AUXILIARY ORGANIZATIONS
SAN JOSÉ STATE UNIVERSITY

Audit Report 13-01
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ABBREVIATIONS

AS Associated Students, San José State University
CFO Chief Financial Officer
COO Chief Operating Officer
CSU California State University
DRP Disaster Recovery Plan
EO Executive Order
Foundation San José State University Research Foundation
FY Fiscal Year
ICSUAM Integrated California State University Administrative Manual
IT Information Technology
RFIN Resolution of the Committee on Finance
Shops Spartan Shops, Inc.
SJSU San José State University
TF Tower Foundation of San Jose State University
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 January 28, 2013, through March 1, 2013, and made a study and evaluation of the system of internal compliance/internal control in effect as of March 1, 2013. This report represents our triennial review.

In our opinion, the fiscal, operational, and administrative controls in effect at the *SJSU campus* as of March 1, 2013, taken as a whole, were sufficient to meet the objectives stated above and in the “Purpose” section of this report.

In our opinion, except for the effect of the weaknesses described below, the fiscal, operational, and administrative controls at *SJSU Campus* as of March 1, 2013, taken as a whole, were sufficient to meet the objectives stated above and in the “Purpose” section of this report. Areas of concern include: corporate governance, petty cash and change funds, and information technology.

In our opinion, the fiscal, operational, and administrative controls in effect at *Tower Foundation of San José State University* as of March 1, 2013, taken as a whole, were sufficient to meet the objectives stated above and in the “Purpose” section of this report.
In our opinion, the fiscal, operational, and administrative controls in effect at Spartan Shops, Inc. as of March 1, 2013, taken as a whole, were sufficient to meet the objectives stated above and in the “Purpose” section of this report.

In our opinion, except for the effect of the weaknesses described below, the fiscal, operational, and administrative controls at the Associated Students, San José State University as of March 1, 2013, taken as a whole, were sufficient to meet the objectives stated above and in the “Purpose” section of this report. Areas of concern include: purchasing and accounts payable and auxiliary programs.

In our opinion, due to the effect of the weaknesses described below, the fiscal, operational, and administrative controls at The Student Union of San José State University as of March 1, 2013, taken as a whole, were not sufficient to meet the objectives stated above and in the “Purpose” section of this report. Areas of major concern include: segregation of duties, cash receipts and handling, petty cash and change funds, investments, purchasing and accounts payable, personnel and payroll, property and equipment, and trusts and other liabilities.

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.

SAN JOSÉ STATE UNIVERSITY RESEARCH FOUNDATION

CORPORATE GOVERNANCE [13]

The San José State University Research Foundation (Foundation) did not have the required number of directors on its governing board. Additionally, the Foundation had not filed amended Bylaws with the chancellor’s office in a timely manner.

PETTY CASH AND CHANGE FUNDS [14]

Administration of the Foundation petty cash funds needed improvement. Specifically, the Foundation’s petty cash policy did not require periodic, independent cash counts of all petty cash funds, and the Foundation did not have a process for conducting cash counts. Additionally, the Foundation had not obtained signed documents from petty cash custodians acknowledging their agreement to abide by the Foundation petty cash policy.
EXECUTIVE SUMMARY

PURCHASING AND ACCOUNTS PAYABLE [16]

The Foundation did not always require the submission of travel authorization forms documenting approval of all travel and related expenditures before expenses were incurred.

INFORMATION TECHNOLOGY [17]

The Foundation’s information technology disaster recovery plan was inadequate to ensure the timely recovery of critical systems. Additionally, the Foundation’s disposition procedures for computing equipment obtained from grant funding needed improvement. Specifically, the Foundation did not have procedures to notify the campus at the end of a grant period to request that disposed computing equipment be removed from the inventory system, or to evaluate whether the computing equipment contained any sensitive data, and to remove such data if necessary.

TOWER FOUNDATION OF SAN JOSÉ STATE UNIVERSITY

OPERATIONAL COMPLIANCE [20]

Tower Foundation of San José State University (TF) had not developed written procedures for hospitality payments or reimbursement of expenses as required by Integrated California State University Administrative Manual §1301.01.

CASH RECEIPTS AND HANDLING [21]

TF did not maintain a list of individuals with access to the safe or a record of the dates on which the safe combination was changed.

PERSONNEL AND PAYROLL [21]

TF employee separation procedures needed improvement. For example, procedures did not require completion of a separation form for student employees, and TF did not use a termination checklist to document separation procedures, such as removal of information technology access and return of TF property.

SPARTAN SHOPS, INC.

CORPORATE GOVERNANCE [23]

Spartan Shops, Inc. (Shops) did not have a community representative on its governing board for fiscal years (FY) 2011/12 and 2012/13 and did not fill one audit committee member position for FY 2010/11, 2011/12, and 2012/13. Additionally, Shops had not filed amended Articles of Incorporation and Bylaws with the chancellor’s office in a timely manner.
ASSOCIATED STUDENTS, SAN JOSÉ STATE UNIVERSITY

CORPORATE GOVERNANCE [25]

Associated Students, San José University (AS) had not filed amended Bylaws with the chancellor’s office in a timely manner.

PURCHASING AND ACCOUNTS PAYABLE [25]

AS did not always complete procurement card reconciliations in a timely manner. Additionally, AS did not always obtain signed release forms or waivers from students traveling by air.

AUXILIARY PROGRAMS [27]

Administration of AS children’s center contracts and grants needed improvement. Specifically, AS was unable to provide evidence of a master operating agreement between the campus and AS for the administration of children’s center contracts and grants, or a written delegation of authority from the president or the president’s designee to the AS executive director to sign/approve children’s center contracts and grants proposals.

THE STUDENT UNION OF SAN JOSÉ STATE UNIVERSITY

SEGREGATION OF DUTIES [29]

Certain duties and responsibilities related to personnel and payroll were not appropriately segregated at the Student Union of San José State University (Union).

CASH RECEIPTS AND HANDLING [30]

Cashiering operations at the Union’s bowling center and event center box office needed improvement. For example, separate log-on identifications were not used to establish accountability when multiple cashiers used the same cash registers at the bowling center. Additionally, daily cash register opening procedures at the event center box office did not include an independent cash count of each cashier’s drawer by a supervisor or other staff member. Also, the Ticketmaster Outlet Daily Sales Tracking for Seller Shift Change log was not used, and cashiers did not always adequately secure cash tills.

PETTY CASH AND CHANGE FUNDS [31]

Administration of Union change funds needed improvement. Specifically, custodianship of each change fund had not been formally assigned to a single person, and change fund procedures did not take the amount of the funds at risk into consideration when determining the frequency of fund reconciliations.
EXECUTIVE SUMMARY

INVESTMENTS [32]

Union account investment reconciliations were not completed and reviewed by management in a timely manner.

PURCHASING AND ACCOUNTS PAYABLE [33]

Administration of club sports travel at the Union required improvement. For example, the Union had not established an approved reimbursement mileage rate equal to or less than that included in the California State University travel policy. Additionally, the Union did not always obtain signed release forms or waivers from students traveling by air, and the club sports competition proposal/approval forms were not always submitted prior to the competition. Also, the Union had not escheated unclaimed checks to the state, nor had it established written policies and procedures for such action.

PERSONNEL AND PAYROLL [36]

The Union did not always certify I-9 forms within three business days of new employees’ first day of work. Additionally, the Union did not always complete separation documentation in a timely manner. Also, Union payroll bank account reconciliations were not completed and reviewed by management in a timely manner.

PROPERTY AND EQUIPMENT [39]

Administration of Union property and equipment needed improvement. Specifically, written policies and procedures did not reflect the current business practices concerning independent physical inventory counts, and the annual physical inventory records for the past three fiscal years were incomplete and could not ensure that all Union assets were accounted for. These are repeat findings from the prior Auxiliary Organizations audit. Additionally, physical inventory reconciliations were not signed by management subsequent to the physical inventory count to show evidence of review and approval of any adjustments, monthly reconciliations of equipment expenditures to the asset database were not always formally reviewed or signed by management for all non-capitalized assets, and certain Union assets lacked property identification tags.

TRUSTS AND OTHER LIABILITIES [41]

Union administration of funds for club sports needed improvement. For example, club sports account funds were not allocated according to the Union Club Sports Manual, funds held and administered by the Union on behalf of club sports were not always supported by specific written agreements, and one club sports coach’s contract (inclusive of salary) was not paid for services provided for FY 2011/12.
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 (EO) 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.

EO 1059, Utilization of Campus Auxiliary Organizations, dated June 6, 2011, also represents policy of the Trustees addressing appropriate use of CSU auxiliary organizations. CSU auxiliary organizations are required to comply with Board of Trustee policy (California Code of Regulations, Title 5, §42401 and §42500 and Education Code §89720, §89756, and §89900).

This executive order requires CSU auxiliary organizations to operate within the regulations and oversight of the campus. The campus president is responsible for ensuring the fiscal viability of auxiliary organizations and compliance with applicable CSU policies. The campus chief financial officer is responsible for administrative compliance and fiscal oversight of auxiliary organizations. The campus,
with the approval of the chancellor (or designees), may assign certain functions to auxiliary organizations pursuant to the California Code of Regulations, Title 5, §42500. A written operating agreement is established detailing the functions that auxiliary organizations can perform. The campus may assign responsibility for an activity or program to auxiliary organizations, and the acceptance of the responsibility requires the assumption of the associated legal obligation and liabilities, fiscal liabilities, and fiduciary responsibilities by auxiliary organizations. Auxiliary organizations shall ensure that fiscal procedures and management systems are in place, consistent with California Code of Regulations, Title 5, §42401.

The Integrated California State University Administrative Manual §13680.00, Placement and Control of Receipts for Campus Activities and Programs, dated September 29, 2011, states that accountability and responsibility for campus activities and programs should be clearly established, and that related receipts are appropriately placed and controlled in university or auxiliary organization accounts. This policy guides campuses as to the administration of such receipts and instructs as to their proper placement in accordance with legal and regulatory requirements.

San José State University Research Foundation
San José State University Research Foundation (Foundation) was established in 1932 as a non-profit public benefit corporation for the purpose of enabling and promoting externally funded programs that further SJSU’s comprehensive educational mission. The Foundation manages all externally funded grant and contract activity, including pre- and post- activities; operates and manages business incubators; and provides administrative management services for university programs that are self-supported. These self-supported programs, formerly referred to as “campus programs,” are discretionary in nature and include faculty-hosted seminars, conferences, and workshops; faculty-developed specialized training; construction and renovation projects; and special events. The Foundation is governed by a board of directors composed of representatives from the university administration, faculty, student body, and community.

Tower Foundation of San José State University
Tower Foundation of San José State University (TF) was established in 2004 as a non-profit public benefit corporation dedicated solely to philanthropy and assisting with the development, investment, administration, and banking for all SJSU philanthropic donations. The TF also aims to grow the university’s endowment through donations, bequests, and prudent investment management, including real estate investment transactions. The TF is governed by a board of directors composed of representatives from the university administration, faculty, student body, alumni, and community. The TF has a total of 2.5 full-time employee positions and relies on the university advancement office and a third-party service provider for administrative and accounting support services.

Spartan Shops, Inc.
Spartan Shops, Inc. (Shops) was established in 1956 as a non-profit public benefit corporation to provide bookstore, dining, real estate, information technology, and other commercial services on the SJSU campus. Shops outsources bookstore operations to a third party and is responsible for operating several dining establishments and convenience stores on campus. In addition, Shops operates several national-brand restaurants, university residential dining services, and other commercial services, including on-campus catering. Shops’ real estate division has been directed to develop, oversee, and coordinate a strategy for real estate development and management and is responsible for the development of faculty
INTRODUCTION

and staff housing opportunities in both the rental and ownership markets. Shops’ information services division provides technology services, including high-speed Internet, telephone, and cable television, for other Shops divisions and for on-campus residents. Shops is governed by a board of directors composed of representatives from the university administration, faculty, student body, and community.

**Associated Students, San José State University**

Associated Students, San José State University (AS) was established in 1980 as a non-profit public benefit corporation to provide for student self-government and to provide services and programs that maximize student life and improve student experiences at SJSU. AS operates the Child Development Center, the Caesar Chavez Community Action Center, Transportation Solutions, the A.S. Print Shop, and the A.S. Computer Services Center. The A.S. General Services Center provides services for students, including check-cashing, money order, notary, and fax services; special events coordination; student organization accounting; legal counseling; and student health insurance programs. Further, AS provides various recreational programs, activities, and services. AS is governed by a board of directors composed of 16 voting student members and a chairperson.

**The Student Union of San José State University**

The Student Union of San José State University (Union) was established in 1982 as a non-profit public benefit corporation to offer quality services and programs that facilitate and enhance the SJSU learning experience and promote social, recreational, cultural, and educational development to the campus community. The Union manages and maintains three major facilities at SJSU – the Student Union building, the Aquatic Center, and the Event Center – as well as an ATM kiosk. The Union also administers student body organization programs and instructionally related programs and activities, including a physical fitness center, club sports and fitness programs, and event management. The Union is governed by a board of directors composed of representatives from the university administration, faculty, student body, and community.

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 fiscal, operational 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 2010/11 and 2011/12 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 1, 2012, to March 1, 2013. 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 Research Foundation
- Operating and Administrative Agreements
- Facilities Agreements
- Corporate Governance
- Fiscal Compliance
- Operational Compliance
- Program Compliance
- Segregation of Duties
- Cash Receipts and Handling
San José State University Research Foundation (cont.)
- Cash Disbursement
- Petty Cash and Change Funds
- Investments
- Fees, Revenues, and Receivables
- Purchasing and Accounts Payable
- Personnel and Payroll
- Property and Equipment
- Trusts and Other Liabilities
- Auxiliary Programs
- Information Technology

Tower Foundation of San José State University
- Operating and Administrative Agreements
- Facilities Agreements
- Corporate Governance
- Fiscal Compliance
- Operational Compliance
- Program Compliance
- Segregation of Duties
- Cash Receipts and Handling
- Cash Disbursement
- Petty Cash and Change Funds
- Investments
- Fees, Revenues, and Receivables
- Purchasing and Accounts Payable
- Personnel and Payroll
- Trusts and Other Liabilities
- Auxiliary Programs
- Information Technology

Spartan Shops, Inc.
- Operating and Administrative Agreements
- Facilities Agreements
- Corporate Governance
- Fiscal Compliance
- Operational Compliance
- Program Compliance
- Segregation of Duties
- Cash Receipts and Handling
- Cash Disbursement
- Petty Cash and Change Funds
- Investments
- Fees, Revenues, and Receivables
- Purchasing and Accounts Payable
- Personnel and Payroll
Spartan Shops, Inc. (cont.)
- Property and Equipment
- Auxiliary Programs
- Information Technology

Associated Students, San José State University
- Operating and Administrative Agreements
- Facilities Agreements
- Corporate Governance
- Fiscal Compliance
- Operational Compliance
- Program Compliance
- Segregation of Duties
- Cash Receipts and Handling
- Cash Disbursement
- Petty Cash and Change Funds
- Fees, Revenues, and Receivables
- Purchasing and Accounts Payable
- Personnel and Payroll
- Property and Equipment
- Auxiliary Programs
- Information Technology

The Student Union of San José State University
- Operating and Administrative Agreements
- Facilities Agreements
- Corporate Governance
- Fiscal Compliance
- Operational Compliance
- Program Compliance
- Segregation of Duties
- Cash Receipts and Handling
- Cash Disbursement
- Petty Cash and Change Funds
- Investments
- Fees, Revenues, and Receivables
- Purchasing and Accounts Payable
- Personnel and Payroll
- Property and Equipment
- Trusts and Other Liabilities
- Auxiliary Programs
- Information Technology

Campus
- Campus Oversight and Control
We have not performed any auditing procedures beyond March 1, 2013. 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.
SAN JOSÉ STATE UNIVERSITY RESEARCH FOUNDATION

CORPORATE GOVERNANCE

BOARD OF DIRECTORS

The San José State University Research Foundation (Foundation) did not have the required number of directors on its governing board.

Specifically, three of the 15 director positions were vacant for fiscal year (FY) 2012/13, and one of the community member positions had been vacant since FY 2008/09.

The Foundation Bylaws Article III states that the board of directors shall consist of the following San José State University (SJSU) administrators: provost/vice president, and associate vice president for graduate studies and research. In addition, the board of directors shall include two college deans, four members of the tenured faculty, five non-university members from the community who have experience related to the mission of the Foundation, and one student with research experience.

Title 5 §42602(b) specifically requires that the composition of the governing board of auxiliary organizations include non-campus personnel (i.e., a community representative).

The Foundation interim chief operating officer (COO) stated that two of the three vacancies occurred in the past three to five months. She further stated that the vacancies were due to the Foundation’s re-evaluation of the board’s composition.

Insufficient maintenance of mandated board composition violates statutory requirements and increases the risk that all views will not be adequately represented.

Recommendation 1

We recommend that the Foundation promptly fill all director vacancies on its governing board.

Campus Response

We concur. The Foundation will comply and fill director vacancies on its governing board.

Estimated completion date: August 2013

BYLAWS

The Foundation had not filed amended Bylaws with the chancellor’s office in a timely manner.
We found that an amendment to the Bylaws made on February 17, 2011, had not been filed with the chancellor’s office. The Foundation filed the amendment to the Bylaws with the chancellor’s office prior to the end of audit fieldwork.

The Compilation of Policies and Procedures for California State University Auxiliary Organizations sets sound business practice guidelines for auxiliary organizations operating within the California State University (CSU) system. Section 11.6.1, Reporting Changes in Articles of Incorporation (or Constitutions) and Bylaws, states that when an auxiliary organization makes changes to its Articles of Incorporation (or Constitution) or Bylaws, a complete amended copy is to be submitted to Contract Services and Procurement at the Office of the Chancellor within 30 calendar days. The submission should indicate the date the changes were approved by the governing board and/or members.

The Foundation interim COO stated that the amended Bylaws were not submitted to the chancellor’s office in a timely manner due to oversight.

Untimely filing of amendments to Bylaws increases the risk of misunderstandings and may increase legal liability.

**Recommendation 2**

We recommend that the Foundation reiterate to staff that all future changes/amendments to Bylaws should be filed with the Contract Services and Procurement department at the Office of the Chancellor within 30 calendar days.

**Campus Response**

We concur. The Foundation will reiterate to staff that all future changes/amendments to Bylaws should be filed with the Contract Services and Procurement department at the Office of the Chancellor within 30 calendar days.

Estimated Completion Date: June 2013

**PETTY CASH AND CHANGE FUNDS**

Administration of Foundation petty cash funds needed improvement.

We reviewed all ten petty cash accounts and found that:

- The Foundation’s petty cash policy did not require periodic, independent cash counts of all petty cash funds, and the Foundation did not have a process for conducting cash counts.

- The Foundation had not obtained signed documents from petty cash custodians acknowledging their agreement to abide by the Foundation petty cash policy.
The Foundation *Petty Cash Policy* states that petty cash disbursement is subject to the same control of large expenses for review of appropriateness, allowability, and completeness. It is the intention of the Foundation to perform its due diligence on all disbursements. All petty cash accounts are subject to audit, at any time, by the fiscal services department of the Foundation and by auditors from a certified public accounting firm contracted with the Foundation for services. The policy requires a signature of the petty cash custodian for acknowledgement of agreement to abide by the policy and also requires the Foundation signature for review and approval.

Title 5 §42401 and §42402 indicate that the campus president shall require that auxiliary organizations operate in conformity with policy of the Board of Trustees and the campus. One of the objectives of the auxiliary organizations is to provide fiscal procedures and management systems that allow effective coordination of the auxiliary activities with the campus in accordance with sound business practices. Sound business practice mandates sufficient administration of petty cash funds, including periodic, independent cash counts and acknowledgement of responsibilities by petty cash custodians.

The Foundation controller stated that, under the new Foundation petty cash policy, petty cash custodians and their supervisors were instructed to perform surprise petty cash counts. He further stated that the new policy required a signature and acknowledgment from custodians and their supervisors; however, the Foundation was behind in implementing the new policy on previously established accounts.

Inadequate administration of petty cash increases the risk of loss or misappropriation of funds.

**Recommendation 3**

We recommend that the Foundation:

a. Update its policy to require periodic, independent cash counts of all petty cash funds, and establish a process for conducting the cash counts.

b. Obtain signed documents from all petty cash custodians acknowledging their agreement to abide by the Foundation petty cash policy.

**Campus Response**

We concur. The Foundation will implement compliance action to:

a. Update its policy to require periodic, independent cash counts of all petty cash funds, and establish a process for conducting the cash counts.

b. Obtain signed documents from all petty cash custodians acknowledging their agreement to abide by the Foundation petty cash policy.

Estimated completion date: July 2013
PURCHASING AND ACCOUNTS PAYABLE

The Foundation did not always require the submission of travel authorization forms documenting approval of all travel and related expenditures before expenses were incurred.

We reviewed ten travel disbursements, and we found that in four instances, a travel authorization form documenting advance approval of travel and related expenditures to be incurred was not required because the travel was grant-related.

The Foundation Travel Policy 3.1, Approval for Travel, states that a travel authorization form must be submitted for any trip requiring an employee to be absent from his normal work site for more than four hours. All faculty domestic travels must be approved by college dean and the provost’s office; all faculty international travels must be approved by the provost’s office. A traveler must obtain approval for travel before making travel arrangements or incurring any expenses.

Integrated California State University Administrative Manual (ICSUAM) 3601.01, Travel Policy, dated April 1, 2013, states that authorization to travel must be obtained from appropriate administrators within the employee’s organization as determined by the organization’s identified delegation of authority. Individuals traveling on official university business are responsible for ensuring they have documented authorization in advance to travel. Employees should review specific procedures with their management.

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 controls, with annual management review.

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 requested travel be approved in advance of incurring travel expenditures.

The Foundation interim COO stated that all grant-related travel was authorized in advance by respective grantors and principal investigators as budget items. She further stated that non-grant travel was approved by each account signor and direct supervisor through the budget, emails, or travel advances.

The absence of documented travel approval increases the risk of errors, irregularities, and misappropriation of funds.

Recommendation 4

We recommend that the Foundation reiterate to staff that travel authorization forms documenting approval of all travel and related expenditures must be submitted before expenses are incurred.


**Campus Response**

We concur. The Foundation will reiterate to staff that travel authorization forms documenting approval of all travel and related expenditures must be submitted before expenses are incurred.

Estimated completion date: July 2013

**INFORMATION TECHNOLOGY**

**DISASTER RECOVERY PLAN**

The Foundation’s information technology disaster recovery plan (IT DRP) was inadequate to ensure the timely recovery of critical systems.

We found that the IT DRP did not include an alternate processing facility/locations and equipment replacement requirements.

ICSUAM §8085.0, *Business Continuity and Disaster Recovery*, dated April 19, 2010, states that an information security program needs to support the maintenance and potential restoration of operations through and after both minor and catastrophic disruptions. Campuses must ensure that their information assets can, in the case of a catastrophic event, continue to operate and be appropriately accessible to users. Each campus must maintain an ongoing program that ensures the continuity of essential functions and operations following a catastrophic event.

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 *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 8.10, *Computer Controls*, states that auxiliary organizations should establish written policies and practices that ensure secure computer system operations, including backup and recovery mechanisms and DRPs.

The Foundation information technology manager stated that the auxiliary was unaware of the requirement that an alternate processing facility/location and equipment replacement were to be included in the IT DRP.

The absence of a comprehensive IT DRP increases the risk that business and data processing operations may not be restored within a reasonable time frame in the event of an emergency or disaster.
Recommendation 5

We recommend that the Foundation update its IT DRP to include an alternative processing facility/location and equipment replacement requirements.

Campus Response

We concur. The Foundation will update its IT DRP to include an alternative processing facility/location and equipment replacement requirements.

Estimated completion date: July 2013

EQUIPMENT DISPOSAL

The Foundation’s disposition procedures for computing equipment obtained from grant funding needed improvement.

Specifically, the Foundation did not have procedures to:

- Notify the campus at the end of a grant period to request that disposed computing equipment be removed from the inventory system.
- Evaluate whether the computing equipment contained any sensitive data, and remove such data if necessary.

The Foundation Property Accounting Policy states that at the end of a project, a Foundation analyst will provide specific disposition instructions to the Foundation property office. The Foundation property office will send a notice to the principal investigator regarding the final disposition of property; typically, the disposition instruction is one of the following: It is transferred to the state; it is returned to the sponsor; it is transferred to another Foundation account; it is transferred to a different agency; or it is retained as Foundation central office equipment.

ICSUAM §8065.0, Information Asset Management, dated April 19, 2010, states that campuses must maintain an inventory of information assets containing level 1 or level 2 data as defined in the CSU Data Classification Standard. These assets must be categorized and protected throughout their entire life cycle, from origination to destruction.

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.

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 equipment disposals.

The Foundation controller stated that the Foundation did not notify the campus for the removal of the computing equipment and did not determine whether it contained sensitive information due to oversight.

Inadequate administration over the disposal of computing equipment obtained from grant funding, especially equipment containing sensitive information, increases the risk of loss and inappropriate use, misrepresentation in financial statements, and exposure to information security breaches.

Recommendation 6

We recommend that the Foundation establish and implement procedures to:

a. Notify the campus at the end of a grant period to request that disposed computing equipment be removed from the inventory system.

b. Evaluate whether the computing equipment contains any sensitive data, and remove such data if necessary.

Campus Response

We concur. The Foundation will establish and implement procedures to:

a. Notify the campus at the end of a grant period to request that disposed computing equipment be removed from the inventory system.

b. Evaluate whether the computing equipment contains any sensitive data, and remove such data if necessary.

Estimated completion date: June 2013
Tower Foundation of San José State University (TF) had not developed written procedures for hospitality payments or reimbursement of expenses as required by ICSUAM §1301.00.

These procedures would include, but not be limited to:

- Allowable and unallowable expenditures and occasions.
- Hospitality provided to the spouse or domestic partner of an employee.
- Hospitality provided to students or prospective students.
- Appropriate approval process of transactions.

ICSUAM §1301.00, Hospitality, Payment or Reimbursement of Expenses, dated December 15, 2011, states that each campus and auxiliaries are required to develop written procedures, consistent with this policy, regarding the payment of ordinary and necessary hospitality expenses. Hospitality expenses must be directly related to, or associated with, the active conduct of official CSU business. When an employee acts as an official host, the occasion must, in the best judgment of the approving authority, serve a clear CSU business purpose, with no personal benefit derived by the official host or other employees. In addition, the expenditure of funds for hospitality should be cost-effective and in accordance with the best use of public funds. Hospitality expenses may be charged to other funds controlled by the university or its auxiliaries provided the expense serves a bonafide business purpose.

The TF COO stated that she was unaware that TF was required to have written procedures for hospitality payments or reimbursement of expenses because ICSUAM §1301.00 was recently implemented.

Lack of written procedures increases the risk that errors, inappropriate expenditures, misunderstandings, or misappropriation will occur.

Recommendation 7

We recommend that TF develop and implement written procedures for hospitality payments or reimbursement of expenses in accordance with ICSUAM §1301.00.

Campus Response

We concur. TF will develop and implement written procedures for hospitality payments or reimbursement of expenses in accordance with ICSUAM §1301.00.

Estimated completion date: June 2013
CASH RECEIPTS AND HANDLING

TF did not maintain a list of individuals with access to the safe or a record of the dates on which the safe combination was changed.

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.

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 security over safe combinations.

The TF accounting manager stated that the number of individuals who had access to the safe was very limited; therefore, TF did not realize a list of individuals with access to the safe or a record of the dates on which the safe combination was changed was necessary.

Inadequate administration of safe combinations increases the risk of loss or misappropriation of funds.

**Recommendation 8**

We recommend that TF establish and maintain a list of individuals who have access to the safe and a record of the dates on which the safe combination is changed.

**Campus Response**

We concur. TF will establish and maintain a list of individuals who have access to the safe and a record of the dates on which the safe combination is changed.

Estimated completion date: June 2013

PERSONNEL AND PAYROLL

TF employee separation procedures needed improvement.

We reviewed ten employee separations and found that:

- Procedures did not require completion of a separation form for student employees.
- TF did not use a termination checklist to document separation procedures, such as removal of information technology access and return of TF property.
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.

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 employee separations.

The TF COO stated that separation forms were obtained from employees except for student assistants. She further stated that student assistants were paid when timesheets were submitted, which mitigated the risk that employees could be paid after they separated. She also stated that a termination checklist had been developed prior to the beginning of the audit but was still in draft form pending modifications.

Insufficient administration of employee separations increases the risk of loss of auxiliary funds and inappropriate use of auxiliary resources.

**Recommendation 9**

We recommend that TF:

a. Update its separation procedures to include a separation form for student employees.
b. Implement a termination checklist to document separation procedures.

**Campus Response**

We concur. TF will implement compliance action to:

a. Update its separation procedures to include a separation form for student employees.
b. Implement a termination checklist to document separation procedures.

Estimated completion date: August 2013
CORPORATE GOVERNANCE

BOARD OF DIRECTORS

Spartan Shops, Inc. (Shops) did not have a community representative on its governing board for FY 2011/12 and 2012/13 and did not fill one audit committee member position for FY 2010/11, 2011/12, and 2012/13.

The Shops Bylaws states that the authorized number of directors of the corporation shall be 11 until changed by an amendment of this section of Article II. This includes one community member, appointed by the president of SJSU, to serve for a term not to exceed three years as a voting member of the board of directors.

The Shops audit committee charter states that the audit committee shall be composed of no more than three members appointed by the board to three-year terms. Committee membership shall include at least two board members and either a university official or an experienced certified public accountant from the community.

Title 5 §42602(b) states that the composition of the governing board of auxiliary organizations must include non-campus personnel (i.e., a community representative).

Government Code 12586(e) states that every charitable corporation that receives or accrues in any fiscal year gross revenues of $2 million or more shall have an audit committee appointed by the board of directors. The audit committee may include persons who are not members of the board of directors, but the member or members of the audit committee shall not include any members of the staff, including the president or chief executive officer and the treasurer or chief financial officer.

The Shops executive director stated that Shops had been actively searching for a community member and was having difficulty finding someone appropriate. The Shops director of accounting and financial reporting stated that the unexpected and immediate resignation of the prior executive director created a disconnect with the remaining staff, and they were unaware of the requirement for a third audit committee member. She further stated that the prior executive director had kept the audit committee position vacant for quite some time, and management was unaware of the need to fill that vacancy.

Insufficient maintenance of mandated board composition violates statutory requirements and increases the risk that all views will not be adequately represented.

Recommendation 10

We recommend that Shops promptly fill the community representative vacancy on the governing board and the vacancy on the audit committee.
Campus Response

We concur. Shops will comply and fill the community representative vacancy on the governing board and the vacancy on the audit committee.

Estimated completion date: July 2013

ARTICLES OF INCORPORATION AND BYLAWS

Shops had not filed amended Articles of Incorporation and Bylaws with the chancellor’s office in a timely manner.

We found that amendments made to the Articles of Incorporation on September 21, 2012, which were submitted to and approved by the Secretary of State on November 1, 2012, and amendments made to the Bylaws on December 3, 2010, had not been filed with the chancellor’s office.

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 11.6.1, Reporting Changes in Articles of Incorporation (or Constitution) and Bylaws, states that when an auxiliary organization makes changes to its Articles of Incorporation (or Constitution) or Bylaws, a complete amended copy is to be submitted to Contract Services and Procurement at the Office of the Chancellor within 30 calendar days. The submission should indicate the date the changes were approved by the governing board and/or members.

The Shops director of accounting and financial reporting stated that amended Articles of Incorporation and Bylaws were not submitted to the chancellor’s office in a timely manner because Shops staff was unaware of this requirement.

Untimely filing of amendments to Articles of Incorporation and Bylaws increases the risk of misunderstandings and may increase legal liability.

Recommendation 11

We recommend that Shops reiterate to staff that all changes/amendments to Articles of Incorporation and Bylaws should be filed with the Contract Services and Procurement department at the Office of the Chancellor within 30 calendar days.

Campus Response

We concur. Shops will comply and reiterate to staff that all changes/amendments to Articles of Incorporation and Bylaws should be filed with the Contract Services and Procurement department at the Office of the Chancellor within 30 calendar days.

Estimated completion date: June 2013
ASSOCIATED STUDENTS, SAN JOSÉ STATE UNIVERSITY

CORPORATE GOVERNANCE

Associated Students, San José State University (AS) had not filed amended Bylaws with the chancellor’s office in a timely manner.

We found that amendments made to the Bylaws on February 22, 2012, May 23, 2012, and November 14, 2012, had not been filed with the chancellor’s office. AS filed the amendments to the Bylaws during audit fieldwork.

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 11.6.1, Reporting Changes in Articles of Incorporation (or Constitution) and Bylaws, states that when an auxiliary organization makes changes to its Articles of Incorporation (or Constitution) or Bylaws, a complete amended copy is to be submitted to Contract Services and Procurement at the Office of the Chancellor within 30 calendar days. The submission should indicate the date the changes were approved by the governing board and/or members.

The AS executive director stated that amended Bylaws were not submitted to the chancellor’s office in a timely manner because AS was unaware of this requirement.

Untimely filing of amendments to Bylaws increases the risk of misunderstandings and may increase legal liability.

Recommendation 12

We recommend that AS reiterate to staff that all future changes/amendments to Bylaws should be filed with the Contract Services and Procurement department at the Office of the Chancellor within 30 calendar days.

Campus Response

We concur. AS will comply and reiterate to staff that all future changes/amendments to Bylaws should be filed with the Contract Services and Procurement department at the Office of the Chancellor within 30 calendar days.

Estimated completion date: June 2013

PURCHASING AND ACCOUNTS PAYABLE

CREDIT CARDS

AS did not always complete procurement card reconciliations in a timely manner.
We reviewed nine procurement card reconciliations and found that in three instances, procurement cards were not reconciled in a timely manner, resulting in late fees and interest charges.

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.

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 procurement card reconciliations be prepared in a timely manner.

The AS executive director stated that procurement card reconciliations were delayed because supporting documents were not available.

Untimely completion of procurement card reconciliations limits the auxiliary’s ability to detect errors and irregularities, increases the likelihood of late fees and interest charges, and compromises accountability.

**Recommendation 13**

We recommend that AS reiterate to staff that procurement card reconciliations are to be completed in a timely manner.

**Campus Response**

We concur. AS will comply and reiterate to staff that procurement card reconciliations are to be completed in a timely manner.

Estimated completion date: June 2013

**TRAVEL**

AS did not always obtain signed release forms or waivers from students traveling by air.

We reviewed ten travel disbursements and found that in two instances, students traveling by air did not complete and sign release forms or waivers.

EO 1041, *California State University Student Travel Policy*, dated July 1, 2009, states that all students participating in CSU-affiliated programs that require air travel shall be required to acknowledge that they have been informed of the risks of air travel required by such programs and to sign a statement certifying that they have been informed of and undertake such air travel voluntarily with full knowledge of such risks, and release and hold harmless the state of California, the CSU, the
campus affiliated with the program requiring air travel, and each and every officer, agent, and employee of each of them, from any and all claims and causes of action that the student, or any person(s) claiming through the student, may have against any of the above institutions or persons, by reason of any accident, illness, or injuries, death, or other consequences resulting directly or indirectly from or in any manner arising out of, or in connection with, the student being a passenger on a flight.

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 release forms or signed waivers be obtained from each student traveling by air.

The AS executive director stated her belief that the travel waivers the students had signed for the duration of their terms as board members were sufficient.

The absence of signed release forms or waivers from students traveling by air increases the risk of legal liability.

Recommendation 14

We recommend that AS reiterate to staff that signed release forms or waivers are to be obtained from all students traveling by air.

Campus Response

We concur. AS will comply and reiterate to staff that signed release forms or waivers are to be obtained from all students traveling by air.

Estimated completion date: June 2013

AUXILIARY PROGRAMS

Administration of AS children’s center contracts and grants needed improvement.

We found that AS was unable to provide evidence of:

- A master operating agreement between the campus and AS for the administration of children’s center contracts and grants.
- A written delegation of authority from the president or the president’s designee to the AS executive director to sign/approve children’s center contracts and grants proposals.

EO 890, Administration of Grants and Contracts in Support of Sponsored Programs, dated January 7, 2004, states that the university and the auxiliary shall enter into a master agreement setting forth the
roles and responsibilities of each party with regard to the administration of sponsored programs by an auxiliary. It further states that proposals for sponsored programs shall not be submitted to the sponsor without prior written approval of the president of the university or the president’s university designee and of the chief financial officer (CFO) or the CFO’s university designee.

The AS executive director stated that the master operating agreement between the campus and AS for the administration of children’s center contracts and grants and the written delegation of authority from the president to the AS executive director could not be located.

The absence of a master operating agreement and formal delegation of authority increases the risk of misunderstandings and unauthorized activities/actions.

**Recommendation 15**

We recommend that AS:

a. Establish a master operating agreement with the campus for the administration of children’s center contracts and grants.

b. Obtain written delegation of authority from the president or the president’s designee to the AS executive director to sign/approve children’s center contracts and grants proposals.

**Campus Response**

We concur. AS will implement compliance action to:

a. Establish a master operating agreement with the campus for the administration of children’s center contracts and grants.

b. Obtain written delegation of authority from the president or the president’s designee to the AS executive director to sign/approve children’s center contracts and grants proposals.

Estimated completion date: August 2013
THE STUDENT UNION OF SAN JOSÉ STATE UNIVERSITY

SEgregation OF DUTIES

Certain duties and responsibilities related to personnel and payroll were not appropriately segregated at the Student Union of San José State University (Union).

We found that one employee performed the following incompatible duties:

- Added, deleted, and changed personnel records.
- Posted entries to the payroll system.
- Received payroll checks in the mail from the courier.
- Reviewed and reconciled physical checks.
- Distributed payroll checks.
- Maintained undistributed payroll checks.

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

The Compilation of Policies and Procedures for California State University Auxiliary Organizations sets sound business practice guidelines for auxiliary organizations operating within the CSU system. Section 8.9.6, Payroll, states that the auxiliary should establish a written controls system that ensures payroll preparation is segregated from the general ledger function and other payroll functions such as hiring authorization, timekeeping, and distribution of checks.

The Union director of human resources stated that staffing limitations contributed to expanded roles and responsibilities, which created situations where employees responsibilities included incompatible duties.

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

Recommendation 16

We recommend that the Union adequately segregate duties and responsibilities related to personnel and payroll or institute mitigating procedures approved by the campus CFO.

Campus Response

We concur. The Union will adequately segregate duties and responsibilities related to personnel and payroll.

Estimated completion date: July 2013
CASH RECEIPTS AND HANDLING

Cashiering operations at the Union’s bowling center and event center box office needed improvement.

We found that:

- Separate log-on identifications were not used to establish accountability when multiple cashiers used the same cash register at the bowling center.

- Daily cash register opening procedures at the event center box office did not include an independent cash count of each cashier’s drawer by a supervisor or other staff member. Additionally, the Ticketmaster Outlet Daily Sales Tracking for Seller Shift Change log was not used, and cashiers did not always adequately secure cash tills.

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 the integrity of existing internal controls.

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

The Union associate director of administrative services stated that the cashiering equipment at the bowling center could only assign a limited number of individual log-ons. She further stated that the event center box office concerns were due to oversight and were corrected during the audit.

Inadequate administration and safeguarding of cash receipts increases the risk of loss or misappropriation of funds.

Recommendation 17

We recommend that the Union:

a. Assign separate log-on identifications to establish accountability when multiple cashiers operate the same cash register at the bowling center, or institute mitigating procedures approved by the campus CFO.

b. Update daily cash register opening procedures at the event center box office to include an independent count of each cashier’s drawer by a supervisor or other staff member, and reiterate to staff that the Ticketmaster Outlet Daily Sales Tracking for Seller Shift Change log must be used and cashiers must adequately secure their cash tills.
Campus Response

We concur. The Union will implement compliance action to:

a. Assign separate log-on identifications to establish accountability when multiple cashiers operate the same cash register at the bowling center.

b. Update daily cash register opening procedures at the event center box office to include an independent count of each cashier’s drawer by a supervisor or other staff member; and reiterate to staff that the Ticketmaster Outlet Daily Sales Tracking for Seller Shift Change log must be used and cashiers must adequately secure their cash tills.

Estimated completion date: July 2013

PETTY CASH AND CHANGE FUNDS

Administration of Union change funds needed improvement.

We found that:

- Custodianship of each change fund had not been formally assigned to a single person.
- Change fund procedures did not take the amount of the funds at risk into consideration when determining the frequency of fund reconciliations.

The Union Change Fund Procedures states that the Union may establish a change fund for a maximum of: general accounts, $5,500; aquatic center, $300; bowling center, $9,000; sports club, $300; and box office, $10,000. Exceptions are allowed per approval from the associate director of administrative services or the executive director. Increases must be presented in a written format with justification and approved in writing by the authorized signers listed. The accounting manager or an authorized individual will, at least once a year, conduct unannounced audits of the change funds.

ICSUAM §3102.10, Change Funds, dated April 1, 2011, states that custodianship of a given change fund should be assigned to a single individual and cannot be independently transferred to another individual. It further states that an unannounced cash count and reconciliation of change funds for which cashiers and cash-handling employees are accountable must be performed on a periodic basis by someone other than the fund custodian. The frequency of such reconciliations can be determined by the campus CFO based on the amount of funds at risk. The rationale for determining the audit schedule must be documented. Reconciliations of cash balances must be performed in the presence of the change funds custodian and must be 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 sufficient administration of change funds.

The Union associate director of administrative services stated that she was unaware that custodianship of change funds was to be assigned to a single individual and could not be independently transferred to another individual. She further stated that the Change Fund Procedures did not take the amount of funds at risk into consideration when determining the frequency of the fund reconciliations because she believed that an annual independent audit of change funds was adequate.

Inadequate administration of change funds increases the risk of loss or misappropriation of funds.

**Recommendation 18**

We recommend that the Union update its change fund procedures to:

a. Formally assign custodianship of each change fund to a single person.
b. Address the amount of the funds at risk when determining the frequency of fund reconciliations.

**Campus Response**

We concur. The Union will implement compliance action to:

a. Formally assign custodianship of each change fund to a single person.
b. Address the amount of the funds at risk when determining the frequency of fund reconciliations.

Estimated completion date: June 2013

**INVESTMENTS**

Union investment account reconciliations were not completed and reviewed by management in a timely manner.

We found that:

- The long-term investment fund had not been formally reconciled since July 2012. Specifically, the reconciliations from July 2012 to December 2012 were not completed and reviewed by management until after audit fieldwork began, which was 36 to 189 days after the month end.

- Short-term investment fund reconciliations from July 2012 to December 2012 were not completed and reviewed by management until 62 to 92 days after the month end.

The *Compilation of Policies and Procedures for California State University Auxiliary Organizations* sets sound business practice guidelines for auxiliary organizations operating within the CSU system. Section 8.9.2, *Investments*, states that the auxiliary should reconcile investment positions and investment income on a frequent basis with independent management review.
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 investment account reconciliations be prepared and reviewed in a timely manner.

The Union associate director of administrative services stated that although formal reconciliations had been delayed, the Union accounts were informally reviewed and approved by management when the online month-end valuation report was reviewed for the prior month’s activity and the general ledger entry was reviewed and signed.

Untimely completion and review of investment account reconciliations limits the auxiliary’s ability to detect errors and irregularities, increases the likelihood of loss of funds, and compromises accountability.

**Recommendation 19**

We recommend that the Union reiterate to staff that investment account reconciliations are to be completed and reviewed by management in a timely manner.

**Campus Response**

We concur. The Union will reiterate to staff that investment account reconciliations are to be completed and reviewed by management in a timely manner.

Estimated completion date: June 2013

**PURCHASING AND ACCOUNTS PAYABLE**

**TRAVEL**

Administration of club sports travel at the Union required improvement.

We reviewed ten travel expenditures and found that:

- The Union had not established an approved reimbursement mileage rate equal to or less than that included in the CSU travel policy, and in four instances, students traveling by personal vehicle were reimbursed for gas expenses rather than for mileage.

- In one instance, the Union did not obtain signed release forms or waivers from students traveling by air.

- In two instances, the club sports competition proposal/approval forms were not submitted prior to the competition. Instead, they were submitted 15 days after the travel date.
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 9.7.1, *Travel*, states that because auxiliary organizations have a special relationship with the CSU, their travel reimbursement policies should generally parallel policies applicable to the CSU. If the auxiliary determines that a lesser or partial-rate reimbursement is justified, that rate may be used.

*CSU Travel Procedures and Regulations*, dated April 1, 2013, states that transportation expenses include private car mileage allowances, and individuals requesting mileage reimbursement are certifying the number of miles driven is accurate. The standard reimbursement rate takes into account all actual automobile expenses such as fuel and lubrication, towing charges, maintenance and repairs, tires, depreciation, vehicle registration, and insurance.

EO 1041, *California State University Student Travel Policy*, dated July 1, 2009, states that all students participating in CSU-affiliated programs that require air travel shall be required to acknowledge that they have been informed of the risks of air travel required by such programs and to sign a statement certifying that they have been informed of and undertake such air travel voluntarily with full knowledge of such risks, and release and hold harmless the state of California, the CSU, the campus affiliated with the program requiring air travel, and each and every officer, agent, and employee of each of them, from any and all claims and causes of action that the student, or any person(s) claiming through the student, may have against any of the above institutions or persons, by reason of any accident, illness, or injuries, death, or other consequences resulting directly or indirectly from or in any manner arising out of, or in connection with, the student being a passenger on a flight.

The Union *Club Sports Travel Guidelines* state that a competition proposal must be filed two days before a competition or the Wednesday before weekend competition. Disciplinary action will occur if forms are not submitted on time.

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

The Union associate director of administrative services stated her belief that it was cost-effective to reimburse for gas expenses rather than for mileage. She further stated that the Union did not realize that the club sports waiver form signed by all participants did not address air travel. In addition, she stated that the delayed submission of competition proposal/approval forms was due to a clerical error.

Inadequate administration of club sports travel increases the risk of errors, irregularities, and misappropriation of funds, and the absence of release forms or waivers from student traveling by air and prior approval of club sports competitions increases the risk of legal liability.

**Recommendation 20**

We recommend that the Union:
a. Establish and implement an approved reimbursement mileage rate equal to or less than that included in the CSU travel policy.

b. Reiterate to staff that signed release forms or waivers are to be obtained from all students traveling by air.

c. Reiterate to staff that the club sports competition proposal/approval forms must be submitted prior to the competition.

**Campus Response**

We concur. The Union will implement compliance action to:

a. Establish and implement an approved reimbursement mileage rate equal to or less than that included in the CSU travel policy.

b. Reiterate to staff that signed release forms or waivers are to be obtained from all students traveling by air.

c. Reiterate to staff that the club sports competition proposal/approval forms must be submitted prior to the competition.

Estimated completion date: August 2013

**UNCLAIMED CHECKS**

The Union had not escheated unclaimed checks to the state, nor had it established written policies and procedures for such action.

We reviewed 12 unclaimed checks dated from April 2007 to January 2012 and found that all checks were not escheated to the state.

Code of Civil Procedure Title 10, *Unclaimed Property*, and Chapter 7, *Unclaimed Property Law*, Article 2, §1510 and §1511 state that property held by a business association escheats to the state, subject to various requirements and limitations.

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

The Union associate director of administrative services stated that the failure to escheat the checks was due to management oversight and that the escheatment was currently in process.
Failure to escheat unclaimed property to the state or perform the duties specified in the unclaimed property law could result in fines.

**Recommendation 21**

We recommend that the Union:

a. Promptly remit the cited unclaimed checks to the state.

b. Develop and implement written policies and procedures to ensure timely escheatment of unclaimed checks to the state in accordance with the Code of Civil Procedure.

**Campus Response**

We concur. The Union will implement compliance action to:

a. Promptly remit the cited unclaimed checks to the state.

b. Develop and implement written policies and procedures to ensure timely escheatment of unclaimed checks to the state in accordance with the Code of Civil Procedure.

Estimated completion date: July 2013

**PERSONNEL AND PAYROLL**

**HIRING**

The Union did not always certify I-9 forms within three business days of new employees’ first day of work.

We reviewed ten new hires from June 2010 to September 2012 and found that in four instances, I-9 forms were reviewed and approved nine to 37 days after the employees’ effective date of employment.

Department of Homeland Security, U.S. Citizenship and Immigration Services, *Form I-9, Employment Eligibility Verification*, states that employers must complete Section 2 by examining evidence of identity and employment authorization within three business days of the date employment begins.

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 Union director of human resources stated that new hire documentation was not always completed in a timely manner because the responsibilities for hiring intermittent/temporary employees had been assigned to department managers for ease of hiring. She further stated that this responsibility would be reassigned to Union human resources immediately.

Untimely certification of employment eligibility increases the risk of fines and penalties.

**Recommendation 22**

We recommend that the Union reiterate to staff that I-9 forms for new employees must be certified within three business days of the date employment begins.

**Campus Response**

We concur. The Union will reiterate to staff that I-9 forms for new employees must be certified within three business days of the date employment begins.

Estimated completion date: June 2013

**SEPARATION**

The Union did not always complete separation documentation in a timely manner.

We reviewed ten employee separations from April 2010 to July 2012 and found that in five instances, separation documentation was initiated 16 to 648 days after the employees’ separation date, rather than at the time of separation. Consequently, the documentation was incomplete and lacked the employees’ signatures.

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.

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 employee separation.

The Union director of human resources stated that separation documentation was not always completed in a timely manner because that responsibility had been assigned to department managers.

Untimely completion of employee separation documentation increases the risk of loss of auxiliary funds and inappropriate use of auxiliary resources.
Recommendation 23

We recommend that the Union reiterate to staff that separation documentation should be completed at the time of separation.

Campus Response

We concur. The Union will reiterate to staff that separation documentation should be completed at the time of separation.

Estimated completion date: June 2013

PAYROLL RECONCILIATION

Union payroll bank account reconciliations were not completed and reviewed by management in a timely manner.

We reviewed three payroll bank account reconciliations for September, October, and November 2012 and found that reconciliations were not completed and reviewed by management until December 10, 2012, January 4, 2013, and February 2, 2013, respectively. The delays ranged from 63 to 71 days after month-end closing. As of February 25, 2013, the December 2012 and January 2013 payroll reconciliations had not been completed.

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 regular and timely account reconciliations that are reviewed and approved by management.

The Union associate director of administrative services stated that reviewing bank correspondence and the statement of activity, confirming official signatures on the checks, and signing off on the general ledger entry delayed the formal processing of payroll account reconciliations.

Untimely reconciliation of the payroll bank account limits the auxiliary’s ability to detect errors and irregularities, increases the likelihood of loss of funds, and compromises accountability.

Recommendation 24

We recommend that the Union reiterate to staff that payroll account reconciliations are to be completed and reviewed by management in a timely manner.
Campus Response

We concur. The Union will reiterate to staff that payroll account reconciliations are to be completed and reviewed by management in a timely manner.

Estimated completion date: June 2013

PROPERTY AND EQUIPMENT

Administration of Union property and equipment needed improvement.

We found that:

› Written policies and procedures did not reflect current business practices concerning independent physical inventory counts. This is a repeat finding from the prior Auxiliary Organizations audit.

› The annual physical inventory records for the past three fiscal years were incomplete and could not ensure that all Union assets were accounted for. Specifically, the physical inventory records used during the inventory process did not reference the asset tag number, serial number, or quantity of the asset to be accounted for. This is a repeat finding from the prior Auxiliary Organizations audit.

› Physical inventory reconciliations were not signed by management subsequent to the physical inventory count to show evidence of review and approval of any adjustments.

› Monthly reconciliations of equipment expenditures to the asset database were not formally reviewed or signed by management for all non-capitalized assets.

› Three of ten Union assets reviewed – two projectors and a portable paging system worth a total of $107,222 – lacked property identification tags.

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, reconciliation of physical inventories to the general ledger on a timely basis with review by management, and the proper recording and labeling of equipment when received.

The Union Property Acquisition and Inventory Procedures states that the accounting office will conduct an annual physical inventory prior to closing the fiscal year. Managers will be given a listing of the property in the asset database for their building(s) and will be requested to verify that all assets listed on the asset inventory list are still in place or in good condition. The asset inventory list will be returned to the accounting office, which will reconcile the physical inventory results with the general ledger. In addition, an annual random selection of various types of assets will be selected for each
building and physically verified by the accounting office. The annual physical inventory results will be presented to the associate director of administrative services for final sign off.

ICSUAM §3151.04, Equipment, dated January 1, 2011, states that a physical inventory of recorded property must be performed at least once every three years by a party who is not the custodian of the item, or more often as required by agreement or law, and must be reconciled to campus property inventory records. The completed reconciliation should receive management review and approval. Any discrepancies must be evaluated for further investigation and escalated to the appropriate authorities based on the specific situation and value of missing items.

The Union Property Acquisition and Inventory Procedures state that the property office reconciles equipment expenditures to asset database additions monthly. It further states that the associate director of administrative services reviews and signs off on all small capital equipment purchases and all asset additions to financial accounting system 50. Lastly, it states that all tangible and intangible assets valued at $5,000 or more are required to bear a Student Union property tag or have a “tag” number assigned to them (intangibles).

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 property and equipment.

The Union associate director of administrative services stated that these conditions stemmed from limitations within the Union’s fixed asset software program. She further stated that the disconnect within the physical inventory process may be attributed to a misinterpretation of the current policy. She also stated that system limitations prevented the tracking of certain assets, which limited the Union’s ability to reconcile to the general ledger, and that the cited asset tags could have fallen off over time.

Insufficient administration of property and equipment increases the risk that property may be lost or stolen or misrepresented in the financial statements.

**Recommendation 25**

We recommend that the Union:

a. Update its written policies and procedures to reflect current business practices concerning independent physical inventory counts.

b. Modify its physical inventory documentation requirements to ensure that annual physical inventory records are complete and adequately account for all assets.

c. Enforce management review and sign-off of physical inventory reconciliations.
d. Enforce management review and sign-off of monthly reconciliations of equipment expenditures to the asset database.

e. Reiterate to staff that assets valued at $5,000 or more are required to bear a property tag/ID number.

**Campus Response**

We concur. The Union will implement compliance action to:

a. Update its written policies and procedures to reflect current business practices concerning independent physical inventory counts.

b. Modify its physical inventory documentation requirements to ensure that annual physical inventory records are complete and adequately account for all assets.

c. Enforce management review and sign-off of physical inventory reconciliations.

d. Enforce management review and sign-off of monthly reconciliations of equipment expenditures to the asset database.

e. Reiterate to staff that assets valued at $5,000 or more are required to bear a property tag/ID number.

Estimated completion date: August 2013

**TRUSTS AND OTHER LIABILITIES**

Union administration of funds for club sports needed improvement.

We reviewed the funding of all 21 club sports accounts and found that:

- Club sports account funds were not allocated according to the Union Club Sports Manual.

- In three instances, funds held and administered by the Union on behalf of club sports were not supported by specific written agreements. This is a repeat finding from the prior Auxiliary Organizations audit.

- In one instance, a club sports coach’s contract (inclusive of salary) was not paid for services provided for FY 2011/12.

The Union *Club Sports Manual*, dated September 2009, states that qualified teams will receive funds based on the following system of review: 1. The total club sports budget will be divided by the total number of approved club sports participants, resulting in a flat tax (per-player dollar amount). 2. Each team’s annual budget will then be divided by its total number of approved club sports
participants, resulting in a cost-per-participant ratio. This ratio will then be multiplied by 30 percent, resulting in the maximum dollar amount per participant that team will be eligible to receive from club sports. 3. Each team’s ratio will then be measured against the flat tax: a. If a team’s ratio is less than the flat tax, the team will be awarded funds through the multiplication of the team’s total number of approved participants and the 30 percent club sports funding threshold; and b. If a team’s ratio is more than the flat tax, the team will move on to the next level of funding. 4. After disbursing funds to teams with ratios below the current flat tax, the flat tax will be recalculated to reflect the remaining number of approved participants and the remaining amount of funds available in the club sports budget. 5. Steps two through four of this process will be repeated until all of the remaining teams’ ratios are higher than the current flat tax. Once this is achieved, the remaining teams will be awarded funds by dividing each team’s total number of approved participants by the total number of club sports participants remaining and then multiplying that percentage by the remaining amount of funds available in the club sports budget. The manual further states that this system does not place a fixed maximum dollar amount on individual team funding; however, it does limit the amount teams can receive to no more than 30 percent of their annual budget.

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 and executed written agreements and that all of club sports’ contracted expenses be included in the budget to ensure the availability of funds.

The Union associate director of administrative services stated her belief that club sports instituted a different methodology in its allocations, and the combination of staffing constraints and the dynamics of club sports restricted the staff’s ability to formalize the new methodology. She further stated that there was a disconnect between the responsible parties regarding the necessity for the signed agreements. In addition, she stated that the club sports coach’s contract was not paid because there were no funds available as of June 30, 2012.

Inadequate administration of club sports increases the risk of non-compliance with relevant requirements, misunderstandings, and miscommunication regarding the allocation of funds in a fair and equitable fashion.

**Recommendation 26**

We recommend that the Union:

a. Allocate club sports account funds according to the Union Club Sports Manual.

b. Establish written agreements for the administration and maintenance for all funds held and administered by the Union on behalf of club sports.

c. Include all of club sports’ contracted expenses in the club sports budget to ensure the availability of funds.
**Campus Response**

We concur. The Union will implement compliance action to:

a. Allocate club sports account funds according to the Union Club Sports Manual.

b. Establish written agreements for the administration and maintenance for all funds held and administered by the Union on behalf of club sports.

c. Include all of club sports’ contracted expenses in the club sports budget to ensure the availability of funds.

Estimated completion date: August 2013
# 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>Mohammad Qayoumi</td>
<td>President</td>
</tr>
<tr>
<td>Shawn Bibb</td>
<td>Vice President for Administration and Finance</td>
</tr>
<tr>
<td>Josée Larochelle</td>
<td>Associate Vice President, Finance</td>
</tr>
<tr>
<td>Ninh Pham-Hi</td>
<td>Director, Internal Controls</td>
</tr>
<tr>
<td><strong>SAN JOSÉ STATE UNIVERSITY RESEARCH FOUNDATION</strong></td>
<td></td>
</tr>
<tr>
<td>Cheree Aguilar-Suarez</td>
<td>Director, Human Resources</td>
</tr>
<tr>
<td>Adele Ajimura</td>
<td>Accounts Payable Supervisor</td>
</tr>
<tr>
<td>Steve Barranti</td>
<td>Associate Director, Human Resources</td>
</tr>
<tr>
<td>Jerri Carmo</td>
<td>Interim Chief Operating Officer</td>
</tr>
<tr>
<td>Matt Cheung</td>
<td>Information Technology Manager</td>
</tr>
<tr>
<td>Marilyn Dion</td>
<td>Associate Director, Administration</td>
</tr>
<tr>
<td>Jeanne Dittman</td>
<td>Associate Director, Sponsored Programs</td>
</tr>
<tr>
<td>Lan Duong</td>
<td>Associate Director, Post Award</td>
</tr>
<tr>
<td>Paul Harris</td>
<td>Director, Finance and Accounting</td>
</tr>
<tr>
<td>Cherie Herbert</td>
<td>Director of Accounting</td>
</tr>
<tr>
<td>Kam Lam</td>
<td>Controller</td>
</tr>
<tr>
<td>Ha Ngo</td>
<td>Purchasing Specialist/Accounts Payable Lead</td>
</tr>
<tr>
<td>Norma Rossiter</td>
<td>Associate Director, Business Services</td>
</tr>
<tr>
<td>Hoang Tran</td>
<td>Accounting Manager</td>
</tr>
<tr>
<td>John Troyan</td>
<td>Assistant Controller</td>
</tr>
<tr>
<td>Ricky Yoneda</td>
<td>Lead Enterprise Program Analyst</td>
</tr>
<tr>
<td><strong>TOWER FOUNDATION OF SAN JOSÉ STATE UNIVERSITY</strong></td>
<td></td>
</tr>
<tr>
<td>Robert Drury</td>
<td>Associate Director, Advancement</td>
</tr>
<tr>
<td>Judy Kass</td>
<td>Human Resources Director</td>
</tr>
<tr>
<td>Maria Ramirez</td>
<td>Advancement Services Manager</td>
</tr>
<tr>
<td>Leslie Rohn</td>
<td>Chief Operating Officer</td>
</tr>
<tr>
<td>Christina Tan-Aoyagi</td>
<td>Accounting Manager</td>
</tr>
<tr>
<td>Christopher Thompson</td>
<td>Accounts Payable Technician</td>
</tr>
<tr>
<td>My Phoung Tran</td>
<td>Receivable Processing Analyst</td>
</tr>
<tr>
<td>Rigo Vargas</td>
<td>Information Technology Consultant</td>
</tr>
<tr>
<td><strong>SPARTAN SHOPS, INC.</strong></td>
<td></td>
</tr>
<tr>
<td>Vietanh Bui</td>
<td>Director of Accounting and Financial Reporting</td>
</tr>
<tr>
<td>Steven Olesen</td>
<td>Director of Procurement and Budget Services</td>
</tr>
<tr>
<td>Jeff Pauley</td>
<td>Senior Director, Dining Services</td>
</tr>
<tr>
<td>Beth Pugliese</td>
<td>Executive Director</td>
</tr>
<tr>
<td>Lisa Thomas</td>
<td>Senior Director, Human Resources</td>
</tr>
<tr>
<td>Michael Yin</td>
<td>Director of Information Technology and Services</td>
</tr>
</tbody>
</table>
ASSOCIATED STUDENTS, SAN JOSÉ STATE UNIVERSITY
Shawn Chan Finance and Accounting Manager, General Services Center
Maria Davis Director, Child Development Center
Analisa Escobedo-Perez Office Assistant, Child Development Center
Dawn Hadjian Accountant, General Services Center
Mohammed Khasimi Senior Systems Engineer
Paul Lee Manager, Print Shop
Jennifer Montero Manager, Human Resources
Vivian Nguyen Office Manager, General Services Center
Jason Stovall Information Technology Manager
Nancy Tepperman Administrative Assistant, Child Development Center
Trinh Thai Accountant, General Services Center
Kevin Tran Operations Coordinator, Computer Services Center
Cheryl Vargas Executive Director

THE STUDENT UNION OF SAN JOSÉ STATE UNIVERSITY
Gloria Acoba Box Office Manager
Cathy Busalacchi Executive Director
Caryn Collopy Recreating Facilities Manager
Jerry Darrell Information Technology Manager
Sharon Deaver Bowling Center Manager
Samantha Edelman Assistant Manager, Sport Club
Connie Guan Accounts Receivable Accounting Technician
Kim Hagens Accounting Manager
Rebecca Harper Aquatic Center Coordinator
Kristin Kelly Associate Director, Administrative Services
Mary Lewis Director, Human Resources
Leanne LoBue Scheduling Supervisor
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.
June 17, 2013

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

Re: Campus written response to clear finding(s) in the
SJSU Auxiliaries Audit # 13-01.

Enclosed is San José State University’s written response to clear
findings in the SJSU Auxiliaries Audit # 13-01.

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

[Signature]

Shawn Bibb
Vice President for Administration and Finance

Enclosure

CC: Mohammad Qayoumi, President
AUXILIARY ORGANIZATIONS
SAN JOSE STATE UNIVERSITY
Audit Report 13-01

SAN JOSE STATE UNIVERSITY RESEARCH FOUNDATION

CORPORATE GOVERNANCE

BOARD OF DIRECTORS

Recommendation 1

We recommend that the Foundation promptly fill all director vacancies on its governing board.

Campus Response

We concur. The Foundation will comply and fill director vacancies on its governing board.

To be completed by end of August 2013.

BYLAWS

Recommendation 2

We recommend that the Foundation reiterate to staff that all future changes/amendments to Bylaws should be filed with the Contract Services and Procurement department at the Office of the Chancellor within 30 calendar days.

Campus Response

We concur. The Foundation will reiterate to staff that all future changes/amendments to Bylaws should be filed with the Contract Services and Procurement department at the Office of the Chancellor within 30 calendar days.

To be completed by end of June 2013.

PETTY CASH AND CHANGE FUNDS

Recommendation 3

We recommend that the Foundation:

a. Update its policy to require periodic, independent cash counts of all petty cash funds, and establish a process for conducting the cash counts.
b. Obtain signed documents from all petty cash custodians acknowledging their agreement to abide by the Foundation petty cash policy.

**Campus Response**

We concur. The Foundation will implement compliance action to:

a. Update its policy to require periodic, independent cash counts of all petty cash funds, and establish a process for conducting the cash counts.

b. Obtain signed documents from all petty cash custodians acknowledging their agreement to abide by the Foundation petty cash policy.

To be completed by end of July 2013.

**PURCHASING AND ACCOUNTS PAYABLE**

**Recommendation 4**

We recommend that the Foundation reiterate to staff that travel authorization forms documenting approval of all travel and related expenditures must be submitted before expenses are incurred.

**Campus Response**

We concur. The Foundation will reiterate to staff that travel authorization forms documenting approval of all travel and related expenditures must be submitted before expenses are incurred.

To be completed by end of July 2013.

**INFORMATION TECHNOLOGY**

**DISASTER RECOVERY PLAN**

**Recommendation 5**

We recommend that the Foundation update its IT DRP to include an alternative processing facility/location and equipment replacement requirements.

**Campus Response**

We concur. The Foundation will update its IT DRP to include an alternative processing facility/location and equipment replacement requirements.

To be completed by end of July 2013.
EQUIPMENT DISPOSAL

Recommendation 6

We recommend that the Foundation establish and implement procedures to:

a. Notify the campus at the end of a grant period to request that disposed computing equipment be removed from the inventory system.

b. Evaluate whether the computing equipment contains any sensitive data, and remove such data if necessary.

Campus Response

We concur. The Foundation will establish and implement procedures to:

a. Notify the campus at the end of a grant period to request that disposed computing equipment be removed from the inventory system.

b. Evaluate whether the computing equipment contains any sensitive data, and remove such data if necessary.

To be completed by end of June 2013.
OPERATIONAL COMPLIANCE

Recommendation 7

We recommend that TF develop and implement written procedures for hospitality payments or reimbursement of expenses in accordance with ICSUAM §1301.00.

Campus Response

We concur. TF will develop and implement written procedures for hospitality payments or reimbursement of expenses in accordance with ICSUAM §1301.00.

To be completed by end of June 2013.

CASH RECEIPTS AND HANDLING

Recommendation 8

We recommend that TF establish and maintain a list of individuals who have access to the safe and a record of the dates on which the safe combination is changed.

Campus Response

We concur. TF will establish and maintain a list of individuals who have access to the safe and a record of the dates on which the safe combination is changed.

To be completed by end of June 2013.

PERSONNEL AND PAYROLL

Recommendation 9

We recommend that TF:

a. Update its separation procedures to include a separation form for student employees.
b. Implement a termination checklist to document separation procedures.

Campus Response

We concur. TF will implement compliance action to:

a. Update its separation procedures to include a separation form for student employees.
b. Implement a termination checklist to document separation procedures.

To be completed by end of August 2013.
SPARTAN SHOPS, INC.

CORPORATE GOVERNANCE

BOARD OF DIRECTORS

Recommendation 10

We recommend that Shops promptly fill the community representative vacancy on the governing board and the vacancy on the audit committee.

Campus Response

We concur. Shops will comply and fill the community representative vacancy on the governing board and the vacancy on the audit committee.

To be completed by end of July 2013.

ARTICLES OF INCORPORATION AND BYLAWS

Recommendation 11

We recommend that Shops reiterate to staff that all changes/amendments to Articles of Incorporation and Bylaws should be filed with the Contract Services and Procurement department at the Office of the Chancellor within 30 calendar days.

Campus Response

We concur. Shops will comply and reiterate to staff that all changes/amendments to Articles of Incorporation and Bylaws should be filed with the Contract Services and Procurement department at the Office of the Chancellor within 30 calendar days.

To be completed by end of June 2013.
ASSOCIATED STUDENTS, SAN JOSÉ STATE UNIVERSITY

CORPORATE GOVERNANCE

Recommendation 12

We recommend that AS reiterate to staff that all future changes/amendments to Bylaws should be filed with the Contract Services and Procurement department at the Office of the Chancellor within 30 calendar days.

Campus Response

We concur. AS will comply and reiterate to staff that all future changes/amendments to Bylaws should be filed with the Contract Services and Procurement department at the Office of the Chancellor within 30 calendar days.

To be completed by end of June 2013.

PURCHASING AND ACCOUNTS PAYABLE

CREDIT CARDS

Recommendation 13

We recommend that AS reiterate to staff that procurement card reconciliations are to be completed in a timely manner.

Campus Response

We concur. AS will comply and reiterate to staff that procurement card reconciliations are to be completed in a timely manner.

To be completed by end of June 2013.

TRAVEL

Recommendation 14

We recommend that AS reiterate to staff that signed release forms or waivers are to be obtained from all students traveling by air.

Campus Response

We concur. AS will comply and reiterate to staff that signed release forms or waivers are to be obtained from all students traveling by air.

To be completed by end of June 2013.
AUXILIARY PROGRAMS

Recommendation 15

We recommend that AS:

a. Establish a master operating agreement with the campus for the administration of children’s center contracts and grants.

b. Obtain written delegation of authority from the president or the president’s designee to the AS executive director to sign/approve children’s center contracts and grants proposals.

Campus Response

We concur. AS will implement compliance action to:

a. Establish a master operating agreement with the campus for the administration of children’s center contracts and grants.

b. Obtain written delegation of authority from the president or the president’s designee to the AS executive director to sign/approve children’s center contracts and grants proposals.

To be completed by end of August 2013.
THE STUDENT UNION OF SAN JOSÉ STATE UNIVERSITY

SEGREGATION OF DUTIES

Recommendation 16

We recommend that the Union adequately segregate duties and responsibilities related to personnel and payroll or institute mitigating procedures approved by the campus CFO.

Campus Response

We concur. The Union will adequately segregate duties and responsibilities related to personnel and payroll.

To be completed by end of July 2013.

CASH RECEIPTS AND HANDLING

Recommendation 17

We recommend that the Union:

a. Assign separate log-on identifications to establish accountability when multiple cashiers operate the same cash register at the bowling center, or institute mitigating procedures approved by the campus CFO.

b. Update daily cash register opening procedures at the event center box office to include an independent count of each cashier’s drawer by a supervisor or other staff member, and reiterate to staff that the Ticketmaster Outlet Daily Sales Tracking for Seller Shift Change log must be used and cashiers must adequately secure their cash tills.

Campus Response

We concur. The Union will implement compliance action to:

a. Assign separate log-on identifications to establish accountability when multiple cashiers operate the same cash register at the bowling center

b. Update daily cash register opening procedures at the event center box office to include an independent count of each cashier’s drawer by a supervisor or other staff member; and reiterate to staff that the Ticketmaster Outlet Daily Sales Tracking for Seller Shift Change log must be used and cashiers must adequately secure their cash tills.

To be completed by end of July 2013.
PETTY CASH AND CHANGE FUNDS

Recommendation 18

We recommend that the Union update its change fund procedures to:

a. Formally assign custodianship of each change fund to a single person.
b. Address the amount of the funds at risk when determining the frequency of fund reconciliations.

Campus Response

We concur. The Union will implement compliance action to:

a. Formally assign custodianship of each change fund to a single person.
b. Address the amount of the funds at risk when determining the frequency of fund reconciliations.

To be completed by end of June 2013.

INVESTMENTS

Recommendation 19

We recommend that the Union reiterate to staff that investment account reconciliations are to be completed and reviewed by management in a timely manner.

Campus Response

We concur. The Union will reiterate to staff that investment account reconciliations are to be completed and reviewed by management in a timely manner.

To be completed by end of June 2013.

PURCHASING AND ACCOUNTS PAYABLE

TRAVEL

Recommendation 20

We recommend that the Union:

a. Establish and implement an approved reimbursement mileage rate equal to or less than that included in the CSU travel policy.
b. Reiterate to staff that signed release forms or waivers are to be obtained from all students traveling by air.
c. Reiterate to staff that the club sports competition proposal/approval forms must be submitted prior to the competition.
Campus Response

We concur. The Union will implement compliance action to:

a. Establish and implement an approved reimbursement mileage rate equal to or less than that included in the CSU travel policy.

b. Reiterate to staff that signed release forms or waivers are to be obtained from all students traveling by air.

c. Reiterate to staff that the club sports competition proposal/approval forms must be submitted prior to the competition.

To be completed by end of August 2013.

UNCLAIMED CHECKS

Recommendation 21

We recommend that the Union:

a. Promptly remit the cited unclaimed checks to the state.

b. Develop and implement written policies and procedures to ensure timely escheatment of unclaimed checks to the state in accordance with the Code of Civil Procedure.

Campus Response

We concur. The Union will implement compliance action to:

a. Promptly remit the cited unclaimed checks to the state.

b. Develop and implement written policies and procedures to ensure timely escheatment of unclaimed checks to the state in accordance with the Code of Civil Procedure.

To be completed by end of July 2013.

PERSONNEL AND PAYROLL

HIRING

Recommendation 22

We recommend that the Union reiterate to staff that I-9 forms for new employees must be certified within three business days of the date employment begins.
Campus Response

We concur. The Union will reiterate to staff that I-9 forms for new employees must be certified within three business days of the date employment begins.

To be completed by end of June 2013.

SEPARATION

Recommendation 23

We recommend that the Union reiterate to staff that separation documentation should be completed at the time of separation.

Campus Response

We concur. The Union will reiterate to staff that separation documentation should be completed at the time of separation.

To be completed by end of June 2013.

PAYROLL RECONCILIATION

Recommendation 24

We recommend that the Union reiterate to staff that payroll account reconciliations are to be completed and reviewed by management in a timely manner.

Campus Response

We concur. The Union will reiterate to staff that payroll account reconciliations are to be completed and reviewed by management in a timely manner.

To be completed by end of June 2013.

PROPERTY AND EQUIPMENT

Recommendation 25

We recommend that the Union:

a. Update its written policies and procedures to reflect current business practices concerning independent physical inventory counts.

b. Modify its physical inventory documentation requirements to ensure that annual physical inventory records are complete and adequately account for all assets.

c. Enforce management review and sign-off of physical inventory reconciliations.
d. Enforce management review and sign-off of monthly reconciliations of equipment expenditures to the asset database.

e. Reiterate to staff that assets valued at $5,000 or more are required to bear a property tag/ID number.

**Campus Response**

We concur. The Union will implement compliance action to:

a. Update its written policies and procedures to reflect current business practices concerning independent physical inventory counts.

b. Modify its physical inventory documentation requirements to ensure that annual physical inventory records are complete and adequately account for all assets.

c. Enforce management review and sign-off of physical inventory reconciliations.

d. Enforce management review and sign-off of monthly reconciliations of equipment expenditures to the asset database.

e. Reiterate to staff that assets valued at $5,000 or more are required to bear a property tag/ID number.

To be completed by end of August 2013.

**TRUSTS AND OTHER LIABILITIES**

**Recommendation 26**

We recommend that the Union:

a. Allocate club sports account funds according to the Union Club Sports Manual.

b. Establish written agreements for the administration and maintenance for all funds held and administered by the Union on behalf of club sports.

c. Include all of club sports’ contracted expenses in the club sports budget to ensure the availability of funds.

**Campus Response**

We concur. The Union will implement compliance action to:

a. Allocate club sports account funds according to the Union Club Sports Manual.

b. Establish written agreements for the administration and maintenance for all funds held and administered by the Union on behalf of club sports.
c. Include all of club sports’ contracted expenses in the club sports budget to ensure the availability of funds.

To be completed by end of August 2013.
July 22, 2013

MEMORANDUM

TO: Mr. Larry Mandel
   University Auditor

FROM: Timothy P. White
      Chancellor

SUBJECT: Draft Final Report 13-01 on Auxiliary Organizations,
         San José State University

In response to your memorandum of July 22, 2013, I accept the response as
submitted with the draft final report on Auxiliary Organizations, San José State
University.

TPW/amd