

Audit and Advisory Services
401 Golden Shore
Long Beach, CA 90802-4210

May 23, 2022

Dr. Lynn Mahoney, President
San Francisco State University
1600 Holloway Avenue
San Francisco, CA 94132

Dear Dr. Mahoney:

Subject: Audit Report 21-07, Associated Students, San Francisco State University

We have completed an audit of *Associated Students* as part of our 2021-2022 Audit Plan, and the final report is attached for your reference. The audit was conducted in accordance with the Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing*.

I have reviewed the management response and have concluded that it appropriately addresses our recommendations. The management response has been incorporated into the final audit report, which will be posted to Audit and Advisory Services' website. We will follow-up on the implementation of corrective actions outlined in the response and determine whether additional action is required.

Any observations not included in this report were discussed with your staff at the informal exit conference and may be subject to follow-up.

I wish to express my appreciation for the cooperation extended by the campus personnel over the course of this review.

Sincerely,



Vlad Marinescu
Vice Chancellor and Chief Audit Officer

c: Jolene Koester, Interim Chancellor
Adam Day, Chair, Committee on Audit

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ASSOCIATED STUDENTS

San Francisco State University

Audit Report 21-07
May 23, 2022

EXECUTIVE SUMMARY

OBJECTIVE

The objectives of the audit were to confirm compliance with regulatory requirements for the establishment and governance of auxiliary organizations; ascertain the effectiveness of operational, administrative, and financial controls for the activities conducted by Associated Students of San Francisco State University (AS); evaluate adherence to auxiliary policies and procedures and applicable Integrated California State University Administrative Manual (ICSUAM) policies, or, where appropriate, to an industry-accepted standard; and to ensure compliance with relevant governmental regulations, Trustee policy, Office of the Chancellor directives, and campus procedures.

CONCLUSION

Based upon the results of the work performed within the scope of the audit, except for the weaknesses described below, the operational, administrative, and financial controls for AS as of March 18, 2022, taken as a whole, provided reasonable assurance that risks were being managed and objectives were met.

During audit fieldwork, the campus was unable to locate a complete operating agreement between the campus and AS; the copy provided to the chancellor's office (CO) and to Audit and Advisory Services was missing several pages in the middle of the document. Further, the lease between AS and the campus for the space occupied by AS in the student union building had expired. Additionally, some AS policies required updates, including policies and procedures addressing safeguards for the vendor master file (VMF) and several policies outlining financial processes. Also, the financial delegation of authority did not show the approval of the executive director and acknowledgment of individuals who were delegated financial authority. AS also had not routinely conducted required annual risk assessments and was not complying with policies regarding the collection of conflict-of-interest statements from board members. In addition, the AS scholarship process needed improvement to ensure that all applications are subject to consistent review guidelines.

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

OBSERVATIONS, RECOMMENDATIONS, AND RESPONSES

1. CAMPUS OPERATING AGREEMENT

OBSERVATION

AS was not able to provide a complete copy of its operating agreement.

Executive Order (EO) 1059, *Utilization of Campus Auxiliary Organizations*, requires a written operating agreement between the auxiliary organization and the CSU Board of Trustees. The copy of the operating agreement provided during the audit was missing pages, and the campus could not locate the original with all pages intact. The Auxiliary Organizations page on the CO website also included the incomplete agreement.

Maintenance of a complete operating agreement helps an auxiliary ensure compliance with agreed-upon terms and conditions and provides the basis for auxiliary activities and operations.

RECOMMENDATION

We recommend that the campus, in conjunction with AS:

- a. Re-create the original operating agreement executed for the period beginning July 1, 2019, if the original document cannot be located.
- b. Provide the complete copy to the CO for inclusion on the Auxiliary Organizations website.

MANAGEMENT RESPONSE

We concur.

- a. AS will re-create the original operating agreement executed for the period beginning July 1, 2019, if the original document cannot be located.
- b. AS will provide the complete copy to the CO for inclusion on the Auxiliary Organizations website.

This will be completed by November 3, 2022.

2. FACILITIES AGREEMENTS

OBSERVATION

The lease between AS and the campus for portions of the Cesar Chavez Student Center (CCSC) had expired on June 30, 2019.

An updated lease agreement helps ensure compliance with agreed-upon terms and conditions and reduces the risk of misunderstanding and miscommunication regarding rights and responsibilities between the AS and the campus.

RECOMMENDATION

We recommend that the campus, in conjunction with AS, execute an updated lease for the CCSC.

MANAGEMENT RESPONSE

We concur. AS will execute an updated lease for the CCSC.

This will be completed by November 3, 2022.

3. POLICIES AND PROCEDURES

OBSERVATION

Some AS policies and procedures were outdated, and one required policy review had not been conducted.

In our review of AS policies, we noted that many went through a review and format upgrade in 2017 or later. However, we noted that several had not been updated since 2004 and did not reflect current practices, particularly significant changes in procedures adopted during the remote-work period of the COVID-19 pandemic, including the *Cash and Check Receipt and Handling*, *Purchasing and Personal Service Contracts*, and *Hospitality* policies.

In addition, AS did not provide evidence that it had recently reviewed the *Accounts Receivable* policy, which states that “the policy will be reviewed no less than every five years and revised as needed.” The policy was last revised in January 2017.

Consistently updating policies and procedures helps to ensure that they are reflective of and consistent with current processes.

RECOMMENDATION

We recommend that the campus, in conjunction with AS:

- a. Review and update policies and procedures, including the policies noted above.
- b. Communicate and distribute the updated policies and procedures to appropriate AS and campus administrators and staff.

MANAGEMENT RESPONSE

We concur. Auxiliary Business Services, in conjunction with AS, will:

- a. Review and update policies and procedures, including the policies noted above.
- b. Communicate and distribute the updated policies and procedures to appropriate AS and campus administrators and staff.

This will be completed by November 3, 2022.

4. VENDOR MANAGEMENT

OBSERVATION

Auxiliary Business Services, the accounting service provider for AS, did not have formal written procedures documenting appropriate processes and controls to safeguard VMF information.

The VMF is a critical feature in any organization's defense against fraud and erroneous payments. It contains vital information about vendors that the campus does business with, including the vendor's name, address, contact information, tax identification number, and banking information. This information is used to facilitate payments to vendors in the procurement of goods and services.

Management provided a description of the process for safeguarding VMF information, and we noted that it addressed some controls, such as the use of standardized forms and review of additions and revisions. However, best practices indicate that the VMF process should be in writing and include the following:

- VMF access restrictions
- Naming conventions for vendors
- Regular review and maintenance of the VMF
- Deactivation of dormant vendors
- Reports/controls to detect duplicate vendors, vendor/employee matches, and missing or incomplete information

Developing formal policies and procedures helps to ensure that roles, responsibilities, and requirements are clearly defined and ensures a consistent process for the establishment of vendor records and proper monitoring to ensure that changes are valid. Proper administration of the VMF provides greater assurance of data integrity and provides additional defense against fraud.

RECOMMENDATION

We recommend that the campus, in conjunction with Auxiliary Business Services, develop, document, and implement comprehensive written policies and procedures for the VMF maintenance process, communicate these policies and procedures to appropriate personnel, and provide training as needed.

MANAGEMENT RESPONSE

We concur. Auxiliary Business Services will develop, document, and implement comprehensive written policies and procedures for the VMF maintenance process, communicate these policies and procedures to appropriate personnel, and provide training as needed.

This will be completed by November 3, 2022.

5. SIGNATURE AUTHORITY APPROVALS

OBSERVATION

Delegations of fiscal authority needed improvement.

AS provided a list of individuals with delegated authority, designated by the department, requestor, and name of the individual with authorized signature approval. However, the listing did not include signature approval from the executive director, who is the delegated authority in the bylaws, and did not include signature acknowledgment from the individuals with assigned authority.

A signed delegation of authority enhances accountability and mitigates the risk of misappropriation of funds.

RECOMMENDATION

We recommend that the campus, in conjunction with AS, develop a formal delegation of fiscal authority that includes the approval signature of the executive director and signature acknowledgment of the individuals with assigned authority.

MANAGEMENT RESPONSE

We concur. Auxiliary Business Services, in conjunction with AS, will develop a formal delegation of fiscal authority that includes the approval signature of the executive director and signature acknowledgment of the individuals with assigned authority.

This will be completed by November 3, 2022.

6. RISK MANAGEMENT

OBSERVATION

AS management had not performed the required annual risk assessment during the audit period.

The *AS Risk Management Policy* requires the designated compliance coordinator to perform a risk assessment summarizing results of a questionnaire distributed to all departments in AS on

an annual basis and share the results with the board of directors for their approval and concurrence.

A documented risk assessment helps ensure that an auxiliary is complying with internal controls and that risks associated with administration and programs have been addressed.

RECOMMENDATION

We recommend that the campus, in conjunction with AS, conduct the annual risk assessment and put procedures in place to ensure that the assessment is completed and submitted to the board of directors annually.

MANAGEMENT RESPONSE

We concur. AS will conduct the annual risk assessment and put procedures in place to ensure that the assessment is completed and submitted to the board of directors annually.

This will be completed by November 3, 2022.

7. CONFLICT OF INTEREST

OBSERVATION

AS had not obtained annual conflict-of-interest (COI) statements from all board members.

We reviewed the COI statements for each member of the AS board of directors for the 2020/21 and 2021/22 terms, and we found that a faculty representative, the vice president of student affairs and enrollment management, and the student trust officer had not completed forms for either term.

Obtaining completed COI statements from all board members provides greater assurance of transparency and ethical behavior on the part of the board of directors.

RECOMMENDATION

We recommend that the campus, in conjunction with AS, enhance procedures to ensure that COI statements are received from all board members annually.

MANAGEMENT RESPONSE

We concur. AS will enhance procedures to ensure that COI statements are received from all board members annually.

This will be completed by November 3, 2022.

8. AS SCHOLARSHIPS

OBSERVATION

AS scholarship application review protocols were not consistently applied.

AS offers nine different scholarships and processes applications through the campus financial aid Academic Works program, a system that manages the scholarship application, supplementary documentation such as letters of recommendation, and scoring activities. The current protocol requires that all applications be scored by three reviewers before award decisions are finalized.

We reviewed ten scholarship awards and noted that although all the recipients met the qualifications and submitted the required supplementary documentation, three recipient applications were scored by fewer than three reviewers.

Comprehensive and fair reviews of each scholarship application helps to ensure that awards are given without bias or conflict of interest.

RECOMMENDATION

We recommend that the campus, in conjunction with AS, ensure that all scholarship applications are scored by three reviewers before award decisions are finalized.

MANAGEMENT RESPONSE

We concur. AS will ensure that all scholarship applications are scored by three reviewers before award decisions are finalized.

This will be completed by November 3, 2022.

GENERAL INFORMATION

BACKGROUND

Auxiliary organizations are separate business and legal entities that perform activities essential to the educational program of a campus that cannot be legally or effectively administered using state funding. California Code of Regulations (CCR) Title 5, §42401, states that auxiliary organizations provide the fiscal means and the management procedures that allow the campus to carry on activities providing those instructional and service aids not normally furnished by the state budget.

Education Code §89900 states, in part, that the operation of auxiliary organizations shall be conducted in conformity with regulations established by the Trustees, and CCR Title 5, §42402, confirms the campus president's authority and responsibility for auxiliary organization operations. Campus management is responsible for establishing and maintaining an adequate system of internal compliance/internal control and assuring that each of its auxiliary organizations similarly establishes such a system.

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 auxiliary organizations.
- Implement financial standards that will assure the fiscal viability of 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 auxiliary organizations are within the educational mission of the state colleges.
- Develop policies for the appropriation of funds derived from indirect cost payments.

EO 1059, *Utilization of Campus Auxiliary Organizations*, dated June 6, 2011, represents Trustee policy addressing appropriate use of CSU auxiliary organizations. This EO requires CSU auxiliary organizations to operate within the regulations and oversight of the campus. The EO reiterates that the campus president is responsible for ensuring the fiscal viability of auxiliary organizations and their compliance with applicable CSU policies, and it further designates the campus chief financial officer as the individual responsible for administrative compliance and fiscal oversight of auxiliary organizations.

San Francisco State University (SFSU) has three separate auxiliary organizations, each of which provides a function that contributes to the educational mission of the university. AS is a nonprofit corporation and operates as an auxiliary organization for the student government of the campus. It is composed of student-focused entities that provide students with various ways to serve the community, engage in university life, and be involved with lobbying and advocating for student concerns and social justice. The AS board of directors is composed of elected and appointed student members who establish annual goals and priorities for the

organization and serve to express student opinions, foster awareness of student issues, and protect the rights and interests of students.

SCOPE

Due to temporary operating procedures and limitations resulting from the COVID-19 public health emergency, we performed fieldwork remotely from January 17, 2022, through March 18, 2022. Our audit and evaluation included the audit tests we considered necessary in determining whether operational, administrative, and financial controls are in place and operative at the AS. The audit focused on procedures in effect from July 1, 2020, to March 18, 2022.

Specifically, we reviewed and tested:

- Timely and proper execution of agreements, contracts, and memoranda of understanding.
- Fiscal, operational, and program compliance, such as reserve provisions, unrelated business income tax, conflicts of interest, and risk management practices.
- Internal controls and segregation of duties over fiscal administration of areas such as cash receipts, accounts receivables, property and equipment, procurement, disbursements, and personnel and payroll.
- Auxiliary programs and services administration, including, but not limited to, the Early Childhood Learning Center, event services, and student organization funding.

As a result of changing conditions and the degree of compliance with procedures, the effectiveness of controls changes over time. Specific limitations that may hinder the effectiveness of an otherwise adequate system of controls include, but are not limited to, resource constraints, faulty judgments, unintentional errors, circumvention by collusion, and management overrides. Establishing controls that would prevent all these limitations would not be cost-effective; moreover, an audit may not always detect these limitations.

Our testing and methodology, which was designed to provide a review of key operational, administrative, and financial controls, included interviews, walkthroughs, and detailed testing on certain aspects of the AS operations. Our review was limited to gaining reasonable assurance that essential elements of AS operations were in place and did not examine all aspects of the program.

CRITERIA

Our audit was based upon standards as set forth in CSU Board of Trustee policies; Office of the Chancellor policies, letters, and directives; campus and auxiliary procedures; as well as sound administrative practices and consideration of the potential impact of significant risks. This audit was conducted in conformance with the Institute of Internal Auditors' International Standards for the Professional Practice of Internal Auditing.

This review emphasized, but was not limited to, compliance with:

- California Code of Regulations (CCR), Title 5 §42401, *Declaration of Policy*
- CCR, Title 5 §42402, *Authority of Campus President*
- CCR, Title 5 §42500, *Functions of Auxiliary Organizations*
- Education Code (EC) §89720
- EC §89756
- EC §89900
- EC §89904
- RFIN 7-81-4
- EO 1059, *Utilization of Campus Auxiliary Organizations*
- ICSUAM §1301.00, *Hospitality, Payment or Reimbursement of Expenses*
- ICSUAM §13680.00, *Placement and Control of Receipts for Campus Activities and Programs*
- *CSU Auxiliary Organizations Compliance Guide*
- *CSU Auxiliary Organizations Sound Business Practices Guidelines*
- *SFSU AS Personnel Policies Manual*
- *SFSU AS Conflict of Interest Policy*
- *SFSU AS Risk Management Policy*
- *SFSU AS Bylaws*
- *SFSU AS Credit Card Policy*
- *SFSU AS Travel Policy*
- *SFSU AS Hospitality Policy*
- *SFSU AS Early Childhood Education Center Family Handbook*
- *SFSU AS Accounts Receivable Policy*
- *SFSU AS Cash and Check Handling Policy*

AUDIT TEAM

Senior Audit Manager: Ann Hough

Internal Auditor: Rita Guy