

Audit and Advisory Services
401 Golden Shore, 4th Floor
Long Beach, CA 90802-4210

562-951-4430
562-951-4955 (Fax)
lmandel@calstate.edu

July 31, 2018

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

Dear Dr. Hutchinson:

Subject: Audit Report 18-03, Academic Department Fiscal Review, California State University, Chico

We have completed an audit of *Academic Department Fiscal Review* as part of our 2018 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 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



The California State University
Audit and Advisory Services

ACADEMIC DEPARTMENT FISCAL REVIEW

California State University, Chico

College of Humanities and Fine Arts

Audit Report 18-03
June 11, 2018

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 governmental regulations, Trustee policy, Office of the Chancellor directives, and campus procedures.

CONCLUSION

We found the control environment for the areas reviewed to be in need of major improvement.

Based upon the results of the work performed within the scope of the audit, the operational, administrative, and financial controls for the College of Humanities and Fine Arts as of April 20, 2018, were unlikely to provide reasonable assurance that risks were being managed and objectives were met.

In general, the audit revealed that administration of relationships with outside entities and cost recovery required immediate attention. We found that the college was actively supporting an external entity, both operationally and financially, whose status and relationship with the campus and college had not been reviewed and defined, resulting in concerns about whether the support was appropriate. We also found that the college had not established sufficient governance or oversight over the identification, monitoring, and subsequent recovery of costs and services provided to groups outside of the college. The agreement between the outside entity and the campus did not comply with applicable cost recovery and conflict-of-interest policies. Additionally, we found deficiencies in the areas of appointment of faculty employees, review and approval of college expenditures, authorization of student organization off-campus bank accounts, provision and documentation of employee training, monitoring and tracking of college assets and equipment, administration of petty cash, and documentation of employee position descriptions.

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

OBSERVATIONS, RECOMMENDATIONS, AND RESPONSES

1. NORTH STATE SYMPHONY ORGANIZATIONAL STATUS

OBSERVATION

The relationship between the North State Symphony (NSS) and the campus was not adequately defined, despite a complex financial relationship that included provision of state-funded services for NSS activities.

The NSS website defined the organization as a professional orchestra dedicated to achieving excellence in musical performance and educational opportunities, while engaging and shaping the cultural life of Northern California. The website also indicated that California State University, Chico (CSU Chico) provided extensive administrative and production support to the symphony. At the time of the audit, only two of the 69 members were students, both of whom were required to audition for a spot, and nine were faculty operating as paid professional musicians. NSS did not conduct rehearsals with the general CSU Chico music student population.

Our review of the relationship between the campus and NSS revealed the following:

- The campus did not document or define the relationship with NSS to demonstrate clear contributions to the curriculum or academic growth of the students in the College of Humanities and Fine Arts (HFA) or the music and theater arts department (MUTA).
- Campus administration did not have a common understanding of the status of the NSS. Different individuals described it as an auxiliary of the campus, an auxiliary of the University Foundation (UF), a project of UF, a program within MUTA, and an ensemble-in-residence with the HFA. We confirmed that NSS was not a recognized auxiliary of the campus; however, it was administered as a project of the UF. Further, the NSS director was a UF employee, and the federal employer identification number listed on the NSS website was the same number assigned to the UF.
- Although the relationship appeared to most resemble that of a center or institute, which is a formally approved interdisciplinary and/or collaborative unit, NSS was not a recognized center or institute of the campus and therefore had not been subject to the oversight requirements for centers and institutes.

Additionally, the relationship between UF and NSS required clarification. We found that:

- The UF operating agreement allows for philanthropic projects; however, it also states that the “auxiliary agrees to receive and apply exclusively the funds and properties coming into its possession toward furthering these purposes for the benefit of the CSU and the campus.” We could not determine whether the NSS project was an appropriate activity or within the scope of the UF’s operating agreement because the benefit to the CSU or the campus had not been defined.

- The NSS account at UF frequently operated at a deficit. UF provided needed cash flow and did not charge NSS interest.

A clear understanding of the relationship between the campus, NSS, and UF would allow for establishment of a framework for oversight of educational and financial contributions.

RECOMMENDATION

We recommend that:

- a. The campus work in consultation with the systemwide Office of General Counsel to define the appropriate relationship between it and NSS.
- b. Based upon the conclusions determined from (a) above, implement an oversight framework for educational and financial activities.

MANAGEMENT RESPONSE

We concur. The campus will work in consultation with the systemwide Office of General Counsel to define the relationship with NSS and implement the appropriate oversight framework for educational and financial activities.

Completion date: December 15, 2018

2. COST RECOVERY

OBSERVATION

HFA did not have cost recovery procedures in place.

Executive Order (EO) 1000, *Delegation of Fiscal Authority and Responsibility*, states that campus administration is responsible for ensuring that costs incurred for services, products, and facilities provided to other California State University (CSU) funds and to auxiliary organizations are properly and consistently recovered with cash and/or a documented exchange of value. ICSUAM §3552.01, *Cost Allocation/Reimbursement Plans for the CSU Operating Fund*, further states that the cost reimbursement requirement extends to entities external to the university.

During our review of NSS activities and accounts, we found no evidence that the following costs were fully recovered on behalf of CSU Chico:

- The NSS music director/conductor is a campus faculty member. His appointment letter stated that his negotiated academic year salary covers his teaching of up to two courses per year, with the remainder of his time dedicated to his work with NSS. According to the HFA dean, his assignment was 80 percent conduction of the NSS, and 20 percent instruction.

- Employees of the School of the Arts (SOTA), the production technical department within HFA, were assigned to support NSS productions, often at an overtime rate accrued in compensation time. For one employee, the responsibility to support NSS performances was included in the job description. We identified 39 NSS events during the audit period at which state employees of SOTA worked, but we were unable to determine the number of hours because the employees were not required to track hours worked per project, outside of overtime worked.
- We reviewed payroll records for 11 students and found that two performed work for the NSS during the audit period. We were unable to determine an accurate count of the hours they dedicated to NSS because students are not required to track hours worked per project.

We also noted during our interviews that MUTA and SOTA personnel worked on campus and external entity events. The resulting costs for the provision of this support to external entities was not being recovered, and HFA’s budget did not include provisions to accommodate campus events.

An established cost recovery plan or schedule allows the campus to identify and track costs and services provided to other CSU departments, as well as to auxiliary organizations and outside entities, and allows for the recovery of such costs.

RECOMMENDATION

We recommend that the college work with the campus to develop cost recovery plans and procedures, in compliance with EO 1000 and ICSUAM §3552.01.

MANAGEMENT RESPONSE

We concur. The college will work with the campus to develop cost recovery plans and procedures, in compliance with EO 1000 and ICSUAM §3552.01.

Completion date: December 15, 2018

3. NORTH STATE SYMPHONY MEMORANDUM OF UNDERSTANDING

OBSERVATION

The memorandum of understanding (MOU) between the campus and NSS did not comply with applicable cost recovery and conflict-of-interest policies, and the terms of the MOU were not strictly followed.

We found that the current MOU, which expires on June 30, 2018, was signed by the former vice president of business and finance, on behalf of the campus, and by the current dean of humanities and fine arts, on behalf of NSS, even though the dean’s role within NSS was undefined. Within the agreement, which establishes the process for charging NSS for use of state facilities, is language stating that personnel charges for services provided by the campus

to support NSS may be waived or charged at the discretion of the campus. We noted the following issues:

- The HFA dean’s signature on behalf of NSS creates a real or perceived conflict of interest, as the cost waiver that would benefit NSS would also affect resources under his authority as dean. As the chief academic and administrative officer for the college, the dean has authority over the college budget; can make purchase decisions; and makes, participates in, or influences decisions regarding the license, lease, purchase, or sale of real property of the university or for the university. The MOU allows the dean to transfer value from HFA, in his capacity as dean, to NSS, in his capacity as the signer of the MOU, without any segregation of duties or authority.
- EO 1000 and ICSUAM §3552.01 require that costs incurred for services, products, and facilities provided to other CSU funds and to auxiliary organizations and external entities are properly and consistently recovered with cash and/or a documented exchange of value. The campus does not have the authority to waive this requirement.

In addition, the MOU terms state that all facilities reservations will be made through the facilities reservation office. We found that the campus facilities and venues used for NSS performances were booked by college personnel and not through facilities reservations.

Ensuring that agreements are approved by appropriate personnel on both the campus and external entity side helps avoid actual and apparent conflicts of interest and increases assurance that the terms of the agreement are appropriate.

RECOMMENDATION

We recommend that the campus:

- a. Determine whether an MOU between the campus and NSS is necessary after determining the appropriate relationship between the two entities; and if so, ensure that the renewal at June 30, 2018, is properly aligned with CSU policy, including cost recovery policy and conflict-of-interest considerations, and that appropriate and authorized parties approve the MOU.
- b. Enforce campus policy requirements stating that facilities reservation requests submitted by NSS should be routed through the proper channels, which includes the standard facilities cost assessment review.

MANAGEMENT RESPONSE

We concur. The campus will evaluate the need for an MOU with NSS. If renewal is needed, the MOU will contain appropriate cost recovery, conflict-of-interest, and signature authority considerations. In addition, requirements relating to facilities reservations and cost assessments will be enforced.

Completion date: December 15, 2018

4. AUTHORITY TO APPOINT FACULTY

OBSERVATION

The college dean's authorization to appoint faculty was not formally documented.

We reviewed the NSS conductor's faculty appointment letter, and we found that the letter was signed by the college dean. However, we were unable to obtain and review documentation showing that the president delegated authority to the dean to appoint faculty.

Appropriate and documented delegations of authority for faculty appointments provide greater assurance that campus faculty needs are met and regulatory and collective bargaining requirements are addressed.

RECOMMENDATION

We recommend that the campus obtain a written delegation of authority from the president to the dean, or other appropriate senior management, for purposes of authorizing the appointment of faculty.

MANAGEMENT RESPONSE

We concur. The president will provide written delegation to the appropriate administrator for appointing faculty.

Completion date: September 15, 2018

5. COLLEGE EXPENSES

OBSERVATION

College and department expenditures were not always processed in compliance with applicable policies.

We reviewed 35 college expense items incurred during the audit period and found that:

- In five instances, the special consultant agreement forms were not approved prior to the performance of special consultant work, as required by campus policy.
- In one instance, the dean signed off as both supervisor and dean/department head, when the special consultant agreement form explicitly stated that the supervisor and dean/department head signatures must be different employees.
- In one instance, the contractual service invoice did not have the payee's signature.
- In two instances, the independent contractor versus employee worksheet was not fully completed, as required.

We also selected ten expenditures from the NSS account held at the UF and found the following exceptions:

- The NSS conductor invoiced the campus and was paid as an independent contractor for conducting an NSS event. However, his appointment letter and subsequent academic appointment forms state that his CSU employment and academic year salaries include his work as the music director and conductor of NSS.
- The NSS conductor's independent contractor form was not fully executed prior to the performance of service, as required by campus policy.

Diligent review and oversight of expenditures helps to ensure compliance with procurement policies, improves accountability, and allows for appropriate administration of funds.

RECOMMENDATION

We recommend that the campus, in conjunction with the UF:

- a. Establish guidelines and procedures for the review and approval process for hiring of campus employees as independent contractors to ensure that payments made are in compliance with applicable CSU and campus requirements.
- b. Provide initial and refresher training to employees regarding the approved procedures for the use of special consultants and independent contractors.

MANAGEMENT RESPONSE

We concur. The campus will:

- a. Establish procedures for the review and approval for hiring campus employees as independent contractors of the UF to ensure payments are made in compliance with requirements.
- b. Revise the special consultant and independent contractor hiring processes. In addition, the campus will provide training to appropriate employees regarding the changes in the above processes.

Completion date: December 15, 2018

6. OFF-CAMPUS BANK ACCOUNTS

OBSERVATION

The campus did not always comply with applicable banking and cash-handling policies.

We noted that a MUTA student organization maintained an off-campus bank account, and the campus could not provide documentation showing that this was approved.

We also found that the annual inquiry to local banks aimed at identifying unauthorized off-campus bank accounts was not performed in 2016 and 2017. This annual inquiry is required in the campus cash-handling procedures.

Diligent oversight and enforcement of campus policies over cash ensures the effectiveness of established controls over campus assets and reduces campus exposure to loss, theft, or misappropriation of funds.

RECOMMENDATION

We recommend that the campus:

- a. Review the bank account identified above and determine the appropriate course of action within the policies for student organizations.
- b. Revise banking and cash-handling procedures to align with CSU policies.

MANAGEMENT RESPONSE

We concur. The campus will:

- a. Review the bank account identified above and determine the appropriate course of action within the policies for student organizations.
- b. Revise banking and cash-handling procedures to align with CSU policies.

Completion date: September 15, 2018

7. EMPLOYEE TRAINING

OBSERVATION

HFA employees did not always complete required procurement card training.

We reviewed five purchase-card holders and their designated transaction approvers, for a total of eight individuals. The campus could not provide documentation showing that the three transaction approvers had completed required training.

Appropriate oversight and documentation of employee training ensures that employees are properly trained and cognizant of related policies and procedures and reduces the campus exposure to risk related to loss, theft, or misappropriation of funds.

RECOMMENDATION

We recommend that the campus provide procurement card training to current transaction approvers in HFA and obtain documentation acknowledging that they have completed the training.

MANAGEMENT RESPONSE

We concur. The campus will provide procurement card training to current transaction approvers in HFA and obtain documentation acknowledging that they have completed the training.

Completion date: September 15, 2018

8. COLLEGE ASSETS AND EQUIPMENT

OBSERVATION

College assets and equipment were not always monitored and tracked.

We selected 20 assets and items of equipment from the current HFA inventory listing and 15 assets from the disposed asset listing and reviewed them for compliance with campus equipment policy. We found that:

- One of the 20 current items had been taken off campus, but the campus could not locate the form authorizing the removal.
- The disposition of seven disposed assets could not be validated because the campus could not locate the required property transaction form.

We also found during our observation of the selected assets and equipment that the inventory system used by MUTA did not capture the CSU asset tag numbers assigned to musical instruments.

Proper maintenance and retention of equipment documentation provides a stronger chain of custody for assets and ensures stronger oversight over asset disposal, thereby reducing loss, misuse, misplacement, and misappropriation.

RECOMMENDATION

We recommend that campus communicate asset and equipment policies and procedures to appropriate staff to reinforce the importance of maintaining and retaining adequate documentation over physical custody and disposal of campus equipment.

MANAGEMENT RESPONSE

We concur. The campus will evaluate and document the asset and equipment management process. The process will be communicated to appropriate staff to reinforce policies and procedures related to asset management. The campus is evaluating the use of technology to assist with inventory tracking, chain of custody, and overall documentation.

Completion date: December 15, 2018

9. PETTY CASH

OBSERVATION

Petty cash administration needed improvement.

We reviewed five approved petty cash funds and found that the one administered by the UF was not in the physical custody of the approved petty cash custodian.

Compliance with campus petty-cash policies and procedures, including proper identification of the custodian, improves accountability and allows for appropriate administration of the funds.

RECOMMENDATION

We recommend that the one petty cash fund administered by the UF be in the physical custody of the approved petty cash custodian.

MANAGEMENT RESPONSE

We concur. The UF will ensure that petty cash funds are in the physical custody of the approved custodian.

Completion date: August 15, 2018

10. EMPLOYEE POSITION DESCRIPTIONS

OBSERVATION

The college dean, a management personnel program (MPP) position, did not have a completed and executed MPP position description form, as required by campus and CSU policies.

Creating and retaining completed position descriptions sets the campus' expectations of its employees, documents assigned responsibilities and authorities, and provides an established basis for employee reviews and evaluations.

RECOMMENDATION

We recommend that the campus complete and retain a position description for the college dean.

MANAGEMENT RESPONSE

We concur. The campus will complete and retain position descriptions for college deans.

Completion date: September 15, 2018

GENERAL INFORMATION

BACKGROUND

The CSU is the nation's largest four-year public university system, with 23 campuses and eight 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; preparing and implementing a cost recovery plan; 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 CSU Chico, 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 college has an administrative analyst specialist under the direct authority of the dean who ensures compliance with fiscal policies and procedures. The office of the provost and vice president for academic affairs also provides centralized oversight over college financial activities.

HFA consists of seven departments: art and art history; English; history; international languages, literatures and cultures; music and theater; philosophy; and comparative religions and humanities. The college also maintains affiliations with a variety of community and auxiliary centers that complement the academic environment, including the Humanities Center, The Turner Print Museum, the University Art Gallery, and NSS.

SCOPE

We used financial and other factors to select one college and its various academic departments 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 to make our determination. Our analysis led to the selection of HFA for review.

We visited the CSU Chico campus from March 19, 2018, through April 20, 2018. 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 HFA. The audit focused on procedures in effect from July 1, 2016, through April 20, 2018.

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 identify opportunities for cost recovery between university divisions and outside entities, and for collection of these costs.
- 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.

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 or academic departments 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:

- Executive Order 1000, *Delegation of Fiscal Authority and Responsibility*
- 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
- CSU Office of General Counsel, *Conflict of Interest Handbook*
- *Collective Bargaining Agreement Between the California Faculty Association and the Board of Trustees of the California State University*
- CSU Chico UF *Operating Agreement*
- CSU Chico Research Foundation *Policy on Project Cash Management and Loans*
- CSU Chico Human Resource Services Center *Conflict of Interest Prevention*
- CSU Chico Human Resource Services Center *Special Consultant Forms and Procedures*
- CSU Chico *Independent Contractor Forms and Procedures*
- CSU Chico *Cash Handling Procedure*

- CSU Chico *University Petty Cash Procedures*
- CSU Chico *Research Foundation Petty Cash Custodian Form and Procedures*
- CSU Chico *Property Management Procedures*
- CSU Chico *Human Resource Services Center Performance Management Procedures*

AUDIT TEAM

Audit Manager: Ann Hough
Senior Auditor: Jon Saclolo
Internal Auditor: Allen Tung