services</td>
</tr>
<tr>
<td>Clinton Moffitt</td>
<td>Associate Vice President for Financial Services</td>
</tr>
<tr>
<td>Monica Shackelton</td>
<td>Accounts Payable/Receivable Manager, Accounting Services</td>
</tr>
<tr>
<td>Cynthia Teniente-Matson</td>
<td>Vice President for Administration/Chief Financial Officer</td>
</tr>
<tr>
<td>Linda Vivian</td>
<td>Accounting Technician, Accounting Services</td>
</tr>
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</table>
June 13, 2012

MEMORANDUM

To: Larry Mandel
   University Auditor
   Office of the Chancellor

From: Cynthia Teniente-Matson
       Vice President for Administration and Chief Financial Officer

Subject: Revised Responses to Cost Allocation Audit Report #12-27

The University has reviewed the preliminary draft of the Cost Allocation Audit Report #12-27. Attached are campus responses to the recommendations. Please note that this revised submission includes a rewrite to the campus response for recommendation 3. Recommendations 1, 2 and 4 have remained the same. Please let me know if you have any questions. Thank you.

Attachment

c: Dr. John D. Welty
   Mr. Clint Moffitt
   Ms. Debbie Adishian-Astone
   Ms. Sharon Briscoe
COST ALLOCATION

CALIFORNIA STATE UNIVERSITY,
FRESNO

Audit Report 12-27

GENERAL ENVIRONMENT

COST ALLOCATION PLAN

Recommendation 1

We recommend that the campus update its CA plan annually.

Campus Response

We concur.

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We concur.

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COST RECOVERY

BILLING AND COLLECTIONS

Recommendation 3

We recommend that the campus require full reimbursement or document an exchange of value in lieu of reimbursement for indirect costs incurred by the campus on behalf of the auxiliary enterprises.

Campus Response

We concur.

Policies and procedures have been revised to include the documentation and implementation of the offset process. The updated policies and procedures will be adopted by June 30, 2012, and effective July 1, 2012.

The Campus CFO will annually review both cash and non-cash reimbursements of all direct or indirect costs to the General Fund. These reimbursements or exchange of value may include tangible benefits, which are financially quantifiable and intangible benefits which are qualitative.

APPROVALS

Recommendation 4

We recommend that the campus ensure that CFO approval of the documented exchange of value for indirect costs incurred by the campus on behalf of auxiliary enterprises is documented.

Campus Response

We concur.

In the future, the CFO will sign approval on each offset memo as received, retain a copy for Administration purposes and provide a copy of the signed approved memo back to the appropriate auxiliary for their records.
July 12, 2012

MEMORANDUM

TO: Mr. Larry Mandel
   University Auditor

FROM: Charles B. Reed
       Chancellor

SUBJECT: Draft Final Report 12-27 on Cost Allocation,
         California State University, Fresno

In response to your memorandum of July 12, 2012, I accept the response as submitted with the draft final report on Cost Allocation, California State University, Fresno.

CBR/amd