April 11, 2019

Dr. Leroy M. Morishita, President
California State University, East Bay
25800 Carlos Bee Boulevard
Hayward, CA 94542

Dear Dr. Morishita:

Subject: Audit Report 19-32, Cal State East Bay Educational Foundation, California State University, East Bay

We have completed an audit of Cal State East Bay Educational 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
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 East Bay Educational Foundation (Ed 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 Ed Foundation as of February 22, 2019, taken as a whole, provided reasonable assurance that risks were being managed and objectives were met.

In general, we found that the Ed Foundation had an appropriate framework for the administration of the auxiliary, but we identified opportunities for improvement in areas such as administration of fund-raising events, cash-handling activities at University Advancement, and pledges receivable. Specifically, the campus needed to develop written policies and procedures for fund-raising events and collection and follow-up of delinquent pledges receivables, document the change in custody of cash and cash equivalents and approval of pledge write-offs, and update the current pledge write-off policy.

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

1. FUND-RAISING EVENTS

OBSERVATION

Campus administration of fund-raising events needed improvement.

We found that:

- The campus did not have a written fund-raising policy, as required by ICSUAM §15701.00, *Fundraising Events*.

- Fund-raising events were not reviewed and approved by a delegated authority prior to events. Specifically, the departments that held fund-raising events did not obtain written approvals showing the delegated authority’s review of event budgets, drafts of solicitation material, and action plans.

- The departments that held fund-raising events did not provide sufficient documentation after the events to determine whether cash and cash equivalents were timely collected and reconciliations were performed for ticket sales. Also, for one of these events, the department did not provide supporting documents for auction items to determine whether sales tax was remitted for items sold through auctions.

- Fund-raising events were not reported on the Internal Revenue Service (IRS) Form 990, Schedule G (Supplemental Information Regarding Fundraising or Gaming Activities).

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:

a. Develop a written fund-raising policy.

b. Develop written processes to ensure that fund-raising events are approved in writing by the delegated authority prior to the events, sufficient documentation is received after the events, and fund-raising events are reported on IRS Form 990, Schedule G.

c. Provide training to departments that hold fund-raising events on new fund-raising policies and processes.

MANAGEMENT RESPONSE

We concur. University Advancement will establish a written fund-raising policy. The written policy will include written processes to guide departments to get fund-raising events approved in writing by delegated authorities prior to events. The policy will also guide departments to
provide sufficient documentation after the events and report events on IRS Form 990, Schedule G.

After the policy is developed, University Advancement will conduct a training to appropriate parties.

The campus will provide Audit & Advisory Services with a copy of the policy and training records by September 10, 2019.

2. CASH-HANDLING ACTIVITIES

OBSERVATION

University Advancement did not document the change in custody of cash and cash equivalents received by the Ed Foundation, as required by ICSUAM §6330.300, Cash and Checks Handling.

We found that University Advancement did not maintain a check log to provide accountability over funds received through the mail. In addition, checks were placed in a locked deposit bag and transported to the campus cashier’s office without deposit forms, and deposit receipts were not received at the time of deposit.

Documenting the change in custody for cash and cash equivalents helps to reduce campus and auxiliary exposure to loss, theft, or misappropriation of funds.

RECOMMENDATION

We recommend that the campus develop a process to document the change in custody of cash and cash equivalents at University Advancement.

MANAGEMENT RESPONSE

We concur. The campus has updated the CSUEB Business Process Guide – Foundation and Educational Foundation Deposit and Consolidation. The updates include a documented process for change in custody of cash and cash equivalents at University Advancement.

Implementation was completed in March 2019. The campus will provide Audit & Advisory Services with a copy of the procedure document by May 7, 2019.

3. PLEDGES RECEIVABLE

OBSERVATION

The Ed Foundation did not have written policies and procedures for the collection and follow-up of delinquent pledges, its policy for approval of pledge write-offs was not current, and approvals of pledge write-offs were not being documented.
We found that although the Ed Foundation had an established pledges receivable process, it did not have documented policies and procedures for the collection and follow-up of delinquent pledges receivable.

Additionally, the existing Pledge Write-Off policy was not current. Specifically, the policy required a solicitor and professional development staff to approve write-offs for pledges under $5,000, and a solicitor, professional development staff, and an Ed Foundation executive to approve write-offs of pledges above $5,000. However, the Ed Foundation was obtaining verbal approvals from the vice president or associate vice president of university advancement for all pledge write-offs.

Comprehensive and current policies and procedures for pledges receivable help to ensure the performance of duties and functions, reduces the risk that receivables will not be accurately reflected in the financial statements, and increases the likelihood of recovery.

**RECOMMENDATION**

We recommend that the campus, in conjunction with the Ed Foundation, establish written policies and procedures for the collection and follow-up of delinquent pledges receivable, update its pledge write-off policy to reflect the current individuals responsible for approval of write-offs, and document approvals of write-offs.

**MANAGEMENT RESPONSE**

We concur. University Advancement, in conjunction with the Ed Foundation, will establish written policies and procedures for the collection and follow-up on delinquent pledges receivable, update its pledge write-off policy to reflect the current individuals responsible for approval of write-offs, and document approvals of write-offs.

The campus will provide Audit & Advisory Services with a copy of the written policies and procedures by July 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 (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.

California State University, East Bay (CSUEB) has three separate auxiliary organizations, each of which provides a function that contributes to the educational mission of the university. The Ed Foundation was established in 1963 as a non-profit public benefit corporation and is the philanthropic auxiliary for the campus. Its sole function is to collect, invest, and administer all gifts, bequests, endowments, trusts, and similar funds received by the campus. As of fiscal year end 2017/18, the Ed Foundation’s endowment balance was $17 million, and the auxiliary had helped the campus obtain $20 million in gift commitments. In 2016, the campus started its first-ever comprehensive fund-raising campaign titled Rising in the East: The Campaign for Cal State East Bay. The capital raised from the campaign will be used to modernize the
The campus, further support the faculty, reinforce existing programs and launch new ones, expand learning opportunities, and enhance diverse student population through scholarships. The campus has met its $60 million goal, and gifts to Rising in the East have already funded two endowed professorships, a faculty excellence fund, a facility renovation and more than $5.5 million in new student scholarships. In January 2018, the campus received its largest gift in school history ($15 million) as a lead gift to help build one of the two remaining capital projects in the campaign.

The Ed Foundation does not have any employees and relies on campus personnel from university advancement and financial services. The Ed Foundation is governed by a board of directors composed of representatives from the community, university administration, student body, faculty, and alumni.

SCOPE

We visited the CSUEB campus and the Ed Foundation from January 22, 2019, through February 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 the Ed Foundation. The audit focused on procedures in effect from July 1, 2016, to February 22, 2019.

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, pledges 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 events, alumni funds, and scholarship disbursements.

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
- 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
- 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 §1301.00, Hospitality, Payment or Reimbursement of Expenses
- ICSUAM §13680.00, Placement and Control of Receipts for Campus Activities and Programs
- ICSUAM §15000, University Advancement
- ICSUAM §15701.00, Fundraising Events
- Ed Foundation, Pledge Write-Off Policy

AUDIT TEAM

- Audit Manager: Caroline Lee
- Internal Auditor: Leslie Rodriguez