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June 15, 2020

Dr. Jane Close Conoley, President
California State University, Long Beach
1250 Bellflower Boulevard
Long Beach, CA 90840

Dear Dr. Conoley:

Subject: Audit Report 20-47, CSULB 49er Foundation, California State University, Long Beach

We have completed an audit of *CSULB 49er Foundation* 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,



Larry Mandel
Vice Chancellor and Chief Audit Officer

c: Timothy P. White, Chancellor

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CSULB 49ER FOUNDATION

**California State University,
Long Beach**

Audit Report 20-47
April 8, 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 CSULB 49er Foundation (49er 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, the operational, administrative, and financial controls for the 49er Foundation as of February 27, 2020, taken as a whole, provided reasonable assurance that risks were being managed and objectives were met.

Overall, we noted that the 49er Foundation had an appropriate framework for the administration of the auxiliary; however, we identified opportunities for improvement in areas such as administration of fund-raising events, contracts for campus services, and gift management system access. Specifically, we found that fund-raising events were not always included on the Internal Revenue Service (IRS) Form 990, fund-raising event approval forms were not always completed prior to events, and contracts with third-party hosting venues did not always include insurance and indemnification provisions. Additionally, the 49er Foundation did not have a written agreement with the campus for services provided to the 49er Foundation by the campus employees. Further, we found that the 49er Foundation did not have a written policy or procedure governing access to their gift management system.

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

OBSERVATIONS, RECOMMENDATIONS, AND RESPONSES

1. FUND-RAISING EVENTS

OBSERVATION

Administration of fund-raising events needed improvement.

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

- Three events were not reported on the IRS Form 990, Schedule G (Supplemental Information Regarding Fundraising of Gaming Activities).
- Two events did not have completed fund-raising event approval forms documenting the delegated authority's review of event budgets, drafts of solicitation materials, and action plans prior to the event.
- Two events that were held off-campus did not have a written agreement with the hosting venue that included insurance and indemnification provisions.

Additionally, we found that gifts-in-kind donated to an auction fund-raising event were not timely recorded and acknowledged, in part as a result of lapses in communication between the fund-raising department and Advancement Services.

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

RECOMMENDATION

We recommend that the campus, in conjunction with the 49er 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. Determine whether the IRS Form 990 should be amended to include the events noted above, and if so, submit an amended form to the IRS.
- c. Reiterate the procedures and guidelines in the CSULB 49er Foundation *Business Unit Policies and Guidelines* to personnel involved with fund-raising events regarding proper completion of the fund-raising event approval form, including instructions regarding third-party contracts and sufficient supporting documentation.
- d. Record and acknowledge gifts-in-kind in a timely manner and remind fund-raising departments of these requirements.

MANAGEMENT RESPONSE

We concur that the administration of fund-raising events needs improvement. We will:

- 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. Determine whether the IRS Form 990 should be amended to include the events noted above, and if so, submit an amended form to the IRS.
- c. Reiterate the procedures and guidelines in the CSULB 49er Foundation *Business Unit Policies and Guidelines* to personnel involved with fund-raising events regarding proper completion of the fund-raising event approval form, including instructions regarding third-party contracts and sufficient supporting documentation.
- d. Record and acknowledge gifts-in-kind in a timely manner and remind fund-raising departments of these requirements.

Date of completion: October 30, 2020

2. CAMPUS SERVICE AGREEMENT

OBSERVATION

The campus and 49er Foundation did not have an executed agreement or contract for services performed by state employees for the benefit of the auxiliary.

Specifically, campus state employees provide various services to the 49er Foundation, including, but not limited to, services provided by university relations and development, alumni relations, enrollment services, and administration and finance. We found that although the 49er Foundation reimbursed the campus for these services, the campus and 49er Foundation did not have an executed written agreement regarding campus-provided services consistent with CSU policies.

Appropriately executed agreements for services provided by the campus to an auxiliary helps to ensure compliance with systemwide requirements and reduces the risk of misunderstanding of responsibilities and liabilities.

RECOMMENDATION

We recommend that the campus, in conjunction with the 49er Foundation, execute a written agreement for services provided to the 49er Foundation consistent with CSU policies.

MANAGEMENT RESPONSE

We concur. The campus, in conjunction with the 49er Foundation, will execute a written agreement for services provided to the 49er Foundation consistent with CSU policies no later than October 30, 2020.

3. SYSTEM ACCESS POLICIES AND PROCEDURES

OBSERVATION

The 49er Foundation did not have written policies and procedures outlining system access controls for its gift management system.

We found that the 49er Foundation used Advance software for gift management and donor information tracking. Access to this system was managed locally by advancement services, as the system is specific to the philanthropic activities conducted by the 49er Foundation and contained level two sensitive information. This primarily included contact information, such as home addresses, personal telephone numbers and email addresses, and other potentially identifiable information.

We further noted that advancement services controlled access to the system by requiring employees to undergo system training and to complete and sign data security and confidentiality agreements in order to obtain user access to Advance. Furthermore, the campus assigned and required all employees to complete additional data security training annually.

However, we found that the 49er Foundation did not have a written policy or procedure that outlined the procedures noted above and other system access controls required by ICSUAM §8060.00, *Access Control*, including:

- Procedures for granting system access to a new employee.
- Procedures to change or revoke system access upon employee transfer or termination.
- An annual documented review of user access rights.

Comprehensive and current policies and procedures for system access help to ensure compliance with auxiliary and systemwide requirements.

RECOMMENDATION

We recommend that the campus, in conjunction with the 49er Foundation, develop written policies and procedures outlining system access controls for the gift management system, including the items noted above.

MANAGEMENT RESPONSE

We concur. The campus, in conjunction with the 49er Foundation, will develop written policies and procedures outlining system access controls for the gift management system, as follows:

- a. On behalf of the 49er Foundation, University Relations and Development Advancement Services will formally document system access, including employee onboarding/off boarding, system training, and annual review of user access rights.
- b. Advancement services will maintain a documentation trail showing that the review was performed.

- c. Advancement services is being notified when employees leave the university and will be able to revoke access to employees no longer meeting the system access policies.

Date of completion: October 30, 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 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 49er Foundation was established in 2012 as a non-profit public benefit corporation when the CSULB Foundation was split into two auxiliaries, the 49er Foundation and the Research Foundation, to better reflect a focus on philanthropic, corporate, and auxiliary fiduciary matters. The 49er Foundation's mission is to actively promote philanthropy and manage donated resources for the advancement of the university. The 49er Foundation advocates for the people and programs at CSULB through the management of private support and the stewardship of donors. The 49er Foundation does not have employees and relies on the

Research Foundation and university advancement for accounting and administrative support services and is governed by a board of directors composed of representatives from the community, university administration, faculty, alumni, and student body. The board is the primary conduit for all philanthropic support to the university and has fiduciary responsibility for the university's endowment, gifts, bequests, trusts, and similar funds received by the campus. As of fiscal year-end 2018/19, the 49er Foundation's endowment balance was \$79.4 million, and the auxiliary had helped the campus obtain \$38 million in gift commitments. Over the past two years, the campus has received significant large gifts (\$10 million and \$3 million), and as such, fiscal year 2018/19 was the largest fund-raising year in the history of the campus.

SCOPE

We visited the CSULB campus and the 49er Foundation from January 27, 2020, through February 27, 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 49er Foundation. The audit focused on procedures in effect from January 1, 2018, to February 27, 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 review of 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 events.

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 49er Foundation. Our review was limited to gaining reasonable assurance that essential elements of the 49er Foundation fundraising activities 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*
- ICSUAM §13680.00, *Placement and Control of Receipts for Campus Activities and Programs*
- ICSUAM §8060.00, *Access Control*
- ICSUAM §15701.00, *Fundraising Events*
- Auxiliary Operating Agreement Model, Section 14
- CSULB 49er Foundation *Business Unit Policies and Guidelines*

AUDIT TEAM

Audit Manager: Jennifer Rethwisch

Internal Auditors: Elston Wyatt and Stephanie Martinelli