

**AUXILIARY ORGANIZATIONS**

**SAN FRANCISCO STATE UNIVERSITY**

**Audit Report 06-48  
October 30, 2006**

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## **ABBREVIATIONS**

ABS	Auxiliary Business Services
AS	Associated Students of San Francisco State University
CFO	Chief Financial Officer
CSU	California State University
EO	Executive Order
Foundation	San Francisco State University Foundation, Inc.
IS	Information Systems
IT	Information Technology
RFIN	Resolution of the Committee on Finance
Shops	Franciscan Shops
Student Center	San Francisco State University Student Center

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## EXECUTIVE SUMMARY

In July 1981, the Board of Trustee policy concerning auxiliary organizations was adopted in the Resolution of the Committee on Finance (RFIN) 7-81-4. Executive Order 698, *Board of Trustees Policy for The California State University Auxiliary Organizations*, dated March 3, 1999, required that the Office of the University Auditor conduct internal compliance/internal control reviews of auxiliary organizations, and the Board of Trustees instructed that such reviews be conducted on a triennial basis pursuant to procedures established by the chancellor.

San Francisco State University 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 responsibility, in accordance with California Code of Regulations, Title 5, Section 42402 et seq. and Executive Order 698, *Board of Trustees Policy for The California State University Auxiliary Organizations* et seq., includes requiring the documentation of internal control, communicating requirements to employees, and assuring that its system of internal compliance/internal control is functioning as prescribed. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures.

The objectives of a system of internal compliance/internal control are to provide management with reasonable, but not absolute, assurance that:

- ▶ Auxiliary operations are conducted in accordance with policies and procedures established in the State Administrative Manual, Education Code, Title 5, and Trustee policy.
- ▶ Assets are adequately safeguarded against loss from unauthorized use or disposition.
- ▶ Transactions are executed in accordance with management's authorization and recorded properly to permit the timely preparation of reliable financial statements.

We visited the San Francisco State University campus and its auxiliary organizations from April 3, 2006, through May 12, 2006, and made a study and evaluation of the system of internal compliance/internal control in effect for the period July 2003 to May 2006. This report represents our triennial review.

Our study and evaluation at *San Francisco State University Foundation, Inc.* revealed certain conditions that, in our opinion, could result in errors and irregularities if not corrected. Specifically, the auxiliary did not maintain adequate control over the following areas: operational compliance; fees, revenues, and receivables; purchasing and accounts payable; and property and equipment. These conditions, along with other weaknesses, are described in the executive summary and in the body of the report. In our opinion, except for the effect of the weaknesses described above, accounting and administrative control in effect as of May 2006, taken as a whole, was sufficient to meet the objectives stated above.

Our study and evaluation at *Franciscan Shops* did not reveal any significant internal control problems or weaknesses that would be considered pervasive in their effects on the accounting and administrative controls. However, we did identify other reportable weaknesses that are described in the executive summary and in the body of the report. In our opinion, the accounting and administrative control in effect as of May 2006, taken as a whole, was sufficient to meet the objectives stated above.

Our study and evaluation at *Associated Students of San Francisco State University* did not reveal any significant internal control problems or weaknesses that would be considered pervasive in their effects on the accounting and administrative controls. However, we did identify other reportable weaknesses that are described in the executive summary and in the body of the report. In our opinion, the accounting and administrative control in effect as of May 2006, taken as a whole, was sufficient to meet the objectives stated above.

Our study and evaluation at the *San Francisco State University Student Center* did not reveal any significant internal control problems or weaknesses that would be considered pervasive in their effects on the accounting and administrative controls. However, we did identify other reportable weaknesses that are described in the executive summary and in the body of the report. In our opinion, the accounting and administrative control in effect as of May 2006, taken as a whole, was sufficient to meet the objectives stated above.

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.

The following summary provides management with an overview of conditions requiring their attention. Areas of review not mentioned in this section were found to be satisfactory. Numbers in brackets [ ] refer to page numbers in the report.

## **CAMPUS**

### **AUXILIARY PROGRAMS [11]**

The campus had not fully developed procedures to ensure the university's interest is represented in the agreements between Franciscan Shops and faculty members for faculty-developed course materials. Further, the campus did not have a standard policy for the determination of faculty payments (royalty/commission) from Franciscan Shops for these materials and did not have a formal campus procedure to mitigate potential copyright risk.

## **SAN FRANCISCO STATE UNIVERSITY FOUNDATION, INC.**

### **FACILITIES AGREEMENTS [13]**

Certain lease and sublease agreements among San Francisco State University Foundation, Inc. (Foundation) and other entities were expired, not properly supported, or executed with inadequate provisions.

## **FISCAL COMPLIANCE [14]**

The Foundation did not record board-designated reserves within its general ledger.

## **OPERATIONAL COMPLIANCE [15]**

The Foundation had not developed procedures to document and monitor significant debt covenants requirements, resulting in default on the series 2001 bond and violation on the series 1999 bonds. Further, the Foundation had not performed, in a timely manner, an analysis of the comparability of salaries and wages for its full-time employees in relation to those provided campus employees performing substantially similar positions. This is a repeat finding from a prior auxiliary organizations audit report.

## **SEGREGATION OF DUTIES [17]**

Duties and responsibilities over certain accounts payable functions were not adequately segregated at the Foundation. Specifically, one individual created new vendors, posted accounts payable and accounts receivables, and had full access to the general ledger system. Further, duties and responsibilities over certain payroll functions were not properly segregated at the Foundation. Specifically, several employees entered the number of hours worked, processed payroll information, and had the ability to override employees' pay rate.

## **CASH RECEIPTS AND HANDLING [19]**

The Foundation had not completed and reviewed, in a timely manner, certain bank reconciliations.

## **FEES, REVENUES, AND RECEIVABLES [19]**

Administration and accounting of Foundation accounts receivable required improvement. For example, policies and procedures to address accounts receivable aging, timely action on uncollected receivables, write-off over a predetermined level of uncollectible accounts, and assessment of allowance for doubtful accounts were not properly documented.

## **PURCHASING AND ACCOUNTS PAYABLE [21]**

Certain Foundation cash disbursements were not supported by sufficient and appropriate documentation and/or appropriate authorization. Further, the Foundation had not updated a principal bank signature card for the payroll account. Lastly, a specific dollar threshold requirement for purchase orders and/or competitive bids had not been developed.

## **PERSONNEL AND PAYROLL [23]**

Foundation management did not review payroll-related reports detailing employee salary and wage adjustments.

## **PROPERTY AND EQUIPMENT [24]**

Administration of Foundation property and equipment was deficient. For example, policies and procedures for the management and administration of property and equipment did not address the identification and tagging of sensitive non-capitalized property under \$5,000, and property and equipment disbursements disclosed that not all assets were properly coded to the sub ledger.

## **ENDOWMENT ADMINISTRATION [25]**

The Foundation's unitization methodology required improvement. The incorrect methodology created a misallocation of investment income and gains to each endowment fund in the investment pool. In addition, the Foundation did not always maintain adequate documentation supporting all contributions to each endowment account. Lastly, the Foundation misclassified certain endowment funds by assigning temporarily restricted fund numbers to permanently restricted funds.

## **AUXILIARY PROGRAMS [28]**

State funds generated by campus programs were inappropriately classified as Foundation revenue. Specifically, the Romberg Tiburon Center, Bay Conference Center, and the Theatre Arts department fund were each classified as state programs in which campus revenues were processed by the Foundation and recorded on the Foundation financial statements.

## **INFORMATION TECHNOLOGY [29]**

The Foundation information technology (IT) disaster recovery plan did not include specific recovery information, such as finalized arrangements for alternate processing facilities.

## **FRANCISCAN SHOPS**

### **OPERATIONAL COMPLIANCE [30]**

The Franciscan Shops' (Shops) current affirmative action/equal employment opportunity policy did not address discrimination based on pregnancy, sexual orientation, and medical condition.

### **SEGREGATION OF DUTIES [30]**

Duties and responsibilities over certain accounting functions were not appropriately segregated at Shops. Specifically, one employee who had full access to the general ledger also created, approved, and posted journal entries without an independent review.

### **CASH RECEIPTS AND HANDLING [31]**

Shops did not maintain a current record of safe combination changes or individuals with knowledge of safe combinations for two safes. Further, authorization approval was not consistently obtained for certain voided transactions at Shops.

## **PURCHASING AND ACCOUNTS PAYABLE [32]**

Certain Shops cash disbursements were not supported by sufficient and appropriate documentation and/or paid in a timely manner. Further, Shops had not developed a procedure to inform management of textbook purchase orders over \$50,000.

## **PERSONNEL AND PAYROLL [34]**

Shops management did not review payroll-related reports detailing employee salary and wage adjustments. The reconciliation of the Ceridian payroll report to the payroll input data report was performed by the same employee who added, changed, and/or deleted data into the payroll system.

## **TRUSTS AND OTHER LIABILITIES [35]**

Shops had not developed policies and procedures to escheat unclaimed monies to the state.

## **INFORMATION TECHNOLOGY [35]**

Shops did not encrypt private customer information stored on its computer system. In addition, Shops' written IT disaster recovery plan did not include specific recovery information, such as finalized arrangements for alternate processing facilities.

## **ASSOCIATED STUDENTS OF SAN FRANCISCO STATE UNIVERSITY**

### **FEES, REVENUES, AND RECEIVABLES [38]**

The campus Auxiliary Business Services (ABS) did not perform reconciliations of student fees collected to the student enrollment records for the Associated Students of San Francisco State University (AS).

### **PURCHASING AND ACCOUNTS PAYABLE [39]**

Residence hall disbursements processed by the AS business office were not reviewed for compliance with AS policies and procedures.

## **SAN FRANCISCO STATE UNIVERSITY STUDENT CENTER**

### **FEES, REVENUES, AND RECEIVABLES [40]**

The San Francisco State University Student Center did not perform reconciliations of revenues received from the billiards club payments received to the member roster, nor did the campus ABS perform reconciliations of student fees collected to the student enrollment records.

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## INTRODUCTION

### **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 California State University (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. Executive Order 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).

This executive order requires that the Office of the University Auditor will perform an internal compliance/internal control review of auxiliary organizations. The review will be used to determine compliance with 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.

## **PURPOSE**

The principal audit objectives were to determine compliance with the Education Code, Title 5, and directives of the Board of Trustees and the Office of the Chancellor and to assess the adequacy of controls and systems. Specifically, we sought assurances that:

- ▶ Legal and regulatory requirements are complied with.
- ▶ Accounting data is provided in an accurate, timely, complete, or otherwise reliable manner.
- ▶ Assets are adequately safeguarded from loss, damage, or misappropriation.
- ▶ Duties are appropriately segregated consistent with appropriate control objectives.
- ▶ Transactions, accounting entries, or systems output is reviewed and approved.
- ▶ Management does not intentionally override internal controls to the detriment of control objectives.
- ▶ Accounting and fiscal tasks, such as reconciliations, are prepared properly and completed timely.
- ▶ Deficiencies in internal controls previously identified were corrected satisfactorily and timely.
- ▶ Management seeks to prevent or detect erroneous recordkeeping, inappropriate accounting, fraudulent financial reporting, financial loss, and exposure.

## **SCOPE AND METHODOLOGY**

Our study and evaluation were conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing* issued by the Institute of Internal Auditors, and included the audit tests we considered necessary in determining that accounting and administrative controls are in place and operative. The management review emphasized, but was not limited to, compliance with state and federal laws, Board of Trustee policies, and Office of the Chancellor policies, letters, and directives. For those audit tests that required annualized data, fiscal years 2003/2004 and 2004/2005 were the primary periods reviewed. In certain instances, we were concerned with representations of the most current data; in such cases, the test period was July 2005 to May 2006. Our primary focus was on internal compliance/internal control.

Specifically, we reviewed and tested:

- ▶ Formation of the auxiliary.
- ▶ Functions the auxiliary performs on the campus.
- ▶ Creation and operation of the auxiliary's board.
- ▶ Establishment of policies and procedures based upon sound business practices.
- ▶ Maintenance of "arms-length" in business transactions between the auxiliary and the campus.
- ▶ Campus oversight of auxiliary operations.

Additionally, for the period reviewed, we examined other aspects of compliance of the campus and each auxiliary with the Education Code and Title 5 as they relate to the operation of CSU auxiliary organizations. Individual codes and regulations added to the scope of our review were identified through an assessment of risk. Similarly, internal controls were included within our scope based upon risk. Therefore, the scope of our review varied from auxiliary to auxiliary.

A preliminary survey of CSU auxiliaries at each campus was used to identify risks. Risk was defined as the probability that an event or action would adversely affect the auxiliary and/or the campus. Our assessment of risk was based upon a systematic process, using professional judgments on probable adverse conditions and/or events that became the basis for development of our final scope. We sought to assign higher review priorities to activities with higher risks. As a result, not all risks identified were included within the scope of our review.

Based upon this assessment of risks, we specifically included within the scope of our review the following:

San Francisco State University Foundation, Inc.

- ▶ Operating and Administrative Agreements
- ▶ Facilities Agreements
- ▶ Corporate Governance
- ▶ Fiscal Compliance
- ▶ Operational Compliance
- ▶ Program Compliance
- ▶ Campus Oversight and Control
- ▶ Segregation of Duties
- ▶ Cash Receipts and Handling
- ▶ Petty Cash and Change Funds
- ▶ Investments
- ▶ Endowment Administration
- ▶ Fees, Revenues, and Receivables
- ▶ Purchasing and Accounts Payable
- ▶ Personnel and Payroll
- ▶ Property and Equipment
- ▶ Trusts and Other Liabilities
- ▶ Information Technology

Franciscan Shops

- ▶ Operating and Administrative Agreements
- ▶ Facilities Agreements
- ▶ Corporate Governance
- ▶ Fiscal Compliance
- ▶ Operational Compliance
- ▶ Program Compliance
- ▶ Campus Oversight and Control
- ▶ Segregation of Duties
- ▶ Cash Receipts and Handling
- ▶ Petty Cash and Change Funds
- ▶ Investments
- ▶ Fees, Revenues, and Receivables
- ▶ Purchasing and Accounts Payable
- ▶ Personnel and Payroll
- ▶ Property and Equipment

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INTRODUCTION

- ▶ Trusts and Other Liabilities
- ▶ Information Technology

Associated Students of San Francisco State University

- ▶ Operating and Administrative Agreements
- ▶ Facilities Agreements
- ▶ Corporate Governance
- ▶ Fiscal Compliance
- ▶ Operational Compliance
- ▶ Program Compliance
- ▶ Campus Oversight and Control
- ▶ Segregation of Duties
- ▶ Cash Receipts and Handling
- ▶ Petty Cash and Change Funds
- ▶ Investments
- ▶ Fees, Revenues, and Receivables
- ▶ Purchasing and Accounts Payable
- ▶ Personnel and Payroll
- ▶ Property and Equipment
- ▶ Trusts and Other Liabilities
- ▶ Information Technology

San Francisco State University Student Center

- ▶ Operating and Administrative Agreements
- ▶ Facilities Agreements
- ▶ Corporate Governance
- ▶ Fiscal Compliance
- ▶ Operational Compliance
- ▶ Program Compliance
- ▶ Campus Oversight and Control
- ▶ Segregation of Duties
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- ▶ Personnel and Payroll
- ▶ Property and Equipment
- ▶ Trusts and Other Liabilities
- ▶ Information Technology

Campus

- ▶ Campus Oversight and Control

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INTRODUCTION

We have not performed any auditing procedures beyond May 2006. Accordingly, our comments are based on our knowledge as of that date. Since the purpose of our comments is to suggest areas for improvement, comments on favorable matters are not addressed.

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# OBSERVATIONS, RECOMMENDATIONS, AND CAMPUS RESPONSES

## CAMPUS

### AUXILIARY PROGRAMS

Campus oversight of faculty-developed course materials required improvement.

We found that the campus had not fully developed:

- ▶ Procedures to ensure that the university's interest is represented in the agreements between the bookstore and faculty members for faculty-developed course materials.
- ▶ A standard policy for the determination of faculty payments (royalty/commission) from the bookstore for these materials.

We also found that Franciscan Shops had not developed written procedures to mitigate potential copyright risk.

Title 5 §42401 and §42402 indicate that the campus president shall require that auxiliary organizations operate in conformity with policy of the Board of Trustees and the campus. One of the objectives of the auxiliary organizations is to provide fiscal procedures and management systems that allow effective coordination of the auxiliary activities with the campus in accordance with sound business practices. Sound business practice mandates the development of policies and procedures to address faculty-developed course materials.

The vice president of administration and finance stated that the campus had addressed these issues under several campus directives, but understands that other policies or procedures are needed to further mitigate the issues.

Failure to fully develop written policies and procedures reduces the campus' ability to provide sufficient oversight and increases the risk that misunderstandings will occur.

#### **Recommendation 1**

We recommend that the campus ensure that:

- a. Procedures are developed ensuring the university's interest is represented in the agreements between the bookstore and faculty members for faculty-developed course materials.
- b. A standard policy is established for the determination of faculty payments (royalty/commission) from the bookstore for these materials.
- c. Franciscan Shops develops written procedures to mitigate potential copyright risk.

### **Campus Response**

- a. We concur. The campus will collaborate with the Franciscan Shops (bookstore) to strengthen current procedures and associated forms to ensure that the university's interest is represented in the agreements between the bookstore and faculty members for faculty-developed course materials.

Expected completion date: April 2007

- b. We concur. The campus will collaborate with the bookstore to develop a faculty payment policy (royalty/commission) for faculty-developed course materials produced by the bookstore.

Expected completion date: April 2007

- c. We concur. The bookstore already has a copyright policy/procedure to mitigate potential copyright risks. To further strengthen and ensure that the copyright policy/procedure is followed, the general manager will annually issue a memo to promulgate to the appropriate staff the importance of following the established copyright policy/procedure.

Expected completion date: January 2007

## **SAN FRANCISCO STATE UNIVERSITY FOUNDATION, INC.**

### **FACILITIES AGREEMENTS**

Certain lease and sublease agreements among San Francisco State University Foundation, Inc. (Foundation) and other entities were expired, not properly supported, or executed with inadequate provisions.

We found that:

- ▶ Three lease and/or sublease agreements were expired.
- ▶ One original sublease agreement could not be provided by the Foundation.
- ▶ Three sublease agreements with third-party vendors lacked audit clauses pertaining to the payment of commission as part of rental income.
- ▶ The indemnification and insurance provisions in several facility agreements did not indemnify the California State University (CSU) Trustees and/or campus.

Title 5 §42401 and §42402 indicate that the campus president shall require that auxiliary organizations operate in conformity with policy of the Board of Trustees and the campus. One of the objectives of the auxiliary organizations is to provide fiscal procedures and management systems that allow effective coordination of the auxiliary activities with the campus in accordance with sound business practices. Sound business practice mandates that business arrangements be supported by complete, written agreements and be executed in a timely manner.

Executive Order (EO) 849, *California State University Insurance Requirements*, dated February 5, 2003, states that auxiliary organizations shall agree to indemnify, defend, and save harmless the State of California, the Trustees of the CSU, the campus, and the officers, employees, volunteers, and agents of each of them from any and all loss, damage, or liability that may be suffered or incurred by state, caused by, arising out of, or in any way connected with the operations of the auxiliary.

The Foundation executive director stated that the absence of current business service agreements with various vendors was due to oversight. In addition, the Foundation administrative services director stated that the other deficiencies noted were not resolved due to time and staff constraints.

The absence of current and complete written agreements increases the risk of misunderstandings and miscommunication regarding rights and responsibilities.

#### **Recommendation 2**

We recommend that the Foundation:

- a. Ensure all lease and sublease agreements are executed timely and signed originals are retained.

- b. Include audit clauses pertaining to payment of commission as part of rental income in lease agreements when appropriate.
- c. Include proper indemnification and insurance provisions within agreements, as necessary.

**Campus Response**

We concur. Upcoming expiration dates have been identified and renewals will be made on a timely basis. The leases involving commissions requiring audit clauses have been identified. They, along with the review of all indemnification and insurance provisions, will be addressed with various lessees and, if required, amendments will be made.

Expected completion date: February 2007

**FISCAL COMPLIANCE**

The Foundation did not record board-designated reserves within its general ledger.

Title 5 §42401 and §42402 indicate that the campus president shall require that auxiliary organizations operate in conformity with policy of the Board of Trustees and the campus. One of the objectives of the auxiliary organizations is to provide fiscal procedures and management systems that allow effective coordination of the auxiliary activities with the campus in accordance with sound business practices. Sound business practice mandates that a designated fund balance be recognized within an organization's general ledger.

The Foundation chief accountant stated that although management had not been advised of this requirement in the past, board-designated reserves would be recorded in the general ledger in the future.

Failure to appropriately record designated amounts increases the risk of misunderstandings and miscommunication regarding available reserves.

**Recommendation 3**

We recommend that the Foundation record board-designated reserves within its general ledger.

**Campus Response**

We concur. Board-designated reserves are appropriately reflected within the general ledger, effective July 1, 2006.

## OPERATIONAL COMPLIANCE

### POLICIES AND PROCEDURES

The Foundation had not developed procedures to document and monitor significant debt covenants requirements, resulting in default on the series 2001 bond and violation on the series 1999 bonds.

We found that the Foundation did not meet debt service covenants ratios with the series 1999 and 2001 bonds that were issued for the University Park apartments and The Village at Centennial Square. Foundation management was in the process of obtaining waivers from bond insurers to provide reasonable assurances that bonds would not be called.

The *Compilation of Policies and Procedures for California State University Auxiliary Organizations* sets sound business practice guidelines for auxiliary organizations operating within the CSU system. Section 8.9.8, *Debt and Other Liabilities*, states that the auxiliary should establish a written compliance verification system that periodically reviews and analyzes restrictive covenants.

The Foundation chief accountant stated that debt service covenants ratios were not met due to an unexpected property tax liability at the University Park apartments and a higher than expected vacancy rate at The Village at Centennial Square.

The absence of procedures to appropriately document and monitor significant debt covenants requirements increases the risk that the official requirements of the bonds will not be met and increases the possibility of bonds being called.

#### Recommendation 4

We recommend that the Foundation develop procedures to document and monitor significant debt covenants requirements. These procedures should be specific to the requirements of the Official Statements and include such items as:

- a. The filing with the Trustee and the bond insurer of a statement calculating the ratio of net housing project revenues available for debt service to aggregate annual debt service.
- b. The budget process, which provides the Trustee and the bond insurer a written budget describing in reasonable detail for each month during such fiscal year the anticipated housing project revenues, operating expenses, and any repair or replacement expenditures.
- c. The evaluation and monitoring of interest, reserve, principal, developer note fund, repair and replacement fund, and operating reserve fund accounts at appropriate levels.

#### Campus Response

We concur. Effective July 1, 2006, the Foundation entered into a master lease agreement with the university for the management of the Village and University Park South properties. The lease payments are sufficient to satisfy the bond covenants in terms of debt repayment and maintenance of

required reserves funds. As part of the regular reporting to the board of directors of its financial activities, the Foundation will include the debt ratio data for the bonds for The Village and University Park South and the status of the developer note.

Expected completion date: March 2007

## **EMPLOYEES**

The Foundation had not performed, in a timely manner, an analysis of the comparability of salaries and wages for its full-time employees in relation to those provided campus employees performing substantially similar positions. This is a repeat finding from a prior auxiliary organizations audit report.

Title 5 §42405 states that the governing board of each auxiliary organization shall provide salaries, working conditions, and benefits for its full-time employees which are comparable to those provided campus employees performing substantially similar services. For those full-time employees who perform services that are not substantially similar to the services performed by campus employees, the salaries established shall be at least equal to the salaries prevailing in other educational institutions in the area or commercial operations of like nature.

The Foundation administrative services director stated that the latest analysis was performed approximately three to four years ago, and has not been recently updated.

Failure to perform the comparative analysis of positions timely increases the risk that the auxiliary may be expending inappropriate amounts on salaries for employees who perform substantially similar services as employees for the campus.

### **Recommendation 5**

We recommend that the Foundation timely perform and document an analysis of the comparability of salaries and wages for its full-time employees in relation to those provided campus employees performing substantially similar services.

### **Campus Response**

We concur. Two scenarios are currently in place. The first, due to EO 919, will result in a number of programs presently administered by the Foundation to be transferred to the university. The second, due to the transition of Foundation operations to the university, will result in San Francisco State University assuming the bulk of Foundation-related administrative duties. In summary, the majority of individuals employed under the Foundation will move to the university. Comparability will no longer be an issue. Those Foundation employees remaining will primarily be under grants and contracts requiring a 501(c)3 organization. Budgets are set in accordance with fund requirements under the review of the university's office of research and sponsored programs. Transfer of programs and transition of administrative functions will commence in January 2007.

Expected completion date: March 2007

## SEGREGATION OF DUTIES

### ACCOUNTS PAYABLE

Duties and responsibilities over certain accounts payable functions were not adequately segregated at the Foundation.

We found that one individual:

- ▶ Created new vendors.
- ▶ Posted accounts payable and accounts receivables.
- ▶ Had full access to the general ledger system.

EO 698, *Board of Trustees Policy for The California State University Auxiliary Organizations*, dated March 3, 1999, states that the review of auxiliary organizations will be used to determine appropriate separation of duties, safeguarding of assets, and reliability and integrity of information.

The *Compilation of Policies and Procedures for California State University Auxiliary Organizations* sets sound business practice guidelines for auxiliary organizations operating within the CSU system. Section 8.9.1, *Cash*, states that the auxiliary should establish a written internal controls system that ensures cash receipts and disbursements are conducted with appropriate segregation of duties.

The Foundation executive director stated that he did not believe, even given the relatively small size of the Foundation staff, that accounting functions were not adequately segregated, but if there were evidence that such a condition existed, he would take immediate action.

Inadequate segregation of duties increases the risk that errors and irregularities will not be detected in a timely manner.

### Recommendation 6

We recommend that the Foundation properly segregate certain accounts payable functions or institute mitigating procedures approved by the campus chief financial officer (CFO).

### Campus Response

We concur. With the advent of the transition of the Foundation administrative functions to the university, the areas where certain accounts payable functions were not adequately segregated will be addressed and resolved. For example, access to the blank check stock for accounts payable will be limited to an individual who has no access to the accounts payable function/process. Oversight for vendor maintenance will be reviewed/authorized by an individual who has no access to the accounts payable function/process. Also, relative to the procedures to be established within Auxiliary Business Services (ABS), access to the general ledger as it relates to accounts payable will be controlled and monitored. The transition to the campus is scheduled to commence in January 2007.

Expected completion date: March 2007

## **PAYROLL**

Duties and responsibilities over certain payroll functions were not properly segregated at the Foundation.

We found that several employees:

- ▶ Entered the number of hours worked.
- ▶ Processed payroll information.
- ▶ Had the ability to override employees' pay rate.

EO 698, *Board of Trustees Policy for The California State University Auxiliary Organizations*, dated March 3, 1999, states that the review of auxiliary organizations will be used to determine appropriate separation of duties, safeguarding of assets, and reliability and integrity of information.

The *Compilation of Policies and Procedures for California State University Auxiliary Organizations* sets sound business practice guidelines for auxiliary organizations operating within the CSU system. Section 8.9.6, *Payroll*, states that the auxiliary should establish a written system that ensures proper authorization, approval, and documentation of new hires, changes in employment, salary and wage rates, and payroll deductions.

The Foundation administrative services director stated that three employees were granted temporary access to the payroll application during a conversion and implementation of a new third-party payroll system. He further stated that, after successful implementation, the Foundation would reinstitute effective internal controls through the segregation of duties.

Inadequate segregation of duties increases the risk that errors and irregularities will not be detected in a timely manner.

### **Recommendation 7**

We recommend that the Foundation ensure that payroll functions are properly segregated or institute mitigating procedures approved by the campus CFO.

### **Campus Response**

We concur. With the advent of the transition of the Foundation administrative functions to the university, those areas where certain payroll functions were not adequately segregated will be addressed and resolved. The transition to the campus is scheduled to commence in January 2007.

Expected completion date: March 2007

## CASH RECEIPTS AND HANDLING

The Foundation had not completed and reviewed, in a timely manner, certain bank reconciliations.

The *Compilation of Policies and Procedures for California State University Auxiliary Organizations* sets sound business practice guidelines for auxiliary organizations operating within the CSU system. Section 8.9.1, *Cash*, states that the auxiliary should receive cash in a consistent manner utilizing systems that ensure integrity of existing internal controls. The compilation further states that the auxiliary should reconcile bank accounts on a timely basis with independent management review.

The Foundation executive director stated that bank reconciliations were not completed timely due to insufficient staffing and workload issues.

Untimely bank reconciliations and proper review increase the risk of a loss or misappropriation of funds.

### Recommendation 8

We recommend that the Foundation perform and review bank reconciliations in a timely manner.

### Campus Response

We concur. The Foundation has completed and reviewed all bank reconciliations to date. These activities are related to the regular financial month-end closing cycle, and the Foundation has kept current the reporting and recording of all banking transactions, including the resolution of outstanding reconciling items.

## FEES, REVENUES, AND RECEIVABLES

Administration and accounting of Foundation accounts receivable required improvement.

We found that:

- ▶ Policies and procedures to address accounts receivable aging, timely action on uncollected receivables, write-off of uncollectible accounts, and assessment of allowance for doubtful accounts were not properly documented.
- ▶ Reconciliation of the accounts receivable subsidiary ledger to the general ledger was not sufficiently documented by a reviewer.
- ▶ An accounts receivable aging report was not provided to management for review on a consistent basis.
- ▶ An allowance for bad debt was not consistently maintained.

- ▶ Bad debt write-offs, over a predetermined level, did not require board approval.

Title 5 §42401 and §42402 indicate that the campus president shall require that auxiliary organizations operate in conformity with policy of the Board of Trustees and the campus. One of the objectives of the auxiliary organizations is to provide fiscal procedures and management systems that allow effective coordination of the auxiliary activities with the campus in accordance with sound business practices. Sound business practice mandates an establishment of written systems to record receivables in a timely manner with proper documentation.

The *Compilation of Policies and Procedures for California State University Auxiliary Organizations* sets sound business practice guidelines for auxiliary organizations operating within the CSU system. Section 8.9.4, *Receivables*, states that the auxiliary should properly record and promptly collect receivables in a consistent manner utilizing systems that ensure integrity of existing internal controls.

The Foundation executive director stated that he was unaware that the accounts receivable process was insufficiently documented.

Failure to document formal policies and procedures increases the risk that inconsistencies and misunderstandings will occur.

### **Recommendation 9**

We recommend that the Foundation:

- a. Develop policies and procedures that address accounts receivable aging, timely action on uncollected receivables, write-off of uncollectible accounts, and the assessment of allowance for doubtful accounts.
- b. Sufficiently document the review of the reconciliation of the accounts receivable subsidiary ledger to the general ledger.
- c. Consistently provide management an accounts receivable aging report for review.
- d. Consistently maintain an allowance for bad debt.
- e. Require board approval on all bad debt write-offs over a predetermined level.

### **Campus Response**

We concur. A written policy and procedure detailing the oversight and regular review of accounts receivables is to be documented. There are established procedures that have been followed over the years, and management has been and is kept informed of the aging, though all of this activity has been done informally. A formal documented protocol, to include the level of write-offs regarding bad debts that will require board approval, will be implemented. These policies and procedures will be created, maintained, and adhered to. This documentation is to be completed by February 2007 to

allow for input from the campus due to the impending transition of the Foundation administrative functions to the university.

## **PURCHASING AND ACCOUNTS PAYABLE**

### **DISBURSEMENTS**

Certain Foundation cash disbursements were not supported by sufficient and appropriate documentation and/or appropriate authorization.

Our review of 60 cash disbursements disclosed the following processing exceptions:

- ▶ In five instances, the Foundation could not provide supporting documentation, other than a check request.
- ▶ In four instances, the Foundation could not provide supporting documentation or canceled checks.
- ▶ In two instances, payment was issued without obtaining original travel receipts.
- ▶ In two instances, facsimile or photocopied invoices were accepted for payment without certification that records were verified to prevent duplicate payment.

Title 5 §42401 and §42402 indicate that the campus president shall require that auxiliary organizations operate in conformity with policy of the Board of Trustees and the campus. One of the objectives of the auxiliary organizations is to provide fiscal procedures and management systems that allow effective coordination of the auxiliary activities with the campus in accordance with sound business practices. Sound business practice mandates that cash disbursements be fully supported and properly authorized.

The *Compilation of Policies and Procedures for California State University Auxiliary Organizations* sets sound business practice guidelines for auxiliary organizations operating within the CSU system. Section 8.9.1, *Cash*, states that the auxiliary should disburse cash in a consistent manner utilizing systems that ensure integrity of existing internal controls, with annual management review.

The Foundation administrative services director stated that the lack of appropriate support documentation was due to oversight.

Insufficient supporting documentation and/or lack of appropriate authorization increase the risk of errors, irregularities, and misappropriation of funds.

### **Recommendation 10**

We recommend that the Foundation reiterate to staff existing cash disbursement policies and procedures regarding sufficient and appropriate supporting documentation and authorization.

### **Campus Response**

We concur. In a memorandum, dated November 1, 2006, to staff from the executive director, the importance and critical nature of ensuring that all disbursements made from Foundation accounts be properly supported and justified was reiterated. Detailed examples of acceptable documentation to evidence appropriate support were included in this communication to Foundation staff.

### **SIGNATURE CARDS**

The Foundation had not updated a principal bank signature card for the payroll account.

Title 5 §42401 and §42402 indicate that campus president shall require that auxiliary organizations operate in conformity with policy of the Board of Trustees and the campus. One of the objectives of the auxiliary organizations is to provide fiscal procedures and management systems that allow effective coordination of the auxiliary activities with the campus in accordance with sound business practices. Sound business practice mandates the identification of individuals authorized to sign cash disbursements on behalf of the auxiliary organization.

The *Compilation of Policies and Procedures for California State University Auxiliary Organizations* sets sound business practice guidelines for auxiliary organizations operating within the CSU system. Section 8.9.1, *Cash*, states that the auxiliary should adopt and annually review governing board policy that identifies signature authority and provides practices for the receipt and disbursement of cash.

The Foundation executive director stated that not updating the one bank signature card was likely due to staff oversight and could be easily corrected.

The absence of current bank signature cards increases the risk of misunderstandings and may increase legal liability.

### **Recommendation 11**

We recommend that the Foundation ensure current bank signature cards are maintained for the payroll account.

### **Campus Response**

We concur. The Foundation is currently determining the proper authorization required for the payroll account. Taking into consideration the transition of the Foundation administrative functions to the university, it is our intention to have successfully resolved this current outstanding issue. In addition, we are addressing the remaining bank signature cards related to outsourcing of Foundation business and administration functions. This will be addressed in early January 2007.

Expected completion date: March 2007

## **PROCUREMENT PROCESS**

A specific dollar threshold requirement for purchase orders and/or competitive bids had not been developed by the Foundation.

Title 5 §42401 and §42402 indicate that the campus president shall require that auxiliary organizations operate in conformity with policy of the Board of Trustees and the campus. One of the objectives of the auxiliary organizations is to provide fiscal procedures and management systems that allow effective coordination of the auxiliary activities with the campus in accordance with sound business practices. Sound business practice mandates sufficient purchasing policies and procedures.

The Foundation administrative services director stated that current policies and procedures were developed to give project directors the flexibility of choosing services and equipment that meet the project's needs.

Failure to fully develop written policies and procedures increases the risk that misunderstandings and inconsistencies will occur.

### **Recommendation 12**

We recommend that the Foundation revise its policies and procedures to include a specified dollar threshold requirement for purchase orders and/or competitive bids.

### **Campus Response**

We concur. The Foundation will update its current purchasing policy. Using the university's and other auxiliaries' policies as a reference, a dollar threshold requiring competitive bids will be established and in place by February 2007.

## **PERSONNEL AND PAYROLL**

Foundation management did not review payroll-related reports detailing employee salary and wage adjustments.

The *Compilation of Policies and Procedures for California State University Auxiliary Organizations* sets sound business practice guidelines for auxiliary organizations operating within the CSU system. Section 8.9.6, *Payroll*, states that the auxiliary should establish a written system that ensures proper authorization, approval, and documentation of new hires, changes in employment, salary and wage rates, and payroll deductions.

The Foundation executive director stated that he understood reviews were occurring at the appropriate level, but acknowledged that if appropriate level review was not taking place it was due to oversight on his part in his new position.

Failure to perform a timely review of payroll-related data increases the risk that loss, errors, and misappropriation will not be detected in a timely manner.

### **Recommendation 13**

We recommend that Foundation management review payroll-related reports detailing employee salary and wage adjustments on a regular basis.

### **Campus Response**

We concur. As previously stated, relative to procedures being established within ABS, management review and oversight of salary and wage adjustments will be formalized and implemented. With the transition of the Foundation's administrative functions to the campus scheduled to commence in January 2007, established procedures is expected to be in place by February 2007.

## **PROPERTY AND EQUIPMENT**

Administration of Foundation property and equipment was deficient.

We found that:

- ▶ Policies and procedures for the management and administration of property and equipment did not address the identification and tagging of sensitive non-capitalized property under \$5,000.
- ▶ Property and equipment disbursements disclosed that not all assets were properly coded to the sub ledger.
- ▶ The property and equipment sub ledger listing had not been reconciled to the general ledger.
- ▶ Documentation of an annual physical inventory of property and equipment could not be provided.

Title 5 §42401 and §42402 indicate that the campus president shall require that auxiliary organizations operate in conformity with policy of the Board of Trustees and the campus. One of the objectives of the auxiliary organizations is to provide fiscal procedures and management systems that allow effective coordination of the auxiliary activities with the campus in accordance with sound business practices. Sound business practice mandates strong controls over property and equipment.

The *Compilation of Policies and Procedures for California State University Auxiliary Organizations* sets sound business practice guidelines for auxiliary organizations operating within the CSU system. Section 8.9.7, *Property and Equipment*, states that the auxiliary should establish a written system that ensures proper recording of property and equipment when received and for labeling of equipment.

The Foundation executive director stated that the management and tracking of sensitive equipment under \$5,000 was not considered as a risk. In addition, he stated that physical inventory and other supporting documentation were not available at the time of fieldwork due to staffing constraints.

Inadequate administration of property and equipment increases the risk that property may be lost or stolen.

**Recommendation 14**

We recommend that the Foundation:

- a. Revise property and equipment policies and procedures to address the identification and tagging of sensitive non-capitalized equipment under \$5,000.
- b. Reiterate to staff current procedures to ensure the recording of all property and equipment on the sub ledger.
- c. Reconcile its property and equipment sub ledger listing to the general ledger.
- d. Ensure proper supporting documentation is maintained for annual physical inventories of property and equipment.

**Campus Response**

We concur. The Foundation has included all sensitive electronic equipment under \$5,000 in its inventory. Formal revision to the policy will be recommended to the board of directors at its March 2007 meeting. The property and equipment inventory listing is reconciled to the general ledger as of June 30, 2006, after the annual physical inventory of Foundation assets.

**ENDOWMENT ADMINISTRATION**

**INVESTMENT METHODOLOGY**

The Foundation's unitization methodology required improvement.

We noted that the Foundation's allocation table included five accounts with negative units, thus unitizing to an absolute total of more than 100 units. The incorrect methodology created a misallocation of investment income and gains to each endowment fund in the investment pool.

Title 5 §42401 and §42402 indicate that the campus president shall require that auxiliary organizations operate in conformity with policy of the Board of Trustees and the campus. One of the objectives of the auxiliary organizations is to provide fiscal procedures and management systems that allow effective coordination of the auxiliary activities with the campus in accordance with sound business practices. Sound business practice mandates sufficient management and accounting controls over investments.

The *Compilation of Policies and Procedures for California State University Auxiliary Organizations* sets sound business practice guidelines for auxiliary organizations operating within the CSU system. Section 8.9.2, *Investments*, states that the auxiliary should establish a written recordkeeping system

that ensures all investment income has been received and recorded in compliance with any source restrictions and other external or internal requirements.

The Foundation chief accountant stated that the negative units were inadvertently included in the allocation table as a result of an accounting system upgrade.

The absence of a proper unitization methodology distorts the allocation of investment income and increases the risk that funds will be handled contrary to donor expectations.

### **Recommendation 15**

We recommend that the Foundation remove the negative units from its allocation table to ensure that investment income is properly allocated to all endowment accounts.

### **Campus Response**

We concur. The Foundation has addressed and resolved this issue by removing the negative units from its allocation table, effective July 1, 2006.

## **DOCUMENTATION**

The Foundation did not consistently maintain adequate documentation supporting all contributions to each endowment account.

We noted the following:

- ▶ Required signatures on special project agreements were not always obtained timely.
- ▶ Historical donor documentation evidencing the classification of endowments was not always clear or present.

Title 5 §42401 and §42402 indicate that the campus president shall require that auxiliary organizations operate in conformity with policy of the Board of Trustees and the campus. One of the objectives of the auxiliary organizations is to provide fiscal procedures and management systems that allow effective coordination of the auxiliary activities with the campus in accordance with sound business practices. Sound business practice mandates sufficient management and accounting controls over endowments.

The *Compilation of Policies and Procedures for California State University Auxiliary Organizations* sets sound business practice guidelines for auxiliary organizations operating within the CSU system. Section 8.9.3, *Donations, Programs Service Fees, Other Income*, states that the auxiliary should establish a written recordkeeping system that enables gifts to be properly received, recorded, and acknowledged in accordance with donor restrictions and other requirements.

The Foundation administrative services director stated that certain accounts were set up prior to obtaining all signatures in order to receive donations. He also stated that the lack of documentation in the endowment files was due to historical data not being readily available for older endowments.

The absence of appropriate documentation for endowment account agreements increases the risk of both inappropriate expenditures and misunderstandings about account operations.

### **Recommendation 16**

We recommend that the Foundation consistently maintain adequate documentation supporting all contributions to endowment accounts.

### **Campus Response**

We concur. The Foundation continues to work with the office of university development to ensure appropriate donor documentation is readily available prior to establishing any endowment accounts. Formal reiteration of Foundation policy and procedure will be presented to the office of university development no later than January 2007.

## **ACCOUNTING**

The Foundation misclassified certain endowment funds by assigning temporarily restricted fund numbers to permanently restricted funds.

Title 5 §42401 and §42402 indicate that the campus president shall require that auxiliary organizations operate in conformity with policy of the Board of Trustees and the campus. One of the objectives of the auxiliary organizations is to provide fiscal procedures and management systems that allow effective coordination of the auxiliary activities with the campus in accordance with sound business practices. Sound business practice mandates sufficient management and accounting controls over investments.

*The Compilation of Policies and Procedures for California State University Auxiliary Organizations* sets sound business practice guidelines for auxiliary organizations operating within the CSU system. Section 8.9.2, *Investments*, states that the auxiliary should establish a written recordkeeping system that ensures all investment income has been received and recorded in compliance with any source restrictions and other external or internal requirements.

The Foundation administrative services director stated that the confusion between permanently and temporarily restricted funds was due to the information on endowments not being complete or clearly stated, specifically relative to older endowed funds.

Inaccurate accounting of endowments alters the type of investments made and increases the risk that funds will be handled contrary to the expectations of the Foundation, campus, and donors.

**Recommendation 17**

We recommend that the Foundation properly classify each endowment in its general ledger.

**Campus Response**

We concur. A review of all Foundation endowment accounts has been in effect since December 2005. With the advent of a conversion of its financial reporting system, the Foundation will complete its analysis and properly reclassify all endowments by March 2007.

**AUXILIARY PROGRAMS**

State funds generated by campus programs were inappropriately classified as Foundation revenue.

We found that the Romberg Tiburon Center, Bay Conference Center, and the Theatre Arts department fund were each classified as state programs in which campus revenues were processed by the Foundation and recorded on the Foundation financial statements.

EO 751, *Centers, Institutes and Similar Organizations on Campuses of the California State University*, dated July 5, 2000, governs the development of these types of enterprises on each campus. The EO clearly states that programs can either be owned by the campus or owned by an auxiliary and that financial responsibility follows the ownership decision.

EO 919, *Policy Governing Non-General Fund Receipts*, dated October 15, 2004, states that each campus provide administration of their non-General Fund receipts that are subject to local campus control, to ensure that the funds are held in proper accounts and are administered in accordance with applicable laws and regulations.

The Foundation executive director stated that the campus program accounts maintained within the Foundation were established prior to EO 919. In addition, he stated that management was unaware of this requirement for all state revenues collected by the Foundation.

Placement of state funds in auxiliary accounts increases the risk that funds will be expended for inappropriate purposes.

**Recommendation 18**

We recommend that the Foundation, together with the campus, ensure that all state revenues for campus programs are maintained and administered in state accounts and that all state funds currently residing in Foundation accounts be immediately transferred to the state.

**Campus Response**

We concur. A review of all Foundation campus program accounts is currently being conducted. Those activities that should be moved to the campus will be transferred no later than March 2007.

## INFORMATION TECHNOLOGY

The Foundation information technology (IT) disaster recovery plan did not include specific recovery information.

Specifically, we noted that the plan did not include:

- ▶ Finalized arrangements for alternate processing facilities.
- ▶ Formal escalation and notification process.
- ▶ Contact phone numbers for off-site backup tape storage and replacement equipment.

EO 696, *Implementation of The California State University Emergency Preparedness Program*, dated January 29, 1999, states, in part, that each campus president is delegated the responsibility for the implementation of a multihazard emergency program on campus and shall ensure that management activities including, but not limited to, maintenance and regular updating of the institutional multihazard emergency plan and determination, acquisition, and maintenance of facilities, equipment, and related supplies required for emergency preparedness are accomplished.

The Foundation IT director stated that although most aspects of the IT disaster recovery plan were in place, some sections could be improved.

Without a complete, written IT disaster recovery plan, data processing operations may not be restored within a reasonable time frame.

### Recommendation 19

We recommend that the Foundation include the following in its IT disaster recovery plan:

- a. Documentation of the alternate recovery facility.
- b. Development of a formal escalation and notification process.
- c. Inclusion of contact phone numbers for off-site backup tape storage and replacement equipment.

### Campus Response

We concur. The Foundation's IT disaster recovery plan has been updated to include the items addressed in the recommendation.

## **FRANCISCAN SHOPS**

### **OPERATIONAL COMPLIANCE**

Franciscan Shops' (Shops) current affirmative action/equal employment opportunity policy did not address discrimination based on pregnancy, sexual orientation, and medical condition.

EO 883, *Systemwide Guidelines for Nondiscrimination and Affirmative Action Programs in Employment*, dated October 31, 2003, prohibits discrimination on the basis of race, color, religion, national origin, sex, sexual orientation, marital status, pregnancy, age, disability, medical condition, and covered veterans' status.

The Shops general manager stated that at the time the affirmative action/equal employment opportunity policy was originally written, all requirements were addressed.

An inadequate affirmative action/equal employment opportunity policy increases the auxiliary's risk of non-compliance with state and federal laws and may result in regulatory actions.

#### **Recommendation 20**

We recommend that Shops revise its affirmative action/equal employment opportunity policy to include discrimination based on pregnancy, sexual orientation, and medical condition.

#### **Campus Response**

We concur. The affirmative action/equal employment opportunity policy has been modified to include discrimination based on pregnancy, sexual orientation, and medical condition.

### **SEGREGATION OF DUTIES**

Duties and responsibilities over certain accounting functions were not adequately segregated at Shops.

We found that one employee who had full access to the general ledger also created, approved, and posted journal entries without an independent review.

EO 698, *Board of Trustees Policy for The California State University Auxiliary Organizations*, dated March 3, 1999, states that the review of auxiliary organizations will be used to determine appropriate separation of duties, safeguarding of assets, and reliability and integrity of information.

The Shops general manager stated that management had never implemented an independent review of journal transactions at the controller position level.

Inadequate segregation of duties increases the risk that errors and irregularities will not be detected in a timely manner.

**Recommendation 21**

We recommend that Shops segregate certain accounting functions or institute mitigating procedures approved by the campus CFO.

**Campus Response**

We concur. All journal entries initiated by the controller are now reviewed and approved by the general manager prior to posting.

**CASH RECEIPTS AND HANDLING**

**SAFE COMBINATIONS**

Shops did not maintain a current record of safe combination changes or individuals with knowledge of safe combinations for two safes.

Title 5 §42401 and §42402 indicate that the campus president shall require that auxiliary organizations operate in conformity with policy of the Board of Trustees and the campus. One of the objectives of the auxiliary organizations is to provide fiscal procedures and management systems that allow effective coordination of the auxiliary activities with the campus in accordance with sound business practices. Sound business practice mandates adequate internal controls over cash.

The Shops general manager stated that it was an oversight for management not to maintain a record of individuals who had access to the two small safes.

Failure to maintain documentation over safe combinations increases the risk of errors, irregularities, and misappropriations.

**Recommendation 22**

We recommend that Shops maintain a record of individuals with safe access and dates of combination changes for all safes.

**Campus Response**

We concur. The responsibility for maintaining a record of individuals with safe access, change dates, and frequency of combination changes has been delegated by the general manager to the associate general manager.

## **VOIDED TRANSACTIONS**

Authorization approval was not consistently obtained for certain voided sale transactions at Shops.

Title 5 §42401 and §42402 indicate that the campus president shall require that auxiliary organizations operate in conformity with policy of the Board of Trustees and the campus. One of the objectives of the auxiliary organizations is to provide fiscal procedures and management systems that allow effective coordination of the auxiliary activities with the campus in accordance with sound business practices. Sound business practice mandates that cashier activity be subject to appropriate oversight.

The Shops general manager stated that management imposes strict controls over which personnel are authorized to have access (via their pass code) to post-void transactions. Normally only the customer service manager and two customer service head cashiers are authorized and have access to transaction post-voids. During the busy back-to-school period, management adds additional authorized senior cashiers to have access to post-void transactions due to the extremely heavy volume of customers. It was discovered that during the spring 2006 semester management had not reduced the number of authorized personnel back to the three core employees after the back-to-school period.

Failure to provide adequate oversight over voided transactions increases the risk of a loss or misappropriation of funds.

### **Recommendation 23**

We recommend that Shops ensure authorized approval is obtained for all voided transactions.

### **Campus Response**

We concur. Management will ensure that the proper individuals are authorized to approve voided transactions at all times, including oversight of regulating a temporary expansion of authorized individuals during rush periods.

## **PURCHASING AND ACCOUNTS PAYABLE**

### **SUPPORTING DOCUMENTATION**

Certain Shops cash disbursements were not supported by sufficient and appropriate documentation and/or paid in a timely manner.

Our review of 60 disbursements disclosed the following processing exceptions:

- ▶ In seven instances, payment was issued without supporting documentation.
- ▶ In four instances, facsimile invoices were accepted for payment without certification that records were verified to prevent duplicate payment.

Title 5 §42401 and §42402 indicate that the campus president shall require that auxiliary organizations operate in conformity with policy of the Board of Trustees and the campus. One of the objectives of the auxiliary organizations is to provide fiscal procedures and management systems that allow effective coordination of the auxiliary activities with the campus in accordance with sound business practices. Sound business practice mandates that cash disbursements be fully supported and properly authorized.

The *Compilation of Policies and Procedures for California State University Auxiliary Organizations* sets sound business practice guidelines for auxiliary organizations operating within the CSU system. Section 8.9.1, *Cash*, states that the auxiliary should disburse cash in a consistent manner utilizing systems that ensure integrity of existing internal controls, with annual management review.

The Shops general manager stated that supporting documentation was not retained due to oversight. He further stated that management was responsible for managing cash flow and made payments consistent with vendor expectations. He added that the accounting system had controls in place to prevent multiple payment of an invoice.

Insufficient supporting documentation and/or lack of appropriate authorization increase the risk of errors, irregularities, and misappropriation of funds.

#### **Recommendation 24**

We recommend that Shops reiterate to staff existing cash disbursement policies and procedures regarding sufficient and appropriate supporting documentation and authorization.

#### **Campus Response**

We concur. Management has initiated a procedure, which includes annual notification of all accounting staff, reiterating existing cash disbursement policies and procedures regarding sufficient and appropriate supporting documentation and authorization.

### **PURCHASE ORDER NOTIFICATION**

Shops had not developed a procedure to inform management of textbook purchase orders over \$50,000.

Shops' purchasing policy, developed in April 2003, states that individual purchase orders for textbook orders in excess of \$50,000 must be reported to the Shops general manager.

Title 5 §42401 and §42402 indicate that the campus president shall require that auxiliary organizations operate in conformity with policy of the Board of Trustees and the campus. One of the objectives of the auxiliary organizations is to provide fiscal procedures and management systems that allow effective coordination of the auxiliary activities with the campus in accordance with sound business practices. Sound business practice mandates policies and procedures to inform management of inventory purchases exceeding predetermined limits.

The Shops general manager stated that a policy existed to inform management of textbook purchases over \$50,000, but a procedure had not been implemented.

Failure to inform management of textbook purchase orders over predetermined limits increases the risk that misunderstandings and inconsistencies will occur.

**Recommendation 25**

We recommend that Shops develop and follow a procedure to ensure that management is informed of textbook purchase orders over \$50,000.

**Campus Response**

We concur. Management has implemented a procedure requiring the textbook manager to notify the general manager of any textbook orders exceeding \$50,000.

**PERSONNEL AND PAYROLL**

Shops management did not review payroll-related reports detailing employee salary and wage adjustments.

We found that the reconciliation of the Ceridian payroll report to the payroll input data report was performed by the same employee who added, changed, and/or deleted data into the payroll system.

The *Compilation of Policies and Procedures for California State University Auxiliary Organizations* sets sound business practice guidelines for auxiliary organizations operating within the CSU system. Section 8.9.6, *Payroll*, states that the auxiliary should establish a written system that ensures proper authorization, approval, and documentation of new hires, changes in employment, salary and wage rates, and payroll deductions.

The Shops general manager stated that the lack of an independent review was due to oversight, but added that management monitored the budget monthly and any variation to the payroll records would be noted at that time.

Failure to perform a review of payroll-related data increases the risk that loss, errors, and misappropriations will not be detected in a timely manner.

**Recommendation 26**

We recommend that Shops management review payroll-related reports detailing employee salary and wage adjustments on a regular basis.

### **Campus Response**

We concur. Management has adopted a procedure whereby the controller reviews and approves the payroll register each payroll period. The controller also verifies the actual number of checks received with the summary report, which includes the number of checks printed. Furthermore, all managers are required to approve their employees' time logs prior to submitting for processing.

## **TRUSTS AND OTHER LIABILITIES**

Shops had not developed policies and procedures to escheat unclaimed monies to the state.

Code of Civil Procedure, Chapter 7, *Unclaimed Property Law*, Article 2 §1510 and §1511 indicate that property held by a business association escheats to the state, subject to various requirements and limitations.

The Shops general manager stated that management was unaware of the requirement of an escheatment policy.

Failure to meet the requirements of unclaimed property law could increase the auxiliary's exposure to potential penalties and fines.

### **Recommendation 27**

We recommend that Shops develop policies and procedures related to escheatment to meet the requirements of the Code of Civil Procedure with respect to unclaimed property.

### **Campus Response**

We concur. Management has developed an escheatment policy which meets the requirements of Code of Civil Procedure with respect to unclaimed property.

## **INFORMATION TECHNOLOGY**

### **DATA ENCRYPTION**

Shops did not encrypt private customer information stored on its computer system.

EO 698, *Board of Trustees Policy for The California State University Auxiliary Organizations*, dated March 3, 1999, states that the review of auxiliary organizations will be used to determine appropriate separation of duties, safeguarding of assets, and reliability and integrity of information.

The Shops information systems (IS) manager stated that all other aspects of computer and network security had been implemented, but data encryption was not possible without upgrading the system.

Without encrypting confidential private customer information, any breach of server security could require the auxiliary to notify customers of the potential for identity theft.

**Recommendation 28**

We recommend that Shops encrypt private customer information as soon as possible.

**Campus Response**

We concur. Management is pursuing an upgrade plan to current systems to allow for encryption of credit card sales and customer information.

Expected completion date: April 2007

**DISASTER RECOVERY PLAN**

Shops' written IT disaster recovery plan did not include specific recovery information.

Specifically, we noted that the plan did not include:

- ▶ Finalized arrangements for alternate processing facilities for critical functions.
- ▶ Formal escalation and notification procedure.
- ▶ Contact phone numbers for off-site backup tape storage and replacement equipment.

EO 696, *Implementation of The California State University Emergency Preparedness Program*, dated January 29, 1999, states, in part, that each campus president is delegated the responsibility for the implementation of a multihazard emergency program on campus and shall ensure that management activities including, but not limited to, maintenance and regular updating of the institutional multihazard emergency plan and determination, acquisition, and maintenance of facilities, equipment, and related supplies required for emergency preparedness are accomplished.

The Shops IS manager stated that although most aspects of the plan were in place, some sections could be improved.

Without a complete, written IT disaster recovery plan, data processing operations may not be restored within a reasonable time frame.

**Recommendation 29**

We recommend that Shops include the following in its IT disaster recovery plan:

- a. Documentation of the alternate recovery facility for critical functions.
- b. Development of a formal escalation and notification procedure.
- c. Inclusion of contact phone numbers for off-site backup tape storage and replacement equipment.

**Campus Response**

We concur. Management has modified its previous disaster recovery plan to include the audit recommendations plus additional new key elements.

## **ASSOCIATED STUDENTS OF SAN FRANCISCO STATE UNIVERSITY**

### **FEES, REVENUES, AND RECEIVABLES**

The campus Auxiliary Business Services (ABS) did not perform reconciliations of student fees collected to the student enrollment records for the Associated Students of San Francisco State University (AS).

Title 5 §42401 and §42402 indicate that the campus president shall require that auxiliary organizations operate in conformity with policy of the Board of Trustees and the campus. One of the objectives of the auxiliary organizations is to provide fiscal procedures and management systems that allow effective coordination of the auxiliary activities with the campus in accordance with sound business practices. Sound business practice mandates reconciliation between revenue collections and student enrollment records.

The *Compilation of Policies and Procedures for California State University Auxiliary Organizations* sets sound business practice guidelines for auxiliary organizations operating within the CSU system. Section 8.9.1, *Cash*, states that the auxiliary should receive cash in a consistent manner utilizing systems that ensure integrity of existing internal controls.

The campus ABS director stated that fee reconciliations were performed, but did not include student head count.

Failure to reconcile revenues increases the risk that errors or misappropriation of funds will not be detected.

#### **Recommendation 30**

We recommend that the AS ensure that ABS performs documented revenue reconciliations between student fees collected and student enrollment records.

#### **Campus Response**

We concur. As of fiscal year 2006/07, ABS created a reconciliation process that compares student fees collected and student enrollment by semester. ABS will provide a copy of the reconciliation for each semester to the AS.

Expected completion date: January 2007

## **PURCHASING AND ACCOUNTS PAYABLE**

Residence hall disbursements processed by the AS business office were not reviewed for compliance with AS policies and procedures.

Title 5 §42401 and §42402 indicate that the campus president shall require that auxiliary organizations operate in conformity with the policy of the Board of Trustees and the campus. One of the objectives of the auxiliary organizations is to provide fiscal procedures and management systems that allow effective coordination of the auxiliary activities with the campus in accordance with sound business practices. Sound business practice mandates that all cash disbursements be reviewed for compliance with the organization's policies and procedures.

The *Compilation of Policies and Procedures for California State University Auxiliary Organizations* sets sound business practice guidelines for auxiliary organizations operating within the CSU system. Section 8.9.1, *Cash*, states that the auxiliary should disburse cash in a consistent manner utilizing systems that ensure integrity of existing internal controls, with annual management review.

The AS executive director stated that he was unaware of the requirement to review residence hall disbursements processed by the AS business office.

Failure to provide adequate oversight of residence hall disbursements increases the risk of a loss or misappropriation of funds.

### **Recommendation 31**

We recommend that the AS business office review all residence hall disbursements to ensure compliance with existing policies and procedures.

### **Campus Response**

We concur. Effective July 1, 2006, the AS business office will review all residence hall disbursements to ensure compliance with existing policies and procedures.

## **SAN FRANCISCO STATE UNIVERSITY STUDENT CENTER**

### **FEES, REVENUES, AND RECEIVABLES**

Required San Francisco State University Student Center (Student Center) revenue reconciliations were not performed.

#### **Games and Billiards**

The Student Center did not perform reconciliations of revenues received from the billiards club memberships to the member roster.

The Student Center managing director stated that the games room manager developed a tracking method for members that does not include a payment verification process. He added that due to the small number of members (less than 100 per year), the Student Center's accounting department neglected to review the method for proper verification.

#### **Student Fees**

ABS did not perform reconciliations of student fees collected to the student enrollment records.

The Student Center managing director stated that since Student Center fee revenue was included as part of the annual bond audit, management incorrectly assumed that a reconciliation was being performed by the auditors to confirm the annual fee dollars received.

Title 5 §42401 and §42402 indicate that the campus president shall require that auxiliary organizations operate in conformity with policy of the Board of Trustees and the campus. One of the objectives of the auxiliary organizations is to provide fiscal procedures and management systems that allow effective coordination of the auxiliary activities with the campus in accordance with sound business practices. Sound business practice mandates revenue reconciliations of memberships and student fees to student enrollment records.

The *Compilation of Policies and Procedures for California State University Auxiliary Organizations* sets sound business practice guidelines for auxiliary organizations operating within the CSU system. Section 8.9.1, *Cash*, states that the auxiliary should receive cash in a consistent manner utilizing systems that ensure integrity of existing internal controls.

Failure to reconcile revenues increases the risk that errors or misappropriation of funds will not be detected.

#### **Recommendation 32**

We recommend that the Student Center:

- a. Perform documented revenue reconciliations between billiards club payments received and the member roster.

- b. Ensure ABS performs documented revenue reconciliations between student fees collected and student enrollment records.

**Campus Response**

- a. We concur. The Student Center games room will:

- 1. Replace the two carbon NCR forms with pre-numbered three carbon forms.
- 2. Reprogram the cash register to separately record club memberships.
- 3. Have a daily signature log for tracking discounts to club members.
- 4. Initiate a quarterly reconciliation of the roster with the master list maintained by the accounting office.

The Student Center accounting office will:

- 1. Manage the inventory of pre-numbered NCR vouchers.
- 2. Reconcile the daily games room cash register tape to vouchers received.
- 3. Update the master membership roster of names, numbers, and expiration dates on a daily basis.
- 4. Verify the signature log against the membership roster.
- 5. Confirm the games room roster with accounting's master list once each quarter.

Expected completion date: January 2007

- b. We concur. As of fiscal year 2006/07, ABS created a reconciliation process that compares student fees collected and student enrollment by semester. ABS will provide a copy of the reconciliation for each semester to the Student Center.

Expected completion date: January 2007

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## **APPENDIX A: PERSONNEL CONTACTED**

### **Name**

### **Title**

#### **CAMPUS**

Robert A. Corrigan	President
Jan Andreasen	Executive Director, Housing and Residential Services
Donna Blakemore	Associate Vice President of University Development
Lee Blitch	Vice President, University Advancement
Irina Krasnitskaya	Gift Processor
Jeanne Lee	Stewardship and Donor Relations Coordinator
Linda Li	Accountant, Auxiliary Business Services
Franz Lozano	Internal Auditor
Leroy Morishita	Vice President, Administration and Finance
Patricia Okamoto	Alumni and Donor Records Coordinator
Tammie Ridgell	Director, Auxiliary Business Services
Jim Van Ness	Senior Audit Consultant

#### **SAN FRANCISCO STATE UNIVERSITY FOUNDATION, INC.**

Sandra Aguilar	Payroll-Accounting Technician
Mark Angstman	Personnel Coordinator
Arlene Essex	Project Administration and Licensing Manager
Charlene Gee	Accounting Department Technician
Brian Hibbits	Information Technology Director
Naum Korenfeld	Accounts Payable Technician
Gina Leachman	Property Supervisor, EAH, Inc.
Diane Luce	Project Administration and Licensing Coordinator
Don Scoble	Executive Director
Louis Smith	Chief Accountant
Tremaine Thomas	Office Manager
Geri Tischer	Administrative Assistant
Leonardo Valle	Finance Department Manager
Anthony Victoria	Administrative Services Director
Margarita Wynn	General Manager, Alliance Residential Company

#### **FRANCISCAN SHOPS**

Robert Burd	Controller
Nazanin Calhoun	Customer Service/Administration Manager
Jim Chen	Computer Department Manager
Fred Eskridge	Information Systems Manager
Chris Farmer	Assistant Controller
Romeo Galang	Accounting Manager
Lorca Hanns	Webmaster
Kort Iuppenlatz	Custom Publishing Supervisor
Wendy Johnson	Textbook Manager
Elsa Ramos	Convenience Store Manager
Lolita Ramos	Cash Control Supervisor
Robert Strong	General Manager
Nils Tagtstrom	Accounts Payable

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APPENDIX A: PERSONNEL CONTACTED

Ken White	General Books Manager
Amber Wilson	General Merchandise Manager
Brian Zimmerman	Associate General Manager

**ASSOCIATED STUDENTS OF SAN FRANCISCO STATE UNIVERSITY**

Jamila Ali	Associate Executive Director
Marcos Gama	Central Production Coordinator
Sarah Johnson	Director, Early Childhood Education Center
Muata Kenyatta	Director, Performing Arts and Lectures
Peter Koo	Executive Director
Hong Nguyen	Business Office Manager
Alejandro Rios	Assistant Business Office Manager

**SAN FRANCISCO STATE UNIVERSITY STUDENT CENTER**

Shanae Ancheta	Interim Human Resource Manager
Edina Bajraktarevic	Retail/Commercial Services Manager
Zoila Baltodano	Manager, Business Office
Karen Carrington	Accounting Supervisor
Questzalcoatl Cortes	Games Room Manager
Guy Dalpe	Managing Director
Kresta Rae Kaulupali	Information Desk Manager

## **STATEMENT OF INTERNAL CONTROLS**

### **A. INTRODUCTION**

Internal accounting and related operational controls established by the State of California, the California State University Board of Trustees, and the Office of the Chancellor are evaluated by the University Auditor, in compliance with professional standards for the conduct of internal audits, to determine if an adequate system of internal control exists and is effective for the purposes intended. Any deficiencies observed are brought to the attention of appropriate management for corrective action.

### **B. INTERNAL CONTROL DEFINITION**

Internal control, in the broad sense, includes controls that may be characterized as either accounting or operational as follows:

#### 1. Internal Accounting Controls

Internal accounting controls comprise the plan of organization and all methods and procedures that are concerned mainly with, and relate directly to, the safeguarding of assets and the reliability of financial records. They generally include such controls as the systems of authorization and approval, separation of duties concerned with recordkeeping and accounting reports from those concerned with operations or asset custody, physical controls over assets, and personnel of a quality commensurate with responsibilities.

#### 2. Operational Controls

Operational controls comprise the plan of organization and all methods and procedures that are concerned mainly with operational efficiency and adherence to managerial policies and usually relate only indirectly to the financial records.

### **C. INTERNAL CONTROL OBJECTIVES**

The objective of internal accounting and related operational control is to provide reasonable, but not absolute, assurance as to the safeguarding of assets against loss from unauthorized use or disposition, and the reliability of financial records for preparing financial statements and maintaining accountability for assets. The concept of reasonable assurance recognizes that the cost of a system of internal accounting and operational control should not exceed the benefits derived and also recognizes that the evaluation of these factors necessarily requires estimates and judgment by management.

#### **D. INTERNAL CONTROL SYSTEMS LIMITATIONS**

There are inherent limitations that should be recognized in considering the potential effectiveness of any system of internal accounting and related operational control. In the performance of most control procedures, errors can result from misunderstanding of instruction, mistakes of judgment, carelessness, or other personal factors. Control procedures whose effectiveness depends upon segregation of duties can be circumvented by collusion. Similarly, control procedures can be circumvented intentionally by management with respect to the executing and recording of transactions. Moreover, projection of any evaluation of internal accounting and operational control to future periods is subject to the risk that the procedures may become inadequate because of changes in conditions and that the degree of compliance with the procedures may deteriorate. It is with these understandings that internal audit reports are presented to management for review and use.



San Francisco  
State University

Internal Audit

1600 Holloway Avenue • ADM 154A  
San Francisco, California 94132

Tel: 415/338-2763  
Fax: 415/338-7271

Mr. Larry Mandel  
University Auditor  
The California State University  
401 Golden Shore  
Long Beach, California 90802-4210

December 19, 2006

RECEIVED  
UNIVERSITY AUDITOR

DEC 22 2006

THE CALIFORNIA STATE  
UNIVERSITY

Dear Mr. Mandel:

We have reviewed Office of the University Auditor Report #06-48 on Auxiliary Organizations at San Francisco State University. The report identified areas where additional efforts are needed, and we are taking actions to implement the recommendations. Documentation demonstrating implementation of recommendations already completed will be forwarded to you separately.

Our responses to the recommendations are attached. The campus Internal Auditor will also forward the responses to you electronically to facilitate the response process. Questions regarding the responses may be directed to Leroy M. Morishita, Vice President for Administration and Finance, at 415/338-1323 or Franz Lozano, Internal Auditor, at 415/405-3736.

Sincerely,

Robert A. Corrigan  
President

FL/id

Attachments

cc: Leroy M. Morishita, Vice President, Administration and Finance  
J.E. (Penny) Saffold, Vice President for Student Affairs/Dean of Students  
Larry Ware, Associate Vice President, Fiscal Affairs  
Don Scoble, Executive Director, SFSU Foundation  
Maire Fowler, President, Associated Students of SFSU  
Corliss Smith, Chair, Board of Directors, Franciscan Shops, Inc.  
Maria Liliana Cortez, Chair, SCGB & Executive Committee, Cesar Chavez Student Center  
Anthony Victoria, Director, Administrative Services, SFSU Foundation  
Leonardo Valle, Manager, Finance Dept., SFSU Foundation  
Peter Koo, Executive Director, Associated Students, Inc.  
Robert Strong, General Manager, Franciscan Shops, Inc.  
Guy Dalpe, Managing Director, Cesar Chavez Student Center  
Tammie Ridgell, Director, Auxiliary Business Services  
Christopher Bomar, Executive Assistant to the Vice President, Administration & Finance  
Franz Lozano, Internal Auditor

**AUXILIARY ORGANIZATIONS**  
**SAN FRANCISCO STATE UNIVERSITY**

**Audit Report 06-48**  
**October 30, 2006**

**CAMPUS**

**AUXILIARY PROGRAMS**

**Recommendation 1**

We recommend that the campus ensure that:

- a. Procedures are developed ensuring the university's interest is represented in the agreements between the bookstore and faculty members for faculty-developed course materials.
- b. A standard policy is established for the determination of faculty payments (royalty/commission) from the bookstore for these materials.
- c. Franciscan Shops develops written procedures to mitigate potential copyright risk.

**Campus Response**

- a. We concur. The campus will collaborate with the Franciscan Shops (bookstore) to strengthen current procedures and associated forms to ensure that the University's interest is represented in the agreements between the bookstore and faculty members for faculty-developed course materials. Expected completion date: April 2007
- b. We concur. The campus will collaborate with the bookstore to develop a faculty payment policy (royalty/commission) for faculty-developed course materials produced by the bookstore. Expected completion date: April 2007
- c. We concur. The Bookstore already has a copyright policy/procedure to mitigate potential copyright risks. To further strengthen and ensure that the copyright policy/procedure is followed, the General Manager will annually issue a memo to promulgate to the appropriate staff the importance of following the established copyright policy/procedure. Expected completion date: January 2007

**SAN FRANCISCO STATE UNIVERSITY FOUNDATION, INC.**

**FACILITIES AGREEMENTS**

**Recommendation 2**

We recommend that the Foundation:

- a. Ensure all lease and sublease agreements are executed timely and signed originals are retained.
- b. Include audit clauses pertaining to payment of commission as part of rental income in lease agreements when appropriate.
- c. Include proper indemnification and insurance provisions within agreements, as necessary.

**Campus Response**

We concur. Upcoming expiration dates have been identified, and renewals will be made on a timely basis. The leases involving commissions requiring audit clauses have been identified. They, along with the review of all indemnification and insurance provisions, will be addressed with various lessees and, if required, amendments will be made. Expected completion date: February 2007

**FISCAL COMPLIANCE**

**Recommendation 3**

We recommend that the Foundation record board-designated reserves within its general ledger.

**Campus Response**

We concur. Board designated reserves are appropriately reflected within the general ledger, effective July 1, 2006.

**OPERATIONAL COMPLIANCE**

**POLICIES AND PROCEDURES**

**Recommendation 4**

We recommend that the Foundation develop procedures to document and monitor significant debt covenants requirements. These procedures should be specific to the requirements of the Official Statements and include such items as:

- a. The filing with the Trustee and the bond insurer of a statement calculating the ratio of net housing project revenues available for debt service to aggregate annual debt service.

- b. The budget process, which provides the Trustee and the bond insurer a written budget describing in reasonable detail for each month during such fiscal year the anticipated housing project revenues, operating expenses, and any repair or replacement expenditures.
- c. The evaluation and monitoring of interest, reserve, principal, developer note fund, repair and replacement fund, and operating reserve fund accounts at appropriate levels.

**Campus Response**

We concur. Effective July 1, 2006, the Foundation entered into a master lease agreement with the University for the management of the Village and University Park South properties. The lease payments are sufficient to satisfy the bond covenants in terms of debt repayment and maintenance of required reserves funds. As part of the regular reporting to the Board of Directors of its financial activities, the Foundation will include the debt ratio data for the bonds for the Village and UPS and the status of the developer note. Expected completion date: March 2007

**EMPLOYEES**

**Recommendation 5**

We recommend that the Foundation timely perform and document an analysis of the comparability of salaries and wages for its full-time employees in relation to those provided campus employees performing substantially similar services.

**Campus Response**

We concur. Two scenarios are currently in place. The first, due to EO919, will result in a number of programs presently administered by the Foundation to be transferred to the University. The second, due to the transition of Foundation operations to the University, will result in SFSU assuming the bulk of Foundation-related administrative duties. In summary, the majority of individuals employed under the Foundation will move to the University. Comparability will no longer be an issue. Those Foundation employees remaining will primarily be under grants and contracts requiring a 501 (c) 3 organization. Budgets are set in accordance with funder requirements under the review of the University’s Office of Research and Sponsored Programs. Transfer of programs and transition of administrative functions will commence in January 2007. Expected completion date: March 2007

**SEGREGATION OF DUTIES**

**ACCOUNTS PAYABLE**

**Recommendation 6**

We recommend that the Foundation properly segregate certain accounts payable functions or institute mitigating procedures approved by the campus chief financial officer (CFO).

**Campus Response**

We concur. With the advent of the transition of the Foundation administrative functions to the University, the areas where certain accounts payable functions were not adequately segregated will be

addressed and resolved. For example, access to the blank check stock for A/P will be limited to an individual who has no access to the A/P function/process. Oversight for vendor maintenance will be reviewed/authorized by an individual who has no access to the A/P function/process. And, relative to the procedures to be established within Auxiliary Business Services, access to the general ledger, as it relates to A/P, will be controlled and monitored. The transition to the campus is scheduled to commence in January 2007. Expected completion date: March 2007

## **PAYROLL**

### **Recommendation 7**

We recommend that the Foundation ensure that payroll functions are properly segregated or institute mitigating procedures approved by the campus CFO.

### **Campus Response**

We concur. With the advent of the transition of the Foundation administrative functions to the University, those areas where certain payroll functions were not adequately segregated will be addressed and resolved. The transition to the campus is scheduled to commence in January 2007. Expected completion date: March 2007

## **CASH RECEIPTS AND HANDLING**

### **Recommendation 8**

We recommend that the Foundation perform and review bank reconciliations in a timely manner.

### **Campus Response**

We concur. The Foundation has completed and reviewed all bank reconciliations to date. These activities are related to the regular financial month-end closing cycle, and the Foundation has kept current the reporting and recording of all banking transactions, including the resolution of outstanding reconciling items.

## **FEES, REVENUES, AND RECEIVABLES**

### **Recommendation 9**

We recommend that the Foundation:

- a. Develop policies and procedures that address accounts receivable aging, timely action on uncollected receivables, write-off of uncollectible accounts, and the assessment of allowance for doubtful accounts.
- b. Sufficiently document the review of the reconciliation of the accounts receivable subsidiary ledger to the general ledger.
- c. Consistently provide management an accounts receivable aging report for review.

- d. Consistently maintain an allowance for bad debt.
- e. Require board approval on all bad debt write-offs over a predetermined level.

#### **Campus Response**

We concur. A written policy and procedure detailing the oversight and regular review of accounts receivables is to be documented. There are established procedures that have been followed over the years, and management has been and is kept informed of the aging, though all of this activity has been done informally. A formal documented protocol, to include the level of write-offs regarding bad debts that will require board approval, will be implemented. These policies and procedure will be created, maintained and adhered to. This documentation is to be completed by February 2007, to allow for input from the campus due to the impending transition of the Foundation administrative functions to the University.

## **PURCHASING AND ACCOUNTS PAYABLE**

### **DISBURSEMENTS**

#### **Recommendation 10**

We recommend that the Foundation reiterate to staff existing cash disbursement policies and procedures regarding sufficient and appropriate supporting documentation and authorization.

#### **Campus Response**

We concur. In a memorandum dated November 1, 2006, to staff from the Executive Director, the importance and critical nature of assuring that all disbursements made from Foundation accounts be properly supported and justified, was reiterated. Detailed examples of acceptable documentation to evidence appropriate support were included in this communication to Foundation staff.

### **SIGNATURE CARDS**

#### **Recommendation 11**

We recommend that the Foundation ensure current bank signature cards are maintained for the payroll account.

#### **Campus Response**

We concur. The Foundation is currently determining the proper authorization required for the payroll account. Taking into consideration the transition of the Foundation administrative functions to the University, it is our intention to have successfully resolved this current outstanding issue. In addition, we are addressing the remaining bank signature cards related to outsourcing of Foundation business and administration functions. This will be addressed in early January 2007. Expected completion date: March 2007

## **PROCUREMENT PROCESS**

### **Recommendation 12**

We recommend that the Foundation revise its policies and procedures to include a specified dollar threshold requirement for purchase orders and/or competitive bids.

### **Campus Response**

We concur. The Foundation will update its current purchasing policy. Using the University's and other auxiliaries' policies as a reference, a dollar threshold requiring competitive bids will be established and in place by February 2007.

## **PERSONNEL AND PAYROLL**

### **Recommendation 13**

We recommend that Foundation management review payroll-related reports detailing employee salary and wage adjustments on a regular basis.

### **Campus Response**

We concur. As previously stated, relative to procedures being established within Auxiliary Business Services, management review and oversight of salary and wage adjustments will be formalized and implemented. With the transition of the Foundation's administrative functions to the campus, scheduled to commence in January 2007, established procedures is expected to be in place by February 2007.

## **PROPERTY AND EQUIPMENT**

### **Recommendation 14**

We recommend that the Foundation:

- a. Revise property and equipment policies and procedures to address the identification and tagging of sensitive non-capitalized equipment under \$5,000.
- b. Reiterate to staff current procedures to ensure the recording of all property and equipment on the sub ledger.
- c. Reconcile its property and equipment sub ledger listing to the general ledger.
- d. Ensure proper supporting documentation is maintained for annual physical inventories of property and equipment.

**Campus Response**

We concur. The Foundation has included all sensitive electronic equipment under \$5,000 in its inventory. Formal revision to the policy will be recommended to the Board of Directors (BOD) in its March 2007 meeting. Property and equipment inventory listing is reconciled to the general ledger as of June 30, 2006, after the annual physical inventory of Foundation assets.

**ENDOWMENT ADMINISTRATION**

**INVESTMENT METHODOLOGY**

**Recommendation 15**

We recommend that the Foundation remove the negative units from its allocation table to ensure that investment income is properly allocated to all endowment accounts.

**Campus Response**

We concur. The Foundation has addressed and resolved this issue by removing the negative units from its allocation table, effective July 1, 2006.

**DOCUMENTATION**

**Recommendation 16**

We recommend that the Foundation consistently maintain adequate documentation supporting all contributions to endowment accounts.

**Campus Response**

We concur. The Foundation continues to work with the Office of University Development to ensure and assure appropriate donor documentation is readily available prior to establishing any endowment accounts. Formal reiteration of Foundation policy and procedure will be presented to the Office of University Development, no later than January 2007.

**ACCOUNTING**

**Recommendation 17**

We recommend that the Foundation properly classify each endowment in its general ledger.

**Campus Response**

We concur. A review of all Foundation endowment accounts has been in effect, since December 2005. With the advent of a conversion of its financial reporting system, the Foundation will complete its analysis and properly reclassify all endowments by March 2007.

## AUXILIARY PROGRAMS

### Recommendation 18

We recommend that the Foundation, together with the campus, ensure that all state revenues for campus programs are maintained and administered in state accounts and that all state funds currently residing in Foundation accounts be immediately transferred to the state.

### Campus Response

We concur. A review of all Foundation campus program accounts is currently being conducted. Those activities that should be moved to the campus will be transferred no later than March 2007.

## INFORMATION TECHNOLOGY

### Recommendation 19

We recommend that the Foundation include the following in its IT disaster recovery plan:

- a. Documentation of the alternate recovery facility.
- b. Development of a formal escalation and notification process.
- c. Inclusion of contact phone numbers for off-site backup tape storage and replacement equipment.

### Campus Response

We concur. The Foundation's IT disaster recovery plan has been updated to include the items addressed in the recommendations.

## **FRANCISCAN SHOPS**

### **OPERATIONAL COMPLIANCE**

#### **Recommendation 20**

We recommend that Shops revise its affirmative action/equal employment opportunity policy to include discrimination based on pregnancy, sexual orientation, and medical condition.

#### **Campus Response**

We concur. The affirmative action/equal employment opportunity policy has been modified to include discrimination based on pregnancy, sexual orientation and medical condition.

### **SEGREGATION OF DUTIES**

#### **Recommendation 21**

We recommend that Shops segregate certain accounting functions or institute mitigating procedures approved by the campus CFO.

#### **Campus Response**

We concur. All journal entries initiated by the Controller are now reviewed and approved by the General Manager prior to posting.

### **CASH RECEIPTS AND HANDLING**

#### **SAFE COMBINATIONS**

#### **Recommendation 22**

We recommend that Shops maintain a record of individuals with safe access and dates of combination changes for all safes.

#### **Campus Response**

We concur. The responsibility for maintaining a record of individuals with safe access, change dates, and frequency of combination changes has been delegated by the General Manager to the Associate General Manager.

#### **VOIDED TRANSACTIONS**

#### **Recommendation 23**

We recommend that Shops ensure authorized approval is obtained for all voided transactions.

**Campus Response**

We concur. Management will ensure that the proper individuals are authorized to approve voided transactions at all times, including oversight of regulating a temporary expansion of authorized individuals during rush periods.

**PURCHASING AND ACCOUNTS PAYABLE**

**SUPPORTING DOCUMENTATION**

**Recommendation 24**

We recommend that Shops reiterate to staff existing cash disbursement policies and procedures regarding sufficient and appropriate supporting documentation and authorization.

**Campus Response**

We concur. Management has initiated a procedure which includes annual notification of all accounting staff reiterating existing cash disbursement policies and procedures regarding sufficient and appropriate supporting documentation and authorization.

**PURCHASE ORDER NOTIFICATION**

**Recommendation 25**

We recommend that Shops develop and follow a procedure to ensure that management is informed of textbook purchase orders over \$50,000.

**Campus Response**

We concur. Management has implemented a procedure requiring the Textbook Manager to notify the General Manager of any textbook orders exceeding \$50,000.

**PERSONNEL AND PAYROLL**

**Recommendation 26**

We recommend that Shops management review payroll-related reports detailing employee salary and wage adjustments on a regular basis.

**Campus Response**

We concur. Management has adopted a procedure whereby the controller reviews and approves the payroll register each payroll period. The controller also verifies the actual number of checks received with the summary report which includes the number of checks printed. Furthermore, all managers are required to approve their employees' time logs prior to submitting for processing.

## TRUSTS AND OTHER LIABILITIES

### Recommendation 27

We recommend that Shops develop policies and procedures related to escheatment to meet the requirements of the Code of Civil Procedure with respect to unclaimed property.

### Campus Response

We concur. Management has developed an escheatment policy which meets the requirements of Code of Civil Procedure with respect to unclaimed property.

## INFORMATION TECHNOLOGY

### DATA ENCRYPTION

#### Recommendation 28

We recommend that Shops encrypt private customer information as soon as possible.

#### Campus Response

We concur. Management is pursuing an upgrade plan to current systems to allow for encryption of credit card sales and customer information. Expected completion date: April 2007

### DISASTER RECOVERY PLAN

#### Recommendation 29

We recommend that Shops include the following in its IT disaster recovery plan:

- a. Documentation of the alternate recovery facility for critical functions.
- b. Development of a formal escalation and notification procedure.
- c. Inclusion of contact phone numbers for off-site backup tape storage and replacement equipment.

#### Campus Response

We concur. Management has modified its previous disaster recovery plan to include the audit recommendations plus additional new key elements.

**ASSOCIATED STUDENTS OF SAN FRANCISCO STATE UNIVERSITY**

**FEES, REVENUES, AND RECEIVABLES**

**Recommendation 30**

We recommend that the AS ensure that ABS performs documented revenue reconciliations between student fees collected and student enrollment records.

**Campus Response**

We concur. As of FY 06-07, ABS created a reconciliation process that compares student fees collected and student enrollment by semester. ABS will provide a copy of the reconciliation for each semester to the Associated Students. Expected completion date: January 2007

**PURCHASING AND ACCOUNTS PAYABLE**

**Recommendation 31**

We recommend that the AS business office review all residence hall disbursements to ensure compliance with existing policies and procedures.

**Campus Response**

We concur. Effective July 1, 2006, the Associated Students business office will review all residence hall disbursements to ensure compliance with existing policies and procedures.

**SAN FRANCISCO STATE UNIVERSITY STUDENT CENTER**

**FEES, REVENUES, AND RECEIVABLES**

**Recommendation 32**

We recommend that the Student Center:

- a. Perform documented revenue reconciliations between billiards club payments received and the member roster.
- b. Ensure ABS performs documented revenue reconciliations between student fees collected and student enrollment records.

**Campus Response**

- a. We concur. The Student Center Games Room will:
  - 1) Replace the two carbon NCR forms with pre-numbered three carbon forms.
  - 2) Reprogram the cash register to separately record club memberships.
  - 3) Have a daily signature log for tracking discounts to club members.
  - 4) Initiated a quarterly reconciliation of the roster with the master list maintained by the accounting office.

The Student Center accounting office will:

- 1) Manage the inventory of pre-numbered NCR vouchers.
- 2) Reconcile the daily games room cash register tape to vouchers received.
- 3) Update the master membership roster of names, numbers and expiration dates on a daily basis.
- 4) Verify the signature log against the membership roster.
- 5) Confirm the games room roster with accounting's master list once each quarter.

Expected completion date: January 2007

- b. We concur. As of FY 06-07, ABS created a reconciliation process that compares student fees collected and student enrollment by semester. ABS will provide a copy of the reconciliation for each semester to the Student Center. Expected completion date: January 2007



THE CALIFORNIA STATE UNIVERSITY  
OFFICE OF THE CHANCELLOR

BAKERSFIELD

January 29, 2007

CHANNEL ISLANDS

CHICO

**MEMORANDUM**

DOMINGUEZ HILLS

EAST BAY

TO: Mr. Larry Mandel  
University Auditor

FRESNO

FULLERTON

FROM: Charles B. Reed  
Chancellor

HUMBOLDT

LONG BEACH

SUBJECT: Draft Final Audit Report 06-48 on *Auxiliary Organizations*,  
San Francisco State University

LOS ANGELES



MARITIME ACADEMY

In response to your memorandum of January 29, 2007, I accept the response as submitted with the draft final report on *Auxiliary Organizations*, San Francisco State University.

MONTEREY BAY

NORTHRIDGE

POMONA

SACRAMENTO

CBR/jt

SAN BERNARDINO

Enclosure

SAN DIEGO

cc: Dr. Robert A. Corrigan, President  
Mr. Franz Lozano, Internal Auditor

SAN FRANCISCO

SAN JOSÉ

SAN LUIS OBISPO

SAN MARCOS

SONOMA

STANISLAUS