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May 16, 2022

Dr. Gayle E. Hutchinson, President
California State University, Chico
400 W. First Street
Chico, CA 95929

Dear Dr. Hutchinson:

**Subject: Audit Report 21-13, Fund Administration and Accountability,
California State University, Chico**

We have completed an audit of *Fund Administration and Accountability* as part of our 2021-2022 Audit Plan, and the final report is attached for your reference. The audit was conducted in accordance with the Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing*.

There were no reportable observations revealed during the review. The final audit report has been posted to Audit and Advisory Services' website.

I wish to express my appreciation for the cooperation extended by the campus personnel over the course of this review.

Sincerely,



Vlad Marinescu
Vice Chancellor and Chief Audit Officer

c: Jolene Koester, Interim Chancellor
Adam Day, Chair, Committee on Audit

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FUND ADMINISTRATION AND ACCOUNTABILITY

California State University, Chico

Audit Report 21-13
May 16, 2022

EXECUTIVE SUMMARY

OBJECTIVE

The objectives of the audit were to ascertain the effectiveness of operational, administrative, and financial controls related to fund administration and accountability and to ensure compliance with relevant federal and state regulations, Trustee policy, Office of the Chancellor (CO) directives, and campus procedures.

CONCLUSION

Based upon the results of the work performed within the scope of the audit, the operational, administrative, and financial controls for fund administration and accountability for Fund 532, Housing Maintenance & Repair, as of April 8, 2022, taken as a whole, provided reasonable assurance that risks were being managed and objectives were met.

There were no reportable observations revealed during the review.

GENERAL INFORMATION

BACKGROUND

Legal-basis, or budgetary, accounting is a unique form of accounting for governmental units. It allows the state legislature to measure a state agency's performance against the budgets it enacts via the annual Budget Act. The state of California requires all state agencies, including the California State University (CSU) system, to maintain its accounting records on the legal basis of accounting and to file its reports of financial data on that basis.

Fund accounting is the convention by which resources for various purposes are recorded and summarized in accordance with state laws and regulations. A fund is an accounting entity with a self-balancing set of accounts for recording assets, liabilities, and fund equity. Separate accounts are maintained for each fund to ensure observance of limitations and restrictions placed on the use of resources. Funds are termed either governmental or nongovernmental funds. Governmental funds are those that account for state appropriations, such as the General Fund and the General Obligation capital outlay funds. Nongovernmental funds, also referred to as proprietary or fiduciary funds, either account for self-supporting activities or activities conducted on behalf of another entity.

The highest level of accounting is the state fund level; all state agencies use a fund code standard established for reporting to the state. The next level, the CSU fund level, includes management and external reporting requirements beyond those mandated by the state. For each state fund, the CSU has established one or more CSU funds to provide further detail concerning its operations to accommodate the additional reporting or operational requirements.

The CSU established three funds for housing and included the definitions and requirements in Chapter 8 of the *CSU Legal Accounting and Reporting Manual*. Because housing is a self-support enterprise entity, the funds fall under the non-governmental trust fund category. The three funds consist of Fund 531 – Housing Operations and Revenue, Fund 532 – Housing Maintenance & Repair, and Fund 533 – Housing Capital Improvements. We focused our review on Fund 532, used to record all major facilities maintenance and repair costs infrequently incurred or scheduled on a non-routine basis. The definition includes costs of deferred maintenance, defined as work not completed on building systems on a planned or unplanned basis, and expenditures for capital renewal, defined as expenses for building systems and infrastructure that have reached the end of their useful lives due to normal wear and tear.

SCOPE

Due to temporary operating procedures and limitations resulting from the COVID-19 public health emergency, we performed fieldwork remotely from March 28, 2022, through April 8, 2022. Our audit and evaluation included the audit tests we considered necessary in determining whether operational, administrative, and financial controls are in place and operative. The audit focused on procedures in effect from July 1, 2019, to April 8, 2022.

Specifically, we reviewed and tested:

- Fund transfers into Fund 532, ensuring that amounts were appropriate and related to non-recurring maintenance and repairs (NRMR).
- Reserve requirements and administration of funds remaining after NRMR projects were completed.
- Establishment of individual NRMR projects administered through Fund 532, including all required documentation and approval.
- Expenditure transactions for NRMR projects administered in Fund 532.

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.

Our testing and methodology, which was designed to provide a review of key operational, administrative, and financial controls, included interviews, walkthroughs, and detailed testing on certain aspects of the fund administration and accountability program. Our review was limited to gaining reasonable assurance that essential elements of the fund administration and accountability of Fund 532 were in place and did not include a detailed review or analysis of Funds 531 or 533.

CRITERIA

Our audit was based upon standards as set forth in federal and state regulations and guidance; Trustee policy; Office of the Chancellor directives; and campus procedures; as well as sound administrative practices and consideration of the potential impact of significant risks. This audit was conducted in conformance with the Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing*.

This review emphasized, but was not limited to, compliance with:

- Executive Order 1000
- Integrated California State University Administrative Manual 2001.00, *Designated Balances and Reserves*
- CSU Legal Accounting and Reporting Manual, Chapter 8, *Housing*
- CSU Legal Accounting and Reporting Manual, Chapter 15, *Capital Projects – Funding for University Facilities*

AUDIT TEAM

Senior Audit Manager: Ann Hough
 Internal Auditor: Cinthia Santamaria