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August 3, 2015

Dr. Paul J. Zingg, President  
California State University, Chico  
400 West First Street  
Chico, CA 95929

Dear Dr. Zingg:

**Subject: Audit Report 15-32, College Reviews, California State University, Chico**

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 University,  
Chico**

**College of Engineering, Computer Science, and  
Construction Management**

Audit Report 15-32  
June 26, 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 May 15, 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. However, the review did identify opportunities for improvement in some areas, such as oversight of affiliated organizations, campus cash-handling and employee reimbursement procedures, campus and auxiliary contracting processes, auxiliary expenditure processing, and procedures for faculty outside-employment disclosures. The lack of clear policies and procedures and insufficient oversight in the related areas, as well as turnover of college and department administrators, may have contributed to these issues.

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 University, Chico (CSUC).

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

## OBSERVATIONS, RECOMMENDATIONS, AND RESPONSES

### 1. IMPROPER USE OF CALIFORNIA STATE UNIVERSITY NAME

#### OBSERVATION

Two non-profit organizations associated with the College of Engineering, Computer Science, and Construction Management (ECC) improperly used the university name without authorization.

We noted that these two non-profit organizations, which were not recognized campus auxiliary organizations, included “Chico State” in their names. The Chico State Construction Management Education Foundation was established by a faculty member and former department chair in 2013 to support the construction management program by providing independent scholarships and increasing recruiting awareness. The Chico State CIM Patrons Education Foundation was established in 2005 to support the concrete industry management program.

Unauthorized use of the California State University (CSU) name by unrecognized organizations exposes the university to financial and legal obligations and increases the risk of noncompliance with state and systemwide requirements.

#### RECOMMENDATION

We recommend that the campus:

- a. Remove “Chico State” from the names of the two non-profit organizations noted above.
- b. Inform faculty within ECC of the restrictions regarding the use of the university’s name in regard to any organization not officially recognized and authorized by the campus and chancellor’s office.

#### MANAGEMENT RESPONSE

We concur. Campus administration will work with the two non-profit organizations to remove “Chico State” from their names. The vice president for business and finance will issue a memo to all college deans reminding them of this restriction.

Implementation date: December 15, 2015

### 2. CAMPUS POLICIES AND PROCEDURES

#### OBSERVATION

Campus cash handling and employee reimbursement policies and procedures needed improvement.

We noted that the campus was in the process of updating cash-handling procedures to comply with ICSUAM requirements, but the procedures had not been finalized. In addition, campus procedures to reimburse employees for business expenditures were outdated and did not reflect current practices.

Defined and complete policies and procedures for cash management and expenditure processing improve accountability of funds and improve compliance with systemwide requirements.

**RECOMMENDATION**

We recommend that the campus:

- a. Finalize cash-handling procedures to include key areas required by ICSUAM.
- b. Update employee reimbursement procedures to reflect current practices.
- c. Communicate the updated procedures to campus and ECC personnel involved in cash handling and expenditure processing.

**MANAGEMENT RESPONSE**

We concur. The director of student financial services will update the cash-handling procedures to reflect current ICSUAM requirements. The director of procurement and contract services will update the employee reimbursement procedures to reflect current practices. The updated procedures will be communicated to the campus on an annual basis.

Implementation date: October 31, 2015

**3. CONTRACTS AND AGREEMENTS**

**OBSERVATION**

Contracts and agreements were not always in place or properly executed.

We found that:

- The department of civil engineering agreed in October 2014 to provide funds to pay for university students and alumni to tailor research and provide support services to an outside non-profit organization. There was no formal agreement or contract to specify the terms of this arrangement or to address responsibilities and possible liability issues. Although the work was performed in December 2014, the payment had not been processed by the end of fieldwork.
- External corporations or individuals sponsored senior capstone projects for students in the department of mechanical engineering, mechatronic engineering, and sustainable manufacturing (MEM), and these sponsorships were treated as donations. However, based on the nature of the projects and the language included in the sponsorship

agreements, the arrangements provided benefits to the sponsors and should have been treated as contractual agreements. In addition, the program director signed the sponsorship agreements on behalf of the university without delegated authority to do so.

- The interim dean of ECC signed a project agreement with Verizon on behalf of the University Foundation (Foundation) without a proper delegation of authority in place. In addition, the fully executed copy of the agreement could not be located.

The lack of appropriate agreements or contracts increases the potential for misunderstandings of the business terms and responsibilities of the parties involved 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 CSU requirements.

### **RECOMMENDATION**

We recommend that the campus:

- a. Discuss the existing arrangement indicated above with the department of civil engineering to determine whether a written agreement should be executed and decide on the appropriate method to process the payments for the work that has already been performed.
- b. Evaluate the nature of the MMEM senior capstone projects and determine the appropriate manner in which to handle the projects going forward, including whom the proper signer of these types of contractual arrangements or agreements should be.
- c. Determine whether a fully executed copy of the Verizon agreement referred to above should be pursued.
- d. In conjunction with the Foundation, reinforce campus delegation of authority requirements for execution of contracts and agreements with college deans. In addition, inform all college and department administrators of the individuals with appropriate delegated authority for signing contracts, and the types of situations in which a contract or agreement would be required to be completed.

### **MANAGEMENT RESPONSE**

We concur.

- a. The dean of ECC will work with the CSU, Chico Research Foundation (Research Foundation) executive director to evaluate the arrangement and determine appropriate resolution. The dean and executive director will follow up with a memo to the provost with assessment and resolution.
- b. The interim associate vice president for research will work with the Research Foundation executive director to determine the proper contractual arrangement for senior capstone projects.

- c. The dean of ECC will work with his staff to identify a fully executed agreement. If not found, the dean will write and issue a memo to his staff on procedures for filing and retaining important documents, with specific reference to the campus retention policy.
- d. The provost will issue a memo to the Research Foundation executive director, instructing an annual email reminder and update to inform college and department administrators of campus delegation of authority requirements and responsibility to contract.

Implementation date: October 31, 2015

#### 4. AUXILIARY EXPENDITURE PROCESSING

##### **OBSERVATION**

Foundation expenditure processing needed improvement.

We reviewed 15 Foundation expenditures and noted that:

- Two hospitality reimbursements for various business meals and candidate interviews totaling \$3,227 were approved by someone who attended the meals, and therefore directly benefited from the expenses. In addition, we noted that although the Foundation hospitality policy did not prescribe limits on the amount that could be reimbursed per meal, some of these meal costs were well over the campus hospitality meal limits.
- Three other expenses related to travel and honorarium payments did not have either proper approval or sufficient documentation on file.

Proper approval and documentation of expenses improves accountability, allows appropriate administration of funds, and decreases the risk of noncompliance with CSU and governmental requirements.

##### **RECOMMENDATION**

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

- a. Evaluate the Foundation hospitality expense policy to determine whether a dollar limit should be imposed for certain expense categories, such as meals, similar to the limit in the campus hospitality policy.
- b. Remind ECC expenditure approvers and Foundation accounting staff that individuals are not allowed to approve their own hospitality expenses.
- c. Provide refresher training or other relevant guidance to Foundation accounting staff and ECC college and department administrators responsible for processing Foundation expenditures on the proper approvals and documentation required for travel and honorarium payments.

**MANAGEMENT RESPONSE**

We concur.

- a. The Research Foundation executive director will revise the hospitality expense policy and establish a similar dollar limit as the campus procedures for reimbursement of meals.
- b. The dean of ECC and the Research Foundation executive director will issue an email reminding ECC and Foundation staff that individuals are not allowed to approve their own expenses. The Research Foundation executive director will work with all college deans on similar correspondence.
- c. The Research Foundation executive director will ensure that ECC and Foundation staff are appropriately trained on the processing of Foundation payments for travel and honorarium, including proper approvals and documentation.

Implementation date: December 15, 2015

**5. FACULTY OUTSIDE-EMPLOYMENT DISCLOSURES**

**OBSERVATION**

Campus internal procedures for faculty outside-employment disclosures needed improvement.

Based on our review, it appeared that at least two faculty members at ECC had outside employment or owned businesses that they did not disclose. Although the campus had a process in place for sending out emails each semester reminding all faculty members of their duty to disclose such employment per the faculty collective bargaining agreement, there were no procedures in place to inform department or college administrators what to do when they discovered violations of the reporting requirement.

Defining the procedures that campus and college administrators should follow when they discover violations of faculty outside-employment disclosure helps to ensure that outside professional activities do not interfere with a faculty member's professional obligations to the university, and that all such situations are treated equally and fairly.

**RECOMMENDATION**

We recommend that the campus update internal procedures for faculty outside-employment disclosures to include information on actions that should be taken when violations of the reporting requirement are discovered.

**MANAGEMENT RESPONSE**

We concur. The associate vice president for faculty affairs will update internal procedures for faculty outside-employment disclosures to address situations where violations of the

requirement are discovered. Once it is complete, the associate vice president will provide written communication to the provost and college deans informing them of the update.

Implementation date: December 15, 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 CSUC, the dean of each college has overall responsibility for oversight of financial administration within the college and is supported by the chair of each department. Additionally, each college has an administrative analyst/specialist 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 vice provost for budget and academic resources through monitoring and reconciliation of allocations and expenditures of colleges and departments.

ECC consists of five departments: civil engineering; computer science; construction management; electrical and computer engineering; and mechanical engineering, mechatronic engineering, and sustainable manufacturing. In addition, it houses the applied computer graphics and concrete industry management programs. The college also hosts a variety of programs and activities, including the California Pavement Preservation Center, the Institute for Research in Intelligent Systems, the McLeod Institute of Simulation Sciences, and the California Mechatronics Center.

### 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 CSUC campus from April 13, 2015, through May 15, 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 ECC at CSUC. The audit focused on procedures in effect from January 1, 2013, through May 15, 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*
- ICSUAM *Auxiliary Organizations Compliance Guide*
- *Compilation of Policies and Procedures for CSU Auxiliary Organizations*
- Government Code §13402 and §13403
- California Code of Regulations, Title 5
- California Faculty Association Collective Bargaining Agreement, Article 35, *Outside Employment*
- CSUC *Procedures for Campus Cash Handling*

- *CSUC Travel Procedures for Faculty, Staff and Administrators*
- *CSUC Procedures for Reimbursements to Campus Employees*
- *CSUC University/Research Foundation Hospitality Expense Policy*
- *CSUC University/Research Foundation Travel Policy and Guidelines*

## **AUDIT TEAM**

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