

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

January 28, 2021

Dr. Tomás D. Morales, President
California State University, San Bernardino
5500 University Parkway
San Bernardino, CA 92407

Dear Dr. Morales:

Subject: Audit Report 20-48, Philanthropic Foundation, California State University, San Bernardino

We have completed an audit of the *CSUSB Philanthropic Foundation* as part of our 2020-2021 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
Vice Chancellor and Chief Audit Officer

c: Joseph I. Castro, Chancellor
Adam Day, Chair, Committee on Audit
Jane W. Carney, Vice Chair, Committee on Audit

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CSUSB PHILANTHROPIC FOUNDATION

**California State University,
San Bernardino**

Audit Report 20-48
December 21, 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 CSUSB Philanthropic Foundation (Philanthropic 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 (CO) 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 Philanthropic Foundation as of October 22, 2020, taken as a whole, provided reasonable assurance that risks were being managed and objectives were met.

Overall, we noted that the Philanthropic Foundation had an appropriate framework for the administration of the auxiliary. However, we identified opportunities for improvement in key areas, including bank reconciliations, contracts with third parties, fund-raising events, escheatment, cash-handling activities, and purchasing. Specifically, we found that Philanthropic Foundation bank reconciliations did not timely identify and resolve variances ranging from \$4,128 to \$44,531. Additionally, we noted that contracts with third parties did not always contain all required elements and were not always signed and dated by the Philanthropic Foundation. Further, sales tax was not always remitted for items sold at auctions for fund-raising events, and one fund-raising counsel used was not registered with the Attorney General's Registry of Charitable Trusts. We also found that long-outstanding checks were not timely escheated to the state. In addition, the California State University, San Bernardino (CSUSB) *Cash-Handling Procedures* did not align with California State University (CSU) systemwide guidance, a safe log was not maintained at all satellite cash-receipting locations, and open purchase orders were not timely investigated.

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

OBSERVATIONS, RECOMMENDATIONS, AND RESPONSES

1. RECONCILIATIONS

OBSERVATION

The Philanthropic Foundation did not consistently perform bank reconciliations to investigate and resolve variances.

We reviewed bank reconciliations for the Philanthropic Foundation’s two bank accounts, which included the general and online giving bank accounts. We found that reconciliations were conducted timely and reviewed and approved by an appropriate individual. However, we noted that for the online giving account, the campus was not using third-party processing reports or detailed bank reports to identify specific transactions that resulted in the variance. As a result, variances were carried forward to the next month, resulting in unreconciled variances ranging from \$4,128 to \$45,746 from July 2019 to June 2020. At the close of the audit, the campus had obtained the reports needed to identify which transactions made up the variances and was working to resolve them.

Proper administration of bank reconciliations reduces the risk of financial loss and ensures accountability of the funds and accurate financial reporting.

RECOMMENDATION

We recommend that the campus, in conjunction with the Philanthropic Foundation, use third-party processing reports and detailed bank reports to continue to investigate and resolve variances on a timely basis.

MANAGEMENT RESPONSE

We concur. Our action plan is to ensure that the campus, in conjunction with the Philanthropic Foundation, uses third-party processing reports and detailed bank reports to continue to investigate and resolve variances on a timely basis.

This action has been completed.

2. AGREEMENTS

OBSERVATION

The Philanthropic Foundation’s agreements with third parties did not consistently contain all elements required by CSU systemwide guidance.

We reviewed six agreements with third-party providers, and we found the following:

- Three agreements were not properly executed by the Philanthropic Foundation.

- Two agreements did not specifically indemnify the state of California, CSU Trustees, or the campus, nor was there a documented analysis to support the justification for waiving the provision. This is a repeat finding from the 2015 Auxiliary Organizations audit.
- Two agreements did not include insurance requirements.

Agreements that are fully and timely executed and include proper insurance and indemnification provisions decrease the risk of misunderstandings and miscommunication regarding rights and responsibilities and decrease the risk that the Philanthropic Foundation and CSU will be subjected to potential liability.

RECOMMENDATION

We recommend that the campus, in conjunction with the Philanthropic Foundation, implement a process to ensure that all third-party contracts are dated, include insurance and indemnification provisions, and are signed by an individual with delegation of authority.

MANAGEMENT RESPONSE

We concur. Our action plan is to ensure that the campus, in conjunction with the Philanthropic Foundation, implements a process to ensure that all third-party contracts are dated, include insurance and indemnification provisions, and are signed by an individual with delegation of authority.

The anticipated implementation date is March 31, 2021.

3. FUND-RAISING EVENTS

OBSERVATION

Administration of fund-raising events needed improvement.

We reviewed five fund-raising events held from 2018 to 2020 with gross receipts totaling \$382,114, and we found that for one event, sales tax was not remitted for items sold through an auction. Per promotional materials for the event and confirmation with the campus, a live and silent auction was held as part of a department fundraising event that generated \$4,590. The template used to report fundraising event revenues to the Philanthropic Foundation did not include a line for non-gift revenues, such as auction items, which resulted in unpaid sales tax. Additionally, one of the two commercial fund-raisers the Philanthropic Foundation contracts with to provide crowd-funding services was not registered with the Attorney General's Registry of Charitable Trusts, as required by Government Code §12599. Per Government Code §12599, failure to comply may lead to the filing of civil litigation or administrative enforcement actions and subject the fund-raising counsel to civil penalties.

Proper administration of fund-raising events helps to effectively allocate resources, coordinate events, and assess and mitigate any risks associated with events, and ensuring that commercial fund-raisers/fund-raising counsels are registered with the Attorney General's

Registry of Charitable Trusts helps to ensure that the campus is in compliance with the Government Code.

RECOMMENDATION

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

- a. Develop and document a process to ensure that sales tax is properly remitted for the sale of goods and merchandise sold at auctions.
- b. Develop and document a process to ensure that any commercial fund-raising counsels the campus engages with are registered with the Attorney General’s Registry of Charitable Trusts.

MANAGEMENT RESPONSE

We concur. Our action plan is to:

- a. Develop and document a process to ensure that sales tax is properly remitted for the sale of goods and merchandise sold at auctions.
- b. Develop and document a process to ensure that any commercial fund-raising counsels the campus engages with are registered with the Attorney General’s Registry of Charitable Trusts.

The anticipated implementation date for these objectives is March 31, 2021.

4. ESCHEATMENT

OBSERVATION

The campus did not have a process in place to timely and properly escheat Philanthropic Foundation long-outstanding checks to the state, as required by the Code of Civil Procedure (CCP) Title 10, *Unclaimed Property*, Chapter 7, *Unclaimed Property Law*, Article 2, §1510 and §1511.

We found that 31 unclaimed checks totaling \$3,797 issued from September 2013 to August 2017 had not been escheated to the state. Per CCP Title 10, checks that are outstanding for more than three years are required to be escheated to the state. Items that are not escheated to the state will be assessed interest of 12 percent per year from the date the property should have been reported, paid, or delivered, not to exceed \$10,000.

Adequate administration of unclaimed property helps ensure regulatory compliance and reduced likelihood of fines.

RECOMMENDATION

We recommend that the campus, in conjunction with the Philanthropic Foundation, develop and implement procedures for the administration and escheatment of long-outstanding checks.

MANAGEMENT RESPONSE

We concur. Our action plan is to ensure that the campus, in conjunction with the Philanthropic Foundation, develops and implements procedure for the administration and escheatment of long-outstanding checks.

The anticipated implementation date is March 31, 2021.

5. CASH-HANDLING ACTIVITIES

OBSERVATION

Campus cash-receipting locations that collected and deposited funds to the Philanthropic Foundation did not consistently comply with campus and systemwide cash-handling requirements.

We reviewed cash-handling practices at four of ten locations and found that one did not maintain a log of individuals who had access to the location's lockbox and the date when the combination was last changed.

Additionally, we found that the CSUSB *Cash-Handling Procedures* did not align with requirements outlined in ICSUAM §6330, *Incoming Cash and Checks*, which dictate that cash exceeding \$1,000 must be transported with a campus police escort or armored car.

Compliance with systemwide and campus cash-handling requirements helps reduce campus and auxiliary exposure to loss, theft, or misappropriation of funds.

RECOMMENDATION

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

- a. Reiterate the procedures and guidelines related to internal controls over cash receipts in the CSUSB *Cash-Handling Procedures* to personnel involved with cash-handling activities in the location noted above.
- b. Update the CSUSB *Cash-Handling Procedures* to align with CSU systemwide guidance.

MANAGEMENT RESPONSE

We concur. Our action plan is to ensure that the campus, in conjunction with the Philanthropic Foundation:

- a. Reiterates the procedures and guidelines related to internal controls over cash receipts in the CSUSB *Cash-Handling Procedures* to personnel involved with cash-handling activities in the location noted above.
- b. Updates the CSUSB *Cash-Handling Procedures* to align with CSU systemwide guidance.

The anticipated implementation date for these objectives is April 15, 2021.

6. OPEN PURCHASE ORDERS

OBSERVATION

The Philanthropic Foundation did not have a process to timely investigate and disencumber open purchase orders.

We reviewed the open purchase order listing as of September 1, 2020, and we found that three purchase orders totaling \$19,142 were outstanding from 378 to 424 days and had not been disencumbered or removed from the purchase order system. There is no systemwide policy requirement related to review of open purchase orders; however, it is best practice to review and disencumber purchase orders on a periodic basis.

Insufficient administration of long-outstanding purchase orders can impair budget analysis and planning and affect decision-making.

RECOMMENDATION

We recommend that the campus, in conjunction with the Philanthropic Foundation, develop and document a process to timely investigate and resolve open purchase orders.

MANAGEMENT RESPONSE

We concur. Our action plan is to ensure that the campus, in conjunction with the Philanthropic Foundation, develops and documents a process to timely investigate and resolve open purchase orders.

The anticipated implementation date is March 31, 2021.

GENERAL INFORMATION

BACKGROUND

Auxiliary organizations are separate business and legal entities performing 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 controls 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.

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.

The Philanthropic Foundation was established in 2011 as a charitable successor to The Foundation for CSUSB. The prior foundation was established in 1995 and served as the primary auxiliary to the university promoting charitable giving and supporting enterprise operations. The Philanthropic Foundation encourages gifts and financial support while creating learning opportunities for students, alumni, and the community that complement the university's teaching, research, and public service goals. It supports CSUSB through fund-raising, acceptance of donor gifts, and management of endowments. The auxiliary does not

have employees and relies on the university's auxiliary financial services unit and university advancement personnel for accounting and administrative support services. The Philanthropic Foundation is governed by a board of directors composed of representatives from the community, university administration, faculty, alumni, staff, and student body.

SCOPE

Due to temporary operating procedures and limitations resulting from the COVID-19 public health emergency, we performed fieldwork remotely from August 24, 2020, through October 23, 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 October 23, 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, accounts payable, investments, and disbursements.
- Gifts administration, including, but not limited to, fundraising, cash and non-cash gifts, endowments, and 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 Philanthropic Foundation program. Our review was limited to gaining reasonable assurance that essential elements of the Philanthropic 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; CO policies, letters, and directives; campus and auxiliary procedures; and 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*
- CCP Title 10, *Unclaimed Property*, §1510 and §1511
- RFIN 7-81-4
- EO 676, *Delegation of Gift Evaluation and Acceptance to Campuses*
- EO 849, *California State University Insurance Requirements*
- 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, Payment or Reimbursement of Expenses*
- ICSUAM §6330, *Incoming Cash and Checks*
- ICSUAM §8060, *Access Control*
- ICSUAM §13680.00, *Placement and Control of Receipts for Campus Activities*
- ICSUAM §15000, *University Advancement*
- ICSUAM §15701, *Fundraising Events*
- *CSUSB Philanthropic Foundation Procurement Policy*
- *CSUSB Philanthropic Foundation Pledges Policy*
- *CSUSB Philanthropic Foundation Gift Acceptance Policy*
- *CSUSB Philanthropic Foundation Matching Gift Policy*
- *CSUSB Philanthropic Foundation Endowment Policy*
- *CSUSB Philanthropic Foundation Accounts Payable Credit Card Policy*
- *CSUSB Philanthropic Foundation Accounts Payable Hospitality Policy*
- *CSUSB Philanthropic Foundation Accounts Payable Travel Policy*
- *CSUSB Philanthropic Foundation Fundraising Policy*
- *CSUSB Philanthropic Foundation Investment Policy*
- *CSUSB Cash-Handling Procedures*

AUDIT TEAM

Audit Manager: Jennifer Rethwisch
Internal Auditor: Stephanie Martinelli