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September 27, 2023

Dr. J. Luke Wood, President
California State University, Sacramento
6000 J Street
Sacramento, CA 95819

Dear Dr. Wood:

Subject: Audit Report 22-37, *Capital Public Radio*, California State University, Sacramento

We have completed an audit of *Capital Public Radio* 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

CAPITAL PUBLIC RADIO, INC.

California State University, Sacramento

Audit Report 22-37
September 27, 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 Capital Public Radio, Inc. (CPR) at California State University, Sacramento (Sacramento State); evaluate adherence to auxiliary policies and procedures and applicable California State University (CSU) policies, or, where appropriate, to an industry-accepted standard; and ensure compliance with relevant governmental 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 CPR as of the end of fieldwork on April 21, 2023, were unlikely to provide reasonable assurance that risks were being managed and objectives were met. Additional follow-up was performed through July 2023 to further clarify the noted issues.

During our audit, we encountered scope limitations that affected our review, primarily due to the unavailability of key financial records and a lack of historical knowledge and information within CPR management. Despite the scope limitations, we conducted the audit procedures we deemed feasible. Upon being informed of the preliminary results of the review and due to the limitations we encountered, campus management decided to engage an independent auditing firm to perform a more focused review of CPR's financial operations and follow up on our audit results.

CPR was licensed in 1965 as a student-operated radio station. Over the years, the mission and goals of CPR expanded to include serving the greater Sacramento area and northern California, and today the station operates two full powered stations that serve citizens from Redding to Modesto. The mission has evolved over the years and today, CPR has limited student involvement. The university should evaluate CPR's mission and goals to determine whether they still align with the mission of the university and whether additional student involvement and training programs should be added.

Also, we found that administration of the auxiliary required significant attention. Our review indicated poor recordkeeping in several areas, a lack of management oversight, a lack of accounting and financial knowledge during the audit period, and a need to enhance several processes. The former general manager (GM) left the organization shortly after fieldwork ended, while additional follow-up and report writing were in progress, which further impacted access to critical information needed to complete the review. In numerous instances, we could not thoroughly review operational and financial activities because important financial records were not maintained. As such, we were unable to perform several elements of our planned audit work, as noted in the scope limitation above. We also found that CPR lacked complete and current policies and procedures in almost every financial and operational area reviewed, further contributing to the issues noted throughout this report.

In addition, we noted a need for additional campus oversight of CPR. Campus auxiliary organizations are required to operate in conformity with CSU and campus policies, which are ultimately overseen by the campus president. Additionally, the campus chief financial officer (CFO) or designee has oversight responsibilities for administrative compliance and fiscal oversight of campus auxiliary organizations. Per discussions with management, the campus CFO met with the CPR GM on a quarterly basis. He also relied on the annual audited financial statements completed by an external audit firm; however, as a result of this review, these statements have been identified as potentially inaccurate. Campus management requested that this audit be performed in order to provide more visibility and transparency over CPR operations. The campus has been proactive in addressing the issues found and in consulting with the CO to determine appropriate solutions.

We found that the campus took out a loan of $8 million in 2021 from a financial institution to assist CPR in completing tenant improvements on a new location in downtown Sacramento. Although CPR pledged to repay these funds and has made three payments for a total of $904,213.77, the payment due in November 2021 was the last one made, and CPR was behind payment in the amount of $1,808,427 plus interest as of July 2023. Additionally, we found that the campus made an additional payment of $1,153,956 in June 2023 to the contractor for the tenant improvements to release a lien on the new location, as CPR had not made full payment. The campus also took on responsibility for the debt and payments related to the on-campus facility occupied by CPR in September 2022, with the understanding that CPR would vacate the space and campus programs could use the building. However, as of the time of this report, CPR continues to occupy the on-campus space without an agreement with the campus for the payment or deferral of rent, or a documented exchange of value. The campus is in the process of creating a rental agreement that will cover the time period from September 2022 to the present. Based on our review of CPR's financial statements and CPR management's acknowledgment of prior cash-flow issues, it is unclear whether CPR will be able to make payment on its obligations to the campus, or even continue to make payments on the new downtown locations and associated leased equipment and furniture, which equal a total payment of $218,245 per month. These issues and others described in this report raise both financial and going-concern issues for CPR.

We also found that CPR directed donations to an unauthorized endowment fund through a separate legal entity, CPR Endowment Inc. (CPRE), rather than using the University Foundation at Sacramento State (UFSS), the designated campus auxiliary for investing and distributing funds for the benefit of the university. Further, CPR could not provide the professional services agreement between CPR and CPRE, and the fiscal year (FY) 2021/22 audited financial statement was not completed and provided until July 2023.

In addition, we found that the governance structure and the adequacy of internal controls for several key financial processes, including cash handling, cash disbursements, procurement, accounts receivables, gift receipting, and property and equipment, needed improvement. A few of the more significant issues noted included the following:

- More than $1.1 million in studio equipment and furniture loans had not been approved by the CPR Board before being executed. These loans were signed by the executive vice president and GM, an individual who did not have written delegation of authority from the board.

- Bank reconciliations and reconciling items were not researched and resolved timely. For example, we noted unresolved variances over a three-month period of $244,778 for CPR's money market account. According to CPR management, an adjusting journal entry is recorded at year-end to agree the cash balance to the bank statement. The adjusting journal entry recorded for the money market account on June 30, 2022, was $200,174, and no documentation was retained to support this amount, which is not a sound accounting practice.

- CPR accepted gifts without written delegation of authority from the campus president. Additionally, CPR's administration of gifts-in-kind (GIK) needed improvement, as we found that CPR did not have a written agreement in place with either of the two entities that it used for processing vehicle donations, and CPR processed a significant GIK for $85,000 when the transaction was actually a discounted purchase.

- Credit card purchases were paid without proper review and reconciliation, including approvals and itemized receipts. We also noted several instances of late fees and over-limit charges.

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

OBSERVATIONS, RECOMMENDATIONS, AND RESPONSES

1. LOAN AGREEMENT WITH CAPITAL PUBLIC RADIO

OBSERVATION

The loan agreement between the campus and CPR was not properly executed, and CPR did not make payments to the campus in accordance with the loan payment schedule.

After consultation with the CO, on March 1, 2021, the campus entered into a financing agreement with an external company for a loan in the amount of $8 million, with interest at a rate of 1.49% over seven years. The intent of the loan was to help CPR obtain funds to pay for various tenant improvements on a building leased by CPR in downtown Sacramento, California. This leased building will serve as the headquarters for CPR once the interior tenant improvements are complete.

The campus then entered into a memorandum of understanding (MOU) effective May 1, 2021, to loan the $8 million to CPR with the same repayment terms and conditions. As of June 30, 2022, CPR had drawn down the full $8 million, of which $4,920,525 and $3,079,475 were drawn during 2022 and 2021, respectively.

We reviewed the MOU and found that it was signed by CPR on August 10, 2022, more than 12 months after the May 1, 2021, effective date. In addition, CPR had drawn the total amount of the loan before the MOU was executed. Further, we confirmed with campus management that CPR has not made any payments since the payment that was due November 1, 2021. Based on the payment schedule, as of July 2023, CPR was behind payment for a total of $1,808,427, plus an additional 0.5% interest on the overdue amount. Although CPR has not made any payments to the campus since the payment due in November 2021, the campus has continued to make payments to the external financing company using state funds in accordance with the payment schedule to remain current on the loan.

In addition, we consulted with the CO Business and Finance division, and it appears that the campus did not have authority to loan money from the operating fund to CPR. Although the campus consulted with CO Business and Finance before executing the loan and believed they were acting appropriately, there was a misunderstanding on how the transaction should have been executed. The appropriate method would have been for the campus to issue the loan to finance property or equipment (in this case, the tenant improvements to the building) and then execute a lease agreement with CPR to receive payments for the use of the tenant improvements. The campus should also have been on the lease agreement with the landlord and should have paid for the tenant improvements directly to establish ownership rights in the improvements, including any installed equipment.

After being informed of the situation, the campus immediately started working with CO Business and Finance to begin to execute the appropriate documents, including entering into a co-lease agreement with the landlord of one of the downtown buildings leased by CPR and a construction agreement to assign the rights to the tenant improvements to the campus. As of June 13, 2023, the campus has established a fully executed co-lease agreement and construction agreement, as recommended by the CO.

Title 5 §42401 and §42402 indicate that the campus president shall require that auxiliary organizations operate in conformity with policy of the Board of Trustees and the campus. One of the objectives of the auxiliary organizations is to provide fiscal procedures and management systems that allow effective coordination of the auxiliary activities with the campus in accordance with sound business practices. Sound business practice mandates that business arrangements be supported by complete, written agreements executed in a timely manner.

Proper execution of agreements decreases the risk of noncompliance with state regulations and CSU policies, and misunderstandings and miscommunication regarding rights and responsibilities.

RECOMMENDATION

We recommend that the campus:

a. Consult with the CO to make appropriate amendments to the MOU (loan) with CPR and any other contractual updates necessary to ensure compliance with state regulations and CSU policies.

b. Work with CPR's governing board to resolve CPR's breach of payment terms.

MANAGEMENT RESPONSE

We concur. The campus will take the following actions by March 27, 2024:

a. Consult with the CO to make appropriate amendments to the MOU (loan) with CPR and any other contractual updates necessary to ensure compliance with state regulations and CSU policies.

b. Work with CPR's governing board to resolve CPR's breach of payment terms.

2. GROUND AND FACILITY LEASE

OBSERVATION

A ground and facility lease agreement between Sacramento State and CPR was terminated and rent was not collected from CPR, or an appropriate exchange of value documented, for the use of state university property since September 2022.

CPR leased a radio station facility on campus to conduct its operations through a Ground and Facility Lease with the Trustees of the California State University (Trustees). The lease was for a term of 30 years, with semi-annual payments beginning in May 2004.

CPR later made the decision to move operations from the campus to downtown Sacramento. To that effect, on March 1, 2021, CPR entered into a lease agreement to rent office space and real property on 730 I Street, Sacramento, to serve as the headquarters of the station. The obligation extends through 2037. In addition, on September 1, 2020, CPR entered into a lease agreement to rent real property on 1010 8th Street, Sacramento, to serve as a performance venue commencing September 2021. This obligation extends through 2036.

After the downtown properties were leased, an amendment was made to the Ground and Facility Lease with the campus on September 1, 2022, between the Trustees and CPR, to terminate the existing lease of the on-campus radio station facility and transfer the related debt obligation and responsibility for repayment thereof to the Trustees. According to campus management, it was anticipated that CPR would move to the downtown buildings around that time, and the campus was going to take over occupancy and use of the on-campus facility. However, at the time of this report, due to construction and delays at the new facilities, CPR still occupies the campus building and has not made any payments for the use of the space since the lease was terminated in September 2022.

The CSU *Auxiliary Organization Compliance Guide* section 9.1.1 states that if an auxiliary organization uses CSU land, buildings, or facilities for the ongoing performance of authorized functions or services, the arrangement must be established through a lease or other form of written agreement between the auxiliary organization and the CSU. It goes on to state that CSU policy requires that costs incurred by the CSU Operating Fund for facilities provided to an auxiliary organization are properly and consistently recovered with cash or documented exchange of value.

Proper execution of agreement decreases the risk of misunderstandings and miscommunication regarding rights and responsibilities.

RECOMMENDATION

We recommend that the campus consult with the CO and execute an agreement with CPR that establishes the arrangement of continued use of the on-campus facility, including any required rent or documented exchange of value.

MANAGEMENT RESPONSE

We concur. The campus will take the following actions by March 27, 2024:

Consult with the CO and execute an agreement with CPR that establishes the arrangement of continued use of the on-campus facility, including any required rent or documented exchange of value.

3. ENDOWMENT

OBSERVATION

CPR directed donations to an unauthorized endowment fund through a separate legal entity, CPRE, and administration of CPRE needed improvement.

CPRE was initially established in 1986 to provide financial support to KXPR-FM, a public radio station licensed to Sacramento State and the predecessor to CPR. According to CPRE's financial statements, the contracted CFO and audit committee for CPRE are also the CFO and audit committee for CPR. However, at Sacramento State, University Advancement is responsible for raising philanthropic support and managing gifts for the campus, including endowments. UFSS is designated by the campus to invest and distribute funds for the benefit of the university. We found that CPR had not been authorized to direct donations to a separate legal entity outside of University Advancement that was not part of the campus endowment managed by UFSS.

Further, although a financial audit of CPRE is required to be conducted annually, the most recent audits were not completed timely. The audit report for the year ending June 30, 2021, was completed late in November 2022, and the audit report for the year ending June 30, 2022, was completed in July 2023.

Based on the above audited financial statements, CPRE has a professional services agreement with CPR to provide financial management for CPRE. However, CPR was unable to provide a copy of this agreement, and therefore we were unable to review roles and responsibilities for both parties, agreed-upon fees for services, or specific terms and conditions. In addition, according to the financial statements, CPRE contributed $80,000, $44,131, and $72,827 to CPR in the years ending 2020, 2021, and 2022, respectively. However, we were unable to obtain sufficient documentation of board approval for the distributions, the deposits into a CPR bank account, and the corresponding journal entries to record the funds for CPR.

We were unable to determine the necessity for CPR to utilize an endowment separate from UFSS, especially in light of the issues noted in management and oversight of CPRE.

Proper authorization and adequate administration of related party organizations decreases the risks of non-compliance, misunderstandings, and unauthorized activities.

RECOMMENDATION

We recommend that the campus, in conjunction with CPR, integrate the endowment fund (CPRE) into the campus endowment, consulting with campus counsel and the CO as needed.

MANAGEMENT RESPONSE

We concur. The campus, in conjunction with CPR, will integrate the endowment fund (CPRE) into the campus endowment, consulting with campus counsel and the CO as needed.

The campus is actively working with the CO, campus counsel and CPR in determining the best method of governance and oversight of CPRE, including incorporating CPRE management into University Foundation at Sacramento State. Because this evaluation and implementation process will likely encompass a complex administrative reconfiguration, the campus anticipates needing a six-month extension for full implementation and onboarding. The campus, in conjunction with CPR, will implement this recommendation by September 27, 2024.

4. LOANS AND AGREEMENTS

OBSERVATION

Several loans and agreements were not approved by the CPR board before being executed.

CPR's bylaws give the board authority to borrow money and incur indebtedness on behalf of CPR, acquire by purchase or lease land and equipment for office and broadcast facilities, and enter into agreements and understandings with the university president.

CPR entered into six five-year loan agreements for studio equipment and furniture between August 2022 and February 2023 in anticipation of moving to a new downtown location. The total principal amount of these loans was $1,384,708, with interest rates ranging from 8.14% to 13.91%. However, the agreements provided by CPR management were not fully executed, as the documents were not signed by the third-party vendors. In addition, we were unable to fully verify the purchase of these equipment and furniture during our walkthrough. Per CPR management, these assets were in boxes stored onsite, as well as at a paid off-site facility, while the newly leased locations are still being renovated.

In our review of the finance committee minutes, we found board approval for only one of these loans, in the amount of $245,524. There was no board approval documented for the additional studio equipment and furniture loans noted above. The loan agreements were signed by the executive vice president and GM, an individual who did not have written delegation of authority from the Board. Campus management confirmed that as a result of this review, the CPR board has been notified of the additional loans the GM entered into.

We also noted that CPR had not documented delegations of authority to define the appropriate individuals to sign contracts and agreements on behalf of CPR. In practice, agreements were generally signed by the executive vice president and GM without a written delegation of authority from the board on file. In addition to the loans discussed above, we reviewed 13 agreements between CPR and third parties that we found during our review of the CPR general ledger and financial transactions, as CPR did not maintain a listing of agreements for the audit scope period. These included lease agreements, service agreements, and grant agreements. All of the agreements were signed by the GM.

Proper administration of loan and administrative agreements helps to ensure compliance with systemwide policies and inclusion of required terms and provisions, and reduces the risk of misunderstanding of responsibilities and liabilities. A current and comprehensive chain of delegations of authority provides assurance that all debt incurred on behalf of CPR is consistent with the mission of the university and does not pose reputational or financial risk.

RECOMMENDATION

We recommend that the campus, in conjunction with CPR:

a. Ensure that board approval for additional debt incurred on behalf of the university is adequately documented.

b. Develop and implement a process to perform periodic loan reconciliations and ensure that liability records are timely reconciled going forward.

c. Obtain proper written delegations of authority for all individuals entering into agreements on behalf of CPR.

MANAGEMENT RESPONSE

We concur. The campus, in conjunction with CPR, will take the following actions by March 27, 2024:

a. Ensure that board approval for additional debt incurred on behalf of the university is adequately documented.

b. Develop and implement a process to perform periodic loan reconciliations and ensure that liability records are timely reconciled going forward.

c. Obtain proper written delegations of authority for all individuals entering into agreements on behalf of CPR.

5. EDUCATIONAL MISSION

OBSERVATION

CPR did not appear to be fully satisfying its purpose as an instructionally related activity for the benefit of enrolled students at Sacramento State, and contributing to the educational mission of the university, at the time of our review.

Based on discussions with campus and CPR management, we noted that CPR did not have hands-on student involvement in staffing, internships, or programming and therefore did not appear to provide any instructionally related activities for the benefit of Sacramento State students. We also noted that the campus has a student-run radio station that is not affiliated with CPR.

The CSU *Auxiliary Organizations Compliance Guide*, section 2.1 and 2.2, state that auxiliary organizations are organized and operated solely for the benefit of the CSU or one of its campuses, and that their activities must be essential to the education program of a campus.

Performing only those functions or activities that are aligned with the educational mission of the university and authorized by the auxiliary's operating agreement reduces potential liability to the campus and auxiliary and helps to ensure that resources are used in accordance with campus strategic priorities.

RECOMMENDATION

We recommend that the campus, in conjunction with CPR, evaluate the auxiliary's mission and goals to determine whether they align with the university and if so, determine and document how CPR will provide instructionally related activities for the benefit of Sacramento State students.

MANAGEMENT RESPONSE

We concur. The campus, in conjunction with CPR, will evaluate the auxiliary's mission and goals to determine whether they align with the university and if so, determine and document how CPR will provide instructionally related activities for the benefit of Sacramento State students.

The process to develop, document and implement instructionally related activities into existing CPR functions and activities will likely encompass a complex administrative reconfiguration, thus, the campus anticipates needing a six-month extension for full implementation and onboarding. The campus, in conjunction with CPR, will implement this recommendation by September 27, 2024.

6. GOVERNANCE

OBSERVATION

Administration of CPR governance needed improvement.

Specifically, we found that:

- CPR's Bylaws were updated on July 28, 2022; however, the updated bylaws were not submitted to the CO as required by Executive Order (EO) 1059, *Utilization of Campus Auxiliary Organizations*. In addition, CPR did not maintain documentation showing that the board followed the required process for approval of the Bylaws.

- The campus had not reviewed the CPR operating agreement in the past five years as required by EO 1059, *Utilization of Campus Auxiliary Organizations*.

- The CPR operating agreement failed to incorporate a number of revisions that had been included in the revised auxiliary operating agreement template issued by systemwide management on June 27, 2017, including sections on background checks, contracts for campus services, and financial controls.

- Although CPR accepts and manages externally funded grants and contracts, this was not listed as one of the approved functions in the operating agreement or as an executed addendum to the agreement. During the timeframe under review, CPR did not have a delegation of authority from the campus president for award acceptance and administration of grants and contracts.

- CPR had not established a written charter defining the roles and responsibilities of the audit committee and its membership or maintained audit committee minutes, in accordance with section 8.01 of the Bylaws.

- Conflict-of-interest (COI) statements for board members were not retained. The COI policy states that members of the board should complete an annual COI statement. However, CPR could not locate signed statements during the audit period because the staff member responsible for maintaining the statements was on sabbatical leave.

Appropriate governance and adherence to bylaws and policies and procedures help to ensure compliance with legal mandates and provides oversight to the financial reporting process, the audit process, and the organization’s internal controls.

RECOMMENDATION

We recommend that the campus, in conjunction with CPR:

a. Update the CPR bylaws and the operating agreement between the campus and CPR to address the issues noted above, further clarify the relationship between auxiliary and university leadership, and improve compliance, internal controls, and information sharing.

b. Establish a written procedure to ensure that any required changes to auxiliary governing documents or status, as discussed in EO 1059, are timely submitted to the CO.

c. If CPR plans to continue to accept and manage externally funded grants and contracts, document the delegation of authority from the campus president for award acceptance and administration to the appropriate individuals at CPR.

d. Establish a written charter defining the roles and responsibilities of the audit committee members, and maintain audit committee minutes.

e. Collect COI forms from board members annually, and enhance document retention practices.

MANAGEMENT RESPONSE

We concur. The campus, in conjunction with CPR, will take the following actions by September 27, 2024:

a. Update the CPR bylaws and the operating agreement between the campus and CPR to address the issues noted above, further clarify the relationship between auxiliary and university leadership, and improve compliance, internal controls, and information sharing.

b. Establish a written procedure to ensure that any required changes to auxiliary governing documents or status, as discussed in EO 1059, are timely submitted to the CO.

c. If CPR plans to continue to accept and manage externally funded grants and contracts, document the delegation of authority from the campus president for award acceptance and administration to the appropriate individuals at CPR.

d. Establish a written charter defining the roles and responsibilities of the audit committee members and maintain audit committee minutes.

e. Collect COI forms from board members annually, and enhance document retention practices.

Because of anticipated administrative complexity with developing, approving and implementing a written charter and written policies and procedures related to conflict-of-interest requirements, given the need to include campus, CPR, CPR Board and CO, the campus anticipates needing a six-month extension for full recommendation implementation. The campus, in conjunction with CPR, will implement this recommendation by September 27, 2024.

7. POLICIES AND PROCEDURES

OBSERVATION

Policies and procedures for key financial areas were incomplete and needed to be updated.

Section three of the CPR operating agreement states that auxiliary organizations are required to operate in conformity with CSU and campus policies, which are ultimately overseen by the campus president. Additionally, the campus CFO or designee has oversight responsibilities for the operations and activities of the auxiliary as they “shall be integrated with campus operations and policies.”

CPR policies and procedures primarily consisted of an outdated accounting manual, and we found issues in almost every area reviewed. The lack of current and complete policies defining key processes, internal controls, and compliance requirements may have contributed to the issues noted throughout this report, as follows:

- Cashiering policies were incomplete and did not address key internal controls such as separation of cash-handling duties, accountability of funds, opening and closing procedures, check endorsements, safeguarding of funds, deposit processes, reconciliations, monitoring of overages and shortages, returned checks, credit card chargebacks, and ACH returns.

- Procurement and accounts payable policies were incomplete as they did not address segregation of duties; procurement processes such as bid thresholds, sole-source justifications, purchase approvals, and requirements specific to contract and agreements; receiving processes; methods of payment and disbursement approvals; and specific requirements for certain types of expenses, such as travel and hospitality expenditures. Further, the policies did not address vendor management, including vendor additions, changes to supplier records, and monitoring of the vendor masterfile.

- Accounts receivable policies were incomplete as they did not define procedures for segregation of duties, recording of receivables and related allowance accounts, required monitoring and collection efforts, review and approval of write-offs, and reconciliations to the general ledger.

- Property and equipment policies were incomplete as they did not define procedures for segregation of duties, recording of property and equipment acquisitions, disposals, physical inventories, and reconciliation and management review.

- Gift-processing policies were incomplete and did not address processing and recording of cash and non-cash gifts; adherence to donor intent and donor reporting requirements; monitoring, recording, and review of matching gifts; and reconciliation of the donor system to the general ledger. In addition, they were not clear on the approval process for gifts processed using pledge forms rather than gift agreements.

- Debt and other liability policies were not documented to address procedures for debt issuance, segregation of duties, recording and maintaining of records, complying with restrictive covenants, trust funds, and reconciliation and review.

- Reserve policies were not documented to address procedures for appropriate reserve requirements, recordkeeping and reporting, and maintenance of financial viability.

- Payroll policies were incomplete. The *CPR Employee Handbook* did not address procedures for segregation of duties, maintaining accurate personnel/payroll records, payroll preparation and recordkeeping, distribution of pay, safeguarding of personnel/payroll records, and meeting regulatory requirements and other employer responsibilities.

- Endowment policies were not documented to address policies and principles for the establishment, administration, and distribution of endowment funds.

- The *Investment Policy* was incomplete as it did not address key areas such as return objectives, relevant risks, asset-allocation rationale, portfolio and asset-class benchmarks, and views on indexing.

Comprehensive policies and procedures help to reduce the risk of error and misappropriation of funds and help to ensure that auxiliary programs are consistent with CSU and auxiliary policies.

RECOMMENDATION

We recommend that the campus, in conjunction with CPR:

a. Document and update policies and procedures to align with systemwide and campus requirements for the areas noted above, and communicate updated policies to employees involved in related processes.

b. Work with the CPR Board to implement additional measures to improve oversight of CPR financial operations and to ensure administrative compliance with CSU and campus policies.

MANAGEMENT RESPONSE

We concur. The campus, in conjunction with CPR, will take the following actions by March 27, 2024:

a. Document and update policies and procedures to align with systemwide and campus requirements for the areas noted above, and communicate updated policies to employees involved in related processes.

b. Work with the CPR Board to implement additional measures to improve oversight of CPR financial operations and to ensure administrative compliance with California State University (CSU) and campus policies.

8. CASH-HANDLING ACTIVITIES

OBSERVATION

Administration of cash-handling activities needed improvement to ensure appropriate segregation of duties, review of bank reconciliations, and retention of deposit documentation.

We found that CPR did not have appropriate segregation of duties for cash-handling activities. CPR's senior accountant received cash collections, prepared and reconciled daily deposits, recorded the deposits in the general ledger, and performed monthly bank reconciliations. Secondary review or verification was not in place to address the lack of proper segregation of duties. Further, only payments received for membership donations were recorded and maintained on the daily check deposit log to be reconciled to the amount deposited. All other payments related to underwriting, capital campaigns, and grants were not recorded on the check log.

In addition, bank reconciliations and reconciling items were not resolved timely. CPR has three bank accounts: general operating, money market, and capital campaign. All three accounts are reconciled by the senior accountant monthly, without management review. In our review, we found that reconciling items for October through December 2022 remained unresolved for the general operating and money market accounts. Specifically, cash account balances in the general ledger did not agree to the bank statement balances. The total variance for the operating account from October through December 2022 totaled $430,223.45, and the variance for the money market account totaled $244,778.14. According to CPR management, an adjusting journal entry is recorded at year-end so that the cash balance agrees to the bank statement. We obtained the adjusting entry for the money market account on June 30, 2022, and found that an entry for $200,174 was recorded without supporting documents.

We also selected 20 cash receipts and reviewed them to ensure that deposits were appropriately reviewed and verified, accurately recorded, and timely deposited. However, we found that CPR did not maintain adequate documentation for 18 of the 20 deposits, all of which related to donations, and therefore were unable to complete our review. For example, documentation, such as deposit slips, batch summary reports, check deposit logs, and copies of checks, was not always retained. We were able to match amounts posted in the Financial Edge (FE) system to donations recorded in Raiser's Edge and verify the total deposit amounts to the bank statements.

Adequate administration of cash handling and documentation of cash receipts provides greater assurance that the campus and auxiliary will not be exposed to loss, theft, or misappropriation of funds. Timely completion and resolution of reconciling items in bank reconciliations reduces the risk of financial loss and helps to ensure accountability of funds and accurate financial reporting.

RECOMMENDATION

We recommend that the campus, in conjunction with CPR:

a. Adequately segregate duties and responsibilities related to CPR's cash-handling activities or implement appropriate mitigating controls.

b. Implement a documented process to ensure that variances on monthly bank reconciliations are thoroughly investigated and resolved and all bank reconciliations are reviewed by management in a timely manner.

c. Provide training to all personnel who receive cash and cash equivalents to ensure that key supporting documentation is obtained and maintained, including using a check log for all donations and payments received through the mail.

MANAGEMENT RESPONSE

We concur. The campus, in conjunction with CPR, will take the following actions by March 27, 2024:

a. Adequately segregate duties and responsibilities related to CPR's cash-handling activities or implement appropriate mitigating controls.

b. Implement a documented process to ensure that variances on monthly bank reconciliations are thoroughly investigated and resolved and all bank reconciliations are reviewed by management in a timely manner.

c. Provide training to all personnel who receive cash and cash equivalents to ensure that key supporting documentation is obtained and maintained, including using a check log for all donations and payments received through the mail.

9. GIFT ADMINISTRATION

OBSERVATION

CPR accepted gifts without written delegation of authority from the campus president, did not retain adequate documentation of gifts, did not administer matching gifts in accordance with systemwide policy, and did not perform reconciliations from the donor system to the general ledger.

CSU *Delegation of Authority for Gift Evaluation and Acceptance* delegates the authority to accept donations to the campus president, and further allows sub-delegation of this responsibility to campus officers and employees. During the timeframe under review, CPR did not have a delegation of authority for gift acceptance from the president to the individuals at CPR who accepted gifts per the CPR *Gift Acceptance Policy*.

We also noted that CPR did not maintain adequate documentation of gifts. We reviewed three monetary donations and found that the gift agreement and the acknowledgement letter were not retained for two of the donations, and therefore, we were unable to verify the donor's intent and proper approval by an authorized individual. One donation was a planned gift for $56,794, and the other donation was a charitable contribution for $10,000.

All donations related to the capital campaign, endowments, pledges, and unrestricted donations were tracked in Raiser's Edge, the donor system, by the membership engagement department at CPR. We found that account reconciliations between the donor system and the general ledger system to ensure that actual gifts received agreed with gifts recorded were not completed for the audit period.

Appropriate administration of gifts decreases the likelihood of campus and auxiliary exposure to the risk that the gifts will be incongruent with the campus or auxiliary mission or noncompliant with donor terms.

RECOMMENDATION

We recommend that the campus, in conjunction with CPR:

a. Obtain written delegation of authority for all individuals accepting gifts at CPR on behalf of the university.

b. Provide training to individuals accepting gifts at CPR on the appropriate documentation that must be obtained from donors and maintained on file.

c. Develop and implement a process to perform periodic reconciliations between the donor database and the general ledger system.

MANAGEMENT RESPONSE

We concur. The campus, in conjunction with CPR, will take the following actions by March 27, 2024:

a. Obtain written delegation of authority for all individuals accepting gifts at CPR on behalf of the university.

b. Provide training to individuals accepting gifts at CPR on the appropriate documentation that must be obtained from donors and maintained on file.

c. Develop and implement a process to perform periodic reconciliations between the donor database and the general ledger system.

10. GIFTS-IN-KIND

Administration of GIK needed improvement.

The CPR *Gift Acceptance Policy* defines a gift as any contribution received by CPR for either unrestricted or restricted use in the furtherance of CPR's mission that involves a transfer of money or property without the receipt of consideration or economic benefit. GIK are donations of material or long-lived assets, including tangible personal property, such as vehicles and equipment.

CPR has a vehicle donation program and works with two organizations, Car Talk services and Cars for Charity, to receive and process vehicle donations. We obtained the GIK listing between January 1, 2021, and March 10, 2023, and found that the majority of items received were vehicle donations, the value of which totaled $1.94 million. However, we found that CPR did not have an agreement in place with either of the organizations to document considerations such as roles and responsibilities, liability and indemnification, and processing fees.

We reviewed a vehicle donation transaction and found that the gross value of the vehicle was estimated to be $27,397, which was the amount recorded in the donor system; however, the net proceeds received were $21,917, which was the amount recorded in the FE system. In conversations with CPR, we learned that this was their standard practice for recording vehicle donations. By recording the gross amount in the donor system, CPR received higher funding from the Corporation for Public Broadcasting (CPB), which provides matching funds for gifts raised by CPR. It was unclear whether this method of reporting GIK values to CPB was appropriate.

We also reviewed a non-vehicle GIK for a concert grand piano and found that the transaction should not have been processed as a GIK. Specifically, the piano was appraised for $175,000, and CPR made a cash payment to the owner of $90,000 to purchase the piano at a discounted rate. The difference of $85,000 was recorded in the donor system as a GIK. However, we noted that the appraisal did not meet the IRS requirements of a qualified appraisal and was performed by a business partner of the owner. As such, with the $90,000 cash payment accepted by the seller, the transaction should have been treated as a purchase and the item should not have been recorded as a GIK. Through discussion with CPR management and review of the storage unit contract, we learned that the piano is currently located at a storage unit in Sacramento.

For both of the GIK transactions reviewed, we noted that CPR did not retain critical documentation such as the gift acceptance form, donor intent form, or gift acknowledgment letter.

Appropriate administration of GIK decreases the likelihood that non-cash gifts will be reported and valued at incorrect amounts and decreases exposure to financial, legal, and public relations risk.

RECOMMENDATION

We recommend that the campus, in conjunction with CPR:

a. Execute agreements with the organizations used to process vehicle donations to define the relationship between the parties and other critical factors.

b. Consult with UFSS and the CO as needed to determine the appropriate method of valuing and recording vehicle donations in the donor system and the general ledger, and to determine whether the gift transaction for the piano should be reversed.

c. Based on the actions taken above, determine whether CPB should be notified of revised GIK totals.

d. Remind key personnel of the appropriate documentation that must be completed and maintained for GIK.

MANAGEMENT RESPONSE

We concur. The campus, in conjunction with CPR, will take the following actions by March 27, 2024:

a. Execute agreements with the organizations used to process vehicle donations to define the relationship between the parties and other critical factors.

b. Consult with UFSS and the CO as needed to determine the appropriate method of valuing and recording vehicle donations in the donor system and the general ledger, and to determine whether the gift transaction for the piano should be reversed.

c. Based on the actions taken above, determine whether CPB should be notified of revised GIK totals.

d. Remind key personnel of the appropriate documentation that must be completed and maintained for GIK.

11. CASH DISBURSEMENTS

OBSERVATION

Written delegations of authority were not in place for approval of expenditures, and cash disbursements were not always supported with sufficient documentation.

According to CPR management, expenditures require approval from department heads. We obtained the listing of cash disbursement approvers and noted that 10 individuals were included. However, there was no documented delegation of authority for these individuals to approve expenditures.

In addition, we reviewed 25 expenditures and found that:

- 20 disbursements were processed without approval from the department head.
- For five expenditures totaling $48,576, no supporting documentation was provided. These expenditures included payments for credit cards, underwriting, equipment, and gift cards.
- For eight expenditures totaling $87,917, only the invoice was provided. These expenditures related to items such as consulting services, training and subscriptions. Appropriate supporting documentation would have included a fully executed contract or agreement, check payment, and management approval.
- For three travel expenses, the travel authorization form was not retained, as required by CPR policy. Additionally, two travel claims did not have receipts to support reimbursable charges. There was also an unexplained discrepancy between a credit card charge of $10,611.80 that was paid by CPR and the corresponding hotel bill of $10,000, and itemized receipts were not provided for a travel expense of $7,478.75.
- For three expenditures related to computer equipment totaling $22,438, the purchase order and check payment documentation were not retained.

Adequate processing and documentation and proper review and approval of expenditures reduces the risk of errors, irregularities, and misappropriation of funds.

RECOMMENDATION

We recommend that the campus, in conjunction with CPR:

a. Document delegation of authority to approve expenditures to the appropriate individuals and provide training to these individuals on cash disbursement requirements.

b. Train accounting personnel involved in processing cash disbursements on the updated policies required in the policy and procedure recommendation above, emphasizing the issues relating to appropriate supporting documentation and approvals noted above.

MANAGEMENT RESPONSE

We concur. The campus, in conjunction with CPR, will take the following actions by March 27, 2024:

a. Document delegation of authority to approve expenditures to the appropriate individuals and provide training to these individuals on cash disbursement requirements.

b. Train accounting personnel involved in processing cash disbursements on the updated policies required in the policy and procedure recommendation above, emphasizing the issues relating to appropriate supporting documentation and approvals noted above.

12. CREDIT CARDS

OBSERVATION

Credit card purchases were paid without proper review and reconciliation, and policies and procedures for credit card administration had not been developed.

We found that there were no written policies and procedures for credit card administration that addressed areas such as allowable use, prohibited transactions, monthly reconciliations and supporting documentation, required approvals, and cardholder training.

We also found that CPR had not documented a full list of credit card holders that included credit limits and the corresponding approvers. CPR provided us with a listing of credit cards issued from the First National Bank of Omaha for use in daily operations that included only the cardholder name and credit limit. However, through discussion with CPR management and review of the general ledger expenditure listing, we found that the GM and the director of finance also had credit cards issued through BMO Diners International Club, and that there were payments made for credit cards issued by Chase. CPR management indicated that the Chase credit cards were issued to two former employees, and both accounts were closed during our audit. However, we were unable to obtain documentation to verify the account closure.

We reviewed five CPR credit cards issued by the First National Bank of Omaha and selected three months for testing. We found that reconciliations for November 2022, December 2022, and January 2023 had not been performed for any of them, and we were not provided with any itemized receipts or documented manager approvals. The credit card statements for November were not provided; statements for four of the cards were provided for December 2022 and January 2023, showing totals of $3,683 and $2,135, respectively.

Further, we obtained credit card statements for one account issued through BMO Diners International Club for the months of January 2023, February 2023, and March 2023. For these transactions, no itemized receipts were provided, and credit card charges were paid without reconciliation and management review.

We also noted several instances of late fees and over-limit charges in our review of credit card statements.

Documented policies and procedures for the use of credit cards, as well as completion of credit card reconciliations and training documentation, helps to ensure that credit card purchases are reviewed and approved and that cardholders understand their responsibilities.

RECOMMENDATION

We recommend that the campus, in conjunction with CPR:

a. Develop and implement policies and procedures for the administration of credit cards, including tracking credit card issuance and deactivation, allowable uses, prohibited transactions, a process for monthly reconciliation, required approvals, documentation requirements, and cardholder training.

b. Perform credit card reconciliations monthly and retain all itemized receipts and supporting documentation in accordance with policy.

MANAGEMENT RESPONSE

We concur. The campus, in conjunction with CPR, will take the following actions by March 27, 2024:

a. Develop and implement policies and procedures for the administration of credit cards, including tracking credit card issuance and deactivation, allowable uses, prohibited transactions, a process for monthly reconciliation, required approvals, documentation requirements, and cardholder training.

b. Perform credit card reconciliations monthly and retain all itemized receipts and supporting documentation in accordance with policy.

13. ACCOUNTS RECEIVABLE MANAGEMENT

OBSERVATION

Administration of accounts receivable needed improvement to ensure appropriate recording of receivables, adequate follow-up and collection activities, and performance of appropriate reconciliations.

CSU *Auxiliary Sound Business Practice Guidelines* section 4.0, *Receivables and Pledges*, addresses the administration of accounts receivable and includes specific requirements to accurately account for receivables with proper documentation, reconciliation from the subledger to the general ledger, and a process for reviewing receivable aging reports, as well as proper approval and documentation of write-offs.

CPR manages its own accounts receivables, as well as receivables for the California State Polytechnic University, Humboldt and California State University, Chico radio stations, and tracks accounts receivable in the Marketron System. Accounts receivable generally consist of underwriting payments from vendors for on-air advertising announcements. The number of announcements and total cost are documented in each contract established by the salesperson. During our review, we found instances in which vendors made prepayments for the entire year. However, these payments were not recorded as unearned revenue; instead, they were incorrectly recorded as prepayments and shown as negative balances on the accounts receivable aging report. The total amount of the prepayments for the audit scope period for the three radio stations totaled $63,762.

In addition, we selected 10 accounts receivable aged more than 90 days and found that collection efforts were not performed by the salesperson for any of the receivables reviewed. Upon further inquiry, we found that CPR had not established procedures identifying thresholds for accounts receivable write-offs or requirements for managerial review and approval of write-offs that exceeded the threshold.

Further, CPR did not establish an allowance for uncollectable accounts to estimate anticipated losses for non-payment. Per CPR management, periodic journal entries for bad-debt expense were not recorded; instead, a year-end adjusting entry to record the allowance for doubtful accounts was completed. The most recent adjusting journal entry recorded in June 2022 was $19,767.

We also found that accounts receivable reconciliations between the Marketron subledger system and the general ledger system were not performed during the audit scope period. As of December 27, 2022, the accounts receivable balance in Marketron totaled $566,372. According to management, a year-end adjusting entry was made to balance the general ledger with the subledger, and the adjusting journal entry to write-offs recorded in the general ledger at year-end on June 30, 2022, was $34,198. We obtained the adjusting journal entry from CPR; however, no supporting documentation for the entry was provided.

Proper administration of accounts receivable is vital for maintaining cash flow, reducing bad-debt risk, enhancing customer relationships, supporting strategic decision-making, and ensuring accurate financial reporting.

RECOMMENDATION

We recommend that the campus, in conjunction with CPR:

a. Establish and document a process to ensure that accounts receivables and prepayments are accurately recorded and monitored, and provide training to relevant staff.

b. Perform appropriate collection and write-off activities in compliance with the updated policies and procedures.

c. Establish an allowance for uncollectible accounts for all three stations' accounts receivable.

d. Perform periodic reconciliations from the accounts receivable subledger to the general ledger and maintain detailed support for any adjusting journal entries recorded.

MANAGEMENT RESPONSE

We concur. The campus, in conjunction with CPR, will take the following actions by March 27, 2024:

a. Establish and document a process to ensure that accounts receivables and prepayments are accurately recorded and monitored, and provide training to relevant staff.

b. Perform appropriate collection and write-off activities in compliance with the updated policies and procedures.

c. Establish an allowance for uncollectible accounts for all three stations' accounts receivable.

d. Perform periodic reconciliations from the accounts receivable subledger to the general ledger and maintain detailed support for any adjusting journal entries recorded.

14. PLEDGES

OBSERVATION

Administration of pledge receivables needed improvement.

CPR's *Gift Acceptance Policy* did not address procedures on how to account for, monitor, and write off pledge receivables. CPR did not use pledge forms or record pledge receivables in the general ledger system; instead, pledges were processed when they were received as daily deposits.

Membership donations and pledges were tracked in the donor system, Raiser's Edge. However, there was no documented approval process for pledge write-offs in Raiser's Edge. We confirmed that pledge write-offs were performed by membership engagement associates.

Clearly defined procedures for gift acceptance provide assurance that all accepted gifts are consistent with the mission of the university and do not pose reputational or financial risk.

RECOMMENDATION

We recommend that the campus, in conjunction with CPR, develop and implement policies and procedures to address the processing and accounting for pledges and pledge receivables.

MANAGEMENT RESPONSE

We concur. The campus, in conjunction with CPR, will develop and implement policies and procedures to address the processing and accounting for pledges and pledge receivables by March 27, 2024.

15. PROPERTY AND EQUIPMENT

OBSERVATION

Administration of property and equipment needed improvement to ensure proper recording, performance of physical inventories, and disposal of assets.

The director of technology is responsible for tagging all equipment owned by CPR with a value of $500 or more and for ensuring that asset records are maintained from receipt to eventual disposal in the Blackbaud FE system. We requested the current listing of property and equipment and were provided with a fixed assets listing dated March 2022 from the FE system. However, we found that the latest in-service date for the asset additions from the listing was December 21, 2021, and according to CPR management, asset purchases have not been recorded in FE or tagged since then. We also found that a physical inventory had not been performed during our audit scope period, and CPR management could not recall the last time the inventory was performed. CPR management stated that this was due to staff turnover and because much of the new equipment and furniture purchased for the downtown locations were not ready for use, as the locations were still being renovated.

We reviewed 13 assets from the fixed asset listing with in-service dates from 2019 to 2021 and found that 11 items were not tagged. Further, we found that:

- Five laptops or computers could not be located.
- One item selected from the listing consisted of 20 laptops, each valued at $757, but we were able to locate only three of the laptops.

Further, CPR management confirmed that property and equipment that are no longer in use were not removed from the fixed asset listing or the general ledger system. During our walkthrough performed onsite, we noted that disposals consisting of old studio equipment, wires, cables, printers, chairs, computers, telephones, and more were stored in two rooms at the CPR building.

Proper administration of property and equipment decreases the risk that assets may be lost, stolen, or misrepresented in financial statements.

RECOMMENDATION

We recommend that the campus, in conjunction with CPR:

a. Record and tag property and equipment purchased since December 2021.

b. Perform a complete physical inventory of property and equipment, including the items noted above, to ensure that items are tagged, unused or outdated equipment is disposed of, and missing or lost items are researched and dispositioned appropriately, and update property records accordingly.

MANAGEMENT RESPONSE

We concur. The campus, in conjunction with CPR, will take the following actions by September 27, 2024:

a. Record and tag property and equipment purchased since December 2021.

b. Perform a complete physical inventory of property and equipment, including the items noted above, to ensure that items are tagged, unused or outdated equipment is disposed of, and missing or lost items are researched and dispositioned appropriately, and update property records accordingly.

The process to identify, purge, tag, document, and reconcile CPR property and equipment through conducting a complete physical inventory involves hundreds of pieces of property stored in multiple sites throughout Sacramento. Given this information, the campus anticipates needing a six-month extension for full recommendation implementation. The campus, in conjunction with CPR, will implement this recommendation by September 27, 2024.

16. PERSONNEL AND PAYROLL

OBSERVATION

Administration of CPR personnel and payroll needed improvement, including review and approval of overtime, timecard approval processes, payroll reconciliation, and retention of payroll records.

CPR previously used the ADP system to record employee time and process payroll and changed to the Paylocity System in January 2022. According to management, CPR did not retain information from the ADP system, and therefore, payroll records prior to January 2022 were not available for us to review.

The CPR *Employee Handbook* requires supervisors to give prior approval for employees' overtime. However, this did not reflect current practice. In addition, during our review, we noted that the Paylocity system did not require timecard approvals to process payroll.

In addition, reconciliations were not performed between the Paylocity system and CPR payroll records to verify time paid and payroll transaction changes processed.

Further, we found that non-discrimination training was not provided to CPR employees as part of the onboarding process.

Proper administrative oversight of personnel and payroll processes helps to ensure compliance with legal requirements and reduces risk of errors, improper payments, and auxiliary exposure to potential litigation.

RECOMMENDATION

We recommend that the campus, in conjunction with CPR:

a. Evaluate Paylocity system controls and implement timecard approval functionality, if available, or implement mitigating controls.

b. Evaluate whether management prior authorization for overtime should be in place, and update the CPR *Employee Handbook* accordingly.

c. Develop and implement a process to perform periodic reconciliations of the Paylocity system to the general ledger accounting system and document management's review.

d. Provide non-discrimination training to new employees as required by the CPR *Employee Handbook.*

e. Develop and implement a process to ensure that payroll records are appropriately retained.

MANAGEMENT RESPONSE

We concur. The campus, in conjunction with CPR, will take the following actions by March 27, 2024:

a. Evaluate Paylocity system controls and implement timecard approval functionality, if available, or implement mitigating controls.

b. Evaluate whether management prior authorization for overtime should be in place, and update the CPR Employee Handbook accordingly.

c. Develop and implement a process to perform periodic reconciliations of the Paylocity system to the general ledger accounting system and document management's review.

d. Provide non-discrimination training to new employees as required by the CPR Employee Handbook.

e. Develop and implement a process to ensure that payroll records are appropriately retained.

17. USER ACCESS

OBSERVATION

CPR did not have documented policies and procedures for authorizing, revising, and terminating user access to all systems used and did not have a process for user-access review.

CPR uses multiple systems for various fiscal operations. FE is the general ledger system, Raiser's Edge is the donor management system, Marketron is used to manage account receivables, and Paylocity is the payroll system. We found that CPR did not have a process for documenting appropriate approvals before access was granted, or for tracking and logging modifications to user access. We also found that management did not perform annual user-access reviews for all systems. Based on audit inquiries, CPR management provided a list of users in an email, and they appeared to be appropriate; however, we were not provided system-generated listings of user access.

Proper administration of user accounts and periodic review of system access decreases the risk of unauthorized access to restricted data and information.

RECOMMENDATION

We recommend that the campus, in conjunction with CPR, develop and implement written procedures for system access, including an annual user-access review, and communicate these procedures to key personnel.

MANAGEMENT RESPONSE

We concur. The campus, in conjunction with CPR, will develop and implement written procedures for system access, including an annual user-access review, and communicate these procedures to key personnel, by March 27, 2024.

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 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.

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.

Sacramento State has five separate auxiliary organizations. CPR was originally licensed in 1965 as a student-operated radio station. CPR was incorporated as an auxiliary organization of the CSU in 1991 and currently operates as a non-profit public benefit corporation that broadcasts classical music, jazz, news, public affairs, and locally produced specialty programs. CPR seeks to provide a trusted source of information, music, and entertainment for its listeners while strengthening the civic and cultural life of the communities it serves. Additionally, in 2021, CPR took over the operations of stations licensed to California State Polytechnic University, Humboldt and California State University, Chico through management and programming agreements.

In 2016, CPR began a capital campaign intended to reimage the station that included the goal of raising $20 million for the renovation of new leased space in downtown Sacramento. During 2021, CPR entered into a financing agreement with the university for two new locations in downtown Sacramento. The leased buildings include a headquarters building and broadcast studios, as well as a new studio and public performance space. CPR will move from its current location on campus once interior tenant improvements on the new locations are complete, which is estimated to occur in fall 2023. CPR is governed by a board of directors composed of representatives from the community, university administration, faculty, student body, and CPR's president and general manager.

SCOPE

We performed fieldwork from February 20, 2023, through April 21, 2023, with additional follow-up performed through July 2023 to further clarify the noted issues, which was necessary due to the large number of observations. 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 CPR. The audit focused on procedures in effect from January 1, 2021, to April 21, 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 reserve provisions, conflicts of interest, and risk management practices.
- Internal controls and segregation of duties over fiscal administration of areas such as cash receipts, accounts receivables, property and equipment, procurement, and disbursements.
- Selected areas of gift and grant administration, including, but not limited to, review of timely receiving, recording, and safeguarding of cash and non-cash gifts, grants and endowments.
- Information systems.

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 CPR operations. Our review was limited to gaining reasonable assurance that essential elements of CPR operations were in place and did not examine all aspects of the program. During our audit, we encountered scope limitations that affected our review, primarily due to the unavailability of key financial records, and lack of information provided by CPR management for a comprehensive assessment. Despite the scope limitations, we managed to conduct the audit procedures deemed feasible under the circumstances.

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:

- Code of Federal Regulations (CFR) Title 2, Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*
- CCR, Title 5 §42401, *Declaration of Policy*
- CCR, Title 5 §42402, *Authority of Campus President*
- CCR, Title 5 §42500, *Functions of Auxiliary Organizations*
- Education Code (EC) §89720
- EC §89756
- EC §89900
- EC §89904
- EO 1000, *Delegation of Fiscal Authority and Responsibility*
- EO 1059, *Utilization of Campus Auxiliary Organizations*
- ICSUAM §1301.00, *Hospitality, Payment or Reimbursement of Expenses*
- ICSUAM §11001.00, *Sponsored Programs Administration*
- ICSUAM §13680.00, *Placement and Control of Receipts for Campus Activities and Programs*
- Coded memorandum Academic and Student Affairs 2016-28, *Coordination of External Grant/Scholarships with Financial Aid*
- Coded memorandum Human Resources 2015-05, *Principal Investigators – Nongovernmental*
- CSU *Auxiliary Organizations Compliance Guide*
- CSU *Auxiliary Organizations Sound Business Practices Guidelines*
- CSU *Delegation of Authority for Gift Evaluation and Acceptance*
- CSU *Policy for Financing Activities*
- CPR *Accounting Manual*
- CPR *Employee Handbook*
- CPR *Gift Acceptance Policy*
- CPR *Investment Policy*

AUDIT TEAM

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