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July 24, 2015

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

Dear Dr. Wong:

Subject: Audit Report 15-02, Auxiliary Organizations, San Francisco State University

We have completed an audit of *Auxiliary Organizations* 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



AUXILIARY ORGANIZATIONS

San Francisco State University

Audit Report 15-02
June 3, 2015

EXECUTIVE SUMMARY

OBJECTIVE

The objectives of the audit were to ascertain the effectiveness of existing policies and procedures related to fiscal, operational, and administrative controls; determine the adequacy of internal compliance/internal control; 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 to ensure compliance with relevant governmental regulations, Trustee policy, Office of the Chancellor directives, and campus procedures.

CONCLUSION

San Francisco State University (SFSU) Campus

Based upon the results of the work performed within the scope of the audit, except for the effect of the weaknesses described below, the fiscal, operational, and administrative controls at SFSU as of March 27, 2015, taken as a whole, were sufficient to meet the objectives of this audit. The audit revealed that the campus athletics department did not have documented policies and procedures for gift receipts, the campus did not properly delegate authority for gift acceptance, and campus advancement services did not sufficiently document acceptance of cash and matching gifts, nor maintain a comprehensive matching-gift policy.

San Francisco State University Foundation

Based upon the results of the work performed within the scope of the audit, except for the effect of the weaknesses described below, the fiscal, operational, and administrative controls at the San Francisco State University Foundation (Foundation) as of March 27, 2015, taken as a whole, were sufficient to meet the objectives of this audit. The audit revealed that the Foundation did not consistently obtain proper approval and adequate documentation for hospitality expenditures and travel expense claims and did not obtain annual conflict-of-interest statements from all board members.

The University Corporation, San Francisco State

Based upon the results of the work performed within the scope of the audit, due to the effect of the weaknesses described below, the fiscal, operational, and administrative controls at the University Corporation, San Francisco State (Corporation) as of March 27, 2015, taken as a whole, were not sufficient to meet the objectives of this audit. The audit revealed that the Corporation did not sufficiently administer the wind-down and dissolution of The Franciscan Shops, Inc. (Shops) and had not finalized updates to its Campus Programs Overview policy and procedures. Additionally, Corporation fund-raising events were not approved in writing, and event budgets, drafts of solicitation materials, and action plans were not properly reviewed prior to events. Further, the Corporation had not adequately documented policies and procedures for post-award administration of private and local grants, did not always obtain competitive bids for purchases over \$5,000, and did not always certify employment eligibility within the required timeframe.

Associated Students of San Francisco State University

Based upon the results of the work performed within the scope of the audit, due to the effect of the weaknesses described below, the fiscal, operational, and administrative controls at Associated Students of San Francisco State University (AS) as of March 27, 2015, taken as a whole, were not sufficient to meet the objectives of this audit. The audit revealed that AS did not always execute agreements for event performers and short-term meeting room rentals and did not have a comprehensive written risk management policy nor a written delegation of authority from the campus president giving its management the authority to sign and approve Childhood Education Center grant proposals and/or agreements. Additionally, AS did not ensure that salary changes were properly processed, employment eligibility was certified within the required timeframe, AS student board members who were paid through payroll completed time records and employment verification forms, students traveling by air completed and signed release forms or waivers, and Request for Payment/Reimbursement of Hospitality Expenses forms and corresponding lists of attendees were completed. Further, AS had not performed documented physical inventory counts over the past three fiscal years and had not developed policies and procedures for the removal of sensitive information from discarded assets.

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

OBSERVATIONS, RECOMMENDATIONS, AND RESPONSES

Campus

1. ATHLETICS GIFT RECEIPTS

OBSERVATION

The campus athletics department did not have documented policies and procedures for gift receipts.

We found that various members of the athletics department were allowed to receive cash gifts, and donor information was not formally documented on a gift acceptance form. Additionally, cash gifts received by mail were not logged by the person opening the mail before they were transferred to the athletics department business manager for processing.

The lack of policies and procedures and inadequate administration of gift receipts increase the risk that gift receipts will be misplaced or misappropriated.

RECOMMENDATION

We recommend that the campus develop policies and procedures for athletics department gift receipts to ensure that cash gifts are accepted by authorized personnel, sufficiently documented on a gift acceptance form, and logged prior to being transferred for processing when received by mail.

MANAGEMENT RESPONSE

We concur. The athletics department will follow University Executive Directive 95-19, where the director of development for athletics will accept gifts between \$1,000 and \$4,999, and a Gift Acceptance Form will accompany gifts of \$1,000 or more. The athletics department is developing gift acceptance procedures that will include logging transactions prior to transferring to the gift processing unit for all donations received from events. Donations by mail now come directly to the university advancement office.

Expected completion date: August 31, 2015

2. GIFT ADMINISTRATION

OBSERVATION

The campus did not properly delegate authority for gift acceptance, and campus advancement services did not sufficiently document acceptance of cash and matching gifts, nor maintain a comprehensive matching-gift policy.

We found that the campus delegated gift acceptance authority to campus university advancement but did not specifically identify the individual(s), by name or title, who had authority to accept gifts.

We reviewed 20 cash gifts received from December 2013 to January 2015, and we found that a gift acceptance form, which documents donor information, gift amount, allocation account, and date accepted, was not completed and approved by a delegated authority for 15 cash gifts.

We also reviewed 17 matching gifts received from July 2013 to December 2014, and we found that:

- For 13 matching gifts, certification of the matching gift was not documented, and as a result, we could not verify that a review of matching-gift eligibility was performed by a delegated authority.
- For three matching gifts, a secondary review of matching-gift eligibility was not performed for donor-advised funds, as required by ICSUAM §15401.00.
- Acknowledgement letters were not sent to five matching gift companies.

Additionally, the campus did not maintain a comprehensive matching-gift policy. We found that the policy did not identify personnel authorized to certify online matching-gift claims nor require authorized personnel to document the eligibility review for online matching-gift claims. Further, the matching-gift policy did not address circumstances warranting secondary review of matching-gift eligibility, nor the documentation retention period.

Insufficient administration of cash and matching gifts increases the risk of errors, misappropriation of funds, and non-compliance with donor terms.

RECOMMENDATION

We recommend that the campus:

- a. Delegate gift-acceptance authority to individuals by name or title.
- b. Complete gift-acceptance forms and require the delegated authority for gift acceptance to approve gift-acceptance forms.
- c. Document certification of matching gifts by the delegated authority.
- d. Perform a secondary review of matching-gift eligibility for donor-advised funds.
- e. Send acknowledgement letters to matching-gift companies.
- f. Update its matching-gift policy to identify personnel authorized to certify online matching-gift claims; require documentation of the eligibility review for online matching-gift claims;

address circumstances warranting secondary review of matching-gift eligibility; and define a documentation retention period.

MANAGEMENT RESPONSE

We concur.

- a. We have updated University Executive Directive 95-19 to specify the individuals authorized to accept gifts within the division. The revised directive states that directors of development may accept gifts up to \$4,999. Gifts of \$5,000 or more will be accepted by the vice president of university advancement or the associate vice president of development (the chief of operations for university advancement will accept gifts in the absence of the vice president and associate vice president). Planned giving directors may accept all planned gifts.
- b. We have updated University Executive Directive 95-19 to reflect that all gifts valued at \$1,000 or more shall require a Gift Acceptance Form (GAF) signed by an authorized individual mentioned above. The batch proof report from the Advance database shall be used in lieu of a GAF to fulfill gift documentation requirements for donations under \$1,000 that are received and processed daily.
- c. The director of advancement services will access the company's website and verify the matching claim after reviewing the company's matching gift policy. The director of advancement services will print a copy of the website page, sign it, and give it to the gift processors for filing. If the gift is a donor-advised fund, the gift records coordinator will review and print out the matching-gift information and have the director of advancement services perform a second review. Both the gift records coordinator and director of advancement services will sign the form to indicate first and second review.
- d. The director of advancement services will access the company's website and verify the matching claim after reviewing the company's matching gift policy. The director of advancement services will print a copy of the website page, sign it, and give it to the gift processors for filing. If the gift is a donor-advised fund, the gift records coordinator will print out the matching-gift information and have the director of advancement services review and sign off on it.
- e. University advancement will ensure compliance with its acknowledgment policy, which is to send acknowledgment letters to the matching-gift company with a copy to the individual donor.
- f. University advancement will update its matching-gift policy to provide more separation of roles. The updated policy will have the director of advancement services certifying online matching gifts. The updated policy will also formalize the document certification review and outline when a secondary review of matching-gift eligibility is necessary. Finally, the updated policy will also state the retention period for matching-gift documentation.

Expected completion date: August 31, 2015

San Francisco State University Foundation

3. CASH DISBURSEMENTS

OBSERVATION

The Foundation did not consistently obtain proper approval and adequate documentation for hospitality expenditures and travel expense claims.

We reviewed ten hospitality expenditures and seven travel-related expenditures, and we found that:

- In two instances, check requestors were not identified on the Request for Payment/Reimbursement of Hospitality Expenses forms, so it appeared that the check requestors also approved the attached Authorization for Exception to the Hospitality Policy forms.
- In one instance, a complete listing of attendees was not submitted with the Request for Payment/Reimbursement of Hospitality Expenses form.
- In two instances, Travel Claim and Expense Report forms were not approved by someone other than the traveler.
- In one instance, a Travel Claim and Expense Report, which included lodging expense at a rate of \$260 per night, was paid but was not adequately supported by pre-approval to exceed the maximum lodging rate allowable per the Corporation Travel Policy. The Foundation follows the Corporation travel policy.

The lack of proper approval and adequate documentation for hospitality and travel-related expenditures increases the risk of errors, irregularities, and misappropriation of funds.

RECOMMENDATION

We recommend that the Foundation:

- a. Clearly identify check requestors on the Request for Payment/Reimbursement of Hospitality Expenses form.
- b. Require submission of complete listings of attendees for all hospitality expenditures.
- c. Ensure that travel expense claims are approved by someone other than the traveler.
- d. Document pre-approval of any exceptions to the travel policy.

MANAGEMENT RESPONSE

We concur.

- a. We will update the Request for Payment/Reimbursement of Hospitality Expenses form to include a section for requestor. For reimbursements, the requestor will be the individual requesting the reimbursement. For payments, the individual completing the form (usually the administrative assistant) will be the requestor. In both instances, the requestor will be different from the approver.
- b. The Foundation will ensure that a complete list of attendees is submitted for all hospitality expenditures.
- c. The Foundation will carefully review the expense claims prepared by staff to ensure there is a separation in duties and that expense claims are approved by someone other than the traveler.
- d. The Foundation will ensure that exceptions to the travel policy are obtained and documented prior to travel.

Expected completion date: June 19, 2015

4. CONFLICT OF INTEREST

OBSERVATION

The Foundation did not obtain annual conflict-of-interest statements from all board members.

We found that seven of 35 board members had not signed a conflict-of-interest statement for fiscal year (FY) 2013/14, and one of 34 board members had not signed a conflict-of-interest statement for FY 2012/13.

The lack of annual conflict-of-interest statements from all auxiliary board members increases liability for acts contrary to the code.

RECOMMENDATION

We recommend that the Foundation obtain annual conflict-of-interest statements from all board members.

MANAGEMENT RESPONSE

We concur. The Foundation will obtain conflict-of-interest statements from board members annually at the June meeting.

Expected completion date: July 31, 2015

University Corporation, San Francisco State

5. WIND-DOWN OF FRANCISCAN SHOPS

OBSERVATION

The Corporation did not sufficiently administer the wind-down and dissolution of the Shops.

The Shops Board of Directors approved the wind-down and dissolution of Shops and accepted the Corporation as the sole member of the Shops Board during a special Board meeting on June 26, 2012. In most aspects, it appeared that the Shops was in the process of dissolving; however, Corporation management subsequently elected to not dissolve the Shops, as it believed that transitioning the nonprofit public benefit corporation to a subsidiary of the Corporation would be useful in its future enterprise efforts.

We found that:

- The Shops wind-down was not formally communicated to and approved by the chancellor's office, nor was it formally approved by the campus president.
- The subsequent decision to not dissolve the Shops, but transition it into a subsidiary of the Corporation, was not communicated to the chancellor's office.
- The Corporation had not developed a strategic plan for undertaking the Shops as a Corporation subsidiary.

Insufficient administration of the wind-down and dissolution of an auxiliary and undertaking an auxiliary as a subsidiary of another auxiliary without a strategic plan may lead to inconsistent decision making, failure to achieve goals within a reasonable timeframe, and inefficiencies in allocating resources.

RECOMMENDATION

We recommend that the Corporation obtain chancellor's office and campus president approval of the wind-down of the Shops, communicate to the chancellor's office the subsequent decision to not dissolve the Shops but transition it into a subsidiary of the Corporation, and develop a strategic plan for undertaking the Shops as a Corporation subsidiary.

MANAGEMENT RESPONSE

We concur. After an assessment of our aims, and a determination that the best way forward is dissolution rather than operating the Shops as a subsidiary, management plans to seek approval from the chancellor's office and campus president to dissolve the Shops. If approved, management will complete the dissolution process by June 30, 2016.

Expected completion dates:

- a. Secure campus president and Board approval by September 30, 2015.
- b. Secure chancellor’s office approval by October 31, 2015.
- c. Complete dissolution plan by October 31, 2015.

6. CAMPUS PROGRAM ACCOUNTS

OBSERVATION

The Corporation had not finalized updates to its Campus Programs Overview policy and procedures, and the draft policy and procedures did not address the requirements for stipends paid to students from campus program funds.

We found that updates to the Campus Programs Overview policy and procedures, which provide specific guidance and documentation requirements for campus program accounts, were still in draft form. Additionally, the policy and procedures did not define stipends paid to students or detail the requirements for such stipends, including eligibility, selection, and documentation.

We reviewed two stipends from 15 campus program funds established from April 2012 to February 2015, and we were not able to verify that the stipends were properly classified as stipends, that students met the requirements to receive stipends, and that the stipends were appropriate expenses per the campus program fund agreement.

Current and complete policies and procedures regarding the use of campus program accounts increase compliance with campus program requirements and reduce the possibility of improper use of funds.

RECOMMENDATION

We recommend that the Corporation finalize its updates to the Campus Programs Overview policy and procedures and include requirements for stipends paid to students.

MANAGEMENT RESPONSE

We concur. Policies and procedures providing specific guidance and documentation for campus program accounts will be finalized and posted to our website by August 31, 2015.

Expected completion date: August 31, 2015

7. FUND-RAISING

OBSERVATION

Corporation fund-raising events were not approved in writing, and event budgets, drafts of solicitation materials, and action plans were not properly reviewed prior to events.

We reviewed eight fund-raising events with gross receipts greater than \$5,000, and we found that none were approved in writing by a delegated authority. Moreover, the event budgets, drafts of solicitation materials, and action plans for compliance with federal, state, and local regulations were not reviewed by a delegated authority prior to the events. Further, the Corporation lacked documented fund-raising policies and procedures.

The absence of required fund-raising event approval and review of event budgets, drafts of solicitation materials, and action plans prior to the event, as well as the lack of documented policies and procedures, limits the Corporation's ability to effectively allocate resources and coordinate events; ensure compliance with federal, state, and local regulations; and assess and mitigate any risks associated with events.

RECOMMENDATION

We recommend that the Corporation:

- a. Obtain written approval from a delegated authority for all fund-raising events with gross receipts greater than \$5,000.
- b. Ensure that event budgets, drafts of solicitation materials, and action plans for compliance with federal, state, and local regulations are reviewed by a delegated authority prior to events.
- c. Develop documented policies and procedures for fund-raising events in consultation with the campus.

MANAGEMENT RESPONSE

We concur. Management will work with the campus to develop policies and procedures for fund-raising events that identify the delegated authority for approval of Corporation events with gross receipts over \$5,000 and review of event budgets and drafts of solicitation materials and make sure they are in compliance.

Expected completion date: September 30, 2015

8. POST-AWARD ADMINISTRATION

OBSERVATION

The Corporation had not adequately documented policies and procedures for post-award administration of private and local grants.

Specifically, we found that the Corporation did not have documented policies and procedures that addressed principal investigators' ethics and conflict-of-interest training, Statements of Economic Interests, financial/technical/final reports, project completion statements, and grant fiscal administration.

We reviewed 14 private grants and one local grant, and we also found that:

- In seven instances, principal investigators did not complete a Statement of Economic Interests form in a timely manner. The delays ranged from nine to 11 months after the project start dates.
- In one instance, the grant file was missing.
- In one instance, required reports were not submitted in a timely manner.

The lack of documented policies and procedures for post-award administration of private and local grants, missing grant files, and untimely submission of required reports could result in reduced reimbursements and increase the risk of non-compliance with relevant requirements, and the untimely completion of Statements of Economic Interests forms could result in possible regulatory scrutiny.

RECOMMENDATION

We recommend that the Corporation adequately document policies and procedures for post-award administration of private and local grants, obtain Statements of Economic Interests forms before final acceptance of the contract or grant, and ensure that all grants files are maintained and all required reports are submitted in a timely manner.

MANAGEMENT RESPONSE

We concur. Management concurs with adequately documenting the principal investigators' responsibilities for administration of private and local grants. Management concurs and will work with the Office of Research and Sponsored Programs to ensure the Form 700 U is obtained before the final acceptance of the contract or grant as part of the proposal stage.

Expected completion date: July 1, 2015

9. BIDDING

OBSERVATION

The Corporation did not always obtain competitive bids for purchases of more than \$5,000.

We reviewed eight purchases of more than \$5,000 and found that in three instances, competitive bids were not obtained. The Corporation Procurement Policy requires a minimum of three competitive bids for purchases in excess of \$5,000.

Competitive bids provide transparency, mitigate favoritism towards certain vendors, and increase the chance of obtaining best prices.

RECOMMENDATION

We recommend that the Corporation obtain competitive bids for purchases of more than \$5,000.

MANAGEMENT RESPONSE

We concur. Management currently has a policy in place that clearly articulates bid requirements, and if bids were not obtained, a sole-source document has to be completed explaining why bids/proposals were not obtained, rationale of other products and why they were rejected, and rationale or factors explaining why the product was selected, as well as who within the Corporation can approve. This policy was implemented in July 2014, and management will re-review with staff to make sure transactions adhere to the policy when reviewed by staff before processing.

Expected completion date: July 1, 2015

10. PERSONNEL AND PAYROLL

OBSERVATION

The Corporation did not always certify a Form I-9, Employment Eligibility Verification, within three business days of a new employee's first day of work.

We reviewed 15 Corporation new hires, and we found that in six instances, the Form I-9 was reviewed and approved from 16 to 73 days after the employee's first day of employment. The Department of Homeland Security, U.S. Citizenship and Immigration Services, requires that employers complete Section 2 of Form I-9 by examining evidence of identity and employment authorization within three business days of the date employment begins.

Untimely certification of employment eligibility increases the risk of hiring someone not authorized to work and may lead to fines, penalties, and debarment from government contracts.

RECOMMENDATION

We recommend that the Corporation reiterate to personnel responsible for hiring that a Form I-9 for new employees must be certified within three business days of the date employment begins.

MANAGEMENT RESPONSE

We concur. Management will notify all projects under the Corporation by July 1, 2015, of the new process that the Corporation is implementing, in which an employee cannot begin work until the project is informed that the hiring process is complete and that only Corporation personnel can confirm that an employee can start working.

Expected completion date: July 1, 2015

Associated Students of San Francisco State University

11. OPERATING AND ADMINISTRATIVE AGREEMENTS

OBSERVATION

AS did not always execute agreements for event performers and short-term meeting room rentals.

We reviewed ten agreements for AS events and found that in four instances, service agreements were not executed with the event performers. We also reviewed five short-term rental transactions with third parties for meeting rooms at the Cesar Chavez Student Center and found that none of the renters completed a Short-Term Rental Policies Acknowledgement Form. In addition, in two instances, AS did not obtain insurance certifications from the renters. We further noted that the Short-Term Rental Policies Acknowledgement Form did not include insurance and indemnification provisions.

The lack of executed written agreements, insurance certifications, and insurance and indemnification provisions with third parties increases the risk of misunderstandings and miscommunication regarding rights and responsibilities and subjects AS and the California State University (CSU) to potential liability.

RECOMMENDATION

We recommend that AS:

- a. Execute service agreements with all event performers.
- b. Ensure that completed Short-Term Rental Policies Acknowledgement Forms and insurance certifications are obtained for all meeting room rentals at Cesar Chavez Student Center.
- c. Update the Short-Term Rental Policies Acknowledgement Form to include proper indemnification and insurance provisions.

MANAGEMENT RESPONSE

We concur.

- a. We will institute an additional control step in the administrative areas responsible for creation of a final contract between event performers and the organization by ensuring review of the service agreement for completeness.
- b. We will expand the responsibilities of the meeting and events staff in charge of finalizing the short-term reservation process to ensure that each reservation, prior to confirmation, is supported with a signed Short-Term Rental Policies Acknowledgement Form and insurance certifications.

- c. We will ensure that the Short-Term Rental Policies Acknowledgement Form includes the proper indemnification provisions. We are currently researching the appropriate insurance levels that will meet the CSU requirements and not be an obstacle when the organization solicits businesses to utilize the short-term rental opportunities.

Expected completion date: October 30, 2015

12. RISK MANAGEMENT

OBSERVATION

AS did not have a comprehensive written risk management policy that addressed an ongoing process to proactively identify risks, analyze the frequency and severity of identified risks, and implement a risk mitigation program that coordinates with the campus' risk assessment and mitigation plan.

The absence of a comprehensive written risk management policy increases the likelihood that all current and future risk-related activities may not be adequately evaluated and prevented.

RECOMMENDATION

We recommend that AS develop and adopt a comprehensive written risk management policy, including procedures to actively identify, analyze, quantify, and manage risk.

MANAGEMENT RESPONSE

We concur. We are in the process of creating a risk management policy and the process, which will go under review by our board of directors by October 30, 2015.

Expected completion date: October 30, 2015

13. CHILDREN'S CENTER GRANTS

OBSERVATION

AS did not have a written delegation of authority from the campus president giving its management the authority to sign and approve Childhood Education Center (ECEC) grant proposals and agreements.

We found that ECEC grant proposals and programs were executed by different AS managers. Specifically, the Child Care Access Means Parents In School program application for FY 2012/13 was executed by the AS executive director; the most recent Child Care and Development Program amendment was executed by the interim executive director; the FY 2012-15 C-Wages grant was executed by the associate executive director; and various small city grants were executed by the ECEC executive director.

The absence of documented delegations of authority for approval of grant proposals increases the risk that grant proposals will not be subject to adequate review and misunderstandings or unauthorized activities will occur.

RECOMMENDATION

We recommend that AS obtain a written delegation of authority from the campus president giving its management the responsibility to sign and approve ECEC grant proposals and agreements.

MANAGEMENT RESPONSE

We concur. The AS executive director will develop a memorandum of understanding with the campus president to obtain written delegation of authority for ECEC grant proposals and agreements by October 30, 2015.

Expected completion date: October 30, 2015

14. PERSONNEL AND PAYROLL

OBSERVATION

AS did not ensure that salary changes were properly processed and that a Form I-9, Employment Eligibility Verification, was certified within three business days of a new employee's first day of work. In addition, AS did not require student board members who were paid through payroll to complete time records and a Form I-9.

We found that AS did not have a process in place to perform an independent, detailed, and documented reconciliation of salary changes to payroll records. We reviewed ten salary changes from December 2012 to December 2014, and we found that:

- In one instance, the effective date of the salary change was not formally specified on the salary increase request memo, and therefore, it was not clear when the salary change should have taken place. Also, a general compensation increase that took effect soon after this salary increase created confusion as to whether the general compensation increase should have been a part of the salary increase.
- In one instance, the increased pay rate was not reflected in the pay records until three days after the effective date, which resulted in a \$144 underpayment.
- In one instance, a nine-month retro pay adjustment was miscalculated, which resulted in an overpayment of \$104.

We also reviewed ten new hires from August 2012 to January 2015, and we found that in five instances, the Form I-9 was reviewed and approved from seven to 13 days after the employee's first day of employment.

Additionally, we found that AS student board members who were paid through payroll were not required to complete time records and a Form I-9.

Insufficient reconciliation between salary changes and payroll records limits the auxiliary's ability to detect errors and irregularities, increases the likelihood of loss of funds, and compromises accountability. Untimely certification of employment eligibility increases the risk that someone who is unauthorized to work will be hired and may lead to fines and penalties; and inadequate documentation of employee work hours increases the risk of non-compliance with the Fair Labor Standards Act of 1938.

RECOMMENDATION

We recommend that AS:

- a. Perform independent, detailed, and documented reconciliations of salary changes to payroll records.
- b. Reiterate to personnel responsible for hiring that a Form I-9 for new employees must be certified within three business days of the date employment begins.
- c. Obtain time records and Form I-9s from AS student board members.

MANAGEMENT RESPONSE

We concur.

- a. We will perform an independent, detailed, and documented reconciliation of salary changes to payroll records no later than August 30, 2015. AS will review and revise its current sign-off procedures to ensure there is an independent verification of all salary adjustments. A review of this process will be completed on October 1, 2015.
- b. We will train all staff who assist with the hiring process of the requirement.
- c. AS believes that directors need not be identified as employees, and as such, beginning July 1, 2015, will be moving forward with changing the status of directors to be filed under 1099 Miscellaneous. The compensatory stipend will be generated through the AS accounts payable process on a monthly basis.

Expected completion date: October 1, 2015

15. TRAVEL ADMINISTRATION

OBSERVATION

AS did not ensure that students traveling by air completed and signed release forms or waivers because AS was unaware that the travel was considered a CSU-affiliated program under Executive Order (EO) 1041, which requires travel waivers for students traveling by air.

Travel release forms or waivers inform students in writing that travel is voluntary and that travel involves risks and releases and holds harmless the state of California, the CSU, the campus, and each and every officer, agent, and employee of each of them. The absence of signed release forms or waivers increases the risk of legal liability.

RECOMMENDATION

We recommend that the AS instruct the program directors/managers to obtain signed release forms or waivers from all students traveling by air.

MANAGEMENT RESPONSE

We concur. The AS executive director will instruct all appropriate staff to implement the requirement of all AS board members traveling by air to sign a release, hold-harmless and informed consent form, effective immediately. This form will also be added to the current travel policy.

Expected completion date: June 19, 2015

16. HOSPITALITY EXPENDITURES

OBSERVATION

AS did not ensure the completion of Request for Payment/Reimbursement of Hospitality Expenses forms and corresponding lists of attendees as required by the AS Hospitality Policy.

We reviewed ten hospitality-related disbursements from April 2012 to September 2014, and none had Requests for Payment/Reimbursement of Hospitality Expenses forms or lists of attendees, along with their business relationship to AS. As a result, we were not able to verify whether such expenditures were permitted hospitality expenses, whether attendees had a business relationship with AS, and whether meal cost per attendance was within the allowable amount.

The absence of adequate documentation for hospitality-related expenditures increases the risk of errors, irregularities, and misappropriation of funds.

RECOMMENDATION

We recommend that AS instruct program directors/managers to complete Requests for Payment/Reimbursement of Hospitality Expenses forms, including a corresponding list of attendees, along with their business relationship to AS, for all hospitality-related expenditures.

MANAGEMENT RESPONSE

We concur. We will instruct all program directors and managers via the executive director to use the Hospitality Check-In Sheet at all AS-sponsored events.

Expected completion date: August 1, 2015

17. PROPERTY AND EQUIPMENT

OBSERVATION

AS had not performed documented physical inventory counts during the past three fiscal years and had not developed policies and procedures for the removal of sensitive information from discarded assets.

Specifically, we found that documented physical inventory counts were not performed for FY 2011/12, 2012/13, and 2013/14. Further, we found no documentation indicating that sensitive data had been deleted from the hard drive of discarded laptops.

The lack of documented annual physical inventory counts increases the risk that property may be lost or stolen or misrepresented in the financial statements, and inadequate control over equipment assets, especially those containing sensitive data, increases the risk of loss, inappropriate use of state resources, and campus exposure to information security breaches.

RECOMMENDATION

We recommend that AS:

- a. Formally document its annual physical inventory counts.
- b. Develop policies and procedures for the deletion of sensitive data from discarded assets containing sensitive data.

MANAGEMENT RESPONSE

We concur.

- a. In accordance with our current policy, we will perform an annual inventory and formally document it by sending a memo, including an inventory list for the director/manager to review and approve.
- b. We are in the process of reviewing the Removing Inventory Worksheet, adding a deletion of sensitive data section to be signed by information technology. AS is also in the process of reviewing its inventory policy to include such a procedure by October 30, 2015.

Expected completion date: October 30, 2015

GENERAL INFORMATION

BACKGROUND

Education Code §89900 states, in part, that the operation of auxiliary organizations shall be conducted in conformity with regulations established by the Trustees.

Education Code §89904 states, in part, that the Trustees of the 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 such auxiliary organizations.
- Implement financial standards that will assure the fiscal viability of such various 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 the auxiliary organizations are within the educational mission of the state colleges.
- Develop policies for the appropriation of funds derived from indirect cost payments.

The Board of Trustee policy concerning auxiliary organizations was originally adopted in July 1981 in the Resolution of the Committee on Finance (RFIN) 7-81-4. EO 698, *Board of Trustees Policy for The California State University Auxiliary Organizations*, dated March 3, 1999, represents policy of the Trustees addressing CSU auxiliary organization activity and governing the internal management of the system. CSU auxiliary organizations are required to comply with Board of Trustee policy (California Code of Regulations, Title 5, Section 42402 and Education Code, Section 89900). 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. This EO requires that the Office of Audit and Advisory Services perform an internal compliance/internal control review of auxiliary organizations. The review will be used to determine compliance with the law, including statutes in the Education Code and rules and regulations of Title 5, and compliance with policy of the Board of Trustees and of the campus, including appropriate separation of duties, safeguarding of assets, and reliability and integrity of information. According to Board of Trustee instruction, each auxiliary organization shall be examined on a triennial basis pursuant to procedures established by the chancellor.

EO 1059, *Utilization of Campus Auxiliary Organizations*, dated June 6, 2011, also represents policy of the Trustees addressing appropriate use of CSU auxiliary organizations. CSU auxiliary organizations are required to comply with Board of Trustee policy (California Code of Regulations, Title 5, §42401 and §42500 and Education Code §89720, §89756, and §89900). This EO requires CSU auxiliary organizations to operate within the regulations and oversight of the campus. The campus president is responsible for ensuring the fiscal viability of auxiliary organizations and compliance with applicable CSU policies. The campus chief financial officer is responsible for administrative compliance and fiscal oversight of auxiliary organizations. The campus, with the approval of the chancellor (or designees), may assign certain functions to auxiliary organizations pursuant to the California Code of Regulations, Title 5, §42500. A

written operating agreement is established detailing the functions that auxiliary organizations can perform. The campus may assign responsibility for an activity or program to auxiliary organizations, and the acceptance of the responsibility requires the assumption of the associated legal obligation and liabilities, fiscal liabilities, and fiduciary responsibilities by auxiliary organizations. Auxiliary organizations shall ensure that fiscal procedures and management systems are in place, consistent with California Code of Regulations, Title 5, §42401.

ICSUAM §13680.00, *Placement and Control of Receipts for Campus Activities and Programs*, dated September 29, 2011, states that accountability and responsibility for campus activities and programs should be clearly established, and that related receipts should be appropriately placed and controlled in university or auxiliary organization accounts. This policy guides campuses as to the administration of such receipts and instructs as to their proper placement in accordance with legal and regulatory requirements.

San Francisco State University Foundation

The Foundation was established in July 2008 as a non-profit public benefit corporation. The Foundation supports SFSU through fund-raising, acceptance of donor gifts, and management of endowments. The Foundation is authorized to receive and process gifts, bequests, endowments, trusts, and other gifts, and to acquire and develop real property. The Foundation does not have employees and relies on the Corporation and university advancement personnel for accounting and administrative support services. The Foundation is governed by a board of directors composed of representatives from the community, faculty, staff, students, and alumni, and the campus president.

The University Corporation, San Francisco State

The Corporation, formerly known as the San Francisco State University Foundation, Inc., was originally established in 1946. In June 2007, the Foundation was re-structured and began operating as a new non-profit public benefit corporation; thereafter it became known as the Corporation. The Corporation is responsible for the administration of projects and non-federal funds it receives from outside sponsors, as well as campus programs and other trust and agency accounts. Effective July 1, 2012, the SFSU bookstore, which was managed by the Shops, was outsourced to Follett, and the Corporation took responsibility for managing the Follett contract. Additionally, on July 1, 2014, the Corporation undertook all retail and commercial services in the Cesar Chavez Student Center and initiated month-to-month subleases for food, vending, and banking services subtenants. The Corporation also provides accounting and administrative support services to the Foundation and AS. The Corporation is governed by a board of directors composed of representatives from the faculty, staff, and alumni, and the campus president or his/her designee.

Franciscan Shops, Inc.

Shops was established in 1982 as a non-profit public benefit corporation, existing solely to provide services and products for the benefit of SFSU students, staff, faculty, and the campus community. Shops was responsible for commercial operations, including the bookstore, two convenience stores, and the copy center. In early 2012, SFSU issued a Request for Proposal to ascertain the best possible approach to managing bookstore operations. Although Shops was

one of the respondents, a selection committee decided to award the contract to Follett and move management of the contract to the Corporation, effective July 1, 2012. On June 26, 2012, the Shops board of directors decided to amend the Articles of Incorporation to designate the Corporation as the Shops sole board member and cease the operation of the bookstore. The Shops board also directed the Corporation to oversee the transition of the bookstore to Follett and the wind-down of Shops. Shops has not been dissolved and will remain in a dormant state until the Corporation restructures to undertake Shops as a subsidiary.

Associated Students of San Francisco State University

AS was established in 1944 as a non-profit public benefit corporation responsible for providing programs and services integral to the university's educational mission. AS promotes student self-government and provides facilities and programs to satisfy the needs and interests of its members, including a child care center, legal resource center, women's center, and typing center; an events production program; and other programs that provide various networking, counseling, and mentoring activities. AS also offers graduate and undergraduate scholarships. On July 1, 2014, the San Francisco State University Student Center, Inc. merged into AS to become one enhanced student auxiliary. As part of this consolidation, effective July 1, 2014, SFSU undertook maintenance, management, and operation of the Cesar Chavez Student Center, and the Corporation assumed responsibility for managing retail and commercial services. AS relies on the Corporation for accounting and administrative support services and is governed by a board of directors composed of representatives from the student body.

SCOPE

We visited the SFSU campus and its auxiliary organizations from February 23, 2015, through March 26, 2015. Our audit and evaluation included the audit tests we considered necessary in determining whether fiscal, operational, and administrative controls are in place and operative at each auxiliary and may not have included examination of all fiscal and operational areas. The audit focused on procedures in effect from July 1, 2014, to March 27, 2015.

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, reserves, conflict of interest, risk management, and trust accounts.
- Segregation of duties and administration of key fiscal and operational areas.
- Administration of sponsored programs.
- Management of gifts and endowments.
- Commercial operations (bookstore, dining services, etc.).
- Auxiliary programs (radio station, housing, children's center, etc.).

- 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:

- The Internal Revenue Service (IRS) *Governance and Related Topics 501(c)(3)*
- IRS *Return of Organization Exempt from Income Tax, Form 900*
- The Fair Labor Standard Act of 1938
- The Department of Homeland Security, U.S. Citizenship and Immigration Services, Form I-9
- EO 698, *Board of Trustees Policy for the California State University Auxiliary Organizations*
- EO 715, *California State University Risk Management Policy*
- EO 849, *California State University Insurance Requirements*
- EO 890, *Administration of Grants and Contracts in Support of Sponsored Programs*
- EO 1041, *California State University Student Travel Policy*
- EO 1059, *Utilization of Campus Auxiliary Organizations*
- ICSUAM §1301-00, *Hospitality, Payment or Reimbursement of Expenses*
- ICSUAM §8065-00, *Information Assets Management*
- ICSUAM §13680-00, *Placement and Control of Receipts for Campus Activities and Programs*
- ICSUAM §15401.00, *Fundraising – Matching Gifts*
- ICSUAM §15701-00, *Fundraising Events*
- CSU Conflict of Interest Handbook §2B
- Title 5 §42401, *Declaration of Policy*
- Title 5 §42402, *Authority of Campus President*
- Title 5 §42600(b)
- *Compilation of Policies and Procedures for California State University Auxiliary Organizations*
- The Foundation Board of Directors *Conflict of Interest Policy*
- SFSU Office of Research Sponsored Programs *Contracts and Grants Policy and Procedures Manual*
- Corporation *Procurement Policy*
- Corporation *Hospitality Policy*
- Corporation *Travel Policy*
- AS *Hospitality Policy*

AUDIT TEAM

Senior Director: Janice Mirza
Audit Manager: Caroline Lee
Senior Auditors: Erika Almaraz, Sean Lee, and Dominick Owens
Internal Auditor: May Flores