

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

May 2, 2022

Dr. Robert S. Nelsen, President  
California State University, Sacramento  
6000 J Street  
Sacramento, CA 95819

Dear Dr. Nelsen:

**Subject: Audit Report 21-37 Endowment Management, California State University, Sacramento**

We have completed an audit of *Endowment Management* 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*.

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  
Adam Day, Chair, Committee on Audit

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# **ENDOWMENT MANAGEMENT**

**California State University, Sacramento**

Audit Report 21-37  
May 2, 2022

## EXECUTIVE SUMMARY

### OBJECTIVE

The objectives of the audit were to ascertain the effectiveness of operational, administrative, and financial controls related to endowment management 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, except for the weaknesses described below, the operational, administrative, and financial controls for endowment management as of March 10, 2022, taken as a whole, provided reasonable assurance that risks were being managed and objectives were met.

Overall, we found that California State University, Sacramento (Sacramento State) had an effective framework for the endowment management process that generally aligned with systemwide, state, federal, and campus requirements. However, the review did identify opportunities for improvement in some areas. We found that the campus was not able to provide signed and completed gift agreements for some endowments selected for review. Additionally, some terminated employees had active access to Advance, which is used by University Advancement to record gifts and maintain donor information. While we did not note control weaknesses, the campus has not documented a cardholder data flow diagram for its payment card use cases, as required by Payment Card Industry (PCI) compliance requirements.

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

## **OBSERVATIONS, RECOMMENDATIONS, AND RESPONSES**

### **1. ENDOWMENT GIFT AGREEMENTS**

#### **OBSERVATION**

Administration and retention of signed gift agreements for endowments needed improvement.

Specifically, the campus could not provide signed and completed gift agreements for seven of 30 endowments we reviewed. We noted that of the endowments for which gift agreements were not provided, one was created in 2002, two in 2001, one in 1996, two in 1995, and one in 1988. Additionally, though a signed gift agreement was not provided, each endowment mentioned above had an accounting specification sheet that provided key details for administration of the fund, such as the source of the fund, purpose of the fund, and the person(s) who may authorize expenditures.

Per the Sacramento State Development Policy Manual: “A Gift Agreement signed by the donor(s), Vice President for Advancement, and the President is required for new endowments, as for gifts or gift commitments of \$10,000 and more. Exceptions to this requirement may be made for gifts received by the University through estate or trust distributions, or where donor intent is sufficiently documented for audit purposes.”

Signed and completed gift agreements increase accountability and oversight for endowment management and decrease the risk of misunderstanding and potential exposure to litigations.

#### **RECOMMENDATION**

We recommend that the campus:

- a. Where possible, complete a gift agreement to be signed by the campus president or vice president for advancement and the donor or donor representative for the seven endowments noted above.
- b. Document management approval for any exceptions to the gift agreement requirement and maintain it with the endowment fund documentation.

#### **MANAGEMENT RESPONSE**

We concur. The campus will take the following actions by October 12, 2022:

- a. Where possible, complete a gift agreement to be signed by the campus president or vice president for advancement and the donor or donor representative for the seven endowments noted above.
- b. Document management approval for any exceptions to the gift agreement requirement and maintain it with the endowment fund documentation.

## 2. USER ACCESS REVIEW

### OBSERVATION

Administration of user access for the Advance application needed improvement.

We reviewed a listing of all active users in the Advance application and noted that four, one retired employee and three terminated student workers, were no longer active employees and should have had their access removed. Advance is used by University Advancement to manage donor information and to record gifts when they are received. Access to Advance is not part of the single-sign-on process for campus employees and requires a standalone username and password.

Periodic review and timely removal of access for terminated employees decreases the risk of unauthorized or inappropriate activity and ensures compliance with California State University (CSU) and campus policies.

### RECOMMENDATION

We recommend that the campus:

- a. Establish a documented procedure for a periodic review of user access to Advance, and remove access from terminated employees and employees who no longer need access due to a change in job or job responsibilities.
- b. Remove access to Advance for the separated employees noted above.

### MANAGEMENT RESPONSE

We concur. The campus will take the following actions by October 12, 2022:

- a. Establish a documented procedure for a periodic review of user access to Advance, and remove access from terminated employees and employees who no longer need access due to a change in job or job responsibilities.
- b. Remove access to Advance for the separated employees noted above.

## 3. PCI COMPLIANCE

### OBSERVATION

The campus had not documented a cardholder data flow diagram for its payment card use cases, including the process by which credit card donations are accepted to create or contribute to endowment funds.

The PCI Data Security Standards require organizations accepting payment cards to document a cardholder data flow diagram to fully understand cardholder data flows.

**RECOMMENDATION**

We recommend that the campus document a cardholder data flow diagram for its payment card use cases.

**MANAGEMENT RESPONSE**

We concur. The campus will document a cardholder data flow diagram for its payment card use cases by October 12, 2022.

## GENERAL INFORMATION

### BACKGROUND

In fiscal year (FY) 2019/20, the value of 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 Sacramento State during academic year 2020/21 was \$76 million, compared to the previous year market value of \$59.8 million. The campus distributed \$2.3 million from endowment proceeds for scholarships and various programs, such as the campus Japanese American Archival Collection, a yearly entrepreneurship celebration on campus, a campus Happiness Fund intended to foster happiness through academic research, and faculty research. Funds are held at the University Foundation at Sacramento State (UFSS), and administrative and investment oversight is provided by the UFSS board of directors. The board-established policies that govern investment activities are carried out by an outside investment firm, and the fund distributions are calculated and processed at the UFSS. Once the annual distributions are made to the designated department, 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 January 13, 2022, through March 10, 2022. 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 March 10, 2022.

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.
- Compliance with PCI standards for credit card processing for donations.

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; and 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:

- Executive Order (EO) 676, *Delegation of Gift Evaluation and Acceptance*
- EO 1059, *Utilization of Campus Auxiliary Organizations*
- ICSUAM §13680, *Placement and Control of Receipts from Campus Activities*
- ICSUAM §15501.00, *Naming of California State Facilities and Properties*
- ICSUAM §15502.00, *Naming of California State University Schools, Colleges, Programs and Other Academic and Non-Academic Units*
- ICSUAM §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 Support of Education (CASE) Guidelines
- Sacramento State *Development Policy Manual*
- Sacramento State *Gift Procedures*
- *UFSS Investment Policy and Administrative Guidelines*

## AUDIT TEAM

Audit Manager: Christina Chen  
Senior Auditor: Kyle Ishii