

ATHLETICS ADMINISTRATION
CALIFORNIA POLYTECHNIC STATE UNIVERSITY,
SAN LUIS OBISPO

Audit Report 07-39
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ABBREVIATIONS

AEMA	Athletic Equipment Managers Association
AIME	Athletic Injury Medical Expense
ASI	Associated Students, Incorporated of California Polytechnic State University at San Luis Obispo
CABMA	Collegiate Athletic Business Management Association
Cal Poly	California Polytechnic State University, San Luis Obispo
COIA	The Coalition on Intercollegiate Athletics
COSO	Committee of Sponsoring Organizations
CSU	California State University
CSURMA	California State University Risk Management Authority
EADA	Equity in Athletics Disclosure Act
FARA	Faculty Athletics Representatives Association
FY	Fiscal Year
GC	Government Code
HR	Human Resources
MTO	Mustang Ticket Office
N4A	National Association of Academic Advisors for Athletics
NAACC	National Association of Athletic Compliance Coordinators
NAADD	National Association of Athletic Development Directors
NACDA	National Association of Collegiate Directors of Athletics
NACMA	National Association of Collegiate Marketing Administrators
NAIA	National Association of Intercollegiate Athletics
NATA	National Athletic Trainers' Association
NCAA	National Collegiate Athletic Association
PC	Personal Computers
RFIN	Resolution of the Committee on Finance
SAM	State Administrative Manual

EXECUTIVE SUMMARY

As a result of a systemwide risk assessment conducted by the Office of the University Auditor during the last quarter of 2005, the Board of Trustees, at its January 2006 and January 2007 meetings, directed that *Athletics Administration* be reviewed. The Office of the University Auditor has never reviewed *Athletics Administration*.

We visited the California Polytechnic State University, San Luis Obispo (Cal Poly) campus from August 27, 2007, through November 2, 2007, and audited the procedures in effect at that time.

In our opinion, a number of areas in athletics program operations at Cal Poly needed strengthening. Some other areas of program management warranted new operating controls and improvements in measuring efficiency and effectiveness.

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 [8]

The intercollegiate athletics strategic planning process, containing important program goals and objectives, was still incomplete at the time of the review. In addition, security of information in the athletic training room needed improvement. A database was maintained, which contained confidential information about student-athletes and athletic injuries/treatments, and was used by the trainers. Further, confidential information was downloaded to laptop personal computers and used for team travel, and none of the data was encrypted.

PROGRAM REVENUES [9]

Athletic ticket office security was in need of improvement. It lacked security features such as surveillance cameras, bulletproof glass on seller windows, and panic alarms. The campus did not have a written agreement with Associated Students, Incorporated of California Polytechnic State University at San Luis Obispo to sell tickets for non-athletic events. Lastly, fund-raising event administration needed improvement. Flyers for two fund-raising golf tournaments directed that payments be sent to an off-campus address, and amounts deposited from fund-raising golf tournaments were not reconciled against independent records for the number of participants.

COMPENSATION AND BENEFITS [12]

Reporting of athletically related outside incomes was done retroactively in fiscal year (FY) 2006/07 without involvement of the campus president. Specifically, the campus president had delegated approval of athletically related outside income to the athletics director, but actions taken under delegation were not formally reported to the president. Further, for FY 2006/07, outside income statements filed by the athletic department coaches and staff were not reviewed and approved by the athletics director until October 19, 2007. The campus did not ensure accurate and appropriate attendance and leave reporting for

coaches working at sports camps. Further, some campus personnel received free rounds of golf that were not reported as a taxable benefit.

OPERATING EXPENDITURES AND EQUIPMENT [16]

Athletics used off-campus golf facilities for team matches and practices without formal use agreements. Some athletic equipment room procedures were not adequate to ensure accountability for merchandise. For example, the athletics equipment manager had focused mostly on one sport, there was no centralized athletic equipment system, and student-athletes did not sign to acknowledge receipt of equipment. The administration of trade-outs was in need of improvement. Trade-out agreements were not reviewed by anyone authorized to approve transactions for procurement purposes, usage recordkeeping lacked certain details, and large portions of hotel trade went unused.

MISCELLANEOUS [20]

Personnel working at sports camps and clinics had not been subjected to criminal background checks.

INTRODUCTION

BACKGROUND

Administration and operation of athletic programs occur within the framework of regulations and rules imposed by national governing associations and the athletic conferences in which the players and teams compete.

Within athletics, some of the various industry organizations include:

AEMA	Athletic Equipment Managers Association
CABMA	Collegiate Athletic Business Management Association
COIA	The Coalition on Intercollegiate Athletics
FARA	Faculty Athletics Representatives Association
N4A	National Association of Academic Advisors for Athletics
NAACC	National Association of Athletic Compliance Coordinators
NAADD	National Association of Athletic Development Directors
NACDA	National Association of Collegiate Directors of Athletics
NACMA	National Association of Collegiate Marketing Administrators
NAIA	National Association of Intercollegiate Athletics
NATA	National Athletic Trainers' Association
NCAA	National Collegiate Athletic Association

The United States Department of Education also collects data on athletics based on the federal Equity in Athletics Disclosure Act (EADA). California State University (CSU) campuses are subject to EADA because they accept federal financial aid funds.

California Polytechnic State University, San Luis Obispo (Cal Poly) is generally considered a mid major conference institution for athletic purposes. The main athletic conference affiliation is the Big West Conference that includes four CSU schools (Fullerton, Long Beach, Northridge, and San Luis Obispo), three University of California schools (Irvine, Riverside, and Santa Barbara), and the University of the Pacific. Other non-Big West Conference affiliations include:

Cal Poly SPORT	CONFERENCE AFFILIATION
Football	Great West Football Conference
Wrestling	Pac – 10 Conference

Cal Poly athletic teams are nicknamed the Mustangs and compete at the NCAA Division IAA level. The campus supports intercollegiate teams in ten men’s and ten women’s sports as follows:

SPORT	MEN’S	WOMEN’S
Baseball	√	
Basketball	√	√
Cross Country	√	√
Football	√	
Golf	√	√
Indoor Track		√
Soccer	√	√
Softball		√
Swimming and Diving	√	√
Tennis	√	√
Track and Field	√	√
Volleyball		√
Wrestling	√	

In fiscal year (FY) 2005/06, 464 Cal Poly student-athletes (293 men and 171 women) participated in the 20 intercollegiate athletics programs per the annual EADA report.

On-campus athletic facilities with spectator seating capacities at Cal Poly include a seven-court tennis complex, Anderson Aquatic Center, track and field complex, Bon Janssen Field – softball (400 chair back seats and seating capacity for 800 overall), Baggett Stadium – baseball (745 chair back seats and seating capacity for 1,734 overall), Alex G. Spanos Stadium – football and soccer (11,750 chair back/bleacher seating including eight sky boxes), and Robert A. Mott Gymnasium (3,032).

Athletics at Cal Poly is administered by a director of athletics (commonly referred to as the athletics director) who reports directly to the provost/vice president of academic affairs.

Cal Poly intercollegiate athletics has a facility usage agreement with the kinesiology department in the College of Science and Mathematics, which describes the times when kinesiology can schedule classes in certain athletic facilities.

The California State University Risk Management Authority (CSURMA) was created under Board of Trustees resolution RFIN 11-96-13, which delegated authority to the chancellor to enter into a joint powers agreement. Pursuant to Section 9.b.iv of the agreement, the CSURMA is authorized to approve any new coverage programs. Athletic Injury Medical Expense (AIME) is one of the main CSURMA programs. AIME provides secondary coverage for medical expenses from athletic injuries not paid by the student-athlete’s primary insurance.

PURPOSE

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

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

- ▶ Accountability for the athletics administration function has been clearly defined and documented including provisions for formulation of goals/objectives and performance measurement reporting.
- ▶ Adequate athletic budgets and delegations of authority are in place and used effectively in various aspects of athletic programs administration.
- ▶ Athletics appropriately interacts with other campus departments/offices and auxiliary organizations; and arrangements/exceptions made for athletics that are not available elsewhere are appropriate.
- ▶ Athletic agreements/contracts, policies, and procedures are current, comprehensive, and aligned with relevant federal and state laws and regulations.
- ▶ Information security in systems owned by athletics is adequate and use of social security numbers for student identification in athletics department records is controlled.
- ▶ The campus deposits athletically related receipts in accordance with Executive Order 919, and any unrelated business income generated through the athletics program is properly reported.
- ▶ The campus establishes accountability for athletic ticketing operations at the earliest possible time after receipt to prevent misappropriation of funds, and that all collections are deposited intact or otherwise safeguarded in a timely manner.
- ▶ Campus officials are maintaining effective control over athletic fund-raising activities/events.
- ▶ Athletic salaries for administrators and coaches comply with CSU salary schedules, collective bargaining provisions, and requirements for supplemental compensation; and benefits provided to athletics employees are appropriate and proper.
- ▶ Athletic facilities are periodically inspected and properly maintained, and arrangements for use of off-campus, non-state athletic facilities are adequate.
- ▶ Athletic equipment rooms are operated based on best practices and with reasonable controls over apparel, equipment, and supplies.
- ▶ Athletic trade-out agreements are reasonably valued and recorded with acceptable usage documentation.

- ▶ Athletic teams are traveling by means and at a cost that are in the best interest of the CSU.
- ▶ Activities related to sports camps and clinics comply with relevant institutional requirements including background checks/authorizations, insurance, revenue accountability, inclusion of relevant expenditures, and reporting of income/profits.
- ▶ Acceptable academic support systems for athletes have been implemented.
- ▶ There are proactive injury prevention programs for student-athletes.

SCOPE AND METHODOLOGY

The proposed scope of the audit, as presented in Attachment B, Audit Item 2 of the January 31 through February 1, 2006, meeting of the Committee on Audit, stated that *Athletics Administration* includes a review of the general control environment and control activities undertaken to assure implementation of appropriate institutional systems, policies and procedures for financial oversight and stewardship of athletics.

One of the better-known and widely recognized frameworks for organizational reporting authored by the *Committee of Sponsoring Organizations (COSO) of the Treadway Commission* categorizes the diversity of potential operational/program objectives into three broad categories as follows:

Operations Objectives

These pertain to effectiveness and efficiency of the entity's operations, including attainment of performance goals and safeguarding assets against loss.

Financial Reporting Objectives

These pertain to the preparation of reliable published financial statements.

Compliance Objectives

These pertain to adherence to laws and regulations to which the entity is subject.

In this COSO context, the audit scope for *Athletics Administration* emphasizes athletics operations objectives and a subset of compliance objectives (i.e., compliance mainly with administrative regulations not promulgated by athletic regulatory bodies such as the NCAA and various athletic conferences). Based on a February 21, 2006, *USA Today* article, compliance exclusions would include such things as regulations on the number of scholarships, roster sizes, recruiting guidelines, eligibility requirements (such as grade point average and progress towards degree), extra benefits to student-athletes, and control of athletic boosters that give college athletics some semblance of competitive equity and educational connection — issues that largely fill the almost 500-page NCAA rules manual.

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 that operational and administrative controls are in place and operative. This review emphasized, but was not limited to, compliance with state and federal laws, Board of Trustee policies, and Office of the Chancellor and campus policies, letters, and directives. The audit review focused on procedures currently in effect. In instances wherein it was necessary to review annualized data, calendar year 2006 or FY 2006/07 was the primary period reviewed except when it was beneficial to see trends for multiple years.

OBSERVATIONS, RECOMMENDATIONS, AND CAMPUS RESPONSES

GENERAL ENVIRONMENT

STRATEGIC PLAN

The intercollegiate athletics strategic planning process, containing important program goals and objectives, was incomplete at the time of our review.

The campus made available a *Five-Year Strategic Plan (2007-2012) for the Intercollegiate Athletic Program* in draft form dated November 2006, which had yet to be finalized.

A good strategic plan is recognized as invaluable to establishing and maintaining an athletics department that is focused and effective. The *Best Practices Manual* prepared for California State University (CSU) athletic departments states that strategic planning is one of the foundational keys to building a successful athletics department.

The director of athletics stated that the strategic plan was still a viable document, but that plan completion was temporarily deferred due to reassignment of the plan consultant to another higher priority.

An incomplete strategic plan or one that is improperly implemented can contribute to misunderstandings about reasonable program goals and objectives and fails to optimize the future potential of the athletics program.

Recommendation 1

We recommend that the campus complete and implement the intercollegiate athletics strategic plan as soon as possible.

Campus Response

We concur. The strategic plan for athletics will be completed and implementation will begin by September 30, 2008.

INFORMATION SECURITY

Security of information in the athletic training room needed improvement.

Over time, the athletic training room had created a program utilizing a FileMaker Pro database that contained confidential information about student-athletes and athletic injuries/treatments. Laptop personal computers (PCs) were also used by the trainers. Confidential information was downloaded to the laptops and used for team travel. None of the data was encrypted.

The *Cal Poly Information Security Program* adopted by the campus on July 8, 2004, states:

Appropriate steps should be taken to ensure the physical security of information, regardless of format, and computer systems, taking into account the value of the resource, access control methods, proper environmental controls, redundancy, power backup, and other factors.

Each department must ensure that measures are taken to address security weaknesses based on the framework outlined in this program and their own risk assessment.

Subsequent to the audit visit, the campus information security officer led an evaluation of the athletic training room because the operations and systems were not well known. The visit resulted in suggested improvements in security of the automated database records and use of laptop PCs.

Inadequately protected confidential information in the training room increases the risk of access by unauthorized persons and disclosures for inappropriate purposes, which could jeopardize the well being of student-athletes and trigger potential campus liabilities.

Recommendation 2

We recommend that the campus improve the security of information in the athletic training room to include, at a minimum, the use of encrypted data/files.

Campus Response

We concur. The athletics training room staff has met with health center and information technology services personnel to determine processes and procedures for ensuring that data/files on training room laptop PCs meet campus standards for information security. Such measures will be in effect by August 31, 2008.

PROGRAM REVENUES

SAFETY OF FUNDS

Athletic ticket office security was in need of improvement.

The athletic ticket office was physically located in the recreation center. The office lacked security features such as surveillance cameras, bulletproof glass on seller windows, and panic alarms.

Government Code (GC) §13402 and §13403 require a system or systems of internal accounting and administrative controls so that reasonable assurances can be given that measures to safeguard assets, check the accuracy and reliability of accounting data, promote operational efficiency, and encourage adherence to prescribed managerial policies are being followed. The elements of a satisfactory system of internal accounting and administrative control include a plan that limits access to state agency assets to authorized personnel.

State Administrative Manual (SAM) §8032.1 requires that receipts be adequately safeguarded until deposited.

The director of ticket operations stated that security of the ticket office had always been configured in the current setup.

Inadequate physical safeguards in cashiering areas expose employees to unnecessary dangers and increase the risk of theft.

Recommendation 3

We recommend that the campus improve the physical security in the athletic ticket office.

Campus Response

We concur. The campus will investigate measures to improve the physical security in the athletic ticket office. Based upon the evaluation and recommendation of facility services, university police, and fiscal services personnel, such improvements as are practicable will be implemented by September 30, 2008.

AGREEMENT

The campus did not have a written agreement with Associated Students, Incorporated of California Polytechnic State University at San Luis Obispo (ASI) for ticket sales.

Every year the ASI sponsored a certain number of non-athletic ticketed events held in the recreation center. Tickets for these ASI events were sold by the Mustang Ticket Office (MTO) at a commission rate. However, there was no written agreement covering these ticket sales.

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 and timely executed written agreements.

The senior associate director of athletics stated that when the campus was a National Collegiate Athletic Association (NCAA) Division II program, the ASI sold the athletic tickets, but when the program moved to Division I, responsibility for athletic ticket sales was moved to the athletics department and that the arrangement in place at the time of the change was continued.

The absence of complete and timely written agreements increases the risk of misunderstandings and miscommunication regarding rights and responsibilities and creates an environment for potential financial irregularities.

Recommendation 4

We recommend that the campus execute a written agreement with the ASI for ticket sales by the MTO for ASI events.

Campus Response

We concur. While an oral agreement has been in place and working for several years, we agree the best practice is to formalize the agreement in writing. Anticipated completion date is no later than June 30, 2008.

ATHLETICS FUND-RAISING

Fund-raising event administration needed improvement.

We found that:

- ▶ Flyers for two fund-raising golf tournaments directed that payments be mailed to an off-campus address.
- ▶ Amounts deposited from fund-raising golf tournaments were not reconciled against independent records for the number of participants.

GC §13402 and §13403 require a system or systems of internal accounting and administrative controls so that reasonable assurances can be given that measures to safeguard assets, check the accuracy and reliability of accounting data, promote operational efficiency, and encourage adherence to prescribed managerial policies are being followed. The elements of a satisfactory system of internal accounting and administrative control include authorization and recordkeeping procedures adequate to provide effective control over assets.

SAM §7920 states that each agency is responsible for completing any reconciliation necessary to safeguard assets and ensure reliable financial data.

The senior associate director of athletics stated that they already had instructions on the flyer to make the checks payable to the campus and this reduced the risk of mailing off-campus. The associate athletics director of advancement stated that most of the fees for athletic golf tournaments were collected at the course on the day of the event so reconciliations were not as important.

Both the failure to require payment directly to California Polytechnic State University, San Luis Obispo (Cal Poly) administration and the absence of reconciliations increase the risk that errors and irregularities in athletics fund-raising will not be detected and could result in inappropriate activities and a loss of funds.

Recommendation 5

We recommend that the campus:

- a. Require participants in athletic golf tournaments to mail pre-event checks to a campus address.
- b. Strengthen procedures to ensure an acceptable reconciliation of golf tournament revenues to the number of participants.

Campus Response

We concur.

- a. By June 30, 2008, athletics administration will develop and implement a written policy requiring that all participants in fund-raising events, including golf tournaments, mail payment directly to the athletics advancement office at the campus address. All coaches and staff who sponsor such events will be informed of this policy.
- b. By June 30, 2008, athletics administration will develop and implement a written procedure to ensure an acceptable reconciliation of event revenues to the number of participants.

COMPENSATION AND BENEFITS

OUTSIDE INCOME REPORTING

Reporting of athletically related outside incomes was done retroactively in fiscal year (FY) 2006/07 without involvement of the campus president.

Our review disclosed that:

- ▶ The campus president had delegated approval of athletically related outside income to the athletics director. Actions taken under the delegation were not formally reported to the campus president.
- ▶ For FY 2006/07, outside income statements filed by athletic department coaches and staff were not reviewed and approved by the athletics director until October 19, 2007. Seventeen coaches/staff filing these reports declared athletically related outside incomes.

NCAA Bylaw 11.2.2, *Athletically Related Income* states:

Contractual agreements, including letters of appointment, between a full-time or part-time athletics department staff member (excluding secretarial or clerical personnel) and an institution shall include the stipulation that the staff member is required to provide a written detailed account annually to the president or chancellor for all athletically related income and benefits from

sources outside the institution. In addition, the approval of all athletically related income and benefits shall be consistent with the institution's policy related to outside income and benefits applicable to all full-time or part-time employees. Sources of such income shall include, but are not limited to, the following:

- (a) Income from annuities.
- (b) Sports camps.
- (c) Housing benefits (including preferential housing arrangements).
- (d) Country club memberships.
- (e) Complimentary ticket sales.
- (f) Television and radio programs.
- (g) Endorsement or consultation contracts with athletics shoe, apparel, or equipment manufacturers.

The senior associate director of athletics stated that the athletics department had debated systems and what timing was best for filing: prospectively at the beginning of the year (based on estimates), at intervals during the course of the year as necessary (to update estimates or catch coaches who might leave mid-year), or retroactively at year end. The administrative assistant in athletics stated that FY 2006/07 approvals were done later because the athletics director had been traveling.

Untimely reporting of athletically related outside income and failure to involve the campus president minimizes the value of the information obtained and could lead to NCAA sanctions for conflicts of interest in compensation.

Recommendation 6

We recommend that the campus:

- a. Select and implement an appropriate athletically related income reporting system with deadlines for filing, reviewing, and updating athletically related outside income statements that can be consistently enforced.
- b. Report athletically related outside incomes approved by the athletics director to the campus president.

Campus Response

We concur.

- a. By June 30, 2008, the athletics compliance office will develop and implement a reporting system with deadlines for filing, reviewing, and updating athletically related outside income statements that can be consistently enforced.

- b. By June 30, 2008, the athletics compliance office will develop and implement a procedure for reporting athletically related outside incomes approved by the director of athletics to the campus president.

ATTENDANCE

The campus did not ensure accurate and appropriate attendance and leave reporting for coaches working at sports camps.

Our review disclosed that for five camps reviewed, none of the coaches in the sponsoring sports took any vacation leave while the camps were in session. For one of these camps, the coach was not required to take any leave according to the athletics department policy for part-time coaches. The four camps where leave should have been taken were:

- ▶ Mustang High School Elite Boy's Soccer Camp (July 2006)
- ▶ Cal Poly Distance Running Camp (July 2006)
- ▶ Cal Poly Baseball All-Star Camp (July 2006)
- ▶ Horace Grant Central Coast Basketball Camp (June 2007)

Section IV of the Cal Poly Athletics Manual, *Procedures and Guidelines for Operating Sports Camps and Clinics*, describes leave requirements for sports camps based on whether they are conducted during the regular work week or at other times (over weekends, holidays, or periods when the campus is closed). For camps during the regular workweek, the decision on leave requirements is based on whether the coach receives compensation from the camp and the type of department appointment. The rules differ for full-time versus part-time and whether the coach is in a 12-month, 10-month, or academic year position.

GC §13402 and §13403 require a system or systems of internal accounting and administrative controls so that reasonable assurances can be given that measures to safeguard assets, check the accuracy and reliability of accounting data, promote operational efficiency, and encourage adherence to prescribed managerial policies are being followed. The elements of a satisfactory system of internal accounting and administrative control include authorization and recordkeeping procedures adequate to provide effective control over assets.

The senior associate director of athletics stated that the department did not have an effective system for monitoring compliance with the written policy.

Inaccurate reporting of leave provides inappropriate and unauthorized employee benefits and increases the campus liability for used leave.

Recommendation 7

We recommend that the campus:

- a. Establish a better means of monitoring compliance with leave usage claimed by coaches/staff working sports camps.
- b. Recover the value of the leave that should have been taken for FY 2006/07 sports camps.

Campus Response

We concur.

- a. By June 30, 2008, the campus will review existing policies and procedures and establish a better means of monitoring compliance with leave usage claimed by coaches/staff working sports camps.
- b. Following review of the existing policies and procedures, the campus will recover the value of the leave that should have been taken for FY 2006/07 sports camps, as appropriate. This process will be completed by September 30, 2008.

BENEFITS

Some campus personnel received free rounds of golf that were not reported as a taxable benefit.

Through trade-out agreements with three local golf courses (Avila Beach, Blacklake, and Cypress Ridge), the athletics department negotiated free rounds of golf for coaches and select staff whom they designated. Records were not maintained by the campus to document the extent of the golf opportunities provided or the names of the recipient employees benefiting from this arrangement. Nothing was sent to the State Controller for income tax reporting purposes.

The *State Controller's Office Payroll Procedures Manual*, §N120 states that:

- Fringe benefits or perks are defined as “something additional to regular pay, which an employee receives from an employer.”
- Unless a fringe benefit is specifically fully or partially exempted under the tax code or defined as tax deferred by regulation, the fringe benefit payment/value is taxable, reportable income.
- Taxes are due, payable and income reportable when an employee constructively receives the fringe benefit.
- Taxable fringe benefits for employees are reported on Form W-2.

The assistant director of payroll and payment management stated that the campus had not reported any golf benefits because they had not been notified by the athletics department that the benefits existed.

Inappropriate reporting of benefits subjects the campus to fines and penalties for non-compliance with income tax rules and regulations.

Recommendation 8

We recommend that the campus discontinue free rounds of golf obtained through trade-out agreements, establish the recordkeeping necessary for tax reporting of benefits, or document compliance with tax rules showing certain business expenses acceptable for tax exclusion.

Campus Response

We concur. Effective immediately, free rounds of golf obtained through trade-out agreements have been discontinued for all individuals except those having a bonafide business purpose that complies with tax rules. By June 30, 2008, athletics administration will develop and implement a procedure that documents compliance with tax rules for all free rounds of golf obtained through trade-out agreements. No free rounds of golf will be used until these procedures are approved and implemented.

OPERATING EXPENDITURES AND EQUIPMENT

FACILITY ARRANGEMENTS

Athletics used off-campus golf facilities for team matches and practices without formal use agreements.

We found that the golf teams at the campus used seven area golf courses for team practices and competitions – Avila Beach, Cypress Ridge Golf Course, Hunter Ranch, Monarch Ridge, San Luis Obispo Country Club, Santa Maria Country Club, and the Links at Paso Robles. All of these golf courses were used without any formal documentation describing the arrangements.

The *CSU Policy Manual for Contracting and Procurement* §203 states that when choosing a solicitation methodology, the campus should consider the procurement objective, including, but not limited to, the requirements of the goods or services being procured, the estimated dollar value of the resultant contract, the legislative and policy requirements, and what is in the best interest of the CSU.

The senior associate director of athletics stated that the facility owners of the golf courses used by the golf teams had never requested anything from the campus prior to usage.

The absence of appropriate facility use agreements increases the risk of misunderstandings and potential legal liabilities.

Recommendation 9

We recommend that the campus ensure appropriate documentation for all athletics department facility use arrangements.

Campus Response

We concur. The campus will ensure appropriate documentation for all athletics department facility use arrangements. The process for such documentation will be completed by June 30, 2008.

EQUIPMENT MANAGEMENT

Some athletic equipment room procedures were not adequate to ensure accountability for merchandise.

Our review of the athletic equipment room disclosed that:

- ▶ In recent years, the athletics equipment manager had focused mostly on one sport – football, and other equipment management responsibilities had been delegated to coaches.
- ▶ There was no centralized athletic equipment inventory system.
- ▶ Summer 2007 athletic equipment inventories were not compared against information that would demonstrate how much should be available based on what was counted in the prior year plus purchases less dispositions in the current year. Seven (men's basketball, men's soccer, men's swimming/diving, women's swimming/diving, men's tennis, women's tennis, and women's volleyball) of 20 sports did not return an inventory to the athletic equipment manager.
- ▶ Student-athletes did not sign acknowledging receipt of equipment that had been checked out to them.

GC §13402 and §13403 require a system or systems of internal accounting and administrative controls so that reasonable assurances can be given that measures to safeguard assets, check the accuracy and reliability of accounting data, promote operational efficiency, and encourage adherence to prescribed managerial policies are being followed. The elements of a satisfactory system of internal accounting and administrative control include authorization and recordkeeping procedures adequate to provide effective control over assets.

The Cal Poly *Athletic Equipment Room Policies and Procedures* state:

A continuous inventory of all athletic equipment must be maintained in order to ensure accountability for university property.

The athletics equipment manager stated that he inherited some practices from his predecessor and that he was changing things as time permitted to better fit what worked for him.

Inadequate equipment room inventory controls increase the risk of misuse of athletic resources and mismanagement of athletic program funds.

Recommendation 10

We recommend that the campus improve accountability for athletic equipment by implementing a centralized athletic equipment inventory system and a checkout process so that student-athletes acknowledge receipt of equipment.

Campus Response

We concur. By September 30, 2008, athletics administration will select and implement an appropriate centralized athletic equipment inventory system and a checkout process to acknowledge receipt of equipment by student-athletes.

TRADE-OUTS

The administration of trade-outs was in need of improvement.

The concept of a trade or trade-out in athletics is typically a non-cash transaction with sponsors/partners. The sponsors/partners receive a combination of: a) recognition in game programs, stadium signage, or radio/television broadcasts, b) event tickets, which could also include preferred parking and access to hospitality areas, and c) other perquisites such as athletic clothing with a campus logo. In exchange for these benefits, the sponsors/partners provide products and services that they would have available in their normal course of business and which could be used to relieve the athletic program of costs that would otherwise be incurred such as what might be necessary for courtesy cars, hotel accommodations, and restaurant expenditures.

Our review of trade authorization and usage records for five accounts disclosed that:

- ▶ Only the campus person in athletics who was also responsible for negotiations typically signed the trade-out agreements. None of the five trade-out agreements was reviewed by anyone authorized to approve transactions for procurement purposes.
- ▶ The campus used hotel and restaurant trade for different purposes including hosting prospective student-athletes on official recruiting visits that required approval by the athletics compliance coordinator. The two principals involved in this process coordinated closely, but the process did not provide for cross-referencing approved visits with lodging reservations and recording the business purpose of hotel usage.
- ▶ Hotel trade went unused a large portion of the time. During FY 2005/06, the campus used 50% of the available room nights in hotel trade. This number increased to 67.5% in FY 2006/07.
- ▶ Hotel trade usage records for two upscale properties were maintained in a separate system.

The issue of who should sign trade-out agreements is addressed by the athletics department in Chapter 16, *Business and Finance*, of its operating manual. Section 10.3 in this chapter states:

Sponsorship agreements (such as displaying a banner or sign at an event, public announcements during an event, or printing sponsorship information in game programs) in general do not require university review or approval. However, the university does impose restrictions on the promotion and display of certain products such as alcoholic beverages. The office of university relations has final authority over what may be displayed and should be consulted in the event of any uncertainty.

GC §13402 and §13403 require a system or systems of internal accounting and administrative controls so that reasonable assurances can be given that measures to safeguard assets, check the accuracy and reliability of accounting data, promote operational efficiency, and encourage adherence to prescribed managerial policies are being followed. The elements of a satisfactory system of internal accounting and administrative control include authorization and recordkeeping procedures adequate to provide effective control over assets.

The director of compliance/senior woman administrator and the administrative assistant in the athletics department stated that visit approval and reservations were not always an orderly process. The administrative assistant also stated that some of the hotel properties were not as popular as others with the coaches and they sometimes had a difficult time getting rooms on short notice or at high demand periods.

Inadequate control over athletic procurement activities could potentially damage the campus reputation, creates the appearance of impropriety and inappropriate activities, while incomplete records on trade and the underutilization of trade benefits increases the risk of inappropriate contracting and accusations that state resources are being given away without fair value received in exchange.

Recommendation 11

We recommend that the campus:

- a. Link information about official recruiting visits to usage of hotel trade established and used for this purpose and include usage information for all hotel properties with athletics trade agreements within one system.
- b. Annually adjust trade agreements to ensure that the benefits available more closely approximate actual need.

Campus Response

We concur.

- a. By June 30, 2008, athletics administration will develop and implement a procedure to record and monitor usage information for all hotel trade properties within one system, including documenting the official business purpose.
- b. By June 30, 2008, athletics advancement will develop and implement a procedure to annually adjust trade agreements to ensure that the benefits available more closely approximate the anticipated need.

MISCELLANEOUS

Personnel working at sports camps and clinics had not been subjected to criminal background checks.

There were a number of different sports camps and clinics. These camps were available to certain age groups, mainly youth not yet of college age. These camps could be sponsored by the athletics department in which case the funds benefited the program and were maintained in accounts at the Cal Poly Corporation – a CSU auxiliary organization. Other sports camps were independently owned and operated by Cal Poly coaches but received approval by the campus.

CSU directive HR 2005-10, *Background Checks*, dated March 1, 2005, states that it is the campus responsibility to perform background checks for sensitive positions, which are defined to include persons with responsibility for the care, safety, and security of people, including children and minors.

The campus director of human resources stated that the sports camp coaches and counselors had not been background checked by the campus because it had been determined that this was a responsibility of the Cal Poly Corporation. The Cal Poly Corporation director of human resources stated that they had not done background checks because of some changes in organizational reporting responsibilities and also because they relied on representations made by those completing sports camp employment applications on whether they had been convicted of any crime other than traffic infractions.

The absence of criminal background checks increases the risk of inappropriate personnel assignments for sports camps and clinics, which could potentially damage CSU's reputation.

Recommendation 12

We recommend that the campus establish a means of assuring that the coaches, counselors, and staff working at sports camps receive appropriate criminal background checks.

Campus Response

We concur. The campus has established a process whereby coaches, counselors, and staff working at Cal Poly athletics sports camps receive appropriate criminal background checks. Effective June 1, 2008, all individuals who may work at camps will be required to undergo the Live Scan fingerprinting process administered through the Cal Poly Corporation human resources office.

APPENDIX A: PERSONNEL CONTACTED

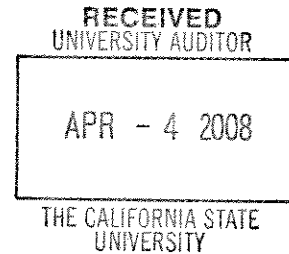
<u>Name</u>	<u>Title</u>
Warren J. Baker	President
Preston Allen	Associate Vice President for Student Affairs/ Executive Director of Housing and Conference Services
Chris Baker	Associate Athletic Director, Advancement
Marc Benadiba	Assistant Director, Payroll and Payment Management
Lisa Boyer	Interim Director, Conference and Event Planning
Debbie Brothwell	Director, Budget and Analytic Business Services
Cody Chaney	Director of Ticket Operations
Alison Cone	Director of Athletics
Carlos Cordova	University General Counsel
Paul Gabrielson	Assistant Athletic Trainer
Lisa Hensley	Human Resources Manager
Brett Holman	Assistant Director, Student Financial Services
Mark Hunter	Director of Facility Services
Kimi Ikeda	Assistant Vice Provost, Systems and Resource Management
Rick Johnson	Executive Director, Associated Students/University Union
Lawrence Kelley	Vice President for Administration and Finance
Steve Kracher	Equipment Manager, Athletics
Jesse Latino	Director of Facilities and Operations, Athletics
Lorlie Leetham	Director of Fiscal Services
Frank Limon	Supervisor, Distribution Services
Barbara Martinez	Director of Compliance/Senior Woman Administrator
Ryan Matteson	Analyst/Programmer, Information Technology Services
Barbara Melvin	Director of Human Resources
Lynn Ogden	Administrative Assistant, Athletics
Kimberly Perez	Assistant Director, Fiscal Services
Leigh Ramirez	Associate Director, Facilities
Rick Ramirez	Associate Vice President for Finance
Joe Risser	Director of Risk Management
Matt Roberts	Director of Contracts and Procurement
Carole Schaffer	Associate Director, Housing/Director, Residential Life
Steve Schlick	Business Coordinator, Athletics
June Serjeant-Weaver	Assistant Director, Housing
Kristal Slover	Head Athletic Trainer
Shannon Stephens	Director of Academic Services, Athletics
Bob Stets	Associate Vice President, University Advancement/ Finance and Operations
Vicki Stover	Associate Vice President for Administration
Michael Suess	Associate Vice Provost, Academic Personnel
Mariann Van Pelt	Accounting Project Manager, Cal Poly Corporation
Karen Webb	Assistant Vice President for Administration and Finance
Philip Webb	Senior Associate Director of Athletics
Joanne Williams	Human Resources Director, Cal Poly Corporation



California Polytechnic State University
San Luis Obispo, CA 93407

Administration & Finance Division
(805) 756-2171 • Fax (805) 756-7560

April 2, 2008



Mr. Larry Mandel
University Auditor
Office of the University Auditor
The California State University
401 Golden Shore
Long Beach, CA 90802-4275

Subject: Audit Report Number 07-39, *Athletics Administration*, at California Polytechnic State University, San Luis Obispo

Dear Larry:

Attached is the campus response to recommendations of Audit Report Number 07-39, *Athletics Administration*. If you have questions regarding this document, please contact Vicki Stover, Associate Vice President for Administration, at 805-756-2171 or VStover@calpoly.edu.

Sincerely,

Lawrence Kelley
Vice President for Administration & Finance

- cc: W. Baker
- W. Durgin
- A. Cone
- P. Webb
- R. Ramirez
- M. Roberts
- V. Stover

ATHLETICS ADMINISTRATION
CALIFORNIA POLYTECHNIC STATE UNIVERSITY,
SAN LUIS OBISPO

Audit Report 07-39
March 4, 2008

GENERAL ENVIRONMENT

STRATEGIC PLAN

Recommendation 1

We recommend that the campus complete and implement the intercollegiate athletics strategic plan as soon as possible.

Campus Response

We concur. The strategic plan for Athletics will be completed and implementation will begin by September 30, 2008.

INFORMATION SECURITY

Recommendation 2

We recommend that the campus improve the security of information in the athletic training room to include, at a minimum, the use of encrypted data/files.

Campus Response

We concur. The Athletics Training Room staff have met with Health Center and Information Technology Services personnel to determine processes and procedures for ensuring that data/files on Training Room laptop PC's meet campus standards for information security. Such measures will be in effect by August 31, 2008.

PROGRAM REVENUES

SAFETY OF FUNDS

Recommendation 3

We recommend that the campus improve the physical security in the athletic ticket office.

Campus Response

We concur. The campus will investigate measures to improve the physical security in the athletic ticket office. Based upon the evaluation and recommendation of Facility Services, University Police and Fiscal Services personnel, such improvements as are practicable will be implemented by September 30, 2008.

AGREEMENT

Recommendation 4

We recommend that the campus execute a written agreement with the ASI for ticket sales by the MTO for ASI events.

Campus Response

We concur. While an oral agreement has been in place and working for several years, we agree the best practice is to formalize the agreement in writing. Anticipated completion date no later than 6/30/08.

ATHLETICS FUND-RAISING

Recommendation 5

We recommend that the campus:

- a. Require participants in athletic golf tournaments to mail pre-event checks to a campus address.
- b. Strengthen procedures to ensure an acceptable reconciliation of golf tournament revenues to the number of participants.

Campus Response

- a. We concur. By June 30, 2008, Athletics administration will develop and implement a written policy requiring that all participants in fund-raising events, including golf tournaments, mail payment directly to the Athletics Advancement office at the campus address. All coaches and staff who sponsor such events will be informed of this policy.
- b. We concur. By June 30, 2008, Athletics administration will develop and implement a written procedure to ensure an acceptable reconciliation of event revenues to the number of participants.

COMPENSATION AND BENEFITS

OUTSIDE INCOME REPORTING

Recommendation 6

We recommend that the campus:

- a. Select and implement an appropriate athletically related income reporting system with deadlines for filing, reviewing, and updating athletically related outside income statements that can be consistently enforced.
- b. Report athletically related outside incomes approved by the athletics director to the campus president.

Campus Response

- a. We concur. By June 30, 2008, the Athletics Compliance Office will develop and implement a reporting system with deadlines for filing, reviewing, and updating athletically related outside income statements that can be consistently enforced.
- b. We concur. By June 30, 2008, the Athletics Compliance Office will develop and implement a procedure for reporting athletically related outside incomes, approved by the Director of Athletics, to the campus president.

ATTENDANCE

Recommendation 7

We recommend that the campus:

- a. Establish a better means of monitoring compliance with leave usage claimed by coaches/staff working sports camps.
- b. Recover the value of the leave that should have been taken for FY 2006/07 sports camps.

Campus Response

- a. We concur. By June 30, 2008, the campus will review existing policies and procedures and establish a better means of monitoring compliance with leave usage claimed by coaches/staff working sports camps.
- b. We concur. Following review of the existing policies and procedures, the campus will recover the value of the leave that should have been taken for FY 2006/07 sports camps, as appropriate. This process will be completed by September 30, 2008.

BENEFITS

Recommendation 8

We recommend that the campus discontinue free rounds of golf obtained through trade-out agreements, establish the recordkeeping necessary for tax reporting of benefits, or document compliance with tax rules showing certain business expenses acceptable for tax exclusion.

Campus Response

We concur. Effective immediately, free rounds of golf obtained through trade-out agreements have been discontinued for all individuals except those having a bona-fide business purpose that complies with tax rules. By June 30, 2008, Athletics administration will develop and implement a procedure that documents compliance with tax rules for all free rounds of golf obtained through trade-out agreements. No free rounds of golf will be used until these procedures are approved and implemented.

OPERATING EXPENDITURES AND EQUIPMENT

FACILITY ARRANGEMENTS

Recommendation 9

We recommend that the campus ensure appropriate documentation for all athletics department facility use arrangements.

Campus Response

We concur. The campus will ensure appropriate documentation for all Athletics department facility use arrangements. The process for such documentation will be completed by June 30, 2008.

EQUIPMENT MANAGEMENT

Recommendation 10

We recommend that the campus improve accountability for athletic equipment by implementing a centralized athletic equipment inventory system and a checkout process so that student-athletes acknowledge receipt of equipment.

Campus Response

We concur. By September 30, 2008, Athletics administration will select and implement an appropriate centralized athletic equipment inventory system and a checkout process to acknowledge receipt of equipment by student-athletes.

TRADE-OUTS

Recommendation 11

We recommend that the campus:

- a. Link information about official recruiting visits to usage of hotel trade established and used for this purpose and include usage information for all hotel properties with athletics trade agreements within one system.
- b. Annually adjust trade agreements to ensure that the benefits available more closely approximate actual need.

Campus Response

- a. We concur. By June 30, 2008, Athletics administration will develop and implement a procedure to record and monitor usage information for all hotel trade properties within one system, including documenting the official business purpose.
- b. We concur. By June 30, 2008, Athletics Advancement will develop and implement a procedure to annually adjust trade agreements to ensure that the benefits available more closely approximate the anticipated need.

MISCELLANEOUS

Recommendation 12

We recommend that the campus establish a means of assuring that the coaches, counselors, and staff working at sports camps receive appropriate criminal background checks.

Campus Response

We concur. The campus has established a process whereby coaches, counselors and staff working at Cal Poly Athletics sports camps receive appropriate criminal background checks. Effective June 1, 2008, all individuals who may work at camps will be required to undergo the Livescan fingerprinting process administered through the Cal Poly Corporation HR office.

THE CALIFORNIA STATE UNIVERSITY
OFFICE OF THE CHANCELLOR



BAKERSFIELD

April 23, 2008

CHANNEL ISLANDS

CHICO

MEMORANDUM

DOMINGUEZ HILLS

EAST BAY

FRESNO

TO: Mr. Larry Mandel
University Auditor

FULLERTON

FROM: Charles B. Reed
Chancellor

HUMBOLDT

LONG BEACH

SUBJECT: Draft Final Audit Report 07-39 on *Athletics Administration*,
California Polytechnic State University, San Luis Obispo

LOS ANGELES

MARITIME ACADEMY

In response to your memorandum of April 23, 2008, I accept the response as submitted with the draft final report on *Athletics Administration*, California Polytechnic State University, San Luis Obispo.

MONTEREY BAY

NORTHRIDGE

POMONA

CBR/jt

SACRAMENTO

Enclosure

SAN BERNARDINO

cc: Dr. Warren J. Baker, President
Mr. Lawrence R. Kelley, Vice President, Administration and Finance

SAN DIEGO

SAN FRANCISCO

SAN JOSÉ

SAN LUIS OBISPO

SAN MARCOS

SONOMA

STANISLAUS