November 3, 2017

Dr. Mary A. Papazian, President
San José State University
One Washington Square
San José, CA 95192-0002

Dear Dr. Papazian:

Subject: Audit Report 17-06, Associated Students, San José State University

We have completed an audit of Associated Students as part of our 2017 Audit Plan, and the final report is attached for your reference. The audit was conducted in accordance with the Institute of Internal Auditors’ International Standards for the Professional Practice of Internal Auditing.

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

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

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

Sincerely,

Larry Mandel
Vice Chancellor and Chief Audit Officer

c: Timothy P. White, Chancellor
EXECUTIVE SUMMARY

OBJECTIVE

The objectives of the audit were to confirm compliance with regulatory requirements for the establishment and governance of auxiliary organizations; ascertain effectiveness of operational, administrative, and financial controls for the activities conducted by Associated Students (AS); evaluate adherence to auxiliary policies and procedures and applicable Integrated California State University Administrative Manual (ICSUAM) policies, or, where appropriate, to an industry-accepted standard; and to ensure compliance with relevant governmental regulations, Trustee policy, Office of the Chancellor directives, and campus procedures.

CONCLUSION

We found the control environment for the areas reviewed to be in need of some improvement.

Based upon the results of the work performed within the scope of the audit, except for the weaknesses described below, the operational, administrative, and financial controls for AS as of August 11, 2017, taken as a whole, provided reasonable assurance that risks were being managed and objectives were met.

We noted that internal controls related to cash-handling processes at the Print and Technology Center and AS Child Development Center (ASCDC) did not follow established AS cash-handling and internal control procedures. We also noted that the operating agreement needed to be amended to reflect current approved activities conducted by AS and that the current agreement was not executed timely. In addition, we noted that the ASCDC was not complying with policy regarding collections and write-offs of delinquent tuition payments. Further, the AS scholarship selection process did not always ensure that past award recipients would be excluded from consideration in subsequent AS scholarship selection processes.

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

1. CASH HANDLING: PRINT AND TECHNOLOGY CENTER

OBSERVATION

Safeguarding of cash receipts at the Print and Technology Center needed improvement.

We noted that although cash was locked in a safe overnight, the safe’s combination had never been changed. In addition, every student worker knew the combination and had access to a copy of the safe key.

In addition, the center was not complying with AS cash-handling and internal control procedures. Specifically, we noted that:

- Student cashiers performed opening and closing duties without oversight from a supervisor, and starting cash was neither counted nor documented.

- There was a lack of segregation of duties at closing, as the closing cashiers received cash, ran closing register tape, counted the entire day’s cash receipt, reconciled the actual cash-to-register tape, and documented the reconciliation.

- Mailed checks were not logged or restrictively endorsed upon receipt.

- Voids did not require a supervisor’s approval.

- There was a lack of mitigating controls to ensure accuracy in shared cash register drawers, as cashiers did not need to individually log in to the registers or otherwise segregate their transactions, and drawers were shared by up to 12 cashiers in one day.

- Receipts were given to customers only upon request.

Appropriate oversight and administration of cash handling ensures that employees are properly trained and cognizant of related policies and procedures and reduces the campus exposure to risk related to loss, theft, or misappropriation of funds.

RECOMMENDATION

We recommend that the campus, in conjunction with AS:

a. Enforce procedures regarding the use of and access to the Print and Technology Center safe, including appropriate standards for disclosing combinations and providing access to keys and schedules for changing the combination on a routine basis or upon termination of key employees.

b. Communicate campus cash-handling policies to Print and Technology Center personnel involved in cash-handling activities to reiterate key procedures, ensure that personnel involved in cash-handling activities are properly trained, and provide adequate oversight.
to maintain compliance with cash-handling policies. Training should emphasize, but not be limited to, proper oversight and segregation of duties for cash drawer closing procedures, accountability for shared cash register drawers, check endorsement, and provision of receipts to customers.

**MANAGEMENT RESPONSE**

We concur.

a. We will strengthen the procedures for the Print and Technology Center safe regarding disclosure of the combination code, access to keys, and changing combination codes, by January 15, 2018.

b. We will strengthen cash-handling by the Print and Technology Center and provide training on procedures to improve understanding of policies, oversight, segregation of duties, accountability for cash registers, check endorsement, and receipting to customers, by January 15, 2018.

### 2. CASH HANDLING: ASCDC

**OBSERVATION**

The ASCDC was not complying with AS policy regarding the frequency of deposits.

We found that instead of delivering deposits to the Associated Students General Services Center accounting office two to three times a week, as recommended by AS policy, the ASCDC delivered deposits on an irregular schedule based on an informal dollar threshold. Additionally, checks were not endorsed upon receipt, but instead when the deposits were prepared.

Appropriate oversight and administration of cash handling ensures that employees are properly trained and cognizant of related policies and procedures and reduces the campus exposure to risk related to loss, theft, or misappropriation of funds.

**RECOMMENDATION**

We recommend that the campus, in conjunction with AS:

a. Ensure that ASCDC deposits are made two to three times a week, as recommended by AS policy.

b. Reiterate to ASCDC staff that checks must be restrictively endorsed immediately upon receipt.
MANAGEMENT RESPONSE

We concur. We will strengthen procedures to ensure that (a) deposits are made timely according to AS policy, and (b) checks received are endorsed immediately, by January 15, 2018.

3. OPERATING AGREEMENT

OBSERVATION

The operating agreement between AS and San José State University (SJSU) had not been amended to reflect updates to the activities mutually agreed upon as functions of the auxiliary.

Specifically, AS was administering and awarding scholarships and stipends, but the agreement did not list these as approved activities.

We further noted that the current agreement, established in 2014, was executed 129 days after the effective date.

Per CSU Auxiliary Organizations Compliance Guide, auxiliary organizations shall not perform any of the functions listed as appropriate for auxiliary organizations to perform unless the function has been specifically assigned in the written operating agreement. It further states that each written agreement will be valid for a specified length of time and each auxiliary organization must take measures to ensure that each new agreement will become effective no later than the expiration of the one it replaces.

Properly crafted and executed auxiliary operating agreements provide greater assurance that roles and responsibilities are well defined and understood by both parties.

RECOMMENDATION

We recommend that the campus, in conjunction with AS:

a. Amend the operating agreement between AS and SJSU to accurately reflect all functions currently performed by AS.

b. Ensure that procedures are in place regarding the timely execution of the replacement of the current operating agreement when it expires in December 2018.

MANAGEMENT RESPONSE

We concur.

a. We will amend the AS operating agreement to reflect all functions that AS is authorized to perform, by February 28, 2018.
4. ASCDC TUITION COLLECTIONS

OBSERVATION

ASCDC tuition collection and write-off needed improvement.

We noted that the ASCDC was not complying with policy regarding collection and write-off of delinquent tuition payments, and the process for collection and write-off lacked management oversight. We further noted that the ASCDC had not defined a time frame for determining the collectability of accounts transferred to a collection agency.

In addition, we reviewed ten delinquent accounts and found that:

- Collection procedures were not promptly or systematically applied in five instances.
- Significantly aged accounts were handled in an inconsistent manner. Three delinquent accounts had been invoiced in 2015, and one was in collections, but two remained delinquent.

Adequate control over accounts receivable increases the likelihood of collection, positively impacts cash flow, and helps ensure that controls are sufficient and working effectively.

RECOMMENDATION

We recommend that the campus, in conjunction with AS:

a. Enhance management oversight of the ASCDC tuition collections and write-off processes.

b. Ensure that aged tuition receivables are managed consistently and in accordance with policy, including standards and time frames for sending aged receivables to a collections agency.

MANAGEMENT RESPONSE

We concur. We will (a) enhance management oversight of the ASCDC tuition collections and write-off processes, and (b) ensure that management of aged tuition receivables, including the procedure to send to a collection agency, is in compliance with policy, by February 28, 2018.

5. AS SCHOLARSHIP SELECTION PROCESS

OBSERVATION

The AS scholarship selection process needed improvement.
We found that the existing process did not include a review of prior scholarship recipients. We reviewed ten scholarship awards and found that two recipients received more than one AS scholarship between July 2015 and June 2017. According to AS scholarship policy, students can receive only one AS scholarship during their time at SJSU.

Well-defined and executed scholarship selection procedures enhance transparency and legitimacy and reduce the likelihood that decisions will be perceived to be based on conflicts of interest.

RECOMMENDATION

We recommend that the campus, in conjunction with AS, improve the scholarship selection process to ensure that previous AS scholarship recipients are not considered for subsequent awards.

MANAGEMENT RESPONSE

We concur. The campus and AS will improve the scholarship selection process to ensure that previous AS scholarship recipients are not considered for subsequent awards, by January 15, 2018.
GENERAL INFORMATION

BACKGROUND

Auxiliary organizations are separate business and legal entities that perform activities essential to the education program of each campus that cannot be legally or effectively administered using state funding. California Code of Regulations (CCR) Title 5, §42401 specifically states that student self-government is an appropriate activity for an auxiliary organization.

Education Code §89900 states, in part, that the operation of auxiliary organizations shall be conducted in conformity with regulations established by the Trustees, and CCR Title 5, §42402 confirms the campus president’s authority and responsibility for auxiliary organization operations. Campus management is responsible for establishing and maintaining an adequate system of internal compliance/internal control and assuring that each of its auxiliary organizations similarly establishes such a system.

Education Code §89904 states, in part, that the Trustees of the California State University (CSU) and the governing boards of the various auxiliary organizations shall:

- Institute a standard systemwide accounting and reporting system for businesslike management of the operation of such auxiliary organizations.
- Implement financial standards that will assure the fiscal viability of such various auxiliary organizations. Such standards shall include proper provision for professional management, adequate working capital, adequate reserve funds for current operations and capital replacements, and adequate provisions for new business requirements.
- Institute procedures to assure that transactions of the auxiliary organizations are within the educational mission of the state colleges.
- Develop policies for the appropriation of funds derived from indirect cost payments.

Executive Order 1059, Utilization of Campus Auxiliary Organizations, dated June 6, 2011, represents Trustee policy addressing appropriate use of CSU auxiliary organizations. This EO requires CSU auxiliary organizations to operate within the regulations and oversight of the campus. The EO reiterates that the campus president is responsible for ensuring the fiscal viability of auxiliary organizations and their compliance with applicable CSU policies, and it further designates the campus chief financial officer as the individual responsible for administrative compliance and fiscal oversight of auxiliary organizations.

The SJSU campus contracts with five separate auxiliary organizations, each of which provides a function that contributes to the educational mission of the university. AS was established in 1980 as a non-profit public benefit corporation to provide for student self-government and to provide services and programs that maximize student life and improve student experiences at SJSU. In addition to providing the framework for student government, AS operates the accredited ASCDC; the Cesar Chavez Community Action Center; the Print and Technology Center; the General Services Center; the Marketing and Events Department; and the Transportation Solutions Department. The General Services Center provides services for students such as check-cashing, money order, notary, and fax services; and student
organization accounting. AS is governed by a board of directors composed of 16 voting student members and an advisory non-voting university representative appointed by the campus president.

SCOPE

We visited the SJSU campus and AS from June 26, 2017, through August 11, 2017. Our audit and evaluation included the audit tests we considered necessary in determining whether operational, administrative, and financial controls are in place and operative at AS. The audit focused on procedures in effect from July 1, 2015, to August 11, 2017.

Specifically, we reviewed and tested:

- Timely and proper execution of agreements, contracts, and memoranda of understanding.
- Corporate governance, including compliance with education, government, and corporation codes.
- Fiscal, operational, and program compliance, such as review of cost reimbursement, reserves, conflict of interest, risk management, and trust accounts.
- Segregation of duties and administration of key fiscal and operational areas.
- ASCDC administration.
- Scholarship administration.

As a result of changing conditions and the degree of compliance with procedures, the effectiveness of controls changes over time. Specific limitations that may hinder the effectiveness of an otherwise adequate system of controls include, but are not limited to, resource constraints, faulty judgments, unintentional errors, circumvention by collusion, and management overrides. Establishing controls that would prevent all these limitations would not be cost-effective; moreover, an audit may not always detect these limitations.

Our testing and methodology was designed to provide a review of key operational, administrative, and financial controls and included testing of a limited number of financial transactions and operational procedures. Based on our risk assessment, we excluded review of the AS Transportation Solutions Center, the Cesar Chavez Community Action Center, and the AS events and equipment rental function.

CRITERIA

Our audit was based upon standards as set forth in CSU Board of Trustee policies; Office of the Chancellor policies, letters, and directives; campus procedures; and other sound administrative practices. This audit was conducted in conformance with the Institute of Internal Auditors’ *International Standards for the Professional Practice of Internal Auditing*.

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

- Education Code §89720
- Education Code §89756
• Education Code §89900
• Education Code §89904
• CCR Title 5, §42401, Declaration of Policy
• CCR Title 5, §42402, Authority of Campus President
• CCR Title 5, §42500, Functions of Auxiliary Organizations
• RFIN 7-81-4
• EO 1031, Records/Information Retention and Disposition Schedule Implementation
• EO 1059, Utilization of Campus Auxiliary Organizations
• CSU Auxiliary Organizations Compliance Guide
• CSU Auxiliary Organizations Sound Business Practices Guidelines
• ICSUAM §8000.00, Information Security
• ICSUAM §13680.00, Placement and Control of Receipts for Campus Activities and Programs
• Coded memorandum Academic Affairs 2004-15, Student Financial Aid Administration
• AS Internal Control Procedures 2016 – 2017
• AS Scholarship Administration Policy and Procedures

AUDIT TEAM

Assistant Vice Chancellor and Deputy Chief Audit Officer: Janice Mirza
Audit Manager: Ann Hough
Senior Auditor: Krittika Hursey