June 28, 2016

Dr. Ruben Armiñana, President
Sonoma State University
1801 East Cotati Avenue
Rohnert Park, CA 94928

Dear Dr. Armiñana:

Subject: Audit Report 16-25, Academic Department Fiscal Review, Sonoma State University

We have completed an Academic Department Fiscal Review as part of our 2016 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.

I have reviewed the management response and have concluded that it appropriately addresses our recommendations. The management response has been incorporated into the final audit report, which has been posted to the Office of Audit and Advisory Services’ website. We will follow-up on the implementation of corrective actions outlined in the response and determine whether additional action is required.

Any observations not included in this report were discussed with your staff at the informal exit conference and may be subject to follow-up.

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

Sincerely,

Larry Mandel
Vice Chancellor and Chief Audit Officer

c: Timothy P. White, Chancellor
ACADEMIC DEPARTMENT FISCAL REVIEW

Sonoma State University

School of Social Sciences

Audit Report 16-25
May 18, 2016
EXECUTIVE SUMMARY

OBJECTIVE

The objectives of the audit were to ascertain the effectiveness of school and academic department administrative and financial controls; to evaluate adherence to the Integrated California State University Administrative Manual (ICSUAM) financial policies; and to ensure compliance with relevant governmental regulations, Trustee policy, Office of the Chancellor directives, and campus procedures.

CONCLUSION

Based upon the results of the work performed within the scope of the audit, except for the effect of the weaknesses described below, school and academic department administrative and financial controls as of April 22, 2016, taken as a whole, were sufficient to meet the objectives of this audit.

In general, the audit did not reveal any significant internal control problems or weaknesses that would be considered pervasive in their effects on school administrative and financial controls. Overall, we found that fiscal controls at the School of Social Sciences were sound. However, the review did identify opportunities for improvement in some areas, such as campus cash-handling policies and procedures, special consultant pay, and fee-for-service agreements.

Although the objectives of this audit were met, the issues identified indicate that some attention is needed to ensure that the school and academic department financial, operational, and administrative operations are in conformance with existing policies and to a level necessary to meet management expectations. Most issues listed below represent opportunities to improve school and academic department administrative and financial controls at Sonoma State University (SSU).

Specific observations, recommendations, and management responses are detailed in the remainder of this report.
OBSERVATIONS, RECOMMENDATIONS, AND RESPONSES

1. CASH COLLECTION POINTS

<table>
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<tr>
<th>OBSERVATION</th>
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<tr>
<td>Campus identification of cash collection points needed improvement.</td>
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We found two locations that collected cash and cash equivalents but had not been designated as official cash collection points by the campus vice president/chief financial officer or designee, as required by California State University (CSU) policy.

Specifically, we found that a faculty member in the Sociology department was collecting membership fees for an honor society, and the Women's and Gender Studies (WGS) and Environmental Studies and Planning (ENSP) departments were collecting cash and checks for the sale of t-shirts.

Official designation and oversight of locations that accept cash and cash equivalents ensures that employees are properly trained in cash-handling policies and monitored for compliance, which decreases the campus’s exposure to loss or liability.

<table>
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<tr>
<th>RECOMMENDATION</th>
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<tr>
<td>We recommend that the campus:</td>
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<tr>
<td>a. Determine whether the collection of honor society membership fees in the Sociology department is appropriate. If so, implement segregation of duties and other cash-handling controls to ensure that the funds collected are accounted for and safeguarded, and provide training in cash-management policies.</td>
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<tr>
<td>b. Determine whether the WGS and ENSP departments should be designated as official cash-collection points. If so, obtain proper approvals, properly train staff in cash-management policies, and monitor the departments for compliance.</td>
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<tr>
<td>c. Remind appropriate school and department staff of campus procedures for requesting approval to collect cash and cash equivalents.</td>
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<th>MANAGEMENT RESPONSE</th>
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<tr>
<td>We concur.</td>
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<tr>
<td>a. Collection of honor society membership fees will be performed by campus box office personnel who have been trained in cash-handling procedures.</td>
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<tr>
<td>b. Cash-handling operations for the WGS and ENSP departments will be performed by campus box office personnel who have been trained in cash-handling procedures.</td>
</tr>
<tr>
<td>c. Financial services will work with the School of Social Sciences to implement a training program on campus procedures for the collection of cash and cash equivalents.</td>
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</table>
Implementation date: No later than September 6, 2016

2. CASH AND CASH-HANDLING ACTIVITIES

OBSERVATION

Oversight of school cash-handling locations needed improvement.

We reviewed the Northwest Information Center (NWIC) and the Counseling department, two cash-handling locations that deposited funds to accounts held by the campus, and we found that:

- Segregation of duties was inadequate. We noted that at both locations, one person was responsible for receiving and recording funds collected and preparing and making deposits, and secondary verification was not always included. In addition, at one of the locations, the same person also processed program applications and reviewed the general ledger.

- One location did not maintain a log of mailed checks, and the other location did not record all mailed checks received on the check log. This log would normally be used to perform a reconciliation of receipts to deposits, and at both locations, this reconciliation was not performed.

- Checks were not always deposited in a timely manner. At one location, checks were not always deposited on the same day that collections exceeded $500, and at the other location, checks were not always deposited within one week, as required by systemwide policy.

- Funds were not always adequately safeguarded. We noted that one location did not secure the key to the locked cabinet that held check payments.

Appropriate oversight and administration of cash-handling locations ensures that employees are properly trained and cognizant of related policies and procedures and decreases campus exposure to loss or misappropriation of funds.

RECOMMENDATION

We recommend that the campus provide enhanced oversight and training of all key personnel involved in cash-handling activities at the School of Social Sciences, including appropriate employees at the locations listed above. This training should emphasize, but not be limited to, segregation of duties, timely deposits, and other areas identified above.

MANAGEMENT RESPONSE

We concur. Financial services will work with the School of Social Sciences to implement a training program for cash-handling, which will include segregation of duties, timely deposits, and other areas.
3. CASH-HANDLING POLICIES AND PROCEDURES

OBSERVATION

Campus cash-handling procedures were not in compliance with systemwide requirements.

We found that the campus Cash Handling procedures did not address systemwide requirements set forth in ICSUAM §3102.11 and §3102.04. Specifically, campus procedures did not include the requirement that deposits be made when collections exceed $500 in cash or cash equivalents, nor did they include the requirement that employees be escorted by campus police whenever deposits exceed $2,500.

Adherence to systemwide requirements relating to accumulation and safeguarding of funds decreases the campus’ exposure to loss.

RECOMMENDATION

We recommend that the campus:

a. Update cash-handling procedures to align with the systemwide requirements noted above.

b. Communicate the updated procedures to key school and department employees involved in cash-handling processes.

MANAGEMENT RESPONSE

We concur. The campus will update the current procedures to implement the current systemwide requirements and communicate the updated processes to key school and department employees involved in cash-handling processes.

Implementation date: No later than September 6, 2016

4. CONTRACTS AND AGREEMENTS

OBSERVATION

Administration of contracts and agreements at the Anthropological Studies Center (ASC) needed improvement.

We found that:

- Although there was a delegation of authority to ASC directors to execute contracts for the acquisition of personal property and services in amounts up to $10,000, the campus was
unable to provide documentation as to whether this delegation was provided by someone with proper authority. In addition, this delegation did not clearly extend to fee-for-service (revenue-generating) agreements, which the ASC regularly executed.

- ASC contracts were not required to be reviewed by contracts and procurement, which has primary responsibility for ensuring that contracts are properly initiated, completed, and executed.

Contracts and agreements that are properly authorized and reviewed decrease the potential for misunderstanding of the business terms, responsibilities, and liabilities of the parties involved and protect the university from financial and legal obligations.

RECOMMENDATION

We recommend that the campus:

a. Determine whether ASC directors should have the authority to execute contracts and agreements, including fee-for-service agreements. If so, update the current delegation of authority. If not, inform the ASC of the appropriate contracting processes.

b. Require that ASC standard contract templates and other individual contracts be reviewed by the campus contracts and procurement office.

MANAGEMENT RESPONSE

We concur. The campus will review and re-evaluate the delegation of authority and contract review process for contracts and agreements associated with the ASC.

Implementation date: No later than September 6, 2016

5. SPECIAL CONSULTANT PAYMENTS

OBSERVATION

The campus did not have written policies or procedures for special consultant payments made to faculty and staff.

We found that although the campus had processes in place for the processing of special consultant payments, these processes were not documented. We reviewed several special consultant payments made to faculty and staff in the School of Social Sciences, and we found that:

- For all three faculty payments reviewed, there was no documentation regarding pre-approval of the rate to be paid and work to be performed or the review for compliance with CSU additional compensation requirements prior to the commencement of the work.

- For staff payments, documentation showing that employees agreed to the terms of the appointment prior to the commencement of work was not always available, although
Human Resources had a process to approve the appointments. We reviewed five staff special consultant payments and found that none of the staff position descriptions had been signed by the employee.

- The five staff special consultant payments we reviewed were processed without all required authorizing administrator or supervisor signatures.

A clear and defined special consultant payment policy ensures the proper monitoring of faculty and staff additional employment, establishes a clear understanding of payment and work terms, and decreases the risk of noncompliance with systemwide policy.

**RECOMMENDATION**

We recommend that the campus:

a. Develop written policies or procedures for special consultant payments to ensure that faculty and staff appointments are reviewed for additional compensation compliance, payment terms are established and agreed upon, and proper approvals for the work to be performed are obtained and documented prior to the commencement of work.

b. Communicate the policies or procedures to appropriate school administrators and employees responsible for processing special consultant payments.

**MANAGEMENT RESPONSE**

We concur. Human resources and faculty affairs will develop guidelines and procedures for special consultant payments and will communicate the procedures to the appropriate campus administrators and employees.

Implementation date: No later than September 6, 2016
GENERAL INFORMATION

BACKGROUND

The CSU is the nation’s largest four-year public university system, with 23 campuses and eight off-campus centers. Additionally, the CSU awards nearly half of the state’s baccalaureate degrees. Campuses are generally organized into academic colleges that house schools, departments, and programs specific to an area of study. Each college is headed by a dean, who reports to the provost in the division of academic affairs. Colleges and academic departments may be responsible for a wide variety of financial activities, including, but not limited to, managing budgets; generating revenues through workshops, clinics, and other services; processing requisitions; and initiating disbursements. College funds may be held either in campus or auxiliary organization accounts. Funds held in campus accounts must follow ICSUAM requirements; funds in auxiliary organization accounts primarily follow requirements set forth in the Compilation of Policies and Procedures for CSU Auxiliary Organizations and Title 5 of the California Code of Regulations.

At SSU, academic colleges are known as schools. The dean of each school has overall responsibility for oversight of financial administration within the school, supported by the chair of each department. Additionally, each school has a professional financial administrator who ensures compliance with fiscal policies and procedures and acts as a liaison to the division of administration and finance, under the oversight of the dean. The office of the provost and vice president of academic affairs also provides centralized oversight over school financial activities.

The School of Social Sciences consists of 14 departments: anthropology; counseling; criminology and criminal justice studies; ENSP; geography; gerontology; global studies; history; human development; liberal studies; political science; psychology; sociology; and WGS. It houses a variety of centers and programs that integrate the community with the school, including the Center for Sustainable Communities, ASC, North Bay International Studies Project, and NWIC.

SCOPE

We used financial and other factors to select one school and its various academic departments for review. Our review did not consider separate schools of graduate studies, international education, or extended education. We used factors that we considered important to evaluate the risks in the overall school fiscal and administrative control environment to make our determination.

We visited the SSU campus from March 14, 2016, through April 22, 2016. Our audit and evaluation included the audit tests we considered necessary in determining whether administrative and financial controls are in place and operative at the School of Social Sciences. The audit focused on procedures in effect from January 1, 2014, through April 22, 2016.
Specifically, we reviewed and tested:

- Processes to ensure that segregation of duties is adequate, accountability is maintained, and safeguarding is adequate for cash and cash equivalents.
- Processes to ensure that appropriate reviews and approvals are in place for contracting activities.
- Processes to ensure that expenditures are appropriate, properly authorized, and processed in accordance with CSU and campus policies.
- Identification, tracking, and tagging of sensitive equipment purchases.

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 was designed to provide a review of key financial controls, which included detailed testing on a limited number of transactions. Our review did not examine all aspects of financial controls or encompass all areas within the school or academic departments where financial activities may have taken place.

**CRITERIA**

Our audit was based upon standards as set forth in CSU Board of Trustee policies; Office of the Chancellor policies, letters, and directives; campus procedures; and other sound administrative practices. 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:

- ICSUAM §1101.00, *Delegation of Authority to Obligate the University*
- ICSUAM §13680.00, *Placement and Control of Receipts for Campus Activities and Programs*
- ICSUAM §3000, *General Accounting*
- ICSUAM §5000, *Contracts and Procurement*
- ICSUAM §8000, *Information Security*
- Government Code §13402 and §13403
- California Code of Regulations, Title 5
- SSU *Cash Handling Procedures*
- SSU *Delegation of Expenditure Authority*
- SSU *Direct Pay Guidelines*
- SSU *Hospitality Guidelines*
- SSU *Petty Cash and Change Funds*
- SSU *Procurement Card Handbook*
- SSU *Property Management*
- SSU *Request to Establish Cash Collection Point*
- SSU *Travel Policy and Procedures*
AUDIT TEAM

- Senior Director: Michelle Schlack
- Senior Audit Manager: Wendee Shinsato
- Internal Auditor: Marcos Chagollan