

Office of Audit and Advisory Services
401 Golden Shore, 4th Floor
Long Beach, CA 90802-4210

562-951-4430
562-951-4955 (Fax)
lmandel@calstate.edu

February 12, 2018

Dr. Horace Mitchell, President
California State University, Bakersfield
9001 Stockdale Highway
Bakersfield, CA 93311-1022

Dear Dr. Mitchell:

Subject: Audit Report 17-44, Athletics Fund-Raising, California State University, Bakersfield

We have completed an audit of *Athletics Fund-Raising* 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



ATHLETICS FUND-RAISING

**California State University,
Bakersfield**

Audit Report 17-44
December 15, 2017

EXECUTIVE SUMMARY

OBJECTIVE

The objectives of the audit were to ascertain the effectiveness of campus operational, administrative, and financial controls related to athletics fund-raising and to evaluate adherence to relevant governmental regulations; Trustee policy; Office of the Chancellor directives; campus procedures; and, where appropriate, industry-accepted standards.

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 athletics fund-raising as of October 6, 2017, taken as a whole, provided reasonable assurance that risks were being managed and objectives were met.

Our review indicated that the campus administration of athletics fund-raising activities and gift-acceptance needed improvement and that several areas within the athletics department required improvement. We noted that the agreement between athletics and a third party was not properly executed; fund-raising events were not always listed on Internal Revenue Service (IRS) Form 900, Schedule G (Supplemental Information Regarding Fundraising or Gaming Activities); written disclosure statements for quid pro quo contributions were not always provided; and reporting requirements were not completed when raffles were conducted. Additionally, athletics trades did not have documented approvals and were not always properly recorded, and athletics trust funds and disbursements had various processing issues.

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

OBSERVATIONS, RECOMMENDATIONS, AND RESPONSES

1. CAMPUS ADMINISTRATION

OBSERVATION

Campus administration of athletics fund-raising activities and gift acceptance needed improvement.

We found that:

- There was no documented agreement or memorandum of understanding (MOU) between the campus and the California State University, Bakersfield Foundation (Foundation) for the financial services that the Foundation provided to athletics.
- The campus had not established written delegations of authority (DOA) from the campus president to the campus vice president of university advancement/Foundation executive director, athletics management, and university advancement employees assigning responsibility for accepting athletics monetary gifts and signing gift acknowledgments, as required by Executive Order (EO) 676.
- Campus fund-raising policies and procedures did not address quid pro quo benefits and sales activities, as required by Integrated California State University Administrative Manual (ICSUAM) §15701.00.
- The campus did not have written policies and procedures for trades.

Appropriate administration of athletics fund-raising activities and gift acceptance increases accountability for the achievement of fund-raising goals and decreases the risk that gift funds will be lost or misappropriated and decreases the risk of potential non-compliance with government regulations.

RECOMMENDATION

We recommend that the campus:

- a. Document an agreement or MOU for the financial services that the Foundation provides to athletics.
- b. Issue written DOAs to individuals who have responsibility for gift acceptance.
- c. Update fund-raising policies and procedures to address quid pro quo benefits and sales activities.
- d. Develop written policies and procedures for trades.

MANAGEMENT RESPONSE

The campus will establish an MOU between the Foundation and athletics and proper delegation of authority surrounding gift acceptance by June 15, 2018.

In addition, the campus will update its fund-raising policies and procedures to address quid pro quo benefits and sales activities and establish written policies and procedures for trades and fund-raising by June 15, 2018.

2. AGREEMENT

OBSERVATION

An agreement between athletics and a third party was not properly executed.

We found that:

- The agreement did not include appropriate provisions for indemnification and insurance or documented justification to support the business decision to not include such provisions.
- The third party inappropriately created a private limited liability corporation (LLC) in the name of the campus and assigned rights and obligations under the agreement to that LLC. ICSUAM §5210.00, *Prohibited Practices*, states that the name “California State University (CSU)” is the property of the state and no person shall use this name, or any abbreviations of it, or any name of which these words are a part, without the permission of the Trustees.

Properly executed agreements with appropriate provisions and appropriate use of the CSU name decrease the potential for misunderstanding of the business terms, responsibilities, and liabilities of the parties involved and protect the university and the CSU from financial and legal risks.

RECOMMENDATION

We recommend that the campus:

- a. Include appropriate insurance and indemnification provisions or document justification to support the business decision to not include such provisions.
- b. Work with the campus counsel to remove the university’s name from the LLC.

MANAGEMENT RESPONSE

The campus will work with the campus counsel to include appropriate insurance and indemnification provisions or document justification to support the business decision to not include such provisions and remove the university’s name from the LLC by June 15, 2018.

3. FUND-RAISING EVENTS

OBSERVATION

Athletics administration of fund-raising events needed improvement.

We reviewed six athletics fund-raising events with gross receipts greater than \$5,000, and we found that:

- None of the six events we reviewed had written approval showing the delegated authority's review of event budgets, drafts of solicitation materials, and action plans, as required by ICSUAM §15701.00.
- Three events were not listed on IRS Form 900, Schedule G (Supplemental Information Regarding Fundraising or Gaming Activities).
- Disclosure statements were not provided for four events with quid pro quo contributions, as required by IRS Publication 526.
- The state nonprofit raffle registration form (CT-NPR-1) and nonprofit raffle report (CT-NRP-2) were not filed for two events with reverse raffles. Additionally, tickets were sold via the internet for one of the events. California Penal Code Section 320.5 prohibits selling raffle tickets over the internet.

Proper administration of athletics fund-raising events helps to effectively allocate resources, coordinate events, and assess and mitigate any risks associated with events. Proper disclosure statements and filing reduce the risk of noncompliance with government regulations and penalties.

RECOMMENDATION

We recommend that the campus, in conjunction with the Foundation, develop written procedures and provide training regarding:

- a. Ensuring that all fund-raising events with gross receipts greater than \$5,000 are approved by a delegated authority.
- b. Reporting all fund-raising events on IRS Form 900, Schedule G (Supplemental Information Regarding Fundraising or Gaming Activities).
- c. Providing written disclosure statements for quid pro quo contributions.
- d. Completing reporting requirements when raffles are conducted and prohibiting organizers from selling raffle tickets over the internet.

MANAGEMENT RESPONSE

Beginning with the fiscal year 2016/17, all fund-raising events will be reported on IRS Form 900, Schedule G. Also, for the calendar year-end 2017, proper written disclosures will be provided regarding contributions.

The campus will develop written procedures and provide training regarding the item mentioned above by June 15, 2018.

4. ATHLETICS TRADES

OBSERVATION

Athletics trades did not have documented approvals and were not always properly recorded.

We reviewed five athletics trades, and we found that:

- None had documented approvals.
- Three were not properly recorded.

Proper approvals and records on trades decrease the risk of inappropriate contracting and accusations that state resources are being given away without the state receiving fair value in exchange.

RECOMMENDATION

We recommend that athletics document approval for trades and properly record all trades.

MANAGEMENT RESPONSE

Beginning in January 1, 2018, athletics will document approval for all trades and properly record these transactions. The evidence of completion will be provided by June 15, 2018.

5. TRUST FUND ADMINISTRATION

OBSERVATION

Athletics trust funds and disbursements had various processing issues that resulted from conflicting and incomplete policies and procedures and lack of proper authorization and supporting documents.

We reviewed five athletics trust funds and 20 disbursements from those trust funds and found that:

- There were three separate policies and procedures related to direct pay that did not align.

- The campus *Hospitality Policy* did not include a maximum per-person rate for breakfast, lunch, dinner, and light refreshments.
- Disbursements were not always processed with proper authorization or documentation such as Direct Pay and Business Meal Approval forms, a list of attendees, and itemized receipts.
- Trust agreements were not on file for four of the trust funds, and one trust agreement was outdated.

Proper administration of trust funds and disbursements reduces the risk of loss or misappropriation of funds and provides greater assurance of compliance with donor terms.

RECOMMENDATION

We recommend that the campus:

- a. Review and update policies and procedures relating to direct pay to reflect current practices.
- b. Update the *Hospitality Policy* to address the maximum per-person rate for breakfast, lunch, dinner, and light refreshments.
- c. Provide training to appropriate staff responsible for processing disbursements on proper authorization and supporting documents.
- d. Create a written procedure to review and update trust agreements, obtain trust agreements for the four trust funds noted above, and update the one that was outdated.

MANAGEMENT RESPONSE

Training will be provided to the appropriate staff regarding proper authorization and the correct supporting documentation for disbursements. This process will be completed by June 15, 2018.

As of January 1, 2018, the campus has begun working on a procedure to ensure trust agreements are updated on a regular basis. The written procedure will be completed by June 15, 2018.

GENERAL INFORMATION

BACKGROUND

The CSU depends on state funds to support core educational functions. Given budgetary shortfalls, private support provides essential funding that allows the CSU to achieve its educational goals. Fund-raising, especially in athletics, is significant when it comes to providing support for intercollegiate athletics programs and student-athletes. In 2016, the CSU raised more than \$17 million in athletics fund-raising, with total athletics gifts over \$24 million.

Systemwide policy for fund-raising is delineated in the ICSUAM §15701.00, *Fund-raising Events*, which addresses due diligence and reporting requirements specific to fund-raising events. Campus fund-raising activities are also regulated by relevant governmental regulations, Trustee policy, Office of the Chancellor directives, and campus procedures.

At California State University, Bakersfield (CSUB), all fund-raising activity is supervised, coordinated, and directed by university advancement under the direction of the university advancement vice president. The office of the provost, office of the vice president of student affairs, and athletics work with university advancement to coordinate fund-raising activities. In fiscal year (FY) 2015/16, the campus raised approximately \$7 million through fund-raising, with about \$3.6 million in pledges and \$3.4 million in outright gifts.

Athletics at CSUB is administered by a director of athletics who reports to the vice president of student affairs. Fund-raising activities to support the campus' intercollegiate athletics program are approved, monitored, and coordinated under the direction of the director of athletics and the vice president of university advancement. The assistant athletics director for development serves as a liaison between the athletics department and university advancement by reporting to both the director of athletics and vice president of university advancement.

CSUB's intercollegiate athletics teams, known as the Roadrunners, compete at the NCAA Division I level. The Roadrunner Scholarship Fund provides financial support to more than 300 student-athletes on all 17 intercollegiate teams at CSUB and is the backbone of Roadrunner athletics. In FY 2016/17, the Roadrunner Scholarship Fund raised a record-high \$800,000. This is part of the \$1.9 million raised overall in the athletics department in FY 2016/17. CSUB athletics also holds annual special events such as the Spring BBQ and Reverse Drawing to benefit the Roadrunner Scholarship Fund.

SCOPE

We visited the CSUB campus from August 22, 2017, through October 6, 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 the CSUB campus. The audit focused on procedures in effect from July 1, 2015, through October 6, 2017.

Specifically, we reviewed and tested:

- The structure and administration of athletics fund-raising, including clear lines of organizational authority and responsibility, an effective internal control environment, and policies and procedures that are current and comprehensive.
- Proper management of conflicts of interest for employees involved in athletics fund-raising.
- Processes for planning and implementing fund-raising events, including reviews to ensure that goals are measurable and results are assessed.
- Controls to ensure that fund-raising events include appropriate internal controls and are administered in accordance with federal and state regulations and CSU and campus policies.
- Establishment and administration of gift trust accounts in accordance with state and CSU regulations and donor intent.
- Processes to ensure that athletics scholarships are given only to eligible students.
- Controls to ensure that donor files and automated donor system information assets are adequately safeguarded.

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, financial, and administrative controls and included testing of a limited number of donation receipts and the corresponding trust account activity. The audit did not include detailed review of areas that conduct specialized fund-raising activities, such as athletics, beyond assessing the governance and oversight structure of the areas.

CRITERIA

Our audit was based upon standards as set forth in federal and state regulations; 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:

- EO 676, *Delegation of Gift Evaluation and Acceptance*
- ICSUAM §1101.00, *Delegation of Authority to Obligate the University*
- ICSUAM §1201.00, *Intercollegiate Athletics Administration*
- ICSUAM §1202.00, *Athletics Trade Usage (Trade Out)*
- ICSUAM §1203.00, *Fringe Benefits Management*

- ICSUAM §1301.00, *Hospitality, Payment or Reimbursement of Expenses*
- ICSUAM §5210.00, *Prohibited Practices*
- ICSUAM §13680, *Placement and Control of Receipts from Campus Activities*
- ICSUAM §15701.00, *Fund-raising – Events*
- *CSU Conflict of Interest Handbook*
- Human Resources 2014-14, *Conflict of Interest - Revisions to FPPC Gifts to Agency Policy and CSU Policy for the Distribution of Tickets and Passes to Events and Report of Ceremonial Roles*
- Government Code §12599
- Government Code §13402 and §13403
- 26 United States Code 170 Internal Revenue Code 26 USC 170
- California Business and Professions Code (CBPC) 17510
- CBPC 19986
- California Corporation Code §5233
- California Constitution Article 1, Section 31 (Proposition 209)
- State of California Department of Justice, Title 11, §410-426, *Non-Profit Raffle Program Regulations*
- *CSUB Fundraising Event Procedure*
- *CSUB Foundation Policy and Procedure Manual*
- *CSUB Hospitality Policy*
- *CSUB Department of Intercollegiate Athletics Policy Manual*
- *CSU Bakersfield Roadrunners Special Events Procedure*

AUDIT TEAM

Assistant Vice Chancellor: Michelle Schlack
Audit Manager: Caroline Lee
Internal Auditor: Laura Vazquez