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September 24, 2018

Dr. Dianne F. Harrison, President
California State University, Northridge
18111 Nordhoff Street
Northridge, CA 91330

Dear Dr. Harrison:

**Subject: Audit Report 18-36, California State University, Northridge Foundation,
California State University, Northridge**

We have completed an audit of *California State University, Northridge 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

**CALIFORNIA STATE UNIVERSITY, NORTHRIDGE
FOUNDATION**

California State University, Northridge

Audit Report 18-36
August 23, 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 California State University, Northridge 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 June 29, 2018, taken as a whole, provided reasonable assurance that risks were being managed and objectives were met.

Our audit indicated that the Foundation needed to provide guidance and reiteration of existing policies and procedures to key employees in the areas of credit cards, fund-raising events, travel-related expenditures, and gifts-in-kind. In addition, the Foundation needed to develop processes to ensure proper administration in the areas related to endowments, petty cash, and conflict-of-interest statements, which were repeat observations from the prior Auxiliary Organizations audit.

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

OBSERVATIONS, RECOMMENDATIONS, AND RESPONSES

1. CASH AND CASH-HANDLING ACTIVITIES

OBSERVATION

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

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

- Neither location transported funds with a police escort or armored car when cash and cash equivalents exceeded \$5,000, as required by ICSUAM §6330.00, *Incoming Cash and Checks*.
- One location did not transport funds in a sealed and non-transparent bag, as required by the campus *Cash Handling Procedures*.

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 remind all key personnel involved in cash-handling activities at the two locations noted above that cash and cash equivalents exceeding \$5,000 should be transported with a police escort or armored car and funds should be transported in a sealed and non-transparent bag.

MANAGEMENT RESPONSE

We concur. The campus is updating its cash-handling policies and procedures to align with systemwide requirements for transporting funds with a police escort or armored car when cash and cash equivalents exceed \$5,000. Expected completion date is October 31, 2018. Campus departments with responsibility for cash-handling will be retrained prior to the end of calendar year 2018. Transporting deposits in a sealed and non-transparent bag will be reiterated during the training.

2. CREDIT CARDS

OBSERVATION

Foundation administration of credit card expenditures needed improvement.

We reviewed five cardholders' reconciliations for February, March, and April 2018, and we found that:

- For two cardholders, credit card applications were not on file. Credit card applications include cardholders' information and signatures agreeing to abide by the Foundation *Credit Card Program* and approvals.
- In three instances, credit card reconciliations were not timely submitted and approved.
- In two instances, missing receipt certifications were not reviewed and approved.
- In one instance, a cardholder made restricted purchases and did not use campus-identified vendors or have the items shipped to the Foundation's office, as required by the Foundation *Credit Card Program*.

Additionally, there was no evidence to show that cardholders attended the mandatory training sessions, as required by the Foundation *Credit Card Program*.

Adequate administration of credit cards decreases the risk that errors, irregularities, misunderstandings, and misappropriation of funds will occur.

RECOMMENDATION

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

- a. Complete credit card applications for the two cardholders noted above.
- b. Provide training to all cardholders that emphasizes, but is not limited to, timely preparation of credit card reconciliations, completion of missing receipt certifications, proper approvals, and restricted purchases, and document this training.

MANAGEMENT RESPONSE

We concur. The campus, in conjunction with the Foundation, will complete the requisite credit card applications by October 31, 2018. In addition, the Foundation will reiterate the Foundation *Credit Card Process* with all cardholders, including the process for credit card reconciliations, missing receipt certifications, approvals, and restricted purchases by November 30, 2018.

3. FUND-RAISING EVENTS

OBSERVATION

Foundation fund-raising events were not always sufficiently documented and approved before events.

We found that the campus had developed the *Fundraising Event Procedures Guide* to help event planners adhere to the *Fundraising Events Policy*, but it was not always being followed.

Specifically, we reviewed ten fund-raising events with gross receipts greater than \$5,000, and we found that there was insufficient documentation to determine whether written agreements with insurance and indemnification provisions were properly executed, cash and cash equivalents were timely collected, event promotional material contained appropriate disclosures per IRS regulations and was approved before distribution, sales tax was filed for the sale of goods or merchandise, and reconciliations were performed for ticket sales.

Additionally, we found that:

- Four events did not have completed event proposal submission forms documenting the delegated authority's review of event budgets, drafts of solicitation materials, and action plans, as required by ICSUAM §15701.00, *Fundraising Events*.
- For one event, the event proposal submission form was approved by the delegated authority after the date of the event.
- Three events did not have documented budgets that sufficiently detailed anticipated revenues and expenditures, and one event did not include anticipated revenues.

Proper administration of fund-raising events helps to effectively allocate resources, coordinate events, and assess and mitigate any risks associated with events.

RECOMMENDATION

We recommend that the campus, in conjunction with the Foundation, reiterate the procedures and guidelines in the *Fundraising Event Procedures Guide* to personnel involved with fund-raising events and provide training regarding required event documentation, including event proposal submission forms and budgets, drafts of solicitation materials, action plans, and agreements prior to events.

MANAGEMENT RESPONSE

We concur. The campus, in conjunction with the Foundation, will reiterate the procedures and guidelines in the *Fundraising Event Procedures Guide* to personnel involved with fund-raising events no later than January 31, 2019.

4. TRAVEL-RELATED EXPENDITURES

OBSERVATION

Certain campus travel-related expenditures paid by the Foundation were not always supported by sufficient and appropriate documentation.

We reviewed 20 travel-related expenditures, and we found that in four instances, the Foundation did not always obtain proper supporting documentation from the campus for campus travel expenditures that were paid by the Foundation. Specifically, the expenditures were not adequately supported by approval of travel request and travel expense claim forms,

student travel release forms or signed waivers, volunteer forms, or evidence of foreign travel insurance.

Sufficient supporting documentation for travel decreases the risk of unauthorized, unnecessary, or non-business travel expenditures, and decreases the risk of noncompliance with the campus and California State University (CSU) travel policies.

RECOMMENDATION

We recommend that the campus, in conjunction with the Foundation, remind all key personnel involved in travel-related activities to submit and obtain proper supporting documentation for all travel-related expenditures.

MANAGEMENT RESPONSE

We concur. The campus, in conjunction with the Foundation, will remind all key personnel involved in travel-related activities to submit and obtain proper supporting documentation for all travel-related expenditures no later than November 30, 2018.

5. GIFTS-IN-KIND

OBSERVATION

Gifts-in-kind (GIK) were not always approved by the Foundation prior to acceptance, and acknowledgment letters were not always sent to donors.

We reviewed 20 GIK, and we found that:

- In five instances, GIK were received by campus departments before the Foundation had provided a formal approval. The Foundation GIK acceptance form states that no items can be accepted until the GIK acceptance form is approved and accepted through the Foundation. GIK acceptance forms were approved by the Foundation from 30 to 159 days after four of the five GIK were received. One GIK acceptance form was not dated, and therefore, we were unable to determine when the GIK was approved by the Foundation.
- In four instances, acknowledgment letters were not sent to donors.

Appropriate administration of GIK decreases the likelihood of campus and auxiliary exposure to errors and noncompliance with donor terms.

RECOMMENDATION

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

- a. Communicate to campus departments that GIK acceptance forms must be completed and approved by the Foundation prior to acceptance of GIK.

- b. Remind appropriate university advancement staff to send acknowledgement letters to donors.

MANAGEMENT RESPONSE

We concur. The campus, in conjunction with the Foundation, will communicate to campus departments that GIK acceptance forms must be completed and approved by the Foundation prior to acceptance of the gift and will remind appropriate university advancement staff to send acknowledgement letter to donors no later than January 31, 2019.

6. ENDOWMENTS

OBSERVATION

Foundation endowments were not always supported by new fund applications and endowment agreements. This is a repeat observation from the prior Auxiliary Organizations audit.

We reviewed 15 endowments, and we found that:

- For nine endowments, new fund applications were not timely approved. The new fund applications were approved from 21 to 446 days after the initial funds were recorded.
- For two endowments, new fund applications were in draft form and had not been approved by the delegated authorities.
- For one endowment, a new fund application had not been created.
- For three endowments, funds had been transferred from other funds, endowment agreements did not exist, and new fund applications were not timely approved.

Appropriate administration of endowments decreases the likelihood that funds will be misdirected and the campus will be exposed to liabilities resulting from noncompliance with donor intent.

RECOMMENDATION

We recommend that the campus, in conjunction with the Foundation, develop procedures to ensure that new fund applications and endowment agreements are timely completed and approved.

MANAGEMENT RESPONSE

We concur. The campus, in conjunction with the Foundation, will develop procedures to ensure new fund applications and endowment agreements are timely completed and approved no later than October 31, 2018.

7. PETTY CASH AND CHANGE FUNDS

OBSERVATION

Administration of petty cash and change funds needed improvement.

We found that:

- The Foundation *Petty Cash Procedure Guide* did not address the frequency of independent audits and reconciliations.
- Policies and procedures had not been developed for change funds.
- Independent audits for all petty cash and change funds had not been performed in more than a year. This is a repeat observation from the prior Auxiliary Organizations audit.

Comprehensive policies and procedures and periodic independent audits of petty cash and change funds improve cash accountability and reduce the risk of loss or misappropriation of funds.

RECOMMENDATION

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

- a. Update its *Petty Cash Procedure Guide* to include the frequency of independent audits and reconciliations.
- b. Develop written policies and procedures for change funds.
- c. Create a process to conduct periodic and independent audits of petty cash and change funds.

MANAGEMENT RESPONSE

We concur. The campus, in conjunction with the Foundation, will update *the Petty Cash Procedure Guide* to include the frequency of independent audits and reconciliations, develop written policies and procedures for change funds, and create a process to conduct periodic and independent audits of petty cash and change funds no later than November 30, 2018.

8. CONFLICT OF INTEREST

OBSERVATION

The Foundation did not obtain annual conflict-of-interest statements from all board members, and conflict-of-interest statements were not always properly completed.

We found that four of 42 voting members had not signed a conflict-of-interest statement for fiscal year (FY) 2016/17. This is a repeat observation from the prior Auxiliary Organizations audit.

Additionally, we found that four of the 38 conflict-of-interest statements collected for FY 2016/17 and three of the 40 conflict-of-interest statements collected for FY 2017/18 were not properly completed, as voting members did not answer all of the questions in the conflict-of-interest statement.

Obtaining correctly completed conflict-of interest statements from all board members decreases noncompliance with CSU and auxiliary policies and the Political Reform Act of 1974.

RECOMMENDATION

We recommend that the campus, in conjunction with the Foundation, establish a process to ensure that:

- a. Conflict-of-interest statements are obtained from all board members.
- b. All board members properly complete the annual-conflict-of-interest statement.

MANAGEMENT RESPONSE

We concur. The campus, in conjunction with the Foundation, will establish a process to ensure conflict-of-interest statements are obtained from all board members and that all statements are properly completed by October 31, 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, 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 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 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.

California State University, Northridge (CSUN) contracts with five separate auxiliary organizations, each of which provides a function that contributes to the educational mission of the university. The Foundation was established in 1995 as a non-profit public benefit corporation. It is responsible for helping CSUN raise private, philanthropic contributions from individuals, businesses, and other charitable organizations in support of the university's mission of helping students realize their educational goals. The Foundation is also authorized to accept, manage, and invest all private funds and endowments raised for the university. As of fiscal year end 2017, the Foundation's endowment balance was \$99 million, and in

academic year 2016/17, the Foundation helped the campus obtain \$22.5 million in gift commitments and \$14.8 million in gift receipts. The Foundation does not have employees and relies on University Advancement for accounting and administrative support services. The Foundation is governed by a board of directors composed of representatives from the community, CSUN administration, faculty, and student body.

SCOPE

We visited the CSUN campus and the Foundation from May 30, 2018, through June 29, 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 June 29, 2018.

Specifically, we reviewed and tested:

- Fiscal, operational, and program compliance, such as review of budget, cost reimbursement, 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
- Internal Revenue Services (IRS), *Governance and Related Topics 501(c)(3)*
- 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 Volunteer Policy*
- *CSU Auxiliary Organizations Compliance Guide*
- *CSU Auxiliary Organizations Sound Business Practices Guidelines*
- *CSU Conflict of Interest Handbook, 2B*
- ICSUAM §1301.00, *Hospitality, Payment or Reimbursement of Expenses*
- ICSUAM §6330.00, *Incoming Cash and Checks*
- ICSUAM §13680.00, *Placement and Control of Receipts for Campus Activities and Programs*
- ICSUAM §15000, *University Advancement*
- *CSUN Cash Handling Procedures*
- *CSUN Fundraising Event Procedures Guide*
- *CSUN Fundraising Events Policy*
- *CSUN Gift Agreement Workflow*
- *CSUN Transaction Processing Acknowledgment Processing Policy and Procedure Guide*
- *CSUN Travel Policies and Procedures*
- *CSUN Foundation Conflict-of-Interest Policy*
- *CSUN Foundation Credit Card Program*
- *CSUN Foundation Endowment Policy*
- *CSUN Foundation Petty Cash Procedure Guide*

AUDIT TEAM

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