The California State University
OFFICE OF THE CHANCELLOR

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

Larry Mandel
Vice Chancellor and
Chief Audit Officer

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

May 20, 2019

Dr. Adela de la Torre, President
San Diego State University
5500 Campanile Drive
San Diego, CA 92182

Dear Dr. de la Torre:

Subject: Audit Report 19-02, *The Campanile Foundation*, San Diego State University

We have completed an audit of *The Campanile Foundation* as part of our 2019 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

THE CAMPANILE FOUNDATION

San Diego State University

Audit Report 19-02
April 29, 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 Campanile Foundation (TCF); 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 TCF as of March 22, 2019, taken as a whole, provided reasonable assurance that risks were being managed and objectives were met.

Overall, we noted that TCF had an appropriate framework for accepting and administering gifts received on behalf of the campus. However, in our review, we identified opportunities for improvement in the areas of establishing endowments, collecting outstanding pledges and writing off pledges timely, documenting secondary reviews of matching gifts, and obtaining all required signature approvals for gifts-in-kind.

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

OBSERVATIONS, RECOMMENDATIONS, AND RESPONSES

1. ENDOWMENTS

OBSERVATION

Endowments were not always supported by signed agreements.

TCF administers both quasi- and true endowments; quasi-endowments allow the use of both the endowment principal and income, while true endowments must keep the principal gift protected in perpetuity. All endowments are recorded in the Banner Financial System and Fundriver Endowment Accounting System. We reviewed ten endowments and found that:

- One endowment did not have an agreement on file. The Bob Wilson Distinguished Lecturer endowment was established in 1986 to support the School of Public Administration. Although the endowment file included a memo requesting a fund account to establish the endowment, the memo only indicated a title for the fund and did not document any other details regarding the donor's purpose, intent, or restrictions. Further, we reviewed five expenditures from this endowment's income fund and could not verify whether the expenditures met the donor's intent or restrictions because there was no agreement on file.

- One endowment was recorded as a quasi-endowment in Banner and Fundriver but as a true endowment in the revised agreement. The Hebbel Endowed Gerontology/Geriatrics Internship Scholarship was originally established as a quasi-endowment in 1996 and was re-established in 2012. The 2012 revised fund agreement indicated that the fund is a true endowment and included language requiring maintenance of the original gift. The fund continues to be recorded and managed as a quasi-endowment, and it was not clear whether the discrepancy was due to a misunderstanding at the time the new agreement was established or a failure to update the systems with the new fund category.

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

RECOMMENDATION

We recommend that the campus, in conjunction with TCF:

a. Establish an agreement for the Wilson endowment to ensure that donor intent and restrictions are documented.

b. Determine the appropriate endowment type for the Hebbel endowed scholarship and update the financial systems or agreement as appropriate.

MANAGEMENT RESPONSE

We concur. The campus, in conjunction with TCF, will:

a. Establish an agreement for the 1986 Wilson endowment to ensure that donor intent and restrictions are documented.

b. Determine that the endowment is appropriately classified as a quasi-endowment in the financial systems; the database and the amendment to the endowment agreement will be corrected.

Estimated completion date: June 30, 2019

2. PLEDGES RECEIVABLE

OBSERVATION

Pledge collection efforts were not consistently documented, and aged pledges were not written off as required by TCF policy.

The TCF *Pledge Policy* indicated that various collection efforts are required when pledges are inactive or unpaid and that pledges should be written off within three fiscal years of the last payment made. In our review of 16 pledge receivables, we found that:

- Collection efforts and communications were not consistently documented. TCF required collection efforts, including pledge statements, emails, phone calls, and in-person meetings, to be captured in the Advance Donor System. Three pledges we reviewed did not include documented collection efforts or had a lapse of two to ten years between collection attempts or communication with the donors.

- Aged pledges were not written off as required by auxiliary policy. We reviewed eight pledges written off during the audit scope period and noted that three were written off between four to nine fiscal years after the last pledge payment.

Appropriate administration of pledge write-offs reduces the risk that receivables will be reflected inaccurately in the financial statements, and consistent collection efforts increase the likelihood that pledges will be recovered.

RECOMMENDATION

We recommend that the campus, in conjunction with TCF:

a. Ensure that pledge collection efforts are timely and consistently documented, and reiterate pledge collection and documentation procedures to appropriate staff.

b. Ensure that pledges receivable are written off as required by TCF policy.

MANAGEMENT RESPONSE

We concur. The campus, in conjunction with TCF, will:

a. Ensure that pledge collection efforts are timely and documented, and will reiterate pledge collection and documentation procedures to appropriate staff.

b. Ensure that pledges receivable are written off as required by TCF policy; additionally, the policy will be updated to add the flexibility that pledge receivables may not be written off after three years of no payments if collectability is still considered possible; however, the collection efforts and rationale will be documented.

Estimated completion date: June 30, 2019

3. MATCHING GIFTS

OBSERVATION

Secondary review of matching gift eligibility was not documented as required by auxiliary and systemwide policy.

The TCF *Matching Gift Policy* and ICSUAM §15401.00 *Fundraising – Matching Gifts*, Section 504B, indicated that secondary review of matching-gift eligibility for the following situations must be documented when:

- The source of funds is other than the employee/retiree, such as a donor-advised fund, United Way, or a relative.
- The qualifying gift includes personal benefits such as memberships or tickets to a fund-raising event, performance, or athletic game.
- The donor requests in writing that the matching gift be designated for a purpose that differs from the qualifying gift designation.

In our review of 15 matching gifts, we found four matching gifts that required this secondary review. However, we could not substantiate that secondary review occurred, as review documentation was not retained.

Documentation of secondary review helps to ensure compliance with auxiliary, systemwide, and donor gift-matching requirements.

RECOMMENDATION

We recommend that the campus, in conjunction with TCF, ensure that secondary reviews of matching gifts are completed and documented as required.

MANAGEMENT RESPONSE

We concur. Secondary reviews of matching gifts will be completed and documented as required.

Estimated completion date: June 30, 2019

4. GIFTS-IN-KIND

OBSERVATION

Gift-In-Kind (GIK) Acceptance Forms were not consistently authorized as required by TCF policy.

The TCF *Gift-In-Kind Policy* requires authorization from both Academic Affairs and Business and Financial Affairs to accept GIK of capital equipment valued at $5,000 or greater and requires an approval signature from the TCF chief financial officer for GIK valued at more than $5,000. However, we reviewed eight GIK records and found that five did not have all required approval signatures on the GIK Acceptance Form.

Appropriate administration of GIK decreases the likelihood of campus and auxiliary exposure to the risk that gifts will be incongruent with the campus or auxiliary mission or noncompliant with donor terms.

RECOMMENDATION

We recommend that the campus, in conjunction with TCF, ensure that all required authorization for GIK is obtained as required by auxiliary policy.

MANAGEMENT RESPONSE

We concur. Required authorization for gifts-in-kind will be obtained as required by auxiliary policy.

Estimated completion date: June 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.

TCF was established in 1999 as a non-profit public benefit corporation to assist San Diego State University (SDSU) in the acquisition of gifts, management of philanthropic gifts, and investment of certain endowment gifts for the benefit of the university or other organizations having an official relationship with SDSU. TCF is governed by a board of directors composed of representatives from the alumni, community, campus administration, faculty, and student body. TCF does not have employees and contracts with the university relations and

development office and the SDSU Research Foundation for administrative and accounting support services. In 2017, TCF selected investment management firm Meketa Fiduciary Management, LLC as its outsourced outside chief investment officer to manage the TCF endowment pool. As of June 30, 2018, TCF managed assets totaled $336,073,840 and included permanently and temporarily restricted and unrestricted assets.

SCOPE

We visited the SDSU campus and TCF from February 18, 2019, through March 22, 2019. 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 TCF. The audit focused on procedures in effect from January 1, 2017, to March 22, 2019.

Specifically, we reviewed and tested:

- Timely and proper execution of agreements, contracts, and memoranda of understanding.
- Fiscal, operational, and program compliance, such as governance committee composition, reserve provisions, and conflicts of interest
- Internal controls and segregation of duties over fiscal administration of areas such as cash receipts, pledge receivables, and disbursements.
- Internal controls to effectively monitor the activities and performance of the outside chief investment officer relationship in accordance with the contract.
- Gifts administration, including, but not limited to, review of timely receiving, recording, and safeguarding of financial donations and gifts-in-kind.
- Identification and administration of gifts that may include provisions prohibited under California Constitution Article 1, Section 31 (Proposition 209).
- Internal controls for fundraising methodologies, such as online crowdfunding and events administered by colleges and departments.
- Security and safeguarding of information stored in donor records.

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*
- CCR Title 5, §42602, Board of Directors Composition
- Resolution of the Committee on Finance 7-81-4
- 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*
- ICSUAM §15000, *University Advancement*
- CSU *Office of General Counsel Proposition 209 Handbook*
- SDSU TCF *Bylaws*
- SDSU TCF *Gift Acceptance Policy*
- SDSU TCF *Investment Policy Statement*
- SDSU TCF *Gift-In-Kind Policy*
- SDSU TCF *Pledge Policy*
- SDSU TCF *Reserve Policy Statement*
- SDSU TCF *Privacy Policy*
- SDSU TCF *Matching Gift Policy*
- SDSU TCF *Conflict of Interest Policy*
- SDSU TCF *Credit Card Processing Procedures*

AUDIT TEAM

Audit Manager: Ann Hough
Senior Auditor: Mayra Villalta