

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

August 13, 2020

RADM Thomas A. Cropper, President
California State University Maritime Academy
200 Maritime Academy Drive
Vallejo, CA 94590

Dear Admiral Cropper:

**Subject: Audit Report 20-17, California Maritime Academy Foundation, Incorporated,
California State University Maritime Academy**

We have completed an audit of *California Maritime Academy Foundation, Incorporated* as part of our 2020 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,



Vlad Marinescu
Interim Chief Audit Officer

c: Timothy P. White, Chancellor

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**CALIFORNIA MARITIME ACADEMY
FOUNDATION, INCORPORATED**

California State University Maritime Academy

Audit Report 20-17
May 5, 2020

EXECUTIVE SUMMARY

OBJECTIVE

The objectives of the audit were to confirm compliance with regulatory requirements for the establishment and governance of auxiliary organizations; ascertain the effectiveness of operational, administrative, and financial controls for the activities conducted by the California Maritime Academy Foundation, Incorporated (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 February 28, 2020, taken as a whole, provided reasonable assurance that risks were being managed and objectives were met.

We found that the campus and Foundation did not reconcile procurement card (ProCard) purchases totaling about \$104,000 made by an employee using two separate ProCards and did not always obtain or retain records from the employee to complete the required monthly reconciliations. Additionally, the campus and Foundation did not timely deactivate the ProCards of the same employee after the employee separated from the university.

We also identified opportunities for improvement in key areas, including the review of outstanding pledges receivable and reconciliations between the Foundation donor system and the campus accounting system, as well as the establishment of comprehensive policies and procedures for the Foundation Marine Development Program. We noted that the Foundation did not always file the Internal Revenue Service (IRS) form associated with donated vessels as required by Foundation procedures and did not update Foundation gifts-in-kind (GIK) and gift processing policies and procedures to reflect current operational processes. Further, administrative oversight over hospitality events and expenditures needed improvement, including event approval and compliance with the campus per-person limit on expenditures. We also found that signed release forms or waivers from student travelers were not always obtained. Additionally, the Foundation's audit committee composition and its bylaws did not fully adhere to regulatory requirements, and the planning and review of reserves were not always documented in accordance with Foundation and California State University (CSU) policy.

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

OBSERVATIONS, RECOMMENDATIONS, AND RESPONSES

1. PROCARD ADMINISTRATION

OBSERVATION

The campus and Foundation did not always reconcile procurement card (ProCard) purchase activity, did not obtain or retain records necessary to complete these reconciliations, and did not timely deactivate a user's ProCards after the employee separated from the university.

We reviewed ProCard activity for Foundation cardholders since 2018 and found that the campus and Foundation did not reconcile ProCard purchases totaling about \$104,000 made by an employee using two separate ProCards. We noted that the campus and Foundation did not always obtain or retain records from the employee that were needed to complete the required monthly reconciliation, as required by the campus *Procurement Card Handbook*. Specifically, we found that:

- Records to support purchases totaling about \$39,300 made by the employee on a Foundation ProCard were not obtained for review and reconciliation for four months (June 2019 through September 2019).
- Records to support purchases totaling about \$64,700 made by the employee on a stateside ProCard were not obtained or retained for review and reconciliation for five months (February 2019 and June 2019 through September 2019).

Additionally, the campus and Foundation did not timely deactivate the employee's ProCards after the employee separated from the university effective September 12, 2019. The campus indicated that it had reduced the credit limit on both ProCards to zero to effectively halt the employee's ability to make purchases. However, we found that this action was untimely as it was taken on September 23, 2019, 11 days after the employee's termination.

We noted that based on this observation, the campus obtained some records in March 2020 and began a review of these unreconciled expenditures.

Proper administration of ProCards, including active monitoring, reconciliation, maintenance of required records, and timely deactivation of ProCards can help to prevent and detect errors, waste, abuse, and fraud and are vital to responsible, appropriate, and efficient use of public and auxiliary resources.

RECOMMENDATION

We recommend that the campus:

- a. Review and update the current process to enhance monitoring for compliance with campus ProCard policies, including following up on unreconciled ProCard purchases timely, obtaining and retaining necessary records to support and reconcile ProCard purchases, and timely retrieving and deactivating all ProCards issued to employees before they separate from the university.

- b. Provide comprehensive refresher training to relevant campus and Foundation employees who are issued a ProCard and to approving officials. This training should address the issues noted above and should emphasize the responsibilities of cardholders and approving officials, as required by the campus *Procurement Card Handbook*.
- c. In conjunction with the Foundation, complete and document a review of the ProCard charges noted above, including a detailed explanation for each expense and the reason for allowing these purchases after the employee's termination date. In addition, the campus should take action to seek reimbursement for any unallowable purchases.

MANAGEMENT RESPONSE

The campus will work with the Foundation to review and update the current procurement card processes to enhance monitoring for compliance with campus policies; provide refresher training to relevant campus and Foundation employees with procurement cards and approving officials to address the issues noted above; and complete and document the review of the procurement card charges noted above. If deemed necessary, the campus will seek reimbursement for any unallowed purchases.

Expected completion date: August 2020

2. PLEDGES RECEIVABLE AND RECONCILIATIONS

OBSERVATION

Administrative review of outstanding pledges receivable needed improvement, and reconciliations were not performed between the Foundation donor system and the campus accounting system.

We found that review of outstanding pledges had not been performed since August 2019, including the requirement to send monthly pledge reminders with escalating follow-up, as required by the Foundation's *Pledge Policy and Procedure*.

We also noted that philanthropic data was being managed by the Foundation using the donor system *Raiser's Edge*, and that financial accounting, recording, and reporting was managed by the campus using the accounting system *PeopleSoft*. However, these separate systems were not integrated, and reconciliation between the systems required a coordinated process between university advancement staff on behalf of the Foundation and campus accounting staff. We found that reconciliation of system records, including pledge receivables, between the Foundation and the campus accounting systems (*Raiser's Edge* and *PeopleSoft*, respectively) were not performed since June 2018, when the former Foundation accounting system data was transferred to the campus *PeopleSoft* system. We noted that the pledges receivable balances on June 30, 2019, were \$201,243 from *Raiser's Edge*, \$203,037 from *PeopleSoft*, and \$203,037 from the audited financial report.

Adequate administration of outstanding pledges receivable, including required pledge reminders with escalating follow-up activity, and reconciliations of records between the Foundation donor system and the campus accounting system decreases the risk that errors,

irregularities, misunderstandings, and misappropriation of funds will occur and go undetected by management.

RECOMMENDATION

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

- a. Review outstanding pledges and comply with the Foundations *Pledge Policy and Procedure* requirement related to sending required pledge reminders with escalating follow-up.
- b. Implement a process to perform the necessary reconciliations of records (including pledges receivable) between the Foundation donor system and the campus accounting system.

MANAGEMENT RESPONSE

The campus, in conjunction with the Foundation, will review outstanding pledges, perform appropriate follow-up, and document its reconciliation process.

Expected completion date: August 2020

3. MARINE DEVELOPMENT PROGRAM

OBSERVATION

The Foundation did not have comprehensive policies and procedures for its Marine Development Program, which includes the administration of donated vessels.

We noted that the Foundation had recently experienced a substantial increase in donated vessels and was in the process of developing additional formal written policies and procedures to address key operational processes surrounding the management of the Foundation’s Marine Development program. These policies and procedures included roles and responsibilities, acceptance and use, chartering, and the sale and disposal of donated vessels and updated existing checklists and processes that were used to help administer various requirements of the program.

Documented policies and procedures for the Marine Development Program can help to ensure that key operational processes are established, personnel are aware of their roles and responsibilities, continuity is preserved through changes in personnel, and activities are implemented consistently.

RECOMMENDATION

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

- a. Finalize development and implementation of all necessary policies and procedures for the administration of the Marine Development Program, including updated checklists and

processes, which may include roles and responsibilities, acceptance and use, chartering, and the sale and disposal of donated vessels.

- b. Communicate and distribute the new and revised Marine Development Program policies and procedures to appropriate campus and Foundation personnel.

MANAGEMENT RESPONSE

The campus, in conjunction with the Foundation, will finalize and implement the Marine Development Program policies and procedures as noted above, and will communicate and distribute the new and revised Marine Development Program policies and procedures to appropriate campus and Foundation personnel.

Expected completion date: August 2020

4. GIFTS-IN-KIND

OBSERVATION

Administration of Gifts-in-Kind (GIK) related to filing required IRS tax forms for gifted vessels needed improvement, and Foundation policies and procedures for GIK and gift processing were outdated and did not reflect current operational processes.

We reviewed 15 GIKs, including 10 vessels, and found that the IRS Form 1098-C, *Contributions of Motor Vehicles, Boats, and Airplanes* was not filed or available for four of ten donated vessels with a claimed value of more than \$500, as required by Foundation procedures.

Additionally, we noted that the Foundation was in the process of updating the GIK and gift-processing policies and procedures, which had not been updated since 2012 and did not reflect current operational processes.

Timely filing of required IRS tax forms helps to ensure compliance with tax laws and is one way of providing donors with a contemporaneous written acknowledgment of their contribution and may allow the donor to claim a deduction for a qualified contribution of more than \$500. Current GIK and gift-processing policies and procedures help to ensure understanding and compliance with required internal controls.

RECOMMENDATION

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

- a. Timely file IRS Form 1098-C in accordance with applicable IRS instructions, and provide donors with a copy of the form.
- b. Finalize the update of Foundation GIK and gift-processing policies and procedures to reflect current operational processes and communicate these to appropriate campus and Foundation personnel.

MANAGEMENT RESPONSE

The campus, in conjunction with the Foundation, will timely file IRS Form 1098-C and provide donors with a copy of the form, update the Foundation GIK and gift-processing policies and procedures to reflect current operational processes, and communicate these to appropriate campus and Foundation personnel.

Expected completion date: August 2020

5. HOSPITALITY

OBSERVATION

Administration of Foundation hospitality expense approvals was not always in compliance with the campus *Hospitality, Payments or Reimbursement of Expenses Policy*.

We reviewed 20 hospitality disbursements and found that an approved hospitality form was not obtained or documented as required by the campus hospitality policy for 11 of them.

Additionally, a group dinner for donor stewardship costing almost \$3,400 for 35 guests substantially exceeded the \$50 per-person maximum limit on such expenditures allowed by the campus hospitality policy, and the exception was not approved in advance by the campus president and applicable vice president, as required by the campus hospitality policy.

Compliance with hospitality and event policies and procedures helps to ensure responsible, appropriate, and efficient use of public and auxiliary resources.

RECOMMENDATION

We recommend that the campus, in conjunction with the Foundation, reiterate to all appropriate campus and Foundation personnel the importance of complying with campus hospitality policies and procedures, including the requirements to timely submit hospitality forms for approval, comply with the per-person hospitality expenditure limits, and obtain necessary approval for all exceptions.

MANAGEMENT RESPONSE

The campus, in conjunction with the Foundation, will reiterate to appropriate campus and Foundation personnel the importance of complying with campus hospitality policies and procedures, including the requirements to timely submit hospitality forms for approval; comply with the per-person hospitality expenditure limits; and obtain necessary approval for all exceptions.

Expected completion date: August 2020

6. TRAVEL

OBSERVATION

The campus and the Foundation did not always require a signed release form or waiver from student travelers, as required by EO 1041, *California State University Student Travel Policy*.

We reviewed 15 travel expense claims (TECs), including general and domestic travel, and found that for the two TECs involving student travel groups, signed release forms or waivers were not obtained for 11 students traveling by air.

Obtaining the required release forms or waivers from student travelers helps to ensure compliance with EO 1041 and helps to protect the university from legal liability that could arise from the associated travel.

RECOMMENDATION

We recommend that the campus, in conjunction with the Foundation, remind appropriate faculty and staff of the requirement to obtain and maintain signed release forms or waivers from all student travelers, as required by EO 1041.

MANAGEMENT RESPONSE

The campus, in conjunction with the Foundation, will reiterate travel policies and procedures to appropriate campus and Foundation personnel, which includes maintaining signed release waiver forms from all student travelers.

Expected completion date: August 2020

7. CORPORATE GOVERNANCE

OBSERVATION

Certain corporate governance requirements were not formally documented or did not fully comply with applicable regulatory requirements.

The Foundation's audit committee composition and its bylaws regarding the audit committee did not fully adhere to Government Code §12586 (e)(2). Specifically:

- The Foundation bylaws did not state that the chairperson of the audit committee may not be a member of the finance committee, and that members of the finance committee cannot comprise 50 percent or more of the membership of the audit committee.
- The Foundation's audit committee chair was a member of the finance committee, which is not allowed by the code.

We also found that the Foundation did not have a written delegation of authority (DOA) from the campus president giving its management the authority of gift evaluation and acceptance, as required by EO 676, *Delegation of Gift Evaluation and Acceptance to Campuses*.

Proper administration of corporate governance, including the correct composition of audit committee members and accurate audit committee bylaws, and a written DOA to formally provide Foundation management with the necessary authority related to gift evaluation and acceptance, can help to ensure compliance with regulatory requirements and reduce the risk of misunderstanding and legal liability.

RECOMMENDATION

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

- a. Update the Foundation bylaws regarding the audit committee and appoint audit committee members in accordance with applicable regulatory requirements and to address the issues noted above.
- b. Obtain a written DOA from the campus president giving Foundation management the authority of gift evaluation and acceptance, in accordance with EO 676.

MANAGEMENT RESPONSE

The campus, in conjunction with the Foundation, will update its bylaws, appoint the required audit committee members, and document a DOA in accordance with EO 676.

Expected completion date: August 2020

8. RESERVES

OBSERVATION

The Foundation did not adequately document the planning and review of its reserves in compliance with the Foundation *Reserve Policy* and the CSU *Auxiliary Organizations Compliance Guide*.

We found that the Foundation was unable to demonstrate that the board of directors annually reviewed reserve balances for adherence with the Foundation *Reserve Policy*.

Specifically, we found that:

- The Foundation's recorded reserve levels for fiscal years (FY) 2018/19 and 2019/20 each showed a general operations reserve balance of \$88,806. The reserve policy requires the general operations reserve to be at least 25 percent of the annual operating fund expenditures from the prior fiscal year.

- Based on the Foundation’s prior audited financial statements, the general operations reserve balance should have been at least about \$116,800 in FY 2018/19 and \$130,600 in FY 2019/20.
- For FY 2019/20, the Marine Operations Fund did not have the required minimum reserve balance of \$100,000. We noted that the fund was not replenished after the previous FY 2018/19 reserve balance of \$100,000 was used.

Additionally, the Foundation could not demonstrate that a plan to build and maintain appropriate reserves had been submitted annually to the campus president for review and approval, in accordance with the *CSU Auxiliary Organizations Compliance Guide*.

Adequate documentation, communication, and review for planning and analysis of reserves reduce the risk of misunderstandings and miscommunication regarding available reserves, as well as the risk that the auxiliary will be unable to fund future needs, and helps to improve compliance with CSU and Foundation requirements.

RECOMMENDATION

We recommend that the campus, in conjunction with the Foundation, documents the planning and review of reserves and provide the analysis to the board of directors and campus president for review and approval, in accordance with the *Foundation Reserve Policy* and the *CSU Auxiliary Organizations Compliance Guide*, to address the issues noted above.

MANAGEMENT RESPONSE

The campus, in conjunction with the Foundation, will document the planning and review of its annual reserves and provide analysis at the regular board meetings to the board of directors and campus president for review and approval in accordance with the *Foundation Reserve Policy* and the *CSU Auxiliary Organizations Compliance Guide*.

Expected completion date: August 2020

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 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.

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 Maritime Academy (Cal Maritime) has two separate auxiliary organizations, each of which provides a function that contributes to the educational mission of the university. The Foundation was established in 1972 as a non-profit, tax-exempt, charitable and educational organization and serves as the philanthropic arm of Cal Maritime. The Foundation's mission is to solicit, manage, and distribute charitable contributions for the benefit of the academy and to support the academy with resources to enhance the educational experience of its students. In addition, the Foundation houses and supports the

alumni association and manages the endowment. The vice president for University Advancement serves as the executive director of the Foundation.

SCOPE

We visited the Cal Maritime campus and the Foundation from February 3, 2020, through February 28, 2020. 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 January 1, 2018, to February 28, 2020.

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 reserve provisions, conflicts of interest, and risk management practices.
- 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, cash and non-cash gifts, matching gifts, endowments, and review of timely receiving, recording, and safeguarding of GIK.

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. 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 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 Auxiliary Organizations Compliance Guide
- CSU Auxiliary Organizations Sound Business Practices Guidelines
- CSU Auxiliary Operating Agreement Model, Section 14, *Contracts for Campus Services*
- ICSUAM §1301.00, *Hospitality*
- ICSUAM §15000, *University Advancement*
- ICSUAM §13680.00, *Placement and Control of Receipts for Campus Activities and Programs*
- ICSUAM §8060.00, *Access Control*
- ICSUAM §15701.00, *Fundraising Events*
- CSU Maritime Academy Procurement Card Handbook
- CSU Maritime Academy Hospitality, Payments or Reimbursement of Expenses Policy
- CSU Maritime Academy Travel Policy
- Cal Maritime Academy Foundation By-Laws
- Cal Maritime Academy Foundation Gift-in-Kind Policy
- Cal Maritime Academy Foundation Gift Processing Procedure
- Cal Maritime Academy Foundation Pledge Policy and Procedure
- Cal Maritime Academy Foundation Reserve Policy

AUDIT TEAM

Senior Audit Manager: Joanna McDonald
Senior Auditor: Marcos Chagollan