

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

December 6, 2022

Dr. Ming-Tung "Mike" Lee, President
Sonoma State University
1801 East Cotati Avenue
Rohnert Park, CA 94928

Dear Dr. Lee:

Subject: Audit Report 22-18, Academic Department Fiscal Review, Sonoma State University

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

Sonoma State University

School of Arts and Humanities

School of Business and Economics

Audit Report 22-18

December 6, 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 Business and Economics (B&E) as of September 23, 2022, taken as a whole, provided reasonable assurance that risks were being managed and objectives were met.

In general, the audit did not reveal 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, the campus listing of cash-handling locations was not current, and cash-handling processes at certain departments needed improvement. Also, departments did not have documented inventory and asset management procedures, which resulted in inconsistent practices with physical inventory. In addition, the oversight and administration of hospitality expenditures required improvement in one department.

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

OBSERVATIONS, RECOMMENDATIONS, AND RESPONSES

1. CASH AND CASH EQUIVALENTS

OBSERVATION

The campus listings of cash-handling locations and petty cash and change funds were not current, and A&H and B&E cash-handling processes needed improvement.

We noted that campus financial services authorizes new cash-collection points and maintains a list of cash-handling locations in accordance with the campus *Cash Handling Policy*.

We obtained the campus listing of cash-handling locations and petty cash and change funds and found that:

- The listing for one cash-collection point had not been updated to reflect the current authorized cash handler or Merchant Department Responsible Person (MDRP). The MDRP on the listing separated from the campus in November 2021.
- One department that regularly accepted checks from festivals it held was not listed as an official cash-collection point.
- A change fund at one location was not listed in the listing of petty cash and change funds. The fund in the amount of \$60 to \$80 was created using leftover cash from an auction, and a Request to Establish or Increase a Petty Cash or Cash Change Fund form had not been submitted to the campus financial services, as required by the campus *Petty Cash and Change Fund* policy.

We also performed walkthroughs at five cash-collection points and found that:

- At one location, cash and checks received were not counted immediately after events held on Fridays to establish a record of receipt. Instead, cash and checks were locked in a secured drawer over the weekend and counted the following Monday.
- At four locations, checks received were not recorded on a check log to establish a record of receipt, as required by the campus *Cash Handling* policy.
- At four locations, cash and checks received were not consistently verified by two or more employees before being transferred to university advancement or the cashier's office for deposit, as required by the campus *Cash Handling* policy.

Appropriate oversight and administration of cash-handling locations, petty cash, and change funds ensure that employees are properly trained and cognizant of related policies and procedures, and adequate cash-handling processes reduce campus exposure to loss, theft, or misappropriation of funds.

RECOMMENDATION

We recommend that the campus:

- a. Develop a process to periodically review and update the information on the listing of cash-handling and petty cash and change fund locations.
- b. Review the location discussed above and determine whether it should be designated as an official cash-collection point. If so, obtain proper approvals and train staff in cash-management policies.
- c. Determine whether the location mentioned above should have change funds, and if so, request that the area complete and submit a Request to Establish or Increase a Petty Cash or Cash Change Fund form.
- d. Communicate cash-handling policies to personnel involved in cash-handling activities to reiterate key procedures, including obtaining approval from campus financial services as a cash collection point or a petty cash and change fund location, timely depositing cash or checks, establishing a check log, and verifying deposits.

MANAGEMENT RESPONSE

We concur. The campus will:

- a. Develop a process to periodically review and update the information on the listing of cash-handling and petty cash and change fund locations.
- b. Review the location discussed above and determine whether it should be designated as an official cash-collection point. If so, we will obtain proper approvals and train staff in cash-management policies.
- c. Determine whether the location mentioned above should have change funds, and if so, request that the area complete and submit a Request to Establish or Increase a Petty Cash or Cash Change Fund form.
- d. Communicate cash-handling policies to personnel involved in cash-handling activities to reiterate key procedures, including obtaining approval from campus financial services as a cash collection point or a petty cash and change fund location, timely depositing cash or checks, establishing a check log, and verifying deposits.

Expected completion date: February 28, 2023

2. INVENTORY AND ASSET MANAGEMENT

OBSERVATION

School department 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 overall responsibility for the care, custody, maintenance, records, and control of their department's assets.

We found that the departments reviewed did not have documented procedures to conduct a physical inventory of their assets, update and report locations of items, and tag and maintain department-tracked assets. As a result, inventory management practices varied across the departments, and inventory counts of department-tracked assets were not consistently performed. Specifically:

- The Wine Business Institute performed an 80 percent count of inventory on an annual basis but did not update its inventory tracking system in a timely manner to account for discarded or out-of-date wine.
- The Art Gallery asset tracking system did not always include the precise location of works of art. For one of the items we reviewed, the tracking system indicated only that an item was located in a room that housed more than 1,000 works of art. Also, the Art Gallery did not perform inventory counts on an annual basis.
- The theatre arts and dance department did not perform inventory counts on an annual basis.
- Departments within B&E did not determine whether old computing devices were still being used by faculty and staff. In the university property listing, there were about 70 computing devices that were more than five years old.

We also reviewed 30 items at A&H and found that:

- Two university-tagged assets at the music department were not at the location listed on the university property listing. Both had been moved to different locations, and one was under the custody of a different department, but the listing had not been updated.
- The music department's tagging needed improvement. One cello could not be located, as the identifying label had fallen off the instrument bag, and several other cellos in the instrument storage room were missing identifying labels.

Documenting inventory procedures helps to ensure the maintenance of accurate and complete inventory records, and proper tracking and tagging of assets help reduce the risk of theft or misappropriation of assets.

RECOMMENDATION

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

- a. Develop a written inventory procedure for each department that addresses any unique or department-specific inventory practices.
- b. Provide training to property managers and coordinators on inventory procedures, custody, maintenance, tagging, and recording of departmental assets.

MANAGEMENT RESPONSE

We concur. The campus will work with A&H and B&E to:

- a. Develop a written inventory procedure for each department that addresses any unique or department-specific inventory practices.
- b. Provide training to property managers and coordinators on inventory procedures, custody, maintenance, tagging, and recording of departmental assets.

Expected completion date: February 28, 2023

3. HOSPITALITY

OBSERVATION

Oversight and administration of hospitality expenditures at the music department needed improvement.

In March 2021, the music department held a multi-day festival, during which the department treated guest composers and adjudicators to dinner three times. We reviewed supporting documentation for these dinners and found that:

- The contracts for the guest composers and adjudicators specifically stated that the contracted amount covered all expenses. The department did not document the reason for providing the three dinners.
- One of the dinners cost more than \$150 per person, nearly three times the typical per-person dinner expense allowed for an employee meeting. The campus *Hospitality Expenses* policy states that such expenditures may be paid to the extent that they are necessary, appropriate, reasonable in amount, and serve a purpose consistent with the mission and fiduciary responsibilities of the university.
- The spouse of the department chair attended one of the dinners, but no agenda, invitation, or similar documentation was included with the payment record for their participation in accordance with ICSUAM §1301.00, *CSU Hospitality Policy*.

Proper oversight of hospitality expenses reduces the risk of fraud, misappropriation, and loss of reputation.

RECOMMENDATION

We recommend that the campus provide hospitality expenditure training to the music department, including training on adequately documenting the rationale for any expenditures outside of normal practices and maintaining an agenda, invitation, or similar documentation for providing hospitality to spouses, domestic partners, or significant others.

MANAGEMENT RESPONSE

We concur. The campus will provide hospitality expenditure training to the music department, including training on adequately documenting the rationale for any expenditures outside of normal practices and maintaining an agenda, invitation, or similar documentation for providing hospitality to spouses, domestic partners, or significant others.

Expected completion date: March 31, 2023

4. CONTRACTS

OBSERVATION

The campus did not have a procedure for disclosing, evaluating, and documenting conflicts of interest (COI) or related parties when acquiring goods or services.

Specifically, vendor data records and independent contractor forms did not contain a place to disclose COI or related parties. Per discussions with campus financial services, both forms are under review by campus human resources and financial services for the inclusion of COI or related party disclosures.

Proper disclosure of COI or related parties helps minimize the risk of fraud, nepotism, and loss of reputation.

RECOMMENDATION

We recommend that the campus develop a procedure to disclose, evaluate, and document COI or related parties when acquiring goods or services.

MANAGEMENT RESPONSE

We concur. The campus will develop a procedure to disclose, evaluate, and document COI or related parties when acquiring goods or services.

Expected completion date: March 31, 2023

5. CENTER FOR PERFORMING ARTS

OBSERVATION

The Center for Performing Arts (CPA) was not a recognized center or institute of the campus and had not been subject to the oversight requirements for centers and institutes.

The CPA coordinates the performance activities of the music and theatre arts and dance departments by providing technical support, as well as marketing, facility management, and

ticketing services. An estimated 16,000 people attend the CPA's more than 140 student and guest artist workshops and performances.

The relationship between the CPA and the campus appeared to most resemble that of a center or institute, which is a formally approved interdisciplinary and/or collaborative unit. Per Academic Affairs 2014-18, *Centers and Institutes*, campus centers and institutes are defined as a unit that is organized around scholarly, creative, research, education, and/or public services activities that combines the interests and expertise of individuals, departments, or administrative units, and may draw on expertise of others external to the campus or the academy, and may offer services to constituents beyond the campus community.

Defining a clear relationship between the campus and the CPA would allow for establishment of a framework for oversight of the educational and financial contributions of the center.

RECOMMENDATION

We recommend that the campus review the structure and the activities of the CPA to determine whether the CPA should be established as a recognized center or institute.

MANAGEMENT RESPONSE

We concur. The campus will review the structure and the activities of the CPA to determine whether the CPA should be established as a recognized center or institute.

Expected completion date: May 31, 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 Sonoma State University (SSU), academic colleges are known as schools. There are six schools under the division of Academic Affairs. Academic Affairs is responsible for budgets for all schools, and the office of the provost and vice president for academic affairs provides centralized oversight over school 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 administrative manager who is dedicated to handling day-to-day financial operations, ensuring compliance with fiscal policies and procedures and liaising with the Administration and Finance division.

A&H consists of 11 academic programs: American multicultural studies, art studio and art history, Chicano and Latino studies, communication and media studies, English, Hutchins School of Liberal Studies, modern language and literatures, music and music studio, Native American studies, philosophy, and theatre arts and dance. The school also contains four centers or institutes that complement the academic environment: the Center for Ethics, Law, and Society; Hutchins Institute for Public Policy Studies; Sonoma Film Institute; and Center for Performing Arts.

B&E consists of three academic programs: business administration, economics, and graduate and executive programs. The school also houses four centers that integrate with the community: the Wine Business Institute, the Center for Professional Success, the Center for Entrepreneurship, and the Center for Regional and Economic Analysis.

SCOPE

We used financial and other factors to select two schools and three 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 23, 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 B&E. The audit focused on procedures in effect from July 1, 2020, to September 23, 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 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 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 Sounds Business Practice Guidelines*
- AA 2014-18, *Centers and Institutes*
- *SSU Cash Handling Policy*
- *SSU Hospitality Expenses Policy*
- *SSU Petty Cash and Change Funds Policy*
- *SSU Procurement Card (Procard) Handbook for Cardholders and Approving Officials*
- *SSU Property Management Policy*

AUDIT TEAM

Senior Manager: Caroline Lee
Internal Auditor: Matthew Shum