March 13, 2019

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

Dear Dr. Papazian:

Subject: Audit Report 18-11, The Student Union of San José State University, San José State University

We have completed an audit of The Student Union of San José State University as part of our 2018 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 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
THE STUDENT UNION
OF SAN JOSÉ STATE UNIVERSITY

San José State University

Audit Report 18-11
February 15, 2019
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 the Student Union of San José State University (Student Union); 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 some of the areas reviewed to be in need of 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 the Student Union as of December 14, 2018, taken as a whole, provided reasonable assurance that risks were being managed and objectives were met.

In general, we noted that the Student Union had an appropriate framework for the administration of the auxiliary; however, we identified a few areas needing improvement. We found that lease agreements between the Student Union and parties subleasing facility space were not always executed in accordance with the requirements of the operating agreement between the auxiliary and the university. Additionally, as also noted in the prior auxiliary audit conducted in 2013, administration of property and equipment needed improvement related to performing an annual physical inventory, updating the property and equipment listing, and disposing of aged or obsolete assets. We also found that the university and Student Union reserve policies conflicted and neither party was in compliance with its current policies.

Finally, we noted a lack of compliance and inadequate internal controls for some cash receipts and accounts payable areas. For example, the Student Union cash safe combination was not always changed after turnover in personnel, some discounts and refunds were processed without additional manager approval, the vendor master list was not reviewed periodically, hospitality-related expenditures were not processed in accordance with university policy, and some long-outstanding checks were not escheated to the state.

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

OBSERVATION

Lease agreements between the Student Union and parties subleasing facility space were not always executed in accordance with requirements of the operating agreement between the Student Union and the university.

The operating agreement between the Student Union and the university states that the Student Union is responsible for operation and management of four facilities, including the Student Union building, under a lease agreement included within the operating agreement. Section 36, Assignments or Sublease, provides the Student Union the right to sublease space within the facility and reserves the university’s right to reserve leased space for certain functions, such as the bookstore and food and catering operations.

We found that:

- There was no executed sublease and managerial agreement with Spartan Shops, the auxiliary responsible for bookstore and food operations housed within the Student Union facility. The managerial agreement requirement is spelled out in Section 36 of the operating agreement, and the section states that a managerial agreement is a condition in the sublease between Spartan Shops and the university.

- There were no executed subleases with various student affairs departments that were housed in the Student Union building.

- Two existing sublease agreements between the Student Union and the university were signed after the agreement effective date. These execution delays ranged from 25 to 297 days.

Executed agreements provide greater assurance that roles and responsibilities are well-defined and understood by both parties and ensure compliance with the auxiliary’s operating agreement.

RECOMMENDATION

We recommend that the campus, in conjunction with the Student Union, ensure that all subleases for space within the Student Union facility are executed in accordance with the operating agreement.

MANAGEMENT RESPONSE

We concur. The campus will ensure that all subleases for space within the Student Union facility are executed in accordance with the operating agreement. Compliance action will be completed by May 30, 2019.
2. PROPERTY AND EQUIPMENT

OBSERVATION

Administration of property and equipment needed improvement. This is a repeat observation from the prior Auxiliary Organizations audit.

We found that:

- Annual physical inventories of all property and equipment valued at $5,000 or more were not performed by the Student Union accounting office during fiscal years (FY) 2016/17 and 2017/18. In addition, we noted that items listed in the current property and equipment listing were frequently missing information fields such as serial/model number, location, date acquired, quantity, or cost.

- A monthly reconciliation of equipment purchases to the asset database was not performed as required by Student Union’s Property Procedures.

- The Student Union did not report any property or equipment disposals during the two most recent fiscal years; however, the asset list still included assets that were acquired in late 1980s.

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

RECOMMENDATION

We recommend that the campus, in conjunction with the Student Union:

a. Perform an annual physical inventory of all property and equipment valued at $5,000 or more.

b. Perform monthly reconciliation of equipment purchases to the asset database to ensure that capitalized purchases are accurately and timely captured.

c. Review the asset disposition and disposal procedures to confirm they adequately ensure that objectives are met, and apply these procedures to any missing assets discovered in the inventory count.

MANAGEMENT RESPONSE

We concur. The Student Union will:

a. Perform an annual physical inventory of all property and equipment valued at $5,000 or more.

b. Perform a monthly reconciliation of equipment purchases to the asset database to ensure that capitalized purchases are accurately and timely captured.
c. Review the asset disposition and disposal procedures to confirm they adequately ensure that objectives are met, and apply these procedures to any missing assets discovered in the inventory count.

Compliance actions will be completed by July 30, 2019.

3. RESERVES

OBSERVATION

The campus and Student Union reserve policies conflicted, and neither party was in compliance with its current policies.

We noted that the Student Union had two types of reserves: those funded by the auxiliary and those funded by the campus. We found that:

- We were not provided sufficient support to confirm that actual funding levels for the local and student fees reserves, which the Student Union was responsible for funding for FY 2016/17 and 2017/18, matched the funding levels required by the existing auxiliary reserves policy. Also, the reserves were not clearly allocated and accounted for in the auxiliary accounting records. Student Union management indicated that the auxiliary has enough funds to cover required local and student fee reserves for both fiscal years through their positive net position.

- The Student Union’s proposed revisions to its current reserves policy regarding reserves required to be funded by the campus listed several categories and funding benchmarks that were not consistent with the current campus reserve policy. For example, the Student Union proposed a maximum need for 10 percent of the original bonded debt for major capital repair and replacement reserve, while the campus policy dictated a minimum reserve of 5 percent of the total cost of construction. Additionally, when we recalculated the actual reserve for FY 2016/17, it did not agree to the amount outlined in either policy, but instead was established at 1 percent of approximate Student Union building costs.

- Some reserve categories listed on the Student Union’s proposed revisions, such as future facility and equipment replacement/special projects and programs, did not indicate required funding levels, and others, such as a bond interest and redemption reserve and a future facility reserve, were not included in the campus reserve policy.

We noted a similar observation in a prior housing and residential services audit conducted in 2018. The report recommended that the campus review and revise its reserve policy to address required elements as outlined in Integrated California State University Administrative Manual (ICSUAM) §2001.00, Campus Reserves. The campus responded that this would be completed by February 1, 2019. Similarly, the Student Union was in the process of finalizing a proposed new reserve policy.

A current and complete reserve policy provides greater assurance of financial stability and a basis for establishing an adequate reserve amount.
RECOMMENDATION

We recommend that the campus, in conjunction with the Student Union, review and revise the auxiliary and campus reserve policies regarding Student Union properties and operations and agree to the responsibility for and funding level of each reserve.

MANAGEMENT RESPONSE

We concur. The campus will review and revise the auxiliary and campus reserve policies regarding Student Union properties and operations and will define the responsibility for and funding level of each reserve. Compliance action will be completed by June 20, 2019.

4. CASH-HANDLING ACTIVITIES

OBSERVATION

Administration of cash handling needed improvement.

We visited six Student Union cash-handling locations, and we found that:

- At five locations, management did not maintain a log of access and changes to the safe combinations. At two of these locations, there had been turnover of staff with knowledge of the existing combination.

- At one location, the location manager sometimes changed the calculation of approved group reservation rates or discounts provided to student groups performing fund-raising events without approval from Student Union senior management. The location manager was also responsible for booking group reservations.

- At one location, student cashiers were able to process refunds without managerial review even though the location’s cash-handling procedures required managerial approval for all refunds.

Appropriate oversight and administration of cash handling provides greater assurance that the enterprise will not be exposed to loss, theft, or misappropriation of funds.

RECOMMENDATION

We recommend that the campus, in conjunction with the Student Union, reiterate cash-handling policies and procedures and provide training to personnel involved in cash-handling activities that includes procedures and requirements for changing the safe combination, approving additional discounts, and processing refunds.

MANAGEMENT RESPONSE

We concur. The Student Union will reiterate cash-handling policies and procedures and provide training to personnel involved in cash-handling activities that includes procedures and
requirements for changing the safe combination, approving additional discounts, and processing refunds. Compliance action will be completed by April 30, 2019.

5. VENDOR MASTER LIST

OBSERVATION

The Student Union had not performed periodic management review of the vendor master list to ensure that there were no undetected errors or unauthorized changes to vendor information.

Periodic management review of the vendor master list decreases the risk of theft via creation of phony vendors or diversion of funds sent to legitimate vendors and provides management with an opportunity to monitor trends in vendor selection.

RECOMMENDATION

We recommend that the campus, in conjunction with the Student Union, perform periodic management review of the vendor master list.

MANAGEMENT RESPONSE

We concur. The Student Union will perform periodic management review of the vendor master list. Compliance action will be completed by April 30, 2019.

6. HOSPITALITY-RELATED EXPENDITURES

OBSERVATION

Student Union hospitality-related expenditures were not always processed in accordance with campus policy.

We reviewed 15 hospitality expenditures paid between July 2016 and October 2018, and we found that:

• The hospitality approval form was not completed for seven expenditures totaling $11,936. The Student Union Hospitality Policy required that all hospitality expenses greater than $250 must be pre-approved in writing using the hospitality approval form.

• A listing of attendees was not completed for two expenditures.

Adequate documentation for hospitality-related expenditures ensures compliance with auxiliary policies and procedures and decreases the risk of errors and misappropriation of funds.
RECOMMENDATION

We recommend that the campus, in conjunction with the Student Union, reiterate hospitality policies and procedures and provide training to personnel involved in hospitality-related activities that includes instructions for providing sufficient documentation, such as the hospitality approval form and listing of attendees.

MANAGEMENT RESPONSE

We concur. The Student Union will reiterate hospitality policies and procedures and provide training to personnel involved in hospitality-related activities that includes instructions for providing sufficient documentation, such as the hospitality approval form and listing of attendees. Compliance action will be completed by April 30, 2019.

7. ESCHEATMENT

OBSERVATION

The Student Union had long-outstanding checks that were not escheated to the state.

We found that 21 unclaimed accounts payable checks totaling $588 from August 2008 to December 2014 had yet to be escheated to the state. The Student Union’s last remittance report to the state was submitted in September 2013. The state requires a three-year dormancy for general property checks before unclaimed property is remitted to the state.

Adequate administration of unclaimed property helps ensure regulatory compliance and reduces the likelihood of fines.

RECOMMENDATION

We recommend that the campus, in conjunction with the Student Union, properly escheat long-outstanding checks to the state.

MANAGEMENT RESPONSE

We concur. The Student Union will timely escheat long-outstanding checks to the state. Compliance action will be completed by April 30, 2019.
GENERAL INFORMATION

BACKGROUND

Auxiliary organizations are separate business and legal entities that perform activities essential to the educational program of a campus that cannot be legally or effectively administered using state funding. California Code of Regulations (CCR) Title 5, §42401, states that auxiliary organizations provide the fiscal means and the management procedures that allow the campus to carry on activities providing those instructional and service aids not normally furnished by the state budget.

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 auxiliary organizations.

- Implement financial standards that will assure the fiscal viability of 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 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 (EO) 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 Student Union began its operations in 1969 with the building of its first student center and was incorporated in March 1982. It is governed by an 11-member board of directors that includes six student representatives. The Student Union’s mission is to offer quality services and programs that promote social, recreational, cultural, and educational experiences to the San José State University (SJSU) community. The facilities operated by the Student Union include the Diaz Compean Student Union building, the Event Center, and, when completed, the new Spartan Recreation and Aquatic Center. Various recreational activities are planned
and administered by the Student Union, including club sports, intramural sports, a bowling
center, and Outdoor Adventures, a program that offers day-long and overnight outdoor
experiences for the SJSU community.

SCOPE

We visited the SJSU campus and the Student Union of San José State University from
October 22, 2018, through December 14, 2018. 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 the Student Union. The audit focused on
procedures in effect from July 1, 2016, to December 14, 2018.

Specifically, we reviewed and tested:

- Timely and proper execution of agreements, contracts, and memoranda of understanding.
- Fiscal, operational, and program compliance, such as reserve provisions, unrelated
  business income tax, conflicts of interest, and risk management practices.
- Internal controls and segregation of duties over fiscal administration of areas such as cash
  receipts, accounts receivables, property and equipment, procurement, disbursements,
  and personnel and payroll.
- Auxiliary enterprise unit administration, including, but not limited to, event ticket sales,
  recreational facility operations, and facility rental.

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.

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 1059, *Utilization of Campus Auxiliary Organizations*
- CSU Auxiliary Organizations Compliance Guide
- CSU Auxiliary Organizations Sound Business Practices Guidelines
- ICSUAM §1301.00, *Hospitality, Payment or Reimbursement of Expenses*
- ICSUAM §15000, *University Advancement*
- ICSUAM §13680.00, *Placement and Control of Receipts for Campus Activities and Programs*
- SJSU Campus Reserve Policy
- Student Union Bowling Center Cashier Procedures
- Student Union *Cash Handling Receipt of Deposits in Accounting Department*
- Student Union Hospitality Policy
- Student Union Property Procedures
- Student Union Reserves

**AUDIT TEAM**

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