

*Office of the University Auditor
401 Golden Shore, 4th Floor
Long Beach, CA 90802-4210*

Larry Mandel
*Vice Chancellor and
Chief Audit Officer*

*562-951-4430
562-951-4955 (Fax)
lmandel@calstate.edu*

October 23, 2017

Report #17-200

Dr. Timothy P. White
Chancellor
The California State University
401 Golden Shore
Long Beach, CA 90802

Dear Dr. White:

Pursuant to a request from your office and approval from the Chair of the Board of Trustees' Committee on Audit on March 13, 2017, the Office of Audit and Advisory Services has conducted an investigation in response to allegations raised by San Francisco State University (campus) administrators. Specifically, we investigated whether expenditures made by the former manager of the biology department stockroom and the current stockroom manager were in compliance with applicable criteria. In addition, we investigated whether the former stockroom manager entered into agreements without proper delegated authority, including agreements that may have constituted a conflict of interest.

To investigate the allegations, we reviewed a selection of expenditures made by both the former and current stockroom managers, including purchases made between August 2015 and March 2017 using campus procurement cards or purchase orders, and other purchases that were subsequently reimbursed by the campus. We also obtained the former stockroom manager's computer files and emails. In addition, we reviewed relevant criteria, as well as files provided by the campus related to its earlier investigation into issues related to the stockroom. Further, we interviewed college and department staff, including both the former and current stockroom managers and the biology department chair.

Included within the report are the results of the investigation along with specific recommendations which, we believe, would benefit campus fiscal and operational management.

Sincerely,



Larry Mandel
Vice Chancellor and Chief Audit Officer

c: Douglas Faigin, Chair, Committee on Audit

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SPECIAL INVESTIGATION

SAN FRANCISCO STATE UNIVERSITY

EMPLOYEES MADE GIFTS OF PUBLIC FUNDS

Investigative Report 17-200
September 27, 2017

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Senior Manager of Investigations: Cindy Sanford
Senior Investigative Auditor: Tiffany Britt

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ABBREVIATIONS

COSE	College of Science and Engineering
CSU	California State University
Stockroom	Biology Department Stockroom

EXECUTIVE SUMMARY

INITIAL ALLEGATIONS

We investigated the following issues:

- Whether expenditures made by the former stockroom manager (whether in his current or previous role¹) and the current stockroom manager were in compliance with applicable criteria.
- Whether the former stockroom manager entered into agreements without proper delegated authority, including agreements that may have constituted a conflict of interest.

INVESTIGATION RESULTS – INITIAL ALLEGATIONS

Expenditures

We selected a sample of expenditures made by both the former and current stockroom managers and tested them for various attributes. The expenditures we reviewed were in compliance with applicable criteria.

Agreements

We found no evidence that the former stockroom manager entered into agreements without proper delegated authority, including agreements that may have constituted a conflict of interest.

INVESTIGATION RESULTS – ANCILLARY FINDINGS

Misuse of State Resources, Improper Use of Off-Campus Accounts, and Gift of Public Funds

Although the expenditures we reviewed were in compliance with applicable criteria, employees misused state resources when they sold to students some of the inventory purchased with department funds and gave the proceeds to a student club, constituting a gift of public funds. In addition, the former stockroom manager improperly deposited and maintained these and other funds in his personal bank accounts for several years. A spreadsheet provided by the former stockroom manager indicated sales of \$81,211, though the time period was unclear, and he deposited unknown amounts from these and other stockroom sales activities into his personal bank accounts. In 2016, the former stockroom manager gave \$100,707 from his personal accounts to the student club. Due to a lack of detailed, reliable records, we could not determine how much the department spent on the inventory sold to students, how much revenue the former stockroom manager collected, or whether he repaid all the funds he collected.

¹ The individual has not been the stockroom manager since November 2015, but he is still employed by the campus in a different capacity.

INTRODUCTION

BACKGROUND

College of Science and Engineering/Biology Department

The College of Science and Engineering (COSE) supports a number of programs designed to encourage and support all students to pursue careers in science and engineering. COSE is made up of one school and eight departments, including the biology department, which emphasizes hands-on laboratory experience in campus facilities. The biology department stockroom (stockroom) provides a variety of services to faculty, staff, and students. Among other things, the stockroom purchases laboratory supplies and materials that are used in various biology lab courses and often paid for using lab fees paid by students. The stockroom also sells additional laboratory supplies to students who need items above and beyond what is typically included for a particular course, such as additional gloves, goggles, and lab coats.

Biology Department Graduation

Approximately 10 years ago, the biology department started holding its own department graduation. This department graduation was in addition to the main graduation ceremony held for the campus and was a way for the graduates' friends and family to attend a smaller ceremony where the graduates' names would each be called. The department chair also viewed the event as a way to build goodwill with the graduates who may then want to make donations to the campus in the future. Therefore, the department chair authorized the use of department funds to help pay for food at the graduation. The department chair said that he could not do that every year, and a student club was supposed to organize and fund the graduation, largely through graduation ticket sales; those tickets were sold from the stockroom. However, the student club needed additional income to help pay for the graduation, and the former stockroom manager suggested a few options to the department chair. According to the former stockroom manager, the department chair approved giving the club the proceeds from sales of stockroom inventory. However, the department chair told us he thought the club was selling graduation tickets and other items club members might have purchased with club funds.

Lab Manual Sales

Several biology courses use a lab manual for conducting lab experiments. The lab manual sales were a fund-raiser for another student club and were sold from the stockroom. That student club was raising money to pay for student travel grants (e.g., to attend conferences and make presentations), research, and presentation materials. The former stockroom manager used his personal credit card to pay for the printing of the lab manuals, and the student club reimbursed him later using money from the sales; the club also paid him a commission for doing this.²

² The former stockroom manager said he allocated the extra money to the graduation fund, but we could not determine whether that happened because he did not keep detailed records.

Campus Actions and Notifications

Beginning in July 2016, the campus began investigating allegations related to the stockroom and was concerned that improper activities may have occurred. The campus asked us to investigate new concerns that resulted from their investigation. On March 9, 2017, the president requested that the Office of Audit and Advisory Services conduct an investigation. The request was approved on March 13, 2017.

SCOPE AND METHOD OF INVESTIGATION

To investigate the allegations, we reviewed a selection of expenditures made by both the former and current stockroom managers, including purchases made between August 2015 and March 2017 using campus procurement cards or purchase orders, and other purchases that were subsequently reimbursed by the campus. We also obtained the former stockroom manager's computer files and emails. In addition, we reviewed relevant criteria, as well as files provided by the campus related to its investigation. Further, we interviewed COSE and biology department staff, including both the former and current stockroom managers and the biology department chair.

RESULTS OF INVESTIGATION

ALLEGATION

We investigated the following issues:

- Whether expenditures made by the former stockroom manager (whether in his current or previous role) and the current stockroom manager were in compliance with applicable criteria.
- Whether the former stockroom manager entered into agreements without proper delegated authority, including agreements that may have constituted a conflict of interest.

INVESTIGATION RESULTS

Expenditures

We selected a sample of expenditures made by both the former and current stockroom managers and tested them for various attributes. The expenditures we reviewed were in compliance with applicable criteria.

We obtained records of procurement card and other purchases made by both the former and current stockroom manager, as well as the biology department chair, between August 2015 and March 2017. We selected a sample of 30 transactions based mainly on the most frequently used suppliers and most utilized fund numbers. Specifically, we tested for supporting information such as receipts, appropriate approvals, and appropriate use of funding source. We also reviewed dollar thresholds for purchases and considered whether there was a reasonable business use for the items purchased. The expenditures we reviewed were in compliance with applicable criteria.

In addition to testing for certain attributes, we analyzed the expenditure data to look for patterns in spending, such as where the largest expenditures occurred and whether the expenditures may have included the purchase of items for personal use. We also reviewed the former stockroom manager's email to determine whether there was evidence of impropriety related to his expenditures. We did not find evidence of improper purchases or expenditures.

Agreements

We found no evidence that the former stockroom manager entered into agreements without proper delegated authority, including agreements that may have constituted a conflict of interest.

We reviewed the former stockroom manager's email and computer files to determine whether there was evidence that he entered into agreements without proper delegated authority. In addition, we interviewed the former stockroom manager and other employees to determine whether they were

aware of any such agreements. We found no evidence that the former stockroom manager entered into agreements without proper delegated authority, including agreements that may have constituted a conflict of interest.

We noted that there was an informal spoken agreement with a local florist to sell flowers at the biology department graduation. According to the former stockroom manager, that arrangement was made by a student club. The campus auditors noted that there were donation checks from the florist to the student club that were deposited into the student club's bank account.

ANCILLARY FINDINGS

Misuse of State Resources, Improper Use of Off-Campus Accounts, and Gift of Public Funds

While the expenditures we reviewed were in compliance with applicable criteria, employees misused state resources when they sold to students some of the inventory purchased with department funds and gave the proceeds to a student club, constituting a gift of public funds. In addition, the former stockroom manager improperly deposited and maintained these and other funds in his personal bank accounts for several years. A spreadsheet provided by the former stockroom manager indicated stockroom sales of \$81,211, though the time period was unclear, and he deposited unknown amounts from these and other stockroom sales activities into his personal bank accounts. In 2016, the former stockroom manager gave \$100,707 from his personal accounts to the student club. Due to a lack of detailed, reliable records, we could not determine how much the department spent on the inventory sold to students, how much revenue the former stockroom manager collected, or whether he repaid all the funds he collected.

Lab fees paid by students were used not only to purchase supplies for the lab courses, but also to purchase inventory for the stockroom, including items subsequently sold to students. The stockroom provided supplies to staff and student assistants for lab prep, to instructors, and to some of the courses that did not require students to purchase supplies. Some items were also given to the research labs because some of the instructors used supplies from their research labs to teach their lab courses.

As explained in the background section, the stockroom also sells supplies to students who need items above and beyond what is typically included for a particular course, such as additional gloves, goggles, and lab coats. Although the stockroom maintained a spreadsheet to track sales, the spreadsheet contained over 12,000 rows of information and lacked details, most notably the date of the transactions, and we were not confident in the reliability of the data. The spreadsheet's file properties indicate it was created in February 2006 and last updated in September 2016 by a campus auditor as part of the campus review. Although we do not know with certainty when the log was started or how accurate it is, it indicated total sales of \$81,211.³

³ Sales prices for at least some items were marked above the cost of the items, but there were no clear records indicating which items were marked up or by what amount.

According to the former stockroom manager, the department chair decided that the sales revenues from the inventory items would go to a student club to help fund the biology department graduation. The department chair told us he thought the stockroom was selling items bought with club funds. The former stockroom manager said the student club, for which he was the advisor, had difficulty opening a separate bank account for the funds. Because the former stockroom manager did not want to keep the money in the stockroom safe, beginning around 2007, he began depositing the money into his personal bank accounts, improperly using off-campus accounts and commingling revenues with his personal funds. This practice continued for several years. The department chair told us he thought the funds would go into an account in the student club's name. The former stockroom manager told us that no sales money was deposited into the department account, and the department chair and COSE director of budget and finance confirmed that they were unaware of sales revenues being given to the department even though the department paid for the inventory that was sold. The department chair further stated he did not recommend or authorize a personal account, but he and the former stockroom manager did not always understand each other thoroughly, so he may have had another interpretation.

The former stockroom manager also deposited revenues from other stockroom activities to his personal accounts over the years, including revenues from the sale of snack items,⁴ graduation tickets, and lab manuals.⁵ According to campus auditors, approximately \$126,205 in graduation ticket sales was collected during the 2010/11 through 2016/17 academic years, but bank records indicated a total of only \$25,527 was deposited in the student club account between July 2012 and March 2016.⁶ Campus auditors also estimated that the former stockroom manager may have received between \$13,666 and \$27,333 in commissions from the sale of lab manuals during the 2013/14 through 2016/17 academic years.⁷ The former stockroom manager was unable to provide sufficiently detailed information to substantiate the total amount he deposited.

In June 2016, after students raised questions about the funds for the graduation, the former stockroom manager provided two cashier's checks from his personal bank accounts to the student club; the checks totaled \$100,706.91. The issue of the former stockroom manager improperly commingling these funds with his personal funds was investigated by the campus, but the campus was unable to determine whether the amount remitted by the former stockroom manager was sufficient to repay all of the funds he collected and deposited in his personal accounts because he failed to maintain adequate records. The former stockroom manager could not adequately explain how he calculated the amount he repaid or how he knew he repaid the full amount.

Because the department did not maintain detailed records of the inventory it purchased and subsequently sold to students, we were unable to ascribe a dollar value to the misuse of state resources.

⁴ We did not see the purchase of snack items in the department expenditures. When we asked the former stockroom manager about this, he said he purchased the items with his own money.

⁵ See background section for a discussion of the biology department graduation and the lab manual sales.

⁶ The campus's investigation was hindered by a lack of available, detailed, and reliable records. They were not always able to compare data from different sources for the same time periods.

⁷ The lab manuals were sold from the stockroom, thereby using state facilities and state employees to raise money for the student club, which was not registered with or recognized by the campus as an official student club.

In addition, there was misuse of other state resources because the stockroom and stockroom employees were used to conduct the various sales transactions, but there were no records to help us determine a time or dollar value related to the sales activity. Further, because of the lack of detailed inventory records and the fact that the former stockroom manager commingled various revenue sources with his personal funds before providing the cashier's checks to the student club, we were also unable to determine the amount of the gift of public funds.

The stockroom no longer accepts cash payments and has an electronic payment system that allows better monitoring of sales transactions. The revenues collected are now deposited into department accounts. In addition, the stockroom no longer sells snack items, graduation tickets, or lab manuals.

California Government Code Section 8314 prohibits state officers and employees from using state resources such as buildings, facilities, funds, equipment, and supplies for personal enjoyment, private gain, or personal advantage, or for an endeavor not related to state business. If the use of state resources is substantial enough to result in a gain or advantage to an officer or employee for which a monetary value may be estimated, or a loss to the state for which a monetary value may be estimated, the officer or employee may be liable for a civil penalty not to exceed \$1,000 for each day on which a violation occurs plus three times the value of the unlawful use of state resources.

California Education Code Section 89721(g) states that fees and charges for services, materials, and facilities shall be deposited into and maintained in local trust accounts. Fees and charges so received and deposited shall be used solely to meet the costs of providing these services, materials, and facilities.

Integrated California State University Administrative Manual §3101.01, *Centralized Management of Cash and Investments*, states that it is the policy of the California State University (CSU) that all money in the possession of, or controlled by, the CSU shall be deposited in the centralized bank(s) designated by the executive vice chancellor/chief financial officer of the CSU. Campus chief financial officers must ensure that cash is deposited in and disbursed from the CSU's approved centralized banks.

The California Constitution Article XVI, Section 6, prohibits the giving of any gift of public money or thing of any value to any individual for a private purpose. This constitutional prohibition is designed to ensure that the resources of the state will be devoted to public purposes.

RECOMMENDATIONS

Our investigation was administrative in nature. The conclusions we drew were made within that context. Recommendations that would mitigate the recurrence of similar findings are presented below.

We recommend that the campus:

1. Notify all employees about the prohibition related to off-campus bank accounts, including putting state funds into personal bank accounts, as well as the prohibition against making gifts of public funds. The notification should include a directive to notify a designated campus administrator about any known existing off-campus accounts, state money being maintained anywhere other than under campus control, or public funds being gifted to students/student organizations.
2. Review other stockrooms on campus, including the stockrooms maintained by the chemistry, physics, and engineering departments, to determine the types of sales they conduct and how and where the revenues are collected and deposited.

Campus Response

1. Notifications to campus
 - a. A notification from the interim vice president and chief financial officer will be distributed no later than November 30, 2017, to all campus employees about the prohibition related to off-campus bank accounts, including putting state funds into personal bank accounts, as well as the prohibition against making gifts of public funds. The associate vice president of fiscal affairs will be the designated campus administrator regarding such notifications.
 - b. Student clubs and organizations have already begun to be educated regarding the prohibition related to off-campus bank accounts as of the start of the fall 2017 semester. This is handled through both Student Affairs and Associated Students. This education is directed toward club officials, as well as faculty advisors.
2. SF State Audit and Advisory Services will perform an advisory review on stockroom procedures and inventory handling, including stockrooms maintained by the chemistry, physics, and engineering departments. This review will be completed no later than April 30, 2018.



OFFICE OF THE PRESIDENT
1600 Holloway Avenue
San Francisco, CA 94132

phone: 415/338-1381
fax: 415/338-6210
web: president.sfsu.edu

October 16, 2017

Larry Mandel
Vice Chancellor and Chief Audit Officer
The California State University
401 Golden Shore
Long Beach, CA 90802-4275

Dear Larry:

We have received Investigative Report #17-200 "Employees Made Gifts of Public Funds" from your office and are providing our campus responses to the recommendations electronically as requested.

Please direct questions regarding the responses to Ann Sherman, Interim Vice President and CFO, Administration & Finance, at (415) 338-2521 or asherman@sfsu.edu.

Regards,

A handwritten signature in cursive script that reads "Leslie E. Wong".

Leslie E. Wong,
President

Attachment

cc: Ann Sherman, Interim Vice President and CFO, Administration & Finance
Jennifer Summit, Interim Provost & Vice President for Academic Affairs
Daniel Ojeda, University Counsel
Alison Sanders, Chief of Staff
Maureen Pasag, Associate Vice President, Audit & Advisory Services
Carmen Domingo, Dean, College of Science & Engineering

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