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February 5, 2016

Dr. Ruben Armifiñana, President
Sonoma State University
1801 East Cotati Avenue
Rohnert Park, CA 94928

Dear Dr. Armifiñana:

Subject: Audit Report 15-06, Auxiliary Organizations, Sonoma State University

We have completed an audit of *Auxiliary Organizations* as part of our 2015 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 the Office of 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

CSU Campuses

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AUXILIARY ORGANIZATIONS

Sonoma State University

Audit Report 15-06
December 18, 2015

EXECUTIVE SUMMARY

OBJECTIVE

The objectives of the audit were to ascertain the effectiveness of existing policies and procedures related to fiscal, operational, and administrative controls; determine the adequacy of internal compliance/internal control; evaluate adherence to auxiliary policies and procedures and applicable Integrated California State University Administrative Manual (ICSUAM) policies, or where appropriate, to an industry-accepted standard; and ensure compliance with relevant governmental regulations, Trustee policy, Office of the Chancellor directives, and campus procedures.

CONCLUSION

Sonoma State University campus

Based upon the results of the work performed within the scope of the audit, the fiscal, operational, and administrative controls in effect at the Sonoma State University (SSU) campus as of October 28, 2015, taken as a whole, were sufficient to meet the objectives of this audit.

Sonoma State University Academic Foundation, Inc.

Based upon the results of the work performed within the scope of the audit, the fiscal, operational, and administrative controls in effect at the Sonoma State University Academic Foundation, Inc. (Foundation) as of October 28, 2015, taken as a whole, were sufficient to meet the objectives of this audit. There were no reportable observations revealed during the review.

Sonoma State Enterprises, Inc.

Based upon the results of the work performed within the scope of the audit, the fiscal, operational, and administrative controls in effect at Sonoma State Enterprises, Inc. (SSE) as of October 28, 2015, taken as a whole, were sufficient to meet the objectives of this audit. The audit revealed that SSE cashiering point-of-sale system controls did not restrict student cashiers from processing return and complimentary transactions at several dining locations, as required by SSE *Cash Handling Guidelines*.

Associated Students of Sonoma State University

Based upon the results of the work performed within the scope of the audit, the fiscal, operational, and administrative controls in effect at Associated Students of Sonoma State University (AS) as of October 28, 2015, taken as a whole, were sufficient to meet the objectives of this audit. The audit revealed that AS did not provide employees with a notice containing specific information (Notice to Employee form) at the time of hire, as required by the Wage Theft Protection Act of 2011, Labor Code §2810.5, and did not always certify Form I-9, Employment Eligibility Verification, in a timely manner, as required by the Department of Homeland Security.

Specific observations, recommendations, and management responses are detailed in the remainder of this report. Information security-related observations, recommendations, and management responses are detailed in Appendix A.

OBSERVATIONS, RECOMMENDATIONS, AND RESPONSES

Sonoma State Enterprises, Inc.

1. CASHIERING

OBSERVATION

SSE cashiering point-of-sale system controls did not restrict student cashiers from processing returns and complimentary transactions at several dining locations, as required by *SSE Cash Handling Guidelines*.

Inadequate point-of-sale system controls regarding return and complimentary transactions increase the risk of erroneous and inappropriate transactions and loss or misappropriation of funds.

RECOMMENDATION

We recommend that SSE implement practices to ensure that the point-of-sale cashiering policy is followed.

MANAGEMENT RESPONSE

We concur. We will review the current policy and implement practices to ensure compliance.

Expected completion date: No later than May 1, 2016

Associated Students of Sonoma State University

2. PERSONNEL AND PAYROLL – NEW HIRES

OBSERVATION

AS did not provide employees with a notice containing specific information (Notice to Employee form) at the time of hire, as required by the Wage Theft Protection Act of 2011, Labor Code §2810.5, and did not always certify Form I-9, Employment Eligibility Verification, in a timely manner, as required by the Department of Homeland Security.

We reviewed ten new hires, and we found that the Notice to Employee form was not provided to the seven selected non-exempt employees because the auxiliary was unaware of the requirement.

Additionally, in two instances, the Form I-9 was reviewed and approved from ten to 11 days after the employee's first day of employment. The Department of Homeland Security, U.S. Citizenship and Immigration Services, requires that employers complete Section 2 of Form I-9 by examining evidence of identity and employment authorization within three business days of the date employment begins.

Failure to provide the Notice to Employee form to non-exempt employees at the time of hire increases the risk of fines and penalties, and untimely certification of employment eligibility increases the risk of hiring someone who is not authorized to work in the United States, as well as fines and penalties.

RECOMMENDATION

We recommend that AS provide a Notice to Employee form to all non-exempt employees at the time of hire and reiterate to personnel responsible for hiring that a Form I-9 must be certified within three business days of the date employment begins.

MANAGEMENT RESPONSE

We concur. AS management has already distributed the "Notice to Employee" form to all current employees and has included the form in the package of information provided to all new hires.

AS management will instruct personnel responsible for certifying I-9s of the requirement to have I-9s certified within the first three business days of the date of employment. AS management will review, annually or more frequently as necessary, the official instruction sheet with personnel responsible for certifying I-9s.

Expected completion date: No later than March 1, 2016

GENERAL INFORMATION

BACKGROUND

Education Code §89900 states, in part, that the operation of auxiliary organizations shall be conducted in conformity with regulations established by the Trustees.

Education Code §89904 states, in part, that the Trustees of the California State University (CSU) and the governing boards of the various auxiliary organizations shall:

- Institute a standard systemwide accounting and reporting system for businesslike management of the operation of such auxiliary organizations.
- Implement financial standards that will assure the fiscal viability of such various auxiliary organizations. Such standards shall include proper provision for professional management, adequate working capital, adequate reserve funds for current operations and capital replacements, and adequate provisions for new business requirements.
- Institute procedures to assure that transactions of the auxiliary organizations are within the educational mission of the state colleges.
- Develop policies for the appropriation of funds derived from indirect cost payments.

The Board of Trustee policy concerning auxiliary organizations was originally adopted in July 1981 in the Resolution of the Committee on Finance (RFIN) 7-81-4. Executive Order (EO) 698, *Board of Trustees Policy for The California State University Auxiliary Organizations*, dated March 3, 1999, represents policy of the Trustees addressing CSU auxiliary organization activity and governing the internal management of the system. CSU auxiliary organizations are required to comply with Board of Trustee policy (California Code of Regulations (CCR), Title 5, Section 42402 and Education Code, Section 89900). Campus management is responsible for establishing and maintaining an adequate system of internal compliance/internal control and assuring that each of its auxiliary organizations similarly establishes such a system. This EO requires that the Office of Audit and Advisory Services perform an internal compliance/internal control review of auxiliary organizations. The review will be used to determine compliance with the law, including statutes in the Education Code and rules and regulations of CCR, Title 5, and compliance with policy of the Board of Trustees and of the campus, including appropriate separation of duties, safeguarding of assets, and reliability and integrity of information. According to Board of Trustee instruction, each auxiliary organization shall be examined on a triennial basis pursuant to procedures established by the chancellor.

EO 1059, *Utilization of Campus Auxiliary Organizations*, dated June 6, 2011, also represents policy of the Trustees addressing appropriate use of CSU auxiliary organizations. CSU auxiliary organizations are required to comply with Board of Trustee policy (CCR, Title 5, §42401 and §42500 and Education Code §89720, §89756, and §89900). This EO requires CSU auxiliary organizations to operate within the regulations and oversight of the campus. The campus president is responsible for ensuring the fiscal viability of auxiliary organizations and compliance with applicable CSU policies. The campus chief financial officer is responsible for administrative compliance and fiscal oversight of auxiliary organizations. The campus, with the approval of the chancellor (or designees), may assign certain functions to auxiliary organizations pursuant to the CCR, Title 5, §42500. A written operating agreement is

established detailing the functions that auxiliary organizations can perform. The campus may assign responsibility for an activity or program to auxiliary organizations, and the acceptance of the responsibility requires the assumption of the associated legal obligation and liabilities, fiscal liabilities, and fiduciary responsibilities by auxiliary organizations. Auxiliary organizations shall ensure that fiscal procedures and management systems are in place, consistent with CCR, Title 5, §42401.

ICSUAM §13680.00, *Placement and Control of Receipts for Campus Activities and Programs*, dated September 29, 2011, states that accountability and responsibility for campus activities and programs should be clearly established, and that related receipts should be appropriately placed and controlled in university or auxiliary organization accounts. This policy guides campuses as to the administration of such receipts and instructs as to their proper placement in accordance with legal and regulatory requirements.

Sonoma State University Academic Foundation, Inc.

The Foundation was established in 1974 as a non-profit public benefit corporation. The Foundation's principle mission is to receive and administer gifts, endowments, scholarships, and planned giving that enhance and promote the SSU educational mission. The Foundation is authorized to receive and process gifts, bequests, endowments, and trusts and to acquire and develop real property. The Foundation is governed by a board of directors composed of representatives from the community and SSU staff, alumni, and faculty. It does not have employees and relies on university personnel for accounting and administrative support services.

Sonoma State Enterprises, Inc.

SSE was formed as a non-profit corporation and auxiliary organization of the CSU in 1961 to support the mission of SSU by providing goods and services for the campus community and invited guests. SSE outsources bookstore operations to a third party and is responsible for operating the Prelude at the Green Music Center, central campus dining services, residence hall dining services, and vending. SSE is governed by a board of directors composed of representatives from the staff, faculty, students, and community. It does not have employees and relies on university personnel for accounting and administrative support services.

Sonoma Student Union Corporation

The Sonoma Student Union Corporation (Union) was established in 1975 as a non-profit public benefit corporation to promote and furnish facilities for the educational development and academic services of SSU. Union programs included student activities, intramural athletics, recreation and fitness, and student organizations. As of June 12, 2013, the Union was dissolved, and its assets and liabilities were distributed and accepted by the campus.

Associated Students of Sonoma State University

AS was established in 1962 as a non-profit auxiliary corporation with the specific and primary purpose of operating a charitable and educational organization. AS is responsible for operating services for students and student clubs through Associated Students Productions, Join Us Making Progress, student government, and the Children's School. AS is governed by

the student board of directors and employs an executive director, a business manager, and staff personnel to manage daily operations. AS relies on the university's financial services unit for accounting and administrative support services.

SCOPE

We visited the SSU campus and its auxiliary organizations from September 21, 2015, through October 28, 2015. Our audit and evaluation included the audit tests we considered necessary in determining whether fiscal, operational, and administrative controls are in place and operative at each auxiliary and may not have included examination of all fiscal and operational areas. The audit focused on procedures in effect from July 1, 2014, to October 28, 2015.

Specifically, we reviewed and tested:

- Timely and proper execution of agreements, contracts, and memoranda of understanding.
- Corporate governance, including compliance with education, government, and corporation codes.
- Fiscal, operational, and program compliance, such as review of cost reimbursement, reserves, conflict of interest, risk management, and trust accounts.
- Segregation of duties and administration of key fiscal and operational areas.
- Administration of sponsored programs.
- Management of gifts and endowments.
- Commercial operations (bookstore, dining services, etc.).
- Auxiliary programs (radio station, housing, children's center, etc.).
- Information technology.
- Campus oversight and support services provided to auxiliaries.

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.

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:

- Department of Homeland Security, U.S. Citizenship and Immigration Services, Form I-9

- Labor Code §2810.5
- Payment Card Industry Data Security Standard
- Education Code §89720
- Education Code §89756
- Education Code §89900
- Education Code §89904
- CCR, Title 5 §42401, *Declaration of Policy*
- CCR, Title 5 §42402, *Authority of Campus President*
- CCR, Title 5 §42500, *Functions of Auxiliary Organizations*
- EO 698, *Board of Trustees Policy for the California State University Auxiliary Organizations*
- EO 1059, *Utilization of Campus Auxiliary Organizations*
- RFIN 7-81-4
- *CSU Auxiliary Organizations Compliance Guide*
- *CSU Auxiliary Organizations Sound Business Practices Guidelines*
- ICSUAM §13680, *Placement and Control of Receipts for Campus Activities and Programs*
- ICSUAM §3102.05, *Debit/Credit Card Payment Policy*
- ICSUAM §8045.0, *Information Technology Security*
- *SSU Cash Handling Procedure*
- *SSE Cash Handling Guidelines*

AUDIT TEAM

Senior Director: Janice Mirza
Audit Manager: Caroline Lee
IT Audit Manager: Greg Dove
Senior Auditors: Dominick Owens and Dave White
Internal Auditor: Samer Harb

APPENDIX A – INFORMATION SECURITY

Information security-related observations are not publically posted as they may contain information exempt from disclosure under the California Public Records Act (PRA), California Government Code §6254.19. To make a PRA request, please contact itaudits@calstate.edu.