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October 14, 2019

Dr. Ellen N. Junn, President
California State University, Stanislaus
One University Circle
Turlock, CA 95382

Dear Dr. Junn:

**Subject: Audit Report 19-06, California State University, Stanislaus Foundation,
California State University, Stanislaus**

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

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The California State University

Audit and Advisory Services

**CALIFORNIA STATE UNIVERSITY, STANISLAUS
FOUNDATION**

California State University, Stanislaus

Audit Report 19-06
September 10, 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 California State University, Stanislaus 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

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 August 9, 2019, taken as a whole, provided reasonable assurance that risks were being managed and objectives were met.

Overall, we noted that the Foundation maintained an appropriate framework for the administration of the philanthropic auxiliary. However, we found that fund-raising events were not consistently supported by written approvals and supporting information. Also, hospitality expenditures were not always properly approved. In addition, the campus was unable to show that acknowledgement letters were consistently sent to donors of gifts-in-kind (GIK). We also found that travel-related expenditures paid through Foundation accounts did not always have travel authorization requests submitted prior to the start date of travel. Further, the membership requirements of the Foundation's audit committee were not consistently observed. Additionally, the Foundation's formal agreements were not always executed prior to the effective date, and the campus was unable to consistently produce documentation showing written approvals in the form of signed resolutions, meeting minutes, and other records.

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

OBSERVATIONS, RECOMMENDATIONS, AND RESPONSES

1. FUND-RAISING EVENTS

OBSERVATION

The Foundation did not always have the required written approvals and supporting documentation for fund-raising events.

We reviewed three fund-raising events, and we found that for two, the Foundation did not have a written agreement and required supporting documents, including an event-budget-to-actual-expense form, ticket sales and event attendance reconciliation forms, and a raffle ticket log. In addition, for one event that was held off-campus, the Foundation did not have a written agreement with the hosting venue.

Appropriate documentation helps to maintain accountability and measure performance of fund-raising events, and written agreements with off-campus venues better define the responsibilities, risks, and liabilities associated with such activities.

RECOMMENDATION

We recommend that the campus, in conjunction with the Foundation, remind appropriate staff of the requirements prescribed in the Standards for Gift Solicitation and Fundraising Manual regarding the need to complete and archive the required written approvals and supporting documentation for fund-raising events.

MANAGEMENT RESPONSE

We concur. The campus, in conjunction with the Foundation, will remind appropriate staff of the requirements prescribed in the Standards for Gift Solicitation and Fundraising Manual regarding the need to complete and archive the required written approvals and supporting documentation for fund-raising events.

Expected completion date: December 15, 2019

2. HOSPITALITY

OBSERVATION

Hospitality expenditures were not always properly approved.

We reviewed six hospitality-related expenditures from the auxiliary, and we found that:

- One expenditure for event tickets was not approved before the event.
- One hospitality expenditure was missing a signature approval date on the Food & Beverage/Community Relations Event Approval form.

Proper processing of hospitality expenditures provides greater assurance that these expenditures comply with campus and systemwide requirements.

RECOMMENDATION

We recommend that the campus, in conjunction with the Foundation, remind appropriate staff that hospitality expenditures must be properly approved.

MANAGEMENT RESPONSE

We concur. The campus, in conjunction with the Foundation, will remind appropriate staff that hospitality expenditures must be properly approved.

Expected completion date: December 15, 2019

3. GIFT ACKNOWLEDGEMENT

OBSERVATION

The campus did not always maintain evidence that acknowledgement letters were sent to donors of GIK.

We reviewed 20 GIK, and we found that in four instances, the campus was unable to locate evidence that an acknowledgment letter had been sent.

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, remind appropriate staff of the requirement to send and archive acknowledgment letters to donors.

MANAGEMENT RESPONSE

We concur. The campus, in conjunction with the Foundation, will remind appropriate staff of the requirement to send and archive acknowledgement letters to donors.

Expected completion date: January 31, 2019

4. TRAVEL

OBSERVATION

Travel authorization requests were not always timely submitted.

We reviewed 13 travel-related expenditures, and we found that in three instances, travel authorization requests were not turned in prior to the start of travel, as required by the campus.

Timely submission of travel authorization requests improves compliance with campus and systemwide requirements.

RECOMMENDATION

We recommend that the campus, in conjunction with the Foundation, remind travelers using Foundation-held funds the importance of timely submission of travel authorization requests, and provide training as needed.

MANAGEMENT RESPONSE

We concur. The campus, in conjunction with the Foundation, will remind travelers using Foundation-held funds the importance of timely submission of travel authorization requests, and provide training as needed.

Expected completion date: December 15, 2019

5. AUDIT COMMITTEE

OBSERVATION

The membership requirements of the Foundation’s audit committee were not consistently observed.

We reviewed membership of the audit committee for fiscal years 2016/17 through 2018/19 and found that for two years, the committee did not have three or more members as required by the Foundation’s bylaws.

An appropriately staffed audit committee can improve the compliance environment of the Foundation.

RECOMMENDATION

We recommend that the Foundation reiterate to the Executive Committee the membership requirements specified by the Foundation’s bylaws and the importance of a well-staffed audit committee.

MANAGEMENT RESPONSE

We concur. The Foundation will reiterate to the Executive Committee the membership requirements specified by the Foundation’s bylaws and the importance of a well-staffed audit committee.

Expected completion date: November 15, 2019

6. EXECUTING AGREEMENTS

OBSERVATION

The Foundation's formal agreements were not always executed before the effective date.

We reviewed four agreements that were in place during the audit period and found that one had been signed by the Foundation 50 days after the effective date.

Appropriately executed agreements can reduce the risk of misunderstandings with contract counterparties.

RECOMMENDATION

We recommend that the campus, in conjunction with the Foundation, remind appropriate staff that contracts must be signed before to the effective date.

MANAGEMENT RESPONSE

We concur. The campus, in conjunction with the Foundation, will remind appropriate staff that contracts must be signed before the effective date.

Expected completion date: October 31, 2019

7. RECORDKEEPING

OBSERVATION

The Foundation did not always maintain all records, as required by the Foundation's bylaws.

We reviewed the Foundation's formal agreements and budgets, and we could not locate:

- The signed resolution for the Foundation's operating budget.
- The signed memorandum of understanding between the Foundation and the campus for administrative management, accounting, and financial systems access services.

Improved recordkeeping can enhance compliance with the Foundation's bylaws.

RECOMMENDATION

We recommend that the campus, in conjunction with the Foundation, remind appropriate staff of the requirement to maintain all records.

MANAGEMENT RESPONSE

We concur. The campus, in conjunction with the Foundation, will remind appropriate staff of the requirement to maintain all records.

| Expected completion date: October 31, 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.

The Foundation was established in 1960 with a mission to promote academic excellence through the facilitation of philanthropy and external support. The Foundation conducts fund-raising activities, identifies and cultivates prospective donors, and supports the faculty and administration in the development of new and innovative programs. It is governed by a board of directors composed of representatives from the community, university administration, faculty, alumni, and student body. The Foundation does not have employees and relies on

campus personnel from University Advancement and Financial Services for administrative and accounting support services.

SCOPE

We visited the California State University, Stanislaus (Stanislaus State) campus and the Foundation from July 8, 2019, through August 9, 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 the Foundation. The audit focused on procedures in effect from July 1, 2017, to August 9, 2019.

Specifically, we reviewed and tested:

- Timely and proper execution of agreements, contracts, and memoranda of understanding.
- Fiscal, operational, and program compliance, such as reserve provisions, unrelated business income tax, conflicts of interest, and risk management practices.
- Internal controls and segregation of duties over fiscal administration of areas such as cash receipts, accounts and pledges receivables, and disbursements.
- Gifts administration, including, but not limited to, review of timely receiving, recording, and safeguarding of gifts-in-kind.

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, which was designed to provide a review of key operational, administrative, and financial controls, included interviews, walkthroughs, and detailed testing on certain aspects of the Foundation operations. Our review was limited to gaining reasonable assurance that essential elements of the Foundation program were in place and did not examine all aspects of the program.

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 and auxiliary procedures; as well as sound administrative practices and consideration of the potential impact of significant risks. 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
- EO 1059, *Utilization of Campus Auxiliary Organizations*
- *CSU Auxiliary Organizations Compliance Guide*
- *CSU Auxiliary Organizations Sound Business Practices Guidelines*
- ICSUAM §1301.00, *Hospitality, Payment or Reimbursement of Expenses*
- ICSUAM §15000, *University Advancement*
- *CSU Stanislaus Buying and Paying Overview*
- *CSU Stanislaus Hospitality Procedures*
- *CSU Stanislaus Procurement Card Handbook*
- *CSU Stanislaus Travel Overview*
- *Foundation Articles of Incorporation*
- *Foundation Assessments on All Gifts & Funds Policy*
- *Foundation Amended Bylaws*
- *Foundation Conflict of Interest Policy*
- *Foundation Endowment Administration*
- *Foundation Endowment Investment Policy*
- *Foundation Non-Endowment Fund Investment Policy*
- *Foundation Reserve Policy*
- *Foundation Standards for Gift Solicitation and Fundraising Manual*

AUDIT TEAM

Audit Manager: Ann Hough
Senior Auditor: Allen Tung