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January 17, 2019

Mr. Framroze M. Virjee, President
California State University, Fullerton
800 N. State College Boulevard
Fullerton, CA 92834

Dear Mr. Virjee:

**Subject: Audit Report 18-27, Cal State Fullerton Philanthropic Foundation,
California State University, Fullerton**

We have completed an audit of *Cal State Fullerton Philanthropic Foundation* 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

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The California State University
Audit and Advisory Services

**CAL STATE FULLERTON PHILANTHROPIC
FOUNDATION**

**California State University,
Fullerton**

Audit Report 18-27
December 20, 2018

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 Cal State Fullerton Philanthropic Foundation (Foundation); 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 Foundation as of November 16, 2018, taken as a whole, provided reasonable assurance that risks were being managed and objectives were met.

In general, we noted that the Foundation had an appropriate framework for the administration of the auxiliary; however, we identified a few areas needing improvement. Campus locations that collected and deposited funds to the Foundation did not always make timely deposits or transport deposits in dual custody, as required by campus and systemwide cash-handling policies, nor did they ensure that checks were restrictively endorsed upon receipt. In addition, cash disbursements for hospitality expenditures were not always certified and did not have required approval and supporting documentation. Further, certain gifts-in-kind (GIK) were not appropriately approved prior to recording, and guidelines and forms for GIK had not been updated.

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

OBSERVATIONS, RECOMMENDATIONS, AND RESPONSES

1. CASH HANDLING

OBSERVATION

Campus cash-receipting locations that collected and deposited funds to the Foundation did not always follow campus and systemwide cash-handling requirements.

We reviewed cash-handling practices at two locations that collected and deposited funds into accounts held by the Foundation, and we found that:

- One location did not regularly deposit cash and cash equivalents within 24 hours of receipt or immediately when they amounted to more than \$500, as required by the *Foundation Cash Management Policy*. We noted that the Foundation's deposit requirement is more restrictive than the campus *Cash Management Policy*, which requires the deposit of funds within five business days of receipt or whenever excess cash exceeds \$1,000, or when accumulated cash and cash equivalents exceed \$5,000.
- Neither location transported funds with a police escort or armored car whenever cash exceeded \$1,000 or when accumulated cash and cash equivalents exceeded \$5,000, as required by the campus *Cash Management Policy*.
- Neither location regularly transported deposits in dual custody, as required by the *Cash Management Policy*.
- Neither location restrictively endorsed checks immediately upon receipt. In addition, neither had an endorsement stamp or mechanical equivalent.

Compliance with systemwide and campus cash-handling requirements helps reduce campus and auxiliary exposure to loss, theft, or misappropriation of funds.

RECOMMENDATION

We recommend that the campus, in conjunction with the Foundation

- a. Determine whether the requirements in the *Foundation Cash Management Policy* related to timeliness of deposits are appropriate, and if so, ensure compliance. If not, determine the appropriate requirements, including whether to align the requirement with the campus *Cash Management Policy*, and update the *Foundation Cash Management Policy*.
- b. Remind all campus departments that deposit funds to the Foundation of the applicable campus and/or Foundation cash management policy requirements, as determined above, including the areas of non-compliance identified above.
- c. Provide an endorsement stamp or mechanical equivalent to campus receipting locations that collect and deposit funds to the Foundation.

MANAGEMENT RESPONSE

We concur.

- a. Campus and Foundation cash management policy requirements will be reviewed and aligned accordingly.
- b. Following the completion of the above, cash management policy requirements will be re-communicated to all applicable campus departments that deposit funds to the Foundation.
- c. Campus receiving locations that collect and deposit funds to the Foundation will be assessed and, as appropriate, provided a mechanism to restrictively endorse checks immediately upon receipt.

Anticipated completion date for the above items is June 20, 2019.

2. CASH DISBURSEMENTS

OBSERVATION

Disbursement for hospitality expenses did not always comply with systemwide requirements and campus administrative guidelines related to obtaining approval and supporting documentation.

To comply with ICSUAM §1301.00, *Hospitality*, the campus established *Administrative Guidelines for Implementing President's Directive Number 11* (Directive 11). Directive 11 relates to hospitality expenditures, regardless of amount, and applies to all university administrators, faculty, staff, organizations (including student organizations) and auxiliaries. These expenses include food and beverage; event attendance; get-well gestures; gifts, awards and promotional items; entertainment services; memberships in social organizations; and memorial donations. In addition, hospitality expenses require a completed Directive No. 11 approval form and must be certified as essential, reasonable, and supportive of the university's mission, goals, and strategies. The form must be signed by the division head (usually a vice president or the equivalent) or their designee.

We reviewed 21 cash disbursements for hospitality expenses and found that in seven instances, a Directive 11 approval form had not been completed and supporting records were not obtained for each expense.

Proper administration of campus Directive 11 provides greater assurance that hospitality-related expenditures are properly certified, approved, and supported and comply with campus and systemwide requirements.

RECOMMENDATION

We recommend that the campus, in conjunction with the Foundation, reiterate the requirements of Directive 11 for hospitality expenses to the appropriate campus and Foundation personnel and provide training to Foundation staff as needed.

MANAGEMENT RESPONSE

We concur. Directive 11 will be updated in early 2019. As part of the update, the requirements of the policy will be reiterated, with training provided, to all campus and Foundation personnel as needed.

Anticipated completion date is June 20, 2019.

3. GIFTS

OBSERVATION

Gifts-in-kind (GIK) were not always properly approved according to the campus *In Kind Gift Policy*, and guidelines and forms for administering GIKs were not always updated.

We reviewed 14 GIKs with a recorded value above \$25,000, and we found that:

- In eight instances, the campus University Advancement (UA) department recorded GIKs before they were formally accepted and approved by the campus gift acceptance committee.
- In five instances, GIKs were not formally approved by the dean and/or department chair.

Additionally, we noted the campus UA had updated its *In Kind Gift Policy* to reflect the required approvals necessary to accept a GIK. However, the *In-Kind Gift Guidelines and Acceptance Form Instructions*, which were available online, had not been revised to reflect these changes.

Proper administration of GIKs helps to ensure that any potential issues with respect to acceptance, valuation, and disposition are addressed and resolved timely and reduces the risk that GIKs contrary to campus policy will be accepted.

RECOMMENDATION

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

- a. Reiterate the campus *In Kind Gift Policy* requirements regarding obtaining and documenting proper approvals before GIKs are recorded, and provide training as needed.
- b. Update the campus *In Kind Gift Guidelines and Acceptance Form Instructions* online to incorporate the changes made to the campus *In Kind Gift Policy*.

MANAGEMENT RESPONSE

We concur.

- a. *In Kind Gift Policy* requirements regarding obtaining and documenting proper approvals before GIKs are recorded will be re-communicated to the campus, with training provided as needed.
- b. Online *In Kind Gift Guidelines and Acceptance Form Instructions* will be updated to reflect changes made to the *In Kind Gift Policy*.

Anticipated completion date is June 20, 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 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.

California State University, Fullerton (CSU Fullerton) contracts with three separate auxiliary organizations, each of which provides a function that contributes to the educational mission of the university. The Cal State Fullerton Philanthropic Foundation (Foundation) was established in 1998 as a tax-exempt, charitable, and educational organization and is responsible for the investment and management of philanthropic gifts designated for the university. The Foundation works closely with UA to secure gifts and generate funds that

allow the university to continue its educational mission for student success. UA receives and processes gifts, while the Foundation distributes donated funds to the campus when withdrawals are requested by authorized university account-holders. An appointed board of governors composed of business and community leaders and university administrators governs the Foundation.

SCOPE

We visited the CSU Fullerton campus and the Foundation from October 15, 2018, through November 16, 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 Foundation. The audit focused on procedures in effect from July 1, 2016, to November 16, 2018.

Specifically, we reviewed and tested:

- Fiscal, operational, and program compliance, such as review of budget, cost reimbursement, timely and proper execution of contractual agreements and memoranda of understanding, conflict of interest, cash receipts, pledges receivable, investment, and expenditures.
- Internal controls and segregation of duties over fiscal administration of areas such as cash receipts, accounts receivables, investments, and disbursements.
- Gifts administration, including, but not limited to fund-raising events, cash and non-cash gifts, matching gifts, and endowments.

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
- Executive Order (EO) 676, *Delegation of Gift Evaluation and Acceptance to Campuses*
- EO 1041, *California State University Student Travel Policy*
- EO 1059, *Utilization of Campus Auxiliary Organizations*
- *CSU Auxiliary Organizations Compliance Guide*
- *CSU Auxiliary Organizations Sound Business Practices Guidelines*
- ICSUAM §1301.00, *Hospitality*
- ICSUAM §13680.00, *Placement and Control of Receipts for Campus Activities and Programs*
- ICSUAM §15000, *University Advancement*
- *CSUF Administrative Guidelines for Implementing President's Directive Number 11*
- *CSUF Cash Management Policy*
- *CSUF Foundation Cash Management Policy*
- *CSUF In Kind Gift Policy*
- *CSUF In Kind Gift Guidelines and Acceptance Form Instructions*

AUDIT TEAM

Audit Manager: Joanna McDonald
Senior Auditor: Marcos Chagollan