

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

June 7, 2022

Dr. Thomas A. Parham, President
California State University, Dominguez Hills
1000 E. Victoria Street
Carson, CA 90747

Dear Dr. Parham:

Subject: Audit Report 21-38, Endowment Management, California State University, Dominguez Hills

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
Lateefah Simon, Chair, Committee on Audit
Yammilette Rodriguez, Vice Chair, Committee on Audit

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ENDOWMENT MANAGEMENT

California State University, Dominguez Hills

Audit Report 21-38
June 7, 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 4, 2022, taken as a whole, provided reasonable assurance that risks were being managed and objectives were met.

Overall, we found that California State University, Dominguez Hills (CSUDH) 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 unable to provide signed and completed gift agreements, account set-up forms, or deposit documentation for some of the endowments reviewed. Additionally, the campus did not have a process for sending periodic performance reports to donors and did not consistently provide donors with the reports. Further, the campus did not have a formal governance structure in place to ensure oversight of 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. ENDOWMENTS SET UP

OBSERVATION

Administration and retention of signed gift agreements and other documentation to establish endowments needed improvement.

At CSUDH, university advancement has been designated to accept and acknowledge all donor gifts, including endowments. Once a gift agreement is executed, the Philanthropic Foundation is responsible for managing and administering contributions on behalf of the university. Through a business service agreement, the California State University, Dominguez Hills Philanthropic Foundation (Philanthropic Foundation) authorized the California State University, Dominguez Hills Foundation (Foundation) to provide accounting services and endowment management. As such, the Foundation is responsible for depositing endowment funds, calculating annual distributions, and processing expenditures from endowment spend funds.

We reviewed gift agreements and documentation of deposits and endowment account set-up for 25 endowments and found that:

- In 11 instances, the campus could not provide signed and completed gift agreements. Of the 11 endowments for which gift agreements were not provided, nine were established between 1995 and 2008. The remaining two were established more recently, in 2018 and 2020.
- In 15 instances, documentation of original gift receipts, such as a bank deposit receipt and journal entry posting, was not sufficient or consistent. For older endowments, we reviewed Foundation deposit memos, copies of checks, and Foundation receipts of gifts from university advancement when bank deposit receipts and evidence of journal entry postings were not available.
- In six instances, account set-up forms were not available for review. Account set-up forms establish authorized signers and document donor intent to ensure that only authorized individuals approve allowable spending from endowment funds.

Adequate administration and proper retention of endowment set up documentation increases accountability and oversight for endowment management and decreases the risk of misunderstanding and potential exposure to litigation.

RECOMMENDATION

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

- a. Complete and maintain fully executed gift agreements as required by campus gift acceptance policies and procedures.

- b. Where possible, complete a gift agreement to be signed by the vice president of university advancement, and the donor or donor representative, for the 11 endowments noted above.
- c. Maintain bank deposit receipts and journal entry postings of original gift receipts.
- d. Maintain account set-up forms to show establishment of endowments, including documentation for authorized signers and donor intent for endowment funds.

MANAGEMENT RESPONSE

We concur. The campus will:

- a. Complete and maintain fully executed gift agreements as required by campus gift acceptance policies and procedures.
- b. Complete a gift agreement to be signed by the vice president of university advancement, and the donor or donor representative, for the 11 endowments noted above, where possible.
- c. Maintain bank deposit receipts and journal entry postings of original gift receipts.
- d. Maintain account set-up forms to show establishment of endowments, including documentation for authorized signers and donor intent for endowment funds.

Projected completion date: October 2022

2. ENDOWMENT PERFORMANCE REPORTS

OBSERVATION

Periodic performance reports about endowment activity were not consistently sent to donors.

We reviewed 25 endowment records and found that the campus could not provide evidence that periodic performance reports were sent to donors for all of them. Gift agreements state that donors will receive a financial statement for the fund at least annually. According to the vice president of university advancement and Philanthropic Foundation board president, the campus is in the process of updating procedures so that periodic performance reports are consistently sent to donors.

Periodic reporting of endowment performance provides greater accountability and transparency that helps to ensure endowment objectives are met and expenditures comply with donor intent.

RECOMMENDATION

We recommend that the campus, in conjunction with the Philanthropic Foundation, establish a process to provide periodic performance reports to donors.

MANAGEMENT RESPONSE

We concur. The campus will establish a process to provide periodic performance reports to donors.

Projected completion date: October 2022

3. PCI COMPLIANCE

OBSERVATION

The campus did not have a formal governance and oversight structure to ensure that all PCI requirements were being addressed on an annual and ongoing basis.

Specifically, the existing structure did not ensure that all payment process flows and corresponding self-assessment questionnaires were being documented and that assurance of PCI compliance in all products used in credit card processing of endowments was being performed.

RECOMMENDATION

We recommend that the campus implement formal governance to provide ongoing oversight to ensure that all PCI requirements are being addressed on an annual and ongoing basis.

MANAGEMENT RESPONSE

We concur. The campus will implement formal governance to provide ongoing oversight to ensure that all PCI requirements are being addressed on an annual and ongoing basis.

Projected completion date: October 2022

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 CSUDH during academic year 2020/21 was \$18.3 million, a 28.5 percent gain from the previous year value of \$13 million. The campus distributed just under \$700,000 from endowment proceeds for scholarships and various programs, such as the campus non-credit program for people over 50 years of age, community events to celebrate the grand opening of three new campus buildings, and faculty research. Funds are held at the Philanthropic Foundation, and administrative and investment oversight is provided by the Philanthropic Foundation board of directors. A business agreement between the Philanthropic Foundation and the CSUDH Foundation authorizes the CSUDH Foundation to provide accounting and endowment management on behalf of the Philanthropic Foundation. 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 spending, 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 18, 2022, through March 4, 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 July 1, 2019, through March 4, 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*

- Integrated California State University Administrative Manual (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
- *CSUDH Gift Acceptance Policies and Procedures*
- *CSUDH Philanthropic Foundation Investment Policy*

AUDIT TEAM

Audit Manager: Christina Chen
Senior Auditor: Brenda Auner