



# The California State University

OFFICE OF THE CHANCELLOR

**Larry Mandel**  
Vice Chancellor and  
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January 14, 2019

Dr. Judy K. Sakaki, President  
Sonoma State University  
1801 East Cotati Avenue  
Rohnert Park, CA 94928

Dear Dr. Sakaki:

**Subject: Audit Report 18-53, Sonoma State Enterprises, Inc., Sonoma State University**

We have completed an audit of *Sonoma State Enterprises, Inc.* 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

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**CSU**

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Audit and Advisory Services

## **SONOMA STATE ENTERPRISES, INC.**

**Sonoma State University**

Audit Report 18-53  
December 10, 2018

## EXECUTIVE SUMMARY

### OBJECTIVE

The objectives of the audit were to confirm compliance with regulatory requirements for the establishment and governance of auxiliary organizations; ascertain effectiveness of operational, administrative, and financial controls for the activities conducted by Sonoma State Enterprises, Inc. (SSE); 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

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

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 SSE, as of October 19, 2018, taken as a whole, provided reasonable assurance that risks were being managed and objectives were met.

In general, we found that SSE had an appropriate framework for the administration of the auxiliary; however, turnover in management and inconsistent application of standard operating procedures may have resulted in key areas needing improvement. Specifically, in our review, we identified opportunities for improvement in areas such as documentation for cash overages and shortages; point-of-sale system (POS) controls, including restricted access to system administrator accounts and the issuance of unique user IDs and passwords; administration and oversight of student employee training; adherence to internal procedures in the areas of food temperature monitoring and inventory purchases; and the administration of campus agreements.

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

## OBSERVATIONS, RECOMMENDATIONS, AND RESPONSES

### 1. CASH-HANDLING ACTIVITIES

#### OBSERVATION

Dining venues did not always comply with campus cash-handling policies and SSE dining cash-handling guidelines.

We visited three dining venues and found that:

- Cash overages and shortages were not consistently documented and explained.
- Cashiering location authorization forms were not consistently updated. Cash collection points are required to submit updated authorization forms and supporting attachments annually by June 1. However, two of the three dining venues we reviewed did not submit updated authorization forms for fiscal years 2017/18 and 2018/19.
- The safe combination and access form listing at one dining location was not updated to account for turnover in personnel as required.

Compliance with cash-handling policies and procedures helps to reduce exposure to risk related to loss, theft, or misappropriation of funds.

#### RECOMMENDATION

We recommend that the campus, in conjunction with SSE:

- a. Communicate cash-handling policies and procedures to key cash-handling administrators, including the requirements to document/explain all cash overages and shortages, timely update cashiering location authorization forms, and update safe combinations and access form listings when needed.
- b. Update the cashiering location authorization forms and safe combination and access form listing for the locations noted above.

#### MANAGEMENT RESPONSE

We concur. The campus will communicate cash-handling requirements to key cash-handling administrators in culinary services, including the requirements for handling cash overages and shortages, timely updating of cashiering authorization forms, and updating of safe combinations and access forms. In addition, the cashiering authorization forms and safe combination and access form will be updated.

Expected completion date: April 30, 2019

## 2. POINT-OF-SALE SYSTEM CONTROLS AND ACCESS

### OBSERVATION

Access to POS systems used by SSE dining venues needed improvement.

SSE uses the Sequoia POS system at all dining venues, which allows for the processing of all cash and cash-equivalent transactions; SSE also uses the Shopify POS system at one dining venue. In our review of these two POS systems, we found that:

- Access to the system administrator account in Sequoia was not limited to the primary system administrator. Specifically, we found that although dining personnel were provided with a unique login ID and pin to access the Sequoia system and process transactions, several POS transactions, including the issuance of refunds, were processed under the system administrator account, which is prohibited by campus cash-handling policies.
- Sequoia POS system controls did not restrict student cashiers from processing complimentary transactions, as required by the SSE dining cash-handling guidelines. Specifically, we found that student cashiers at two dining venues could process complimentary transactions in Sequoia, and we were unable to determine whether there were mitigating controls in place, such as documented explanations and management approval of complimentary transactions. This is a repeat observation from the 2015 *Auxiliary Organizations* audit.
- Shopify POS system users were not assigned unique user IDs and pins to access the system, and system controls did not restrict the processing of refunds. Specifically, we found that dining cashiers shared generic login credentials assigned to each register to process transactions. Additionally, we found that there were no system controls in place to restrict student dining cashiers from processing refunds, as required by SSE dining cash-handling guidelines, and we could not determine whether there was consistent documentation and management approval for these refunds, as required.

Proper administration of POS system access and controls over complimentary transactions and refunds increases the accountability of POS transactions and decreases exposure to loss from inappropriate access and misappropriation of funds.

### RECOMMENDATION

We recommend that the campus, in conjunction with SSE:

- a. Change the Sequoia system administrator account credentials as noted above and restrict access to only authorized personnel; and remind key dining personnel to use assigned POS system credentials when processing transactions.
- b. Establish POS system controls to restrict student dining cashiers from processing complimentary transactions in Sequoia and retain supporting documentation/explanation to support these transactions or implement mitigating controls, such as documented explanations and management approvals.

- c. Implement individual user login credentials for the Shopify POS system, implement POS system controls to restrict student cashiers from processing refunds, and retain documentation for these transactions or establish mitigating controls to ensure that refunds are documented and manually approved by management.

#### **MANAGEMENT RESPONSE**

We concur. The campus will change the Sequoia system administrator's account credentials and limit access to only authorized personnel. Key culinary service personnel will also be reminded that only assigned system credentials shall be used. The campus will update the cash-handling procedures for culinary services to require a supervisor to approve complimentary transactions at the time of transaction, if practical, but no later than the end of the business day. This update will be communicated and included in future trainings. The login credential setup within Shopify will be updated to assign individual user login credentials, restrict the ability for cashiers to process refunds, and implement controls for authorized refunds, including documentation and proper approvals.

Expected completion date: April 30, 2019

### **3. STUDENT EMPLOYEE TRAINING**

#### **OBSERVATION**

Student employees did not always timely complete training, and training documentation was not always retained.

Student employees are required to complete training depending on their assigned duties, including cash-handling, food handler safety, and RBS training. In our review of student employee training, we found that:

- There was no process in place to verify and ensure that student employees timely completed required training. As a result, we found that seven of 23 student employees we reviewed did not timely complete food handler safety and RBS training as required. Additionally, we found that although current SSE practices required that student employees complete food handler safety training within 30 days of hire, SSE policies did not clearly specify the completion time frames for this training.
- Insufficient documentation was retained to substantiate completion of required cash-handling and RBS training. We reviewed training records for 23 student employees, and management was unable to locate training attendance records and training materials presented for three students required to complete cash-handling training and training records for six students required to complete RBS training. Additionally, we found that although SSE practices required that student employees complete cash-handling training before obtaining POS system access, SSE policies did not clearly specify this training requirement.
- SSE RBS training practices did not align with campus and dining standard operating procedures. SSE practices require employees to complete RBS training within 30 days of

hire; however, the campus alcoholic beverages policy and SSE dining standard operating procedures require the completion of this training prior to selling or serving alcohol, which may occur sooner than 30 days from an employee's hire date.

Appropriate oversight and administration of student employee training ensures that employees are adequately trained and cognizant of related policies and procedures and reduces legal and financial exposure from inappropriate actions.

### **RECOMMENDATION**

We recommend that the campus, in conjunction with SSE:

- a. Establish a process to monitor the timely completion of student employee training and update policies and procedures to define training completion requirements, including completion time frames, as noted above; and communicate these updated policies and procedures to key SSE personnel.
- b. Require key SSE personnel to retain student employee training documentation, including attendance records and training materials as noted above, in accordance with campus and SSE record retention requirements.
- c. Align current RBS training practices with campus policy and SSE dining standard operating procedures in order to ensure that RBS training is completed prior to the sale or serving of alcoholic beverages.

### **MANAGEMENT RESPONSE**

We concur. The campus will establish, document and retain, and communicate a process to monitor the timely completion of student employee training and update policies and procedures to define training completion requirements, including completion time frames. Key culinary service personnel will also be required to retain student employee training documentation, including attendance records and training materials, in accordance with campus and SSE record retention requirements. Additionally, the campus will align current RBS training practices with campus policy and SSE dining standard operating procedures in order to ensure that RBS training is completed prior to the sale or serving of alcoholic beverages.

Expected completion date: April 30, 2019

## **4. DINING OPERATING PROCEDURES**

### **OBSERVATION**

Dining personnel did not consistently perform established procedures, and dining inventory purchasing procedures did not align with current practice.

We reviewed two dining venues and found that:

- Food-temperature monitoring was not consistently documented. Standard operating procedures for dining operations require that temperatures be monitored and documented when frozen or refrigerated food is received and daily for all refrigerators, freezers, and dry storerooms. However, we found that at both dining venues, temperature logs were either not consistently documented or not retained to indicate that food temperatures were monitored.
- Insufficient documentation was retained to indicate that quarterly inventory price adjustments were performed as required.
- Inventory purchasing procedures did not align with current practices. Purchasing procedures require executive chef approval for purchases over \$10,000 and dining director approval on all dining inventory purchases. However, we found that in practice, these procedures were not consistently followed, as purchases were only required to be approved by the entrepreneurial activities administrators. Specifically, we found that four of six invoices we reviewed were not approved by the dining director; one of these purchases was also over \$10,000 and was not approved by the executive chef.

Compliance with established procedures reduces the risk of errors and irregularities and helps to ensure that management's objectives will be met.

#### **RECOMMENDATION**

We recommend that the campus, in conjunction with SSE:

- a. Implement temperature logs for receiving food and for refrigerators, freezers, and dry storerooms as noted above, require consistent documentation of temperature monitoring in accordance with established dining procedures, and communicate these requirements to key dining personnel.
- b. Perform and document price adjustments as required.
- c. Enforce established inventory purchasing approvals as noted above or update the inventory purchasing procedures to align with current practices.

#### **MANAGEMENT RESPONSE**

We concur. The campus will retain temperature logs for receiving food and for refrigerators, freezers, and dry storerooms in accordance with established culinary procedures, and these procedures will be communicated to key personnel. Additionally, the campus will perform and document required price adjustments and update the inventory purchasing procedures to align with current practices.

Expected completion date: April 30, 2019

## 5. CAMPUS AGREEMENTS

### OBSERVATION

The administration of agreements between the campus and SSE needed improvement.

We found that the campus, in conjunction with SSE, did not have an executed agreement/contract for services performed by state employees for the benefit of SSE.

Specifically, campus state employees provided various services to SSE, including, but not limited to, dining services, institutional support such as human resources and risk management, financial services, and other support services. Although SSE reimbursed the campus for these services, the campus and SSE did not have a written agreement that included all of the provisions required by systemwide policy, including:

- Indication of full reimbursement to the campus for services performed by state employee(s).
- The specific services to be provided by state employee(s).
- The specific performance measures used by SSE to measure or evaluate the level of service.
- Acknowledgement that SSE does not retain the right to hire, supervise, or otherwise determine how to fulfill the obligations of the campus to provide the specific services.

Additionally, we found that one lease agreement for the use of the Student Center, which contained lease terms subject to the requirements in Executive Order (EO) 669, *Leases*, was not submitted to the chancellor's office for review and approval prior to execution.

Proper administration of campus and SSE agreements helps to ensure compliance with systemwide policies and inclusion of required terms and provisions, and reduces the risk of misunderstandings of responsibilities and liabilities.

### RECOMMENDATION

We recommend that the campus and SSE:

- a. Execute a written agreement for campus services provided to SSE and include all of the required provisions as noted above.
- b. Submit the lease agreement noted above to the chancellor's office for review and approval.

### MANAGEMENT RESPONSE

We concur. The campus will execute a written agreement for campus services provided to SSE to include all of the required provisions and submit the lease agreement to the chancellor's office for review.

| Expected completion date: April 30, 2019

## GENERAL INFORMATION

### BACKGROUND

Auxiliary organizations are separate business and legal entities that perform activities essential to the educational program of a campus that cannot be legally or effectively administered using state funding. California Code of Regulations (CCR) Title 5, §42401, states that auxiliary organizations provide the fiscal means and the management procedures that allow the campus to carry on activities providing those instructional and service aids not normally furnished by the state budget.

Education Code §89900 states, in part, that the operation of auxiliary organizations shall be conducted in conformity with regulations established by the Trustees, and CCR Title 5, §42402, confirms the campus president's authority and responsibility for auxiliary organization operations. 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.

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 auxiliary organizations.
- Implement financial standards that will assure the fiscal viability of 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 auxiliary organizations are within the educational mission of the state colleges.
- Develop policies for the appropriation of funds derived from indirect cost payments.

EO 1059, *Utilization of Campus Auxiliary Organizations*, dated June 6, 2011, represents Trustee policy addressing appropriate use of CSU auxiliary organizations. This EO requires CSU auxiliary organizations to operate within the regulations and oversight of the campus. The EO reiterates that the campus president is responsible for ensuring the fiscal viability of auxiliary organizations and their compliance with applicable CSU policies, and it further designates the campus chief financial officer as the individual responsible for administrative compliance and fiscal oversight of auxiliary organizations.

SSE was established in 1961 as a non-profit corporation to support the mission of Sonoma State University (SSU) by providing goods and services for the campus community and invited guests. SSE outsources bookstore and vending operations and is responsible for operating the Prelude at the Green Music Center, residence hall dining services, and central campus dining services. SSE does not have employees and relies on university personnel for accounting and administrative support services. SSE is governed by a board of directors composed of representatives from the community, SSU staff, faculty, and student body.

## SCOPE

We visited the SSU campus and SSE from September 4, 2018, through October 19, 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 SSE. The audit focused on procedures in effect from July 1, 2016, to October 19, 2018.

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, reserve provisions, budget, unrelated business income tax, and conflicts of interest.
- Internal controls and segregation of duties over fiscal administration of areas such as cash receipts, property and equipment, investments, and disbursements.
- Commercial operations, such as the bookstore and dining services.
- 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:

- 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*
- RFIN 7-81-4
- California Health and Safety Code, Division 104, Environmental Health, Part 7, *California Retail Food Code*
- California Alcoholic Beverage Control Act, Chapter 16, Article 4, *Responsible Beverage Service Training Program Act of 2017*

- EO 669, *Leases*
- EO 1000, *Delegation of Fiscal Authority and Responsibility*
- EO 1059, *Utilization of Campus Auxiliary Organizations*
- ICSUAM §1301.00, *Hospitality, Payment or Reimbursement of Expenses*
- ICSUAM §3000, *General Accounting*
- ICSUAM §3552.01, *Cost Allocation/Reimbursement Plans for the CSU Operating Fund*
- ICSUAM §6000, *Financing, Treasury and Risk Management*
- ICSUAM §15000, *University Advancement*
- ICSUAM §13680.00, *Placement and Control of Receipts for Campus Activities and Programs*
- Coded memorandum Risk Management (RM) 2012-01, *CSU Insurance Requirements*
- CSU Auxiliary Organizations Compliance Guide
- CSU Auxiliary Organizations Sound Business Practices Guidelines
- CSU Auxiliary Operating Agreement Model, Section 14, *Contracts for Campus Services*
- SSU Cash-Handling Policy
- SSU Alcoholic Beverages Policy
- SSU University Culinary Services (UCS) Cash Handling Guidelines
- SSU UCS Standard Operating Procedures
- SSU UCS Inventory Purchases and Counting Process
- SSU UCS Purchasing, Receiving, and Storage Flow

## AUDIT TEAM

Audit Manager: Cindy Merida  
Senior Auditor: Mayra Villalta  
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