

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

August 13, 2024

Dr. Ellen J. Neufeldt, President
California State University San Marcos
333 S. Twin Oaks Valley Road
San Marcos, CA 92096

Dear Dr. Neufeldt:

**Subject: Audit Report 23-25, California State University San Marcos Foundation,
California State University San Marcos**

We have completed an audit of the *California State University San Marcos Foundation* as part of our 2023-2024 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 university personnel over the course of this review.

Sincerely,



Vlad Marinescu
Vice Chancellor and Chief Audit Officer

c: Mildred García, Chancellor
Lillian Kimbell, Chair, Committee on Audit
Anna Ortiz-Morfit, Vice Chair, Committee on Audit

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CALIFORNIA STATE UNIVERSITY SAN MARCOS FOUNDATION

**CALIFORNIA STATE UNIVERSITY
SAN MARCOS**

**AUDIT REPORT 23-25
AUGUST 13, 2024**



EXECUTIVE SUMMARY

AUDIT OBJECTIVES AND BACKGROUND

In accordance with the fiscal year (FY) 2023/24 Audit Plan, as approved by the Board of Trustees, Audit and Advisory Services performed an audit of the California State University San Marcos Foundation (Foundation) at California State University San Marcos (CSU San Marcos).

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 related to the Foundation; and to ensure compliance with relevant federal and state regulations, Trustee policy, Office of the Chancellor (CO) directives, and university and auxiliary procedures.

CSU San Marcos has three separate auxiliary organizations, each of which provides a function that contributes to the educational mission of the university. The Foundation is a nonprofit corporation that is primarily responsible for the development, use, and management of non-state-funded resources, including endowment and scholarship funds. The Foundation oversees all program and scholarship endowments, as well as non-endowed scholarships, and partners with public and private organizations to generate resources that help promote student success. The Foundation does not have employees and relies on the CSU San Marcos university advancement and finance and administrative services areas for accounting and administrative support services. The Foundation is governed by a board of directors composed of representatives from the university administration, faculty, student body, and community.

OVERALL 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 May 31, 2024, taken as a whole, provided reasonable assurance that risks were being managed and objectives were met.

AUDIT SCOPE AND RESULTS

In general, we found that Foundation operations were effective and services were provided in compliance with California State University (CSU) policies and procedures. In our review, we did not note any issues related to the core function of the Foundation. However, our review did note areas for improvement related to timely resolution of funds held in suspense and accounts with deficit balances, as well as communication to donors regarding endowment fund stipulations. A gift fund financial analyst was hired in March 2024 to assist in managing these accounts. A summary of the observations noted in the report is presented in the table below. Further details are specified in the remainder of the report.

Area	Processes Reviewed	Audit Assessment
Governance and Compliance	Auxiliary governing documents, board of directors composition and meetings, cost allocation, budget, and conflicts of interest	<i>Effective – no reportable observations noted</i>
Gifts and Endowments	Policies and procedures, gift receipts, non-cash gifts, and matching gifts	<i>Effective – no reportable observations noted</i>
Pledges Receivable	Policies and procedures, write-offs, and follow-up	<i>Effective – no reportable observations noted</i>
Financial/Internal Controls	Cash receipts, accounts receivable, procurement, disbursements, investments, and university program accounts	<i>Observation noted in timely resolution and communication for funds held in suspense and accounts with deficit balances</i>

The audit focused on procedures in effect from January 1, 2022, through May 31, 2024. Our audit and evaluation included the audit tests we considered necessary in determining whether operational, administrative, and financial controls are in place and operative. Our review was limited to gaining reasonable assurance that essential elements of the Foundation were in place and did not examine all aspects of the program.

OBSERVATIONS, RECOMMENDATIONS, AND RESPONSES

1. FUNDS HELD IN SUSPENSE

OBSERVATION

Funds held in suspense were not always timely moved out to a specific project account. In addition, gift agreements for potential endowments did not clearly explain to donors how their donation would be handled if the endowment minimum is not reached.

The Foundation maintains a suspense account where incoming funds with no predetermined designation are held. Generally, funds held in this account are transferred out when the donor's intentions are verified and the funds are earmarked for a specific purpose. Funds can be held in suspense if a new project is being established, responsibility for the funds has not yet been determined, or the minimum threshold for an endowment has not been met.

As of March 2024, a total of \$942,309 was held in the suspense account. Of this amount, \$154,138 was received between two and three years ago, and the rest was received within a year. We reviewed five of the funds held in suspense and noted that:

- In one instance, a \$100,000 donation was received in December 2022 but remained in suspense because a gift agreement had not been finalized. We did note that the Foundation has maintained ongoing communication with the donor.
- In two instances, money was collected from various donors to form endowed scholarships. Per Foundation policy, a minimum of \$25,000 must be collected to form an endowment, or a minimum of \$5,000 must be raised each year for five years until total funds reach \$25,000. If that threshold is not met, any collected funds are reverted to current use. The Foundation developed an internal Request to Build Toward an Endowment (RBTE) form in November 2021 to document these situations.
 - In one instance, a total of \$16,210 had been collected from various donors since May 2023 to form an endowed scholarship. Funds were placed in suspense because the endowment minimum had not been reached. However, an RBTE form was not completed.
 - In one instance, a total of \$4,735 had been collected from various donors since May 2021 to form an endowed scholarship. Funds were placed in suspense while it was building towards endowment. An RBTE form was not required at the time of these donations, so it was not completed. However, although endowment stipulations were not met, these funds have remained in suspense and have not reverted to current use.

In addition, while the Foundation gift agreements note that the donor's gift is supporting a quasi-endowment until the endowment minimum is reached, they do not specifically explain how the donation will be handled if the threshold is not met, including that it will be reverted to current use.

Minimizing the amount of time funds are held in suspense enhances accountability for the collection and use of the funds in accordance with donor intent. Disclosing the conditions tied to donated funds ensures that the Foundation can maximize the use of funds that do not eventually become part of an endowment to further the goals and mission of the university.

RECOMMENDATION

We recommend that the university:

- a. For the donations noted above, resolve or document a plan for the resolution of the funds held in suspense.
- b. Ensure that donor gift agreements building toward endowments stipulate how donated funds will be handled if an endowment threshold is not met.

MANAGEMENT RESPONSE
<p>We concur. The campus will:</p> <ul style="list-style-type: none"> a. For the donations noted above, resolve or document a plan for the resolution of the funds held in suspense. b. Ensure that donor gift agreements building toward endowments stipulate how donated funds will be handled if an endowment threshold is not met. <p>Implementation date: January 30, 2025</p>

2. ACCOUNTS WITH DEFICIT BALANCES

OBSERVATION

The Foundation did not have written procedures for addressing accounts with deficit balances

The Foundation is responsible for tracking the available balance and spending of each project and endowment account. Generally, the university’s auxiliary financial services staff detect accounts with deficit balances and contact university advancement staff, who in turn work with the specific project director to resolve the overspending. Some solutions for deficit balances can include covering balances with expected future income, transferring funds from another account that are appropriate for that usage, and delaying or cancelling future spending plans. As of February 2024, 10 accounts had deficit balances ranging from \$30 to \$237,176. We reviewed four of these accounts and found that:

- Two accounts with deficit balances identified in November and December 2023 did not have a resolution for the deficit as of April 2024. During fieldwork in May 2024, the deficits were resolved or reduced with a plan for resolution. While the Foundation indicated that their process is to resolve deficits by the end of the fiscal year, this timeline and process for addressing deficit balances is not documented.
- One account with a deficit of \$237,176 had been outstanding since June 2023. Due to various complexities surrounding the account, ongoing discussions between different stakeholders have been held since then. However, the deficit is still outstanding as of May 2024.

Reviewing and resolving deficit balances in a timely manner provides confidence to stakeholders in the Foundation’s financial stewardship and enhances its ability to satisfy donor intent and further the university’s missions and goals.

RECOMMENDATION

We recommend that the university develop and implement written procedures to address accounts with deficit balances in a timely manner.

MANAGEMENT RESPONSE

We concur. The campus will develop and implement written procedures to address accounts with deficit balances in a timely manner.

Implementation date: January 30, 2025

GENERAL INFORMATION

ADDITIONAL BACKGROUND

Auxiliary organizations are separate business and legal entities that perform activities essential to the educational program of a university 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 university 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 university president's authority and responsibility for auxiliary organization operations. University 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 (EC) §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.

Utilization of Campus Auxiliary Organizations, dated June 6, 2011, represents Trustee policy addressing appropriate use of CSU auxiliary organizations. This policy requires CSU auxiliary organizations to operate within the regulations and oversight of the university. The policy reiterates that the university president is responsible for ensuring the fiscal viability of auxiliary organizations and their compliance with applicable CSU policies, and it further designates the university chief financial officer as the individual responsible for administrative compliance and fiscal oversight of auxiliary organizations.

CRITERIA

Our audit was based upon standards as set forth in federal and state regulations and guidance, Trustee policy, Office of the Chancellor directives, and university 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:

- CCR Title 5, §42401, *Declaration of Policy*

- CCR Title 5, §42402, *Authority of Campus President*
- CCR Title 5, §42500, *Functions of Auxiliary Organizations*
- EC §89720
- EC §89756
- EC §89900
- EC §89904
- RFIN 7-81-4
- *CSU Auxiliary Organizations Compliance Guide*
- *CSU Auxiliary Organizations Sound Business Practices Guidelines*
- *CSU Placement and Control of Receipts for Campus Activities and Programs*
- *CSU University Advancement*
- *CSU Utilization of Campus Auxiliary Organizations*
- *CSU Security of Cash and Cash Equivalents Policy*
- *CSU Segregation of Cash Handling Duties*
- *CSU Contracts and Procurement Policy*
- *CSUSM Foundation Gift Acceptance Policy*
- *CSUSM Foundation Management of Endowment and Similar Funds Policy*
- *CSUSM Foundation Matching Gifts, CSU and CSU San Marcos Procedures*
- *CSUSM Foundation Project Administration Guidelines*
- *CSUSM Foundation Standard Operating Procedures for Acceptance of Gifts-in-Kind (GIK)*

AUDIT TEAM

Senior Audit Manager: Hannah Gardener
Senior Auditor: Matthew Shum