

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

June 22, 2023

Dr. Cynthia Teniente-Matson, President
San José State University
One Washington Square
San José, CA 95192

Dear Dr. Teniente-Matson:

Subject: Audit Report 22-06, Athletics Fiscal Administration, San José State University

We have completed an audit of *Athletics Fiscal Administration* as part of our 2022-2023 Audit Plan, and the final report is attached for your reference. The audit was conducted in accordance with the Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing*.

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

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

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

Sincerely,



Vlad Marinescu
Vice Chancellor and Chief Audit Officer

c: Jolene Koester, Interim Chancellor
Yammilette Rodriguez, Chair, Committee on Audit
Jean Picker Firstenberg, Vice Chair, Committee on Audit

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ATHLETICS FISCAL ADMINISTRATION

San José State University

Audit Report 22-06
June 22, 2023

EXECUTIVE SUMMARY

OBJECTIVE

The objectives of the audit were to ascertain the effectiveness of operational, administrative, and financial controls for athletics fiscal administration and to ensure compliance with relevant government regulations; Trustee policy; Office of the Chancellor (CO) directives; and related campus and auxiliary procedures. The audit focused on procedures in effect from July 1, 2020, to December 9, 2022.

CONCLUSION

Recent years of turnover in a key administrative position, specifically the associate director of budget planning and administration (who resigned in June 2022), may have contributed to some of the observations noted below. According to campus management, with this individual's departure, much of the event-specific and historical knowledge of fiscal activities in athletics was lost. Prior to our audit (August 2022), the department hired a senior associate athletics director for finance to focus on some of the areas reviewed.

The San Jose State University (SJSU) vice president/chief financial officer stated that the campus acknowledges the management challenges that occurred during the years in the audit period. Since the new athletics director has come on board, SJSU has been strengthening athletics fiscal administration by building up the athletics management structure and the athletics leadership team.

Based upon the results of the work performed within the scope of the audit, the operational, administrative, and financial controls for athletics fiscal administration as of December 9, 2022, were unlikely to provide reasonable assurance that risks were being managed and objectives were met during the audit period.

While performing the audit, we identified several areas that needed improvement. We found that athletics department budgets were not monitored appropriately before August 2022, resulting in large variances each year. We also found that administration of athletics travel was not sufficient to ensure that expenses were appropriately documented and aligned with California State University (CSU) systemwide policy, cash advances were appropriately reconciled and unused funds returned, and documented review and approval of expenses was obtained and maintained. In addition, there were insufficient policies or procedures related to the establishment and oversight of sports camps, and documentation such as approvals, liability waivers, background checks, facility-use agreements, and insurance documentation was not retained.

We also found that cash-handling procedures within the ticketing office needed improvement and did not align with both campus and California State University (CSU) systemwide policy. This included segregation of duties, access to safes and safe combinations, and security protocols. In addition, management of the athletic inventory and campus asset management systems needed improvement, and conflict-of-interest (COI) and outside employee disclosure (OED) forms were not always completed and followed up on by the campus.

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

OBSERVATIONS, RECOMMENDATIONS, AND RESPONSES

1. ATHLETIC BUDGET AND FISCAL ADMINISTRATION

OBSERVATION

Athletics management was unable to provide evidence that the budget was adequately managed during the period under audit.

We found that, due to significant changes in leadership and vacancies in key positions during our review period, starting in July 2020, responsibility for athletics budget oversight shifted several times. For a brief period, the campus finance and business services department absorbed budget activities for athletics. Remaining athletics department management could not provide us with information about the budget process, nor could team coaches, who had not been informed of or held accountable for their individual team budgets. The campus could not locate a business plan to provide context for some financial decisions that resulted in budget variances. Per the current athletic director, athletics currently has an annual deficit of \$2 million against a budget of \$32 million.

A new senior athletic director for finance was hired in August 2022, at which point responsibility for the athletics department budget was transferred back to athletics. The two athletics business operations coordinators began reporting directly to the senior athletics director for finance in October 2022. The leadership team began work on improving budget practices at that time.

Clear documentation of the athletics department's budget, including appropriate reviews and approvals, helps to ensure proper oversight and appropriate use of financial resources and enhances financial planning processes.

RECOMMENDATION

We recommend that the campus:

- a. Develop and implement procedures for the budget process within athletics that define the process to develop and manage the budget, describe deliverables, and assign responsibilities.
- b. Provide training on the new budget process to responsible parties.

MANAGEMENT RESPONSE

The campus concurs. We will implement remedial actions to:

- a. Develop and implement procedures for the budget process within athletics that define the process to develop and manage the budget, describe deliverables, and assign responsibilities.
- b. Provide training on the new budget process to responsible parties.

Expected completion date: August 30, 2023

2. TEAM TRAVEL

OBSERVATION

Administration of athletics travel expenditures needed significant improvement.

We found that policies and procedures for athletics travel were inadequate. Specifically, we found that the athletics department did not have policies or procedures in place specific to athletics travel and did not follow campus or systemwide policies and guidelines for travel. Through the review of supporting documentation for 10 team trips and two recruiting trips, we found that controls were insufficient to ensure that expenses were appropriately documented and aligned with CSU systemwide policy, cash advances were appropriately reconciled and unused funds returned, and documented review and approval of expenses was obtained and maintained.

Specifically, we found that:

- Although there was a process and form used to approve athletics team travel, this was not consistently used or enforced. For six of the 10 team trips reviewed, there was no evidence of documented approval prior to the start of travel.
- There did not appear to be a process to ensure team travel claims were submitted, or to consistently document traveler and approver signatures, and we noted issues with all 10 team trips reviewed. Specifically, for three trips, athletics could not provide a completed travel claim; for six trips, the claim was unsigned by the traveler; and for all seven trips where a claim was provided, the claim was not signed by an approver.
- Cash advances and related per diem payments were not appropriately reconciled with unused funds returned. We noted that cash advances were taken out for five of the team trips, in amounts ranging from \$600 to \$4,300. For two of these trips, no travel claim was provided to reconcile the amount advanced to the amount expended. In addition, for three trips, it appeared that the cash advanced was not fully expended; however, the campus did not provide evidence that the remainder was returned or paid back to the campus. For one of these trips, the amount of money that the travel claim indicated was owed to the campus was \$360 less than the amount substantiated.
- Cash advances and related per diem payments were not sufficiently documented. We noted that in some instances when cash was provided to student athletes in lieu of meals, documentation was not maintained specifying which meals on what travel days the cash was intended to substitute for. This made it difficult to determine whether CSU policies relating to meal costs were being adhered to. We also noted that for one of the trips, an athletics employee requested reimbursement for dinner per diem amounts (\$825 per day) for an entire team for three days in which he also submitted a receipt for dinner for the entire team paid on a campus credit card (GoCard) in amounts of \$433, \$768, and \$663.

- For all five trips with cash advances, cash in lieu of meals was provided to athletics staff or coaches, which is not allowed per CSU policy.
- Expenditures were generally not well documented. For example, for one trip, certain individuals did not have round-trip airfare tickets; rather, they had tickets either to the event or from the event. The same trip included charges from two hotels for the same time period, showing the same individuals at both hotels, without an explanation of what had occurred. We also noticed instances where hotel and meal receipts were not itemized; illegible receipts; expenses incurred on the GoCard that were not included in the travel claim to substantiate their business purpose; an instance where it appeared that one team paid for another team's travel costs without any explanation on the travel claim; one instance where the business purpose for the reimbursement was not clear; and one instance where a \$200 laundry bill was submitted without a receipt and was reimbursed based on a handwritten note indicating the amount paid.

Compliance with campus travel guidelines reduces the risk of unauthorized, unnecessary, or non-business expenditures.

RECOMMENDATION

We recommend that the campus:

- a. Develop athletics-specific team travel policies and procedures that address, but are not limited to, the situations and issues noted above.
- b. Communicate and provide training on travel policies and procedures to athletics personnel.
- c. Investigate the instances noted above where cash advances were not fully accounted for and where duplicate expenses occurred (meals with both per diem and receipt reimbursement) and, if necessary, obtain employee reimbursement of funds.

MANAGEMENT RESPONSE

The campus concurs. We will implement remedial actions to:

- a. Develop athletics-specific team travel policies and procedures that address, but are not limited to, the situations and issues noted above.
- b. Communicate and provide training on travel policies and procedures to athletics personnel.
- c. Investigate the instances noted above where cash advances were not fully accounted for and where duplicate expenses occurred (meals with both per diem and receipt reimbursement) and, if necessary, obtain employee reimbursement of funds.

Expected completion date: November 19, 2023

3. SPORTS CAMPS

OBSERVATION

The athletics department did not have written policies and procedures related to the establishment or oversight of sports camps, and sports camp documentation was not retained.

We found that the athletics department was using campus event-hosting procedures to administer sports camps. However, these procedures did not specifically address the requirements for institutional and non-institutional sports camps, including, but not limited to, information regarding appropriate approvals, background checks, training, or liability waivers.

In addition, we reviewed five institutional and five non-institutional camps and found that the campus did not retain supporting documentation for the camps. For institutional sports camps, this included approval forms, release of liability waivers, fee and payment evidence, applications or agreements with the camp attendees, staff and volunteer information, evidence of background checks, and training documentation. For non-institutional sports camps, this included facility-use agreements with appropriate indemnification clauses and requirements for background checks and training for camp staff, as well as evidence of insurance.

Proper administration of sports camps helps to ensure that unauthorized activities do not occur on campus and that authorized activities properly mitigate their related risks.

RECOMMENDATION

We recommend that the campus develop and implement policies and procedures for the establishment and oversight of sports camps that address the issues noted above, including documentation retention protocols, and provide training to appropriate personnel.

MANAGEMENT RESPONSE

The campus concurs. We will implement remedial actions to develop and implement policies and procedures for the establishment and oversight of sports camps that address the issues noted above, including documentation retention protocols, and provide training to appropriate personnel.

Expected completion date: November 19, 2023

4. CASH HANDLING

OBSERVATION

Administration of cash-handling processes needed improvement.

We reviewed cash-handling practices at the Spartan Ticket Office (ticket office) and found that:

- The location did not maintain documentation of authorized employees with access to safe combinations. Further, the location did not update safe combination upon employee separation or on a three-year cycle as required by CSU systemwide policy.
- The ticket office did not have adequate segregation of duties for cash-handling processes. The assistant athletics director for ticket operations performed cash counts, prepared deposits, and prepared reconciliations without verification by a second employee.
- The ticket office procedures did not address certain cash-handling protocols required by systemwide policy, such as reconciliations and reviews of general ledger.
- The process to issue and track complimentary event tickets was manual and inconsistently implemented. We noted instances on logs in which individuals receiving tickets did not sign forms as required.

Compliance with cash-handling requirements reduces exposure to risk of loss, theft, or misappropriation of funds, and strong policies and procedures advise employees of cash-handling standards set by the campus and CSU.

RECOMMENDATION

We recommend that the campus:

- a. Maintain documentation of employees with access to safe combinations, and update safe combinations when employees with access to the safes separate from the campus or on a three-year cycle.
- b. Develop and implement ticket office cash-handling procedures that follow the requirements set by the campus and systemwide policies, including the areas noted above.
- c. Develop and implement a process to consistently track complimentary event tickets and ensure that individuals receiving complimentary tickets sign forms to acknowledge receipt of the tickets.

MANAGEMENT RESPONSE

The campus concurs. We will implement remedial actions to:

- a. Maintain documentation of employees with access to safe combinations, and update safe combinations when employees with access to the safes separate from the campus, or on a three-year cycle.
- b. Develop and implement ticket office cash-handling procedures that follow the requirements set by the campus and systemwide policies, including the areas noted above.

- c. Develop and implement a process to consistently track complimentary event tickets and ensure that individuals receiving complimentary tickets sign forms to acknowledge receipt of the tickets.

Expected completion date: August 30, 2023

5. ATHLETICS PROPERTY AND INVENTORY

OBSERVATION

Administration of property and equipment needed improvement to ensure proper recording of assets in the asset management system, completion of physical inventory, and disposal of assets.

Management of athletics capital assets is primarily the responsibility of the campus property office, and the property policy manual requires that each department assign a property custodian to act as the central point of contact for asset administration. Systemwide policy requires the property office to conduct a formal inventory of certain assets every three years.

We found that during the last campuswide inventory, performed in November 2021, the inventory of athletics assets was not completed by the department assigned property custodian. As a result, an inventory of athletics assets was not submitted to the campus property office to update inventory records and research or reconcile any discrepancies. In addition, we reviewed 10 assets from a list generated from the property system and found that eight were not tagged, although we were able to locate and observe the assets during walkthroughs. These included several high-value items, such as a Sprinter Van (initial value of \$96,000), video-editing equipment (initial value of \$65,000), and furniture for the campus tennis center (initial value of \$77,000).

Management of athletics equipment, apparel, and gear is the responsibility of the athletics department, and those items are required to be inventoried annually per systemwide policy. We found that an inventory of equipment, apparel, and gear was not performed during the audit period, and the athletics department did not have a policy or procedure to address such inventories.

Further, we found that the athletics department did not follow campus policies and procedures for the disposal of surplus athletics equipment, apparel, and gear. Although the campus Property Office Property Manual has a process in place for the auction of campus surplus equipment (whether tagged or not) via Public Surplus, we noted that the athletics department had their own sales of surplus team apparel during the spring and summer season. The items sold were team apparel and equipment in new condition that could not be used for various reasons, including changes in uniform style or a change of designated uniform vendor. The nature of these items is unique in such that the core market would be campus employees, students, or alumni rather than the general public, so the method of sale was considered by athletics management to be appropriate.

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

RECOMMENDATION

We recommend that the campus:

- a. Provide training to athletics department personnel on campus policies and procedures relating to responsibilities of the department property custodian, physical inventory of capitalized assets, asset tagging, and property disposals.
- b. Update athletics procedures relating to equipment, apparel, and gear to address the requirement to perform an annual inventory, including roles and responsibilities for performing this task.
- c. Perform an inventory of athletics capital assets, as well as athletics equipment, apparel, and gear, and update inventory records as necessary.
- d. Tag the assets noted above.

MANAGEMENT RESPONSE

The campus concurs. We will implement remedial actions to:

- a. Provide training to athletics department personnel on campus policies and procedures relating to responsibilities of the department property custodian, physical inventory of capitalized assets, asset tagging, and property disposals.
- b. Update athletics procedures relating to equipment, apparel, and gear to address the requirement to perform an annual inventory, including roles and responsibilities for performing this task.
- c. Perform an inventory of athletics capital assets, as well as athletics equipment, apparel, and gear, and update inventory records as necessary.
- d. Tag the assets noted above.

Expected completion date: November 19, 2023

6. CONFLICT-OF-INTEREST AND OUTSIDE EMPLOYMENT FORMS

OBSERVATION

Designated employees did not consistently complete required COI and OED forms.

We reviewed the most recently completed COI and OED forms for five designated positions, and we found that:

- Two employees did not complete the required COI or OED forms requested by the campus upon hire.

- One employee did not complete the required OED renewal form.

Adequate administration of COI and OED forms for potential conflicts of interest decreases the risk of noncompliance with governmental requirements and potential regulatory scrutiny.

RECOMMENDATION

We recommend that the campus:

- a. Review procedures for ensuring that designated employees consistently complete COI and OED forms and revise them as necessary, including enforcement and follow-up procedures.
- b. Ensure that all current designated employees have completed COI and OED forms.

MANAGEMENT RESPONSE

The campus concurs. We will:

- a. Review procedures for ensuring that designated employees consistently complete COI and OED forms and revise them as necessary, including enforcement and follow-up procedures.
- b. Ensure that all current designated employees have completed COI and OED forms.

Expected completion date: October 30, 2023

GENERAL INFORMATION

BACKGROUND

The California State University (CSU) is the nation's largest four-year public university system, with 23 campuses and 314 intercollegiate athletics teams. Administration and operation of athletics programs occur within the framework of regulations and rules imposed by national governing associations and the athletics conferences in which the players and teams compete. The United States Department of Education also collects data on athletics based on the federal Equity in Athletics Disclosure Act (EADA). California State University (CSU) campuses are subject to EADA because they accept federal financial aid funds.

San José State University's (SJSU) intercollegiate athletics teams, known as the Spartans, compete at the NCAA Division I level (Football Bowl Subdivision, or FBS, for football) in the Mountain West conference. The campus supports intercollegiate teams in nine men's sports and 13 women's sports as follows:

SPORT	MEN'S	WOMEN'S
Baseball	√	
Basketball	√	√
Cross Country	√	√
Football	√	
Golf	√	√
Gymnastics		√
Soccer	√	√
Softball		√
Tennis		√
Track and Field (Indoor)	√	√
Track and Field (Outdoor)	√	√
Beach Volleyball		√
Volleyball		√
Water Polo	√	√
Swimming & Diving		√

In fiscal year (FY) 2021/22, 552 SJSU student-athletes (309 men and 243 women) participated in the 22 intercollegiate athletics programs, per the annual EADA report.

For several years SJSU has been expanding its sports facilities at its main athletics area called South Campus. On-campus athletic facilities with spectator seating capacities at SJSU include a football stadium, soccer field and complex, softball field, baseball field, tennis complex, golf complex, beach volleyball court, swimming pool, and several training centers and gyms.

At SJSU, the athletics department is administered by a director of athletics (AD) who reports directly to the president. One deputy athletic director and six senior associate athletic directors are responsible for various athletic operations, including student wellness and leadership development, facilities and capital projects, finance, compliance, operations, public relations, and human resources. The deputy ADs and most of the associate directors oversee assigned sports and act as the direct reporting line for the head coaches of those sports. The

senior associate athletic director of finance was hired in August 2022 and oversees three business analysts who assist teams with various financial responsibilities, including budgeting, revenue contracts, expense contracts, operational expenses, and team travel. The athletics department also houses various functions that report to the senior associate athletic directors, including compliance, sports properties, equipment, events and facilities, sports medicine, media relations, and ticket operations.

Athletic funds at SJSU are held in campus and auxiliary organization accounts. Funds held in campus accounts must follow requirements in the Integrated California State University Administrative Manual (ICSUAM); funds held in auxiliary organization accounts primarily follow requirements set forth in the *Compilation of Policies and Procedures for CSU Auxiliary Organizations* and Title 5 of the California Code of Regulations.

SCOPE

We performed fieldwork from October 17, 2022, through December 9, 2022. Our audit and evaluation included the audit tests we considered necessary in determining whether operational, administrative, and financial controls are in place and operative. The audit focused on procedures in effect from July 1, 2020, to December 9, 2022.

Specifically, we reviewed and tested:

- Accountability for the athletics fiscal administration function to ensure it is clearly defined and documented.
- Athletic budgets and delegations of authority to ensure they are in place, adequate, and used effectively in various aspects of athletics programs administration.
- Processes to ensure that appropriate reviews and approvals are in place for contracting activities.
- Processes to ensure that segregation of duties is adequate, accountability is maintained, and safeguarding is adequate for cash and cash equivalents.
- Athletic salaries for administrators and coaches to ensure that they comply with CSU salary schedules, collective bargaining provisions, and requirements for supplemental compensation; and benefits provided to athletics employees to ensure they are appropriate and proper.
- Processes to ensure that athletics expenditures are appropriate, properly authorized, and processed in accordance with CSU and campus policies.
- Activities related to sports camps and clinics to ensure they comply with relevant institutional requirements, including background checks/authorizations, insurance, revenue accountability, inclusion of relevant expenditures, and reporting of income/profits.

As a result of changing conditions and the degree of compliance with procedures, the effectiveness of controls changes over time. Specific limitations that may hinder the effectiveness of an otherwise adequate system of controls include, but are not limited to, resource constraints, faulty judgments, unintentional errors, circumvention by collusion, and

management overrides. Establishing controls that would prevent all these limitations would not be cost-effective; moreover, an audit may not always detect these limitations. Our testing and methodology, which was designed to provide a review of key operational and administrative controls, included interviews, walkthroughs, and detailed testing. Our review was limited to gaining reasonable assurance that essential elements of the athletics fiscal administration function were in place and did not examine all aspects of the program.

CRITERIA

Our audit was based upon standards as set forth in federal and state regulations and guidance; Trustee policy; Office of the Chancellor directives; and campus procedures; as well as sound administrative practices and consideration of the potential impact of significant risks. This audit was conducted in conformance with the Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing*.

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

- Government Codes §13402 and §13403
- *CSU Administration of University Property Policy*
- *CSU Contracts and Procurement Policy*
- *CSU Travel and Business Expense Reimbursement Policy*
- Executive Order 1000, *Delegation of Fiscal Authority and Responsibility*
- Coded memorandum Human Resources (HR) 2016-06, *Management Personnel Plan (MPP) Outside Employment Disclosure*
- HR 2017-17, *Background Check Policy*
- HR 2019-02, *MPP Athletics Personnel Definite-Term Appointments*
- ICSUAM §1201, *Intercollegiate Athletics Administration*
- ICSUAM §1202, *Athletics Trade Usage*
- ICSUAM §1203, *Fringe Benefits Management*
- ICSUAM §1205, *Athletic Group Travel*
- ICSUAM §1206, *Inventory Control of Athletic Equipment, Apparel and Gear*
- ICSUAM §1401, *Administration of University Property*
- ICSUAM §3103.01, *Disbursements-General*
- ICSUAM §3130.01, *Accounts Receivable Management*
- ICSUAM §6200, *Campus Administration of Systemwide Cash Management Policy*
- ICSUAM §6201, *Sensitive Positions and Cash Handling*
- ICSUAM §6320, *Petty Cash and Change Funds*
- ICSUAM §6330, *Security of Cash and Cash Equivalents*
- ICSUAM §15701, *Fundraising Events*
- SJSU Bursar's Office *Cash Handling Procedures for Campus Departments*
- SJSU Finance *Guidelines for Delegation of Authority for Approval of Financial Expenditures*
- *SJSU Property Manual*
- *SJSU Student Athlete Handbook*
- *SJSU ProCard Program Guide*
- *SJSU Name, Image, and Likeness Policy*

AUDIT TEAM

Senior Audit Manager: Ann Hough
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