

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

**Vlad Marinescu**  
Vice Chancellor and  
Chief Audit Officer  
562-951-4430  
vmarinescu@calstate.edu

November 2, 2021

Dr. Lynn Mahoney, President  
San Francisco State University  
1600 Holloway Avenue  
San Francisco, CA 94132

Dear Dr. Mahoney:

**Subject: Audit Report 21-02, Endowment Administration, San Francisco State University**

We have completed an audit of *Endowment Administration* as part of our 2021-2022 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*.

There were no reportable observations revealed during the review. The final audit report will be posted to Audit and Advisory Services' website.

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

**CSU Campuses**

Bakersfield • Channel Islands • Chico • Dominguez Hills • East Bay • Fresno • Fullerton • Humboldt • Long Beach • Los Angeles • Maritime Academy • Monterey Bay  
Northridge • Pomona • Sacramento • San Bernardino • San Diego • San Francisco • San José • San Luis Obispo • San Marcos • Sonoma • Stanislaus

# **ENDOWMENT ADMINISTRATION**

**San Francisco State University**

Audit Report 21-02  
November 2, 2021

## **EXECUTIVE SUMMARY**

### **OBJECTIVE**

The objectives of the audit were to ascertain the effectiveness of operational, administrative, and financial controls related to endowment administration and to ensure compliance with relevant federal and state 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, the operational, administrative, and financial controls for endowment administration as of September 10, 2021, taken as a whole, provided reasonable assurance that risks were being managed and objectives were met.

There were no reportable observations revealed during the review.

## GENERAL INFORMATION

### BACKGROUND

In fiscal year (FY) 2019/20, the value of California State University (CSU) endowments reached a record high of \$1.89 billion. During that FY, the CSU received \$94.6 million in additional endowment funds and distributed \$65 million from proceeds. Endowment funds, the principal of which cannot be expended by the university, are generally established with a donor-directed designation for the spending of the proceeds. More than half of the CSU's endowments are designated for student scholarships; others support academic programs, such as nursing and agriculture, and student enrichment programs, such as study abroad.

The state of California adopted the Uniform Prudent Management of Institution Funds Act (UPMIFA), the standards of care for both managing and investing endowments, in 2009. UPMIFA and its predecessor, the Uniform Management of Institutional Funds Act (UMIFA), clarified and revised historic interpretations of income from endowment funds and provided both a duty to ensure the growth of the principal to maintain spending power and a right to distribute from the corpus when the actions taken are prudent for the purposes for which the fund was established. UPMIFA also imposed a duty to diversify; allowed for the delegation of investment decisions to an outside professional entity; and suggested a percentage limit for annual spend beyond which any spending would be presumptively imprudent.

The market value of endowments held at San Francisco State University during academic year 2019/20 was \$140.8 million, a 2.68 percent gain from the previous year value of \$137.1 million. The campus distributed \$5.5 million from endowment proceeds for scholarships and various programs, such as supporting the campus television production curriculum, growing a campus non-credit program for people over 50 years of age, and funding faculty research. Funds are held at the San Francisco State Foundation (Foundation), and administrative and investment oversight is provided by the Foundation board of directors. The board-established policies that govern the investment activities are carried out by an outside investment firm, and the fund distributions are calculated and processed at the Foundation. Once the annual distributions are made to the designated department for the funds, it is the responsibility of that department to ensure that expenditures align with the donor intent for the endowment.

### SCOPE

Due to temporary operating procedures and limitations resulting from the COVID-19 public health emergency, we performed fieldwork remotely from July 6, 2021, through September 10, 2021. Our audit and evaluation included the audit tests we considered necessary in determining whether operational, administrative, and financial controls are in place and operative. The audit focused on procedures in effect from January 1, 2020, through September 10, 2021.

Specifically, we reviewed and tested:

- Foundation and campus policies and procedures for the receipt and administration of endowments to determine whether they are current, comprehensive, and aligned with relevant state and federal regulations, Trustee policies, and CO directives.

- Clear lines of organizational authority and responsibility in the acceptance, administration, and expenditure of endowment funds.
- Processes to establish and implement investment policies, including oversight of third-party providers and communication between the board of directors, the vendor, and Foundation staff.
- Processes to establish and implement spend policies, including the determination of the spend rate and allocation of the distribution among the funds in the investment pool.
- Processes to allocate investment gains and losses among the funds in the investment pool.
- Review of contracts with third-party providers to ensure they are current, reflective of the established policies, properly delegated, and inclusive of the roles and responsibilities of all parties.
- Compliance with donor intent and/or agreement restrictions.

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 and detailed testing on certain aspects of endowment administration. Our review was limited to gaining reasonable assurance that essential elements of endowment administration were in place and did not examine all aspects of the program.

## CRITERIA

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

- Executive Order (EO) 676, *Delegation of Gift Evaluation and Acceptance*
- EO 1059, *Utilization of Campus Auxiliary Organizations*
- Integrated California State University Administrative Manual §8060.00, *Access Controls*
- CSU Auxiliary Organizations Sound Business Practices, Section 3.0, *Donations, Program Service Fees, Other Income*
- CSU Auxiliary Organizations Compliance Guide
- CSU Auxiliary Organizations Sound Business Practices Guidelines
- Probate Code §18501-18510, *Uniform Prudent Management of Institutional Funds Act*
- Council for Advancement and Support of Education guidelines

- San Francisco State University, *Receipt, Acceptance, and Administration of Gifts University Executive Directive #UED 95-19*
- San Francisco State University Foundation Policy Statement, *Endowment Establishment and Administration*
- San Francisco State University Foundation, *Investment Policy for Restricted Funds*
- Operating Agreement Between California State University and University Corporation, San Francisco State
- The University Corporation, San Francisco State, *Gift Acceptance Policy, Deposit Procedures*

## AUDIT TEAM

Senior Audit Manager: Ann Hough  
Senior Auditor: Kyle Ishii