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December 14, 2017

Dr. Leslie E. Wong, President  
San Francisco State University  
1600 Holloway Avenue  
San Francisco, CA 94132

Dear Dr. Wong:

**Subject: Audit Report 17-45, Academic Department Fiscal Review, San Francisco State University**

We have completed an audit of *Academic Department Fiscal Review* as part of our 2017 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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## **ACADEMIC DEPARTMENT FISCAL REVIEW**

**San Francisco State University**

**College of Liberal and Creative Arts and  
College of Science and Engineering**

Audit Report 17-45  
November 2, 2017

## EXECUTIVE SUMMARY

### OBJECTIVE

The objectives of the audit were to ascertain the effectiveness of college and academic department operational, 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

We found the control environment for the 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 the college of liberal and creative arts (LCA) and the college of science and engineering (SE) as of October 11, 2017, taken as a whole, provided reasonable assurance that risks were being managed and objectives were met.

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 indicated that the campus did not have a formal training program to orient new college deans and department chairs to the campus fiscal processes and their fiscal responsibilities. In addition, attention is required in some key areas related to the processing of expenditures and direct payments, establishment and review of contracts and agreements, and reconciliation of unfound assets.

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

## OBSERVATIONS, RECOMMENDATIONS, AND RESPONSES

### 1. TRAINING PROGRAM

#### OBSERVATION

The campus did not have a formal training program to orient new college deans and department chairs to the campus fiscal processes and their fiscal responsibilities.

Adequate fiscal training provides assurance that college and department administrators understand campus fiscal processes and their responsibilities and decreases the risk of unallowable or inappropriate transactions.

#### RECOMMENDATION

We recommend that the campus develop a formal training program to orient new college deans and department chairs to the campus fiscal processes and their fiscal responsibilities.

#### MANAGEMENT RESPONSE

We concur. Administration and finance (specifically, fiscal affairs and business operations) will develop and implement a formal training program to orient new college deans and department chairs to the campus fiscal processes. This program will introduce participants to relevant fiscal policies and practices that ensure compliance with all institutional, system, state, and federal regulations and will enable full fiscal responsibility and accountability. We will request that new deans and department chairs participate in this training program prior to being granted delegated expenditure authority or access to financial documents and systems.

Expected completion date: May 2, 2018

### 2. EXPENDITURES AND DIRECT PAYMENTS

#### OBSERVATION

Administration of expenditures and direct payments needed improvement at the college of LCA and the college of SE.

We reviewed 22 expenditures and four direct payments for the school of cinema within the college of LCA, and we found that:

- Three stipend expenses related to the Veteran Documentary Corps (VDC) and one sensitive equipment purchase related to the Documentary Film Institute (DFI) were inappropriately coded to the school of cinema.
- One procurement card expense was not allowable per the trust fund agreement.

- One Request for Authorization to Travel form was completed and approved after the travel had occurred.
- One contractual expenditure was approved by the procurement office after the expense was incurred and the invoice was received.

We also reviewed 19 expenditures and one direct payment for the department of chemistry and biochemistry within the college of SE, and we found that:

- Three Request for Authorization to Travel forms were approved after the travel expenses were incurred.

Adequate administration of expenditures and direct payments improves accountability, allows appropriate administration of funds, and decreases the risk of errors, irregularities, and misappropriation of funds.

### **RECOMMENDATION**

We recommend that the campus:

- a. Provide training and guidance to the appropriate college, department, and accounting personnel for proper coding.
- b. Instruct the departments to ensure that expenses are allowable per trust fund agreements.
- c. Remind travelers to submit a Request for Authorization to Travel form, document any exceptions, and obtain approval prior to travel and before any expenses are incurred.

### **MANAGEMENT RESPONSE**

We concur.

- a. Fiscal affairs and business operations will provide training resources to the appropriate college, department, and accounting personnel regarding the proper coding for expenditures. Appropriate administrators at the college, department, and accounting levels will be responsible for ensuring that personnel receive appropriate training before the personnel are authorized to code expenditure transactions.
- b. Fiscal affairs and business operations will provide instruction to the departments to ensure that expenses are allowable per trust fund agreements. Appropriate administrators at the college, department, and accounting levels will be responsible for ensuring that personnel receive appropriate training before the personnel are authorized to determine that expenses are allowable per trust fund.
- c. Fiscal affairs and business operations will remind appropriate college, department, and accounting personnel of the requirement for travelers to submit a Request for Authorization for Travel form, document any exceptions, and obtain approval prior to travel and before any expenses are incurred. Appropriate administrators at the college,

department, and accounting levels will be responsible for ensuring that personnel receive appropriate training before the personnel are authorized to initiate reimbursable travel activities and incur travel expenses.

Expected completion date: March 2018

### 3. CONTRACTS AND AGREEMENTS

#### OBSERVATION

The campus did not have written policies or procedures for establishing contracts and agreements for the renting of equipment that is considered a revenue-generating activity and the procurement office was not involved in the execution of these contracts and agreements.

We found that college and department administrators did not always properly establish contracts or agreements, and the procurement office and/or risk management department did not always review contracts or agreements for appropriate contractual language, liability coverage, and risk management.

Specifically, we found that:

- Formal contracts or agreements were not executed for revenue-generating activities in the college of SE. For example, in three instances in which equipment was made available for use by external entities, either services on the equipment performed by college of SE lab managers for the external entities, or use of the on-campus college of SE equipment under supervision of college of SE lab managers, there were no executed contracts or agreements and the procurement office and risk management department were not informed. Additionally, the college-level personnel who authorized the equipment rentals did not have the appropriate delegation of authority to authorize these types of revenue-generating activities.
- One external agreement related to the school of cinema was approved at the department level by personnel who did not have the appropriate delegation of authority to execute contractual agreements. Therefore, neither the procurement office nor the risk management department reviewed the agreement.

Documented policies and procedures for contracts and agreements help to ensure that contracts and agreements are properly established. Additionally, contracts and agreements that are properly authorized and executed decrease the potential for misunderstanding of the business terms, responsibilities, and liabilities of the parties involved and protect the university from financial and legal risks.

#### RECOMMENDATION

We recommend that the campus:

- a. Develop written policies and procedures for establishing contracts and agreements, including revenue-generating activities.

- b. Provide training and guidance to the appropriate college, department, and accounting personnel on the proper execution of contracts and agreements and the appropriate delegation of authority required for signing contracts and agreements.

**MANAGEMENT RESPONSE**

We concur.

- a. The procurement and support services department will develop written policies and procedures for establishing contracts and agreements, including revenue-generating activities. The target completion date is May 2, 2018.
- b. The procurement and support services and risk management departments will provide training and guidance to the appropriate college department personnel on the proper execution of contracts and agreements and the appropriate delegation of authority required for signing contracts and agreements. The expected completion date is May 2, 2018.

**4. INVENTORY RECONCILIATIONS**

**OBSERVATION**

Unfound assets from inventory counts performed by the property office were not timely reconciled by the college of LCA and the college of SE.

Per the San Francisco State University (SFSU) *Property Management Manual*, unfound inventory reports are to be reconciled 30 days after the property office issues the report to the college or department.

We found that the property office last performed an inventory count and issued the unfound inventory report to the college of LCA in November 2015. We reviewed the unfound assets related to the school of cinema and noted that:

- Two unfound assets were reconciled 14 days after the one-month deadline.
- Three unfound assets were reconciled 426 days after the one-month deadline.
- 13 assets had not yet been reconciled.

Additionally, we found that the property office last performed an inventory count and issued the unfound inventory report to the college of SE in January 2017. We reviewed the unfound assets related to the department of chemistry and biochemistry and noted that:

- Six unfound assets had not yet been reconciled.
- One unfound asset was located during our detailed inventory testing; however, the status of this equipment had not yet been communicated to the property management office.

Proper tracking and reconciliation of assets increase accountability and decrease the risk of inaccurate equipment records and misappropriation, theft, and loss of university-owned assets.

**RECOMMENDATION**

We recommend that the campus create a process to follow up on non-completion of inventory reconciliations and escalate instances of non-completion to appropriate management.

**MANAGEMENT RESPONSE**

We concur. The procurement and support services department will create a process to follow up on non-completion of inventory reconciliations and escalate instances of non-completion to appropriate management.

Expected completion date: May 2, 2018

## GENERAL INFORMATION

### BACKGROUND

The California State University (CSU) is the nation's largest four-year public university system, with 23 campuses and eight off-campus centers. Additionally, the CSU awards nearly half of the state's baccalaureate degrees. 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, auxiliary organization, or both accounts. Funds held in campus accounts must follow ICSUAM and campus requirements; funds in auxiliary organization accounts primarily follow requirements set forth in the *CSU Auxiliary Organization Compliance Guide*, *CSU Auxiliary Sounds Business Practice Guidelines*, and Title 5 of the California Code of Regulations and sometimes follow ICSUAM and campus requirements.

SFSU has six colleges under the division of academic affairs. The colleges are composed of more than 75 schools and departments offering over 200 academic programs, majors, minors, concentrations, and credential and certificate programs. The dean of each college has overall responsibility for oversight of financial administration within the college, supported by the associate or assistant dean(s) and chair of each department. Additionally, each college has a director of finance under the direct authority of the dean to ensure compliance with fiscal policies and procedures. The office of the provost and vice president for academic affairs through academic resources also provides centralized oversight over college financial activities.

The college of LCA consists of six schools (art, cinema, design, humanities and liberal studies, music, and theatre and dance) and 15 departments (anthropology, broadcast and electronic communication arts, classics, communication studies, comparative and world literature, creative writing, English, history, international relations, Jewish studies, journalism, philosophy, modern language and literature, political science, and women and gender studies). The college also contains 11 centers and institutes that integrate the community with the college, such as the Center for Iranian Diaspora Studies; Center for Modern Greek Studies; DFI; Global Museum; Paul K. Longmore Institute on Disability; Media and Community; Morrison Chamber Music Center; Osher Lifelong Learning Institute; Poetry Center; Queer Cinema Institute; and VDC.

The college of SE consists of the school of engineering and eight departments, including biology, chemistry and biochemistry, computer science, mathematics, and psychology. The college also houses six centers and research institutes, including the Romberg Tiburon Center, National Estuarine Research Reserve, Center for Science and Math Education, and Institute for Geographic Information Science.

## SCOPE

We used financial and other factors to select two colleges and two academic departments 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 to make our determination.

We visited the SFSU campus from September 11, 2017, through October 11, 2017. 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 the college of LCA and its school of cinema and the college of SE and its department of biochemistry and chemistry. The audit focused on procedures in effect from January 1, 2015, through October 11, 2017.

Specifically, we reviewed and tested:

- Processes to ensure that appropriate reviews and approvals are in place for contracting activities.
- Processes to ensure that expenditures, including direct payments, are appropriate, properly authorized, and processed in accordance with CSU and campus policies.
- Identification, tracking, and tagging of sensitive equipment purchases, and inventory reconciliation.

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 or academic departments 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 §6000, *Financing, Treasury, and Risk Management*
- *CSU Auxiliary Organization Compliance Guide*
- *CSU Auxiliary Sounds Business Practice Guidelines*
- *CSU Travel Procedures*
- Government Code §13402 and §13403
- California Code of Regulations, Title 5
- *SFSU Direct Payment/Low Value Purchase Procedure*
- *SFSU Property Management Manual*
- *SFSU Procurement Card Handbook*
- *SFSU Reimbursement Procedure*
- *SFSU School of Cinema Guidelines for Student Use of Production Equipment*
- *University Corporation Purchasing Policy*
- *University Corporation Procurement Policy*

## AUDIT TEAM

Assistant Vice Chancellor: Michelle Schlack

Audit Manager: Caroline Lee

Internal Auditor: Christina Fennell