July 28, 2015

Dr. Robert S. Nelsen, President
California State University, Sacramento
6000 J Street
Sacramento, CA 95819

Dear Dr. Nelsen:

Subject: Audit Report 15-31, College Reviews, California State University, Sacramento

We have completed an audit of College Reviews as part of our 2015 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
COLLEGE REVIEWS

California State University, Sacramento

College of Arts and Letters

Audit Report 15-31
May 22, 2015
EXECUTIVE SUMMARY

OBJECTIVE

The objectives of the audit were to ascertain the effectiveness of college 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 for the audit, college administrative and financial controls in effect as of March 27, 2015, taken as a whole, were not sufficient to meet the objectives of this audit.

In general, the audit revealed that the college fiscal controls require attention. Specifically, the college had not established sufficient financial controls and oversight of the cash-handling process to ensure adequate segregation of duties and accountability of funds. This may have led directly to other issues identified in the audit, including improperly executed agreements, inadequate tagging and disposal of equipment, and expenditure-processing errors. Turnover of college and department personnel, as well as a lack of formal training, may have also contributed to these issues.

Specific observations, recommendations, and management responses are detailed in the remainder of this report.
OBservations, recommendations, and responses

1. Cash policies and procedures

Observation

Campus and University Foundation (Foundation) cash management policies needed improvement.

We noted that although the campus and the Foundation had cash-management policies in place, these policies did not address certain key cash-handling controls, and the lack of these controls may have contributed to specific cash-handling issues noted in this report. Specifically, both the campus and Foundation policies did not address:

- Segregation of cash-handling duties or compensating mitigating controls.
- Timeliness and reconciliation of deposits.
- Cash and cash-equivalent transfers, including documentation requirements.

The Foundation policy also did not address check endorsements or safeguards to protect cash and cash equivalents in between deposits.

Defined and complete policies and procedures for cash and cash-equivalent management improve accountability of the funds and improve compliance with systemwide requirements.

Recommendation

We recommend that the campus and the Foundation:

a. Update their cash-management policies to include the key areas identified above.

b. Communicate the updated policies to key college and department personnel involved in the cash-handling process.

Management response

We concur. The campus and the Foundation will update their cash-management policies to include segregation of cash-handling duties or compensating mitigating controls, timeliness and reconciliation of deposits, and cash and cash-equivalent transfers, including documentation requirements. The Foundation’s policy will also address check endorsements or safeguards to protect cash and cash equivalents in between deposits. The campus and the Foundation will communicate the updated policies to key college and department personnel involved in the cash-handling process. The campus and the Foundation will provide the updated cash-management policies and documentation of communicating the updated policy to key college and department personnel involved in the cash-handling process by October 30, 2015.
2. OFFICIAL CASH COLLECTION POINTS

OBSERVATION

The campus process to identify and authorize locations that accept cash and cash equivalents was inadequate.

We reviewed five locations within the college that engaged in cash-handling activities, such as the collection and processing of donations, workshop fees, music fees, and testing fees, and we found that none had been identified and approved as an official cash collection point. In addition, we noted that there was no process to review and update the listing of areas that were issued a check endorsement stamp, one of the ways in which the campus monitored locations that accepted cash and cash equivalents. Also, the listing was out of date.

We noted several cash control weaknesses in these five cash-handling areas that were most likely due in part to the fact that campus administrators were unaware that these locations accepted cash and cash equivalents.

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

RECOMMENDATION

We recommend that the campus:

a. Update the current process to identify and authorize locations that accept cash and cash equivalents.

b. Review the five areas identified above and determine whether they should be designated as official collection points. If so, ensure that they are properly trained in cash management policies and monitored for compliance.

MANAGEMENT RESPONSE

We concur.

a. The campus will update the cash management procedures to include:

   The process for identifying and authorizing cash-handling units and individuals/positions performing functions related to cash handling and cash accounting.

   The process for creating or dismantling approved cashiering/sub-cashiering locations, including physical locations, websites, third-party processors, or any channel accepting credit card payments.

   Processes for training to be provided to all cash-handling employees upon employment and periodically thereafter, determined by the cash-handling role. Training will include instruction on cash-handling procedures during a campus emergency. Employees in
positions where cash handling is not their primary duty will be informed of designated cashiering sites and how to handle cash or cash equivalents that may be received at a non-cashiering location.

b. The campus will review the five areas identified and determine whether they should be designated as official collection points. Official collection points will be properly trained in cash-management policies and monitored for compliance.

The campus will provide the revised cash-management procedures. If any of those five areas will be designated as official collection points, the campus will provide the training documentation. Both of these will be provided by October 30, 2015.

3. CASH AND CASH EQUIVALENT ACTIVITIES

OBSERVATION

Oversight of college cash-handling locations was inadequate.

We reviewed five cash-handling locations within the College of Arts and Letters that deposited funds to accounts held by the campus, the Foundation, and University Enterprises Incorporated (UEI). These locations included two music department workshops (Cal Cap Chamber Music and the String Project), the music department, the dean’s office, and the testing center.

We found that:

- Segregation of duties was not adequate at four of the locations reviewed. In general, we noted that one individual was responsible for receiving and recording funds collected and preparing and making deposits, without any secondary verification. For the music workshops, the same individual was also responsible for processing registration or enrollment.

- Accountability of funds was not always maintained. For example, a log of mailed checks was not maintained at two locations, and pre-numbered receipts for in-person payments were not provided at another location. These would normally be used to perform a reconciliation of receipts to the deposit, and at these three locations, this reconciliation was not performed. In addition, when the music department workshops made deposits to the music department office and when college departments made deposits to the dean’s office, a receipt or acknowledgement of the amounts transferred between locations was not obtained.

- Funds were not always adequately safeguarded. We noted that three locations did not have a safe or secure lockbox on campus to safeguard cash and checks between deposits. In addition, for three locations, cash and check deposits were not made by two employees, as required by systemwide policy.

- Checks were not always endorsed on the day they were received at four locations, and deposits were not always made in a timely manner at all locations reviewed.
• Background checks were not always performed for student assistants or volunteers with direct access or control over cash and cash equivalents at four locations.

• Cash fees collected and cash donations received by the Cal Cap Chamber Music workshop were not deposited into a university account. These cash receipts were retained in an unauthorized change/petty cash fund in an off-campus location. We also found that cash donations were not segregated from cash registration fees associated with the workshop. During our fieldwork, this cash fund was deposited to the university cashier.

• Accounts receivable balances and invoices for the String Project were not recorded in the general ledger and managed by student financial services as required by campus policy. As a result, segregation of duties for accounts receivable was inadequate, as the person collecting and transferring payments for deposit was the same person responsible for managing accounts receivable and following up on payments, and accounts receivable balances were not included in the campus financial statements.

• The music department collected cash and check donations using a donation box. This box was not secured to a mountable fixture when it was in use, making it susceptible to theft, and appeared to fall under the campus definition of a cash drop box, which is not allowed per campus policy. In addition, we noted deficiencies in segregation of duties and lack of accountability because only one person had access to the donation box, there was no log or other documentation to account for the donations collected, and funds collected were sometimes not counted prior to being transferred to the music department for deposit.

• The public user fees charged by the Cal Cap Chamber Music workshop had not been approved by the campus president as required by the campus policy. In addition, although the String Project’s fees had been properly approved, an increase in fees for individual music lessons had not been approved. Also, a faculty member involved in the String Project workshop was renting out personal musical instruments and collecting a fee that was not approved by the campus.

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:

a. Provide training to all key personnel in the College of Arts and Letters involved in cash-handling activities. This training should emphasize, but not be limited to, segregation of duties, accountability and safeguarding of funds, timely cash and check deposits, and other areas identified above.

b. Remind the college and department administrators of the university’s background check policy for individuals who handle cash or cash equivalents.

c. Move the String Project accounts receivable balances to the student financial services center.
d. Evaluate the use of the donation box by the music department to determine whether this practice should be discontinued, or implement adequate controls to improve accountability and safeguards.

e. Remind administrators and faculty members in the College of Arts and Letters who may be collecting fees that public user fees must be submitted for campus approval. In addition, require that the Cal Cap Chamber Music workshop submit its fees, and the String Project submit its change in fees, for campus approval.

f. Evaluate the adequacy of the personal equipment rental fee charged by the faculty member involved in the String Project to determine whether it should be discontinued or submitted for campus approval.

MANAGEMENT RESPONSE

We concur.

a. As mentioned in the response for Recommendation 2, the campus will provide training to all key personnel in the College of Arts and Letters involved in cash-handling activities. The training will emphasize, but not be limited to, segregation of duties, accountability and safeguarding of funds, and timely cash and check deposits.

b. The campus will remind all college and department administrators of the university’s background check policy for individuals who handle cash or cash equivalents.

c. The campus will move the String Project accounts receivable balances to the student financial services center.

d. The campus will discontinue the use of the portable donation box. The campus will determine whether use of a secure donation box is appropriate and implement strict cash reconciliation procedures.

e. The campus will remind administrators and faculty members in the College of Arts and Letters that public user fees must be submitted for campus approval. Additionally, the Cal Cap Chamber Music workshop will submit its fees for approval through the Public User Fee proposal process.

f. The campus will evaluate whether the personal equipment rental will be allowed to continue and if so, how it will be managed. The current approved public user fees for the String Project, including the instrument rental fees, will be reviewed, and any changes will be submitted for approval.

The campus will provide documentation that the above items have been completed via training sign-in sheets, emails, memorandums, approved fees, etc., by October 30, 2015.
4. CONTRACTS AND AGREEMENTS

**OBSERVATION**

Contracts and agreements were not always properly executed.

We found that the former English department chair had improperly executed two agreements with two local high schools for collaborative participation in the university’s accelerated college entrance program. These agreements contained terms and conditions that bound university resources; as such, they should have been managed and executed by the procurement and contract services, as required by campus policy.

We also found that two agreements for services provided by entertainers, guest speakers, or performers processed by UEI were signed by an individual who did not have authority to execute the agreements. In addition, one of these agreements was executed after the services were rendered and should not have been processed at all, as the payment was for a campus employee who should have been paid via payroll. UEI management indicated that the current agreement form for entertainment or performance services did not require an authorized official to sign prior to the services being rendered, and as such, these agreements were processed with an account administrator-level approval only.

Properly executed agreements or contracts decrease the risk of misunderstandings of the business terms, responsibilities, and liabilities involved.

**RECOMMENDATION**

We recommend that:

a. The campus remind college and department administrators of campus policies for purchasing and non-purchasing contracting activities.

b. UEI update its current entertainment or performance agreement form to require an individual with delegation of authority to execute these agreements prior to services being rendered, and remind personnel how to process these types of payments for current campus employees.

**MANAGEMENT RESPONSE**

We concur.

a. The campus will remind college and department administrators of campus policies for purchasing and non-purchasing contracting activities.

b. UEI will update its current entertainment or performance agreement form to require an individual with delegation of authority to execute these agreements prior to services being rendered. Additionally, UEI will remind personnel how to process these types of payments for current campus employees.
The campus will provide documentation that college and department administrators were reminded of campus policies for purchasing and non-purchasing contracting activities. UEI will update its current entertainment or performance agreement form and will provide documentation that personnel was reminded how to process these types of payments for current campus employees by October 30, 2015.

5. **SENSITIVE EQUIPMENT**

**OBSERVATION**

Campus and college practices relating to tagging and disposing of sensitive equipment needed improvement.

We found that three laptops and one tablet in the College of Arts and Letters had not been tagged with a California State University, Sacramento (CSUS) property tag. Of these four items, three were also not accounted for in the university’s inventory records. Additionally, one of these untagged laptops was used off-campus without a completed equipment check-out form on file as required by campus policy.

In addition, we reviewed 13 in-service sensitive equipment items from the asset management system to confirm their existence and location on campus. The campus informed us that six of these items had been disposed of; however, documentation of these disposals had not been retained, and campus inventory records had not been updated to reflect the disposals. These six items were five laptops and a video projector.

Proper disposal, tagging, and accountability of sensitive equipment decreases the risk of inaccurate equipment records and misappropriation or theft of university owned assets.

**RECOMMENDATION**

We recommend that the campus:

a. Provide guidance to appropriate college and department personnel highlighting the requirements to tag sensitive equipment when acquired, use equipment check-out forms when property is taken off campus, and inform property management when sensitive equipment is disposed of.

b. Tag and update inventory records for the three laptops and computer tablet identified above, and ensure that a completed equipment check-out form is retained for the laptop that is used off-campus.

**MANAGEMENT RESPONSE**

We concur.

a. The campus will provide guidance to appropriate college and department personnel highlighting the requirements of requesting property management to tag sensitive
equipment when acquired, use a check-out form, and inform property management when sensitive equipment is disposed of.

b. The campus has tagged the three laptops and computer tablet. The campus has also added the items above to the property management system. The campus will ensure that the completed check-out forms are retained for laptops used off-campus.

The campus will provide documentation that guidance was provided to personnel regarding the requirement to tag sensitive equipment, use of check-out forms, and how to inform property management when sensitive equipment is disposed of. In addition, the campus will provide evidence that equipment was tagged and check-out forms retained. Support will be provided by October 30, 2015.

6. EXPENDITURE PROCESSING

OBSERVATION

Procurement card expenditures were not always processed in accordance with campus policy.

We reviewed 16 procurement card expenditures, and we found that two expenditures that required pre-approval from the procurement card administrator did not have prior approval on file and two hospitality expenditures were approved by an official who received a direct benefit from the purchase. In addition, the campus was unable to provide evidence that one approving official in the music department had been given delegation of authority to approve procurement card expenditures.

Proper authorization and processing of procurement card expenditures improves accountability and administration of state funds and decreases the risk of noncompliance with CSU and other governmental requirements.

RECOMMENDATION

We recommend that the campus:

a. Provide refresher training to procurement cardholders and approvers in the college and departments of appropriate procurement card policies and procedures, especially as they specifically relate to the areas noted above.

b. Remind the procurement card administrator that approving officials on a procurement card should not be approving expenditures that they directly benefit from.

MANAGEMENT RESPONSE

We concur.

a. The campus will provide refresher training to all procurement cardholders and approvers of appropriate procurement card policies and procedures. The training will include, but not be limited to, the above-noted findings. The campus will update the procurement
card training process to require cardholders and approvers to complete refresher training every three years.

b. The campus will remind the procurement card administrator that approving officials on a procurement card should not be approving expenditures that they directly benefit from.

The campus will provide documentation that refresher training has been completed and that communication to the procurement card administrator detailed above was communicated by October 30, 2015.

7. STUDENT PAYMENTS

OBSERVATION

Payments made to current and former students from the Camerata Capistrano Foundation fund were not properly defined and disclosed by the music department when the payments were submitted to UEI for processing.

We reviewed the supporting documents for three payments made from the Camerata Capistrano fund and found that the invoices submitted did not identify the payees as current and former students, but instead stated that the payments were for freelance musician services and rehearsals. As such, UEI processed the payments via check requests, without additional supporting documentation. Upon further inquiry of the music department chair, we found that the payments to current students should have been classified as scholarship payments and processed through financial aid, and the payment to the former student should have been processed as an independent contractor payment.

Improper definition of student payments increases the risk of noncompliance with state, federal, and Foundation requirements and increases the risk that payments will not be processed correctly.

RECOMMENDATION

We recommend that the campus, in conjunction with the Foundation and UEI, discuss payments to current and former students from the Camerata Capistrano music fund with the account approver and the music department chair to decide how these payments should be defined and handled, and once this determination has been made, ensure that the payments are processed in accordance with appropriate policies and procedures.

MANAGEMENT RESPONSE

We concur. The campus, in conjunction with the Foundation and UEI, will discuss payments from the Camerata Capistrano music fund to current and former students with the account approver and the music department chair to determine how these payments will be defined and handled, possibly to include Financial Aid. Once the determination has been made, appropriate policies and procedures will be documented. The campus will provide these policies and procedures by October 30, 2015.
8. ASSIGNED TIME REIMBURSEMENTS

OBSERVATION

College practices for tracking assigned-time reimbursements had not been documented.

We noted that although the dean’s office was responsible for tracking intra-university reimbursements for faculty assigned time, the roles and responsibilities for this process had not been documented to ensure that the reimbursements were received in a timely manner. As a result, we found several spring 2014 intra-university reimbursements that had not been received or followed-up on by the college as of the date of our review.

Documented assigned-time reimbursement processes ensure that personnel are aware of their roles and responsibilities and decreases the risk that reimbursements will not be received.

RECOMMENDATION

We recommend that the college document its processes for tracking faculty assigned time, and as a part of this process, perform a review of assigned-time reimbursements at year-end to ensure all payments have been properly received.

MANAGEMENT RESPONSE

We concur. The college will document its processes for tracking faculty assigned time and perform a review of assigned-time reimbursements at year-end to ensure all payments have been properly received. The college will provide these procedures and the results of the year-end review of assigned-time reimbursements by October 30, 2015.
GENERAL INFORMATION

BACKGROUND

The California State University is the nation’s largest four-year public university system, with 23 campuses offering more than 1,800 bachelor’s and master’s degree programs in 240 subject areas. 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 CSUS, the dean of each college has overall responsibility for oversight of financial administration within the college, supported by the chair of each department. Additionally, each college has an administrative analyst to ensure compliance with fiscal policies and procedures and to act as a liaison to the division of administration and business affairs. Further, each department may also have an administrative support coordinator who is responsible for the department’s fiscal administration and compliance. Centralized oversight over college financial activities is also provided through the administration and business affairs units.

The College of Arts and Letters consists of ten departments: art, communication studies, design, English, foreign languages, history, humanities and religious studies, music, philosophy, and theater and dance. The college serves more than 3,700 undergraduate majors and 550 graduate students with courses and programs run by 180 tenure-track faculty and more than 200 part-time faculty.

SCOPE

We used financial and other factors to select an academic college for review. Our review did not consider separate colleges of graduate studies, international education, or extended education. We used factors that we considered important to evaluate the risks in the overall college fiscal and administrative control environment, such as total revenues and expenditures, college activities, and management turnover, to make our determination.

We visited the CSUS campus from February 23, 2015, through March 27, 2015. 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 College of Arts and Letters. The audit focused on procedures in effect from January 1, 2013, through March 27, 2015.
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.
- Administration of faculty and staff reimbursed time.
- Measures to ensure that stand-alone information systems are included in the campus inventory of information assets.

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 college 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 §13680.0, *Placement and Control of Receipts for Campus Activities and Programs*
- ICSUAM §3000, *General Accounting*
- ICSUAM §5000, *Contracts and Procurement*
- ICSUAM §8000, *Information Security*
- *Compilation of Policies and Procedures for CSU Auxiliary Organizations*
- Government Code §13402 and §13403
- California Code of Regulations, Title 5
- CSUS *Cash Management Policy*
- CSUS *Criminal Background Check Policy*
- CSUS *Public User Fees Policy*
- CSUS *Billing, Collection, and Write-off of Debts Policy*
• CSUS Procurement Guide
• UEI Independent Contractors/Consultants Policy and Procedures
• CSUS Procedures for the Safeguarding and Disposal of State Property
• CSUS Process for Requesting a Memorandum of Understanding
• CSUS Information Asset Management Supplemental Policy
• CSUS Delegated Fiscal Authority and Responsibility Policy
• CSUS Procurement Card Program Manual

AUDIT TEAM

Senior Director: Michelle Schlack
Senior Audit Manager: Wendee Shinsato
Senior Auditor: Cindy Merida