

SPECIAL INVESTIGATION
CALIFORNIA STATE UNIVERSITY,
SAN MARCOS

Report Number 05-91
November 2, 2005

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OFFICE OF THE
UNIVERSITY AUDITOR

November 2, 2005

Report #0591

Dr. Charles B. Reed
Chancellor
The California State University
401 Golden Shore
Long Beach, CA 90802

Dear Dr. Reed:

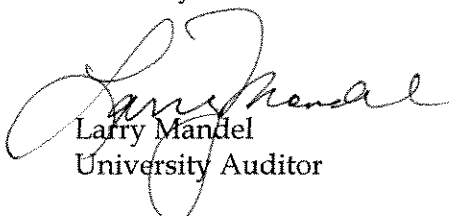
Pursuant to a request from your office on June 17, 2005, the Office of the University Auditor has conducted an investigation of possible misappropriation of assets at California State University, San Marcos (CSUSM). Our investigation was predicated upon allegations of improper claims for reimbursement submitted by the CSUSM's men's golf coach.

Our examination was conducted in accordance with generally accepted investigative techniques, which included, but were not limited to, examination of books and records, voluntary interviews with appropriate CSUSM employees and students, and other such evidence-gathering procedures as necessary under the circumstances.

While we did not substantiate that a misappropriation occurred, we did find that the golf coach made false statements, improperly took advantage of CSUSM discounts, and improperly allowed golf courses to administer state funds.

Included within the report are the results of the investigation of the initial allegations, ancillary findings stemming from an enhanced scope of review, and specific recommendations which, we believe, would benefit the campus' fiscal and operational management of the entire athletics program.

Sincerely,



Larry Mandel
University Auditor

LM:amd

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ABBREVIATIONS

Act	Financial Integrity and State Manager’s Accountability Act of 1983
Athletes	Student Athletes
CSU	California State University
CSUSM	California State University, San Marcos
Golf Coach	California State University, San Marcos Men’s Golf Coach
Foundation	California State University, San Marcos Foundation
NAIA	National Association of Intercollegiate Athletics

EXECUTIVE SUMMARY

ALLEGATIONS

The California State University, San Marcos (CSUSM) Golf Coach misappropriated meal money and tournament entry fees.

INVESTIGATION RESULTS - ALLEGATIONS

We were unable to substantiate the allegations that the Golf Coach misappropriated meal money and tournament entry fees. However, we found that the Golf Coach misrepresented information on forms he submitted to claim meal money.

INVESTIGATION RESULTS – ANCILLARY FINDINGS

During the course of our investigation of the initial allegations, we were presented with evidence of improprieties within the intercollegiate golf program. We found that:

- ▶ The Golf Coach submitted a travel expense claim and other documents which, upon his own admission, contained false statements.
- ▶ The Golf Coach used discounts only made available to CSUSM for official purchases to obtain golf supplies and equipment for friends and family even though he admitted knowing it was improper to do so.
- ▶ The Golf Coach took personal advantage of reward points earned for student athletes' (Athletes') travel paid for by CSUSM.
- ▶ The Golf Coach entered into agreements on behalf of CSUSM even though he did not have formal delegated authority to do so.
- ▶ Both the former Athletic Director and the Golf Coach improperly allowed golf courses to administer state funds, neither preparing formal budgets nor an accounting of such funds.
- ▶ CSUSM did not have written policies regarding the amount of meal money Athletes are to receive or how much they, or the team as a whole, are to receive for incidental expenses.
- ▶ CSUSM's documentation requirements for gasoline purchase reimbursements on travel claims were unclear.
- ▶ CSUSM's policies and procedures specific to the control of Athletics' equipment inventory had not been established.

INTRODUCTION

ALLEGATIONS

The California State University, San Marcos (CSUSM) Golf Coach misappropriated meal money and tournament entry fees.

BACKGROUND

CSUSM currently competes as a National Association of Intercollegiate Athletics (NAIA) program offering both men's and women's programs in golf, cross country, and track and field. The Golf Coach has been in that position since the golf program was established at the campus in 1998.

In June 2005, campus employees presented to the CSUSM President allegations regarding the activities of the Golf Coach. The President contacted the Chancellor, who requested that the Office of the University Auditor review the allegations.

Throughout our investigation, CSUSM management and staff were cooperative and provided full support for our efforts.

SCOPE AND METHOD OF INVESTIGATION

To investigate the allegations, we examined travel expense claims and other documentation related to the CSUSM golf program, reviewed applicable criteria, and interviewed CSUSM students and employees including the Golf Coach.

During our investigation, we noted areas related to travel expenses and athletic equipment where CSUSM can strengthen its internal controls by establishing additional policies and procedures. Although our investigation focused on the golf program, the weaknesses noted also affected the other programs. Therefore, our findings and recommendations related to the weaknesses in the system of internal control apply to the Athletics' program as a whole.

RESULTS OF INVESTIGATION

INVESTIGATION RESULTS – ALLEGATIONS

While we were unable to substantiate that the Golf Coach misappropriated meal money or tournament entry fees we did find that the Golf Coach misrepresented information on forms he submitted to claim meal money.

Specifically, the Golf Coach submitted forms with student athletes' (Athletes') signatures that purportedly certified the amount of meal money the Athletes received, but the Golf Coach knew that the Athletes signed the forms with no amount indicated – information he subsequently added.

These forms are intended to function as an internal control measure to ensure that the Athletes actually received the amount of money the Golf Coach claims they did.

INVESTIGATION RESULTS – ANCILLARY FINDINGS

False Statements

The Golf Coach submitted a travel expense claim and other documents which, upon his own admission, contained false statements.

The Golf Coach submitted a signed travel expense claim requesting reimbursement for a \$1,587 entry fee for a golf tournament, certifying that the information contained therein was true. However, both the receipt that accompanied the claim, and two memoranda the Golf Coach wrote later to explain the cost, contained information the Golf Coach admitted to be false.

The tournament was co-hosted by California State University, San Marcos (CSUSM) and another university. Typically, tournament hosts do not have to pay fees for their own teams to play because those costs are covered by the entry fees charged to other teams. According to the Golf Coach, the coach for the other university team did not charge a large enough entry fee to the other competing universities to cover costs for both the hosting universities. As a result, each had to pay a fee to cover the shortage of revenues.

The Golf Coach provided a receipt for \$1,587 signed by the other university's coach that stated the money represented the entry fee for the nine players fielded in the tournament by CSUSM. However, when questioned during the course of this investigation, the Golf Coach admitted that \$1,287 was to cover CSUSM's share of the revenue shortage, a statement supported by another document obtained from the other university.¹ The Golf Coach was aware that the initial receipt provided by the other university was inaccurate and misleading when he submitted it with his claim.

When the Golf Coach submitted the claim, CSUSM employees questioned the unusually high cost of the entry fee. He first responded in a memorandum that the entry fee was increased after the deadline and he

¹ CSUSM contacted the other university and informed them of this situation so that the university could also investigate this to whatever extent they determined was necessary.

further explained in a second memorandum that “Less teams participated than anticipated causing an increase in entry fees for all teams”; statements he later admitted were false. He further stated that the odd amount on the claim was due to the coach of the other university giving them a discount, another false statement given the Golf Coach’s later explanation that the amount was to cover the shortfall in tournament entry fees.

According to the Golf Coach, he used the \$300 difference between the amount claimed and the amount he stated was actually paid to the other university to cover tournament costs such as trophies and to pay an official at the event. Although the Golf Coach stated that he would provide us with documentation to support his statements, as of August 31, 2005, he had not done so.

Improper Benefit

The Golf Coach used discounts only made available to CSUSM for official purchases to obtain golf supplies and equipment for friends and family even though he admitted knowing it was improper to do so.

Because it is an educational entity, CSUSM receives a discount on various types of golf supplies and equipment from various retailers. CSUSM may use this discount to purchase supplies for its golf program, including supplies for members of the golf team. The Golf Coach admitted that he used his state position to obtain golf merchandise for his friends and family at discounted rates even though he knew that it was improper. Vendors would have been unaware that the purchases were for the Golf Coach’s friends and family because he had items shipped to the campus and then personally distributed merchandise purchased. We found no indication that state funds were used for such purchases; however, his actions violated agreements with the vendors, thereby jeopardizing the campus’ relationship with these vendors and its ability to continue to receive discounted merchandise for CSUSM’s teams.

California Education Code, Section 89006, states that it is unlawful for any person to utilize any information, not a matter of public record, that is received by that person by reason of his or her employment for personal pecuniary gain. In addition, the California Government Code, Section 8314, states that it is unlawful for a state employee to use or permit others to use public resources for personal or other purposes which are not authorized by law. Further, letters sent to team coaches from the retailers clearly state that the discount is for the use of the golf coach and golf team members only.

The Golf Coach took personal advantage of reward points earned for student athletes’ (Athletes’) travel paid for by CSUSM.

The Golf Coach paid for hotel rooms for the golf team using his personal credit card in order to benefit from his participation in various travel and credit card reward programs. While we did not attempt to quantify the benefit the Golf Coach may have received through these programs, the Golf Coach admitted to receiving a personal benefit from the credits earned at CSUSM’s expense. We believe that doing so constitutes an inappropriate personal advantage received by the Golf Coach by virtue of his state position.

Inappropriate Contracting

The Golf Coach entered into agreements on behalf of CSUSM even though he did not have formal delegated authority to do so.

Although he lacked the formal delegated authority to do so, the Golf Coach stated that he entered into both written and verbal agreements with at least four local golf courses on behalf of CSUSM. When asked for copies of the written agreements, he indicated that he would provide them; as of the date of this report, the Golf Coach had not done so.

Because the Golf Coach did not provide us with copies of the agreements, we do not know to what extent CSUSM may have been obligated, financially or otherwise. The Golf Coach's failure to follow proper procurement procedures left the campus vulnerable to potential liability issues.

Improper Administration of State Funds

Both the former Athletic Director and the Golf Coach improperly allowed golf courses to administer state funds, neither preparing formal budgets nor an accounting of such funds.

The Golf Coach, with the approval of the former Athletic Director, improperly allowed golf courses to act as a fiscal agent for the campus by allowing them to collect CSUSM golf tournament entry fees paid by the attendees instead of having the university collect the fees and deposit the funds into the State Treasury.²

California Government Code, Section 16305.2, defines "state money" as "all money in the possession of or collected by any state agency or department..." Section 16305.3 of the same code provides that state funds must be deposited in the custody of the State Treasurer unless otherwise authorized by the Director of Finance or deposited directly in the State Treasury.

California Government Code, Section 13400, states that fraud and errors in state programs are more likely to occur from a lack of effective systems of internal accounting and administrative control in state agencies. Such effective control systems are necessary to assure that state assets and funds are adequately safeguarded, as well as to produce reliable financial information for the agency. Elements of a satisfactory system of control shall include a system of authorization and recordkeeping procedures adequate to provide effective accounting control over assets, liabilities, revenues, and expenditures.

Weaknesses in the System of Internal Control

CSUSM did not have written policies regarding the amount of meal money Athletes are to receive or how much they, or the team as a whole, are to receive for incidental expenses.

According to the current Athletic Director, CSUSM's unwritten policy was that Athletes may receive up to the maximum amounts allowed to university employees for meals and incidentals when they are on travel status.³ Because the policy was not formal and specific, amounts provided to the Athletes were inconsistent.

² "Fiscal agents" are financial institutions or third parties receiving remittances or making disbursements on behalf of the State.

³ CSU policy allows employees up to \$5 per 24-hour period for incidental expenses such as fees and tips for services such as for waiters and baggage handlers. The Golf Coach typically claimed between \$30 and \$50 for three- or

The past practice at CSUSM was for the Golf Coach to request a travel advance for the team's travel. He then provided cash to the Athletes at the beginning of the trip to be used for meal expenses, sometimes providing them with additional funds during the trip if necessary. Athletes were asked by the Golf Coach to sign a meal money form for each trip to certify the amount of money they received even though the amount was not filled in. The Golf Coach stated that he had the Athletes sign the forms before he filled in an amount because he sometimes gave them more money during the trip.

Gasoline Purchases

CSUSM's documentation requirements for gasoline purchase reimbursements on travel claims were unclear.

In certain instances, receipts submitted for reimbursement for refueling rental cars were the receipts for amounts prepaid by the Golf Coach. In one instance, the Golf Coach included a gas receipt for \$25 that he had prepaid; however, it is unclear from the information provided whether \$25 worth of gasoline was actually pumped into the vehicle or whether the Golf Coach may have received change.

Athletic Equipment

CSUSM's policies and procedures specific to the control of Athletics' equipment inventory had not been established.

Athletics did not maintain an inventory of its equipment. In addition, the Golf Coach sold golf team items to university employees in exchange for money for the golf program. He indicated that he sold used CSUSM golf bags to three university employees in exchange for "donations" of between \$25 and \$100, depending on the condition of the bag.⁴ According to the Golf Coach, the employees' donations were deposited in the golf program's account maintained by the CSUSM Foundation (Foundation). We found deposits from these three employees in the golf program's Foundation account; however, we were unable to confirm the circumstances surrounding the deposits.

In addition, we confirmed with the current Athletic Director that the golf bags were purchased with state funds. As a result, any proceeds from the sale of the bags should have been deposited into the state account that was the source of the funds used to purchase the bags, not a Foundation account. According to the California Government Code, Section 16305.3, state funds must be deposited in the State Treasury.

The Financial Integrity and State Manager's Accountability Act of 1983 (Act) contained in the California Government Code, beginning with Section 13400, requires each state agency to establish and maintain a system or systems of internal accounting and administrative controls. Internal controls are necessary to provide public accountability and are designed to minimize fraud, abuse, and waste of government funds. In addition, by maintaining these controls, agencies gain reasonable assurance that the measures they have

four-day trips, more than he would have been allowed individually, but less than if you consider \$5 per day per athlete.

⁴ The Golf Coach's referral to the receipts from the sale of athletics' inventory as a donation would be more correctly characterized as a sale/purchase transaction considering associated IRS regulations.

adopted protect state assets, provide reliable accounting data, promote operational efficiency, and encourage adherence to managerial policies. The Act also states that the elements of a satisfactory system of internal accounting and administrative controls shall include a system of authorization and record-keeping procedures adequate to provide effective accounting control over assets, liabilities, revenues, and expenditures. Further, the Act requires that, when detected, weaknesses must be corrected promptly. Finally, the California Government Code, Section 8314, states that it is unlawful for a state employee to use or permit others to use public resources for personal or other purposes which are not authorized by law.

RECOMMENDATIONS

Our investigation was administrative in nature. The conclusions we drew were made within that context. Recommendations that would mitigate the recurrence of similar findings are presented below.

1. False Statements

We recommend that the campus:

- a. Ensure that the Athletic Director approve tournament entry fees in advance, based upon official documentation of fees announced by the hosting university, and pay entry fees directly to the university hosting the tournament.
- b. Require a detailed budget and final accounting for tournament funds when tournaments are hosted or co-hosted by California State University, San Marcos (CSUSM), and have those documents reviewed and approved by the Athletic Director.

Campus Response

We concur. The Athletic Director now approves tournament entry fees in advance, based upon official documentation of fees announced by the hosting university, and entry fees are paid directly to the university hosting the tournament. We require a detailed budget and final accounting for tournament funds when we are host or co-host, and those documents are reviewed and approved by the Athletic Director.

Anticipated Completion Date: Completed

2. Improper Benefit

We recommend that the campus:

- a. Request vendors to accept only approved CSUSM purchase orders, checks and/or credit cards for official purchases, not personal checks or personal credit cards.
- b. Whenever possible, pay for student athletes' (Athletes') hotel expenses directly or have the expenses paid using a corporate credit card so that an individual does not inappropriately accrue personal benefits. CSUSM should establish written policies that clearly address how Athlete travel expenses will be paid.

Campus Response

We concur. When feasible, we will pay vendors directly and advise them that official purchases require the use of CSUSM purchase orders, checks, or procurement cards. We will document in writing how student athletes' travel expenses will be paid.

Anticipated Completion Date: January 1, 2006

3. Inappropriate Contracting

We recommend that the campus ensure that all athletic events hosted or co-hosted by CSUSM be approved in advance by the Athletic Director, and that all agreements related to those events be in writing and approved by appropriate and authorized CSUSM officials.

Campus Response

We concur. All athletic events hosted or co-hosted by CSUSM are now approved in advance by the Athletic Director, and all agreements related to those events are in writing and approved by appropriate and authorized CSUSM officials.

Anticipated Completion Date: Completed

4. Improper Administration of State Funds

We recommend that the campus ensure that:

- a. All event-related revenues and expenditures be handled in accordance with CSUSM policies and procedures, with state funds administered only by CSUSM.
- b. Budgets for, and accountings of, all events be documented and approved by the Athletic Director.

Campus Response

We concur. All event-related revenues and expenditures will be handled in accordance with established CSUSM policies and procedures, including the administration of state funds only by CSUSM. Budgets for events will be approved in advance by the Athletic Director, and all events will have an accounting, which will be documented and approved by the Athletic Director.

Anticipated Completion Date: January 1, 2006

5. Weaknesses in the System of Internal Control

We recommend that the campus:

- a. Establish written policies and procedures that include standardized amounts to be paid for Athletes' meals and incidental expenses. In addition, meal money forms should have the standardized amounts listed on the forms so it is clear to the Athletes what they are certifying. If CSUSM is going to provide money to the Athletes for incidentals, the Athletes should certify that they received those funds as well.
- b. Require claimants to submit receipts showing the actual amounts paid, not simply a prepaid amount.

- c. Establish written policies and procedures related to the tracking and disposition of athletic equipment.
- d. Ensure that state funds are properly deposited into state accounts, not Foundation accounts.

Campus Response

We concur. We will establish written policies and procedures that include standardized amounts to be paid for Athletes' meals and incidental expenses, meal money forms with standardized amounts clearly shown on the forms, clear indication of the amounts of incidental funds certified by athletes, and the requirement to submit receipts showing the actual amounts paid. We will develop policies and procedures related to the tracking and disposition of athletic equipment and ensure that state funds are properly deposited into state accounts.

Anticipated Completion Date: March 1, 2006



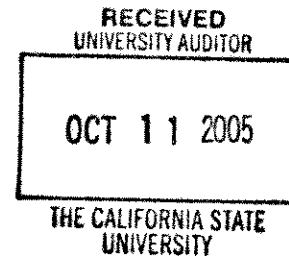
Office of the Vice President, Finance and Administrative Services

Neal R. Hoss
Vice President

California State University San Marcos
San Marcos, California 92096-0001 USA
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nhoss@csusm.edu
www.csusm.edu

October 11, 2005

Mr. Larry Mandel
University Auditor
The California State University
401 Golden Shore
Long Beach, CA 90802



Subject: Campus Responses to Recommendations of Report 05-91 – Special Investigation
California State University San Marcos

Dear Mr. Mandel:

Enclosed is our response to the recommendations in Report 05-91, Special Investigation. Upon acceptance of our response, we will provide documentation for those recommendations that we have completed and will follow up with you by the anticipated completion date for the remaining recommendations.

We sincerely appreciate your responsiveness to our request for your assistance and the professional manner in which the investigation was conducted. Please let us know if you have any questions or need additional information.

Sincerely,

Neal R. Hoss
Vice President
Finance and Administrative Services

Enclosure

cc: President Karen S. Haynes
Dr. Stephen Nichols, Athletic Director
Ms. Linda Hawk, Associate Vice President for Resource Management

The California State University

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**SPECIAL INVESTIGATION
CALIFORNIA STATE UNIVERSITY,
SAN MARCOS
Report Number 05-91**

1. False Statements

We recommend that the campus:

- a. Ensure that the Athletic Director approve tournament entry fees in advance, based upon official documentation of fees announced by the hosting university, and pay entry fees directly to the university hosting the tournament.
- b. Require a detailed budget and final accounting for tournament funds when tournaments are hosted or co-hosted by California State University, San Marcos (CSUSM), and have those documents reviewed and approved by the Athletic Director.

Campus Response

We concur. The Athletic Director now approves tournament entry fees in advance, based upon official documentation of fees announced by the hosting university and entry fees are paid directly to the university hosting the tournament. We require a detailed budget and final accounting for tournament funds when we are host or co-host and those documents reviewed and approved by the Athletic Director.

Anticipated Completion Date: Completed

2. Improper Benefit

We recommend that the campus:

- a. Request vendors to accept only approved CSUSM purchase orders, checks and/or credit cards for official purchases, not personal checks or personal credit cards.
- b. Whenever possible, pay for student athletes' (Athletes') hotel expenses directly or have the expenses paid using a corporate credit card so that an individual does not inappropriately accrue personal benefits. CSUSM should establish written policies that clearly address how Athlete travel expenses will be paid.

Campus Response

We concur. When feasible, we will pay vendors directly and advised them that official purchases require the use of CSUSM purchase orders, checks, or procurement cards. We will document in writing how student athletes' travel expenses will be paid.

Anticipated Completion Date: January 1, 2006

3. Inappropriate Contracting

We recommend that the campus ensure that all athletic events hosted or co-hosted by CSUSM be approved in advance by the Athletic Director, and that all agreements related to those events be in writing and approved by appropriate and authorized CSUSM officials.

Campus Response

We concur. All athletic events hosted or co-hosted by CSUSM are now approved in advance by the Athletic Director and all agreements related to those events are in writing and approved by appropriate and authorized CSUSM officials.

Anticipated Completion Date: Completed

4. Improper Administration of State Funds

We recommend that the campus ensure that:

- a. All event-related revenues and expenditures be handled in accordance with CSUSM policies and procedures, with state funds administered only by CSUSM.
- b. Budgets for, and accountings of, all events be documented and approved by the Athletic Director.

Campus Response

We concur. All event-related revenues and expenditures will be handled in accordance with established CSUSM policies and procedures, including the administration of state funds only by CSUSM. Budgets for events will be approved in advance by the Athletic Director and all events will have an accounting, which will be documented and approved by the Athletic Director.

Anticipated Completion Date: January 1, 2006

5. Weaknesses in the System of Internal Control

We recommend that the campus:

- a. Establish written policies and procedures that include standardized amounts to be paid for Athletes' meals and incidental expenses. In addition, meal money forms should have the standardized amounts listed on the forms so it is clear to the Athletes what they are certifying. If CSUSM is going to provide money to the Athletes for incidentals, the Athletes should certify that they received those funds as well.

- b. Require claimants to submit receipts showing the actual amounts paid, not simply a prepaid amount.
- c. Establish written policies and procedures related to the tracking and disposition of athletic equipment.
- d. Ensure that state funds are properly deposited into state accounts, not Foundation accounts.

Campus Response

We concur. We will establish written policies and procedures that include standardized amounts to be paid for Athletes' meals and incidental expenses, meal money forms with standardized amounts clearly shown on the forms, clear indication of the amounts of incidental funds certified by athletes, and the requirement to submit receipts showing the actual amounts paid. We will develop policies and procedures related to the tracking and disposition of athletic equipment and ensure that state funds are properly deposited into state accounts.

Anticipated Completion Date: March 1, 2006

THE CALIFORNIA STATE UNIVERSITY
OFFICE OF THE CHANCELLOR



BAKERSFIELD

November 2, 2005

CHANNEL ISLANDS

CHICO

DOMINGUEZ HILLS

MEMORANDUM

EAST BAY

FRESNO

TO: Mr. Larry Mandel
University Auditor

FULLERTON

FROM: Charles B. Reed
Chancellor

A handwritten signature in black ink that reads "Charles B. Reed". The signature is written in a cursive style and is positioned to the right of the typed name and title.

HUMBOLDT

LONG BEACH

SUBJECT: Draft Final Report Number 05-91, *Special Investigation*,
California State University, San Marcos

LOS ANGELES

MARITIME ACADEMY

MONTEREY BAY

In response to your memorandum of November 2, 2005, I accept the response as submitted with the draft final report on *Special Investigation*, California State University, San Marcos.

NORTHRIDGE

POMONA

SACRAMENTO

CBR/amd

SAN BERNARDINO

Enclosure

SAN DIEGO

cc: Dr. Karen S. Haynes, President
Mr. Neal R. Hoss, Vice President, Finance and Administrative Services

SAN FRANCISCO

SAN JOSÉ

SAN LUIS OBISPO

SAN MARCOS

SONOMA

STANISLAUS