

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

November 10, 2022

Dr. Soraya M. Coley, President
California State Polytechnic University, Pomona
3801 W. Temple Avenue
Pomona, CA 91768

Dear Dr. Coley:

**Subject: Audit Report 22-04, Academic Department Fiscal Review,
California State Polytechnic University, Pomona**

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

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ACADEMIC DEPARTMENT FISCAL REVIEW

California State Polytechnic University, Pomona

Don B. Huntley College of Agriculture

Audit Report 22-04
November 10, 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 Don B. Huntley College of Agriculture (COA) as of September 9, 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 revenue share arrangements between the Farm Store and programs within the COA were not adequately documented to support the allocation of revenues to accounts held at the Cal Poly Pomona Foundation, Inc. (Foundation). We further found that capitalized assets were not consistently tagged for asset tracking and inventory purposes.

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

OBSERVATIONS, RECOMMENDATIONS, AND RESPONSES

1. REVENUE SHARE ARRANGEMENTS

OBSERVATION

Revenue share arrangements between the Farm Store and programs within the COA were not adequately documented.

The Farm Store, located on the campus, was originally established as an outlet to sell produce grown on the university farms and orchards but has grown to include other products related to harvests, such as honey and wine; by-product inventory from academic programs, such as horticulture and nursery sales; and selected groceries and gift items from external vendors. Like the farms, the Farm Store is a unit within the COA overseen by the dean's office. Revenues earned from the sales of inventory obtained from COA programs are split between the Farm Store and these programs at the time sales proceeds are deposited at the Foundation.

While reviewing cash receipts in the Farm Store account held by the Foundation, we noted that the agreed-upon allocation of revenues between the Farm Store and other programs within the COA was not documented in the Farm Store account agreement or any other memo. For example, when deposits attributed to produce sales were processed by the Foundation, 75 percent of the revenues went to the Farm programs and 25 percent went to the Farm Store. However, there was no documentation provided to support this revenue share percentage.

Proper documentation to support revenue share arrangements decreases the risk of misunderstandings and miscommunications regarding rights, responsibilities, and payment terms.

RECOMMENDATION

We recommend that the campus:

- a. Document the revenue share arrangement between the Farm Store and programs within the COA, including appropriate approval and support for the agreed-upon percentages.
- b. Provide documentation to the Foundation to support the allocation transactions.

MANAGEMENT RESPONSE

We concur.

- a. We will document the revenue share arrangement between the Farm Store and programs within the COA, including appropriate approval and support for the agreed-upon percentages.
- b. We will provide a copy of the documentation to the Foundation to support the allocation transactions.

Expected completion date: December 31, 2022

2. PROPERTY AND EQUIPMENT

OBSERVATION

Administration of property and equipment records needed improvement to ensure proper asset tagging.

Per the CSU *Administration of University Property Equipment Procedures*, all equipment with a value of \$5,000 or more must be tagged and inventoried. Further, the policy requires that these assets be tagged with a unique identification number and recorded in the asset management system.

We reviewed 17 asset acquisitions for the COA and found that eight capitalized assets had not been tagged, although we were able to locate them during our walkthrough. Six of these items were acquired in fiscal year (FY) 2021/22. These items included a tractor valued at \$29,456, a production growth chamber valued at \$300,000, an orchard sprayer valued at \$19,041, an X-ray table valued at \$18,615, an atmospheric pressure plasma valued at \$17,678, a camera valued at \$19,995, a digital imaging machine valued at \$54,784, and a fabric analyzer valued at \$8,212.

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. Tag the assets listed above and consider performing an assessment to determine whether other assets were overlooked in the tagging process.
- b. Review policies and procedures and, if necessary, revise them to ensure that they clearly require all assets valued above \$5,000 to be tagged and inventoried.

MANAGEMENT RESPONSE

We concur.

- a. We will tag the assets listed above and will perform an assessment to determine whether other assets were overlooked in the tagging process.
- b. We will review policies and procedures and, if necessary, revise them to ensure that they clearly require all assets valued above \$5,000 to be tagged and inventoried.

Expected completion date: January 31, 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.

Cal Poly Pomona (CPP) has eight 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 Don B. Huntley College of Agriculture has five departments: agribusiness and food industry management/agricultural science, animal and veterinary science, plant science, nutrition and food science, and apparel merchandising and management. The college also contains five centers that complement the academic environment: the Agricultural Research Institute, AGRIsapes, the Apparel Technology and Research Center, the Center for Antimicrobial Research and Food Safety, and the Center for Turf, Irrigation and Landscape Technology. In accordance with the campus learn-by-doing approach to education, an important piece of the agricultural program includes Spadra Farm, a 150-acre educational farm one-half mile from the campus that grows numerous crop varieties, as well as several other agricultural properties around the campus, including three vineyards, a historical citrus block, a large coffee varietal field trial, an avocado orchard, and subtropical horticultural plantings. The farmland is owned by the state, but financial administration of nearly all academic-related programs is conducted through the Foundation. Other related activities and events include a petting farm, the retail Farm Store, a honey-producing apiary, the annual Pumpkin Festival, and collaboration with the Arabian Horse Center.

SCOPE

We used financial and other factors, including input from campus administration, to select the Don B. Huntley College of Agriculture for review.

We performed fieldwork from July 25, 2022, through September 2, 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 Don B. Huntley College of Agriculture. The audit focused on procedures in effect from July 1, 2020, to September 2, 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, Cal Poly Pomona Foundation 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*
- *CSU Administration of University Property Equipment Procedures*

AUDIT TEAM

Senior Manager: Ann Hough
Senior Auditor: Cinthia Santamaria
Internal Auditor: Janaki Nakum