

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

March 5, 2024

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

Dear Dr. Mahoney:

**Subject: Audit Report 23-06, *The University Corporation*, San Francisco State University**

We have completed an audit of *The University Corporation* as part of our 2023-2024 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: Mildred García, Chancellor  
Yammilette Rodriguez, Chair, Committee on Audit  
Jean Picker Firstenberg, Vice Chair, Committee on Audit

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# THE UNIVERSITY CORPORATION

**SAN FRANCISCO STATE  
UNIVERSITY**

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**AUDIT REPORT 23-06  
MARCH 5, 2024**

CESAR CHAVEZ STATE



## EXECUTIVE SUMMARY

### AUDIT OBJECTIVES AND BACKGROUND

In accordance with the fiscal year (FY) 2023/24 Audit Plan, as approved by the Board of Trustees, Audit and Advisory Services performed an audit of the University Corporation (UCorp) at San Francisco State University (SFSU).

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 related to UCorp at SFSU; and ensure compliance with relevant federal and state regulations, Trustee policy, Office of the Chancellor (CO) directives, and campus and auxiliary procedures.

San Francisco State has three separate auxiliary organizations, each of which provides a function that contributes to the educational mission of the university. UCorp is a nonprofit corporation responsible for commercial services, campus program accounts, and certain externally funded programs. UCorp outsources operations of the SFSU campus bookstore in exchange for commission on the revenues generated and subleases space in the Cesar Chavez Student Center and other locations on campus to dining vendors. Additionally, UCorp provides administrative and financial services to other auxiliary organizations on campus through its auxiliary business services (ABS) unit. UCorp is governed by a board of directors composed of representatives from the university and auxiliary administration, faculty, community, and the student body.

### OVERALL 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 UCorp as of January 10, 2024, taken as a whole, provided reasonable assurance that risks were being managed and objectives were met.

### AUDIT SCOPE AND RESULTS

In general, we found that UCorp operations were effective and services were provided in compliance with California State University (CSU) policies and procedures. In our review, we did not note any issues related to the core function of UCorp at SFSU. Policies and procedures were comprehensive, and management appeared to be knowledgeable and engaged.

However, our review did note areas for improvement related to personnel and payroll and property administration. A summary of the observations noted in the report is presented in the table below. Further details are specified in the remainder of the report.

Area	Processes Reviewed	Audit Assessment
<b>Governance and Compliance</b>	Auxiliary governing documents, board of directors composition and meetings, cost allocation, budget and reserve policies, and conflicts of interest	<i>Effective – no reportable observations noted</i>

Area	Processes Reviewed	Audit Assessment
<b>Financial/Internal Controls</b>	Cash receipts, accounts receivable, procurement, property and equipment, disbursements, personnel and payroll, investments, and campus program accounts	<i>Observations noted in several personnel and payroll areas, property administration, and certain accounting functions.</i>
<b>Commercial Services</b>	Outsourced bookstore services, sub-leased dining services, retail operations, and real property	<i>Effective – no reportable observations noted</i>
<b>Sponsored Programs</b>	Administration, allowable costs, conflict-of-interest reporting and training, and project close-out	<i>Effective – no reportable observations noted</i>

The audit focused on procedures in effect from July 1, 2021, through January 10, 2024. Our audit and evaluation included the audit tests we considered necessary in determining whether operational, administrative, and financial controls are in place and operative. Our review was limited to gaining reasonable assurance that essential elements of UCorp were in place and did not examine all aspects of the program.

## OBSERVATIONS, RECOMMENDATIONS, AND RESPONSES

### 1. HIRING PRACTICES

#### OBSERVATION

Proper documentation and approval were not always obtained for newly hired employees.

We reviewed the employment form and other required documentation for 10 individuals hired by UCorp during the audit period, and we found that:

- UCorp did not provide any records for one of the employees.
- For five employees, the I-9 form was not signed by UCorp human resources within three business days of their hire date, as required by law. Additionally, the I-9 form could not be located for one employee. In one additional instance, the UCorp signature was backdated to the hire date even though the form was initiated by the employee after the hire date.
- The Employment Form was not completed in its entirety for four employees. Missing information included pay rate and information on current/past employment with the university or UCorp.
- Approvals were not obtained before the hire date for six employees, and there was no approval on file for one additional employee.

Proper and timely processing of required employment forms reduces the risk of disputed employment terms and enhances regulatory compliance.

#### RECOMMENDATION

We recommend that the campus, in conjunction with UCorp:

- a. Review policies and procedures for hiring practices and update them as necessary to ensure timely completion and approval of required forms, including I-9 forms.
- b. Provide training on the hiring process to project directors and other personnel.

MANAGEMENT RESPONSE
<p>We concur. The campus, in conjunction with UCorp, will:</p> <ol style="list-style-type: none"><li>a. Review policies and procedures for hiring practices and update them as necessary to ensure timely completion and approval of required forms, including I-9 forms.</li><li>b. Provide training on the hiring process to project directors and other personnel.</li></ol> <p>This will be completed by August 8, 2024.</p>






### 2. EMPLOYMENT SEPARATIONS

#### OBSERVATION

UCorp did not always obtain proper documentation for employee separations.



We reviewed 10 separated employees and found that UCorp had not received an Employment Separation form signed by the project director and employee for eight of them. The Employment Separation form documents important information, such as supervisor certification that the employee returned university keys and property, and prompts updates to personnel and payroll records. In all eight instances, the separated employee had worked for a campus program, and it was the responsibility of the program director to timely notify UCorp of the separation. The Employee Separation form for these eight employees was later completed by UCorp human resources following a review of dormant payroll records and confirmation of the separation with the responsible program director.

Timely and properly documented completion of employee terminations decreases the risk of payroll and personnel record inaccuracies and provides greater assurance that employee-issued keys and property are returned.

**RECOMMENDATION**

We recommend that the campus, in conjunction with UCorp:

- a. Review policies and procedures for employee separation practices and update as necessary to ensure compliance with campus rules, including responsibility for completion of the Employment Separation form and timely notification of employee separations to UCorp human resources.
- b. Provide training on the separation process to project directors and other relevant personnel.

**MANAGEMENT RESPONSE**

We concur. The campus, in conjunction with UCorp, will:

- a. Review policies and procedures for employee separation practices and update them as necessary to ensure compliance with campus rules, including responsibility for completion of the Employment Separation form and timely notification of employee separations to UCorp human resources.
- b. Provide training on the separation process to project directors and other relevant personnel.

This will be completed by August 8, 2024.

**3. PROPERTY ADMINISTRATION**

**OBSERVATION**

Administration of property needed improvement.

UCorp had not conducted a physical inventory of auxiliary assets in accordance with UCorp policy, which requires a physical inventory every two years. The last inventory was conducted in 2016.

Further, we reviewed five items from the list of assets purchased during the audit period to determine whether they had been properly tagged. We found that three items were not tagged within the same fiscal year as the purchase, and one was not tagged at all.

Proper administration of property and equipment decreases the risk that assets may be lost, stolen, or misrepresented in financial statements.

**RECOMMENDATION**

We recommend that the campus, in conjunction with UCorp:

- a. Conduct a physical inventory of auxiliary assets and reinstate procedures to ensure future inventories are conducted in accordance with UCorp policy.
- b. Review and update current asset-tagging procedures as necessary to improve identification of assets and ensure timely asset tagging.
- c. Reiterate requirements for asset identification and tagging to relevant personnel.

**MANAGEMENT RESPONSE**

We concur. The campus, in conjunction with UCorp, will:

- a. Conduct a physical inventory of auxiliary assets and reinstate procedures to ensure future inventories are conducted in accordance with UCorp policy.
- b. Review and update current asset-tagging procedures as necessary to improve identification of assets and ensure timely asset tagging.
- c. Reiterate requirements for asset identification and tagging to relevant personnel.

This will be completed by August 8, 2024.

**4. ASSET DISPOSALS**

**OBSERVATION**

Asset disposal procedures needed improvement.

During the audit scope time frame, UCorp received only one request for asset disposal, from a campus program project director who wanted to retire 10 computers. We reviewed this request in conjunction with current policy and found that:

- The project manager did not sign the portion of the form attesting that the e-waste vendor required due to the sensitive nature of electronic equipment was used, so the actual location and disposition of the computers was unclear, and management at UCorp could not confirm final disposition.
- The policy states that the Asset Disposition form requires the signatures of both the corporation project director and the chief financial officer/chief operations officer. However, these signatures were not on the form, and there was no specific section on the form to collect these signatures.

Proper administration of property and equipment, including disposition of retired assets, decreases the risk that assets may be lost, stolen, or misrepresented in financial statements.

**RECOMMENDATION**

We recommend that the campus, in conjunction with UCorp:

- a. Revise the Asset Disposition form to ensure it includes fields for all required approvals.
- b. Remind relevant personnel of asset disposition requirements.

**MANAGEMENT RESPONSE**

We concur. The campus, in conjunction with UCorp, will:

- a. Revise the Asset Disposition form to ensure it includes fields for all required approvals.
- b. Remind relevant personnel of asset disposition requirements.

This will be completed by August 8, 2024.

**5. PETTY CASH**

**OBSERVATION**

Petty cash administration needed improvement.

We noted that petty cash reconciliations were prepared quarterly, but that reconciling items were not timely resolved, with some reconciling items aged as far back as 2017. Further, we noted that the petty cash policy did not require unannounced cash counts.

We reviewed three of 17 open petty cash funds, as well as one completed petty cash settlement request, and noted the following:

- For two of the open petty cash funds, the fund custodian had not submitted the appropriate documentation (check request form, receipts, and other supporting documentation) to either replenish or close the petty cash fund by the end of the fiscal year in which the fund was established, as required by policy.
- For the petty cash settlement request, the custodian had submitted receipts and documentation to close the fund in May 2022, but the settlement had not yet been processed by UCorp.
- One of the open items was not a true petty cash fund, but instead a journal entry for an expense reimbursement that was posted to petty cash to allow time to obtain necessary documentation, which, in this case, was a list of attendants at a hospitality event. However, the item was dated August 2022 and remained open when fieldwork concluded in January 2024.

Proper administration of petty cash and related accounts provides greater assurance that these funds will not be misused.

**RECOMMENDATION**

We recommend that the campus, in conjunction with UCorp:

- a. Review and update petty cash policies and procedures to address timely research and resolution of reconciling items, escalation procedures for funds not settled within the same fiscal year, and unannounced cash counts.
- b. Provide training to petty cash custodians and other relevant personnel on petty cash requirements.
- c. Ensure the item settled in May 2022 is properly processed and recorded in the UCorp accounts.



- d. Review and resolve expense reimbursements from previous years noted in the petty cash account.

**MANAGEMENT RESPONSE**

We concur. The campus, in conjunction with UCorp, will:

- a. Review and update petty cash policies and procedures to address timely research and resolution of reconciling items, escalation procedures for funds not settled within the same fiscal year, and unannounced cash counts.
- b. Provide training to petty cash custodians and other relevant personnel on petty cash requirements.
- c. Ensure the item settled in May 2022 is properly processed and recorded in the UCorp accounts.
- d. Review and resolve expense reimbursements from previous years noted in the petty cash account.

This will be completed by August 8, 2024.

**6. TIMELY DEPOSITS**

**OBSERVATION**

Procedures to ensure timely deposit of checks needed improvement.

We reviewed 22 cash and cash-equivalent transactions and noted that two deposits included checks that, based on the check date, appeared to be significantly aged, up to four months.

Both of the noted transactions were deposits into campus program accounts, which UCorp has been authorized to hold for entities, including academic departments, that engage in activities in support of the university mission. UCorp *Deposit Procedures* states that although timely deposits remain their fiduciary responsibility, the responsible program directors must cooperate for UCorp to remain in compliance. It further states that funds should be deposited at least weekly or whenever collections exceed \$500. However, the procedures do not include steps to address the issue of late deposits.

Appropriate administration of cash handling, including timely deposit of cash and equivalents, helps to reduce exposure to risk related to loss, theft, or misappropriation of funds.

**RECOMMENDATION**

We recommend that the campus, in conjunction with UCorp:

- a. Review and update policies and procedures on cash and cash equivalents to include expectations for timely deposits, and a process to address late deposits.
- b. Provide training or communications to project directors and other relevant personnel on the updated policies and procedures.

**MANAGEMENT RESPONSE**

We concur. The campus, in conjunction with UCorp, will:

- a. Review and update policies and procedures on cash and cash equivalents to include expectations for timely deposits, and a process to address late deposits.
- b. Provide training or communications to project directors and other relevant personnel on the updated policies and procedures.

This will be completed by August 8, 2024.

## GENERAL INFORMATION

### ADDITIONAL 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 (EC) §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 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.

CSU policy, *Utilization of Campus Auxiliary Organizations*, dated June 6, 2011, represents Trustee policy addressing appropriate use of CSU auxiliary organizations. This policy requires CSU auxiliary organizations to operate within the regulations and oversight of the campus. The policy also 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.

### CRITERIA

Our audit was based upon standards as set forth in federal and state regulations and guidance, Trustee policy, Office of the Chancellor directives, and campus 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:

- 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
- *CSU Utilization of Campus Auxiliary Organizations*
- *CSU Hospitality Policy*
- *CSU Placement and Control of Receipts for Campus Activities and Programs*
- *CSU Auxiliary Organizations Compliance Guide*
- *CSU Auxiliary Organizations Sound Business Practices Guidelines*
- *UCorp Allocation of Financial Responsibility and Account Deficit Policy*
- *UCorp Campus Programs Policies*
- *UCorp Deposit Procedures*
- *UCorp Employee Manual*
- *UCorp Fixed Asset Procedures*
- *UCorp Payment Policy*
- *UCorp Project Directors Information*
- *UCorp Purchasing Policy*

## **AUDIT TEAM**

Audit Manager: Kyle Ishii

Audit Consultant: Ann Hough