

SPECIAL AUDIT

SAN JOSÉ STATE UNIVERSITY

Special Audit Report 14-91
September 16, 2014

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September 16, 2014

Report #14-91

Dr. Timothy P. White
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The California State University
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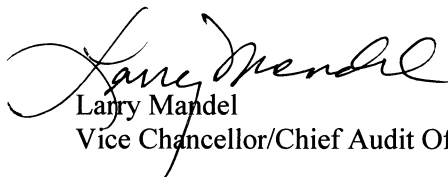
Dear Dr. White:

Pursuant to a request from your office on May 15, 2014, and with the concurrence of the chair of the Board of Trustees Committee on Audit, the Office of Audit and Advisory Services has conducted a special audit in response to an issue raised by San José State University President Mohammad Qayoumi. Specifically, the president raised concerns related to an off-campus bank account that had been administered by the former chair of the Justice Studies department and asked that we conduct an audit of the department.

To conduct the special audit, we examined the report the campus prepared about the off-campus account and performed additional testing related to the account expenditures. In addition, we focused on the internal administrative, compliance, and operational controls over Justice Studies expenditures, reviewing contracting practices during fiscal year 2011/12 and after, and testing expenditures made during fiscal years 2012/13 and 2013/14. We also reviewed relevant criteria and interviewed current campus and foundation personnel.

Included within the report are the results of the special audit along with specific recommendations which, we believe, would benefit campus fiscal and operational management.

Sincerely,


Larry Mandel
Vice Chancellor/Chief Audit Officer

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ABBREVIATIONS

Bureau	Administration of Justice Bureau
CASA	College of Applied Science and Arts
CERF	Continuing Education Revenue Fund
Chair	Former chair of the Justice Studies department
CO	Chancellor's Office
CSU	California State University
EC	Education Code
EO	Executive Order
EVC/CFO	Executive Vice Chancellor/Chief Financial Officer
FY	Fiscal Year
GC	Government Code
HR	Human Resources
ICSUAM	Integrated California State University Administrative Manual
JS	Justice Studies
RF	Research Foundation
SJSU	San José State University
TF	Tower Foundation
WTU	Weighted Teaching Units

EXECUTIVE SUMMARY

As a result of a request from the president of San José State University (SJSU) to the chancellor, the Board of Trustees' Committee on Audit chair authorized a review of the SJSU Justice Studies Department on May 16, 2014.

We visited the SJSU campus from May 19, 2014, through June 20, 2014, and audited the procedures in effect at that time.

In our opinion, due to the effect of the weaknesses described below, the fiscal, operational, and administrative controls for Justice Studies department activities as of June 20, 2014, taken as a whole, were not sufficient to meet the objectives stated in the "Purpose" section of this report. Areas of concern include: off-campus bank account existence, administration and reporting, contracting practices, and expenditures made from campus and foundation accounts.

The following summary provides management with an overview of conditions requiring attention. Areas of review not mentioned in this section were found to be satisfactory. Numbers in brackets [] refer to page numbers in the report.

OFF-CAMPUS BANK ACCOUNT [8]

- ▶ The campus did not report an off-campus bank account in the name of the Justice Studies (JS) department to the chancellor's office and the state.
- ▶ The JS off-campus bank account was not authorized, and administration of the account was inadequate. Several concerns were noted, including a lack of accountability and oversight of the account and a lack of receipts or other supporting documentation for any of the expenditures made from the account.
- ▶ Expenditures in the account were questionable and did not always appear to be a prudent or appropriate use of funds. Aside from the \$7,131 identified as personal expenditures by the former chair of the Justice Studies department (chair) and reimbursed to the campus, \$2,356 was spent on staff appreciation and other rewards or gifts for employees; \$1,500 was spent on refreshments for staff and faculty meetings; and \$1,431 was spent for an iPhone, camera equipment, and a transcription kit that could not be located by the department.
- ▶ The chair failed to appropriately charge six days of vacation time while on personal business, which we found through our review of personal charges for wireless internet access made to the off-campus account.

CONTRACTING PRACTICES [12]

- ▶ The chair engaged in a conflict of interest by hiring a vendor, vendor A, with whom he had a personal and financial relationship, and by accepting additional compensation to oversee the vendor's work.
- ▶ The chair violated campus policy by hiring two vendors, including vendor A, before he completed the proper forms and by allowing them to perform work before he obtained proper approvals.

JUSTICE STUDIES CAMPUS ACCOUNTS [14]

- ▶ The JS department charged \$67,460 to the Continuing Education Revenue Fund trust account that did not appear to benefit activities related to continuing education or self-supporting instructional programs.
- ▶ Review and processing of stipends was not in compliance with campus policy. Specifically, JS payments to outside vendors were improperly classified as stipends, thereby circumventing the campus requisition process. Also, one stipend in the amount of \$2,000 was made to the spouse of the faculty project director for work he did on her project, which created a conflict of interest, and four stipends did not include adequate supporting documentation.
- ▶ Special consultant forms for JS faculty members were not always signed by the appropriate college administrators and faculty affairs prior to the commencement of work, and the JS department did not always retain sufficient documentation to substantiate the work/deliverables that were compensated by additional pay.
- ▶ The chair received vacation and overload compensation that was not appropriately documented and supported.
- ▶ JS local trust fund account agreements were not always current or did not contain an adequate description of the purpose or appropriate uses of the trust account.
- ▶ The JS department did not always submit adequate supporting documentation for hospitality expenditures made using campus procurement cards.
- ▶ The JS department did not always account for and tag sensitive equipment purchases below the campus capitalization threshold of \$5,000, including several equipment items that the campus was unable to locate.

JUSTICE STUDIES FOUNDATION ACCOUNTS [24]

- ▶ The faculty project director on a private grant held at the Tower Foundation (TF) engaged in a conflict of interest by making a \$525 payment to her spouse for work on the grant.
- ▶ TF policy did not require one-up signature approval (i.e., the approval of a supervisor), and only the authorized signer on the account was needed to approve expenditures, even when the signer was paying or reimbursing him- or herself.
- ▶ Three campus employees received reimbursements totaling \$700 from the TF and Research Foundation for their personal cell phone bills without an adequate explanation of the business purpose.
- ▶ Appointment forms for university employees who also performed work for the TF did not always adequately identify the type of work to be performed and were not always reviewed and approved by campus administrators prior to the start of work.

- ▶ JS independent contractor agreements processed through the TF were not always executed with all approvals prior to work being performed and were not always fully completed. In addition, in one instance, a perceived conflict of interest and potential nepotism issue was not addressed until after the work was performed.

INTRODUCTION

BACKGROUND

Education Code §89756 requires the president of each campus to be responsible for ensuring the propriety of expenditures and reporting of funds received by the campus. The management and oversight of this responsibility is typically delegated to a vice president of administration and finance, as it is at SJSU. In order to carry out this responsibility, the campus must be cognizant of all accounts holding funds in trust for campus activities or programs. Campus activities and programs should not use off-campus bank accounts for which accountability is not maintained by campus administration. Further, Integrated California State University Administrative Manual §3101.01, *Centralized Management of Cash and Investments*, specifically requires that all money in the possession of, or controlled by, the California State University (CSU) shall be deposited in the centralized bank(s) designated by the executive vice chancellor/chief financial officer (EVC/CFO) of the CSU.

Executive Order 813, *Reporting of Fiscal Improperities*, states that campuses are required to notify the chancellor within 24 hours of all cases of actual or suspected theft, defalcation, or fraud. Notification must also be made to the EVC/CFO, vice chancellor/chief audit officer, and chair of the Board of Trustees' Committee on Audit. In addition, instances involving state funds or state employees must also be reported to the California State Auditor and the Department of Finance.

Justice Studies Department

The Justice Studies (JS) department at San José State University is part of the College of Applied Sciences and Arts. It began as a police training school, broadened the curriculum to focus on all of the stages of the criminal justice system, and further developed the curriculum to include course offerings that address a full range of justice issues, from family and community violence to discrimination and inequality under the law.

Off-Campus Bank Account

The JS department previously included an affiliated entity named the Administration of Justice Bureau (Bureau) that included a police training academy. The Bureau opened an off-campus bank account with Bank of America in 1982. In March 2011, the bank sent a notice to the campus address stating that this account, named "SJSU Foundation – Administration of Justice Bureau," was inactive. The former department chair (chair) of the JS department replied to the notice and requested that the bank change the name on the account and add him as a signer. Account activity began again on January 31, 2012.

Campus Review

In early 2013, campus administrators became aware of the existence of the off-campus bank account administered by the chair. Although the account was closed in February 2013, the campus conducted a review of the account activity, and in a report dated May 20, 2013, concluded that "...there was no indication of Fiscal Improprity (defined as deliberate fraud, theft, embezzlement...)." In addition, they found that some of the expenses contravened university procedures when incurred, but the "inadvertent personal charges," as identified by the chair, were refunded and resolved, and therefore, the campus did

INTRODUCTION

not believe that they constituted reportable fiscal improprieties. The total expenditures reimbursed by the chair were \$7,131.31 of the \$32,505.66 total expenditures made from the account. According to the chair, the source of funds in the account were from the sale of department merchandise such as t-shirts and sweatshirts, tickets for various department events such as convocation, and fees for a summer camp held at the campus. The campus did not notify the chancellor's office of its review or the off-campus bank account at that time.

PURPOSE

Our overall audit objective was to perform a review of the aforementioned off-campus bank account, and to review other expenditures in the Justice Studies department to determine the adequacy of controls that ensure compliance with relevant governmental regulations, Trustee policy, Office of the Chancellor directives, and campus policies and procedures.

Within the overall audit objective, specific goals included determining whether:

- ▶ There were fiscal improprieties associated with the off-campus bank account that should have been reported in accordance with systemwide policy.
- ▶ Contracts with vendors were awarded appropriately.
- ▶ Expenditures made from campus and auxiliary accounts related to the Justice Studies department were properly authorized, incurred for appropriate business purposes, adequately documented, and in compliance with CSU, campus, and auxiliary policies.

SCOPE AND METHODOLOGY

The scope of our audit was developed in response to the campus president's request to the chancellor and input from the vice chancellor/chief audit officer and the chair of the Board of Trustees' Committee on Audit.

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 whether fiscal, operational, and administrative controls are in place and operative. This review emphasized, but was not limited to, compliance with state regulations and guidance, Board of Trustees policies, and Office of the Chancellor and campus policies, letters, and directives. The audit focused on procedures in effect from July 1, 2011 through June 20, 2014.

We focused primarily on the internal administrative, compliance, and operational controls over Justice Studies expenditures. Specifically, we reviewed and tested:

- ▶ Expenditures made from the off-campus bank account between January 2012 and the account closure in February 2013.
- ▶ Contracting practices in the Justice Studies department during fiscal year (FY) 2011/12, focusing on the hiring of two specific vendors during this time period.
- ▶ Expenditures related to the Justice Studies department from FY 2012/13 and FY 2013/14 made from campus accounts, including a review for the two specific vendors mentioned above.
- ▶ Expenditures related to the Justice Studies department from FY 2012/13 and FY 2013/14 made from accounts administered by the Tower Foundation or the Research Foundation.

OBSERVATIONS, RECOMMENDATIONS, AND CAMPUS RESPONSES

OFF-CAMPUS BANK ACCOUNT

FISCAL REPORTING

The campus did not report an off-campus bank account in the name of the Justice Studies (JS) department to the chancellor's office and the state.

We noted that a campus review of the off-campus bank account in May 2013 concluded that because the former chair of the Justice Studies department (chair) reimbursed the campus for the "inadvertent personal charges" contained in the account, no reportable fiscal impropriety existed. However, the fact that the chair reimbursed the campus for some of the expenditures made from the account does not alter the fact that he incurred improper charges in the first place. In addition, the mere existence and use of an off-campus account could be viewed as a suspected fiscal impropriety.

Executive Order (EO) 813, *Reporting of Fiscal Improprieties*, requires campuses to report actual or suspected fiscal improprieties to the chancellor and California State University (CSU) administrators within 24 hours. In addition, instances involving state funds or state employees must also be reported to the California State Auditor and the Department of Finance.

Failure to report actual or suspected fiscal improprieties as required by systemwide policy increases the risk of loss from inappropriate acts, negative publicity, and noncompliance with state regulations.

Recommendation 1

We recommend that the campus reiterate the reporting requirements of EO 813 to the administrators responsible for implementing those requirements.

Campus Response

We concur. The campus administrators responsible for meeting the reporting requirements of EO 813 have fully familiarized themselves with these requirements. They are prepared to meet the established standards and have made other disclosures since this Special Audit commenced as required by EO 813.

Documentation of this compliance action will be submitted to the chancellor's office (CO) by the end of September 2014.

ADMINISTRATION

The JS off-campus bank account was not authorized, and administration of the account was inadequate.

We noted several concerns related to a lack of accountability and oversight of the JS off-campus account because the account was unauthorized and transactions did not go through campus fiscal administration. Specifically:

- ▶ There was no separation of duties for transactions made in the account. Only two individuals had access to the account, the chair and his financial assistant, and the chair stated that any expenditures made by the financial assistant were made at his direction. Therefore, in essence, the chair controlled all aspects of the account.
- ▶ There were no receipts or other supporting documentation for any of the expenditures made from the off-campus account.
- ▶ There was no way to verify all sources of revenue for the account or whether all money received was deposited to the account.
- ▶ Monthly bank reconciliations of account balances and transactions were not performed.

Integrated California State University Administrative Manual (ICSUAM) §3101.01, *Centralized Management of Cash and Investments*, states that it is the policy of the CSU that all money in the possession of, or controlled by, the CSU shall be deposited in the centralized bank(s) designated by the executive vice chancellor/chief financial officer of the CSU. Campus chief financial officers must ensure that cash is deposited in and disbursed from the CSU's approved centralized banks.

EO 1000, *Delegation of Fiscal Authority and Responsibility*, states that the campus president is delegated authority and responsibility for effective oversight of all state funds held by the campus and all funds held in a fiduciary capacity. The campus chief financial officer shall be the primary campus financial officer in respect to administration of these delegations of authority and responsibility.

The use of off-campus bank accounts for campus activities and programs increases the risk of loss from inappropriate acts, limits the campus' ability to detect errors and irregularities, and compromises accountability.

Recommendation 2

We recommend that the campus notify all employees about the prohibition related to off-campus bank accounts and include a directive to notify a designated campus administrator about any known existing off-campus accounts.

Campus Response

We concur. The CSU has long-standing requirements (ICSUAM §3101.01) that all university funds must be deposited directly into approved bank accounts. The department on which the review focused was out of compliance with that requirement. The university has closed the bank account in question and had the remaining funds deposited into the centralized bank and informed the then-dean of the college that it is imperative that the entire college adhere to the policy.

We will, as a secondary step, remind the campus in general of the importance of adhering with ICSUAM §3101.01 and designate an appropriate campus administrator to be notified of any known existing unapproved bank accounts.

Documentation of this compliance action will be submitted to the CO by the end of September 2014.

EXPENDITURES

Expenditures in the off-campus bank account were questionable and did not always appear to be a prudent or appropriate use of funds.

We reviewed the listing of expenditures and bank statements for the off-campus account and noted many questionable items beyond the \$7,131 identified as personal and reimbursed to the campus by the chair. We were limited in our ability to determine conclusively whether these expenditures were appropriate business purchases because no receipts were available and the two individuals with access to the account no longer worked at the campus. However, we questioned an additional \$6,019 of the total \$32,506 in expenditures made from the off-campus bank account, including:

- ▶ \$2,356 spent on staff appreciation and other rewards or gifts for employees. These included expenses for gift certificates and gift cards for faculty, concert tickets, massage and other spa services, and flowers.
- ▶ \$1,500 spent for staff and faculty meetings, which, in some cases, appeared to include only two or three people.
- ▶ \$1,431 for an iPhone, camera equipment, and a transcription kit that the department was unable to locate.
- ▶ \$325 for wireless internet access for travel, where either no state travel expense claims were submitted or the employee identified the travel as personal travel.
- ▶ \$353 in other questionable expenditures for items such as memberships to Greenpeace, holiday decorations, and unidentified e-books.

Education Code (EC) §89756 states that the president of each CSU campus is responsible for the propriety of the expenditure and the integrity of the financial reporting of funds received by the campus.

ICSUAM §3103.01, *Disbursements – General*, states that it is the policy of the CSU that disbursed funds be properly authorized, supported by a documented business purpose, substantiated by applicable receipts, correctly processed for payment, and in compliance with all applicable regulations.

ICSUAM §1301.00, *Hospitality, Payment or Reimbursement of Expenses*, states that it is the policy of the CSU that hospitality expenses may be paid to the extent that such expenses are necessary, appropriate to the occasion, reasonable in amount, and serve a purpose consistent with the mission

and fiduciary responsibilities of the CSU. Hospitality is defined as the provision of meals or light refreshments, entertainment services, promotional items, gifts, awards, and service recognition. Hospitality includes expenses for activities that promote the university to the public, usually with the expectation of benefits accruing directly or indirectly to the CSU.

The use of an off-campus bank account for expenditures related to campus activities and programs, coupled with the lack of sufficient and appropriate supporting documentation for expenditures, increases the risk of errors, irregularities, and misappropriation of funds.

Recommendation 3

We recommend that the campus notify all employees about the prohibition related to off-campus bank accounts and include a directive to notify a designated campus administrator about any known existing off-campus accounts.

Campus Response

We concur. See our response to Recommendation 2 regarding unapproved bank accounts. We would additionally like to respond that the campus is committed to the requirements of ICSUAM §3103.01 and §1301.00 and will ensure that the new chair of the JS department and the interim dean of the College of Applied Science and Arts (CASA) are informed of their administrative responsibilities regarding the authorization of use of funds under their purview.

This compliance action will be completed by the end of October 2014.

UNCHARGED VACATION

The chair failed to appropriately charge six days of vacation time while on personal business.

In our review of the listing of expenditures in the off-campus account, we noted that the chair charged the account for wireless internet access for Southwest Airlines flights; however, the chair did not file any business travel expense claims during the time these charges were incurred. In addition, the chair had previously identified purchases of Southwest Airlines tickets made from the account as "inadvertent personal charges" for which he subsequently reimbursed the account. Based on these facts, we believe he was engaged in personal travel on the dates he incurred these charges and therefore, he should have charged his vacation balances.

EC §89756 states that the president of each CSU campus is responsible for the propriety of the expenditure and the integrity of the financial reporting of funds received by the campus.

Government Code (GC) §13402 and §13403 state that management is responsible for establishing and maintaining a system of internal administrative controls, which includes documenting the system, communicating system requirements to employees, and assuring that the system is functioning as prescribed and is modified, as appropriate, for changes in conditions. Further, administrative controls are the methods through which reasonable assurance can be given that measures adopted by state agency heads to safeguard assets and promote operational efficiency are being followed.

Insufficient review and approval of employee absences increases the risk of overcompensating employees and exposes the campus to increased liability.

Recommendation 4

We recommend that the campus remind deans, department chairs, and other employees who are responsible for approving attendance reports of the importance of reviewing the reports for accuracy prior to approving them.

Campus Response

We concur. The university has clear policy regarding the input and approval of leave. The individual reporting his or her time is attesting to the accuracy of the reported leave. The approver of the leave is attesting to having personal knowledge of that person's leave and to the accuracy of the reported leave. The former chair of the JS department failed to adhere to university policy regarding reporting of personal leave. The former dean of CASA failed to adhere to university policy regarding approval of leave. We will ensure the new interim dean is aware of the responsibility to ensure leave is accurately reported.

We will, as a secondary step, remind all approvers of leave of their responsibility to ensure the accuracy of leave reported prior to approving the leave report.

This compliance action will be completed by the end of October 2014.

CONTRACTING PRACTICES

CONFLICT OF INTEREST

The chair engaged in a conflict of interest by hiring a vendor, vendor A, with whom he had a personal and financial relationship, and by accepting additional compensation to oversee the vendor's work.

We found that:

- ▶ The chair and vendor A lived at the same address and owned property together, creating a conflict for the chair in awarding work to the vendor.
- ▶ The chair was provided a 25 percent overload assignment to oversee vendor A's work and received \$9,316 in additional compensation from January through May 2012, the semester during which the vendor performed the work.

San José State University (SJSU) *Policy Recommendation S99.8* passed by the academic senate states that a faculty member ought to avoid actual conflicts of interest as well as the appearance of such conflicts whenever possible.

GC §87100 and §87103 state that no public official at any level of state or local government shall make, participate in making, or in any way attempt to use his official position to influence a governmental decision in which he knows or has reason to know he has a financial interest. A public official has a financial interest in a decision if it is reasonably foreseeable that the decision will have a material financial effect, distinguishable from its effect on the public generally, on the official, a member of his or her immediate family, or a business entity in which the public official holds a position of management or has a direct or indirect investment worth \$2,000 or more.

Engaging vendors with whom a conflict of interest exists increases the risk of substandard work, non-compliance with government and CSU requirements, penalties from the Fair Political Practices Commission, and the possibility of negative publicity.

Recommendation 5

We recommend that the campus remind authorized account users of conflict-of-interest prohibitions.

Campus Response

We concur. The former chair circumvented existing university purchasing procedures and engaged in creating conflict-of-interest contracts. All university personnel authorized to negotiate contracts on behalf of the university are aware of conflict-of-interest prohibitions and must annually file the California Fair Political Practices Commission Form 700 declaring their economic interests reminding them of their conflict-of-interest responsibilities.

We will inform the new chair of the JS department that he or she does not have the authority to personally negotiate vendor contracts.

We will, as a secondary step, remind all authorized account users of conflict-of-interest prohibitions.

This compliance action will be completed by the end of October 2014.

IMPROPER HIRING OF VENDORS

The chair violated campus policy by hiring two vendors, vendor A and vendor B, before he completed the proper forms and by allowing them to perform work before he obtained proper approvals.

We found that:

- ▶ For vendor A, two invoices totaling \$25,000 were submitted before the purchase requisition and purchase order were processed.
- ▶ For vendor B, two invoices totaling \$20,000 were submitted before the purchase requisition and purchase order were processed. In addition, only minimal details on the scope of work to be performed were included.

SJSU *Confirming Orders Policy* states that requisitions submitted to contracts and purchasing services after the order has been placed with the vendor, or after the university has received the products or services, are called confirming orders. Confirming orders are not allowed. Any employee who buys products or services without going through contracts and purchasing services assumes the possibility of personal liability for payment.

Failure to submit purchase requisitions and obtain approved purchase orders for services before placing an order with the vendor increases the risk of misunderstandings of the business terms, responsibilities, and liabilities involved in performing the work and exposes the university to unauthorized financial and legal obligations.

Recommendation 6

We recommend that the campus remind authorized account signers of the campus policy pertaining to the hiring of vendors and the need to submit timely requisitions to campus procurement.

Campus Response

We concur. As noted in the report, the chair violated university purchasing policy in the hiring of two vendors. We will ensure the new chair is aware of university purchasing policy related to the hiring of vendors and the need to submit timely requisitions to campus procurement.

We will, as a secondary step, remind all campus authorized account signers of the campus policy regarding hiring of vendors and the need to submit timely requisitions to campus procurement.

This compliance action will be completed by the end of October 2014.

JUSTICE STUDIES CAMPUS ACCOUNTS

CONTINUING EDUCATION REVENUE FUND (CERF)

The JS department charged expenditures to the CERF trust account that did not appear to benefit activities related to continuing education or self-supporting instructional programs.

We reviewed 70 transactions totaling \$144,808 made in JS department accounts, and we found \$67,460 in expenditures that appeared to be charged to the CERF account without sufficient documentation to demonstrate a clear benefit or relationship to continuing education programs. These included:

- ▶ \$42,637 for special consultant pay, including program and curriculum development, technology media innovation, and advising.
- ▶ \$12,777 for stipends paid for assessments, research development, and translation and transcription services.

- ▶ \$6,494 for out-of-state travel expenses for conferences, faculty recruitment, and research.
- ▶ \$2,499 for fall semester faculty salaries and for additional compensation paid to the chair.
- ▶ \$2,191 for catering for a convocation ceremony.
- ▶ \$862 for an iPad and facilities maintenance fees.

EO 794, *Financial Management of Extended Education*, states that in accordance with EC §89704, extended education revenue may be deposited in the state university continuing education revenue fund in the state treasury, or should be deposited in a local trust account as authorized in EC §89721. These funds should be used only for the support and development of self-supporting instructional programs of the CSU, as provided in §89704 of the California Education Code.

Using continuing education funds in a manner inconsistent with state and systemwide guidelines exposes the university to potential legal liabilities and negative public scrutiny.

Recommendation 7

We recommend that the campus:

- a. Remind approving officials of the proper use of CERF funds and enforce the requirement that the account only be used to fund activities that benefit continuing education/self-supported instructional programs.
- b. Repay the CERF trust account for the improperly charged expenses.

Campus Response

- a. The former chair of the JS department failed to comply with CSU rules regarding the use of CERF funds. We will ensure the new chair is aware of those requirements.

We will, as a secondary step, remind the campus approving officials of the proper use of CERF funds and that it is their responsibility to ensure that any CERF funds under their purview are used only for the benefit of the CERF program.

This compliance action will be completed by the end of October 2014.

- b. We concur. We will determine which of the charges outlined in the report that did not have sufficient documentation were truly not for the benefit of the CERF program and make the appropriate reimbursement to the CERF fund.

This compliance action will be completed by the end of December 2014.

STIPENDS

Review and processing of stipends was not in compliance with campus policy.

We reviewed five stipend payments to non-students totaling \$12,777 and found that:

- ▶ All five payments were to outside vendors for services and were therefore improperly classified as stipends and processed as direct payments. This allowed the payments to circumvent the campus requisition process.
- ▶ One stipend in the amount of \$2,000 was made to the spouse of the faculty project director for work he did on her project, which created a conflict of interest.
- ▶ Four stipends did not include adequate supporting documentation. Of these, two items lacked sufficient descriptions of the nature or extent of the specific work to be performed and deliverables to be provided. In addition, three items were not supported by original vendor invoices, but rather by a generic invoice that was completed only on a campus form designed to provide supplemental information in the event that a vendor's invoice lacked sufficient detail.

SJSU *Standard Exclusions* states that services are not allowed to be processed through direct payment unless they are general repair services less than \$1,000. In addition, all other services, except for shredding services through a pre-approved vendor, must be handled through the campus requisition process.

GC §87100 and §87103 state that no public official at any level of state or local government shall make, participate in making or in any way attempt to use his official position to influence a governmental decision in which he knows or has reason to know he has a financial interest. A public official has a financial interest in a decision if it is reasonably foreseeable that the decision will have a material financial effect, distinguishable from its effect on the public generally, on the official, a member of his or her immediate family, or a business entity in which the public official holds a position of management or has a direct or indirect investment worth \$2,000 or more.

GC §13402 and §13403 state that management is responsible for establishing and maintaining a system of internal administrative controls, which includes documenting the system, communicating system requirements to employees, and assuring that the system is functioning as prescribed and is modified, as appropriate, for changes in conditions. Further, administrative controls are the methods through which reasonable assurance can be given that measures adopted by state agency heads to safeguard assets and promote operational efficiency are being followed.

Inadequate review and processing of stipend payments increases the risk of inappropriate expenditures, conflicts of interest, misunderstandings of the scope of work to be performed, and noncompliance with policies, and exposes the university to unauthorized financial and legal obligations.

Recommendation 8

We recommend that the campus:

- a. Reiterate to relevant parties the requirement that payment for services be processed via a requisition.
- b. Remind all employees who may serve as project directors of conflict-of interest rules and regulations.
- c. Remind the individuals responsible for submitting and approving expenditures that the nature and extent of the work to be performed and deliverables to be provided should be documented, and that actual receipts and vendor invoices should be submitted when requesting a direct payment.

Campus Response

We concur. Even though only one department of the university was reviewed and determined to have the above-mentioned problems, the campus will work, through academic affairs, with the university's 69 schools and departments to implement compliance action as follows:

- a. Reiterate to relevant parties the requirement that payment for services be processed via a requisition.
- b. Remind all employees who may serve as project directors of conflict-of-interest rules and regulations.
- c. Remind the individuals responsible for submitting and approving expenditures that the nature and extent of the work to be performed and deliverables to be provided should be documented, and that actual receipts and vendor invoices should be submitted when requesting a direct payment.

This compliance action will be completed by the end of December 2014.

SPECIAL CONSULTANT PAYMENTS

Administration of special consultant payments needed improvement.

We reviewed seven special consultant payments totaling \$42,637 made to faculty members and found that:

- ▶ Five special consultant forms reviewed were not signed by all required approvers prior to the commencement of work. Moreover, in all five instances, faculty affairs did not receive a copy of the form until after the work had been completed.
- ▶ For all of the forms reviewed, the information describing the reason for the appointment and the deliverables to be provided was vague and insufficient. In addition, the department did not maintain adequate documentation to substantiate the work completed for six of the items

reviewed, and campus policy did not contain guidance on what documentation departments should retain to substantiate services provided by special consultants.

- ▶ The campus did not have written procedures or guidelines relating to the calculation of the daily rate used to pay special consultants. Current campus practices used a calculation from the financial system as the starting point for the rate but allowed adjustments above and below this rate as long as it fell within the CSU general guideline, from \$91 to \$1,214 per day.

SJSU Special Consultant Appointments, states that special consultants must have extensive, demonstrated experience in the particular area or specialty in which services are required. Special consultants are paid at a daily rate once per month. Prior to hire, the department must submit the request for temporary support form to workforce planning, including a list of duties that will be done by the special consultant. Workforce planning will review the form and notify the hiring department when a special consultant may begin working.

Coded memorandum Human Resources (HR) 2002-05, *Additional Employment Policy*, states that the policy establishes reasonable limits on the total amount of employment an individual may have within the CSU system. Each campus is responsible for determining the extent of an employee's CSU workload prior to appointment to any position. A maximum of 125 percent time-base is allowed under certain circumstances.

CSU Pay Letter HR 2007-11, *CSU Salary Schedule Changes-Pay Scale Modifications*, states that the CSU pay scales were modified to incorporate changes effective July 1, 2007, and that the special consultant salary schedule range is a daily minimum of \$91 to a daily maximum of \$1,214.

GC §13402 and §13403 state that management is responsible for establishing and maintaining a system of internal administrative controls, which includes documenting the system, communicating system requirements to employees, and assuring that the system is functioning as prescribed and is modified, as appropriate, for changes in conditions. Further, administrative controls are the methods through which reasonable assurance can be given that measures adopted by state agency heads to safeguard assets and promote operational efficiency are being followed.

Inadequate administration of special consultant payments increases the risk of misunderstandings of the scope of work to be performed, responsibilities, and terms and conditions of employment, and exposes the university to unauthorized financial and legal obligations. Untimely review and approval of special consultant forms increases the risk that additional employment will exceed the systemwide limitation and exposes the university to financial obligations for unauthorized work being performed.

Recommendation 9

We recommend that the campus:

- a. Remind appropriate individuals that special consultant forms are to be signed by all relevant parties, including the appropriate department chair, college dean, and faculty affairs, prior to the commencement of work and must contain a detailed description of the work to be performed.

- b. Update the campus special consultant policy to include guidelines on documentation requirements to substantiate payments for services performed and/or any deliverables received.
- c. Develop written procedures or guidelines for calculating the daily rate used to compensate special consultants to ensure the rates are reasonable and comply with both campus and CSU requirements.

Campus Response

We concur.

- a. The former chair of the JS department circumvented university policy on making special consultant appointments. We will ensure that the new chair and other appropriate individuals are informed of university policy that special consultant forms are to be signed by all relevant parties prior to the commencement of work and must contain a detailed description of the work to be performed. This will be completed by the end of December 2014.
- b. By the end of December 2014, we will update the policy to include guidelines on documentation required to substantiate payments.
- c. By the end of December 2014, we will develop written procedures calculating daily rates to be used to compensate special consultants.

COMPENSATION

The chair received vacation and overload compensation that was not appropriately documented and supported.

We reviewed four payments made to the chair in fiscal year (FY) 2012/13 and found that:

- ▶ Due to an error in the payout calculation, the chair was overpaid \$623 for his residual vacation balance when he left the campus.
- ▶ For the time period from June 2012 until the chair left the campus in May 2013, he was paid \$19,805 for a 25 percent overload assignment, the purpose of which was to direct the communications and branding, integration of technology, sustainability, and innovative learning platforms project for the college. Because the campus had no written procedures or guidelines requiring the submission or retention of supporting documentation, it was unable to provide sufficient documentation to substantiate the work performed by the chair during this time period.

ICSUAM §3103.01, *Disbursements – General*, states that it is the policy of the CSU that disbursed funds be properly authorized, supported by a documented business purpose, substantiated by applicable receipts, correctly processed for payment, and in compliance with all applicable regulations.

GC §13402 and §13403 state that management is responsible for establishing and maintaining a system of internal administrative controls, which includes documenting the system, communicating system requirements to employees, and assuring that the system is functioning as prescribed and is modified, as appropriate, for changes in conditions. Further, administrative controls are the methods through which reasonable assurance can be given that measures adopted by state agency heads to safeguard assets and promote operational efficiency are being followed.

Inadequate calculations of accrued vacation may under- or overcompensate employees and expose the campus to increased liability, and payment of overload compensation without reviewing or verifying the work performed by the employee increases the risk of inappropriate expenditures.

Recommendation 10

We recommend that the campus develop written procedures for additional compensation/overload appointments that require the submission and retention of documentation to substantiate the work performed.

Campus Response

We concur. The campus will develop written procedures for additional compensation/overload appointments. For classroom teaching, the documentation needed for overload is clear enough: The faculty member is appointed to a class that has weighted teaching units (WTUs) assigned to it. For other types of employment, the campus will develop guidelines for submission and retention of documentation to substantiate the work to be performed. The documentation will include an explanation of how the percentage of overload was calculated. The campus will also develop a system for review and approval of such overload requests once documented.

This compliance action will be completed by the end of December 2014.

ACCOUNT AGREEMENTS

Local trust fund account agreements were not always current or did not contain an adequate description of the purpose or appropriate uses of the trust account.

We reviewed six trust account agreements and found that:

- ▶ Four agreements were not executed by all parties listed on the form, including the college dean and provost/vice president.
- ▶ Two agreements contained only a general purpose regarding the use of the account and were unclear as to restrictions on allowable expenditure types.
- ▶ Two agreements had not been updated to reflect the current authorized signer.

GC §13402 and §13403 state that management is responsible for establishing and maintaining a system of internal administrative controls, which includes documenting the system, communicating

system requirements to employees, and assuring that the system is functioning as prescribed and is modified, as appropriate, for changes in conditions. Further, administrative controls are the methods through which reasonable assurance can be given that measures adopted by state agency heads to safeguard assets and promote operational efficiency are being followed.

Account authorization agreements that are both incomplete and not updated in a timely manner increase the risk of inappropriate expenditures.

Recommendation 11

We recommend that the campus:

- a. Remind accounting staff who review and maintain local trust fund account agreements to ensure that the agreements are approved by all required individuals and include a descriptive purpose regarding the use of the account, including any expenditure restrictions.
- b. Review and update processes to inform accounting staff of changes in authorized signers in a timely manner.

Campus Response

We concur. The campus will implement the following compliance actions:

- a. Remind accounting staff who review and maintain local trust fund account agreements to make sure that the agreements are approved by all required individuals and include a descriptive purpose regarding the use of the account, including any expenditure restrictions.
- b. Review and update processes to inform accounting staff of changes in authorized signers in a timely manner.

These compliance actions will be completed by the end of November 2014.

HOSPITALITY EXPENDITURES

The JS department did not always submit adequate supporting documentation for hospitality expenditures made using campus procurement cards.

We reviewed 13 hospitality expenditures and found two instances, totaling \$592, where a procurement card was used to purchase food and a hospitality form justifying the need for the expense was not completed. As a result, in one of those instances it was unclear whether the expense was directly related to, or associated with, the active conduct of official CSU business. In addition, in one of these instances, the transaction also lacked the necessary receipts and procurement card reconciliation, as the cardholder separated from the university without providing the information.

ICSUAM §1301, *Hospitality, Payment or Reimbursement of Expenses*, states that hospitality expenses must be directly related to, or associated with, the active conduct of official CSU business.

SJSU *Hospitality Guidelines* state that all hospitality expenses must have a completed hospitality expense justification form submitted along with support back-up documentation such as a quote, invoice, and original receipt when requesting payment or reimbursement. Information required on the justification form includes names of attendees, date, time, location, and business purpose of expenses. Inadequate documentation of hospitality expenditures increases the risk of non-compliance with campus and CSU requirements, as well as potential unallowable or inappropriate hospitality purchases.

Recommendation 12

We recommend that the campus remind the individuals responsible for reviewing and approving procurement card expenditures of the documentation requirements for valid hospitality expenditures.

Campus Response

We concur. The campus will remind the individuals responsible for reviewing and approving procurement card expenditures of the documentation requirements for valid hospitality expenditures.

This compliance action will be completed by the end of September 2014.

SENSITIVE EQUIPMENT

The JS department did not always account for and tag sensitive equipment purchases below the campus capitalization threshold of \$5,000, and the department was unable to locate several equipment items purchased by the former chair.

We initially reviewed six sensitive equipment items under \$5,000, including two laptops and one iPad, and found that the items had not been tagged or accounted for by the department until after the commencement of our review. The existence and location of the equipment items were researched and confirmed as a result of our inquiries, and the laptops and iPad were subsequently tagged by campus information technology services.

In addition, because some of the equipment items purchased through the off-campus account were missing, we reviewed another 26 items purchased during FY 2011/12 from both campus and Research Foundation (RF) accounts. The campus was unable to locate 16 of the items, worth a total of \$13,097. The missing items included a camera (\$2,382), 12 camera lenses (\$5,738), and three laptop computers (\$4,977).

SJSU *Property Office Procedural Manual* states that the property office is responsible for tagging all equipment with a value of \$5,000 or more. Although the property office does not track equipment costing less than \$5,000, departments are expected to safeguard all equipment in their custody.

SJSU *Workstation Hardware Standard* states that a workstation is defined as any desktop, VDI thin client, laptop, or mobile tablet type device. It further states SJSU is responsible for maintaining an inventory of information assets containing sensitive data. Due to the widespread availability of sensitive data, all workstations must be tracked. Separate from SJSU property office procedures,

information technology services will create a record and issue a property tag for each device capable of storing sensitive data. No device capable of storing sensitive information shall be used without proper identification and asset management.

SJSU RF *Property Accounting Policy*, states that sensitive items are those at high-risk of theft or those involving work, duties, or information of a highly secret or delicate nature. These are items with a per unit acquisition cost of at least \$500 to \$4,999.99 and include (but are not necessarily limited to) computers, monitors, digital cameras, digital memory devices, and other high tech equipment and components that are vulnerable to loss because of their marketability and portability. These will be assigned a tag number for tracking purposes and logged and tracked as high-risk sensitive property.

ICSUAM §3151.04, *Equipment*, states that campuses must establish a threshold for tracking of equipment valued under \$5,000 based on an analysis of cost versus benefit and risk of misuse or misappropriation. Computers or lab equipment are examples of the type of equipment that may be included in this category. Equipment deemed to be trackable should be tagged and recorded in the campus property inventory records but not included in the campus' GAAP financial statements.

ICSUAM §8065.0, *Information Asset Management*, states that each campus must develop and maintain a data classification standard that meets or exceeds the requirements of the CSU data classification standard. Campuses must maintain an inventory of information assets containing sensitive 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.

Inadequate accountability for sensitive equipment, especially computer-related items that may contain personal confidential information or have access to such protected information, increases the risk of loss and inappropriate use of state property and increases exposure to information security breaches.

Recommendation 13

We recommend that the campus and the RF:

- a. Direct the individuals responsible for submitting and approving expenditures, as well as the information technology services department, to tag and inventory workstations, such as laptops, computers, and iPads, in order to safeguard and protect state assets and sensitive information that may be stored on them.
- b. Instruct the individuals responsible for submitting and approving expenditures to safeguard and track state assets, including equipment purchases below the \$5,000 capitalization threshold, in order to prevent theft/loss.

Campus Response

We concur.

- a. The SJSU information security office and RF fixed assets coordinator will direct the individuals responsible for submitting and approving expenditures to tag and inventory all workstations, laptops, and iPads, including those below the \$5,000 capitalization threshold, with a completion deadline by the end of September 2014. IT services will issue IT asset tags as necessary.
- b. Campus finance and IT services departments will send notice to department expenditure approvers and information technology personnel regarding requirements to track and inventory all workstations, laptops, and tablet computers, including those below the \$5,000 capitalization threshold, by the end of September 2014.

JUSTICE STUDIES FOUNDATION ACCOUNTS

CONFLICT OF INTEREST

The faculty project director on a private grant held at the Tower Foundation (TF) engaged in a conflict of interest by making a \$525 payment to her spouse for work on the grant.

This is the same project director and spouse discussed above in the finding regarding the spouse who received a \$2,000 stipend for work on the project director's grant paid with state funds.

GC §87100 and §87103 state that no public official at any level of state or local government shall make, participate in making or in any way attempt to use his official position to influence a governmental decision in which he knows or has reason to know he has a financial interest. A public official has a financial interest in a decision if it is reasonably foreseeable that the decision will have a material financial effect, distinguishable from its effect on the public generally, on the official, a member of his or her immediate family, or a business entity in which the public official holds a position of management or has a direct or indirect investment worth \$2,000 or more.

Engaging vendors with whom a conflict of interest exists increases the risk of substandard work, non-compliance with government and CSU requirements, penalties from the Fair Political Practices Commission, and the possibility of negative publicity.

Recommendation 14

We recommend that the campus, in conjunction with the TF, remind all project directors of conflict-of-interest rules and regulations and consider offering conflict-of-interest training to all project directors.

Campus Response

We concur. By the end of October 2014, the TF will implement a plan to communicate conflict-of-interest rules and regulations to all account holders, project directors, secondary account signers, deans, chairs, college resource analysts, and department administrative assistants. Account holders will be required to sign an acknowledgement that they have received, read, understood, and agree to uphold the conflict-of-interest rules. Account holders will not be able to use their TF funds until we

have received the signed acknowledgement. Beginning in November 2014, new accounts will require the acknowledgement as part of new account setup.

EXPENDITURE AUTHORIZATIONS

TF policy did not require one-up signature approval (i.e., the approval of a supervisor), and only the authorized signer on the account was needed to approve expenditures, even when the signer was paying or reimbursing him- or herself.

In our review of expenditures made from a private grant at the TF, we found that the same faculty project director who had the conflict of interest in hiring her spouse to work on her grant received:

- ▶ Three reimbursements for gift cards and money orders totaling \$606 that were not reviewed or approved by a supervisor.
- ▶ \$4,860 in travel reimbursements that were not reviewed and approved by a supervisor.

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.

California Code of Regulations 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 proper management approvals be obtained for expenditures.

Lack of supervisor approval for expenditures increases the risk of unallowable or inappropriate payments, as well as non-compliance with CSU and sponsor requirements.

Recommendation 15

We recommend that the campus, in conjunction with the TF, revise TF policies and procedures to require one-up signature approval on all expenditures, including payments or reimbursements to account holders.

Campus Response

We concur. By the end of October 2014, we will revise TF policies and procedures to require one-up signature approval on all expenditures, including payments or reimbursements to account holders and independent contractors. Integral to this project, we will implement a plan to communicate the policy changes to all account holders, project directors, secondary account signers, deans, chairs, college resource analysts, and department administrative assistants. Account holders will be required to sign an acknowledgement that they have received, read, and understood the updated policy. Account

holders will not be able to use their TF funds until we have received the signed acknowledgement. Beginning in November 2014, new accounts will require the acknowledgement as part of new account setup.

CELL PHONE REIMBURSEMENTS

Three campus employees received reimbursements totaling \$700 from the TF and RF for their personal cell phone bills without an adequate explanation of the business purpose.

We noted that all of the reimbursements processed consisted only of one page of a personal cell phone billing statement and request for payment, and did not include the documentation or approvals that would have been required had the reimbursements been paid using state funds. In addition, neither the TF nor the RF had a policy for providing cell phone reimbursements that addressed documentation and approval requirements, or specific tax consequences for regular reimbursement.

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 proper management approvals be obtained for expenditures.

Reimbursing employees for cell phone expenditures without proper approvals and documentation increases the risk of paying for non-business-related expenses and can result in noncompliance with campus and CSU policies, as well as potential tax consequences.

Recommendation 16

We recommend that the campus, in conjunction with the TF and RF:

- a. Determine whether the TF and RF should have separate policies for cell phone reimbursements to university employees.
- b. If so, develop and implement TF and RF cell phone reimbursement policies. Such policies should include provisions similar to the campus policies that address documentation, approvals, and tax consequences.
- c. If not, direct TF and RF accounting staff to comply with campus policies when providing cell phone or other reimbursements to university employees.

Campus Response

We concur. The campus will determine whether the TF and RF should have separate policies for cell phone reimbursements to university employees. Based on that decision, we will comply with the guidance noted in (b) and in (c) above.

This compliance action will be completed by the end of November 2014.

APPOINTMENT FORMS

Administration of appointment forms for university employees who also performed work for the TF was inadequate.

We reviewed six TF appointment forms for university employees and found that:

- ▶ Until recently, there was no place on the form to clearly describe the job title or nature and scope of work the employees would perform for the TF.
- ▶ Departments controlled the rate of pay and/or total amount to be paid without systematic guidance from, or review by, campus or TF HR.
- ▶ In two instances, the employee did not sign to accept the appointment until after the work was already in progress or had already been completed.
- ▶ In four instances, the department chair, dean, campus faculty affairs (when applicable, to review for additional employment limitations), and TF HR did not sign and approve the appointment form until after the work was already in progress or had already been completed.

Coded memorandum HR 2002-05, *Additional Employment Policy*, states that the policy establishes reasonable limits on the total amount of employment an individual may have within the CSU system. Each campus is responsible for determining the extent of an employee's CSU workload prior to appointment to any position. A maximum of 125 percent time-base is allowed under certain circumstances.

GC §13402 and §13403 state that management is responsible for establishing and maintaining a system of internal administrative controls, which includes documenting the system, communicating system requirements to employees, and assuring that the system is functioning as prescribed and is modified, as appropriate, for changes in conditions. Further, administrative controls are the methods through which reasonable assurance can be given that measures adopted by state agency heads to safeguard assets and promote operational efficiency are being followed.

Inadequate administration of TF appointments of university employees increases the risk of misunderstandings of the scope of work to be performed, responsibilities, and terms and conditions of employment; increases the risk that additional employment will exceed systemwide limitations; and exposes the university to unauthorized financial and legal obligations.

Recommendation 17

We recommend that the campus, in conjunction with the TF:

- a. Require that the job title and nature or scope of work to be performed be included in TF appointment forms.

- b. Develop guidance for departments and/or implement a review for reasonableness by TF HR, of rates of pay for work performed by university employees at the TF.
- c. Clarify on the appointment form or form instructions that the forms should be signed by the employee and approved by all relevant parties prior to work starting, and inform all TF account holders of this requirement.

Campus Response

We concur. We will implement a plan for action as follows:

- a. As noted in the finding, this action had been completed prior to the beginning of the audit. In September 2013, TF added the scope of work to its appointment forms to describe work to be performed by university employees receiving one-time pays funded through the TF. Additionally, in October 2013, the TF implemented a policy requiring campus HR approval for payments to non-faculty similar to the campus requirement for faculty affairs approval of faculty payments. We will continue to enforce this policy with all constituents.
- b. Although pay rates proposed by departments have always been subject to review, going forward the TF will develop guidance for departments and/or implement a review for reasonableness by TF HR, of rates of pay for work performed by university employees at the TF. In the audited campus department, the infraction occurred because the former department chair did not follow procedures. Beginning in November 2014, account holders will be required to sign an acknowledgement that they have received, read, and understood TF's procedures. Account holders will not be able to use their TF funds until we have received the signed acknowledgement. New accounts will require the acknowledgement as part of new account setup.
- c. The TF will revise the instructions on our appointment forms to require all required signatures (including faculty affairs or campus HR, as applicable, in addition to TF HR) prior to the work commencing. Beginning in November 2014, we will implement a plan to communicate the changes to all project directors, secondary account signers, deans, chairs, college resource analysts, and department administrative assistants. Account holders will be required to sign an acknowledgement that they have received, read, and understood TF's procedures for payments to faculty and non-faculty. Account holders will not be able to use their TF funds until we have received the signed acknowledgement. New accounts will require the acknowledgement as part of new account setup.

INDEPENDENT CONTRACTOR AGREEMENTS

JS independent contractor agreements processed through the TF were not always executed with all approvals prior to work being performed and were not always fully completed.

We reviewed four independent contractor agreements and found that:

- ▶ None of the four agreements contained all approvals prior to work being performed.

- ▶ For three agreements, the portion of the agreement containing the certification relating to conflicts of interest was not completed. For the fourth agreement, we noted that a perceived conflict of interest and potential nepotism issue was present because work was performed by the sibling of one of the faculty signers on the account. This situation was addressed through a conflict-of-interest mitigation plan; however, the plan was not put into place until after the work had already been completed.

TF *Accounts Payable Policy* states that an independent contractor agreement must be used to process all independent contractor and consultant payments. This agreement includes certain legal protections and specifications for all parties involved. The independent contractor agreement is reviewed by the HR director to determine whether the work performed falls under the criteria of independent contractor services. It is also reviewed for account verification, funds availability, allowability, and signature authorization.

TF *Independent Contractor Agreement* states that the form must be completed and approved by the TF prior to the performance of services. It also states that the requesting project director must certify that TF purchasing policies and conflict-of-interest conditions have been met.

SJSU *Policy Recommendation S99-8* passed by the academic senate states that a faculty member ought to avoid actual conflicts of interest, as well as the appearance of such conflicts, whenever possible.

Untimely and incomplete TF independent contractor agreements increases the risk of the presence of conflicts of interest and misunderstandings about the scope of work to be performed and terms and conditions of employment, and exposes the university to unauthorized financial and legal obligations.

Recommendation 18

We recommend that the campus, in conjunction with the TF:

- a. Remind relevant account approvers and TF accounting staff who review the forms that independent contractor agreements should be executed with all approvals prior to work being performed.
- b. Remind relevant account approvers and TF accounting staff who review the forms that the independent contractor agreement should be fully completed, including the section for certifications relating to purchasing and conflicts of interest.

Campus Response

We concur. We will implement a plan for action by the end of October 2014, as follows:

- a. By the end of September 2014, TF accounting staff will have a training refresher on reviewing independent contractor agreements. By the end of October 2014, we will provide a reminder of the procedures for independent contractor agreement approvals to all project directors, secondary

account signers, deans, chairs, college resource analysts, and department administrative assistants.

- b. By the end of September 2014, TF accounting staff will have a training refresher on reviewing independent contractor agreements. By the end of October 2014, we will notify account approvers that services contemplated by independent contractor agreements cannot commence until the agreement has been fully completed, including the sections on conflict-of-interest and purchasing. Account holders will be required to sign an acknowledgement that they have received, read, and understood TF's independent contractor procedures. Account holders will not be able to use their TF funds until we have received the signed acknowledgement.

APPENDIX A: PERSONNEL CONTACTED

<u>Name</u>	<u>Title</u>
Mohammad H. Qayoumi	President
Melissa Anderson	Executive Assistant to the Dean, College of Applied Science and Arts (CASA)
Shawn Bibb	Vice President, Administration and Finance and Chief Financial Officer
Charles Bullock	Dean, College of Applied Science and Arts (At time of review)
Mike Cook	Director, Identity, Security and Desktop Services, Information Technology Services, and Information Security Officer
Astrid Davis	Manager, Special Projects
Gail Finney	Director, Finance Support
Valorie Gale	Director of Acquisition Management
Elna Green	Associate Vice President, Faculty Affairs
Paul Harris	Director, Finance and Accounting, Research Foundation
Alice Hines	Interim Dean, CASA
Dennis Jaehne	Associate Vice President of Undergraduate Studies and Interim Deputy Provost
Judy Kass	Director of Human Resources, Tower Foundation
Kam Lam	Controller, Research Foundation
Josee LaRochelle	Associate Vice President for Finance
James Lee	Department Chair, Justice Studies Department
Molly Marquez	Resource Analyst, Justice Studies Department
Greg Payne	Associate Dean, CASA
Ramon Perez	College Resource Analyst, CASA
Ninh Pham-Hi	Director of Internal Controls
Leslie Rohn	Chief Operating Officer, Tower Foundation
Carol Santos	Department Coordinator, Justice Studies Department
Pamela Stacks	Associate Vice President, Graduate Studies and Research
Christina Tan-Aoyagi	Controller, Tower Foundation
Anita Vasquez	Manager, Human Resources Operations

**SAN JOSÉ STATE
UNIVERSITY**

September 2, 2014

**RECEIVED
AUDIT AND ADVISORY SERVICES**

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THE CALIFORNIA STATE
UNIVERSITY

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Vice Chancellor & Chief Audit Officer
The California State University
Audit & Advisory Services
401 Golden Shore, 4th Floor
Long Beach, CA 90802**

**Campus Response to: Special Audit (#14-91) at San José State
University.**

Enclosed is San José State University's response to the Special Audit (#14-91). The campus is committed to addressing the issues identified in this audit report.

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

Sincerely,



**Mohammad H. Qayoumi
President**

Enclosure

SAN JOSÉ STATE UNIVERSITY

Special Audit Report 14-91

OFF-CAMPUS BANK ACCOUNT

FISCAL REPORTING

Recommendation 1

We recommend that the campus reiterate the reporting requirements of EO 813 to the administrators responsible for implementing those requirements.

Campus Response

We concur. The campus administrators responsible for meeting the reporting requirements of EO 813 have fully familiarized themselves with these requirements. They are prepared to meet the established standards and have made other disclosures since this Special Audit commenced as required by EO 813.

Documentation of this compliance action will be submitted to the CO by the end of September 2014.

ADMINISTRATION

Recommendation 2

We recommend that the campus notify all employees about the prohibition related to off-campus bank accounts and include a directive to notify a designated campus administrator about any known existing off-campus accounts.

Campus Response

We concur. The CSU has long-standing requirements (ICSUAM § 3101.01) that all University funds must be deposited directly into approved bank accounts. The department on which the review focused was out of compliance with that requirement. The University has closed the bank account in question and had the remaining funds deposited into the centralized bank and informed the then Dean of the College that it is imperative that the entire College adhere to the policy.

We will, as a secondary step, remind the campus in general of the importance of adhering with ICSUAM §3101.01 and designate an appropriate campus administrator to be notified of any known existing unapproved bank accounts.

Documentation of this compliance action will be submitted to the CO by the end of September 2014.

EXPENDITURES

Recommendation 3

We recommend that the campus notify all employees about the prohibition related to off-campus bank accounts and include a directive to notify a designated campus administrator about any known existing off-campus accounts.

Campus Response

We concur. See our response to recommendation 2 regarding unapproved bank accounts. We would additionally like to respond that the campus is committed to the requirements of ICSUAM §3103.01 and §1301.00 and will ensure that the new Chair of the Justice Studies Department and the Interim Dean of CASA are informed of their administrative responsibilities regarding the authorization of use of funds under their purview.

This compliance action will be completed by the end of October 2014.

UNCHARGED VACATION

Recommendation 4

We recommend that the campus remind deans, department chairs, and other employees who are responsible for approving attendance reports of the importance of reviewing the reports for accuracy prior to approving them.

Campus Response

We concur. The University has clear policy regarding the input and approval of leave. The individual reporting their time is attesting to the accuracy of the reported leave. The approver of the leave is attesting to having personal knowledge of that person's leave and to the accuracy of the reported leave. The former chair of the Justice Studies department failed to adhere to University policy regarding reporting of personal leave. The former Dean of CASA failed to adhere to University policy regarding approval of leave. We will ensure the new Interim Dean is aware of the responsibility to ensure leave is accurately reported.

We will, as a secondary step, remind all approvers of leave of their responsibility to ensure the accuracy of leave reported prior to approving the leave report.

This compliance action will be completed by the end of October 2014.

CONTRACTING PRACTICES

CONFLICT OF INTEREST

Recommendation 5

We recommend that the campus remind authorized account users of conflict-of-interest prohibitions.

Campus Response

We concur. The former chair circumvented existing University purchasing procedures and engaged in creating conflict of interest contracts. All University personnel authorized to negotiate contracts on behalf of the University are aware of conflict of interest prohibitions and must annually file the California Fair Political Practices Commission Form 700 declaring their economic interests reminding them of their conflict of interest responsibilities.

We will inform the new Chair of the Justice Studies department that they do not have the authority to personally negotiate vendor contracts.

We will, as a secondary step, remind all authorized account users of conflict-of-interest prohibitions.

This compliance action will be completed by the end of October 2014.

IMPROPER HIRING OF VENDORS

Recommendation 6

We recommend that the campus remind authorized account signers of the campus policy pertaining to the hiring of vendors and the need to submit timely requisitions to campus procurement.

Campus Response

We concur. As noted in the report the chair violated University purchasing policy in the hiring of two vendors. We will ensure the new chair is aware of University purchasing policy related to the hiring of vendors and the need to submit timely requisitions to campus procurement.

We will, as a secondary step, remind all campus authorized account signers of the campus policy regarding hiring of vendors and the need to submit timely requisitions to campus procurement.

This compliance action will be completed by the end of October 2014.

JUSTICE STUDIES CAMPUS ACCOUNTS

CONTINUING EDUCATION REVENUE FUND (CERF)

Recommendation 7

We recommend that the campus:

- a. Remind approving officials of the proper use of CERF funds and enforce the requirement that the account only be used to fund activities that benefit continuing education/self-supported instructional programs.
- b. Repay the CERF trust account for the improperly charged expenses.

Campus Response

- a. The former chair of the Justice Studies department failed to comply with CSU rules regarding the use of CERF funds. We will ensure the new chair is aware of those requirements.

We will, as a secondary step, remind the campus approving officials of the proper use of CERF funds and that it is their responsibility to ensure that any CERF funds under their purview are used only for the benefit of the CERF program. This compliance action will be completed by the end of October 2014.

- b. We concur. We will determine which of the charges outlined in the report that did not have sufficient documentation were truly not for the benefit of the CERF program and make the appropriate reimbursement to the CERF fund. This compliance action will be completed by the end of December 2014.

STIPENDS

Recommendation 8

We recommend that the campus:

- a. Reiterate to relevant parties the requirement that payment for services be processed via a requisition.
- b. Remind all employees who may serve as project directors of conflict-of interest rules and regulations.
- c. Remind the individuals responsible for submitting and approving expenditures that the nature and extent of the work to be performed and deliverables to be provided should be documented, and that actual receipts and vendor invoices should be submitted when requesting a direct payment.

Campus Response

We concur. Even though only one department of the university was reviewed and determined to have the above mentioned problems, the campus will work, through Academic Affairs, with the university's 69 schools and departments to implement compliance action as follows:

- a. Reiterate to relevant parties the requirement that payment for services be processed via a requisition.
- b. Remind all employees who may serve as project directors of conflict-of interest rules and regulations.
- c. Remind the individuals responsible for submitting and approving expenditures that the nature and extent of the work to be performed and deliverables to be provided should be documented, and that actual receipts and vendor invoices should be submitted when requesting a direct payment.

This compliance action will be completed by the end of December 2014.

SPECIAL CONSULTANT PAYMENTS

Recommendation 9

We recommend that the campus:

- a. Remind appropriate individuals that special consultant forms are to be signed by all relevant parties, including the appropriate department chair, college dean, and faculty affairs, prior to the commencement of work and must contain a detailed description of the work to be performed.
- b. Update the campus special consultant policy to include guidelines on documentation requirements to substantiate payments for services performed and/or any deliverables received.
- c. Develop written procedures or guidelines for calculating the daily rate used to compensate special consultants to ensure the rates are reasonable and comply with both campus and CSU requirements.

Campus Response

- a. We concur. The former chair of Justice Studies department circumvented University policy on making Special Consultant Appointments. We will ensure that the new chair and other appropriate individuals are informed of university policy that special consultant forms are to be signed by all relevant parties prior to the commencement of work and must contain a detailed description of the work to be performed. To be completed by December 31, 2014.
- b. We concur. By December 31, 2014, we will update the policy to include guidelines on documentation required to substantiate payments.
- c. We concur. By December 31, 2014, we will develop written procedures calculating daily rates to be used to compensate special consultants.

COMPENSATION

Recommendation 10

We recommend that the campus develop written procedures for additional compensation/overload appointments that require the submission and retention of documentation to substantiate the work performed.

Campus Response

We concur. The campus will develop written procedures for additional compensation/overload appointments. For classroom teaching, the documentation needed for overload is clear enough: the faculty member is appointed to a class which has WTUs assigned to it. For other types of employment, the campus will develop guidelines for submission and retention of documentation to substantiate the work to be performed. The documentation will include an explanation of how the percentage of overload was calculated. The campus will also develop a system for review and approval of such overload requests once documented. This compliance action will be completed by the end of December 2014.

ACCOUNT AGREEMENTS

Recommendation 11

We recommend that the campus:

- a. Remind accounting staff who review and maintain local trust fund account agreements to ensure that the agreements are approved by all required individuals and include a descriptive purpose regarding the use of the account, including any expenditure restrictions.
- b. Review and update processes to inform accounting staff of changes in authorized signers in a timely manner.

Campus Response

We concur. The campus will implement the following compliance actions:

- a. Remind accounting staff who review and maintain local trust fund account agreements to make sure that the agreements are approved by all required individuals and include a descriptive purpose regarding the use of the account, including any expenditure restrictions.
- b. Review and update processes to inform accounting staff of changes in authorized signers in a timely manner.

These compliance actions will be completed by the end of November 2014.

HOSPITALITY EXPENDITURES

Recommendation 12

We recommend that the campus remind the individuals responsible for reviewing and approving procurement card expenditures of the documentation requirements for valid hospitality expenditures.

Campus Response

We concur. The campus will remind the individuals responsible for reviewing and approving procurement card expenditures of the documentation requirements for valid hospitality expenditures. This compliance action will be completed by the end of September 2014.

SENSITIVE EQUIPMENT

Recommendation 13

We recommend that the campus and the RF:

- a. Direct the individuals responsible for submitting and approving expenditures, as well as the information technology services department, to tag and inventory workstations, such as laptops, computers, and iPads, in order to safeguard and protect state assets and sensitive information that may be stored on them.

- b. Instruct the individuals responsible for submitting and approving expenditures to safeguard and track state assets, including equipment purchases below the \$5,000 capitalization threshold, in order to prevent theft/loss.

Campus Response

We concur. For (a), the SJSU Information Security Office and RF fixed assets coordinator will direct the individuals responsible for submitting and approving expenditures to tag and inventory all workstations, laptops and iPads including those below the \$5,000 capitalization threshold, with a completion deadline by the end of September 2014. IT Services will issue IT Asset Tags as necessary. For (b), Campus Finance and IT Services Departments will send notice to department expenditure approvers and information technology personnel regarding requirements to track and inventory all workstations, laptops, and tablet computers, including those below the \$5,000 capitalization threshold, by the end of September 2014.

JUSTICE STUDIES FOUNDATION ACCOUNTS

CONFLICT OF INTEREST

Recommendation 14

We recommend that the campus, in conjunction with the Tower Foundation, remind all project directors of conflict-of-interest rules and regulations and consider offering conflict-of-interest training to all project directors.

Campus Response

We concur. By the end of October 2014 TF will implement a plan to communicate conflict-of-interest rules and regulations to all account holders, project directors, secondary account signers, deans, chairs, college resource analysts and department administrative assistants. Account holders will be required to sign an acknowledgement that they have received, read, understood and that they agree to uphold the conflict-of-interest rules. Account holders will not be able to use their Tower funds until we have received the signed acknowledgement. Beginning in November 2014, new accounts will require the acknowledgement as part of new account set up.

EXPENDITURE AUTHORIZATIONS

Recommendation 15

We recommend that the campus, in conjunction with the TF, revise TF policies and procedures to require one-up signature approval on all expenditures, including payments or reimbursements to account holders.

Campus Response

We concur. By the end of October 2014 we will revise Tower policies and procedures to require one-up signature approval on all expenditures, including payments or reimbursements to account holders and independent contractors. Integral to this project, we will implement a plan to communicate the policy changes to all account holders, project directors, secondary account signers, deans, chairs,

college resource analysts and department administrative assistants. Account holders will be required to sign an acknowledgement that they have received, read, and understood the updated policy. Account holders will not be able to use their Tower funds until we have received the signed acknowledgement. Beginning in November 2014, new accounts will require the acknowledgement as part of new account set up.

CELL PHONE REIMBURSEMENTS

Recommendation 16

We recommend that the campus, in conjunction with the TF and RF:

- a. Determine whether the TF and RF should have separate policies for cell phone reimbursements to university employees.
- b. If so, develop and implement TF and RF cell phone reimbursement policies. Such policies should include provisions similar to the campus policies that address documentation, approvals, and tax consequences.
- c. If not, direct TF and RF accounting staff to comply with campus policies when providing cell phone or other reimbursements to university employees.

Campus Response

We concur. The campus will determine whether the TF and RF should have separate policies for cell phone reimbursements to university employees. Based on that decision, we will comply to the guidance noted in (b) and in (c) above. This compliance action will be completed by the end of November 2014.

APPOINTMENT FORMS

Recommendation 17

We recommend that the campus, in conjunction with the TF:

- a. Require that the job title and nature or scope of work to be performed be included in TF appointment forms.
- b. Develop guidance for departments and/or implement a review for reasonableness by TF HR, of rates of pay for work performed by university employees at the TF.
- c. Clarify on the appointment form or form instructions that the forms should be signed by the employee and approved by all relevant parties prior to work starting, and inform all TF account holders of this requirement.

Campus Response

We concur. We will implement a plan for action as follows:

- a. As noted in the finding, this action had been completed prior to the beginning of the audit. In September 2013, TF added the scope of work to its appointment forms to describe work to be performed by university employees receiving one-time pays funded through TF. Additionally, in October 2013, TF implemented a policy requiring campus HR approval for payments to non-faculty similar to the campus requirement for Faculty Affairs approval of faculty payments. We will continue to enforce this policy with all constituents.
- b. Although pay rates proposed by departments have always been subject to review, going forward the TF will develop guidance for departments and/or implement a review for reasonableness by TF HR, of rates of pay for work performed by university employees at the TF. In the audited campus department, the infraction occurred because the former department chair did not follow procedures. Beginning in November 2014, account holders will be required to sign an acknowledgement that they have received, read and understood TF's procedures. Account holders will not be able to use their Tower funds until we have received the signed acknowledgement. New accounts will require the acknowledgement as part of new account set up.
- c. TF will revise the instructions on our appointment forms to require all required signatures (including Faculty Affairs or campus HR, as applicable, in addition to Tower HR) prior to the work commencing. Beginning in November 2014, we will implement a plan to communicate the changes to all project directors, secondary account signers, deans, chairs, college resource analysts and department administrative assistants. Account holders will be required to sign an acknowledgement that they have received, read and understood TF's procedures for payments to faculty and non-faculty. Account holders will not be able to use their Tower funds until we have received the signed acknowledgement. New accounts will require the acknowledgement as part of new account set up.

INDEPENDENT CONTRACTOR AGREEMENTS

Recommendation 18

We recommend that the campus, in conjunction with the TF:

- a. Remind relevant account approvers and TF accounting staff who review the forms that independent contractor agreements should be executed with all approvals prior to work being performed.
- b. Remind relevant account approvers and TF accounting staff who review the forms that the independent contractor agreement should be fully completed, including the section for certifications relating to purchasing and conflicts of interest.

Campus Response

We concur. We will implement a plan for action by the end of October 2014, as follows:

- a. By the end of September 2014, TF accounting staff will have a training refresher on reviewing independent contractor agreements. By the end of October 2014, we will provide a reminder of the procedures for independent contractor agreement approvals to all project directors, secondary account signers, deans, chairs, college resource analysts and department administrative assistants.

- b. By the end of September 2014, TF accounting staff will have a training refresher on reviewing independent contractor agreements. By the end of October 2014, we will notify account approvers that services contemplated by independent contractor agreements cannot commence until the agreement has been fully completed, including the sections on conflict-of-interest and purchasing. Account holders will be required to sign an acknowledgement that they have received, read and understood TF's independent contractor procedures. Account holders will not be able to use their Tower funds until we have received the signed acknowledgement.

THE CALIFORNIA STATE UNIVERSITY
OFFICE OF THE CHANCELLOR

BAKERSFIELD

CHANNEL ISLANDS

September 16, 2014

CHICO

DOMINGUEZ HILLS

MEMORANDUM

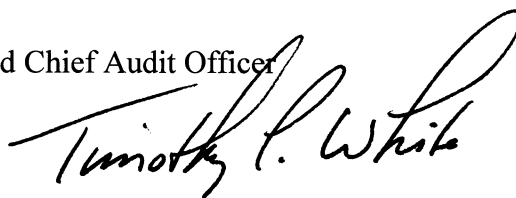
EAST BAY

TO: Mr. Larry Mandel
Vice Chancellor and Chief Audit Officer

FRESNO

FULLERTON

FROM: Timothy P. White
Chancellor



HUMBOLDT

SUBJECT: Draft Final Report 14-91
Special Audit, San José State University

LONG BEACH

LOS ANGELES

MARITIME ACADEMY

In response to your memorandum of September 16, 2014, I accept the response as submitted with the draft final report on the Special Audit at San José State University.

MONTEREY BAY

NORTHRIDGE

TPW/amd

POMONA

SACRAMENTO

SAN BERNARDINO

SAN DIEGO

SAN FRANCISCO

SAN JOSÉ

SAN LUIS OBISPO

SAN MARCOS

SONOMA

STANISLAUS