

**Audit and Advisory Services**  
401 Golden Shore  
Long Beach, CA 90802-4210

November 11, 2022

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

Dear Dr. Hutchinson:

**Subject: Audit Report 22-01, Academic Department Fiscal Review, California State University, Chico**

We have completed an audit of *Academic Department Fiscal Review* as part of our 2022-2023 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 will be posted to 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,



Vlad Marinescu  
Vice Chancellor and Chief Audit Officer

c: Jolene Koester, Interim Chancellor  
Lateefah Simon, Chair, Committee on Audit  
Yammilette Rodriguez, Vice Chair, Committee on Audit

**CSU Campuses**

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# **ACADEMIC DEPARTMENT FISCAL REVIEW**

**California State University, Chico**

**College of Agriculture**

Audit Report 22-01  
November 3, 2022

## EXECUTIVE SUMMARY

### OBJECTIVE

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

### CONCLUSION

Based upon the results of the work performed within the scope of the audit, the operational, administrative, and financial controls for the College of Agriculture (COA) as of September 7, 2022, taken as a whole, provided reasonable assurance that risks were being managed and objectives were met.

Overall, we found that the COA had effective administrative and financial controls that generally aligned with systemwide, state, federal, and campus requirements. However, we noted that payments related to agricultural activities from Chico State Enterprises (CSE) to the COA needed clarification and additional support, and the administration of property and equipment needed improvement to comply with campus requirements.

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

## OBSERVATIONS, RECOMMENDATIONS, AND RESPONSES

### 1. PAYMENTS

#### OBSERVATION

A routine payment from the university farm accounts at CSE to the COA needed clarification and additional support.

During a review of COA revenue sources, we noted a twice-yearly payment of \$100,000 from the CSE farm account for “land use that includes, but is not limited to tillage, planting, cultivation, harvest and associated production practices” which did not include additional support to demonstrate the purpose for the payments. We could not locate a lease or other agreement that supported the payment as described, and we were unable to confirm its purpose in our discussions with both CSE and campus financial managers.

Proper documentation of the purpose for payments helps to ensure compliance with California State University (CSU) and campus policies and is necessary to properly document and reflect the relationship between colleges and auxiliaries.

#### RECOMMENDATION

We recommend that the campus review the twice-yearly payment from CSE to the COA to clarify the description and purpose of the payment, and based on this review, update supporting documentation for future payments to ensure that they are accurately supported and justified.

#### MANAGEMENT RESPONSE

We concur. The college will clarify the description and purpose of the payment and update supporting documentation for future payments to ensure that they are accurately supported and justified.

Completion date: April 7, 2023

### 2. PROPERTY AND INVENTORY

#### OBSERVATION

Administration of property and equipment needed improvement to comply with campus and CSU requirements.

Per the Chico State Property Management procedures, the Off-Campus Use of University Equipment form must be completed and approved when university equipment is being used for university business at an off-campus location. Additionally, per ICSUAM §1401.00, *Administration of University Property*, “It is the policy of the CSU that university property is

properly valued, maintained and safeguarded; that all university property transactions (acquisitions, disposals, etc.) are recorded in an accurate and timely manner.”

We selected 20 items from the COA inventory listing for testing and noted that:

- Two items were taken off campus without the completion of the form. Both were computer assets for use in remote instruction.
- Two items were sold but not removed from COA inventory records.

Proper administration of property and equipment decreases the risk that assets may be lost, stolen, or misrepresented in the financial statements.

### **RECOMMENDATION**

We recommend that the campus:

- a. Remove from the inventory records the two items that were sold.
- b. Reiterate to appropriate campus personnel the process for administration of capitalized and sensitive equipment and the importance of complying with campus and CSU requirements.

### **MANAGEMENT RESPONSE**

We concur. The college will:

- a. Remove from the inventory records the two items that were sold.
- b. Reiterate to appropriate campus personnel the process for administration of capitalized and sensitive equipment and the importance of complying with campus and CSU requirements.

Completion date: April 7, 2023

## GENERAL INFORMATION

### BACKGROUND

The CSU is the nation's largest four-year public university system, with 23 campuses and seven 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.

California State University, Chico (Chico State) has seven academic colleges administered under the division of academic affairs. The provost and vice president of academic affairs is responsible for budgets for all schools and provides centralized oversight over financial activities. The dean of each college has overall responsibility for oversight of financial administration within the college, supported by the associate dean(s) and chair of each department. Additionally, each department has an administrative manager 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 COA does not have distinctive departments, but has four undergraduate programs in agricultural business, animal science, agricultural science, and plant and soil science, as well as a program for a Master of Science in agricultural education. The college also contains three institutes that complement the academic environment: the Agribusiness Institute, the Center for Regenerative Agriculture and Resilient Systems, and the Agricultural Research Institute. To enhance and supplement agricultural academic programs, the campus has an 800-acre farm, the Paul L. Byrne Memorial University Farm, which has crop fields and orchards, a greenhouse, an irrigation training facility, and a mushroom unit. The farm also houses livestock such as cows, sheep and pigs, and provides facilities to produce meat and dairy products. The farm is owned by the state, but financial administration of nearly all academic-related programs is conducted through CSE.

### SCOPE

We used financial and other factors, including input from campus administration, to select the COA for review.

We performed fieldwork from July 25, 2022, through September 7, 2022. Our audit and evaluation included the audit tests we considered necessary in determining whether operational, administrative, and financial controls are in place and operative at the COA. The audit focused on procedures in effect from July 1, 2020, to September 7, 2022.

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, and inventory reconciliation.
- Business model and relationships between the campus, Chico State Enterprises and the college in the management of revenue-generating farm activities.

As a result of changing conditions and the degree of compliance with procedures, the effectiveness of controls changes over time. Specific limitations that may hinder the effectiveness of an otherwise adequate system of controls include, but are not limited to, resource constraints, faulty judgments, unintentional errors, circumvention by collusion, and management overrides. Establishing controls that would prevent all these limitations would not be cost-effective; moreover, an audit may not always detect these limitations.

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

## CRITERIA

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

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

- Government Code §13402 and §13403
- California Code of Regulations, Title 5
- Executive Order 1000 (EO), *Delegation of Fiscal Authority and Responsibility*
- EO 1059, *Utilization of Campus Auxiliary Organizations*
- ICSUAM §1101.00, *Delegation of Authority to Obligate the University*
- ICSUAM §1301.00, *Hospitality*
- ICSUAM §1401.00, *Administration of University Property*
- ICSUAM §3103.01, *Disbursements-General*
- ICSUAM §3130.01, *Accounts Receivable Management*
- ICSUAM §3601.01, *Travel Policy*

- ICSUAM §6200.00, *Campus Administration of Systemwide Cash and Management Policy*
- ICSUAM §6201.00, *Sensitive Positions and Cash Handling*
- ICSUAM §6202.00, *Segregation of Cash Handling Duties*
- ICSUAM §6320.00, *Petty Cash and Change Funds*
- ICSUAM §6330.00, *Security of Cash and Cash Equivalents*
- ICSUAM §6340.00, *Debit/Credit Card Payment Policy*
- ICSUAM §13680.0, *Placement and Control of Receipts for Campus Activities and Programs*
- *CSU Contracts and Procurement Policy*
- *CSU Travel and Business Expense Reimbursement Policy*
- *CSU Auxiliary Organizations Compliance Guide*
- *CSU Auxiliary Organizations Sound Business Practice Guidelines*
- *Chico State Property Management Policy*
- *Chico State Procurement and Contracts Policies*
- *Chico State Campus Delegation of Authority*
- *Chico State Procurement Card Procedures*

## AUDIT TEAM

Senior Manager: Ann Hough  
Senior Auditor: Kyle Ishii  
Internal Auditor: Daniel Rosales