AUXILIARY ORGANIZATIONS

SAN JOSÉ STATE UNIVERSITY

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ABBREVIATIONS

AS  Associated Students San José State University
CFO  Chief Financial Officer
CSU  California State University
EO  Executive Order
Foundation  San José State University Foundation
HR  Human Resources
IRS  Internal Revenue Service
RFIN  Resolution of the Committee on Finance
Shops  Spartan Shops, Inc.
SJSU  San José State University
SSN  Social Security Number
SVFC  Silicon Valley Football Classic, Inc.
TIN  Tax Identification Number
UBI  Unrelated Business Income
Union  The Student Union of San José State University
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 José State University (SJSU) 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 SJSU campus and its auxiliary organizations from August 2, 2004, through September 10, 2004, and made a study and evaluation of the system of internal compliance/internal control in effect for the period July 2001 to September 2004. This report represents our triennial review.

Our study and evaluation at the San José State University Foundation 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 September 2004, taken as a whole, was sufficient to meet the objectives stated above.

Our study and evaluation at the Spartan Shops, Inc. 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 September 2004, taken as a whole, was sufficient to meet the objectives stated above.
Our study and evaluation at the Associated Students San José 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 September 2004, taken as a whole, was sufficient to meet the objectives stated above.

Our study and evaluation at The Student Union of San José 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 September 2004, 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**

**OPERATING AND ADMINISTRATIVE AGREEMENTS [12]**

A facility lease agreement between Spartan Shops, Inc. and Associated Students San José State University (AS) was not approved by the campus prior to initiation by both parties.

**CAMPUS OVERSIGHT AND CONTROL OF STUDENT FEES [13]**

The campus had not provided sufficient administration of student body organization fees. Specifically, required documentation supporting AS expenditures was limited to a non-descriptive check register.

**TRUST ACCOUNTS [13]**

The campus did not exercise sufficient oversight of custodial funds held in trust by the AS, as state revenues were inappropriately held in trust accounts maintained by the AS.
SAN JOSÉ STATE UNIVERSITY FOUNDATION

AGREEMENTS [15]

Fiscal sponsorship agreements had not been timely executed between the San José State University Foundation (Foundation) and various community-based business development enterprises for administrative and fiscal support provided by the auxiliary. In addition, the Foundation’s revised operating agreement with the campus had not been executed.

CORPORATE GOVERNANCE [16]

The Foundation Articles of Incorporation did not specify that the net assets of the dissolved auxiliary must be distributed to a successor approved by the campus president and the California State University (CSU) Trustees.

FISCAL COMPLIANCE [16]

The Foundation’s post-retirement benefits reserve was significantly under funded. Specifically, at the end of fiscal years 2002/03 and 2003/04, the reserve was under funded by approximately $2.2 million and $3.9 million, respectively.

OPERATIONAL COMPLIANCE [17]

The Foundation had neither documented its conflict-of-interest policies and procedures nor consistently obtained annual conflict-of-interest statements from board and management personnel.

SEGREGATION OF DUTIES [18]

Duties and responsibilities over certain accounting functions for accounts payable were not appropriately segregated at the Foundation. One employee was allowed to approve purchase orders, contracts, and requisitions; authorize the process of accounts payables; prepare check requests; access the vendor master file; and approve the purchase and disposal of fixed assets.

PURCHASING AND ACCOUNTS PAYABLE [19]

Certain Foundation cash disbursements were not supported by sufficient and appropriate documentation and/or appropriate authorization. For example, original vendor invoices were not marked paid or otherwise defaced after payment; and a vendor, who was also a campus employee, was an accountholder/authorized account signer. In addition, independent contractor agreements were generally submitted to the Foundation for review after services had commenced, or completed and therefore were not executed in a timely manner. Also, the independent contractor agreements did not contain an appropriate indemnification/hold harmless clause. Lastly, the Foundation vendor master file contained numerous duplicate entries, including vendor names and social security and tax identification numbers.
EXECUTIVE SUMMARY

PROPERTY AND EQUIPMENT [23]

Foundation fixed assets were not always tagged in a timely manner.

PROGRAM ACCOUNTS [23]

Campus program accounts maintained by the Foundation contained mixed sources of revenue, including donations and fees. Funds deposited to campus program accounts did not always include sufficient documentation to evidence and/or clearly describe revenue sources.

SPARTAN SHOPS, INC.

OPERATING AND ADMINISTRATIVE AGREEMENTS [25]

Certain agreements between Spartan Shops, Inc. (Shops) and third parties were either incomplete or not executed in a timely manner. Specifically, both the parking management agreement and the food service agreement for the international house were expired, while the box office agreement was operating in an extended hold-over clause. Also, three agreements did not include an appropriate indemnification clause. Lastly, financial activity between Shops and Silicon Valley Football Classic, Inc. (SVFC) was inappropriate, unsound, and poorly administered. In two instances, Shops inappropriately loaned $100,000 to the SVFC.

OPERATIONAL COMPLIANCE [27]

Shops had not documented an analysis of the comparability of salaries, working conditions, and benefits for its full-time employees in relation to those provided to campus employees performing substantially similar services.

SEGREGATION OF DUTIES [28]

Shops did not appropriately segregate certain accounting functions over bookstore inventory.

FEES, REVENUES, AND RECEIVABLES [28]

The Shops bookstore did not maintain current, written signature authorizations identifying campus individuals who may approve credit card purchases.

PERSONNEL AND PAYROLL [29]

Certain controls over Shops hiring and processing of payroll required improvement. Specifically, payroll checks were received by the same employee that submitted payroll data for processing, and verification of an employee’s current student status was not documented.
AUXILIARY PROGRAMS [30]

The Shops oversight of the gold points program needed improvement. For example, the system manager had the ability to add debits to gold points accounts and was responsible for investigating any unreconciled transactions, and system configuration allowed for the double spending of gold points funds.

ASSOCIATED STUDENTS SAN JOSÉ STATE UNIVERSITY

OPERATING AND ADMINISTRATIVE AGREEMENTS [32]

The Associated Students San José State University (AS) performed a function not authorized by its operating agreement with the campus, specifically, the operation of a print shop. Additionally, certain written agreements among the AS, the campus, and the Foundation were incomplete or not executed in a timely manner.

CORPORATE GOVERNANCE [34]

The AS Articles of Incorporation did not specify that the net assets of the dissolved auxiliary must be distributed to a successor approved by the campus president and the CSU Trustees.

SEGREGATION OF DUTIES [34]

The AS did not properly segregate certain accounting functions over cash receipts and accounts receivable at the child development center. One employee was allowed to create accounts receivables, collect cash receipts, and prepare daily cash deposits.

CASH RECEIPTS AND HANDLING [35]

Administration of AS cashiering duties and cash receipts processing was deficient. For example, accountability was not localized at the general services center, the computer services center, and the print shop, as two or more persons had access to the same cash drawer.

PETTY CASH AND CHANGE FUNDS [36]

AS petty cash and change funds administration was insufficient. Policies and procedures and daily cash counts were not documented, and disbursements were not approved by someone other than the petty cash custodian.

FEES, REVENUES, AND RECEIVABLES [37]

AS revenues were erroneously reported as unrelated business income, rather than exempt function income, on Internal Revenue Form 990 in fiscal year 2001/02. Additionally, revenues received by the AS child development center and campus recreation were not reconciled to enrollment records.
PURCHASING AND ACCOUNTS PAYABLE [38]

Certain AS cash disbursements were not supported by sufficient and appropriate documentation. A review of 30 cash disbursements disclosed that in two instances, the same individual requested a purchase order, ordered the goods via the Internet, and signed for the receipt of goods. In one of these two instances, the individual paid for the goods with a personal credit card and was reimbursed.

PERSONNEL AND PAYROLL [40]

AS administration and processing of payroll were insufficient. An AS employee had the capability to add new employees and change pay rates with no documented independent review of the information prior to processing.

PROPERTY AND EQUIPMENT [41]

Administration of laptop rental inventory at the AS computer services center was deficient. Specifically, a daily inventory of laptops was not performed, and semiannual inventory counts and oversight of periodic inventories by AS management were not documented.

TRUSTS FUNDS AND OTHER LIABILITIES [42]

Certain AS campus organization cash disbursements were not supported with sufficient documentation. A review of 21 disbursements noted two instances where travel expense claims were processed for reimbursement of rental vehicle expenses without sufficient documentation.

INFORMATION TECHNOLOGY [43]

Full access to the accounts payable and general ledger modules of the AS accounting system was granted to employees who did not require such access to perform their job duties.

THE STUDENT UNION OF SAN JOSÉ STATE UNIVERSITY

CORPORATE GOVERNANCE [44]

The dissolution clause in The Student Union of San José State University (Union) Articles of Incorporation was not in compliance with Title 5, and board minutes were not signed and approved by an appropriate official. In addition, Union bylaws did not reflect current practice with regard to tenure of elected officials.

FISCAL COMPLIANCE [46]

The Union did not appropriately monitor their reserve levels, as the Union’s building repair project may reduce financial reserve below levels described within Union’s policies. An increase in student fees was anticipated to cover the repair costs; however, actual costs were currently unknown.
EXECUTIVE SUMMARY

CASH RECEIPTS AND HANDLING [46]

Administration of Union cashiering duties and cash receipts were deficient. For example, accountability was not consistently localized at the aquatic center and sports club, as two or more persons had access to the same cash drawers.

SEGREGATION OF DUTIES [48]

A Union accounts receivable employee prepared cash deposits and reconciled to the daily cash receipts log.

PERSONNEL AND PAYROLL [48]

Union administration of personnel and payroll activities was inadequate. For example, certain employee performance evaluations were not documented, while others were not forwarded to the personnel department. In addition, employment contracts and timesheets for intermittent employees were not always signed timely.

INFORMATION TECHNOLOGY [49]

The Union administrative services manager had inappropriate access to all modules of the accounting system.
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 2001/02, 2002/03, and 2003/04 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 2003 to September 2004. 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 José State University Foundation**
- Operating and Administrative Agreements
- Facilities Agreements
- Corporate Governance
- Fiscal Compliance
- Program Compliance
- Campus Oversight and Control
- Segregation of Duties
- Cash Receipts and Handling
- Investments
- Fees, Revenues, and Receivables
- Purchasing and Accounts Payable
- Personnel and Payroll
- Trusts and Other Liabilities
- Information Technology
- Research Administration

**Spartan Shops, Inc.**
- Operating and Administrative Agreements
- Corporate Governance
- Fiscal Compliance
- Operational Compliance
- Program Compliance
- Campus Oversight and Control
- Cash Receipts and Handling
- Fees, Revenues, and Receivables
- Purchasing and Accounts Payable
- Commercial Operations

**Associated Students San José State University**
- Operating and Administrative Agreements
- Facilities Agreements
- Corporate Governance
- Fiscal Compliance
- Operational Compliance
- Program Compliance
INTRODUCTION

Associated Students San José State University (cont.)
- Campus Oversight and Control
- Segregation of Duties
- Cash Receipts and Handling
- Investments
- Fees, Revenues, and Receivables
- Purchasing and Accounts Payable
- Personnel and Payroll
- Property and Equipment
- Trusts and Other Liabilities
- Information Technology
- Campus Programs
- Auxiliary Programs

The Student Union of San José 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
- Investments
- Fees, Revenues, and Receivables
- Purchasing and Accounts Payable
- Personnel and Payroll
- Property and Equipment
- Information Technology

We have not performed any auditing procedures beyond September 2004. 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.
OBSERVATIONS, RECOMMENDATIONS, AND CAMPUS RESPONSES

CAMPUS

OPERATING AND ADMINISTRATIVE AGREEMENTS

A facility lease agreement between Spartan Shops, Inc. (Shops) and Associated Students San José State University (AS) for the AS print shop was executed without appropriate campus approval.

Education Code §89046 states that the Trustees may lease any property of a state university for any purpose that they consider is not inconsistent with the functions of the California State University (CSU) including, but not limited to, the lease of state university property to a non-profit organization composed exclusively of students of the university or of members of the faculty of the university, or both, for purposes related to the activities of the university or for the activities of student or faculty organizations. Section XVII of the Old Cafeteria Building lease between San José State University and Shops states that the lease is not assignable by lessee either in whole or in part, nor shall lessee sublet the lease premises or any part thereof without written permission of Trustees.

The Shops executive director stated that Shops provided the lease agreement to campus management in May 2004; however, approval was still pending.

An unauthorized facility lease agreement increases the risk of misunderstandings and may increase legal liability.

Recommendation 1

We recommend that:

a. The campus review and, if acceptable, approve the facility lease agreement between Shops and the AS for the AS print shop.

b. Appropriate campus approval is obtained for all future leases requiring such approval prior to their implementation.

Campus Response

We concur. We will review and, if acceptable, approve the facility lease agreement between Shops and the AS for the AS print shop. By August 31, 2005, all future leases requiring such approval will undergo proper approval process before implementation.
CAMPUS OVERSIGHT AND CONTROL OF STUDENT FEES

Campus administration of student body organization fees was in need of improvement.

We found that the campus did not require supporting documentation for AS expenditures. The supporting documentation submitted by AS was limited to the expenditure check register. Additionally, the campus and the AS did not adequately address and document policies and procedures over the reimbursement of AS fees.

Title 5 §42403(a) states that the campus chief fiscal officer shall be custodian of all funds and money collected by or on behalf of a student body organization and shall provide the necessary accounting records and controls for such funds.

The AS executive director stated that the campus only requested supporting documentation on an exception basis. He also stated that the campus controller is the signatory on all AS checks over $5,000.

Insufficient administration of student body funds increases the risk that custodial responsibilities will not be met and errors or misappropriations will occur.

Recommendation 2

We recommend that the campus, in coordination with the AS, take appropriate measures to ensure sufficient administration of student body organization fees.

Campus Response

We concur. We will take appropriate measures with AS to ensure sufficient administration of student body organization fees by July 31, 2005.

TRUST ACCOUNTS

State revenues were inappropriately held in trust accounts maintained at the AS.

We found that student housing fees collected by the campus were forwarded to university housing and deposited into AS trust accounts on behalf of various student residence hall organizations.

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 custodial funds.

The AS executive director stated his belief that funds had been appropriately maintained within AS accounts.
Insufficient oversight of custodial funds held in trust increases the risk that funds will be expended for inappropriate purposes.

**Recommendation 3**

We recommend that the campus maintain all such revenue in state trust accounts and that all state revenues currently residing in AS accounts be immediately transferred to the state.

**Campus Response**

We concur. We will maintain all such revenue in state trust accounts and all revenues that are determined as belonging to the state and that currently reside in AS accounts will be transferred to the state by July 2005 and systemic solution implementation by September 2005.
SAN JOSÉ STATE UNIVERSITY FOUNDATION

AGREEMENTS

ADMINISTRATIVE AGREEMENTS

Fiscal sponsorship agreements had not been timely executed between the San José State University Foundation (Foundation) and various community-based business development enterprises for administrative and fiscal support provided by the auxiliary.

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 timely written agreements.

The Foundation director of enterprise and endowment services stated that based on legal opinion, the fiscal sponsorship agreements had not been executed in a timely manner in order to include specific language regarding management and fiscal support.

Operating in the absence of an up-to-date, written agreement increases the risk of misunderstandings and miscommunication regarding rights and responsibilities.

Recommendation 4

We recommend that the Foundation execute fiscal sponsorship agreements specifying administrative and fiscal support provided to various community-based business development enterprises.

Campus Response

We concur. During the audit, the contracts were renegotiated and approved by legal counsel. The contracts were all signed by the end of October 2004.

OPERATING AGREEMENT

A revised operating agreement between the Foundation and the campus had not been executed.

Title 5 §42501 states that a written agreement on behalf of the State of California by the Chancellor of the CSU and the auxiliary organization is required for the performance by such auxiliary organization of any of the functions listed in §42500.

The Foundation executive director stated that the operating agreement was revised to address all functions administered by the Foundation but had not yet been executed.
Operating in the absence of an up-to-date, written agreement increases the risk of misunderstandings and miscommunication regarding rights and responsibilities.

**Recommendation 5**

We recommend that the Foundation execute its revised operating agreement with the campus.

**Campus Response**

We concur. The agreement has been revised and is now with the university president’s office for review and signature.

**CORPORATE GOVERNANCE**

The Foundation Articles of Incorporation did not specify that the net assets of the dissolved auxiliary must be distributed to a successor approved by the campus president and the CSU Trustees.

Title 5 §42600(b) states that upon dissolution of the organization, net assets, other than trust funds, shall be distributed to a successor approved by the president of the campus and by the Board of Trustees.

The Foundation director of financing and accounting stated his belief that the dissolution clause was in compliance with the requirements of Title 5.

Failure to include a dissolution clause in accordance with Title 5 could result in net assets not being properly distributed in the event the corporation is dissolved.

**Recommendation 6**

We recommend that the Foundation redraft its corporate dissolution clause in accordance with Title 5 and appropriately reflect this change in its Articles of Incorporation.

**Campus Response**

We concur. The Articles of Incorporation will be changed to appropriately reflect the dissolution clause in accordance with Title 5 and will be submitted for board approval at the June 2005 meeting.

**FISCAL COMPLIANCE**

The Foundation’s post-retirement benefits reserve was significantly under funded.

The Foundation’s reserve policy requires that it maintain a reserve for post-retirement benefits that matches the corresponding liability amount. Specifically, at the end of fiscal years 2002/03 and 2003/04, the reserve was under funded by approximately $2.2 million and $3.9 million, respectively.
Education Code §89904(b), §89904.5, and §89905 indicate that reserve planning is necessary.

The Foundation director of financing and accounting stated that the Foundation had been reviewing the necessity of maintaining such a reserve since the amount was already reflected on the books as a liability.

Insufficient funding of reserves increases the auxiliary’s risk of supporting future needs.

**Recommendation 7**

We recommend that the Foundation ensure that adequate post-retirement benefits reserves are maintained.

**Campus Response**

We concur. The Foundation passed resolution #129 in 1996 to fund post-retirement liabilities in 20 years. The Foundation continues to partially fund the liabilities, and is also planning benefit program amendments that will further reduce post-retirement liabilities so that adequate reserves are maintained. A copy of the amendments will be submitted by July 10, 2005.

**OPERATIONAL COMPLIANCE**

The Foundation had neither documented its conflict-of-interest policies and procedures nor consistently obtained annual conflict-of-interest statements from board and management personnel.

Education Code §89906 states that no member of the governing board of an auxiliary organization shall be financially interested in any contract or other transaction entered into by the board of which he is a member, and any contract or transaction entered into in violation of this section is void.

Title 5 §42401, §42402, and §42500 and Education Code §89900 establish a responsibility to operate in accordance with sound business practices in the interest of the campus. Sound business practice mandates establishing conflict-of-interest policies and procedures to implement Education Code §89906 and other similar provisions to prevent imprudent or improper decisions by auxiliary board and management members.

The Foundation director of financing and accounting stated that a conflict-of-interest policy had been discussed by the Foundation but had yet to be formalized.

Failure to adequately document and implement conflict-of-interest code policies and procedures increases liability for acts contrary to the code.
Recommendation 8

We recommend that the Foundation document its conflict-of-interest policies and procedures and ensure that annual conflict-of-interest statements are obtained from all board and management personnel.

Campus Response

We concur. The Foundation will document its conflict-of-interest policies and procedures and ensure that annual conflict-of-interest statements are obtained from all board and management personnel by the September 2005 Foundation board meeting.

SEGREGATION OF DUTIES

Duties and responsibilities over certain accounting functions for accounts payable were not appropriately segregated at the Foundation.

We found that one employee:

- Approved purchase orders, contracts, and requisitions.
- Authorized accounts payable batches.
- Prepared check requests.
- Had full access to the vendor master file.
- Approved the purchase and disposal of fixed assets.

Executive Order (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 Foundation director of financing and accounting stated that the employee was part of senior management and served as backup for several staff members.

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

Recommendation 9

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

Campus Response

We concur. The Foundation revised procedures and reassigned responsibilities for the employee having inadequate segregation. Of the five accounts payable functions previously performed by this
employee, two have been removed (preparing check requests, and access to the vendor master file) as of April 2005. Furthermore, the first function has been significantly reduced by reassigning the approval of contracts and requisitions to another employee. Management believes there is adequate segregation of duties after these changes.

PURCHASING AND ACCOUNTS PAYABLE

SUPPORTING DOCUMENTATION

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

Our review of 66 disbursements disclosed the following:

Process Controls

- Original vendor invoices were not marked paid or otherwise defaced after payment.
- A vendor that served both the Foundation and the campus, and was also a campus employee, was an accountholder/authorized account signer.

Processing Exceptions

- In 11 instances, signature specimens were not on file for all authorized signers.
- In five instances, facsimile invoices were accepted for payment without certification that records were verified to prevent duplicate payment.
- In one instance, a check request was prepared in pencil.
- In two instances, documentation was not maintained to evidence a bidding process.

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 all 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. Section 8.9.5, Procurement, states that the auxiliary should establish a written system that provides for
purchases and service contracts to be made within governing board policies, source restrictions, funds availability, and other applicable requirements.

The Foundation associate director of business services stated that invoices are date stamped and that the accounting system prevents duplicate payments. She also stated that certain Foundation management staff was delegated as one-up/authorized signers to resolve a previous audit issue.

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:

a. Establish a procedure to ensure that original vendor invoices are marked paid or otherwise defaced after payment.

b. Establish procedures to ensure that a vendor, who is also a campus employee, may not act as an accountholder/authorized signers.

c. Ensure that signature specimens are on file for all authorized signers.

d. Reiterate to staff and accountholders existing cash disbursement policies and procedures regarding sufficient and appropriate supporting documentation and appropriate authorization.

**Campus Response**

We concur with all four recommendations.

a. The Foundation has been using a perforation machine to deface paid invoices and documents since August 2004.

b. The Foundation is working with the department chair to replace the account signer in question with a different person from that department. We anticipate a replacement will be identified and in place by June 2005.

c. The Foundation, as of April 2005, has a redundant system to keep two signature specimens in permanent files on-site. One signature specimen is kept in a permanent binder under the control of records management personnel and a second signature specimen is kept in the working account file.

d. The Foundation will strengthen the review and approval of supporting documents for cash disbursements by August 30, 2005.
INDEPENDENT CONTRACTORS

Written agreements between the Foundation and independent contractors were incomplete and/or not executed in a timely manner.

We found that:

- Independent contractor agreements were generally submitted to the Foundation for review after services had commenced, or completed, and invoices had been submitted for payment. Therefore, the review of potential conflict of interest performed by the Foundation human resources department occurred after the fact.

- Independent contractor agreements did not contain an appropriate indemnification/hold harmless clause.

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 written agreements be complete and executed in a timely manner.

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 8.9.5, Procurement, states that the auxiliary should establish a written system that provides for purchases and service contracts to be made within governing board policies, source restrictions, funds availability, and other applicable requirements.

EO 849, California State University Insurance Requirements, dated February 5, 2003, states that hold harmless provisions should be modeled after agreements available at the CSU contract resource library. The model auxiliary operating agreement 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, arriving out of, or in any way connected with the operations of the auxiliary.

The Foundation director of financing and accounting stated that the independent contractor agreements included a hold harmless clause but did not include all the requirements of EO 849. The Foundation associate director of business services stated that the Foundation did not have sufficient staff to review all contracts entered into by accountholders.

The absence of complete, written agreements increases the risk of misunderstandings and miscommunication regarding rights and responsibilities.
Recommendation 11

We recommend that the Foundation:

a. Execute written agreements in a timely manner.
b. Ensure that all agreements include the appropriate indemnification/hold harmless clause.

Campus Response

We concur with both recommendations.

a. The Foundation, beginning in July 2005, will more effectively inform and educate the campus community through specific and more frequent communication and training, and therefore better ensuring that contracts are established before the performance of work.
b. The Foundation will change all agreements to include the appropriate indemnification/hold harmless clause by July 31, 2005.

VENDOR MASTER FILE

The Foundation vendor master file contained numerous duplicate entries, including vendor names and social security and tax identification numbers.

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 vendor data be appropriately controlled.

The Foundation director of financing and accounting stated that the purging of duplicate vendor information had to be done manually due to the lack of capability by the Foundation’s accounting software. He also stated that this process had been delayed due to time constraints.

Inadequate administration of the vendor master file increases the risk of fraudulently misdirected payments.

Recommendation 12

We recommend that the Foundation ensure the proper administration of the vendor master file.

Campus Response

We concur. In June 2005, the Foundation has created a new report and added a new procedure to query the system in real-time for existence of any specific social security number (SSN) or taxpayer identification number (TIN). This step is mandatory before any new vendor is created or SSN/TIN is modified. It prevents duplicated SSN or TIN.
PROPERTY AND EQUIPMENT

Foundation fixed assets were not always tagged in a timely manner.

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 fixed assets.

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 associate director of business services stated that fixed assets had not been tagged due to a vacancy in the fixed assets accountant position.

Failure to tag fixed assets increases the risk that property may be lost or stolen.

**Recommendation 13**

We recommend that the Foundation ensure that fixed assets are tagged in a timely manner.

**Campus Response**

We concur. The Foundation recently hired a new fixed assets accountant, and asset tagging is now current.

PROGRAM ACCOUNTS

Campus program accounts maintained by the Foundation contained mixed sources of revenue, including donations and fees. Funds deposited to campus program accounts did not always include sufficient documentation to evidence and/or clearly describe revenue sources.

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 campus program accounts.

The Foundation director of enterprise and endowment services stated that the Foundation reviewed all documentation that accompanied the deposits.
Insufficient oversight of campus program funds increases the risk that duties and responsibilities will not be met and errors or misappropriations will occur.

**Recommendation 14**

We recommend that the Foundation:

a. Establish procedures to identify sources of campus program revenues.

b. Coordinate with the campus to ensure that appropriate supporting documentation accompanies funds deposited to campus program accounts.

c. Review all campus program accounts and return to the university any state funds currently being held.

**Campus Response**

We concur with all three recommendations.

a. The Foundation is modifying its cash deposit transmittals to require the depositor to explain the source and purpose of the funds being deposited by June 2005.

b. The Foundation now requires all supporting documentation to accompany the deposit. The Foundation will delay crediting of funds to the depositor’s account until all required documents are submitted.

c. The Foundation has reviewed all its funds on deposit and none were found to belong to the state.
SPARTAN SHOPS, INC.

OPERATING AND ADMINISTRATIVE AGREEMENTS

COMMERCIAL AGREEMENTS

Certain agreements between Spartan Shops Inc. (Shops) and third parties were either incomplete or not executed in a timely manner.

We found that:

- Both the parking management agreement and the food service agreement for the international house were expired, while the box office agreement was operating in an extended hold-over clause.
- The indemnification provision in three agreements between the Shops and third parties did not specifically indemnify the State of California, the CSU Trustees, and the 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 executed in a timely manner.

EO 849, California State University Insurance Requirements, dated February 5, 2003, states that hold harmless provisions should be modeled after agreements available at the CSU contract resource library. The model auxiliary operating agreement 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, arriving out of, or in any way connected with the operations of the auxiliary.

The Shops executive director stated that failure to execute timely agreements and provide for complete indemnification clauses was due to oversight.

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

Recommendation 15

We recommend that Shops:

a. Ensure that agreements include appropriate indemnification clauses.

b. Execute written agreements in a timely manner.
Campus Response

We concur. Shops has implemented a practice to review new contracts for appropriate indemnification clauses. Shops has also implemented a practice to review contracts annually to ensure written agreements are in place in a timely manner as of May 2005.

SILICON VALLEY FOOTBALL CLASSIC, INC.

Financial activity between Shops and Silicon Valley Football Classic, Inc. (SVFC) was inappropriate, unsound, and poorly administered.

We found that:

- Shops inappropriately loaned $100,000 to the SVFC. This loan, although approved by the board of directors, is not within the scope of Shops operating agreement with San Jose State University (SJSU) and the Trustees.

- Shops inappropriately loaned a second $100,000 to SVFC without the approval of the board of directors.

- Upon notification of default, Shops still did not secure interest in SVFC’s accounts receivable as allowed by the loan agreement.

- Shops had not prepared monthly statements to the SVFC that included all loan amounts, allowable interest charges, and repayment amounts as required by the loan agreement.

- Shops had yet to receive payment for rental charges and other game expenses related to the SVFC 2002 event.

- Agreements for the SVFC 2003 event did not allow Shops to retain all excess revenue generated by the event to reduce the outstanding liability.

Title 5 §42501 states that a written agreement on behalf of the State of California by the Chancellor of the CSU and the auxiliary organization is required for the performance by such auxiliary organization of any of the functions listed in §42500.

Title 5 §42502 states that the operating agreement should specify the function or functions which the organization is to manage, operate, or administer.

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 current, written agreements.
The Shops executive director stated that each of the financial activities with the SVFC was executed at the request of SJSU senior administration.

Performing a financial activity that was inappropriate, unsound, and poorly administered increases the risk of loss of capital needed to meet the educational mission of the university.

**Recommendation 16**

We recommend that Shops, with the assistance of the campus, negotiate an agreement with the SVFC for the outstanding balance of loans and previously incurred stadium expenses. The agreement should provide a detailed payment methodology as well as a timeline of when payments or services should be received, and alternative action that will be taken if there is non-conformance with the agreement.

**Campus Response**

We concur. A repayment agreement has been negotiated and signed with SVFC with the assistance of the campus as of May 2005.

**OPERATIONAL COMPLIANCE**

Shops had not documented an analysis of the comparability of salaries, working conditions, and benefits for its full-time employees in relation to those provided to campus employees performing substantially similar services.

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 Shops executive director stated that this analysis had not been performed due to oversight. However, the human resource director had been charged with performing this analysis and anticipated completing the review within the next 12 months.

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

**Recommendation 17**

We recommend that Shops perform and document an analysis of the comparability of salaries, working conditions, and benefits for its full-time employees in relation to those provided to campus employees performing substantially similar services.
SEgregation of Duties

Shops did not appropriately segregate certain accounting functions over bookstore inventory.

We found that Shops employees who were responsible for the receipt of goods and materials sold at the campus bookstore also had the ability to create purchase orders.

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 8.9.5, Procurement, states that the auxiliary should establish a written system that provides purchase orders and service contracts are prepared separately from receiving and shipping, payables and disbursements, and that identifies unallowable transactions, such as with governing board members.

The Shops executive director stated that the receiving department required access to purchase orders in order to receive returned merchandise.

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

Recommendation 18

We recommend that Shops properly segregate accounting functions for bookstore inventory or institute mitigating controls approved by the campus CFO.

Campus Response

We concur. Shops is developing mitigating controls that will be acceptable to the campus CFO by July 2005.

FEES, REVENUES, AND RECEIVABLES

The Shops bookstore did not maintain current, written signature authorizations identifying campus individuals who may approve credit purchases.

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 current signature authorizations be maintained.

The Shops executive director stated that the lack of current signature authorizations was due to oversight.

Non-current signature authorization increases the risk of loss or misappropriation of funds.

**Recommendation 19**

We recommend that Shops maintain current, written signature authorizations identifying designated campus individuals who may approve credit purchases.

**Campus Response**

We concur. Shops has implemented the recommendation and has purged the open purchase order file of outdated records and is now current for the academic year as of May 2005.

**PERSONNEL AND PAYROLL**

Certain controls over Shops hiring and processing of payroll required improvement.

We found that:

- Payroll checks were first received by the same employee that submitted payroll data to ADP for processing.
- Verification of an employee’s current student status was not documented prior to excluding wages from Social Security and Medicare taxes.

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 payroll preparation is segregated from the general ledger functions such as hiring authorization, timekeeping, and distribution of checks. The compilation further 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 executive director stated that the lack of segregation of duties and student status verification was due to oversight.

The lack of segregation of duties and documentation verifying student status increases the risk of loss, errors, and misappropriation.


Recommendation 20

We recommend that Shops:

a. Properly segregate payroll functions or institute mitigating controls approved by the campus CFO.

b. Ensure the proper verification of student status during the hiring process.

Campus Response

We concur. Shops has developed procedures to segregate payroll functions and mitigating controls, and will obtain approval by the campus CFO. Shops has developed verification procedures for students during the hiring process by July 2005.

AUXILIARY PROGRAMS

The Shops oversight of the gold points program needed improvement.

We found that:

- The system manager had the ability to add debits to gold points accounts and was responsible for investigating any unreconciled transactions identified during a daily review of dining office transactions.

- System configuration allowed for the double spending of gold points funds.

- An independent verification of the revenue reconciliation performed by the system manager had not been conducted by the Shops finance and accounting division.

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 proper oversight of assets.

The Shops executive director stated that the lack of proper management of the gold points program was due to oversight and staff availability.

Inadequate oversight of the gold points program increases the risk of loss, errors, and misappropriation.
Recommendation 21

We recommend that Shops:

a. Properly segregate the accounting functions for the gold points program or institute mitigating controls approved by the campus CFO.

b. Enhance management controls of off-line, denied transactions to prevent the double spending of gold points funds.

c. Conduct independent verification of revenue reconciliations on a regular basis.

Campus Response

We concur. Shops is presently developing procedures to further strengthen controls surrounding the gold points program. These procedures should be in place by July 31, 2005.
ASSOCIATED STUDENTS SAN JOSÉ STATE UNIVERSITY

OPERATING AND ADMINISTRATIVE AGREEMENTS

AUXILIARY FUNCTIONS

The Associated Students San José State University (AS) performed a function not authorized by the operating agreement between AS and the campus, specifically, the operation of a print shop.

Title 5 §42500(a) indicates various functions that may be performed by an auxiliary organization. Title 5 §42500(e) indicates that an auxiliary organization shall not engage in a function not listed in subdivision (a) of this section unless an appropriate amendment is made to subdivision (a) by the Board of Trustees, adding said function to the list of approved functions of auxiliary organizations, or unless such function is essential to satisfy the corporation laws of the State of California.

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 17.1.1, Service Operations, states that service operations are generally defined as ongoing commercial-type operations, which are revenue producing, but are not themselves educational in nature. Examples are bookstores (student stores), food services, bike shops, duplicating services, and banking services.

The AS executive director stated his belief that operating a print shop would be an authorized function since the print shop was a service provided for the students and not considered a commercial operation.

Performing unauthorized functions increases the risk that the auxiliary will participate in transactions inconsistent with Title 5 and subjects the CSU to unwarranted liability.

Recommendation 22

We recommend that the AS amend its operating agreement to include the operation of a print shop.

Campus Response

We concur with the finding. We will submit by June 1, 2005, a revised operating agreement with the inclusion of the print shop.

AGREEMENTS

Certain written agreements among the AS, the campus, and Foundation were incomplete or not executed in a timely manner.
We found that:

- Two agreements between the AS and the campus did not include indemnification clauses.
- The indemnification provision in one agreement between the AS and the Foundation did not specifically indemnify the State of California, the CSU Trustees, and the campus.
- The operating agreement between the AS and the campus was not executed in a timely manner.
- Three agreements with campus departments and the Foundation were not executed in a timely manner.

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 executed in a timely manner.

EO 849, California State University Insurance Requirements, dated February 5, 2003, states that hold harmless provisions should be modeled after agreements available at the CSU contract resource library. The model auxiliary operating agreement 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, arriving out of, or in any way connected with the operations of the auxiliary.

The AS executive director stated that failure to provide for complete indemnification clauses and to execute the agreements in a timely manner was due to oversight.

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

**Recommendation 23**

We recommend that the AS:

a. Ensure that agreements include appropriate indemnification clauses.

b. Execute written agreements in a timely manner.

**Campus Response**

We concur with the finding. We will review all our agreements to ensure the inclusion of indemnification clauses by June 1, 2005.
CORPORATE GOVERNANCE

The AS Articles of Incorporation did not specify that the net assets of the dissolved auxiliary must be distributed to a successor approved by the campus president and the CSU Trustees.

Title 5 §42600(b) states that upon dissolution of the organization, net assets, other than trust funds, shall be distributed to a successor approved by the president of the campus and by the Board of Trustees.

The AS executive director stated that he was unaware that the dissolution clause was not in compliance with Title 5.

Failure to include a dissolution clause in accordance with Title 5 could result in net assets not being properly distributed in the event the corporation is dissolved.

**Recommendation 24**

We recommend that the AS redraft its corporate dissolution clause in accordance with Title 5 and appropriately reflect this change in its Articles of Incorporation.

**Campus Response**

We concur with the finding. We will redraft our corporate dissolution clause in accordance with Title 5 and submit it to the State of California to update our Articles of Incorporation by July 1, 2005.

SEGREGATION OF DUTIES

The AS did not properly segregate certain accounting functions over cash receipts and accounts receivable at the child development center.

We found that one employee:

- Prepared and mailed invoices.
- Created accounts receivables.
- Collected and posted cash receipts.
- Prepared the daily cash deposits.

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 8.9.4, *Receivables*, states that the auxiliary should establish a written system that ensures
billing, cash collection, customer inquiries, and subsidiary ledger reconciliations are conducted separately and with due regard for the receivable duties.

The AS executive director stated that the lack of segregation of duties was due to staffing constraints.

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

**Recommendation 25**

We recommend that the AS properly segregate certain accounting functions for cash receipts and accounts receivable at the child development center or institute mitigating procedures approved by the campus CFO.

**Campus Response**

We concur with the finding. AS will hire a new clerk to assist in the segregation of cash receipts and accounts receivable at the child development center by July 1, 2005.

**CASH RECEIPTS AND HANDLING**

Administration of AS cashiering duties and cash receipts processing was deficient.

We found that:

- Accountability was not localized at the AS general services center, the computer services center, and the print shop, as two or more persons had access to the same cash drawer.

- Pre-numbered cash receipts were not logged at the AS general services center.

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 proper oversight of cashiering duties and cash receipts processing.

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, with annual management review.

The AS executive director stated his belief that multiple persons had access to the same cash drawers because it was more practical to segregate the various revenue sources and helped facilitate the operation of each area. He also stated that the contents of the cash drawers were counted at the end of
the day to minimize business interruption. The AS finance and accounting manager stated that cash receipts were not logged due to oversight.

Inadequate oversight of cashiering duties and cash receipts processing increases the risk of loss or misappropriation of funds.

**Recommendation 26**

We recommend that the AS:

a. Ensure accountability is localized or otherwise controlled whenever two or more persons have access to the same cash drawer.

b. Ensure that cash receipts are logged daily.

**Campus Response**

We concur with the finding. We will submit for approval by the vice president of finance by July 1, 2005, a revised section of our cash control procedure to ensure accountability whenever two or more persons have access to the same cash drawer and to ensure daily logging of cash receipts.

**PETTY CASH AND CHANGE FUNDS**

AS petty cash and change funds administration was insufficient.

We found that:

- Petty cash and change funds policies and procedures were not adequately documented.
- Daily cash counts were not documented.
- Petty cash disbursements were not approved by an employee other than the petty cash custodian at the AS child development center.

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 administration of petty cash and change funds.

The AS executive director stated that administration of petty cash and change funds was inadequate due to oversight.

Inadequate administration of petty cash and change funds increases the risk of a loss or misappropriation of funds.
Recommendation 27

We recommend that the AS:

a. Adequately document policies and procedures over petty cash and change funds.

b. Document daily cash counts.

c. Take appropriate measures to ensure that petty cash disbursements are verified by someone other than the petty cash custodian at the AS child development center.

Campus Response

We concur with the finding. We will revise our current cash control procedure over petty cash and change fund and document daily cash counts. Also, AS will hire a new clerk to ensure appropriate disbursements verification by other than the petty cash custodian at the child development center by July 1, 2005.

FEES, REVENUES, AND RECEIVABLES

UNRELATED BUSINESS INCOME

AS revenues were erroneously reported as unrelated business income (UBI), rather than exempt function income, on Internal Revenue Service (IRS) Form 990 in fiscal year 2001/02.

Internal Revenue Code §512 through §514 define an unrelated trade or business of an exempt organization as any trade of business, the conduct of which is not substantially related to the exercise or performance of its tax-exempt purpose. UBI in excess of $1,000 must be reported to the IRS, whether or not a tax liability is incurred. The organization’s tax-exempt status may be jeopardized if too large a proportion of its revenue is derived from UBI.

The AS finance and accounting manager stated that revenues were erroneously reported as UBI due to oversight.

Failure to properly document and report UBI increases the auxiliary’s exposure to potential penalties and actions by the IRS.

Recommendation 28

We recommend that the AS amend its IRS Form 990 to accurately reflect its revenues.

Campus Response

We concur with the finding. On January 28, 2005, the AS submitted an amended IRS Form 990 to accurately reflect our revenue.
REVENUE RECONCILIATION

Revenues received by the AS child development center and campus recreation were not reconciled to enrollment records.

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 requires reconciliation between revenue collections and enrollment.

The AS executive director stated that the reconciliation was not performed due to oversight.

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

**Recommendation 29**

We recommend that the AS ensure that revenues received by the child development center and campus recreation are reconciled to enrollment records on a regular and timely basis.

**Campus Response**

We concur with the finding. AS will hire a new clerk to ensure that appropriate revenue reconciliation to enrollment records is performed in a timely manner at the child development center. Also, campus recreation will implement a new procedure for the reconciliation of enrollment records on a regular and timely manner by July 1, 2005.

PURCHASING AND ACCOUNTS PAYABLE

Certain AS cash disbursements were not supported by sufficient and appropriate documentation.

Our review of 30 cash disbursements disclosed the following:

**Process Controls**

- In two instances, the same individual requested a purchase order, ordered the goods via the Internet, and signed for the receipt of goods. In one of these two instances, the individual paid for the goods with a personal credit card and was reimbursed.

**Processing Exceptions**

- In two instances, facsimile invoices were accepted for payment without certification that records were verified to prevent duplicate payment.
In one instance, the purchase order description was vague.

In one instance, a payment was processed to a credit card company without evidence that an expense was incurred on the credit card.

In one instance, a travel expense claim was processed based upon only a credit card statement; actual receipts and invoices were not submitted.

In one instance, a contractual service agreement between the AS and an independent contractor did not include an indemnification clause, referred to the contractor as an employee, and was not executed in a timely manner.

In one instance, travel expenses were not processed in accordance with the AS travel policy.

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 all cash disbursements be fully supported.

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 finance and accounting manager stated that the former disbursements policy did not adequately address controls over purchase orders; however, the current policy had been updated to address this issue. Additionally, he stated that the lack of sufficient documentation was due to oversight.

Insufficient supporting documentation increases the risk of errors, irregularities, and misappropriation of funds.

**Recommendation 30**

We recommend that the AS:

- Develop procedures to ensure the proper control over the procurement process.
- Reiterate to staff existing cash disbursement policies and procedures regarding sufficient and appropriate supporting documentation.
Campus Response

We concur with the finding. We will develop a new procedure to ensure the proper control over the procurement process by July 1, 2005. We have reiterated to staff the existing cash disbursement policies and procedures regarding sufficient and appropriate supporting documentation.

PERSONNEL AND PAYROLL

AS administration and processing of payroll were insufficient.

We found that:

- The AS accounting technician was responsible for processing payroll and had the capability to add new employees and to change employee pay rates.
- Management review of student employee time reports was not documented prior to processing payroll.
- A payroll check log was not maintained.

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 AS finance and accounting manager stated that the lack of documentation evidencing management review of payroll reports and the absence of a payroll log were due to oversight.

Inadequate segregation of duties and lack of proper payroll review and documentation increase the risk of loss, errors, and misappropriation.

Recommendation 31

We recommend that the AS develop and implement procedures to ensure that:

a. Payroll duties are properly segregated.
b. Management review of employee time reports is properly documented before payroll processing.
c. A payroll check log is maintained.

Campus Response

We concur with the finding. In June 2005, the AS accomplished these recommendations by segregating the payroll duties, as well as documenting management review of employee timecards before payroll processing, and maintaining a payroll check log.
PROPERTY AND EQUIPMENT

Administration of laptop rental inventory at the AS computer services center was deficient.

We found that:

- A complete daily inventory of laptops was not performed.
- Semiannual physical inventory counts of the laptops were not documented.
- Documented oversight of periodic inventories by computer lab management was not on file.

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 proper administration of mobile sensitive 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 physical inspection of property and equipment on a service life schedule.

The AS information technology manager stated that although controls had been implemented over laptop inventory, improvement by management was still in progress.

Inadequate administration of fixed assets increases the risk that property may be lost or stolen and that accounting and property records could be misstated.

Recommendation 32

We recommend that the AS:

a. Perform a complete inventory of laptops on a daily basis.

b. Document semiannual physical inventory counts of laptops.

c. Document management oversight of periodic inventories.

Campus Response

We concur with the finding. Our organization will improve its laptop inventory procedures, so it can be performed appropriately on a daily basis, as well as documenting semiannual inventory counts of our laptop pool, and management oversight of periodic inventory reviews by August 1, 2005.
TRUST FUNDS AND OTHER LIABILITIES

Certain AS cash disbursements for campus organizations were not supported with sufficient documentation.

Our review of 21 disbursements disclosed the following:

Process Controls

- In two instances, travel expense claims were processed for the reimbursement of rental vehicle expenses without sufficient documentation, such as a completed travel approval form, a list of travelers, business purpose, or evidence of vehicle insurance.

Processing Exceptions

- In two instances, purchase orders were not completed and submitted as required by the AS policy.
- In two instances, receipts were not submitted for travel expenses.

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 all cash disbursements be fully supported.

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 finance and accounting manager stated that all check requests from campus student organizations were processed for payment, as they were signed by the authorized account signer or the faculty advisor. Additionally, the AS executive director stated his belief that the AS did not have fiduciary duty over student organizations and their activities.

Insufficient supporting documentation increases the risk of errors, irregularities, and misappropriation of funds.

Recommendation 33

We recommend that the AS:

a. Establish procedures to ensure travel expense claims include adequate supporting documentation.

b. Reiterate to staff existing cash disbursement policies and procedures regarding sufficient supporting documentation.
Campus Response

We concur with the finding. We will create a procedure in conjunction with the university student life and leadership to ensure the development of an appropriate travel expense claim form for student organizations to submit as adequate supporting documentation by August 1, 2005. We have reiterated to staff the existing cash disbursement policies and procedures regarding sufficient supporting documentation.

INFORMATION TECHNOLOGY

Full access to the accounts payable and general ledger modules of the AS accounting system was granted to three employees who did not require such access to perform their job duties.

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 AS finance and accounting manager stated his belief that the accounting system user profile was appropriately configured considering the limited size of the organization.

The lack of appropriate system access controls increases the risk of unauthorized and inappropriate acts.

Recommendation 34

We recommend that the AS limit access to the accounting system to only those individuals requiring such access to perform assigned job duties.

Campus Response

We concur with the finding. AS will upgrade its accounting system to limit access to only those individuals who required access to perform assigned job duties by September 1, 2005.
THE STUDENT UNION OF SAN JOSÉ STATE UNIVERSITY

CORPORATE GOVERNANCE

DISSOLUTION OF AUXILIARY

The dissolution clause in The Student Union of San José State University (Union) Articles of Incorporation was not in compliance with Title 5.

We found that the Union Articles of Incorporation included an additional clause allowing the board of directors to select a successor to be approved by the president of the campus and the Board of Trustees.

Title 5 §42600(b) states that upon dissolution of the organization, net assets, other than trust funds, shall be distributed to a successor approved by the president of the campus and by the Board of Trustees.

The Union executive director stated that prior to the audit, she was unaware the Articles of Incorporation were not in compliance with Title 5.

Failure to include an appropriate dissolution clause in accordance with Title 5 could result in net assets not being properly distributed in the event the corporation is dissolved.

Recommendation 35

We recommend that the Union redraft its corporate dissolution clause in accordance with Title 5 and file with the Secretary of State.

Campus Response

We concur. We have redrafted our corporate dissolution clause, and it has been approved by our board of directors. We will file with the Secretary of State by September 30, 2005.

BOARD MINUTES

The Union board minutes were not signed and approved by an appropriate official.

Corporations Code §5215 states that the original or a copy of the bylaws or of the minutes of any incorporators’, members’, directors’, committee or other meeting or of any resolution adopted by the board or a committee thereof, or members, certified to be a true copy by a person purporting to be the secretary or an assistant secretary of the corporation, is prima facie evidence of the adoption of such bylaws or resolution or of the due holding of such meeting and of the matters stated therein.

The Union administrative services manager stated that she was unaware that a board member was required to certify the board minutes.
Failure to maintain signed board minutes increases the risk of misunderstandings and may increase legal liability.

**Recommendation 36**

We recommend that the Union take appropriate measures to ensure that its board minutes are signed and approved by an appropriate official.

**Campus Response**

We concur. The secretary of the board now signs all board-approved minutes.

**ELECTION OF OFFICERS**

The Union bylaws did not reflect current practice with regard to tenure of elected officials.

Although the bylaws stated the number of terms a staff or student director may be elected, tenure for a community member director was not specified.

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 bylaws be current regarding the tenure of elected officials.

The Union administrative services manager stated that the community member director can serve more than one term and has, in fact, been reelected to the board for more than one term.

Failure to maintain current bylaws increases the risk of misunderstandings regarding rights and responsibilities.

**Recommendation 37**

We recommend that the Union revise its bylaws to specify tenure for all elected officials.

**Campus Response**

We concur. Our bylaws have been revised and approved by our board of directors at the October 26, 2004, board meeting. Filing of bylaw changes will be done with our year-end audit.
FISCAL COMPLIANCE

The Union did not appropriately monitor their reserve levels.

We found that the Union’s building repair project may reduce its financial reserve below levels described within Union policies. An increase in student fees was anticipated to cover the repair costs; however, actual costs were currently unknown.

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 includes maintaining adequate reserve levels.

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 8.9.9, Reserves and Assets, states that the auxiliary should implement financial standards that will assure fiscal viability, including proper provision for professional management, adequate working capital, adequate reserve funds for current operations and capital replacements, and adequate provisions for new business requirements.

The Union executive director stated that due to a delay in construction, the liability was deferred to a period when the anticipated student fee increase should cover the cost of the repair project and to avoid reserves falling below minimum levels.

Insufficient reserve planning and analysis increase the auxiliary’s risk to fund future needs.

Recommendation 38

We recommend that Union management continue to monitor building repair costs and reserve levels and to update the campus of any significant changes.

Campus Response

We concur. Building repair costs and reserve levels are being closely monitored and the campus is being updated with any significant changes.

CASH RECEIPTS AND HANDLING

Administration of Union cashing duties and cash receipts processing were deficient.

We noted that:

- Accountability was not consistently localized at the aquatic center and sports club, as two or more persons had access to the same cash drawers.
Combinations to the safe were not changed periodically.

Cash receipts were not deposited daily.

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 proper oversight of cashiering duties and cash receipts processing.

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, with annual management review.

The Union recreation center director stated that the cost to implement user accountability would outweigh the benefits due to the frequency of shift changes during the day. She further stated that the combination to the safe was changed only when an employee separated with ill will and that daily deposits were not performed due to oversight.

Inadequate oversight of cashiering duties and cash receipts processing increases the risk of a loss or misappropriation of funds.

**Recommendation 39**

We recommend that the Union:

a. Ensure accountability is localized or otherwise controlled whenever two or more persons have access to the same cash drawers.

b. Ensure safe combinations are changed periodically.

c. Ensure that cash receipts are deposited daily.

**Campus Response**

We concur.

a. Procedures are being developed and should be completed by December 31, 2005.

b. Safe combinations were changed on May 25, 2005, and are being changed periodically as recommended.

c. Cash receipts are being deposited daily, per our new policy implemented in June 2005, by the assistant to the recreation manager.
SEGREGATION OF DUTIES

A Union accounts receivable employee prepared cash deposits and reconciled to the daily cash receipts log.

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 8.9.4, Receivables, states that the auxiliary should establish a written system that ensures billing, cash collection, customer inquiries, and subsidiary ledger reconciliations are conducted separately and with due regard for the receivable duties.

The Union accounting manager stated that the lack of proper segregation of duties was due to oversight.

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

Recommendation 40

We recommend that the Union properly segregate certain accounting functions over cash receipts or institute mitigating controls approved by the campus CFO.

Campus Response

We concur. As of June 30, 2005, procedures were developed and implemented.

PERSONNEL AND PAYROLL

Union administration of personnel and payroll activities was inadequate.

We noted that:

- Contracts with intermittent employees were not signed timely.
- Timesheets were not always signed by intermittent employees.
- Certain employee performance evaluations were not completed.
- Employee performance evaluations were not forwarded to the personnel department.
- The review and verification of new employees and pay rate changes processed by the human resources (HR)/payroll department were not sufficiently documented.

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 proper administration of personnel and payroll activities.

The Union HR specialist stated that certain employees were not always available to sign timesheets or contracts due to their intermittent status. The Union administrative services manager stated that the failure to document the review and verification of new employees and pay rate changes was due to oversight.

Inadequate administration of personnel and payroll activities increases the risk of loss, errors, and misappropriation.

**Recommendation 41**

We recommend that the Union:

a. Ensure timesheets and contracts are signed in a timely manner.

b. Ensure employee performance evaluations are completed and forwarded to the personnel department.

c. Document the review and verification of new employees and pay rate changes.

**Campus Response**

We concur. As of June 30, 2005, the following changes were made:

a. Timesheets and contracts are signed in a timely manner.

b. Evaluations are forwarded to HR.

c. The administrative services manager now reviews and signs off all original documents on transactions for new employees and all pay rate changes.

**INFORMATION TECHNOLOGY**

The Union administrative services manager, who can approve most accounting transactions, had inappropriate access to all modules of the accounting 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 Union executive director stated that the administrative services manager’s user access profile was set up to allow her to assign, edit, or delete department personnel’s user access within the accounting system.

The lack of appropriate system access controls increases the risk of unauthorized and inappropriate acts.

**Recommendation 42**

We recommend that the Union limit access to the accounting system to only those individuals requiring such access to perform assigned job duties.

**Campus Response**

We concur. As of June 30, 2005, access to accounting systems is now limited to only individuals requiring such access to perform assigned job duties.
### APPENDIX A:
### PERSONNEL CONTACTED

<table>
<thead>
<tr>
<th>Name</th>
<th>Title</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>CAMPUS</strong></td>
<td></td>
</tr>
<tr>
<td>Don W. Kassing</td>
<td>President</td>
</tr>
<tr>
<td>Colleen Brown</td>
<td>Senior Director, Financial Aid and Scholarship Office</td>
</tr>
<tr>
<td>Jenny Escoto</td>
<td>Accountant, University Housing Services</td>
</tr>
<tr>
<td>Connie Hernandez Robbins</td>
<td>Associate Director, Resident Life and Conference Services, University Housing Services</td>
</tr>
<tr>
<td>Benito Lakandula</td>
<td>Administrative Support Coordinator, Student Life and Leadership</td>
</tr>
<tr>
<td>Rose Lee</td>
<td>Interim Vice President, Administration and Finance</td>
</tr>
<tr>
<td>Alexis Montevirgen</td>
<td>Coordinator, Student Organization Development and Special Programs, Student Life and Leadership</td>
</tr>
<tr>
<td>Ninh Pham-Hi</td>
<td>Director, Internal Control, Administration and Finance</td>
</tr>
<tr>
<td>Sheri Tomisaka-Wong</td>
<td>Data Technician, Institutional Planning and Academic Resources</td>
</tr>
<tr>
<td><strong>SAN JOSÉ STATE UNIVERSITY FOUNDATION</strong></td>
<td></td>
</tr>
<tr>
<td>Sara Aujla</td>
<td>Fixed Assets Accountant</td>
</tr>
<tr>
<td>Jerri Carmo</td>
<td>Director, Office of Sponsored Programs</td>
</tr>
<tr>
<td>Paul Harris</td>
<td>Director, Financing and Accounting</td>
</tr>
<tr>
<td>Kam Lam</td>
<td>Controller</td>
</tr>
<tr>
<td>Suzanne Murphy</td>
<td>Director, Enterprise and Endowment Services</td>
</tr>
<tr>
<td>Brenda Rogers</td>
<td>Director, Human Resources</td>
</tr>
<tr>
<td>Norma Rossiter</td>
<td>Associate Director, Business Services</td>
</tr>
<tr>
<td>Mary Sidney</td>
<td>Executive Director</td>
</tr>
<tr>
<td>Jason Smith</td>
<td>Accounting Clerk</td>
</tr>
<tr>
<td>Brenda Rogers</td>
<td>Director, Human Resources</td>
</tr>
<tr>
<td>Mary Sidney</td>
<td>Executive Director</td>
</tr>
<tr>
<td>Brenda Rogers</td>
<td>Director, Human Resources</td>
</tr>
<tr>
<td>Jason Smith</td>
<td>Accounting Clerk</td>
</tr>
<tr>
<td>Daisy Wan</td>
<td>Senior Accountant</td>
</tr>
<tr>
<td><strong>SPARTANS SHOP, INC.</strong></td>
<td></td>
</tr>
<tr>
<td>Scott Cofer</td>
<td>Warehouse Manager</td>
</tr>
<tr>
<td>Michele Gendreau</td>
<td>Director, Dining</td>
</tr>
<tr>
<td>Guadalupe Lechuga</td>
<td>Director, Human Resources</td>
</tr>
<tr>
<td>Kim McKee</td>
<td>Operations Manager, Bookstore</td>
</tr>
<tr>
<td>Jerry Mimnaugh</td>
<td>Executive Director</td>
</tr>
<tr>
<td>Brian Mitchler</td>
<td>Systems Manager, Dining</td>
</tr>
<tr>
<td>Anne Palmer</td>
<td>General Manager, Spartan Stadium</td>
</tr>
<tr>
<td>Anthony Sanjume</td>
<td>Associate Director, Bookstore</td>
</tr>
<tr>
<td>Joan Shih</td>
<td>Director, Finance and Accounting</td>
</tr>
<tr>
<td>Jen Skebba</td>
<td>Gift and Clothing Department Manager, Bookstore</td>
</tr>
<tr>
<td>Court Warren</td>
<td>Director, Bookstore</td>
</tr>
</tbody>
</table>
APPENDIX A: PERSONNEL CONTACTED

ASSOCIATED STUDENTS SAN JOSÉ STATE UNIVERSITY
Shawn Chan  Finance and Accounting Manager
Alfonso De Alba  Executive Director
Rachel Greathouse  President
Paul Lee  Print Shop Manager
Kevin Lowe  Print Shop Supervisor
Maziar Moezzi  Operations Coordinator, Computer Services Center
Maria Murphy  Executive Administrative Assistant, AS Government Office
Helen Nguyen  Accountant
Vivian Vy Nguyen  Cashier
Frances Roth  Director, Child Development Center
Jason Stovall  Information Technology Manager
Nancy Tepperman  Administrative Assistant, Child Development Center
Trinh Thai  Accountant

THE STUDENT UNION OF SAN JOSÉ STATE UNIVERSITY
Cathy Busalacchi  Executive Director
Sharon Deaver  Bowling Center Director
Diane Do  Accounts Payable Clerk
Todd Fouyer  Technical Services Manager
Rebecca Harper  Aquatic Center Manager
Kristin Kelly  Administrative Services Manager
Mary Lewis  Human Resources Specialist
Caryn Murray  Director, Recreation Center
Dat Nguyen  Accounting Manager
Mike Powell  Box Office Director
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.
May 11, 2005

Mr. Larry Mandel
University Auditor
The California State University
401 Golden Shore, 4th Floor
Long Beach, CA 90802

Campus Response to Auxiliary Organizations Audit 04-50
at San José State University

Enclosed is San José State University’s response to the Auxiliary Organizations Audit. The campus is committed to addressing the issues identified in this audit report.

Please let me know if I can provide you with additional information.

ROSE L. LEE
Interim Vice President for Administration and Finance

Enclosure

c: Ninh Pham-Hi, Director, Internal Control
OPERATING AND ADMINISTRATIVE AGREEMENTS

Recommendation 1

We recommend that:

a. The campus review and, if acceptable, approve the facility lease agreement between Shops and the AS for the AS print shop.

b. Appropriate campus approval is obtained for all future leases requiring such approval prior to their implementation.

Campus Response

We concur. We will review and, if acceptable, approve the facility lease agreement between Shops and the AS for the AS print shop. By August 31, 2005, all future leases requiring such approval will undergo proper approval process before implementation.

CAMPUS OVERSIGHT AND CONTROL OF STUDENT FEES

Recommendation 2

We recommend that the campus, in coordination with the AS, take appropriate measures to ensure sufficient administration of student body organization fees.

Campus Response

We concur. We will take appropriate measures with AS to ensure sufficient administration of student body organization fees by July 31, 2005.

TRUST ACCOUNTS

Recommendation 3

We recommend that the campus maintain all such revenue in state trust accounts and that all state revenues currently residing in AS accounts be immediately transferred to the state.

Campus Response

We concur. We will maintain all such revenue in state trust accounts and that all revenues that are determined as belonging to the State and that currently reside in AS accounts will be transferred to the State by July 2005 and systemic solution implementation by September 2005.
AGREEMENTS

ADMINISTRATIVE AGREEMENTS

Recommendation 4

We recommend that the Foundation execute fiscal sponsorship agreements specifying administrative and fiscal support provided to various community-based business development enterprises.

Campus Response

We concur. During the audit, the contracts were re-negotiated and approved by legal counsel. The contracts were all signed by the end of October 2004.

OPERATING AGREEMENT

Recommendation 5

We recommend that the Foundation execute its revised operating agreement with the campus.

Campus Response

We concur. The agreement has been revised and is now with the University President’s Office for review and signature.

CORPORATE GOVERNANCE

Recommendation 6

We recommend that the Foundation redraft its corporate dissolution clause in accordance with Title 5 and appropriately reflect this change in its Articles of Incorporation.

Campus Response

We concur. The Articles of Incorporation will be changed to appropriately reflect the dissolution clause in accordance with Title 5 and will be submitted for board approval at the June 2005 meeting.

FISCAL COMPLIANCE

Recommendation 7

We recommend that the Foundation ensure that adequate post-retirement benefits reserves are maintained.

Campus Response

We concur. The Foundation passed resolution #129 in 1996 to fund post-retirement liabilities in 20 years. The Foundation continues to partially fund the liabilities, and is also planning benefit
program amendments that will further reduce post-retirement liabilities so that adequate reserves are maintained. A copy of the amendments will be submitted by July 10, 2005.

OPERATIONAL COMPLIANCE

Recommendation 8

We recommend that the Foundation document its conflict-of-interest policies and procedures and ensure that annual conflict-of-interest statements are obtained from all board and management personnel.

Campus Response

We concur. The Foundation will document its conflict-of-interest policies and procedures and ensure that annual conflict-of-interest statements are obtained from all board and management personnel by September 2005 Foundation board meeting.

SEGREGATION OF DUTIES

Recommendation 9

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

Campus Response

We concur. The Foundation revised procedures and reassigned responsibilities for the employee having inadequate segregation. Of the five accounts payable functions previously performed by this employee, two have been removed (preparing check requests, and access to the vendor master file) as of April 2005. Furthermore, the first function has been significantly reduced by reassigning the approval of contracts and requisitions to another employee. Management believes there is adequate segregation of duties after these changes.

PURCHASING AND ACCOUNTS PAYABLE

SUPPORTING DOCUMENTATION

Recommendation 10

We recommend that the Foundation:

- Establish a procedure to ensure that original vendor invoices are marked paid or otherwise defaced after payment.

b. Establish procedures to ensure that a vendor, who is also a campus employee, may not act as an accountholder/authorized signer.

c. Ensure that signature specimens are on file for all authorized signers.
d. Reiterate to staff and accountholders existing cash disbursement policies and procedures regarding sufficient and appropriate supporting documentation and appropriate authorization.

**Campus Response**

We concur with all four recommendations.

a. The Foundation has been using a perforation machine to deface paid invoices and documents since August 2004.

b. The Foundation is working with the department chair to replace the account signer in question with a different person from that department. We anticipate a replacement will be identified and in place by June 2005.

c. The Foundation, as of April 2005, has a redundant system to keep two signature specimens in permanent files on site. One signature specimen is kept in a permanent binder under the control of records management personnel and a second signature specimen is kept in the working account file.

d. The Foundation will strengthen the review and approve of supporting documents for cash disbursements by August 30, 2005.

**INDEPENDENT CONTRACTORS**

**Recommendation 11**

We recommend that the Foundation:

a. Execute written agreements in a timely manner.

b. Ensure that all agreements include the appropriate indemnification/hold harmless clause.

**Campus Response**

We concur with both recommendations.

a. The Foundation, beginning in July 2005, will more effectively inform and educate the campus community through specific and more frequent communication and training, and therefore better ensuring that contracts are established before the performance of work.

b. The Foundation will change all agreements to include the appropriate indemnification/hold harmless clause by July 31, 2005.

**VENDOR MASTER FILE**

**Recommendation 12**

We recommend that the Foundation ensure the proper administration of the vendor master file.

**Campus Response**

We concur. In June 2005, the Foundation has created a new report and added a new procedure to query the system in real-time for existence of any specific social security number (SSN) or taxpayer
identification number (TIN). This step is mandatory before any new vendor is created or SSN/TIN is modified. It prevents duplicated SSN or TIN.

PROPERTY AND EQUIPMENT

Recommendation 13

We recommend that the Foundation ensure that fixed assets are tagged in a timely manner.

Campus Response

We concur. The Foundation recently hired a new Fixed Asset accountant, and asset tagging is now current.

PROGRAM ACCOUNTS

Recommendation 14

We recommend that the Foundation:

a. Establish procedures to identify sources of campus program revenues.

b. Coordinate with the campus to ensure that appropriate supporting documentation accompanies funds deposited to campus program accounts.

c. Review all campus program accounts and return to the university any state funds currently being held.

Campus Response

We concur with all three recommendations.

a. The Foundation is modifying its cash deposit transmittals to require the depositor to explain the source and purpose of the funds being deposited by June 2005.

b. The Foundation now requires all supporting documentation to accompany the deposit. The Foundation will delay crediting of funds to the depositor's account until all required documents are submitted.

The Foundation has reviewed all its funds on deposit and none were found to belong to the state.
SPARTAN SHOPS, INC.

OPERATING AND ADMINISTRATIVE AGREEMENTS

COMMERCIAL AGREEMENTS

Recommendation 15

We recommend that Shops:

a. Ensure that agreements include appropriate indemnification clauses.
b. Execute written agreements in a timely manner.

Campus Response

We concur. Shops has implemented a practice to review new contracts for appropriate indemnification clauses. Shops has also implemented a practice to review contracts annually to insure written agreements are in place in a timely manner by May 2005.

SILICON VALLEY FOOTBALL CLASSIC, INC.

Recommendation 16

We recommend that Shops, with the assistance of the campus, negotiate an agreement with the SVFC for the outstanding balance of loans and previously incurred stadium expenses. The agreement should provide a detailed payment methodology as well as a timeline of when payments or services should be received, and alternative action that will be taken if there is non-conformance with the agreement.

Campus Response

We concur. A repayment agreement has been negotiated and signed with SVFC with the assistance of the campus by May 2005.

OPERATIONAL COMPLIANCE

Recommendation 17

We recommend that Shops perform and document an analysis of the comparability of salaries, working conditions, and benefits for its full-time employees in relation to those provided to campus employees performing substantially similar services.

Campus Response

We concur. Shops is presently conducting a salary survey encompassing the campus, other institutions, and the local market by July 2005.
SEGREGATION OF DUTIES

Recommendation 18

We recommend that Shops properly segregate accounting functions for bookstore inventory or institute mitigating controls approved by the campus CFO.

Campus Response

We concur. Shops is developing mitigating controls that will be acceptable to the campus CFO by July 2005.

FEES, REVENUES, AND RECEIVABLES

Recommendation 19

We recommend that Shops maintain current, written signature authorizations identifying designated campus individuals who may approve credit purchases.

Campus Response

We concur. Shops has implemented the recommendation and has purged the open P.O. file of outdated records and is now current for the academic year by May 2005.

PERSONNEL AND PAYROLL

Recommendation 20

We recommend that Shops:

a. Properly segregate payroll functions or institute mitigating controls approved by the campus CFO.

b. Ensure the proper verification of student status during the hiring process.

Campus Response

We concur. Shops has developed procedures to segregate payroll functions and mitigating controls, and will obtain approval by the campus CFO. Shops has developed verification procedures for students during the hiring process by July 2005.

AUXILIARY PROGRAMS

Recommendation 21

We recommend that Shops:

a. Properly segregate the accounting functions for the gold points program or institute mitigating controls approved by the campus CFO.
b. Enhance management controls of off-line, denied transactions to prevent the double spending of gold points funds.

c. Conduct independent verification of revenue reconciliations on a regular basis.

Campus Response

We concur. Shops is presently developing procedures to further strengthen controls surrounding the gold points program. These procedures should be in place by July 31, 2005.
ASSOCIATED STUDENTS SAN JOSÉ STATE UNIVERSITY

OPERATING AND ADMINISTRATIVE AGREEMENTS

AUXILIARY FUNCTIONS

Recommendation 22

We recommend that the AS amend its operating agreement to include the operation of a print shop.

Campus Response

We concur with the finding; we will submit by June 1, 2005 a revised operating agreement with the inclusion of the Print Shop.

AGREEMENTS

Recommendation 23

We recommend that the AS:

a. Ensure that agreements include appropriate indemnification clauses.
b. Execute written agreements in a timely manner.

Campus Response

We concur with the finding; we will review all our agreements to insure the inclusion of indemnification clauses by June 1, 2005.

CORPORATE GOVERNANCE

Recommendation 24

We recommend that the AS redraft its corporate dissolution clause in accordance with Title 5 and appropriately reflect this change in its Articles of Incorporation.

Campus Response

We concur with the finding; we will redraft our corporate dissolution clause in accordance with Title 5 and submit it to the State of California to update our Articles of Incorporation by July 1, 2005.

SEGREGATION OF DUTIES

Recommendation 25

We recommend that the AS properly segregate certain accounting functions for cash receipts and accounts receivable at the child development center or institute mitigating procedures approved by the campus CFO.
Campus Response

We concur with the finding; Associated Students will hire a new clerk to assist in the segregation of cash receipts and accounts receivable at the Child Development Center by July 1, 2005.

CASH RECEIPTS AND HANDLING

Recommendation 26

We recommend that the AS:

a. Ensure accountability is localized or otherwise controlled whenever two or more persons have access to the same cash drawer.

b. Ensure that cash receipts are logged daily.

Campus Response

We concur with the finding; we will submit for approval by the vice president of finance by July 1, 2005 a revised section of (a) our cash control procedure to insure accountability whenever two or more persons have access to the same cash drawer and (b) to ensure daily logging of cash receipts.

PETTY CASH AND CHANGE FUNDS

Recommendation 27

We recommend that the AS:

a. Adequately document policies and procedures over petty cash and change funds.

b. Document daily cash counts.

c. Take appropriate measures to ensure that petty cash disbursements are verified by someone other than the petty cash custodian at the AS child development center.

Campus Response

We concur with the finding; we will revise (a) our current cash control procedure over petty cash and change fund and (b) document daily cash counts. Also Associated Students will hire a new clerk to ensure appropriate disbursements verification by other than the petty cash custodian at the Child Development Center by July 1, 2005.

FEES, REVENUES, AND RECEIVABLES

UNRELATED BUSINESS INCOME

Recommendation 28

We recommend that the AS amend its IRS Form 990 to accurately reflect its revenues.
Campus Response

We concur with the finding; on January 28, 2005, the Associated Students submitted an amended IRS Form 990 to accurately reflect our revenue.

REVENUE RECONCILIATION

Recommendation 29

We recommend that the AS ensure that revenues received by the child development center and campus recreation are reconciled to enrollment records on a regular and timely basis.

Campus Response

We concur with the finding; Associated Students will hire a new clerk to ensure that appropriate revenue reconciliation to enrollment records is performed in a timely manner at the Child Development Center. Also Campus Recreation will implement a new procedure for the reconciliation of enrollment records on a regular and timely manner by July 1, 2005.

PURCHASING AND ACCOUNTS PAYABLE

Recommendation 30

We recommend that the AS:

a. Develop procedures to ensure the proper control over the procurement process.

b. Reiterate to staff existing cash disbursement policies and procedures regarding sufficient and appropriate supporting documentation.

Campus Response

We concur with the finding; we will (a) develop a new procedure to ensure the proper control over the procurement process by July 1, 2005. We have (b) reiterated to staff the existing cash disbursement policies and procedures regarding sufficient and appropriate supporting documentation.

PERSONNEL AND PAYROLL

Recommendation 31

We recommend that the AS develop and implement procedures to ensure that:

a. Payroll duties are properly segregated.

b. Management review of employee time reports is properly documented before payroll processing.

c. A payroll check log is maintained.

Campus Response

We concur with the finding; In June 2005, the Associated Students accomplished these recommendations by (a) segregating the payroll duties as well as (b) documenting management review of employee timecards before payroll processing and (c) maintaining a payroll check log.
PROPERTY AND EQUIPMENT

Recommendation 32

We recommend that the AS:

a. Perform a complete inventory of laptops on a daily basis.
b. Document semiannual physical inventory counts of laptops.
c. Document management oversight of periodic inventories.

Campus Response

We concur with the finding; our organization will (a) improve its laptop inventory procedures, so it can be performed appropriately on a daily basis as well as (b) documenting semiannual inventory counts of our laptop pool and (c) management oversight of periodic inventory reviews by August 1, 2005.

TRUST FUNDS AND OTHER LIABILITIES

Recommendation 33

We recommend that the AS:

a. Establish procedures to ensure travel expense claims include adequate supporting documentation.
b. Reiterate to staff existing cash disbursement policies and procedures regarding sufficient supporting documentation.

Campus Response

We concur with the finding; we will create (a) a procedure in conjunction with the University Student Life and Leadership to ensure the development of an appropriate travel expense claim form for student organizations to submit as adequate supporting documentation by August 1, 2005. We have (b) reiterated to staff the existing cash disbursement policies and procedures regarding sufficient supporting documentation.

INFORMATION TECHNOLOGY

Recommendation 34

We recommend that the AS limit access to the accounting system to only those individuals requiring such access to perform assigned job duties.

Campus Response

We concur with the finding; Associated Students will upgrade its accounting system to limit access to only those individuals who required access to perform assigned job duties by September 1, 2005.
THE STUDENT UNION OF SAN JOSÉ STATE UNIVERSITY

CORPORATE GOVERNANCE

DISSOLUTION OF AUXILIARY

Recommendation 35

We recommend that the Union redraft its corporate dissolution clause in accordance with Title 5 and file with the Secretary of State.

Campus Response

We concur. We have redrafted our corporate dissolution clause and it has been approved by our Board of Directors. We will file with the Secretary of State by September 30, 2005.

BOARD MINUTES

Recommendation 36

We recommend that the Union take appropriate measures to ensure that its board minutes are signed and approved by an appropriate official.

Campus Response

We concur. Cathy Busalacchi, Secretary of the Board, now signs all Board approved minutes.

ELECTION OF OFFICERS

Recommendation 37

We recommend that the Union revise its bylaws to specify tenure for all elected officials.

Campus Response

We concur. Our bylaws have been revised and approved by our Board of Directors at the October 26, 2004, board meeting. Filing of bylaw changes will be done with our year-end audit.

FISCAL COMPLIANCE

Recommendation 38

We recommend that Union management continue to monitor building repair costs and reserve levels and to update the campus of any significant changes.

Campus Response

We concur. Building repair costs and reserve levels are being closely monitored and Campus is being updated with any significant changes.
CASH RECEIPTS AND HANDLING

Recommendation 39

We recommend that the Union:

a. Ensure accountability is localized or otherwise controlled whenever two or more persons have access to the same cash drawers.

b. Ensure safe combinations are changed periodically.

c. Ensure that cash receipts are deposited daily.

Campus Response

We concur.

a. Procedures are being developed and should be completed by December 31, 2005.

b. Safe combinations were changed on May 25, 2005, and are being changed periodically as recommended.

c. Cash receipts are being deposited daily, per our new policy implemented in June 2005, by the Assistant to Recreation Manager.

SEGREGATION OF DUTIES

Recommendation 40

We recommend that the Union properly segregate certain accounting functions over cash receipts or institute mitigating controls approved by the campus CFO.

Campus Response

We concur. As of June 30, 2005, procedures were developed and implemented as recommended by CSU Auditor.

PERSONNEL AND PAYROLL

Recommendation 41

We recommend that the Union:

a. Ensure timesheets and contracts are signed in a timely manner.

b. Ensure employee performance evaluations are completed and forwarded to the personnel department.

c. Document the review and verification of new employees and pay rate changes.
Campus Response

We concur. As of June 30, 2005, the following changes were made:

a. Timesheets and contracts are signed in a timely manner.

b. Evaluations are forwarded to HR.

c. Administrative Services Manager now reviews and signs off all original documents on transactions for new employees and all pay rate changes.

INFORMATION TECHNOLOGY

Recommendation 42

We recommend that the Union limit access to the accounting system to only those individuals requiring such access to perform assigned job duties.

Campus Response

We concur. As of June 30, 2005, access to accounting systems is now limited to only individuals requiring such access to perform assigned job duties.
July 18, 2005

MEMORANDUM

TO: Mr. Larry Mandel
   University Auditor

FROM: Charles B. Reed
       Chancellor

SUBJECT: Draft Final Report Number 04-50 on Auxiliary Organizations, San José State University

In response to your memorandum of July 18, 2005, I accept the response as submitted with the draft final report on Auxiliary Organizations, San José State University.

CBR/jt

Enclosure

cc: Mr. Don W. Kassing, President
    Ms. Rose L. Lee, Interim Vice President for Administration and Finance