

Subject: Campus Audit Results
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From: President of CSU Maritime Academy
To: President of CSU Maritime Academy
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CAL MARITIME

MESSAGE FROM THE PRESIDENT

Colleagues,

Since my arrival to Cal Maritime, I have committed to transparency with the campus community. During recent conversations and budget presentations, several members of our campus shared with me rumors and innuendos concerning supposed fiscal improprieties and corruption on campus. As part of my due diligence, I requested that auditors perform a fiscal review of our campus. All audit reviews are now complete except for one on our Financial Aid operations. That report is expected to be finalized by CSU auditors in February.

I am pleased to report the audits have not revealed any instances of theft or misuse of funds. There were, however, substantiated findings of fiscal improprieties in two program areas. Below is a summary of the audit findings.

Immediate Office of the President –

The objective of the review performed by CSU auditors was to assist me as the incoming interim president by performing a review of key aspects of campus administration. As such, the CSU audit team evaluated key functions of the campus, including the delegations of authority, policy administration, and financial activity of the president's office. The review also involved a review of executive travel and hospitality expenditures, completion of conflict-of-interest forms, and an assessment of the administration of vehicle and residential allowances for the position of Cal Maritime president.

The audit team determined that Cal Maritime had appropriate policies and procedures in place to effectively mitigate risks; however, they identified processes for improvement in several areas. Auditors identified opportunities for the campus to implement best practices or process improvements in the areas of policies and procedures, delegation of authority documentation, and fiscal administration. For instance, they noted opportunities for the campus to strengthen documentation related to executive travel, hospitality, and ProCard and travel card reconciliations, as well as the completion of conflict-of-interest forms for president's office staff members. Additionally, the audit team found that Cal Maritime's *Hospitality Policy* needed to be updated to align with current CSU policies.

Finance & Accounting –

CSU auditors found minor recordkeeping and timeliness issues related to account reconciliations. This was largely due to control and process breakdowns that “were not egregious or fraudulent in nature.” Overall, the auditors identified areas for improvement related to bank reconciliations, timely reconciliation on the use of MARAD funds, increased oversight of dining service contracts, and other process or administrative improvements.

Human Resources –

CSU auditors recommended that campus HR staff be required to prepare and complete position descriptions for maintenance in employee HR files before the hiring action is complete, and that employee salary and benefits information uploaded into the payroll system should be reviewed and approved by management prior to finalization. This is to enhance quality control and reduce opportunity for administrative error.

Information Technology –

The CSU audit team reviewed the campus information technology (IT) services and budget to determine whether they were appropriate to meet the needs of Cal Maritime. The audit team also performed benchmarking with other California State University (CSU) campus IT departments. Auditors recommended improving and automating manual and inefficient processes, reviewing the campus IT organizations and staffing levels for consolidation, and utilizing shared services with other CSU campuses for budget savings and increased efficiencies.

Cal Maritime Foundation –

As part of their review, auditors examined the California Maritime Academy Foundation (CMAF) yacht donation program and identified opportunities for CMAF to engage with subject matter tax experts to ensure that vessels are valued appropriately and operating in a manner that is alignment with IRS regulations. CSU auditors noted a potential concern with CMAF engaging in short-term charter leases for three years before disposing of the vessel, and whether this process conforms with IRS regulations. Secondly, they noted a potential concern as it relates to public perception surrounding valuation of vessels. Specifically, variances between the fair market value assessed by the donor’s independent appraiser, and the value assessed when the vessel is sold. CSU auditors recommend that CMAF obtain a third-party tax opinion on the implications and allowability of the Yacht Donation Program specifically related to the variance between the donor-appraised value and CMAF assessed value and holding vessels for charter for three years prior to sale.

Professional and Continuing Education (PACE) –

A review of the Professional and Continuing Education (PACE) program was undertaken by CSU auditors to assess program processes, internal controls, and adherence to CSU policies. The audit team examined procurement procedures, including execution of contracts, purchase requisitions, purchase orders, and informal and formal bidding requirements in the procurement of services for the operation of the PACE program. They also reviewed processes for the development and approval of PACE course offerings, including compliance with state regulations related to self-supported programs and student fees, the establishment of PACE fees charged to students, and maintenance of PACE reserves and review of operating fund balances, including allowable transfers and loans of state funds.

CSU auditors determined that PACE activities did not comply with CSU policies and campus requirements. The audit team also determined that mandatory procurement processes were

circumvented in violation of State and CSU policies, and purchase orders were kept below \$50,000 to circumvent bidding requirements. Failure to follow appropriate procurement procedures allowed the PACE program to engage in a service arrangement containing a potential or perceived conflict of interest without execution of a contract or completion of formal bidding requirements. Additionally, the audit team confirmed PACE has operated at a deficit for the last three fiscal years in violation of CSU policy. Per CSU policy, "Extended Education local trust funds shall be self-sufficient by maintaining a continuous positive cash flow and/or positive fund balance at the campus fund level." Steps are being taken to correct these failures and prevent any additional opportunity for fiscal impropriety.

Grants & Sponsored Programs –

The CSU audit team conducted a review of sponsored programs processes and internal controls surrounding a 2-year, \$300,000 award granted to Cal Maritime by the California Air Research Board (CARB) in June 2021. The audit team reviewed the grant to determine whether CARB's denial of the project's final deliverables and payment of Cal Maritime's final invoice was substantiated and to identify process improvements in the sponsored programs area.

The audit team determined that failures by Cal Maritime in several post-award processes led to CARB's denial of payment in the amount of \$216,102. The audit found a lack of internal policies and procedures surrounding the post-award process, and minimal oversight and monitoring within Academic Affairs. More specifically, there was egregious noncompliance with grant requirements related to deliverables and invoicing deadlines. The audit concluded that if deliverable and invoicing deadlines were met, it would have allowed CARB and Cal Maritime to engage in corrective action in a timeframe that may have minimized campus losses. Ultimately, the lack of processes and poor management oversight led to the loss of \$216,102. Steps are being taken to correct these failures and prevent any additional opportunity for fiscal impropriety.

In accordance with CSU Executive order 1104, *Campus Reporting of Fiscal Improprieties*, because of the amount of loss, I was required to notify the Chancellor, the CSU CFO, the chair of the CSU Board of Trustees Audit Committee, the California State Auditor, and the State of California Department of Finance. I am further required to provide them with written interim progress reports every 30 days until the matter is resolved and corrective measures and proper internal controls are in place.

Respectfully,

Michael J. Dumont, J.D.

Interim President



CAL MARITIME

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