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January 17, 2019

Dr. Eduardo M. Ochoa, President
California State University, Monterey Bay
100 Campus Center, Administration Building
Seaside, CA 93955

Dear Dr. Ochoa:

Subject: Audit Report 18-39, *Foundation of California State University Monterey Bay*, California State University, Monterey Bay

We have completed an audit of *Foundation of California State University Monterey Bay* 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 California State University
Audit and Advisory Services

FOUNDATION OF CALIFORNIA STATE UNIVERSITY MONTEREY BAY

California State University, Monterey Bay

Audit Report 18-39
December 10, 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 Foundation of California State University Monterey Bay (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 2, 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 training on existing policies and procedures to key employees in the areas of fund-raising events, matching gifts, and travel-related expenditures. Additionally, the Foundation needed to improve its process for executing agreements, particularly athletics corporate sponsorship (trade usage) agreements and agreements with third parties. Further, the University Corporation at Monterey Bay (Corporation) hospitality policy that the Foundation used for its hospitality payments did not address all systemwide requirements, and the campus methodology to properly and consistently recover costs incurred by the California State University (CSU) Operating Fund needed improvement.

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

OBSERVATIONS, RECOMMENDATIONS, AND RESPONSES

1. FUND-RAISING EVENTS

OBSERVATION

Foundation fund-raising events were not always approved by the delegated authority before events or reported on Internal Revenue Services (IRS) Form 990, and fund-raising event approval forms were not always properly completed with sufficient supporting documentation.

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

- Three events did not have written approval from the vice president for university development, the delegated authority, and did not provide documentation showing that the delegated authority had reviewed event budgets, drafts of solicitation materials, and action plans, as required by ICSUAM §15701.00, *Fundraising Events.*

- One event was not reported on IRS Form 990, Schedule G (Supplemental Information Regarding Fundraising or Gaming Activities).

- One event did not have a properly completed fund-raising event approval form with sufficient supporting documentation.

Proper administration of fund-raising events helps to effectively allocate resources, coordinate events, and assess and mitigate any risks associated with events. In addition, complete and accurate information on an IRS Form 990 reduces the risk of noncompliance with government regulations and penalties.

RECOMMENDATION

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

a. Develop and document processes to ensure that fund-raising events with gross receipts greater than $5,000 are reported on IRS Form 990, Schedule G.

b. Provide training to key individuals conducting fund-raising events regarding proper completion of fund-raising event approval forms, including instructions about proper approval from the vice president for university development and sufficient supporting documentation.

MANAGEMENT RESPONSE

We concur. The campus, in conjunction with the Foundation, will develop and document processes to ensure that fund-raising events with gross receipts greater than $5,000 are reported on IRS Form 990, Schedule G, and provide training to key individuals conducting fund-raising events regarding proper completion of fund-raising event approval forms,

including instructions about proper approval from the vice president for university development and sufficient supporting documentation.

Expected completion date: April 15, 2019

2. MATCHING GIFTS

OBSERVATION

Matching gifts were not always approved by the delegated authority, and acknowledgement letters or gift receipts were not always sent to companies that provided matching gifts.

We reviewed five matching gifts of more than $250, and we found that:

- None had been approved by the vice president for university development, the delegated authority.
- Acknowledgement letters or gift receipts had not been sent to any of the companies that provided matching gifts.

The federal Omnibus Budget Reconciliation Act of 1993 requires that the recipient of any single charitable gift of $250 or more provide the donor with a written acknowledgement of the receipt of the gift.

Proper approval of matching gifts decreases the likelihood of campus and auxiliary exposure to errors and noncompliance with donor terms, and acknowledgment letters or gift receipts inform the donor that the auxiliary received the funds and understands the conditions of the matching gift program.

RECOMMENDATION

We recommend that the campus, in conjunction with the Foundation, provide to key individuals processing matching gifts training on obtaining approval from the vice president for university development and sending acknowledgement letters or gift receipts to companies that provide matching gifts.

MANAGEMENT RESPONSE

We concur. We as a campus, in conjunction with the Foundation, will provide training to key individuals processing matching gifts on obtaining approval from the vice president for university development and sending acknowledgement letters or gift receipts to companies that provide matching gifts.

Expected completion date: February 1, 2019

3. ATHLETICS CORPORATE SPONSORSHIP AGREEMENTS

OBSERVATION

Administration of athletics corporate sponsorship (trade usage) agreements needed improvement.

We reviewed four athletics corporate sponsorship agreements, and we found that:

- None had been reported to the campus designee for gifts to the agency so that the designee could determine whether the agreements constituted a personal benefit to a faculty member, staff member, or student, as required by ICSUAM §1202.00, *Athletics Trade Usage*.

- None had been signed by the delegated authority from the Foundation. Instead, they were signed by the athletics director.

- None of the agreements included appropriate provisions for indemnification and insurance or documented justification to support the business decision to not include such provisions.

Proper approval of athletics corporate sponsorship agreements decreases the risk of the campus entering into inappropriate contracts and state resources being given away without the state receiving fair value in exchange. Properly executed agreements with appropriate provisions decrease the potential for misunderstanding of the business terms, responsibilities, and liabilities of the parties involved and reduces exposure to potential loss and liability.

RECOMMENDATION

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

a. Report all athletics corporate sponsorship agreements to the campus designee for gifts to the agency so that the designee can determine whether the agreements constitute a personal benefit to a faculty member, staff member, or student.

b. Ensure that agreements with third parties are signed by the proper delegated authority.

c. Include appropriate provisions for indemnification and insurance or documented justification to support the business decision to not include such provisions.

MANAGEMENT RESPONSE

We concur. The campus, in conjunction with the Foundation, will report all athletics corporate sponsorship agreements to the campus designee for gifts to the agency so that the designee can determine whether the agreements constitute a personal benefit to a faculty member, staff member, or student. We will also ensure that agreements with third parties are signed by the proper delegated authority and will include appropriate provisions for indemnification and insurance or documented justification to support the business decision to not include such provisions.

Expected completeion date: March 29, 2019

4. AGREEMENTS

OBSERVATION

Foundation agreements with third parties were not always timely executed.

We reviewed 20 agreements, and we found that:

- Three agreements were not dated when signed, and as a result, we were unable to determine whether the agreements were timely executed.
- Thirteen agreements were signed after the event.

Timely execution of written agreements reduces potential misunderstanding of the agreement terms, conditions, rights, and responsibilities, and reduces exposure to potential loss and liability.

RECOMMENDATION

We recommend that the campus, in conjunction with the Foundation, remind appropriate personnel to ensure that all agreements with third parties are dated and timely executed.

MANAGEMENT RESPONSE

We concur. The campus, in conjunction with the Foundation, will remind appropriate personnel to ensure that all agreements with third parties are dated and timely executed.

Expected completion date: February 1, 2019

5. TRAVEL-RELATED EXPENDITURES

OBSERVATION

Foundation travel approvals and expense claim forms were not always timely submitted to the Corporation, which processes Foundation travel-related expenditures.

We reviewed 15 travel expenditures, and we found that:

- In three instances, request for approval of travel forms was not submitted to the Corporation ten days before the first day of travel, as required by the Corporation *Travel Procedures Handbook*. Specifically, one was submitted two days before travel and the other two were submitted after travel.
- In two instances, request for approval of travel forms for international travel were not submitted to the Corporation from 30 to 45 days before the first day of travel, as required

by the Corporation *Travel Procedures Handbook*. Specifically, they were submitted 16 and 25 days before the first day of travel.

- In eight instances, travel expense claim forms were not submitted to the Corporation within 30 days after the last day of travel, as required by the Corporation *Travel Procedures Handbook*. Specifically, they were submitted between 40 and 136 days after the last day of travel.

Timely submission of travel approvals and expense claim forms decreases the risk of unauthorized, unnecessary, or non-business travel expenditures and decreases the risk of noncompliance with auxiliary policy.

RECOMMENDATION

We recommend that the campus, in conjunction with the Foundation, reiterate in the Corporation *Travel Procedures Handbook* regarding timely submission of travel approvals and expense claim forms to personnel involved with travel-related activities, and provide training as needed.

MANAGEMENT RESPONSE

We concur. The campus, in conjunction with the Foundation, will reiterate in the Corporation *Travel Procedures Handbook* regarding timely submission of travel approvals and expense claim forms to personnel involved with travel-related activities, and will provide training as needed.

Expected completion date: March 29, 2019

6. CONFLICT OF INTEREST

OBSERVATION

The Foundation did not obtain annual conflict-of-interest statements from all board members.

We found that six of 23 voting members for fiscal year (FY) 2016/17 and six of 23 voting members for FY 2017/18 had not signed conflict-of-interest statements.

Compliance with regulations addressing leadership conflict-of-interest disclosure provides greater assurance of transparency and ethical behavior on the part of the board of directors and provides a baseline for monitoring board member activities.

RECOMMENDATION

We recommend that the campus, in conjunction with the Foundation, continue to remind board members to complete and submit conflict-of-interest statements.

MANAGEMENT RESPONSE

We concur. The campus, in conjunction with the Foundation, will continue to remind board members to complete and submit conflict-of-interest statements.

Expected completion date: March 29, 2019

7. HOSPITALITY POLICY

OBSERVATION

The Corporation policy that the Foundation uses for hospitality payments did not address all requirements in ICSUAM §1301.00, *Hospitality*.

We found that the Corporation *Community Relations Policy*, which is the Corporation's hospitality policy, did not address authorization and documentation requirements for hospitality-related expenditures, nor did it include a maximum per-person rate for employee meetings that included breakfast, lunch, dinner, and light refreshments inclusive of total cost of food, beverages, labor, sales tax, delivery fees, or other service fees, as required by ICSUAM §1301.00, *Hospitality*.

Complete and properly defined hospitality policies and procedures enhance compliance with auxiliary and systemwide requirements.

RECOMMENDATION

We recommend that the campus, in conjunction with the Corporation, update its hospitality policy to include authorization and documentation requirements for hospitality-related expenditures and a maximum per-person rate for breakfast, lunch, dinner, and light refreshments inclusive of total cost of food, beverages, labor, sales tax, delivery fees, or other service fees.

MANAGEMENT RESPONSE

We concur. The campus, in conjunction with the Corporation, will update its hospitality policy to include authorization and documentation requirements for hospitality-related expenditures and a maximum per-person rate for breakfast, lunch, dinner, and light refreshments inclusive of total cost of food, beverages, labor, sales tax, delivery fees, or other service fees.

Expected completion date: March 29, 2019

8. COST ALLOCATION PLAN

OBSERVATION

The campus methodology to properly and consistently recover costs incurred by the CSU Operating Fund for services, products, and services provided to enterprise

programs/activities/funds, auxiliary organizations, and entities external to the university needed improvement.

We found that the campus developed the *Process for Annual Preparation and Approval of Cost Allocation Plan,* which stated that for the purposes of updating the cost allocation plan, a "ground-up" review would be conducted with a portion of the organizational departments rendering services every third year, rotated on an ongoing basis. Although the campus completed a review for FY 2018/19, this methodology did not ensure that costs incurred by the campus for all campus enterprise programs/activities/funds, auxiliary organizations, and entities external to the university were consistently recovered and reimbursed to the CSU Operating Fund.

Comprehensive cost allocation plans help to ensure that the campus operating fund will be fully compensated for support provided to all entities.

RECOMMENDATION

We recommend that the campus revise its methodology to include review of all campus enterprise programs/activities/funds, auxiliary organizations, and entities external to the university in its annual cost allocation plan.

MANAGEMENT RESPONSE

We concur. The campus will revise its methodology to include review of all campus enterprise programs/activities/funds, auxiliary organizations, and entities external to the university in its annual cost allocation plan.

Expected completion date: June 28, 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.

CSUMB contracts with two separate auxiliary organizations, each of which provides a function that contributes to the educational mission of the university. The Foundation was established in 2010 as a non-profit public benefit corporation. It is responsible for helping CSUMB procure the private funding needed to achieve the goals of the university. The Foundation aims to provide financial assistance to scientific, literary, educational, and charitable purposes through gifts, grants, loans, and allocations to the university and its controlled affiliates. As of the end of FY 2017, the Foundation's endowment balance was $22 million, and in academic year 2016/17, the Foundation helped the campus obtain $8 million in gift commitments and $6 million in gift receipts. The Foundation does not have employees and relies on university

advancement and the Corporation for accounting and administrative support services. The Corporation provides fiscal and oversight services to the Foundation under an administrative services agreement. The Corporation does not charge the Foundation for services provided because the Corporation recognizes the philanthropic mission of the Foundation and aims to ensure that the Foundation gets the maximum benefit of the donations, gifts, and endowments it receives. Campus university advancement also provides fund-raising support to the Foundation. The Foundation is governed by a board of directors composed of representatives from the community, alumni, CSUMB administration, faculty, and student body.

SCOPE

We visited the CSUMB campus and the Foundation from October 1, 2018, through November 2, 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 2, 2018.

Specifically, we reviewed and tested:

- Corporate governance, including compliance with education, government, and corporation codes
- Timely and proper execution of agreements, contracts, and memoranda of understanding.
- Fiscal, operational, and program compliance, such as review of reserve provisions, budget, cost reimbursement, and conflicts of interest.
- 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, review of timely receiving, recording, and safeguarding of endowments, matching gifts, and gifts-in-kind.
- Administration of fund-raising and alumni events, scholarships, and corporate sponsorships.

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:

- The Federal Omnibus Budget Reconciliation Act of 1993
- IRS, Governance and Related Topics 501(c)(3), *Return of Organization Exempt from Income Tax*, Form 900
- 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 1059, *Utilization of Campus Auxiliary Organizations*
- CSU *Auxiliary Organizations Compliance Guide*
- CSU *Auxiliary Organizations Sound Business Practices Guidelines*
- CSU *Conflict of Interest Handbook, 2B*
- ICSUAM §1202.00, *Athletics Trade Usage*
- ICSUAM §1301.00, *Hospitality*
- ICSUAM §13680.00, *Placement and Control of Receipts for Campus Activities and Programs*
- ICSUAM §15000, *University Advancement*
- ICSUAM §15701.00, *Fundraising Events*
- Foundation *Conflict of Interest Policy and Statement of Understanding*
- Corporation *Community Relations Policy*
- Corporation *Travel Procedures Handbook*

AUDIT TEAM

Audit Manager: Caroline Lee
Internal Auditor: Leslie Rodriguez