

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

November 23, 2022

Dr. Lynnette Zelezny, President
California State University, Bakersfield
9001 Stockdale Highway
Bakersfield, CA 93311

Dear Dr. Zelezny:

**Subject: Audit Report 22-16, Academic Department Fiscal Review,
California State University, Bakersfield**

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 University,
Bakersfield**

School of Arts and Humanities

School of Natural Sciences, Mathematics, and Engineering

Audit Report 22-16
November 23, 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, except for the weaknesses described below, the operational, administrative, and financial controls for the School of Arts and Humanities (A&H) and School of Natural Sciences, Mathematics, and Engineering (NSME) as of September 2, 2022, taken as a whole, provided reasonable assurance that risks were being managed and objectives were met.

In general, the audit did not reveal any significant internal control problems or weaknesses that would be considered pervasive in their effects on school operational, administrative, and financial controls. However, we identified a few areas needing improvement. For example, we could not locate certain departmental assets, and not all assets were included in the campus or departmental asset listings. Also, deposits were not always verified by a second person. In addition, one of the schools did not use an appropriate payment method when paying faculty teaching at an institute.

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

OBSERVATIONS, RECOMMENDATIONS, AND RESPONSES

1. INVENTORY AND ASSET MANAGEMENT

OBSERVATION

Campus and school inventory and asset management needed improvement.

We noted that although the campus property management department had central oversight over tagged assets and sensitive items, school departments had the primary responsibility for the care, custody, maintenance, records, and control of their department's assets.

We selected 20 items from the PeopleSoft asset management listing at A&H and NSME for review and found that:

- In five instances, items could not be located and there was no documentation indicating that the items had been disposed. Per discussion with the school deans and department chairs, these items were aged or damaged and should have been disposed and removed from the asset management system. Also, in four of the five instances, the items were not included in the property listing maintained by the campus property management office and/or the listing maintained by the department property control designee.
- In one instance, a desktop computer that was moved by information technology services during a remodel could not be found. A police report was filed during our review.

Additionally, A&H did not have a written document detailing the responsibilities of the property control designee, and the theatre department within A&H did not have a comprehensive inventory listing of departmental non-capitalized assets and sensitive items, as required by the campus *Asset Management Standard Operating Policy*.

Proper tracking and disposal of assets and maintenance of complete and accurate inventory records reduce the risk of misappropriation or theft of assets. Documenting responsibilities for employees ensures that employees are aware of their tasks and improves accountability.

RECOMMENDATION

We recommend that the campus work with A&H and NSME to:

- a. Complete a property survey request form for the missing assets noted above and remove the items from the inventory listings.
- b. Develop a process for departments to maintain a comprehensive inventory listing and periodically reconcile the departmental inventory listing with the campus property management and PeopleSoft asset listings.
- c. Develop a written document detailing the responsibilities of the property control designee for A&H.

- d. Provide training to department property control designees on the care, custody, maintenance, records, and control of departmental assets.

MANAGEMENT RESPONSE

We concur. Distribution services/property management will work with A&H and NSME to:

- a. Complete a physical inventory and property survey request form to remove missing assets from the inventory listing by April 30, 2023.
- b. Develop a process for departments to maintain a comprehensive inventory listing and periodically reconcile the departmental inventory listing with the campus property management and PeopleSoft asset listings by April 30, 2023.
- c. Develop an inventory process detailing the responsibilities of the property control designee by April 30, 2023.
- d. Schedule and provide training sessions for existing and new property custodians. Refresher training for department property custodians will be conducted during physical inventories conducted by the distribution property clerk. This process will be implemented by April 30, 2023, and thereafter ongoing for all new property custodians.

2. CASH HANDLING

OBSERVATION

Deposits were not always verified by a second person at A&H and NSME locations that received cash or cash equivalents.

We performed walkthroughs at five cash collection points and found that at all five locations, deposits were not always verified by a second person, as required by the campus *Cash Handling Policy*. The policy states that mailed payments must be verified, processed by a separate individual, and restrictively endorsed for deposit. It also states that cash handling locations have the responsibility of ensuring that deposits are balanced and recorded accurately.

Proper segregation of duties improves accountability and reduces the campus exposure to loss, theft, or misappropriation of funds.

RECOMMENDATION

We recommend that the campus reiterate to the school cash handlers the campus policy requiring that a second person verify deposits.

MANAGEMENT RESPONSE

We concur. In the campus’ annual campuswide cash-handling communication, the campus will be reminded that the cash-handling policy must be followed. In the annual cash-handling

training, the importance of a second deposit verification will be reiterated. The cash-handling training and communication campuswide will be completed by February 28, 2023.

3. FACULTY PAYMENTS

OBSERVATION

The method for paying faculty for an annual institute run by A&H was inadequate.

We found that there were no contracts or agreements established for individuals who were hired annually to teach a three-week class on campus to students and community members for an institute. Instead, A&H completed a special services request form to pay stipends to these individuals. According to the campus payment matrix, this type of payment should be used only for one-time services.

Proper payment methods establish a clear understanding of payment, scope of work, and indemnification and liability terms and decrease the risk of noncompliance with systemwide policy.

RECOMMENDATION

We recommend that the campus establish a process to ensure that the appropriate payment method is used for faculty who teach classes at institutes, and that contracts or agreements are established when appropriate.

MANAGEMENT RESPONSE

We concur. Procurement and payment services will establish a process for non-employee faculty such as lecturers and guest lecturers to use a new agreement form to ensure that the appropriate payment method is used. Also, request for payments for CSUB faculty employees will be referred to human resources to complete a Request for Special Consultant Pay form. This process and new agreement form will be completed by April 30, 2023.

4. CONTRACT EXECUTION

OBSERVATION

Contracts for NSME were not always timely executed.

We reviewed 11 contracts and found that NSME had three contracts with external parties that were executed between 62 and 191 days from the effective date. Per discussion with procurement and contract services, the contract review process can take up to six weeks to complete.

Timely executed contracts decrease the risk of misunderstandings and miscommunication regarding rights and responsibilities.

RECOMMENDATION

We recommend that the campus remind departments that contract initiation should begin earlier so that all parties have enough time to review and sign the contract.

MANAGEMENT RESPONSE

We concur. Procurement will establish a process to track contracts' expiration dates, renewal dates, and approval dates. This process will assist in notifying all parties regarding contract status to improve the timeliness of contract processing. This process will be completed by April 30, 2023.

5. DELEGATION OF AUTHORITY

OBSERVATION

The campus did not document and adequately communicate the delegation of authority process for vice presidents and deans that was revised during the 2017/18 academic year.

Specifically, the new process, which was implemented to prevent disruption of operations, did not require written delegation forms to be completed for vice presidents and deans as financial approvers of expenditures. Instead, the delegation of authority module in the campus financial system was updated for these positions based on campuswide announcements of new vice presidents and deans. We found that the updated process was not documented in campus procedures or adequately communicated to the schools and departments. In our interviews with deans and school administrators, individuals we spoke to were generally unaware of the revised process.

Documenting and communicating process changes help to ensure that school and departmental administrators understand the processes and their responsibilities and decrease the risk of unallowable or inappropriate transactions.

RECOMMENDATION

We recommend that the campus document the revised process for updating financial approval delegations of authority for vice presidents and deans, including approval from an appropriate individual, and communicate and distribute the process to appropriate school and departmental administrators.

MANAGEMENT RESPONSE

We concur. The campus will update, document, distribute, and communicate the financial approval delegation of authority for vice presidents and deans by April 30, 2023.

GENERAL INFORMATION

BACKGROUND

The California State University (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.

At California State University, Bakersfield (CSUB), academic colleges are known as schools. There are four schools 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 school has overall responsibility for oversight of financial administration within the school, supported by the associate dean and chair of each department. Additionally, each school has an analyst and each department has an academic support coordinator who are dedicated to handling day-to-day financial operations, ensuring compliance with fiscal policies and procedures, and acting as liaisons to the Business and Administrative Services division.

A&H consists of nine academic programs: art and art history, communications, English, history, modern languages and literature, music, philosophy and religious studies, theatre, and interdisciplinary programs. The school also contains four institutes that complement the academic environment: the Institute for Religion, Education, and Public Policy; the Public History Institute; and the Kodály Institute.

NSME consists of nine academic programs: biology and human biology, chemistry and biochemistry, computer and electrical engineering and computer sciences, geology, mathematics, nursing, physics and engineering, natural sciences, and public health. The school also houses three centers that integrate with the community: the California Energy Research Center, California Well Sample Repository, and Center for Environmental Studies.

SCOPE

We used financial and other factors to select two schools and two 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 operational, fiscal, and administrative control environment to make our determination.

We performed fieldwork from July 18, 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 A&H and NSME. 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 and departmental assets and inventory reconciliation.

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 schools 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 (EO) 1000, *Delegation of Fiscal Authority and Responsibility*
- EO 1059, *Utilization of Campus Auxiliary Organizations*
- Coded Memorandum Human Resources 2017-17, *Background Check Policy*
- Technical Letter Human Resources 2003-21, *CSU Independent Contractor Guidelines*
- ICSUAM §1301.00, *CSU Hospitality Policy*
- ICSUAM §1401.00, *Administration of University Property*
- ICSUAM §3103.01, *Disbursements-General*
- ICSUAM §3130.01, *Accounts Receivable Management*

- ICSUAM §3601.01, *Travel and Business Expense Reimbursements*
- 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 and Credit Card Payment Policy*
- ICSUAM §13680.0, *Placement and Control of Receipts for Campus Activities and Programs*
- *CSU Administration of University Property Equipment Procedures*
- *CSU Contracts and Procurement Policy*
- *CSU Travel and Business Expense Reimbursement Policy*
- *CSU Auxiliary Organization Compliance Guide*
- *CSU Auxiliary Sound Business Practice Guidelines*
- *CSUB Asset Management Standard Operating Policy*
- *CSUB Cash Handling Policy*
- *CSUB Hospitality Policy and Procedures*
- *CSUB Payment Matrix*
- *CSUB Procurement Credit Card Handbook*
- *CSUB Travel Policy*

AUDIT TEAM

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