

# **CALIFORNIA STATE UNIVERSITY, SONOMA**

Audit Report

## **STUDENT FEE REVENUES PROGRAM**

*July 1, 2006, through December 31, 2007*



**JOHN CHIANG**  
California State Controller

April 2009



**JOHN CHIANG**  
California State Controller

April 30, 2009

Ruben Armiñana, Ph.D.  
University President  
Sonoma State University  
1801 East Cotati Avenue  
Rohnert Park, CA 94928

Dear Dr. Armiñana:

The State Controller's Office (SCO) audited California State University, Sonoma's (SSU) expenditures of student fee revenues for the period of July 1, 2006, through December 31, 2007.

The SCO is in the process of evaluating the expenditures of all 23 campuses within the California State University system. Each of the 23 campuses will be audited separately because, while most of the campuses and the Chancellor's Office use the same accounting system and abide by some of the same system-wide policies, each campus is operated autonomously and has its own system of internal controls. When we have concluded the audits of all 23 campuses, we will combine the 23 individual audit reports into one final report.

Our audit did not disclose any significant internal control problems or weaknesses that would be considered pervasive in their effects on the accounting and internal controls over the expenditures of student fee revenues. However, our audit noted SSU does not have a policy to prevent paying past due invoices with a Credit Card Procurement Program card (ProCard). Further, SSU does not consistently pre-approve goods and services, does not consistently obtain travel pre-authorizations, and did not make contract payments according to contract terms.

If you have any questions, please contact Andrew Finlayson, Chief, State Agency Audits Bureau, at (916) 324-6310.

Sincerely,

*Original signed by*

**JEFFREY V. BROWNFIELD**  
Chief, Division of Audits

JVB/sk

cc: Laurence Furukawa-Schlereth, Chief Financial Officer and Vice President  
Administration and Finance  
Sonoma State University  
Letitia Coate, Associate Vice President  
Administration and Finance  
Sonoma State University  
John Hayes, Deputy Controller  
Sonoma State University  
George Ashkar, Senior Director, Controller  
California State University  
Office of the Chancellor  
Colleen Nickles, Assistant Vice Chancellor  
Financial Services  
Office of the Chancellor  
Kurt Koehle, Internal Auditor  
Sonoma State University

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# Audit Report

## Summary

The State Controller's Office (SCO) has audited California State University, Sonoma's (SSU) expenditures of student fee revenues for the period of July 1, 2006, through December 31, 2007. The SCO is in the process of evaluating the expenditures of all 23 campuses with the California State University (CSU) system. Each of the 23 campuses will be audited separately because, although most of the campuses and the CSU Chancellor's Office use the same accounting system and abide by some of the same system-wide policies, each campus is operated autonomously with its own system of internal controls. When we have concluded the audits of all 23 campuses, we will combine the 23 individual audit reports into one final report.

The purpose of our audit was to determine whether expenditures of student fee revenues were proper and to determine whether SSU has an adequate accounting system and internal controls over the expenditure of student fee revenues.

Our audit did not disclose any significant internal control problems or weaknesses that would be considered pervasive in their effects on the accounting and internal controls over the expenditures of student fee revenues. However, our audit noted SSU does not have a policy to prevent paying past due invoices with the Credit Card Procurement Program card (ProCard). Further, SSU does not consistently pre-approve goods and services, does not consistently obtain travel pre-authorizations, and did not make contract payments according to contract terms.

## Background

On July 19, 2006, Education Code section 89721 (AB 1802) was approved, permitting individual CSU campuses to maintain local trust accounts and deposit into them money collected as income from students from any CSU campus and from other persons pursuant to Education Code section 89700. Pursuant to Education Code section 89721, the SCO shall have the authority to audit the expenditure of moneys collected as higher education fees and income from students from any campus of the CSU and from other persons pursuant to Education Code section 89700.

By authority of the California Constitution, Government Code section 12410 states, "The Controller shall superintend the fiscal concerns of the state. The Controller shall audit all claims against the state, and may audit the disbursement of any state money, for correctness, legality, and for sufficient provision of law for payment." In addition, Government Code section 12411 stipulates that, "... the Controller shall suggest plans for the improvement and management of the revenues."

## **Objectives, Scope, and Methodology**

The objective of this performance audit was to determine whether SSU has an accounting system and internal controls in place to ensure that expenditures of student fee revenues are adequately accounted for and are expended in accordance with applicable CSU system-wide, SSU, and state policies and procedures.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

In conducting our audit, we:

- Gained an understanding of SSU's policies and procedures related to the expenditure of student fee and evaluated whether SSU's policies and procedures comply with CSU system-wide policies, applicable state policies and procedures, and sound business practices;
- Evaluated SSU's accounting and internal controls related to the expenditure of student fees by conducting on-site visits, observations, and interviews with appropriate SSU personnel; and
- Judgmentally selected expenditures of student fee revenues to determine whether the sampled transactions were properly approved, adequately supported, and in accordance with SSU's policies and procedures. Additionally, we reviewed each sampled transaction to determine whether the expenditures was an appropriate use of student fee revenues.

## **Conclusion**

Our audit did not reveal any internal control deficiencies or weaknesses that would be considered significant in determining whether SSU has an accounting system and internal controls in place to ensure the expenditures of student fee revenues are adequately accounted for and are expended in accordance with applicable CSU system-wide, SSU, and state policies and procedures. However, our audit noted the following insignificant internal control weaknesses: SSU does not have a policy to prevent paying past due invoices with a ProCard; SSU does not consistently pre-approve goods and services; SSU does not consistently obtain travel pre-authorizations; and SSU did not make contract payments according to contract terms. We do not consider these internal control weaknesses significant because our testing did not indicate circumstances of significant occurrences of these conditions and the weaknesses are not likely to result in a material misuse of student fee revenues. We have included details of these weaknesses and our recommendations for corrective action in the Findings and Recommendations section of this report.

**Views of  
Responsible  
Official**

We issued a draft report dated November 26, 2008. Larry Furukawa-Schlereth, Chief Financial Officer and Vice President for Administration and Finance, responded by letter outlining SSU's efforts to implement our audit recommendations. The letter, dated December 18, 2008, is attached. SSU concurred with our audit findings.

**Restricted Use**

This report is solely for the information and use of California State University, Sonoma; California State University, Office of the Chancellor; and the SCO; it is not intended to be and should not be used by anyone other than these specified parties. This restriction is not intended to limit distribution of this report, which is a matter of public record.

*Original signed by*

JEFFREY V. BROWNFIELD  
Chief, Division of Audits

April 30, 2009

# Findings and Recommendations

**FINDING 1—  
Payment of past due  
invoices with the  
Procard may result in  
duplicate payments**

Our review determined that California State University, Sonoma (SSU) has no policies prohibiting use of the Credit Card Procurement Program card (ProCard) to pay for past-due invoices. PeopleSoft, SSU's accounting system, has a built-in control to ensure that duplicate invoice entries do not occur. However, no system controls prevent duplicate payment using the Procard. By allowing the Procard to be used to pay for past invoices, SSU is at risk for duplicating a payment that has already been made to the vendor through the direct payment or purchase order process.

The California State University (CSU) Policy Manual for Contracting and Procurement, section 205, Low-Value Purchases, states, "Each campus must develop low-value procurement policies and procedures that as a minimum must include the following: . . . (e) ensure duplicative payments do not occur."

## Recommendation

In order to prevent future duplicate payments, SSU should prohibit use of Procards to pay for past due invoices.

## SSU's Response

We accept the recommendation. SSU will prohibit use of the Procurement Card (Cal-Card/Procard) to pay for past-due invoices:

- Update the Procard Handbook for Cardholders and Approving Officials by adding past-due invoices to the Prohibited Procard Use listing on page 4; the updated Handbook will be accessible online via the SSU Financial Services/Purchasing Web Page.
- Notify all cardholders and approving officials of the change in writing.
- Highlight this change in all new cardholders' and approval officials' mandatory training as well as annual refresher training for all existing cardholder and approving officials.

**FINDING 2—  
Duplicate payments  
made**

Our audit disclosed that SSU made duplicate payments during the audit period. We found three instances of duplicate payments totaling \$41,628. Two of the duplicate payments were made to vendors with regular billing cycles who automatically credited SSU on the next billing statement. The other duplicate payment was made to an employee for the reimbursement of business expenses. The duplicate payments took place when accounts-payable staff paid the original invoice or reimbursement claim and then later received a copy of the same invoice and paid it a second time. SSU's PeopleSoft accounting system includes a control that prevents duplicate payments by alerting the accounts-payable staff when payment has already been applied to the same vendor invoice number. However, these duplicate payments were not detected by the computer system due to a data entry error.

In SSU's PeopleSoft accounting system, the invoice number is a critical criterion used as reference for the payment of an invoice or claim. When an invoice or claim does not include an invoice number—as with reimbursement claims and service invoices—SSU accounts-payable staff members assign a number based on SSU's invoice naming convention. For instance, the naming convention for travel reimbursement claims is TR followed by the date of travel and the amount of the travel reimbursement. We performed a test on 53 invoices that were assigned invoice numbers by accounts-payable staff members. Six of the invoice numbers assigned (11.3%) did not fully comply with SSU's invoice naming convention. Failure to follow the invoice naming convention increases the risk that an invoice will be paid twice.

**Recommendation**

SSU's accounts-payable department should strengthen controls to prevent duplicate payments. Staff members should ensure that invoices have not been previously processed by matching them against vendor payment history and by paying close attention to invoice numbers when performing daily reviews. In addition, staff members should consistently follow the invoice naming conventions when assigning invoice numbers.

**SSU's Response**

We concur. SSU will issue a written reminder to all AP staff of the importance of data entry accuracy, peer review, and adhering to the Invoice Naming Convention.

**FINDING 3—  
Acquisition of goods and  
services not consistently  
pre-approved**

Four of 65 purchases for goods and services (6.2%), totaling \$87,724, were made before an E-requisition or purchase order was completed and approved.

SSU's Business Process Guide states, "The procurement of items greater than \$2,500 requires an E-Requisition."

Recommendation

To ensure that SSU's goods and services are acquired at the best available price and that purchases are properly justified prior to acquisition, the SSU Contracts and Payment Office should ensure that an E-requisition or purchase order is approved before each major procurement, and documentation exists that defines the responsibilities of the vendor, including the price, terms, and deliverables to be provided.

SSU's Response

- We accept the recommendation. SSU will conduct training sessions with the administrative staff of the departments emphasizing that non-procurement card purchases required e-requisition which must be submitted to the Contracts and Procurement Office before the purchase is made.
- Departments will also be trained to understand such purchases made without an e-requisition will not be processed for payment by SSU. Exceptions will require the approval of Associate Vice President for Administration and Finance.

**FINDING 4—  
Travel pre-authorizations  
not consistently obtained**

Our audit disclosed that travel pre-authorizations were not consistently obtained in accordance with CSU system-wide policies.

- Five of the 34 travel clearance/claims (14.7%), totaling \$12,610, did not include travel pre-authorization forms.

The Authorization for Absence from Campus Duties/Travel Request/Travel Advance Request Form states: "Prior authorization must be obtained by all employees for planned absences from scheduled duties. . . . This authorization form is to be submitted ten days in advance of a planned absence. Approval of faculty absences should be submitted through Department Chairs to the Office of the School Dean."

- Of our sample of 34 travel clearance/claims, four claims included reimbursement for conference fees that required approval by the University President because the conference fee was more than \$500. One of the four conference fees was never approved by the University President, and one was approved by the University President after the conference had been attended.

CSU Policy and Procedures Governing Travel and Relocation Expense Reimbursement, section 107, stipulates that “(B) Registration fees will be allowed except for conventions or conferences called by a campus for the dissemination of information to its own employees. Registration fees exceeding \$500 must be approved by the President.”

### Recommendation

To ensure that its travel policies are governed by control procedures that protect student fee revenues, SSU should:

- Ensure that pre-authorizations are obtained in a timely manner and submitted to Business Services.
- Communicate regularly to employees the consequences of failing to follow established procedures, and withhold payment of inappropriate expenses and claims that do not include adequate documentation.

### SSU's Response

We concur

- An e-mail was sent to all employees by Laurence Furukawa-Schlereth, Vice President for Administration and Finance, on November 27, 2007, reiterating the campus policy and stating that expense claims will not be processed without the pre-authorization document completed in advance of the trip. Exceptions require the approval of Vice President for Administration and Finance.
- A follow-up e-mail was sent to all employees from Gloria Ogg, Senior Director for University Business Services, on February 8, 2008, reminding employees of the Vice President's November 3 e-mail and reiterating that claims submitted without a prior approval form on file will be returned unpaid.

Note: Claims cited by the auditors did not have “inappropriate expenses”; the pre-approval was not in place. All expenses were found to be appropriate and approved, but approvals were not in advance of the trip.

### **FINDING 5— Payments not paid according to contract terms**

Our audit testing of contract expenditures disclosed that invoices were not consistently paid in accordance with contract terms. We reviewed a sample of 29 contract invoices, totaling \$541,699. The results of our tests are as follows:

- Three invoices (two of which were from the same contract), totaling \$72,500, were not paid in arrears. Each contract states that “Invoices shall be submitted, in arrears, to the address stipulated in the Agreement.” Also, each contract stated in part, “Upon completion of work in a manner satisfactory to the University, and upon receipt of approved invoices that reference this contract number by the Accounts Payable Department, the University agrees to pay Contractor in arrears. . . .”

The CSU Policy Manual for Contracting and Procurement, section 201.09, states, in part, “Payment in arrears is the prescribed method of remitting payments for acquisitions. The CSU must have received appropriate return and/or in-kind value in order for consideration to be paid.”

During the contract service periods, SSU received these invoices or annual billings from each of the contractors for equipment maintenance services. SSU did not properly review each invoice and the terms of each contract prior to payment and, as a result, invoices were paid before all for the services for the year were provided.

Advance payments to contractors for services that have not been performed could result in a monetary loss to SSU if the contractor fails to perform all of the scheduled services for which SSU has paid.

- One contract we reviewed provides for the rental of convenience copiers at a total rental cost of \$4,966.66 per month; however, the vendor billed SSU \$5,351.65 for the monthly rental. SSU paid the invoice amount, resulting in a \$385 overpayment to the vendor. SSU correctly noticed this overpayment and recovered the overpayment from the vendor. However, our testing indicated that, at a later date, SSU continued to make the same \$385 per month overpayment without correcting the overpayment or receiving a credit from the vendor.

We brought this matter to SSU’s attention, and a representative confirmed that the eight invoices for 11 monthly equipment rental charges were indeed overpaid by \$385 per month, for a total of \$4,235. The result is a total overpayment of \$4,620 for 12 months of equipment rental charges.

In an August 28, 2008 letter to the contractor, SSU confirmed that SSU and the contractor have agreed that a credit memo will be issued in the amount of \$4,620 for the overpayments that SSU made.

Without proper review of invoices and contract terms, SSU may continue to overpay invoices.

- One contract we reviewed did not state the maximum amount to be paid in the contract. The vendor payment history indicated that \$157,555 was paid against the contract and the contract had not gone through the formal bidding process.

The CSU Policy Manual for Contracting and Procurement, section 233, states, “Regardless of the contract type, all contracts should clearly state the maximum amount payable for performances under the contract.”

### Recommendation

SSU should:

- Reinforce the requirement that all contract invoices be properly reviewed by the Office of Procurement and Contract personnel before the invoice is signed, approved, and submitted to Accounts Payable.
- Establish policies and procedures that require accounts-payable representatives to verify that invoices agree, at a minimum, with certain contract requirements related to contract terms, invoice payments, types of services, and service dates prior to the payment of invoices.

### SSU's Response

- We agree with the recommendation in concept though we wish to continue to rely on the individual department managers' authority and responsibility to properly review and approve their contract invoices prior to payment.
- SSU will assist the department managers in performing their role by holding a post-award meeting to clarify the contract service, dates, costs, payment terms, invoice review requirements, prior to approving their invoices for payment.

### SCO's Comment

Although we believe controls would be strengthened by a secondary review of contract payments by the Accounts Payable staff, the SCO recognizes that it may not be cost-effective to perform such a review on all contract payments on an entity-wide basis. However, it may be cost beneficial to perform such a review when the contract dollar amounts are significantly material or the contract includes complex rate structures that are likely to result in billing errors.

**Attachment—  
Auditee’s Response to  
Draft Audit Report**

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1801 East Cotati Avenue  
Rohnert Park, CA 94928-3609

OFFICE OF THE CHIEF FINANCIAL OFFICER AND  
VICE PRESIDENT FOR ADMINISTRATION AND FINANCE

707.664.2035 • Fax 707.664.2080

December 18, 2008

**MEMORANDUM**

**TO:** Andrew Finlayson  
Chief, State Agency Audits Bureau  
State Controller's Office, Division of Audits

**FROM:** Larry Furukawa-Schlesinger  
Chief Financial Officer and  
Vice-President for Administration and Finance

**SUBJECT:** Sonoma State University Response to the  
State Controller's Office Audit Report, Student Fee Revenues Program

On behalf of President Armiñana, I am submitting the University's reply to the findings of the *California State University, Sonoma, Audit Report, Student Fee Revenues Program*. The response outlines our efforts to implement the recommendations.

If requested, the response will also be forwarded to your staff electronically.

Enclosures

c: President Ruben Armiñana  
Letitia Coate, Associate Vice President  
John Hayes, Controller  
Ruth McDonnell, Deputy Controller  
Brian Orr, Internal Auditor  
Kurt Koehle, Director of Internal Operations

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**Sonoma State University**  
**Response to the**  
**State Controller's Office Audit Report**  
**Student Fee Revenues Program**  
(November 26, 2008)

**FINDING 1**

*Payment of past-due invoices with the Cal-Card may result in duplicate payments*

Recommendation

In order to prevent future duplicate payments, SSU should prohibit use of Cal-Cards to pay for past-due invoices

Campus Response

We accept the recommendation. SSU will prohibit use of the Procurement Card (Cal-Card/Procard) to pay for past-due invoices:

- Update the Procard Handbook for Cardholders and Approving Officials by adding past-due invoices to the Prohibited Procard Use listing on page 4; the updated Handbook will be accessible online via the SSU Financial Services/Purchasing Web Page.
- Notify all cardholders and approving officials of the change in writing.
- Highlight this change in all new cardholders' and approving officials' mandatory training as well as annual refresher training for all existing cardholder and approving officials.

**FINDING 2**

*Duplicate Payments made*

Recommendation

SSU's account payable department should strengthen controls to prevent duplicate payments. Staff should ensure that invoices have not been previously processed by matching them against vendor payment history and by paying close attention to invoice numbers when performing daily reviews. In addition, staff should consistently follow the Invoice Naming Convention when assigning invoice numbers.

### Campus Response

We concur. SSU will issue a written reminder to all AP staff of the importance of data entry accuracy, peer review, and adhering to the Invoice Naming Convention.

### **FINDING 3**

*Acquisition of goods and services not consistently pre-approved*

### Recommendation

To ensure that SSU's goods and services are acquired at the best available price and that purchases are properly justified prior to acquisition, the SSU Contract and Payment Office should ensure that a e-requisition or purchase order is approved before each major procurement and documentation exists that defines the responsibilities of the vendor, including the price, terms, and deliverables to be provided.

### Campus Response

- We accept the recommendation. SSU will conduct training sessions with the administrative staff of the departments emphasizing that non-procurement card purchases require e-requisition which must be submitted to the Contracts and Procurement Office before a purchase is made.
- Departments will also be trained to understand such purchases made without an e-requisition will not be processed for payment by SSU. Exceptions will require the approval of Associate Vice President for Administration and Finance.

### **FINDING 4**

*Travel pre-authorizations not consistently obtained*

### Recommendation

To ensure that its travel policies have control procedures that protect the student fee revenues, SSU should:

- Ensure that pre-authorizations are obtained in a timely manner and submitted to Business Services.
- Communicate regularly to employees the consequences of failing to follow established procedures, and withhold payment of inappropriate expenses and claims that do not include adequate documentation.

## Campus Response

We concur.

- An e-mail was sent to all employees by Laurence Furukawa-Schlereth, Vice President for Administration and Finance, on November 27, 2007, reiterating the campus policy and stating that expense claims will not be processed without the pre-authorization document completed in advance of the trip. Exceptions require the approval of Vice President for Administration and Finance.
- A follow-up e-mail was sent to all employees from Gloria Ogg, Senior Director for University Business Services, on February 8, 2008, reminding employees of the Vice President's November e-mail and reiterating that claims submitted without a prior approval form on file will be returned unpaid.

*Note: Claims cited by the auditors did not have "inappropriate expenses": the pre-approval was not in place. All expenses were found to be appropriate and approved, but approvals were not in advance of the trip.*

## **FINDING 5**

*Payments not paid according to contract terms*

### Recommendation

SSU should:

- Reinforce the requirement that all contract invoices should be properly reviewed by the Office of Procurement and Contract personnel before the invoice is signed, approved, and submitted to Account Payable
- Establish policies and procedures that require accounts payable representatives to verify that invoice agree at a minimum, with certain contract requirements related to contract terms, invoice payments, types of services, and service dates prior to the payment of invoices.

### Campus Response

- We agree with the recommendation in concept though we wish to continue to rely on the individual department managers' authority and responsibility to properly review and approve their contract invoices prior to payment.
- SSU will assist the department managers in performing their role by holding a post-award meeting to clarify the contract service, dates, costs, payment terms, invoice review requirements, prior to approving their invoices for payment.

**State Controller's Office  
Division of Audits  
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**<http://www.sco.ca.gov>**