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July 1, 2015

Dr. Soraya M. Coley, President  
California State Polytechnic University, Pomona  
3801 West Temple Avenue  
Pomona, CA 91768

Dear Dr. Coley:

**Subject: Audit Report 15-30, *College Reviews*, California State Polytechnic University, Pomona**

We have completed an audit of *College Reviews* 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

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**The California State University**  
Office of Audit and Advisory Services

## **COLLEGE REVIEWS**

**California State Polytechnic University,  
Pomona**

**College of Agriculture**

Audit Report 15-30  
May 20, 2015

## EXECUTIVE SUMMARY

### OBJECTIVE

The objectives of the audit were to ascertain the effectiveness of college 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

Based upon the results of the work performed within the scope of the audit, except for the effect of the weaknesses described below, college administrative and financial controls as of March 20, 2015, taken as a whole, were sufficient to meet the objectives of this audit.

In general, the audit did not reveal any significant internal control problems or weaknesses that would be considered pervasive in their effects on college administrative and financial controls. Overall, we found that college fiscal controls were sound. However, the review did identify opportunities for improvement in some areas, such as compliance with campus and auxiliary cash handling, campus contracting, and expenditure processing policies and procedures.

Although the objectives of this audit were met, the issues identified indicate that some attention is needed to ensure that the college financial, operational, and administrative operations are in conformance with existing policies and to a level necessary to meet management expectations. Most issues listed below represent opportunities to improve the college administrative and financial controls at California State Polytechnic University, Pomona (Cal Poly Pomona).

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

## OBSERVATIONS, RECOMMENDATIONS, AND RESPONSES

### 1. CASH AND CASH-EQUIVALENT ACTIVITIES

#### OBSERVATION

Administration of cash handling for Cal Poly Pomona Foundation (Foundation) accounts needed improvement.

We reviewed four cash-handling locations that deposited funds to campus program accounts held at the Foundation: the Arabian Horse Center, the Vet Clinic, the ApparelScapes Clothing Store, and the Farm Store.

We found that:

- Background checks were not conducted for student workers at the Farm Store who had access to cash registers and performed cash-handling duties because the Foundation had not classified these employees as cashiers.
- The reconciliation of sales made at the Farmer’s Market to inventory sold only included produce provided by external vendors and did not reconcile inventory sold from the Farm Store’s internal supply of grocery and produce items. In addition, there were no written procedures for the reconciliation.
- Deposits were not always made in a timely manner by the Arabian Horse Center. In addition, deposit slips were not used for funds collected through ticket sales for the center’s Sunday horse shows.
- At the Arabian Horse Center, segregation of duties was inadequate, as one employee both received payments for ticket sales and prepared and made the deposit, with no evidence of secondary review. In addition, there was no reconciliation or tracking of ticket sales to cash collected.

Appropriate oversight and administration of cash-handling locations ensures that employees are properly trained and cognizant of related policies and procedures and decreases campus exposure to loss or misappropriation of funds.

#### RECOMMENDATION

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

- a. Conduct background checks for student workers with cash-handling duties at the Farm Store.
- b. Include a reconciliation of sales to inventory for all items sold at the Farmer’s Market, including sales made from the Farm Store’s internal supply of grocery and produce items, and document procedures for the reconciliation of cash collected to inventory sold at the Farmer’s Market.

- c. Remind financial administrators at the Arabian Horse Center of Foundation policies for deposit documentation and timeliness.
- d. Implement appropriate segregation of duties at the Arabian Horse Center or compensating mitigating controls for the receipt and deposit of ticket sales, including reconciling or tracking ticket sales to cash collected.

**MANAGEMENT RESPONSE**

We concur.

- a. The campus will implement background checks for student workers with cash-handling duties at the Farm Store.
- b. The campus will include a reconciliation of sales to inventory for all items sold at the Farmer’s Market, including sales made from the Farm Store’s internal supply of grocery and produce items, and document procedures for the reconciliation of cash collected to inventory sold at the Farmer’s Market.
- c. The campus will continually remind financial administrators at the Arabian Horse Center of Foundation policies for deposit documentation and timeliness.
- d. The campus will implement appropriate segregation of duties at the Arabian Horse Center or compensating mitigating controls for the receipt and deposit of ticket sales, including reconciling or tracking ticket sales to cash collected.

Timeline: October 30, 2015

**2. CONTRACTS AND AGREEMENTS**

**OBSERVATION**

Contracts and agreements for fee-for-service arrangements were not always in place.

We noted that the department of animal and veterinary sciences had arrangements with three external companies to bring Japanese students on campus for one-day workshops and lectures. The arrangements have been in place for several years. However, there was no formal agreement or contract to specify the terms of these arrangements or to address responsibilities and possible liability issues.

In addition, the department had a fee-for-service arrangement with the City of Norwalk for the kenneling of petting-zoo animals. A quotation for fees was signed and accepted by Caltrans and kept on file. However, there was no written agreement in place, and procurement and support services, the delegated department on campus for contracting activities, was not notified.

We also noted that the director of the Arabian Horse Center signed sales agreements on behalf of the university without a proper delegation of authority in place.

The lack of appropriate agreements or contracts increases the potential for misunderstandings of the business terms and responsibilities and exposes the university to financial and legal obligations. In addition, the lack of written delegations of authority increases the risk of unenforceable agreements and non-compliance with California State University (CSU) and governmental requirements.

**RECOMMENDATION**

We recommend that the campus:

- a. Discuss the existing fee-for-service arrangements indicated above with the department of animal and veterinary sciences to determine whether written agreements should be executed at this time, or in the future when similar services are provided.
- b. Remind college and department administrators of the types of situations in which a contract or agreement should be completed, and the appropriate approvers for contracts and agreements as defined by campus policies and procedures.
- c. Document a written delegation of authority for the director of the Arabian Horse Center for signing sales agreements, or require those agreements to be signed by someone with appropriate delegated authority.

**MANAGEMENT RESPONSE**

We concur.

- a. The campus will discuss the existing fee-for-service arrangements indicated above with the department of animal and veterinary sciences to determine whether written agreements should be executed at the time, or in the future when similar services are provided.
- b. The campus will remind college and department administrators of the types of situations in which a contract or agreement should be completed, and the appropriate approvers for contracts and agreements as defined by campus policies and procedures.
- c. The campus will document a written delegation of authority for the director of the Arabian Horse Center for signing sales agreements, or require those agreements to be signed by someone with appropriate delegated authority.

Timeline: October 30, 2015

**3. EXPENDITURE AUTHORIZATION AND APPROVAL**

**OBSERVATION**

Hospitality expenses were not always approved by the vice president or designee as required by campus policy.

We reviewed 30 state expenditures and noted that all three hospitality expenses selected were approved by department personnel who did not have a written delegation of authority from the vice president to approve these types of expenses.

Proper authorization and approval of hospitality-related expenses improves accountability, allows appropriate administration of state funds, and decreases the risk of noncompliance with CSU and governmental requirements.

**RECOMMENDATION**

We recommend that the campus:

- a. Remind college and department administrators of the proper approvals required for hospitality expenses.
- b. Remind accounts payable staff that hospitality events held at, or catered by, the campus restaurant and invoiced through the Foundation are required to comply with campus requirements for hospitality approvals.

**MANAGEMENT RESPONSE**

We concur.

- a. The campus will remind the college and department administrators of the proper approvals required for hospitality expenses.
- b. The campus will remind accounts payable staff that hospitality events held at, or catered by, the campus restaurant and invoiced through the Foundation are required to comply with campus requirements for hospitality approvals.

Timeline: August 31, 2015

## GENERAL INFORMATION

### BACKGROUND

The California State University is the nation's largest four-year public university system, with 23 campuses offering more than 1,800 bachelor's and master's degree programs in 240 subject areas. 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 Cal Poly Pomona, the dean of each college has overall responsibility for oversight of financial administration within the college, supported by the chair of each department. Additionally, each college has a budget analyst directly reporting to either the dean or an associate dean and is responsible for overall budget planning and fiscal solvency. Centralized oversight over college financial activities is also provided by the department of institutional research and academic resources through a mid-year review and end-of-year monitoring and reconciliation.

The College of Agriculture consists of five departments: agribusiness and food industry management/agricultural science; animal and veterinary sciences; apparel merchandising and management; human nutrition and food science; and plant science. The college houses a variety of programs and activities, including the W.K. Kellogg Arabian Horse Center; the Apparel Technology and Research Center; the Center for Antimicrobial Research and Food Safety; the Center for Turf, Irrigation and Landscape Technology; and the Farm Store at Kellogg Ranch.

### SCOPE

We used financial and other factors to select an academic college 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, such as total revenues and expenditures, college activities, and management turnover, to make our determination.

We visited the Cal Poly Pomona campus from February 23, 2015, through March 20, 2015. Our audit and evaluation included the audit tests we considered necessary in determining whether administrative and financial controls are in place and operative at the College of Agriculture at Cal Poly Pomona. The audit focused on procedures in effect from January 1, 2013, through March 20, 2015.

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 purchases.
- Administration of faculty and staff reimbursed time.
- Measures to ensure that stand-alone information systems are included in the campus inventory of information assets.

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 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:

- 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
- Cal Poly Pomona *Hospitality Expenses Policies and Procedures*
- *Foundation Cash Receipt Policies and Procedures*

## AUDIT TEAM

Senior Director: Michelle Schlack  
Senior Audit Manager: Wendee Shinsato  
Senior Auditor: Christina Chen