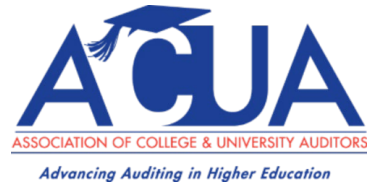






WEBINAR MODERATOR



- Don't forget to connect with us on social media!



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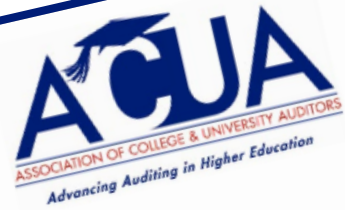
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Auxiliary Enterprises

ACUA Kick Starter

ASSOCIATION OF COLLEGE & UNIVERSITY AUDITORS
Toni Stephens, University of Texas at Dallas
Joshua Bennett, University of Texas at Dallas
Jesson Gil, University of Texas at Dallas
April 2020



Objectives

After attending this session, you will be able to:

1. Identify the various types of auxiliary operations at colleges and universities.
2. Assess common risks in auxiliary enterprises.
3. Develop controls and audit program steps for audits of auxiliaries, including data analytics procedures.
4. Discuss common findings in conducting audits of auxiliary operations.



Objective #1:

Identify the various types of auxiliary operations at colleges and universities.

Auxiliary enterprises furnish goods and services to students, faculty, staff, and the general public for a fee, and are managed as a self-supporting activity, and they are:

- Self-supporting;
- Not always directly related to the educational mission;
- Expected to generate revenue in excess of expenses;
- Often confused with Service Centers which, according to federal guidelines, must directly charge all users based on actual level of activity. These charges cannot discriminate against federally supported activities of the institution;
- Reported in a separate fund group in the financial statements; and
- Revenue generating, which can be crucial during difficult economic times and increasingly tight university budgets.



KEY

- Parking Structure 3
- McDermott Library
- School of Management
- Visitor Center
- Dining Hall West
- Student Union
- Student Services Building
- Engineering & Computer Science West

Where to *dine* at UT Dallas!

Banking
Central Stores
Childcare Centers
Concessions
Conference Centers
Convenience Stores
Licensing
Golf course
Hair/Nail Salon
Health Services
Laundry
Physical Plant
Post Office
Printing
Recreation
Shops
Student Union
Telecommunications
Vending

Others





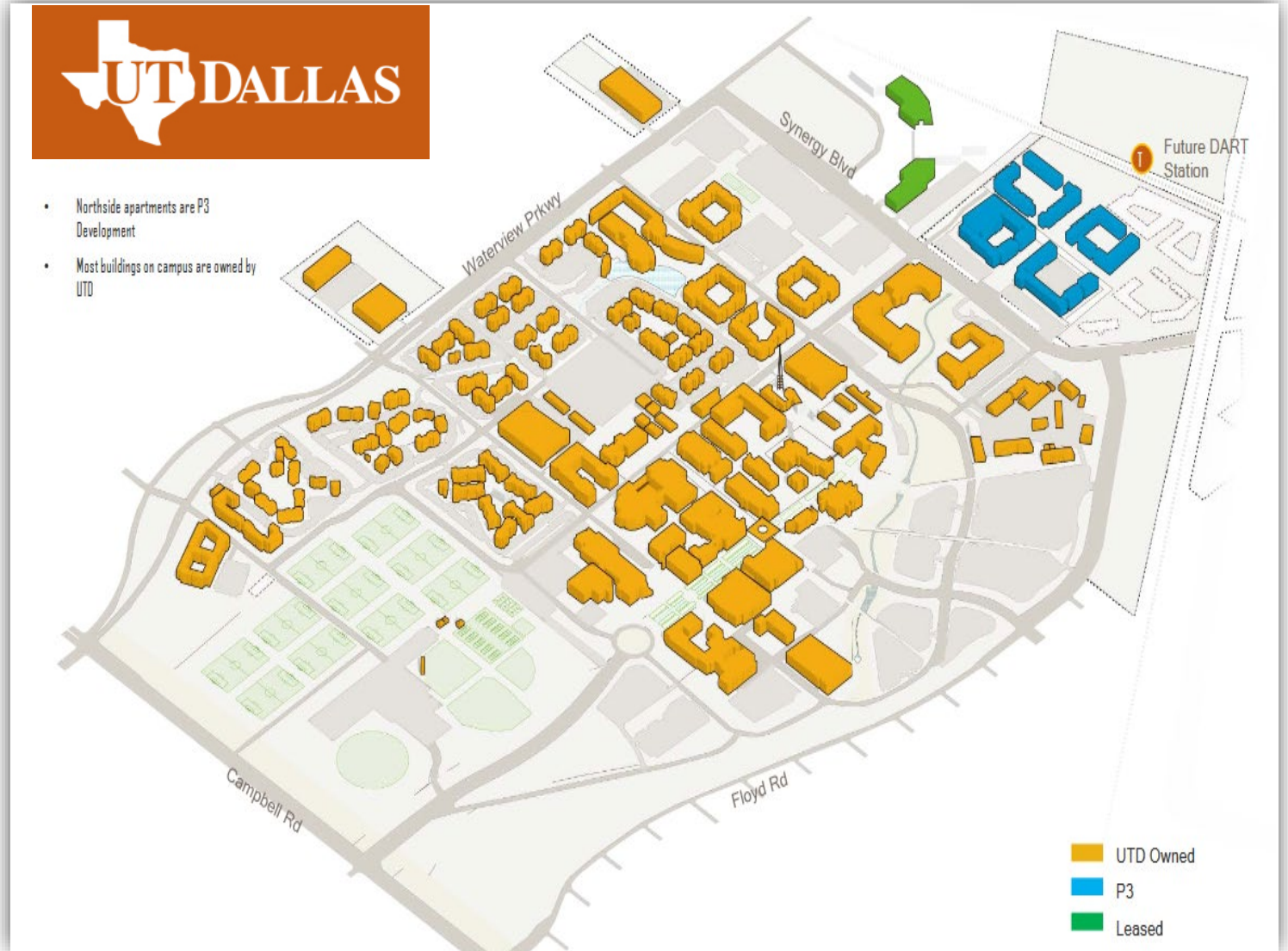
P3's

Public Private Partnerships

- Reduced funding
- Enrollment trends
- Deferred maintenance needs
- Competition
- The Student Experience for Millennials
- Not just for auxiliaries
- More efficient, more experience

Examples

- Contracts & Agreements
 - Dining, parking, specialized facilities
- Ground Leases
 - Housing
 - Hotels
- Buildings
- Utility Systems

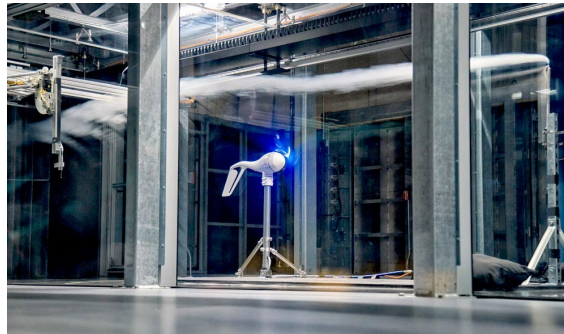




Auxiliaries vs. Service Departments

Service Centers

- A unit that provides a specific service or product to users within the academic and administrative community.
- Directly support the mission
- Breakeven operations
- Recharge Centers
- Fee structure must comply with federal guidelines
- Typically interdepartmental transfers
- Should typically not make a profit



Examples

- *Academic Service Centers* - typically research, computing, chemistry stores
- *Specialized Service Centers* - provide specific services outlined in Uniform Code, highly complex and high dollar, such as a wind tunnel
- *Administrative Service Centers* - provide services to entire university and its users, such as utilities, shared copy machines



Service Centers

Uniform Guidance and Invoicing

ACUA Kick Starter

ASSOCIATION OF COLLEGE & UNIVERSITY AUDITORS
Kara Kearney-Saylor, University at Buffalo

January 2018

Why Do We Have Auxiliaries?

Most Profitable

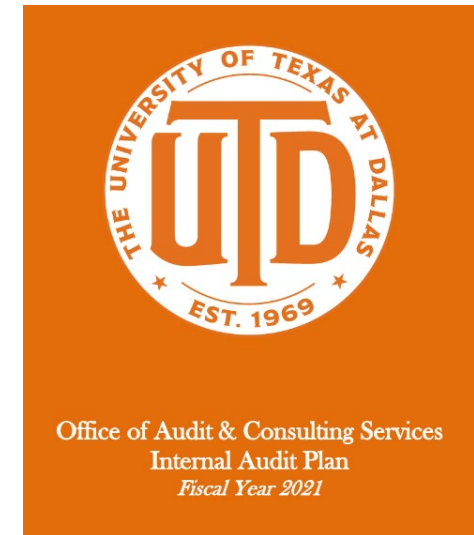
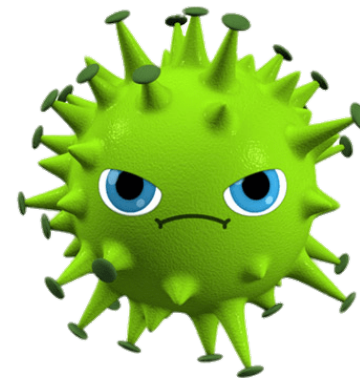


- Campus Housing
- Dining Services
- Campus Bookstores
- Event hosting
- On-campus hotels
- Parking and Transportation Services
- Vending Machines

Objective #2:

Assess common risks in auxiliary enterprises.

- Competition
 - Decreased funding
 - Aligning campus **accessibility, safety** and product delivery requirements with evolving campus transportation trends
 - Increased technology needs
 - Enrollment fluctuations (increases and decreases)
 - Online learning
 - Social media
 - Debt management
 - Planning for an uncertain future
- **Auxiliary services revenues and services adversely impacted by reduce enrollment**
 - **Noncompliance with auxiliary contracts**
 - **Campus modifications for social distancing and increased costs to adapt workplace/facilities**





Risk Areas in Auxiliaries

- Financial
- Regulatory/Legal
- Reputational & Fraud
- Information Technology
- Operational
- Data Analytics

Objective #3

Develop controls and audit program steps for audits of auxiliaries, including data analytics procedures.

Objective #4

Discuss common findings in conducting audits of auxiliary operations.



Financial Risks



National Association of College and
University Business Officers

NACUBO Expense Classifications

- Instruction
- Research
- Public Service
- Academic Support
- Student Services
- Institutional Support
- Operation and Maintenance of Plant
- Scholarships and Fellowships
- Depreciation
- **Auxiliary Enterprises**
- Hospitals
- Independent Operations

Financial Accounting and Reporting Manual for Higher Education - Definition

- An auxiliary enterprise exists to furnish goods or services to students, faculty, staff, other institutional departments, **or incidentally to the general public**, and charges a fee directly related to, although not necessarily equal to, the cost of the goods or services. The distinguishing characteristic of an auxiliary enterprise is that it is managed as an essentially **self-supporting activity**. Examples are residence halls, food services, intercollegiate athletics (only if essentially self-supporting), college stores, faculty clubs, parking, and faculty housing. Student health services, when operated as an auxiliary enterprise, also are included. *Hospitals, although they may serve students, faculty, or staff, are classified separately because of their financial significance.*
- The auxiliary enterprise category includes **all expenses relating to the operation** of auxiliary enterprises, including expenses for operation and maintenance of plant, depreciation (if allocated to functional expense categories) and administration. Also included are other direct and indirect costs, whether charged directly as expenses or allocated as a proportionate share of costs of other departments or units. To ensure that data regarding individual auxiliary enterprises are complete and adequate for management decisions, cost data should be prepared using full costing methods. Full costing means that the costs attributed to each enterprise includes a portion of indirect costs related to that enterprise, as well as the costs directly attributable to its operation.



National Association of College and
University Business Officers

¶365.2 Sales and Services of Auxiliary Enterprises

- An auxiliary enterprise is an entity that exists predominantly to furnish goods or services to students, faculty, or staff, and that charges a fee directly related to, although not necessarily equal to, the cost of the goods or services. The general public may be served incidentally by some auxiliary enterprises.
- Auxiliary enterprises include residence halls, food services, intercollegiate athletics (if essentially self-supporting), college unions, college stores, and services such as copy centers, day-care centers, barbershops, beauty parlors, and movie theaters. Even though they may serve students and faculty, hospitals are classified separately because of their size and relative financial importance.
- Revenues classified in this category are limited to those **derived directly from the operation of auxiliary enterprises**. Revenues from gifts, grants, or endowment income designated for auxiliary enterprises should be reported under their respective source categories.
- Institutions may grant financial aid to offset the cost of auxiliary enterprise services, such as room, board, or books. Some of this aid may be reported as an allowance against auxiliary enterprise revenue and some aid may be reported as student aid expense. See [¶1360](#) for additional information.



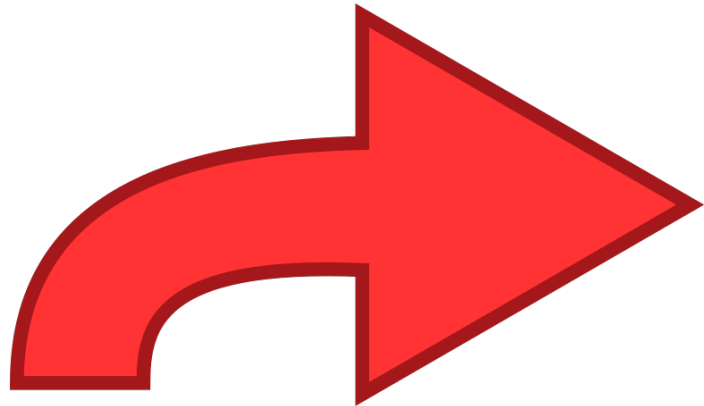
Transfers

Mandatory (required by an external source):

- *Provisions for debt service*
- *Other financing costs*

Non-mandatory (internal management decision)

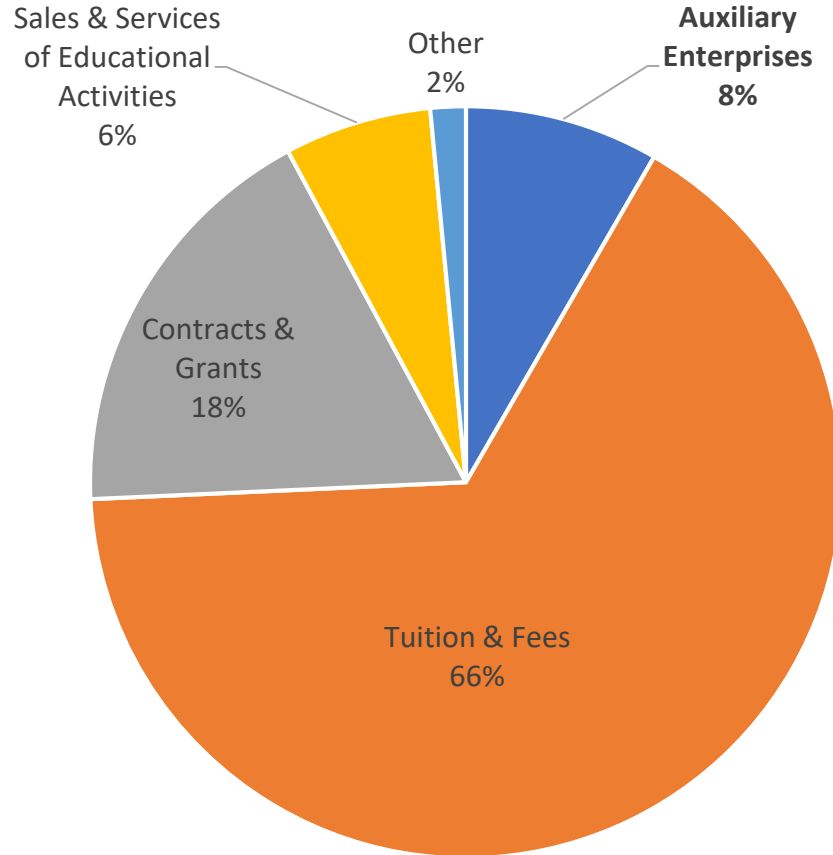
- * *Revenue surpluses transferred from auxiliary to unrestricted operating or other funds*



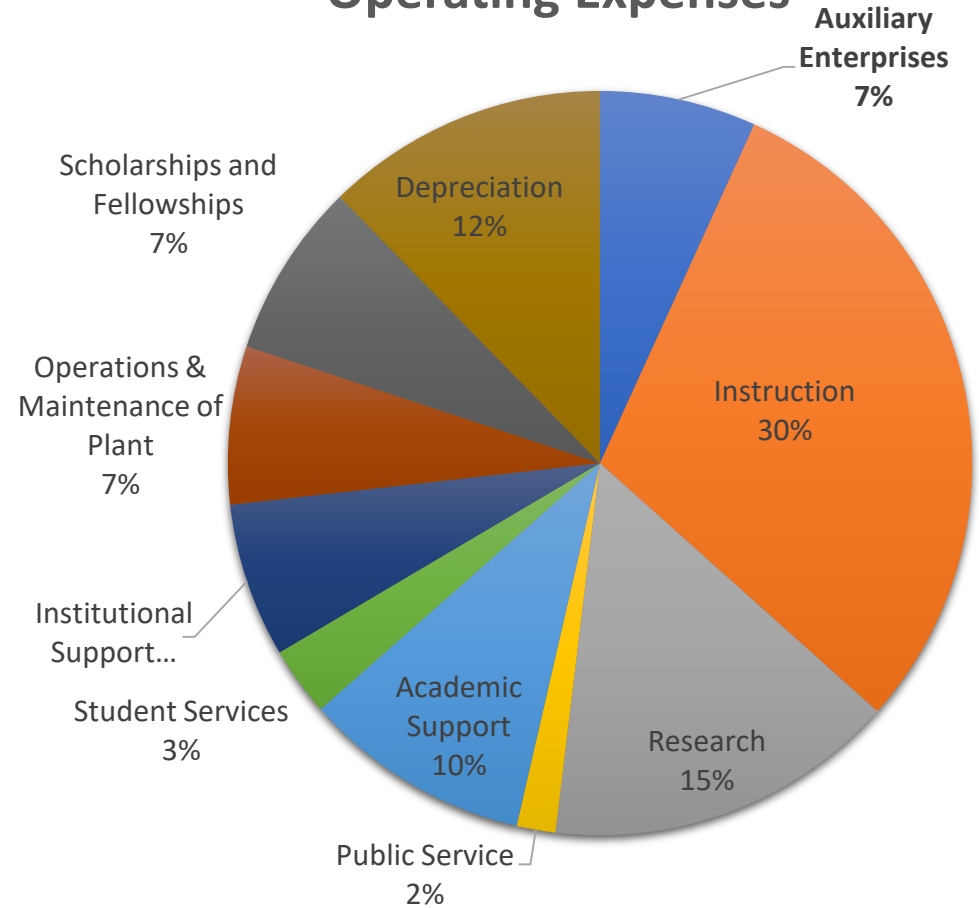


Auxiliaries at UT Dallas FY20

Operating Revenues



Operating Expenses





Risks & Controls & Audit Tests

Financial

Risks

- Lack of reconciliation of revenues and expenses can provide inaccurate information for decision makers and inadequate financial reporting.
- Untimely cash deposits or improper cash handling training can result in reconciliation errors, theft, and potential violations of university policies.
- Lack of segregation of duties creates opportunities for fraud.
- Lack of periodic inventory checks can result in lost products, waste, inefficiencies, and theft.
- Ineffective cash, check, or credit card procedures, such as timely deposits and training.
- Lack of budgeting and strategic planning.
- Fluctuations in enrollment (increases and decreases), including online learning.
- Lack of process to identify revenues from units that are operating as an auxiliary.

Controls

- Established policies and procedures governing operations of auxiliary enterprise.
- Budgeting and strategic planning in place, with appropriate approval and oversight.
- Reconciliation and monitoring of revenues, expenses, and transfers.
- Periodic review of fees.
- Benchmarking with other universities.

Audit Tests

- Review reconciliations for evidence of periodic monitoring and supervisory review.
- Review budgets for alignment to strategic objectives. Assess for reasonableness and compliance with spending restrictions or other limitations.
- Perform trend analyses on financial information.
- Benchmark with other universities of similar size and mission regarding financial, operational, and organizational information.



Common Financial Audit Findings

- Financial analyses and budgeting are not in place to support assurance that auxiliary operations are self-supporting.
- Auxiliary fund balances are not sufficient to cover required reserves and/or fail to generate sufficient revenue to meet debt payment requirements.
- Auxiliary enterprise financial reports are not comprehensive or include non-auxiliary operations, and are not a useful tool for decision makers.
- Auxiliaries are not billed for space used in education and general/research areas.
- Auxiliaries are charging more for services than permitted by policies, regulations, or state law.



Regulatory/Legal Risks



Regulatory/Legal Risks

- State Laws: *No educational and general funds appropriated to any institution or agency named in this article may be expended on auxiliary enterprises, unless specifically authorized in this Act.*
- Federal Laws
 - HIPAA
 - FERPA
 - CARES Act
- NCAA
- Safety fire codes, etc.
- Contracts
- Tax (UBIT, sales)





Unrelated Business Income Tax

An activity is considered unrelated (taxable), if the activity is:

- *A trade or business, and*
- *Regularly carried on, and*
- *Not substantially related to a college or university's exempt purpose*

Exempt

Income produced from sales made primarily for the convenience of the organization's members, students, and employees (including faculty and staff)





UBIT?

- Recreational and Athletic Facility
- Membership Fees
- Ski Facility
- Golf Course
- Tennis Camp
- Laundry/Dry Cleaning
- Facility Rentals (housing, etc.)
- Vending
- Museums
- Others?



1. A college owns and operates a hotel and restaurant located close to the college campus. The hotel and restaurant are open to members of the general public and the prices charged are comparable to those charged by commercial establishments. The hotel and restaurant are separate from the dormitories and cafeterias that accommodate the student body, and are not operated for the purpose of providing on-the-job training to students as part of their course of instruction. The college is located in an area where food and lodging facilities are readily available and adequate to serve visitors at the college. Individuals staying at the hotel include members of the families of students, persons visiting students, prospective students and their families, the college's attorneys and accountants, salesmen, applicants for employment at the college, trustees, invited entertainers, athletes, guest lecturers, participants at school sponsored conferences or events, tourists, and other members of the general public.
2. The facts are the same as Situation 1 except the college is located in a comparatively remote area and there are no other reasonably available food and lodging facilities to serve visitors to the college.



Legal Audit Findings

“The Division of Housing and Food Services (Division) has also initiated but not completed plans for **upgrading safety features** in residence halls and auxiliary operations.”

“Student Union management has no procedures in place to ensure student workers receive **safety training**.”

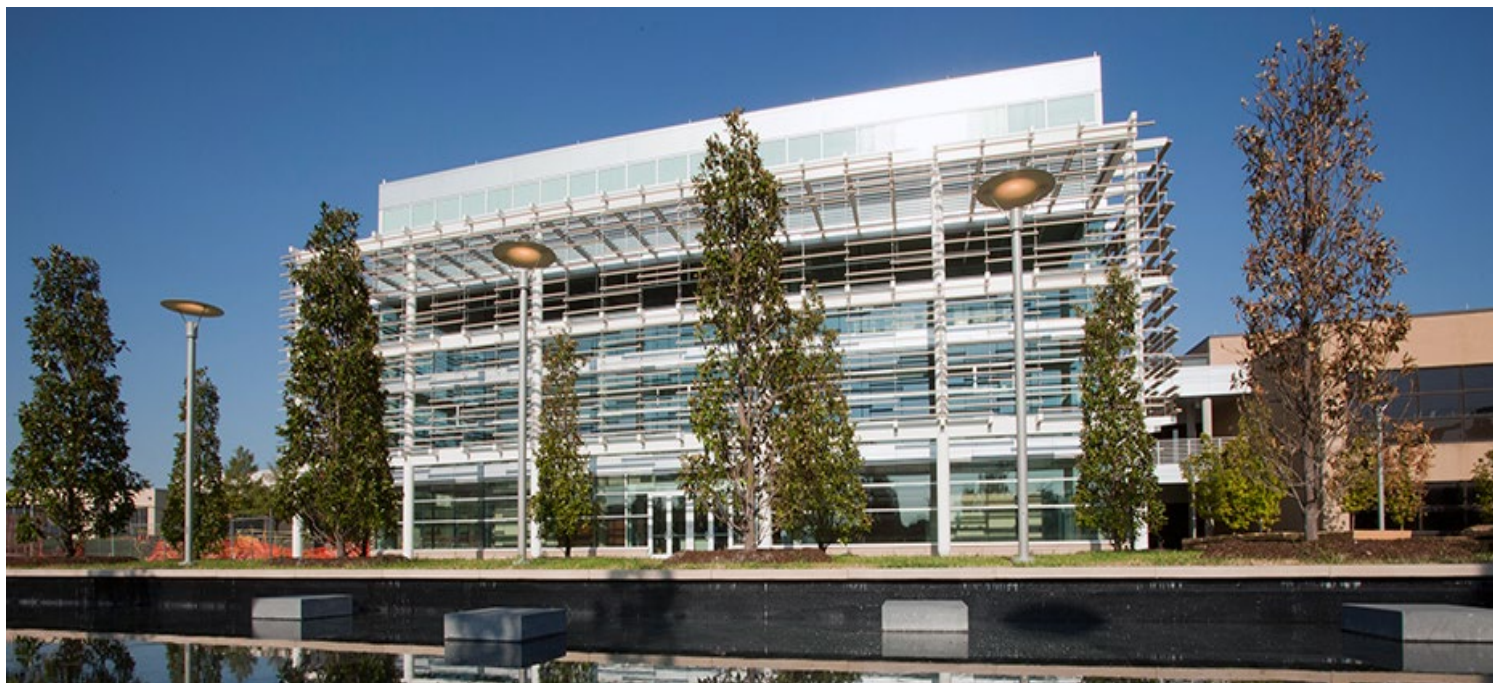
Housing lacks sufficient resources to **fund maintenance** and has allowed deterioration to potentially unsafe conditions.

Housing provided room and board to participants in a program but didn't report this to the Office of Financial Aid, resulting in **potential overaward of federal assistance** of approximately \$36K. This also resulted in IRS Form 1098T 's being incorrect.



Health Center Compliance Common Audit Findings

- HIPAA, FERPA
- Safety
- Contracts with physicians
- Americans with Disabilities Act
- Licensures
- Student Health Insurance
- Malpractice
- Informed Consent
- Pharmacy Controls
- Medical Billing
- Cash Handling
- Credit Cards
 - The List Goes on!





Contract Audit Findings

- **The University only received half of its vending commissions guaranteed by the contract, a receivable was not established, and there was no aggressive attempt to collect the money owed to the University.**
- Auxiliary Enterprises leases for a monthly fee apartment buildings to fraternities who in turn sublease rooms to fraternity members. The fraternities set their own rental rates and collect rent from their tenants...the **contract had not been updated in 14 years**...rental rates had changed...the fraternities are realizing a comfortable profit.
- Management should develop **monitoring procedures** to obtain supporting documentation on a periodic basis to help ensure compliance with the terms and conditions of the contract.
- “Management should develop written standardized policies and procedures, including a **contract monitoring checklist** and documentation standards, to help ensure quality of services and compliance with the terms and conditions of contracts...”including the accuracy of commissions.”

“Centralize Maintenance of Contracts”

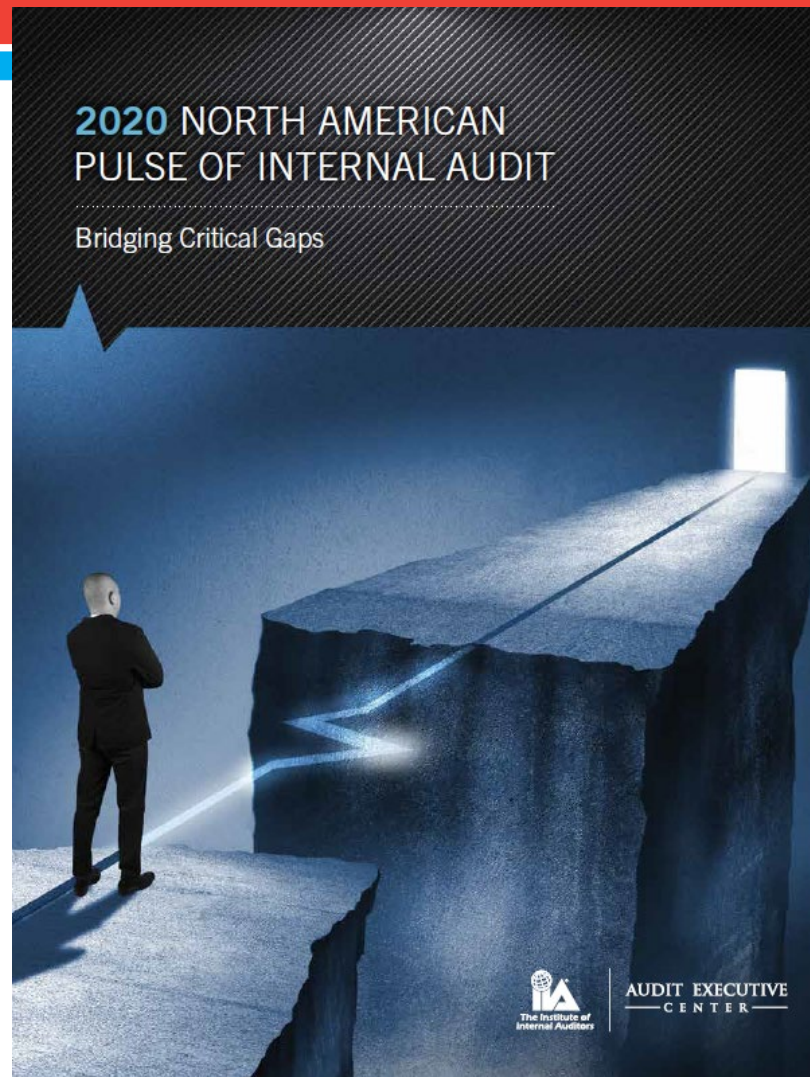


And...Conflicts of Interest



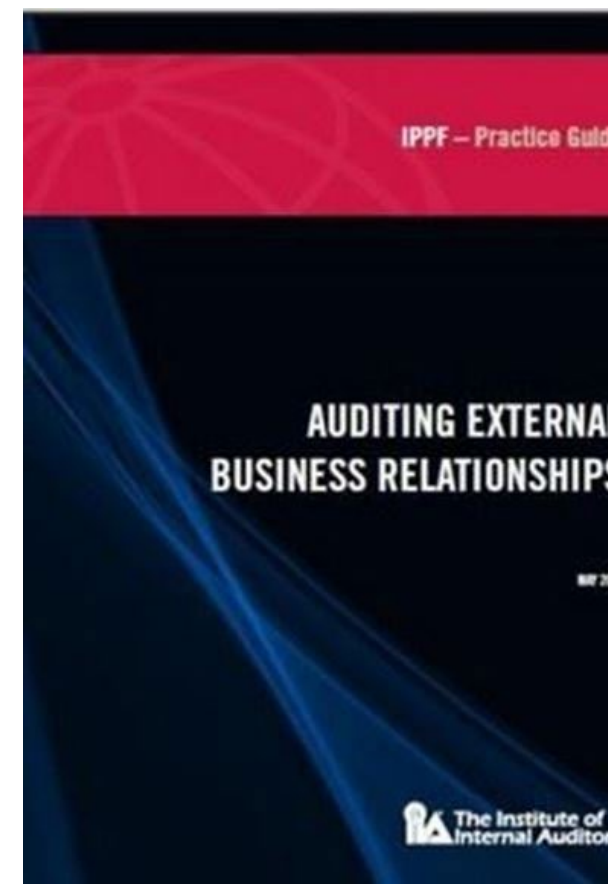
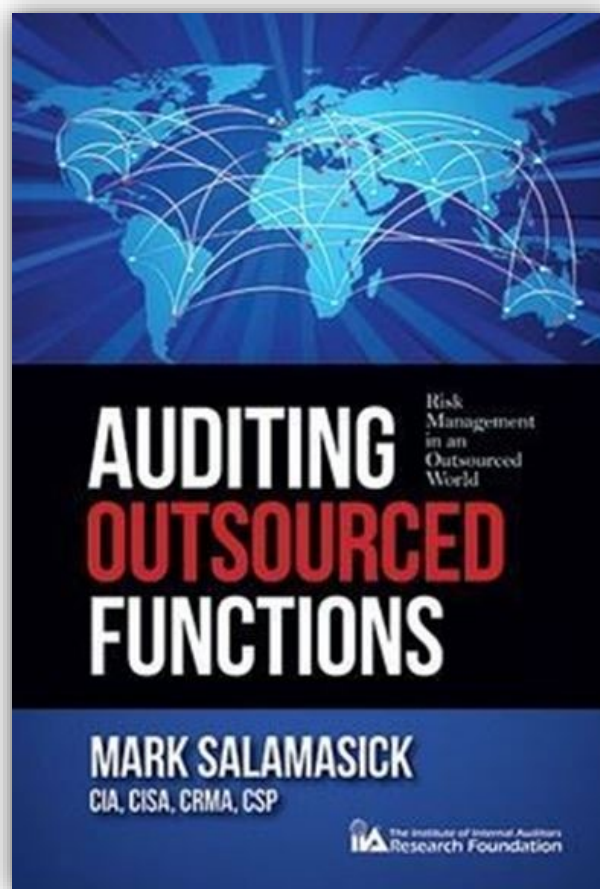
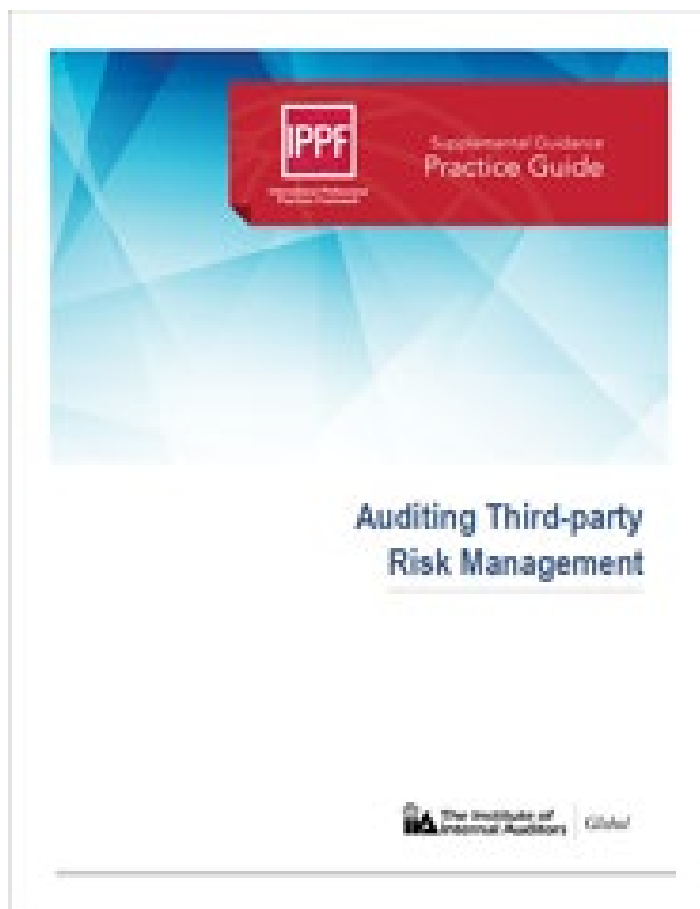
Auditing Contracts

1. CAE's must make audit committee aware of any deficiency in 3rd party selection, monitoring, and recovery plan processes.
2. CAEs should proactively identify all the 3rd party relationships and risk rank them with relationship owners based on size, complexity, and impact to the organization.
3. CAEs should determine with each relationship owner the key controls, oversight, and audits currently in place and inform the audit committee of the results.
4. CAEs should determine which relationships merit audits and conduct the audits.



"...most organizations rely heavily on third-party providers in key risk areas..."

Auditing Contracts



Let's Collaborate: Regulatory/Legal Risks?

What Do You Think
Are Some
Regulatory, Legal, &
Compliance Risks
for Auxiliaries?





Risks & Controls & Audit Tests

Regulatory/Legal

Risks

- Noncompliance with the following could result in fines, penalties and reputational risks:
 - Federal grants and contracts;
 - Certain state and local laws, local health and safety codes;
 - Privacy laws such as HIPAA, FERPA;
 - NCAA rules and regulations; and
 - Clery/Violence Against Women Act.
- Noncompliance with terms of auxiliary vendor contracts
- Lack of competitive bidding on contracts
- Conflicts of interest with vendor contracts
- Public private partnerships (agreements between public and private-sector partners) have unique risks because universities share resources and revenues resulting from the partnerships. Examples include dining, parking, and specialized facilities, ground leases, buildings, and utility systems.
- Tax laws, such as unrelated business income tax (UBIT) and sales tax.
- Noncompliance with policies, regulations, or laws that restrict or limit amounts that may be charged for various services.

Controls

- Periodic contract reviews to confirm contract performance and compliance
- Conflict of interest policies in place and monitored
- Competitive bidding processes in place
- Periodic audits and reviews of compliance areas (tax, federal, state, safety, privacy, NCAA, Americans with Disabilities Act, etc.)
- Background checks on employees, including those employed by contractors

Audit Tests

- Review auxiliary contract to determine monitoring and compliance with terms of contract.
- Determine which federal, state, and local contracts, grants, and laws are in place and test for compliance.
- Search for potential conflicts of interest with management and vendors.



Reputational & Fraud

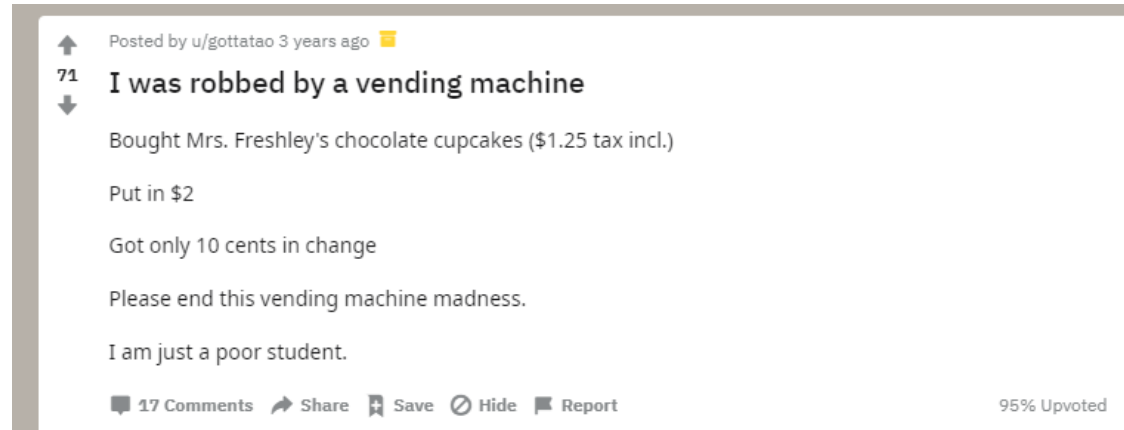
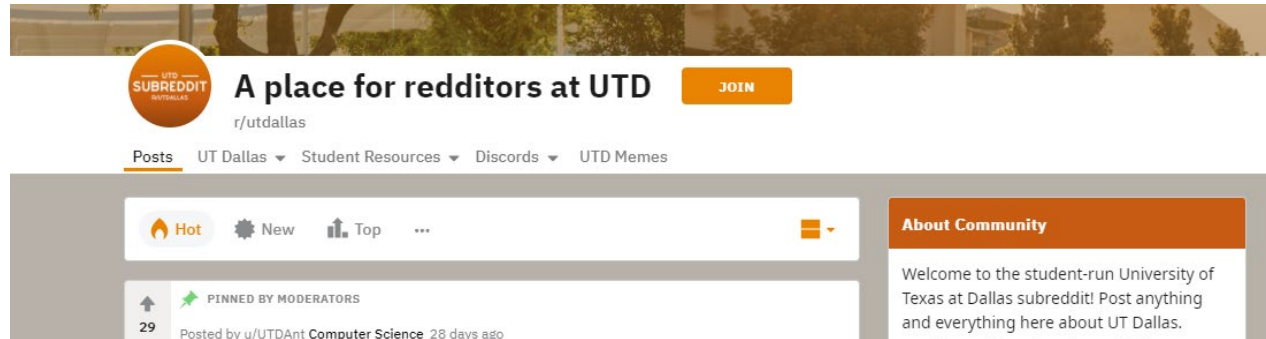


Reputational/Fraud: Recent Auxiliaries Headlines

- American International College: At the time, he told the contractor that he could secure work there as long as he paid the kickback fee of 15%, records said. The “pay to play” arrangement resumed when Young was hired at American International College after spending three years at a university in Iowa.
- Baton Rouge: Woman accused of using college bookstore job to steal personal financial information, sell stolen electronics
- University of California reaches a \$73M settlement against former gynecologist accused of sexual misconduct



Do Auxiliaries Have Risks?



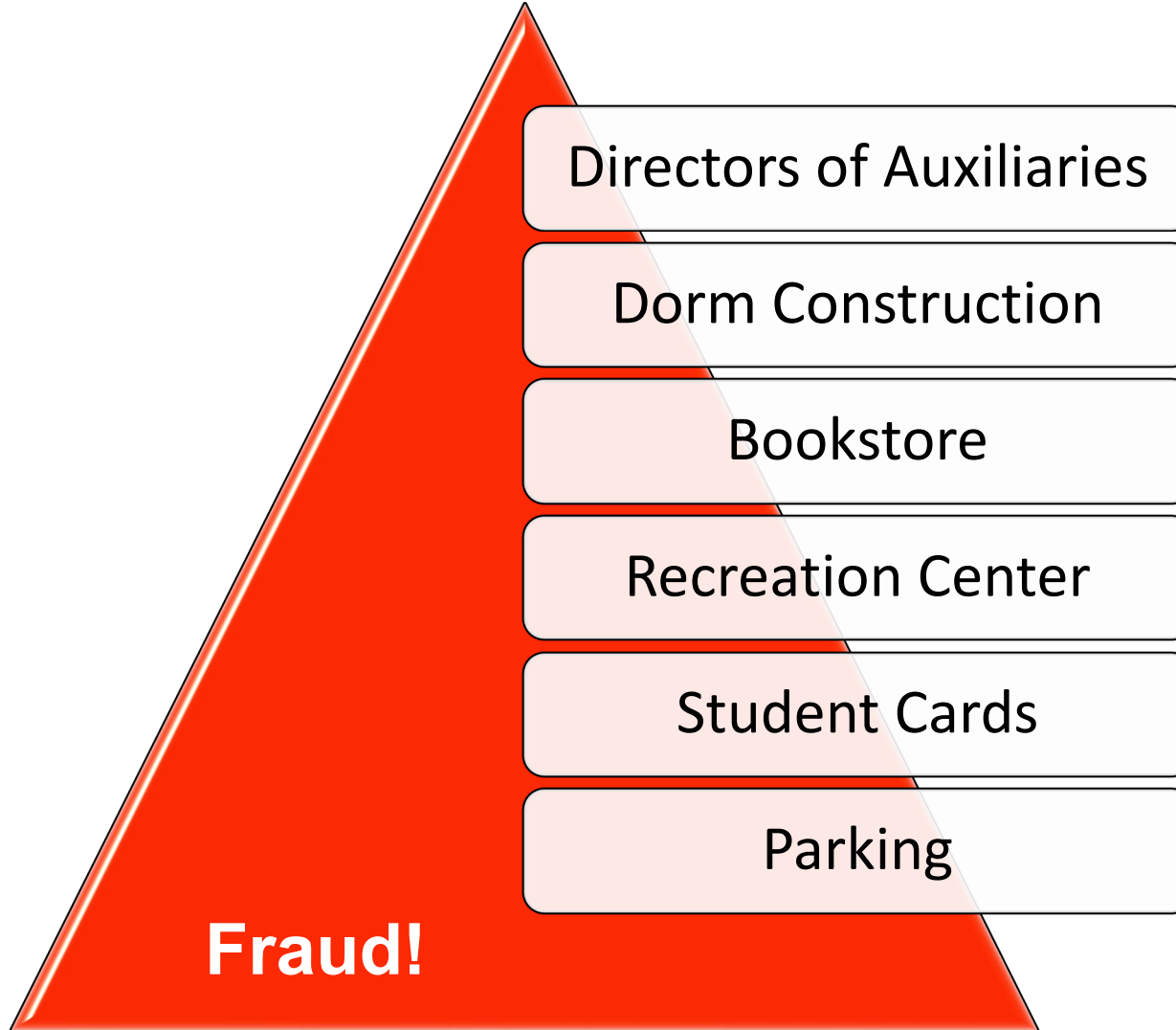
Auxiliary Services renews contract with Chartwells

The UTD bookstore is generally going to be pretty expensive. This would generally be where you're going to spend a couple hundred for your books.

Off campus books is a pretty good place to look for books that are going to be discounted. It's fairly cheap from what I've seen and for 6 classes worth of books you'd look at something like \$150.



Let's Talk about the F Word



Reputational/Fraud Findings

- Executives exploiting relationships with vendors or lax inventory controls.
- Improperly authorizing bonuses to employees to discourage them from reporting improper payments to vendors.
- Auxiliary enterprise employees embezzle funds.





Risks & Controls & Audit Tests

Reputational & Fraud

Risks

- Fraud enabled by lack of controls in operations, information technology, contracting, etc., could result in headlines causing harm to the university's reputation.
- Perception that the university doesn't have the growth to support student services or mismanages university funds if the auxiliary is not self-sufficient.
- Safety issues could result in harm to students, faculty, and staff impacting reputation.
- Social media use by students upset with auxiliary services could impact reputation of the university

Controls

- Monitor social media
- Establish an auxiliary oversight committee
- Conduct customer service surveys

Audit Tests

- Observe buildings and determine types of security in place. Assess for reasonableness and consider using police expertise.
- Determine if customer service surveys were used and review results.
- Review news articles and social media.



Information Technology



- POS Systems
- PCI Compliance
- Campus Cards
- Access Controls over Confidential Data in Auxiliary Systems
- Application Controls over Auxiliary Software Systems
- Physical Access Controls





Information Technology Audit Findings

- No procedures in place to ensure credit card information is secured or paper forms are properly disposed
- Staff access to residence halls is not consistently disabled in a timely manner upon termination
- No reconciliations of charges applied to student accounts are conducted from external housing software system
- Authentication controls over surveillance systems are inadequate or missing
- Student data is not encrypted
- Parking applications do not lock out users after multiple attempts, and the application has poor password controls
- There are no physical or environmental security controls over computer hardware
- Confidential data is not properly safeguarded
- Campus cards can be copied and stolen using hacking software



Parking Audit

- Web portal didn't lock out users after multiple attempts
- Application for parking did not have strong password controls in place

Student Housing

- Flash Drive with student data not encrypted (also a FERPA issue)
- Reconciliation between housing software and ERP

University Police

- Over 20 automated systems with confidential data
- Records Management issues
- No IT support
- No physical/environmental security over hardware
- No authentication controls over surveillance systems



Physical Security Audit

Audit Objective: To ensure that adequate controls exist over Comet Card application security to ensure compliance with appropriate laws, policies and procedures, the effectiveness and efficiency of operations, and the reliability and integrity of financial and operation information and the safeguarding of assets.



We performed the following audit procedures:

- Reviewed departmental policies and procedures.
- Evaluated controls around card inventory.
- Evaluated controls around the ValuePort machines that are utilized by individuals to load funds onto Comet Cards using cash.
- Interviewed personnel to gain an understanding of CBORD and PSYS and other processes.
- Evaluated authentication controls within the applications.
- Reviewed data security controls.
- Determined if access to critical functions within the applications were adequately controlled.
- Reviewed reconciliation processes within the CCC.





Findings:

- Secure Confidential Data
- Encrypt Information in Transit
- Develop Policy for Unused Funds



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- Reviewed departmental policies and procedures.
- Evaluated controls around card inventory.
- Evaluated controls around the ValuePort machines that are utilized by individuals to load funds onto Comet Cards using cash.
- Interviewed personnel to gain an understanding of CBORD and PSYS and other processes.
- Evaluated authentication controls within the applications.
- Reviewed data security controls.
- **Determined if access to critical functions within the applications were adequately controlled.**
- Reviewed reconciliation processes within the CCC.



- **Determined if access to critical functions within the applications were adequately controlled.**



Campus Card Money



- What process is in place to track the addition of money to cards?
- Is the vendor tracking how many dollars are being spent vs. the total number of dollars loaded on cards?
- Are reports generated indicating this?
 - Who are the reports sent to?



Risks & Controls & Audit Tests

Information Technology

Risks

- Outdated access controls for terminated employees or prior students can result in unauthorized access to auxiliary information (such as student housing information).
- Unauthorized access to confidential and student information with poor access controls over systems
- Access control risks involving access to buildings via campus cards, use of surveillance cameras
- Physical access controls inadequate to protect data and equipment
- Lack of disaster recovery and business continuity planning
- Inadequate or outdated information systems and IT support to meet business needs.
- Increased technology needs but unavailable budget
- Noncompliance with Payment Card Industry (PCI) standards for auxiliaries accepting credit cards
- Point of Sale (POS) systems – customer’s financial and personal data can be jeopardized if credit card information is recorded on paper or through the use of unsecured payment terminals.

Controls

- Access controls based on job responsibilities and job status
- Access controls over keys/card access
- Access controls over reporting and monitoring
- Physical access controls
- Camera surveillance
- PCI compliance reviews and audits
- Disaster recovery plans
- Business continuity plans
- Application controls

Audit Tests

- Review access controls. Gain an understanding of how access is granted and terminated. Obtain a list of current users with their access permissions. Determine if the permissions are reasonable based on a review of the job responsibilities. Determine if user is a current employee. Ensure segregation of duties is included in the security design and in roles.
- Obtain a checklist of PCI compliance requirements and determine if auxiliary meets those requirements.
- Prepare a flowchart showing the data points and interfaces between the POS system and other applications.
- For buildings and residence halls with card access, ensure cards are properly safeguarded, and access controls are in place.

What Do You Think Are
Some Information
Technology Risks for
Auxiliaries?

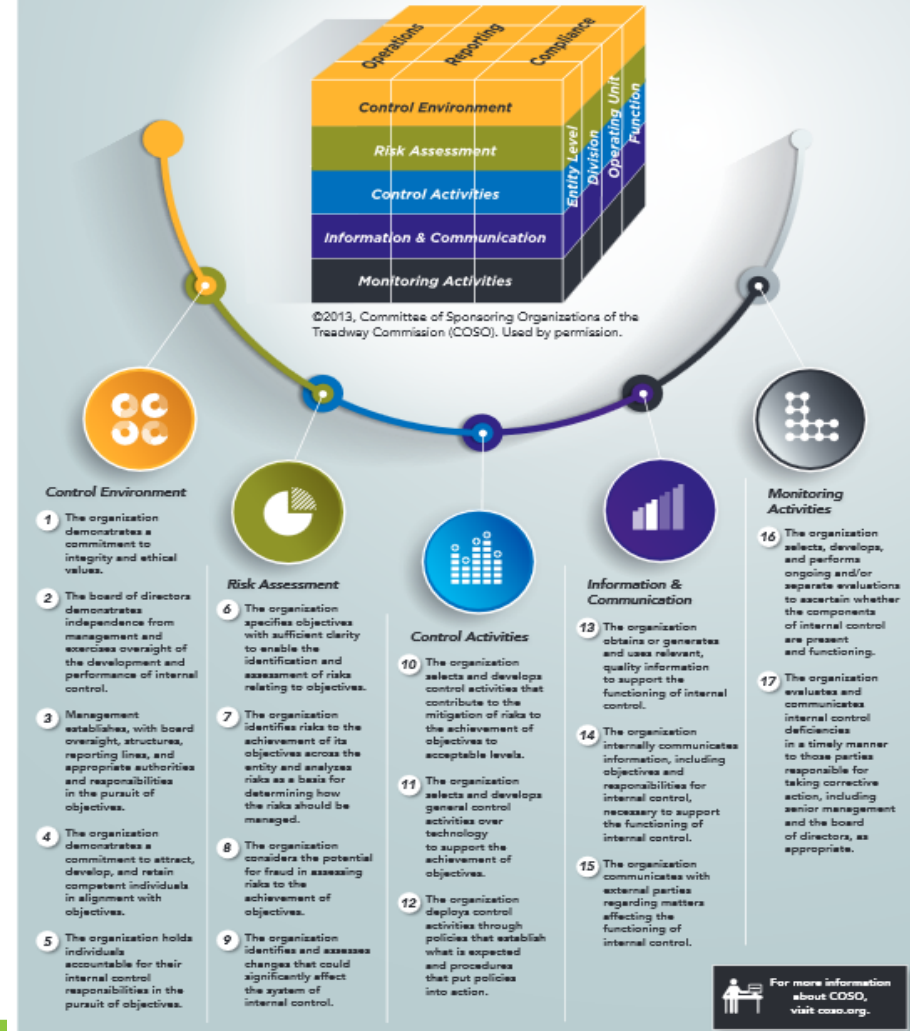




Operational

- ✓ Effectiveness
- ✓ Efficiency
- ✓ Internal Controls
- ✓ Budgeting
- ✓ Use of Student Fees
- ✓ Contracts
- ✓ Policies & Procedures
- ✓ Organization Structure
- ✓ Customer Service
- ✓ Marketing
- ✓ Safety

COSO Internal Control — Integrated Framework Principles





UW-Madison Estimates \$320M In Lost Revenue Due To COVID-19 Pandemic

- Intercollegiate athletics do not generate enough revenue to cover expenses and depend heavily on mandatory student athletic fees to subsidize athletic programs.


Debt payments at risk for colleges where auxiliary income takes a hit, Moody's says

- Colleges that rely heavily on auxiliary income from sources such as housing and dining and have fewer students on campus this fall are at greater risk of losing money than schools with a wider income base, explains a new Moody's Investors Service report.



Operational Audit Findings

- Lack of segregation of duties between billing and collecting, and other accounting duties.
- Auxiliary enterprise employees are not properly trained resulting in university policy violations and reconciliation errors.
- Oversight and monitoring controls inadequate to ensure all revenues have been billed, collected, and reconciliations are performed.
- Policies and procedures do not exist.
- Inventory controls are not in place.
- Inadequate controls over property.
- In police department operations, inadequate controls over lost and found inventories and seized assets inventories.
- Meal plan pro-rations are not properly calculated resulting in overpayments to outside vendors


University of Texas at Dallas
Parking & Transportation Services
PARKING VIOLATION NOTICE

Citation # 15MX08819
WARNING ONLY

Issue Date: 09/08/15
Issue Time: 11:41 AM Officer: 9810
Location: LOT S
Location Comnts:

Violation:
PARKING ONE LEVEL UP

Fine Amount: 0.00
Fine amount will increase to
\$0.00 if not paid by N/A.

Plate Information:

Permit#: Meter #:
Comments: NO PERMIT

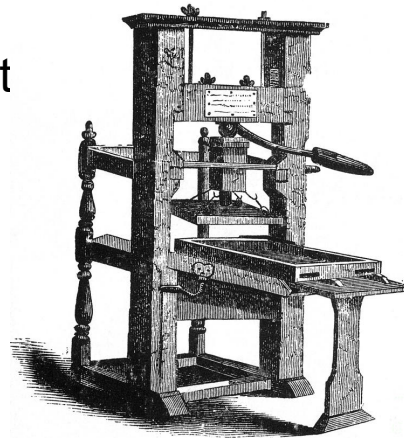
**PAY THIS CITATION
ONLINE**
www.utdallas.edu/myparking

Parking & Transportation

- Unpaid citations
- Not reconciling parking meters
- Management of Debt Service
 - Hadn't had an increase in parking fees, but built two parking structures

Print Shop

- Aging asset



University Police

- Seized Funds
- Fleet management
- Key Management



Audit Objective: To provide assurance that controls over dining meal plan operations are effective and efficient and that financial and operational information is reliable.

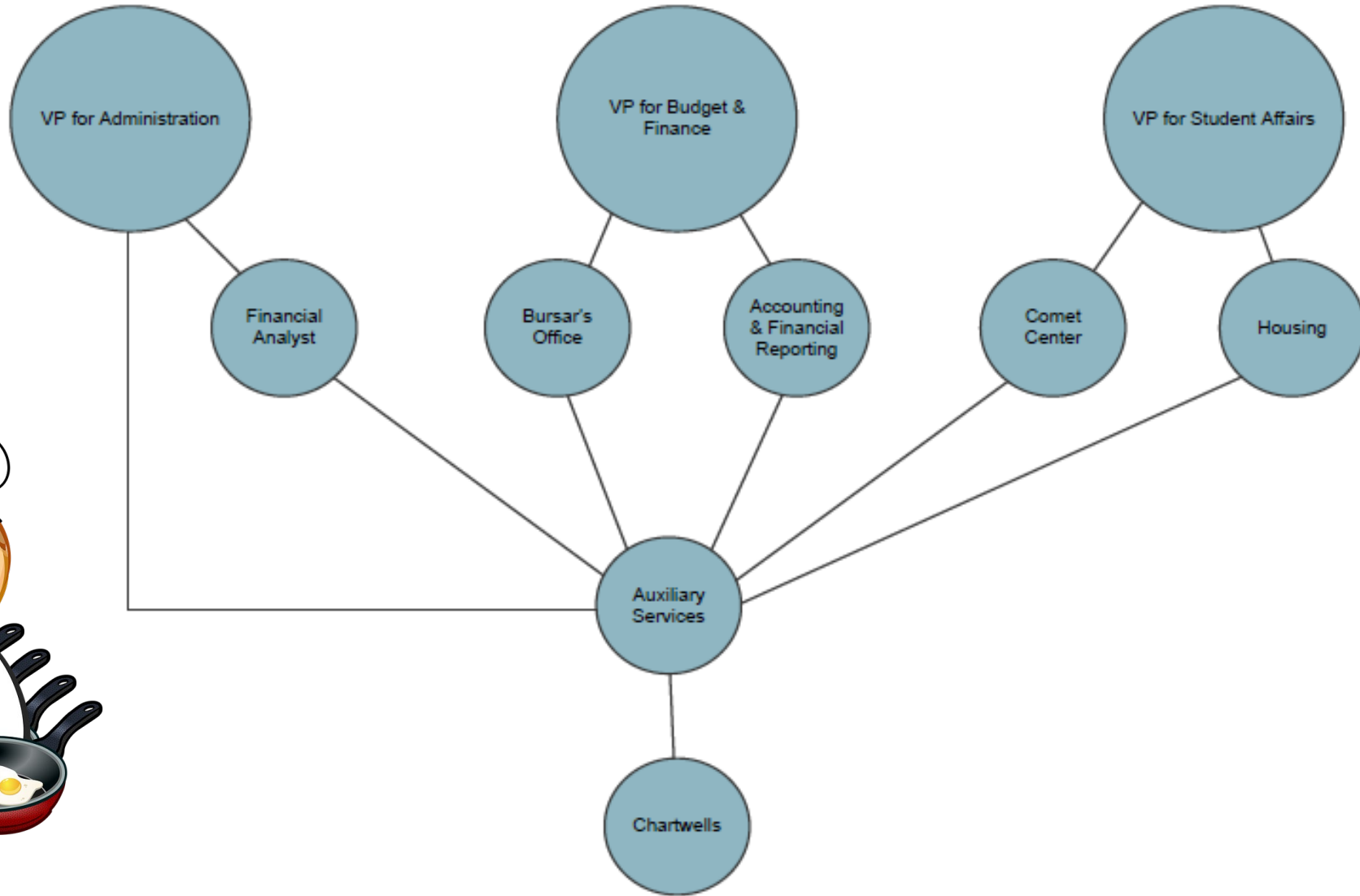
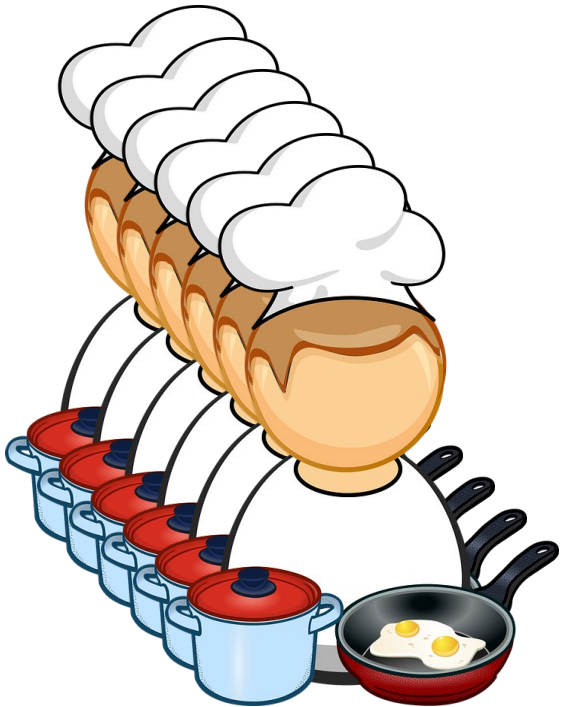




Audit Procedures:

- Interviewed staff and examined documentation to gain an understanding of meal plan operations on campus. Reviewed available policies and procedures.
- Determined if:
 - Auxiliary Services captured all students wanting to enroll in a meal plan, and that they were accurately posted to the balance sheet and revenue accounts
 - The Micros register system was accurately configured to ensure that balances would properly decline
 - Payments to vendor were accurately calculated, supported by documentation, and approved
 - Adjustments such as refunds and reversals were supported, and accurately calculated and processed
 - Balance sheet and revenue account reconciliations were accurate, timely, and approved.





High & Medium Risk Findings & Recommendations

Reconcile Declining Balance Sheet Account

- \$64K not reconciled, dating back 7 years
 - Took 3.5 years to implement

Review Meal Plan Proration Calculations

- Caused by students canceling meal plan before census date
- No review performed
- Errors resulted in overpayments to outside contractor





High & Medium Risk Findings & Recommendations

Review Commission Payments

- Contractor needed to pay percentage of sales
 - University never reviewed monthly commission check to actual sales by contractor

Review Performance Payments

- Contractor eligible to receive an incentive of the increase in sales over prior year at any individual venue
 - Contractor not required to share in any losses

	2014	2015	2016	2017	2018
Sales	\$16,835,990	\$18,714,265	\$20,282,000	\$17,152,613	\$17,304,346
Operating Expense	(\$19,501,133)	(\$21,609,893)	(\$23,084,412)	(\$19,732,784)	(\$19,415,423)
Operating Loss	(\$2,665,142)	(\$2,895,628)	(\$2,802,412)	(\$2,580,171)	(\$2,111,077)
Growth Incentives	\$127,022	\$242,697	\$177,136	\$9,500	\$77,657



Risks & Controls & Audit Tests

Operational

Risks

- Lack of employee training
- Aging infrastructure and lack of deferred maintenance programs
- Declining sales and services, occupancy of residence halls
- Inventory risks, such as excessive balances, obsolete inventory, lack of inventory
- Failure to provide services desired by students and other customers
- Ineffective marketing
- Inadequate security over inventories, assets, facilities
- Inadequate security resulting in an unsafe environment or unauthorized access
- Lack of policies and procedures
- Organization structure does not align to mission
- Not using student fees or similarly restricted revenues in accordance with policies, procedures, and laws
- Lack of accounts receivable billings and write-offs
- No segregation of duties between billing, collecting, and other accounting duties

Controls

- Periodic physical inventories
- Insurance coverage
- Cash handling controls
- Supervisory reviews
- Updated policies and procedures
- Training plans and awareness programs
- Deferred maintenance plans
- Segregation of duties in place
- Emergency preparedness plans
- Periodic building inspections and safety drills




Risks & Controls & Audit Tests

Operational

Audit Tests

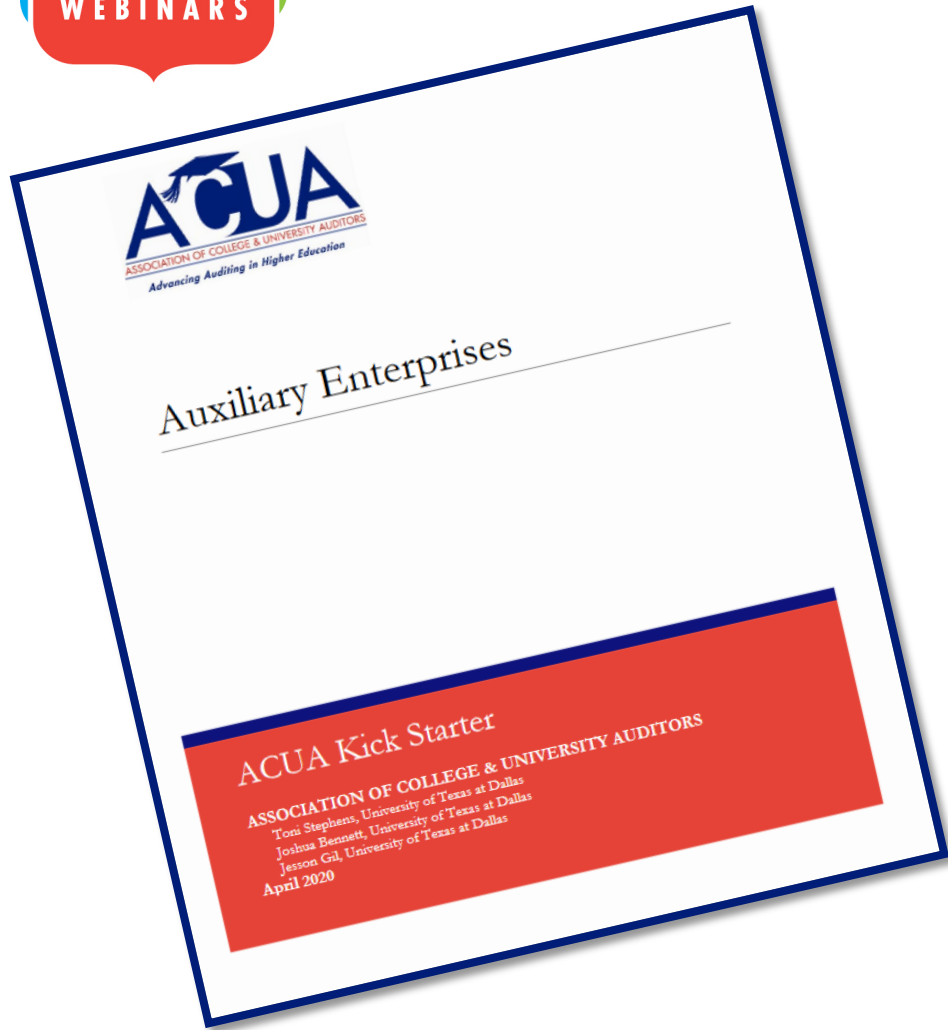
- Determine if employees have been properly trained by obtaining training records and assessing for reasonableness. Ensure employees that require certain certifications or training have taken the training (CPR, first aid, etc.).
 - For cash/check handling, conduct surprise cash counts; observe cash handling procedures; ensure segregation of duties; determine if cameras are in use and how they are monitored and maintained; ensure timely deposit of cash/checks; ensure safeguarding of cash/checks, including when deposits are transmitted.
 - For human resources and payroll, ensure time reporting is accurate for hourly workers; ensure that background checks are performed.
 - Determine procedures for obsolete inventory, periodic inventories, method of inventory.
 - Review police logs to determine if police patrols are being performed, and if so how often. Assess reasonableness.
 - Review evidence of maintenance records on buildings and equipment.
 - Review list of safety drills and inspections.
- Request insurance documentation and determine how often coverage is reviewed.
 - Determine the adequacy of policies and procedures.
 - Ensure physical access controls are in place, including key controls, safeguarding of assets and confidential information.
 - For revenue generating events (ticket sales, fees, etc.), determine if cash handling and revenue controls are in place and proper reconciliations exist between receipts, deposits, and accounting system, and if revenues are being deposited into correct accounts.
 - Review fees charged and compare to approved rates



What Do You Think Are
Some Operational Risks
for Auxiliaries?



Data Analytics



- Perform data analytics on contract purchases greater than \$15,000 (or university threshold) and verify that competitive bidding was performed.
- Financial data gathering, trend analyses, and sample selections for budgetary information, revenues, expenses, and transfers.
- Perform data analytics on auxiliary vendors and contracts and compare them to internal associates to look for potential conflicts of interest or inappropriate relationships.

- Use data analytic tips from other ACUA Kick Starters in auxiliary enterprise areas and operations
 - Athletics Ticket Sales
 - Purchasing Card Transactions
 - Cash Collections
 - Conflict of Interest
 - PCI
 - Clery Act
 - Cash Collections
 - Investigations
 - IT System Access Controls
 - Safety, etc.
- Using existing spreadsheets and databases to filter on key transactions, such as training records.





- Housing
 - Compare the data in the housing system that specifies room type and compare totals based on financials
 - (Get a count of people in single room and cost of single room and count of people in double room and cost of double – compare totals based on that info to the financials)
 - Do the same analysis for the total deposits collected.
- Parking
 - Compare active student parking permits to active students.
 - Compare active faculty permits to active faculty.
 - Compare counts of gate openings by permit to times gate is opened by entry ticket and confirm entry ticket counts*entry ticket cost add up to amounts collected
- Bookstore
 - Compares sales of specific textbooks to the count of students in the classes using those textbooks.
 - Determine the gross difference in what inventory levels.



Bloomberg

Business

College Budgets Take Another Hit With Dining Halls Sitting Empty

By [Janet Lorin](#)

November 10, 2020, 5:00 AM CST

OU Culinary Services making safety changes in preparation of spring influx of students

- Perform data analytics on dining hall purchases:
 - Most frequented venues
 - Peak hours
 - Square footage for each location





Resources & Other Tips



Resources

- ACUA Risk Dictionary (Auxiliary and Service Departments; Student Services):
<http://riskdictionary.customer.acua.org/Default.aspx>
- NACUBO (National Association of College and University Business Officers) Financial Accounting and Reporting Manual for Higher Education:
https://www.nacubo.org/Publications/Subscriptions/FA_RM-Financial-Accounting-and-Reporting-Manual
- Financial and Governmental Accounting Standards Boards (FASB - <https://www.fasb.org/home>, GASB - <https://www.gasb.org/home>) for financial reporting requirements
- <https://acua.org/College-and-University-Auditor-Journal/Winter/Piecing-Together-the-Puzzle-of-Auxiliaries-at-Your> Institution

Tips & Tricks

- Look at auxiliary enterprise associations, such as those for housing, police, etc.
- Do a risk assessment of your university's auxiliary enterprises, then determine which are of the highest risk on which to focus your audit efforts.
- Look at your university's financial statements, which can contain detailed income statements for auxiliary operations. If not, ask the auxiliary enterprise for their income statement.
- Know the difference between auxiliaries and service centers. See the ACUA Kick Starter on Service Centers!

https://acua.org/ACUA/media/About_ACUA/documents/Auxiliary-Enterprises-Kick-Starter.pdf



Closing Comments & Final Questions

We have accomplished our objectives!

- ✓ Identified the various types of auxiliary operations at colleges and universities.
- ✓ Assessed common risks in auxiliary enterprises.
- ✓ Developed controls and audit program steps for audits of auxiliaries, including data analytics procedures.
- ✓ Discussed common findings in conducting audits of auxiliary operations.

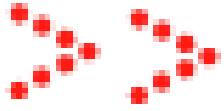
thank you!



Did you know that Connect ACUA allows you to post new messages directly from your email without logging in to the Connect ACUA website?

For more details, check out the Quick Tip post on [Connect.ACUA.org](https://connect.acua.org)

Your Higher Education Auditing Connection



ACUA Kick Starters

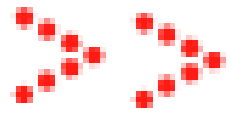
Use a Kick Starter to launch your next audit!

- Developed by ACUA members with subject matter expertise
- Focused on higher education specific topics

<https://acua.org/Audit-Tools/ACUA-Kick-Starters>



Do you have a great idea for an ACUA Kick Starter? Contact John Winn at HJWINN@mailbox.sc.edu.

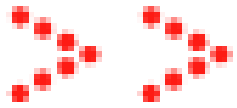


New Kick Starters Available!

NCAA Compliance – Eligibility, Financial Aid and Recruiting

Download today in the members-only Audit Tools section of www.ACUA.org

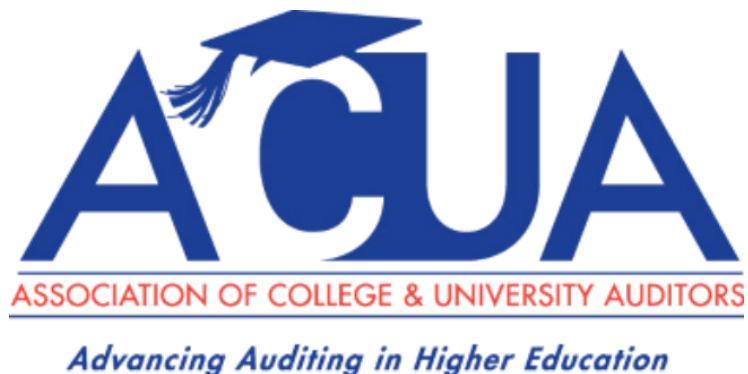




Coming Soon!

**New ACUA Kick Starter Scheduled
for Release**

December 15th: Accounts Payable
stay tuned at www.ACUA.org





ACUA Mentorship Program

- Mentorship is a proven method to help colleagues feel supported, drive workplace satisfaction, and foster member engagement in higher ed auditing.
- The program is no longer focused on only small audit shops! The program has been expanded to be more inclusive of all types of shops.
- The program is only a one-year commitment, but we encourage the mentorship to continue even after one year.
- Consider signing up! Watch for registration deadlines to be communicated via email. For more information, go to <https://acua.org/Member-Resources/Mentorship-Program>



Stay Updated

- The College and University Auditor is ACUA's official journal. Current and past issues are posted on the ACUA website.
- News relevant to Higher Ed internal audit is posted on the front page. Articles are also archived for your reference under the Resources/ACUA News.

Get Educated

- Take advantage of the several FREE webinars held throughout the year.
- Attend one of our upcoming conferences:
 - Audit Interactive**
March 21 – 24, 2021
Virtual
 - AuditCon**
September 19 – 23, 2021
TBD
- Contact ACUA Faculty for training needs.

Get Involved

- The latest Volunteer openings are posted on the front page of the website.
- Visit the listing of Committee Chairs to learn about the various areas where you might participate.
- Nominate one of your colleagues for an ACUA annual award.
- Submit a conference proposal.
- Present a webinar.
- Become a Mentor
- Write an article for the C&U Auditor.
- Write a Kick Starter.

Connect with us



www.ACUA.org

Connect with Colleagues

- Subscribe to one or more Forums on the Connect ACUA to obtain feedback and share your insights on topics of concern to higher education internal auditors.
- Search the Membership Directory to connect with your peers.
- Share, Like, Tweet & Connect on social media.

Solve Problems

- Discounts and special offers from ACUA's Strategic Partners
- Kick Starters
- Risk Dictionary
- Mentorship Program
- NCAA Guides
- Resource Library
- Internal Audit Awareness Tools
- Governmental Affairs Updates
- Survey Results
- Career Center.....and much more.



**Join us for
our upcoming
webinar.**





Upcoming ACUA Events

Admissions in the New World presented by TeamMate
January 28, 2021

Kick Starter – Sponsored Programs – Post-Award Administration
February 2021

Audit Interactive
March 21 – 24, 2021