

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

July 5, 2023

Dr. Ming-Tung "Mike" Lee, President
Sonoma State University
1801 East Cotati Avenue
Rohnert Park, CA 94928

Dear Dr. Lee:

Subject: Audit Report 22-23, Sonoma State University Foundation, Sonoma State University

We have completed an audit of the *Sonoma State University Foundation* as part of our 2022-2023 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 will be 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: Jolene Koester, Interim Chancellor
Yammilette Rodriguez, Chair, Committee on Audit
Jean Picker Firstenberg, Vice Chair, Committee on Audit

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SONOMA STATE UNIVERSITY FOUNDATION

Sonoma State University

Audit Report 22-23
July 5, 2023

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 Sonoma State University 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, the operational, administrative, and financial controls for the Foundation, as of May 2, 2023, taken as a whole, provided reasonable assurance that risks were being managed and objectives were met.

Overall, we found that the Foundation had an effective framework for the administration and management of the auxiliary that generally aligned with systemwide, state, federal, and campus requirements. However, we identified one opportunity for improvement relating to the policy for and documentation of collection efforts and follow-up activity for long-outstanding pledges receivable.

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

OBSERVATIONS, RECOMMENDATIONS, AND RESPONSES

1. PLEDGES RECEIVABLE

OBSERVATION

The Foundation did not always document collection efforts and follow-up activity for long-outstanding pledges receivable.

We reviewed processes surrounding pledges receivable and we found that:

- Collection efforts and follow-up activities were not consistently documented within the donor system for four of the five delinquent accounts we reviewed. Management indicated that the collection efforts were completed by appropriate personnel using a mailed pledge reminder notice, as well as follow-up communication via various methods of contact, such as email, phone calls, or in-person discussion with the donor, but these efforts were not always documented in Raiser's Edge, the donor system. The account balances reviewed totaled \$63,000 and were outstanding between 152 and 639 days.
- Policies and procedures did not address the collection efforts and follow-up activities required to be completed and documented for pledges.

Adequate control and properly defined policies and procedures for pledges receivable improve the likelihood of collection and positively impact cash flow.

RECOMMENDATION

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

- a. Update policies and procedures to include the collection efforts and follow-up activities required to be completed and documented within the donor system for delinquent pledges to facilitate collection efforts.
- b. Reiterate and distribute the updated policies and procedures to appropriate personnel.

MANAGEMENT RESPONSE

We concur. The campus will:

- a. Update its policies and procedures for pledge collection efforts to include documenting within the donor database system the collection efforts and follow-up activities completed for delinquent pledges.
- b. Reiterate and distribute the updated policies and procedures to appropriate personnel.

Expected completion date: August 31, 2023

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.

The Foundation was formed in 1974 to promote and assist the education and academically related services and programs of the university. In past years, the Foundation's focus was primarily to provide asset and investment management of the university endowment and to annually distribute funds to scholarship and campus programs based on donor intent. In 2016, the Foundation transitioned into a philanthropic organization, supporting advancement efforts to complement its asset and endowment management functions. The Foundation does not have employees and relies on the university's auxiliary financial services and university

advancement personnel for accounting and administrative support services. The Foundation is governed by a board of directors composed of representatives from the community, university administration, faculty, student body, and staff.

SCOPE

We performed fieldwork from March 1, 2023, through May 2, 2023. 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 Sonoma State University Foundation. The audit focused on procedures in effect from January 1, 2021, to May 2, 2023.

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 allocation plan, and conflicts of interest.
- Internal controls and segregation of duties over fiscal administration of areas such as cash receipts, pledges receivable, investments, and disbursements.
- Gifts administration, including, but not limited to, review of timely receiving, recording, and safeguarding of cash and non-cash gifts and endowments.

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 Sonoma State University Foundation program. Our review was limited to gaining reasonable assurance that essential elements of the Sonoma State University 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 §8000.00, *Information Security*
- ICSUAM §1301.00, *Hospitality, Payment or Reimbursement of Expenses*
- ICSUAM §15000, *University Advancement*
- *Foundation Gift Agreement Process Flow / Documentation Process*
- *Foundation Revenue and Accounts Receivable Business Process*

AUDIT TEAM

Senior Audit Manager: Hannah Gardener
Senior Auditor: Alexandra Gonzalez