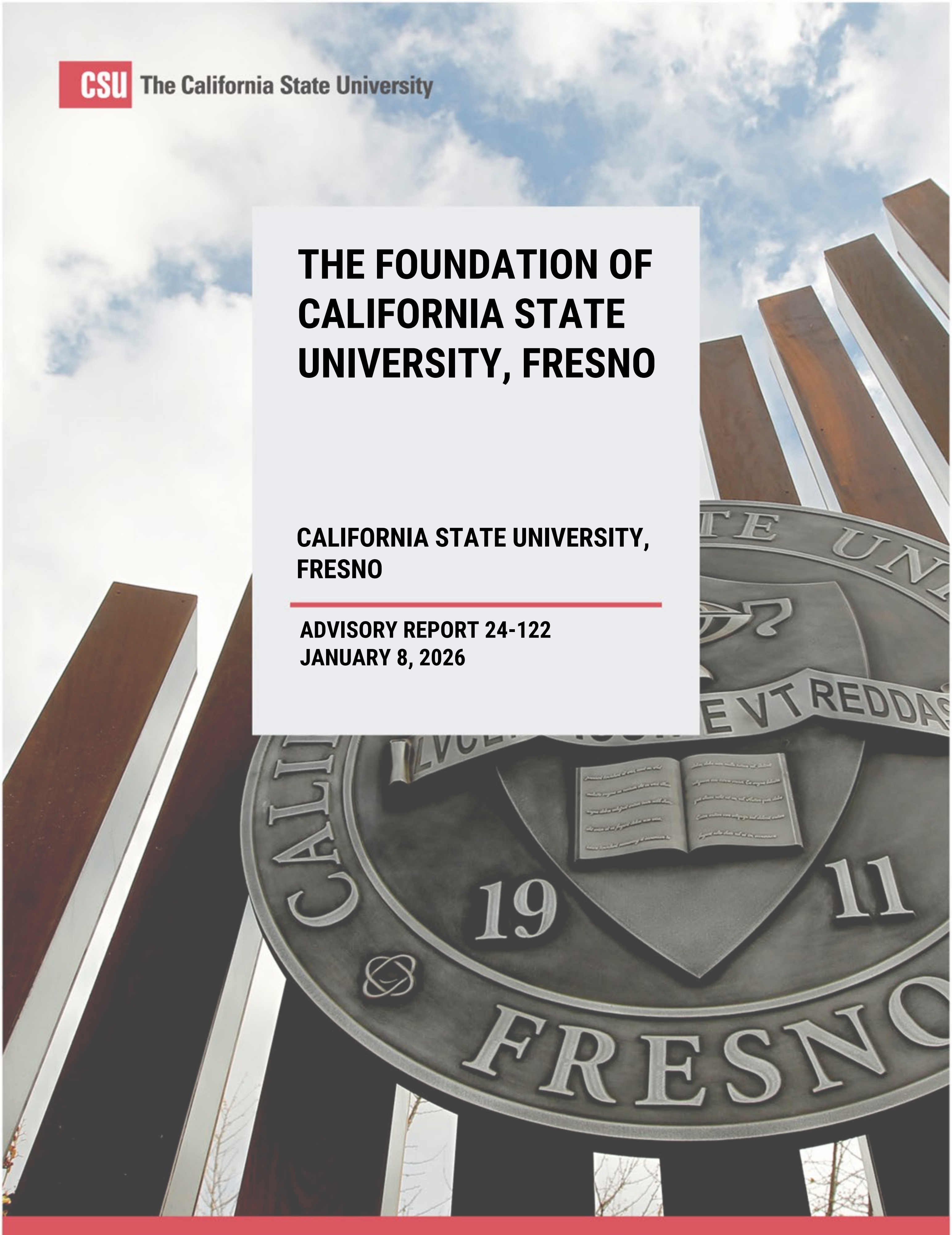
CSU The California State University

THE FOUNDATION OF CALIFORNIA STATE UNIVERSITY, FRESNO

CALIFORNIA STATE UNIVERSITY, FRESNO

ADVISORY REPORT 24-122
JANUARY 8, 2026



EXECUTIVE SUMMARY

PURPOSE AND OBJECTIVES

California State University, Fresno (Fresno State) management requested that Audit and Advisory Services (A&AS) perform an advisory review of key processes at the California State University, Fresno Foundation (Foundation) as a result of the Foundation's misinterpretation of the Nonprofit Integrity Act of 2004. The objectives of the review included assessment of board governance, organizational structure, management service agreements, financial practices, indirect cost recovery (IDC), non-endowed cash, endowment management, and other operational areas.

CONCLUSION

In general, we found significant weaknesses in the Foundation's governance and financial control environment that heightened exposure to financial misstatement, fraud, and operational inefficiencies. Governance areas of concern included limited board and board leadership turnover, minimal university representation, and outdated governing documents, all of which reduce transparency and resulted in misalignment with the university's strategic priorities. Collectively, these conditions weakened oversight and accountability in areas critical to the Foundation's mission of advancing philanthropic and research support.

The most critical risks identified were surrounding banking practices and segregation of duties. We noted instances where the same individual both prepared and approved multimillion-dollar wire transfers and large ACH payments. Additionally, this same individual was granted administrator access within the financial system, JD Edwards (JDE), allowing them access to post transactions, revise vendor records, and process payments. This, combined with infrequent bank reconciliations, performed by the same individual in some cases, created significant opportunities for unauthorized or undetected activity.

Several of the Foundation's core financial processes, such as fund balance reconciliations, IDC allocations, and endowment-income distributions, relied on manual practices that no longer met the needs of an organization of its size or were based on outdated assumptions. Further, limitations within the financial system and chart of accounts restricted the ability to produce timely, reliable fund-level reporting, increasing reliance on manual reconciliations and reducing transparency for decision-makers. In addition to these system constraints, the lack of comprehensive, documented policies and procedures left operations dependent on institutional knowledge rather than formal guidance. Taken together, these weaknesses leave the Foundation vulnerable to financial and reputational risk, hinder its ability to safeguard assets, and impacts its ability to support the university's missions.

BACKGROUND

The Foundation was established in 1931 as a nonprofit public benefit corporation to promote and assist the educational services of Fresno State. Its key functions include gift and donation acceptance and management, endowment management, and grant and contract administration. It also acts as the fiscal agent for campus program and trust accounts. The Foundation is unique in the CSU system as it is the only auxiliary that houses both philanthropic activity and research activity in a single organization. This structure increases the complexity of the auxiliary's operations and the oversight required to manage both functions effectively.

The Foundation's mission is to advance the university's strategic objectives by encouraging philanthropy, inspiring leadership, promoting fiscal accountability, and engaging in efforts that support research activities. The auxiliary is overseen by a board of governors composed of representatives from the community and Fresno State's university president. The California State University Fresno Association (Association) provides human resources, payroll, information technology, and limited accounting services to the Foundation. Further, a university department, auxiliary services, supports five of the university's auxiliary organizations and is led by the executive director of the Association who reports administratively to the university's vice president for administration and finance.

At the time of our review, the Foundation and the university had experienced turnover in key leadership positions, which resulted in shifted responsibilities and highlighted opportunities to improve transparency between the two groups. After extensive internal review and consultation with CSU, University management requested that A&AS review the Foundation's key functions and provide best practices focused on governance, financial practices, IDC, and endowment management to help the Foundation better fulfill its purpose of being in support of the university and its mission to advance the university's philanthropic goals and research initiatives.

GENERAL INFORMATION

SCOPE

A summary of the areas reviewed, specific objectives, and identification of areas requiring remediation are presented in the table below. Details of specific observations are included throughout the remainder of the report.

Area	Objectives	Advisory Assessment
Governance and Board Operations	Review of governing documents, board of governors composition, all committee compositions, and conflicts of interest	*Remediation action required.*
Organizational Structure	Foundation organizational structure, including auxiliary employee placement within the Foundation and Association to identify structural inefficiencies and redundancies	*Remediation action required*
Management Services Agreement (MSA)	Assessment of the MSA between the Foundation and Association, including appropriateness of services provided, identification of duplicative services, and consistency of university-wide MSAs	*Remediation action required*
Budget and Financial Practices	Assessment of the Foundation's budgetary processes, reserves, and general financial controls	*Remediation action required*
Indirect Cost Recovery	Evaluation of IDC distribution methodologies to ensure alignment with research support objectives	*Remediation action required*
Non-endowed Cash Fund	Evaluation of the composition, tracking, and management of non-endowed cash	*Remediation action required*
Endowment Management	Endowment policies and performance to ensure funds are effectively managed and distributed in alignment with CSU policies and best practices	*Remediation action required*

Area	Objectives	Advisory Assessment
Operational Areas	Review of other operations, policies, and internal controls	*Remediation action required*

We gained an understanding of practices and procedures performed by the Foundation through discussions with Foundation and Association personnel, as well as review of available policies, procedures, and governing documents. Based on this understanding, we developed a review program that included detailed operational walkthroughs and testing procedures.

As a result of changing conditions and the degree of compliance with procedures, the effectiveness of controls change 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. Additionally, an advisory review may not always detect these limitations.

CRITERIA

This advisory review was conducted in conformance with the Institute of Internal Auditors' (IIA) *International Standards for the Professional Practice of Internal Auditing* as they pertain to consulting and advisory services. This was not an audit or assurance engagement. According to the IIA, consulting services are defined as advisory in nature and generally performed at the specific request of management. The nature and scope of the consulting engagement are subject to agreement with management.

This review emphasized, but was not limited to, compliance with:

- California Code of Regulations (CCR) Title 5 §42401, *Declaration of Policy*
- CCR Title 5 §42402, *Authority of Campus President*
- CCR Title 5 §42500, *Functions of Auxiliary Organizations*
- CCR Title 5 §42602, *Composition of Board of Directors*
- California Corporations Code (Cal Corp Code) §5047
- Cal Corp Code §5213
- Executive Order (EO) 1059, *CSU Auxiliary Organizations*
- Government Code §12586(e)
- Government Code §13402 and §13403
- Integrated California State University Administrative Manual (ICSUAM) §11001.01, *Sponsored Programs Administration*
- CSU *Auxiliary Organizations Compliance Guide*
- CSU *Auxiliary Organizations Sound Business Practices Guidelines*
- *Fresno Foundation Corporate Handbook*

ADVISORY TEAM

Assistant Vice Chancellor and Deputy Chief Audit Officer: Mike Caldera
Senior Manager, Advisory Services: Jennifer Rethwisch
Senior Advisory Services Consultant: Stephanie McGovern
Special Consultant: Steve Yim

ANALYSIS

BOARD GOVERNANCE AND OPERATIONS

1. BOARD COMPOSITION

The composition of the Foundation's board of governors lacked adequate university representation, increasing the risk of misalignment between the auxiliary's and the university's strategic priorities.

We found that the Foundation's governing board lacked adequate staff/administration, faculty, and student representation as required by CCR Title 5 §42602. Specifically, the board of governors included only one university-affiliated member, the university president. Although the Foundation was originally established in 1931, its articles of incorporation were last updated in 2012, an action that typically prompts reassessment of compliance with applicable laws, regulations, and CSU policies.

Per the CSU systemwide policy on auxiliary organizations, EO 1059*, "Auxiliary organizations are California nonprofit corporations and are legally separate entities organized and operated solely for the benefit of the university."* Further, the Foundation's articles of incorporation state, "*The primary purposes for which this corporation is formed are: To promote and assist the educational services of California State University, Fresno…*" As such, for the Foundation to effectively fulfill its role for the benefit of the university, its governing board must be structured to ensure proper oversight, transparency, and institutional alignment, including appropriate university representation.

Further, despite the auxiliary's oversight of both philanthropic and sponsored programs activities of Fresno State, the board did not include any faculty members with relevant experience or direct engagement in the areas of research administration or academic affairs (AA) to appropriately support the sponsored programs portion of the auxiliary's functions. We reviewed standard board composition for all philanthropic foundations within the CSU system, as well as seven CSU auxiliaries housing post-award functions comparable in size to Fresno State and found that:

CSU Philanthropic Board Representation: 22 CSU philanthropic foundation boards included university representation in addition to the university president. One foundation that was established in 1958 exercised compliance with CCR Title 5 §42602, maintaining university representation in five board positions in addition to the university's president.

Post-Award Board Representation: We reviewed the board composition of seven CSU auxiliaries housing post-award and found that all seven contained university representation from AA. Specifically, four boards included the provost, while three included other academic representation such as the academic senate chair, college deans, or a wide range of faculty members.

Adequate university representation within the Foundation's board of governors, including appropriate academic representation, provides critical insight and accountability, enhancing oversight of the auxiliary's key functions by ensuring decisions are informed by academic expertise and aligned with the university's mission. Further, adequate board composition strengthens stakeholder confidence in the management of the auxiliary's operations and builds trust between the auxiliary and the university community.

1. REMEDIATION ACTION REQUIRED – BOARD COMPOSITION

To ensure compliance with applicable regulations and strengthen oversight, accountability, and alignment with the university's mission, the following remediation actions are required by the Foundation:

a. Revise the composition of its governing board to include appropriate university representation, as required by CCR Title 5 §42602.

b. Update the Foundation's bylaws and other governing documents to reflect the revised board composition and ensure ongoing alignment with regulatory requirements.

2. TERM LIMITS

Limited board turnover and infrequent officer rotation reduced opportunities to introduce new perspectives, refresh leadership approaches, and support the Foundation's continued growth.

Term Limits

We found that board composition was stagnant due to the absence of policies requiring a break from board service. Specifically:

- The longest standing board member had served on the board for more than 30 years.
- Four board members had served for more than 20 years.
- 11 board members had served on the board for more than 10 years.

The Foundation's bylaws addressed term limits in the following manner: *"The term of office of the Governors shall be four years…Upon the expiration of a Governor's term, the President of California State University, Fresno, in consultation with the Board Chair and Governance Committee, will determine whether it is in the best interest of the Corporation to recommend reelection of such Governor to the Board."*

Though the bylaws did not explicitly state the maximum number of allowable terms to be served, we found that it was a best practice to establish and enforce term limits. We reviewed the bylaws of seven other CSU philanthropic foundation boards and found that:

Philanthropic Board Term Limits:

- All seven explicitly stated a maximum number of years or terms allowable.
- Six of seven set a maximum of three, three-year terms.

Officer Rotation

Both the Foundation's bylaws and recognized governance standards establish expectations for annual officer elections to preserve accountability and independence. The bylaws provide for one-year officer terms, stating that, "*The terms of office of the Chair, Vice Chair, and the Treasurer shall be one year expiring at the next succeeding annual election or at such time that their successors are elected.*" This structure promotes regular opportunities for leadership review and renewal. Although the bylaws do not require officer rotation or term limits, governance best practices recommend such measures to strengthen accountability, support succession planning, and promote diverse perspectives within board leadership.

While elections have occurred as required, opportunities remain to formalize policies related to officer term limits and leadership succession planning. Despite recent elections, officer tenure remains lengthy. Specifically, the chair and vice chair of the board had each served in their positions since fiscal year (FY) 2016/17, and the treasurer had served since FY 2020/21. While continuity in leadership can provide institutional stability, extended service in the same officer roles may also limit opportunities to introduce new perspectives and leadership approaches over time.

We also found that the Foundation's Governance Committee was required to maintain a policy on chair rotation for the board chair and committee chairs; however, the Foundation was unable to provide documentation showing that this policy existed. Specifically, the governance committee charter stated, *"The governance committee shall discharge the following duties…develop and thereafter monitor and modify as needed policy related to chair rotation for the board and its committees."*

Benchmarking across other CSU auxiliaries found that several have adopted defined officer limits, with most commonly having two- or three-year terms with a maximum of six consecutive years. Some auxiliaries aligned officer terms with overall board member term limits. In addition, the Internal Revenue Service (IRS) emphasizes in its Governance and Related Topics: 501(c)(3) Organizations guide that strong nonprofits maintain processes for periodic leadership and board turnover to ensure accountability and independence. Similarly, professional governance organizations recommend one-year officer terms with limits of two to three consecutive terms, annual elections, and structured succession (e.g., chair-elect and past-chair roles).

Encouraging regular board turnover and officer rotation strengthens governance by introducing fresh perspectives, fostering broader engagement, and supporting continued innovation in the Foundation's leadership.

2. REMEDIATION ACTION REQUIRED – TERM LIMITS

To ensure compliance with its bylaws, foster an environment of innovation, and support broader engagement, the following remediation actions are required by the Foundation:

a. Establish and enforce term limits for governors in alignment with best practices.

b. Establish officer term limits and rotation in alignment with best practices.

c. Document a policy for board chair and committee chair rotation in alignment with requirements set forth in the governance committee charter.

3. GOVERNANCE

The Foundation's governance structure and governing documents were not fully aligned with applicable requirements, reducing compliance and limiting effective oversight.

We found that the Foundation's bylaws had not assigned responsibilities consistent with current practices and the composition and activities of its committees were not always in compliance with applicable laws and underlying committee charters. Specifically, we found that:

- **Executive Director:** The Foundation's bylaws stated that *"The Chair shall be the chief executive officer of the Corporation."* However, the vice president of university advancement was appointed as the executive director in December 2024, as approved by resolution of the board.

- **Audit Committee:** California Government Code §12586 permits audit committee membership to include individuals who are not members of the board, but prohibits officers or staff of the auxiliary organization from serving on the audit committee. Further, the Foundation's audit committee charter stated that *"The Audit Committee shall be comprised of not less than four members, none of which shall be an officer of the Board of Governors."* However, we found that the board treasurer had served as the audit committee chair since FY 2021/22.

- **Treasurer:** The Foundation had not documented delegation of the treasurer's key responsibilities to a Foundation employee. The Foundation had elected a community board member to serve as treasurer; however, we found that the role required in-depth review of the Foundation's accounting records in support of financial reporting. Although the Foundation's bylaws included a provision allowing these responsibilities to be delegated to management personnel, no documentation was provided to confirm that such a delegation had occurred. Further, a benchmarking review of seven CSU philanthropic auxiliaries indicated that:

Philanthropic Board Treasurers:

- Three of seven boards designated the treasurer position as ex officio and filled the role with a member of the university president's cabinet. Most commonly, the position was filled by the university's vice president of administration and finance.
- Three of seven boards assigned responsibility for appointing the treasurer/ CFO of the auxiliary to the Foundation's executive director.

- **Governance Committee:** The composition of the governance committee was not in compliance with the requirements set forth in its charter. Specifically, the committee's charter stated, *"The Governance Committee shall be comprised of no less than five and no more than seven members, each of which shall be members of the board of governors."* However, we found that the composition of the committee had included only four members since FY 2022/23. Since the time of our review, an additional member has been appointed to the committee. In addition, while the Foundation's bylaws require the Governance Committee to nominate and provide a slate of board members for officer positions, the Foundation was not able to provide documentation evidencing that this responsibility was performed during the period reviewed

- **Board Member Election:** The governance committee had not adequately documented the university president's approval of the FY 2022/23 board member nomination pool, as required by its charter. Specifically, the governance committee charter stated, "*The Governance Committee shall…Submit to the university president for ratification, the names of those proposed to be nominated or re-nominated to fill vacancies on the board in accordance with the bylaws.*" However, the Foundation could not provide evidence that this approval occurred before the new board member was elected in FY 2022/23. Though the process showed improvement during the most recent election in 2025, an opportunity remained to strengthen documentation to ensure consistent compliance with established protocols.

Appropriate governance helps to ensure regulatory compliance, enhances organizational transparency, and supports effective board oversight in alignment with the Foundation's mission.

3. REMEDIATION ACTION REQUIRED – GOVERNANCE

To ensure compliance with relevant regulations, laws, and Foundation governing documents, the following remediation actions are required by the Foundation:

a. Revise the bylaws to reflect current leadership roles, including the assignment of executive director to the vice president of university advancement.

b. Revise the audit committee's composition to align with applicable regulations, removing any officer of the board from committee representation.

c. Document delegation of treasurer responsibilities in alignment with current practices or reassign treasurer responsibilities in alignment with best practices.

d. Enforce requirements within the new board member election process to ensure necessary approvals are obtained and documented.

4. BOARD TRAINING

The Foundation had implemented an onboarding program for new board members; however, opportunities existed to expand both initial and continuing training to deepen the board's understanding of key risks facing higher education, their responsibilities in the philanthropic and research environments, and their broader obligations to the university.

Though the Foundation had established a new member onboarding program for new board members, we found that the program had not been revised in some time due to a lack of board turnover. Further, continuous and ongoing training was not provided to current board members at a specific frequency.

We found that the Foundation's typical orientation included a presentation and discussion covering the following areas:

- The Foundation's mission
- Budget overview and history of financial support to the university
- Endowment portfolio
- Sponsored programs
- Board responsibilities
- Committee responsibilities
- Overview of advancement

We reviewed onboarding materials from seven other CSU auxiliary organizations and found that:

Philanthropic Foundation Best Practice Training Topics:

- CSU overview and role of auxiliary organizations presented by the chief financial officer of the CSU Foundation.
- Review of institutional priorities in alignment with the university's strategic plan presented by the vice president of university advancement.

Sponsored Programs Best Practice Training Topics:

- Explanation of oversight relationships including the chancellor's office, the university president, and access to the Auxiliary Organizations Association (AOA).
- Purpose and scope of research activities including IDC.
- Discussion of relevant risks associated with management of sponsored programs.
- Involvement of the provost and other university liaisons to communicate fundamental research operations, university support, and overall mission.

Other best practices:

- Discussion of the university's strategic plan, connecting the mission to that of the auxiliary.
- Establishment of an annual training and education budget to support the board's continued education regarding relevant higher education risks and CSU topics, complete with consistent interaction with a known entity like Association of Governing Boards (AGB) or the similar organizations.

Enhanced onboarding and continuing education for board members strengthens the Foundation's governance by equipping members with the knowledge and context needed to make informed decisions, effectively oversee complex operations, and confidently fulfill their fiduciary responsibilities.

4. REMEDIATION ACTION REQUIRED – BOARD TRAINING
To strengthen the board's ability to make informed decisions and effectively oversee the auxiliary's operations, the following remediation actions are required by the Foundation: a. Revise the training structure to foster an environment of collaboration between the auxiliary, the university, the CSU system, and industry associations.

ORGANIZATIONAL STRUCTURE AND MANAGEMENT SERVICE AGREEMENTS

5. ROLES AND RESPONSIBILITIES

The roles and responsibilities of the Foundation and the Association were not sufficiently documented, making it unclear which entity key employees supported, thereby creating uncertainty in the basis for the management service agreement fee.

The Foundation's responsibilities are carried out in three ways: (1) by individuals directly employed by the Foundation, (2) by individuals employed by the Association but operating within the Foundation, with salaries reimbursed to the Association via an intercompany transaction, and (3) by Association employees who perform specific Foundation tasks under the terms of a Management Services Agreement (MSA) that includes a fee for services. However, roles, responsibilities, and cost recovery methods were not clearly documented, creating uncertainty regarding which tasks were performed by Foundation employees and which were performed by Association employees, and whether payment for services was aligned.

Intercompany Salaries and Benefits

Six positions on the Foundation's organizational chart were employed by the Association but worked exclusively on Foundation activities. These included:

- Director of Financial Services
- Director of Post-award Administration (vacant at the time of our review)
- Associate Director of Post-award
- Accounting Analyst
- Accounting Technician
- Grant Analyst III

We found that 100% of the responsibilities assigned to these employees were related to Foundation operations and that they performed no activities on behalf of the Association. Salary and benefits expenses for these employees were reported within the Foundation's administrative budget and included within its related expenses for financial reporting purposes. Payroll for these employees was reimbursed to the Association by the Foundation through an intercompany salaries and benefits transaction processed biweekly. We found that this structure was implemented to provide enhanced benefits packages to management personnel and long-term employees working within the Foundation, as the Association was able to provide additional options for its employees.

Management Services Agreement

The Association and Foundation maintained an MSA requiring the Foundation to pay $680,750 in FY 2024/25, in monthly installments, in exchange for services provided by the Association. We found that the MSA had not clearly outlined current services provided by the Association. Specifically, Exhibit A of the agreement listed financial and accounting services, as well as general administrative and management services, that were not reimbursed through the MSA fee. Instead, these services were performed by individuals whose costs were included in the intercompany salaries and benefits reimbursement, including, but not limited to:

- Accounts payable processing
- General ledger account analysis and financial reporting
- Preparation of investment portfolio of endowed funds

- Preparation of the Foundation operating budget
- Cash management and investment
- Grant and contract post-award administration
- Scholarship administration
- Administration of student loan funds according to donor intent
- Trust account administration
- Endowment management
- Donation and gift processing

In review of intercompany salary and benefits expenses, employee position descriptions, discussion with key personnel, and review of documentation related to key operations within the Foundation, we did not identify duplication of responsibilities and related costs in practice. However, inconsistency in documentation within the organizational chart and the MSA, as outlined above, contributed to a lack of clarity regarding the respective roles and responsibilities of the Foundation and the Association, creating difficulty in distinguishing which services were reimbursed through the MSA fee versus intercompany salary and benefit reimbursements. As a result, the basis for the MSA fee lacked transparency, raising concerns as to the appropriateness of the fee. See Management Services Agreement observation below for more information related to the fee.

Accurate and complete documentation of the Foundation's organizational structure, intercompany staffing arrangements, and MSA services enhances transparency for relevant stakeholders, improves accountability, and supports more effective oversight and resource management.

5. REMEDIATION ACTION REQUIRED – ROLES AND RESPONSIBILITIES

Foundation and Association

To improve transparency of roles and responsibilities between the Foundation and the Association and reduce uncertainty regarding payment mechanisms, the following remediation actions are required by the Foundation in conjunction with the Association:

a. Revise the Foundation organizational chart to distinguish between Foundation and Association employees.

b. Include a list of Association employees who perform services for the Foundation through the MSA within the Foundation's Corporate Handbook.

c. Revise the Foundation and Association MSA to reflect current services funded by the MSA fee.

University

To improve transparency and ensure the organizational structure continues to meet operational needs, the university should assess whether it remains appropriate for auxiliary services to function as a university department, including whether this structure provides adequate oversight, efficiency, and alignment with the needs of both the auxiliaries and the university.

6. MANAGEMENT SERVICE AGREEMENTS

The methodology used to establish MSA fees lacked formal documentation and consistency, reducing transparency and limiting assurance that fees accurately reflected actual costs incurred.

The Association had executed MSAs with seven other entities in addition to the MSA maintained with the Foundation, as outlined in Chart 1 below:

Chart 1
Association MSAs by Entity

Entity	Organization Type	FY 2024/25 Fee
CSU Fresno Foundation	Fresno State auxiliary organization	$680,750
The Agricultural Foundation of CSU Fresno	Fresno State auxiliary organization	$177,927
Associated Students, Inc.	Fresno State auxiliary organization	$80,427
CSU Fresno Athletic Corporation	Fresno State auxiliary organization	$62,198
Fresno State Programs for Children, Inc.	Fresno State auxiliary organization	$90,767
Maddy Institute	Public policy and public affairs institute	$10,795
New California Ventures, LLC	Wholly owned subsidiary	$5,250
Bulldog Foundation	Athletic Corporation fundraising 501c(3)	$10,710

The Association's methodology for establishing MSA fees across all organizations could be improved. Specifically, we found that:

- The Association supported MSA fees through an annual, time-based effort analysis, which estimated the allocation of Association employee time across Fresno State's six auxiliary organizations. However, the methodology for preparing the analysis was not formally documented or consistently applied year over year. Further, we found that it relied on a combination of actual and budgeted figures, reducing the reliability of the calculation.

- The effort analysis was developed by auxiliary services leadership without direct input from Association employees performing the work. Through discussion with Association personnel, we found that employees generally perceived their Foundation-related workload to be higher than the rates reflected in the effort analysis. Employees commonly cited the Foundation's research hiring and employment volume as a reason for the workload associated with the Foundation's operations.

- Total salary and benefits figures reflected in the effort analysis could not be directly traced to actual expenses for specific Association employees in FY 2024/25. Despite the discrepancies noted, we found that the salary and benefits amounts used to calculate the MSA fee were lower than the actual costs incurred as confirmed through system-generated payroll data.

- The Foundation's MSA fee included two additional charges related to depreciation expenses incurred for assets owned by the Association but being used by the Foundation. Specifically, annual depreciation of $17,695 for a parking lot/fence upgrade and $5,000 for an interior lighting upgrade were passed on to the Foundation through the MSA. However, the Association had not provided the Foundation with a depreciation schedule to track these amounts year-to-year. Moreover, allocating the full costs of these assets to the Foundation does not reflect the shared use of the building by the Maddy Institute and the Association.

- The Association had not adopted a process to reconcile the fee amount to actual expenses incurred at year-end to support the established rate.

- Amounts charged to all Fresno State auxiliary organizations were supported through the time-based effort analysis; however, the remaining three entities were charged an agreed-upon fee that was not included in the effort analysis, as the Association determined that the workload allocated to the smaller entities was immaterial.

Implementation and documentation of a consistent, data-driven methodology for assessing MSA fees across all agreements provides assurance that fee rates will align with actual expenses incurred. Further, equitable treatment across the customer base promotes accountability in the fee structure and strengthens stakeholder confidence in the integrity of MSAs.

6. REMEDIATION ACTION REQUIRED – MANAGEMENT SERVICE AGREEMENTS
To improve transparency in the MSA fee structure and ensure consistency across its customer base, the following remediation actions are required by the Association: a. Develop and formally document a standardized methodology for preparing the annual time-based effort analysis supporting all MSA fees, including defined procedures for determining the allocation of effort and the use of actual versus budgeted data. b. Incorporate employee feedback into the effort analysis process to further support the workload breakdown and the established MSA fees. c. Document and share relevant information supporting MSA fees with stakeholders, including a depreciation schedule supporting additional fees listed within the Foundation's MSA. d. Implement a year-end reconciliation process of actual expenses incurred compared to the effort analysis, to support established fee rates and revisions in future periods.

FINANCIAL PRACTICES AND NON-ENDOWED CASH

7. SEGREGATION OF DUTIES

The Foundation's banking access, disbursement controls, and financial system access were not appropriately arranged to separate key roles and responsibilities.

Banking and Disbursements
The Foundation maintained 22 bank accounts for the management of day-to-day operations and long-term investments, including administration of its wholly owned subsidiary, New California Ventures, LLC. We found that banking controls were not implemented appropriately in accounts held at Citibank, including the Foundation's general operating account. Further, disbursement documentation did not always include evidence of a separate preparer and reviewer. Specifically, we reviewed 14 disbursements from scholarship and trust accounts and found that:

- In five instances a wire transfer was prepared and approved by the same individual within the Citibank portal. All five transactions were wires to the university to fulfill scholarship needs or fund campus program accounts from underlying endowments. Transactions ranged from $2,207,189 to $5,313,302.

- In three instances, ACH payments from the Foundation to the Association were signed as prepared and reviewed by the same individual. Specifically, ACH payments covered the Foundation's monthly payment of the MSA fee to the Association and intercompany salary expenses for activities provided by Association employees. ACHs ranged from $48,027 to $85,071.

System Access
The Foundation used JDE as its financial system, with user access managed by the Association auxiliary information technology (IT) team. Access was granted to the system through an employee access form that was provided to the Association's IT team and approved by the Foundation financial services director for access to Foundation data and relevant modules. Users with more than inquiry level access

to Foundation data included Foundation employees, as well as Association employees performing work on behalf of the Foundation. At the time of our review, the auxiliary IT team had recently updated access and role assignments in the financial system as a result of implementation of a system upgrade. As such, we found that access had been granted to employees based on modules required in alignment with their responsibilities and that access was divided between standard users and administrative users.

We tested user access for five employees and found that two employees had been assigned administrative roles for all modules in the system, which provided them access to create and post transactions; process payments; revise vendor master file data, including bank information; and print checks. Per discussion with Foundation personnel, access was initially granted in this capacity for employee training purposes and did not reflect actual practices performed within the Foundation. However, as the opportunity existed for these activities to be performed, coupled with other segregation of duties issues noted above, access to the system at this level presented a large risk.

Additionally, the three other employees reviewed had access to modules that were incompatible with their duties, as outlined in Chart 2 below.

Chart 2
Foundation JD Edwards Module Access

Employee Title	Accounts Payable	Payment Processing	Accounts Receivable	General Accounting	Purchasing	Bank Account Changes
Financial Services						
Financial Services Director	Admin	Admin	Admin	Admin	Admin	Admin
Senior Staff Accountant	Admin	Admin	Admin	Admin	Admin	Admin
Accounting Technician	Standard	n/a	n/a	Standard	n/a	n/a
Accounting Analyst	n/a	n/a	Standard	Standard	Standard	n/a
Post-Award						
Post-Award Administration Director	Admin	n/a	Admin	Admin	n/a	n/a

Specifically, we found that these employees had system access to perform various operations, including, but not limited to:

- **Accounting Technician:** Enter accounts payable vouchers, purge processed transactions, post to the general ledger, and process payments.

- **Accounting Analyst:** Post to the general ledger, post accounts receivable transactions, purge processed transactions, perform bank account validation, generate purchase orders, and approve purchase orders.

- **Post-Award Administration Director:** Post to the general ledger, perform accounts payable voucher entry, make revisions to vendor master file information, purge processed transactions, and perform receipt entry.

We found that, although general user and administrative access had been separated, incompatible roles still existed within specific modules that had not been restricted within individual employee accounts at the time of our review. Although the Foundation was able to implement some mitigating controls, these controls operated outside of the system and could be circumvented. Historically, transaction reviews primarily relied upon the financial services director, who maintained access to post transactions in the system. However, as leadership changes were implemented, this responsibility shifted to the director of auxiliary services for many operations until appropriate accounting staff could be trained.

Due to the expanse of controls required across the various modules documented above, we were not able to test all controls in depth or identify mitigating controls for each activity. However, even with mitigating controls present, a significant risk remains that unauthorized changes, replacements, or payments could be executed outside of the system.

Strengthening segregation of duties among key operations enhances accountability and reduces the risk of misappropriation of funds or undetected errors. Further, clear separation of initiation, approval, recording, and reconciliation responsibilities improves data integrity and reliability of financial reporting.

7. REMEDIATION ACTION REQUIRED – SEGREGATION OF DUTIES
To ensure adequate segregation of duties are in place and reduce the risk of misappropriation of funds, the following remediation actions are required by the Foundation: a. Update Citibank access to ensure dual authorization is required within the banking portal for wire and ACH payments. b. Review user access and restrict access as needed to ensure adequate segregation of duties for JDE users with access to Foundation data. c. Document policies and procedures, including defined roles and responsibilities in alignment with appropriate segregation of duties for all operations performed by the Foundation. See additional policy recommendations within Observation 17 below.

8. FUND BALANCE RECONCILIATION

The Foundation, in conjunction with the Association, had not configured its financial system to allow it to generate adequate fund-level financial reporting, including cash allocations, resulting in reduced financial transparency for management and the board.

The Foundation's cash balance was held in seven operating bank accounts and included six fund categories:

- General Fund: Foundation general operating funds
- Designated Fund: Foundation reserve balances
- Sponsored Programs Fund: Activity related to management of grants and contracts
- Campus Programs Fund: Activity related to campus trust accounts
- Loan and Scholarship Fund: Scholarship cash balances and loans to students
- Endowment Fund: Donations not yet invested

One of the seven bank accounts was a large non-endowed short-term investment account held at Goldman Sachs. This non-endowed account was used to fund the general operating account, supporting the Foundation's day-to-day operations, and held the majority of the Foundation's total cash balance. We found that all seven bank accounts, including the non-endowed cash account, were reconciled monthly, and any reconciling items were appropriately identified and investigated for the month reviewed. However, at the time of our review, the Foundation was reconciling its total cash balance to its six fund categories annually during year-end closing through a manual process.

We found that the infrequent fund balance reconciliation increased the risk of misstatement and misappropriation while also holding back timely, reliable information for university leadership's advancement and resource allocation decisions. This annual reconciliation involved rolling forward prior-year balances and manually separating accruals from the system-generated statement of cash position among the six fund categories, ultimately providing ending cash balances allocated to each of the six categories. The financial system's current chart of accounts and object code structure did not support direct reporting of cash balances by fund. Though individual fund balances, such as activity related to individual trust accounts, were available upon request at the account level, this information was not consolidated or reported at the fund category level in a way that enabled effective oversight or decision-making.

Adequate reconciliation procedures, including timely reporting of cash balances, enhance financial transparency and provide management with the information necessary to make strategic decisions. Further, reliance on system-generated reporting rather than manual processes reduces workload and opportunity for error and helps prevent the risk of misstatement and inappropriate use of funds.

8. REMEDIATION ACTION REQUIRED – FUND BALANCE RECONCILIATION

To improve transparency and ensure integrity in reported cash balances, the following remediation actions are required by the Foundation:

a. Implement a process to reconcile cash balance to the fund level on at least a quarterly basis, but preferably monthly.

b. Establish written procedures and assign clear responsibilities for performing fund-level cash reconciliations, including steps for reconciliation, review, and appropriate segregation of duties.

9. BANK RECONCILIATIONS

The Foundation had not implemented an adequate internal control structure over the reconciliation of its 22 operating and investment accounts, increasing the risk of fraud, misappropriation of funds, and delayed detection of errors.

We reviewed one month of bank reconciliations to assess the effectiveness of the Foundation's internal control structures and to verify that reconciling items were appropriately identified and investigated on at least a monthly basis. We found that:

- Seven of 22 bank accounts were not reconciled at an adequate frequency, with reconciliations taking place only once per year, during year-end close. This included three accounts holding operating funds and investments for the Foundation's wholly owned subsidiary, New California Ventures LLC, and four Foundation investment accounts.

- Bank reconciliations generally lacked preparer signatures and dates, limiting the ability to confirm whether the preparer was independent of the reviewer or whether the reconciliation was timely performed. However, we found that the two reconciliations performed by an Association employee were signed and dated appropriately for the month reviewed. This service is one of the minimal accounting activities performed by the Association through the MSA arrangement.

- In general, reviewer signatures were present; however, review dates were not documented. As such, we were unable to determine whether review of the reconciliations occurred within a reasonable time frame.

Additionally, the individual assigned to investigate reconciling items within the main operating account also had broad access within the Foundation's bank accounts and financial system. Specifically, this included access to all modules in JDE and the ability to prepare and approve ACH and wire transfers from the operating checking account. (See additional details noted within the segregation of duties issue included above.)

Strengthening documentation, timing, and segregation of duties within the bank reconciliation process enhances transparency, reduces the risk of errors, and supports timely resolution of reconciling items. Further, adequate documentation of bank reconciliations reinforces the integrity of financial reporting and improves stakeholder confidence in the Foundation's management of assets.

9. REMEDIATION ACTION REQUIRED – BANK RECONCILIATIONS

To strengthen the internal controls within the bank reconciliation process, the following remediation actions are required by the Foundation:

a. Ensure that all bank accounts are reconciled on at least a monthly basis, including those related to investments and subsidiary organizations.

b. Require all reconciliations to be signed and dated by both the preparer and the reviewer to establish accountability and ensure that reconciliations are conducted in a timely manner.

c. Review and assign roles and responsibilities in alignment with appropriate segregation of duties as outlined within Observation 7 above.

10. TRUST ACCOUNTS

The Foundation's trust account agreements were not always renewed in accordance with its trust account policy, and gaps in the policy statement contributed to a lack of clarity regarding the placement of funds when accounts were closed.

The Foundation's *Trust Account Policy* and application form indicated that trust accounts have a maximum term of three years. A renewal request may be submitted before the end of the three-year term to be approved by the university's chief financial officer. We reviewed 30 trust accounts and underlying agreements and found that in 11 instances, the agreement had not been renewed in accordance with the Foundation's policy. Expiration periods ranged from one year to five years overdue, and in one instance, an agreement did not contain any active employees as account signatory.

Further, the trust account policy indicated that accounts with no activity for more than one year will be closed with notification to the account signatory and responsible campus officer. However, we found that the policy did not address the process for reallocating remaining funds upon account closure. Though we did not identify any instances in which accounts were closed and funds were improperly allocated following a closure, the absence of a defined procedure increases the risk of inconsistent handling.

Additionally, we noted that the Foundation maintained high balances in total campus programs and trust accounts that may not have been spent promptly, raising concerns about timely fulfillment of donor intent. A majority of the trust accounts maintained by the Foundation on behalf of the university were funded, at least partially, through endowment distributions. Distributions from endowments carry with them specific donor requirements for the use of funds, and delays in using these funds postpones benefits to the university and its students. Further, we found that lack of timely fund balance reporting created obstacles in monitoring campus program and trust accounts to ensure appropriate spending levels. Historically, the Foundation provided trust balance information to university management on an annual basis, which was not frequent enough to adequately monitor spending and implement a spending plan. Benchmarking with other CSU philanthropic foundations pointed to several best practices to address these obstacles:

Trust and Campus Program Account Monitoring Best Practices:

- Centralization of trust account agreement initiation, management, and monitoring ensures that accounts are used appropriately, dormant accounts are identified, and account owners are aware of the funds under their control.
- Use of detailed trust account agreements, including descriptions of donor intent if funds originated from donations, ensures that donor funds are used appropriately.
- Implementation of monthly trust balance monitoring allows the university to ensure that appropriate spending occurs throughout the year, in alignment with donor intent.
- Implementation of a “spending plan form” helps to ensure donors’ contributions are used as intended. Completion of the form can be required for accounts receiving annual endowment allocations and for accounts with minimal financial activity.
- Collaboration with university leaders and continued education of account owners ensures that university personnel are aware of fund balances, spending requirements, and the overall philanthropic mission of the university.

Timely renewal of trust accounts and documentation of clear procedures for fund placement upon closure supports effective oversight, including accurate reflection of appropriate account signatories, and promotes consistent, transparent management of trust funds. Further, prompt spending of disbursed donated funds ensures fulfillment of donor intent and provides support to the university community and student population in alignment with the university’s philanthropic goals.

10. REMEDIATION ACTION REQUIRED– TRUST ACCOUNTS

To ensure consistent handling of trust account balances and appropriate placement of funds upon closure, the following remediation actions are required by the Foundation:

a. Enforce timely renewal of trust account agreements, including revision of account signatories when applicable.

b. Revise the trust account policy to address placement of funds upon closure of trust accounts.

c. Implement a trust account monitoring plan to educate and encourage university spending of donated funds maintained within trust accounts in a timely manner.

11. RESERVES

The Foundation's reserve policy was not based on actual or budgeted expenditures, limiting assurance that reserve balances were appropriately sized to support ongoing operations.

The Foundation's reserve policy included two categories: general contingencies and sponsored programs reserves. The general contingency reserve was required to maintain a minimum balance equal to twice the historical average of the annual university distribution. The university distribution was a lump-sum amount to be distributed from the Foundation to the university to support various functions and initiatives, including IDC allocation. The lump-sum amount was approved by the Foundation's board through the annual budget. The sponsored programs reserve was calculated as a percentage of the prior two fiscal years' direct and indirect expenditures. Though we found that the board reviewed the reserve methodology and balance annually, and that the university president approved the reserve balance in conjunction with the annual budget, we identified opportunities to enhance the methodology to better align with best practices at other CSU auxiliaries:

> **Reserve Balance Methodology:** All seven auxiliary reserve policies we reviewed employed a methodology based on average annual or monthly expenditures, typically between three and six months of operating expenses. Specifically, reserves for working capital, economic uncertainty, and current operations were based on actual or budgeted operating expenses that could easily be supported within the auxiliary's current or previous budget.

Implementation of a reserve methodology supported by actual or budgeted operating expenditures provides a more accurate reflection of operational needs, allowing the Foundation to maintain appropriate financial safeguards while ensuring reserve balances are aligned with the scale of ongoing activities.

11. REMEDIATION ACTION REQUIRED – RESERVES
To ensure reserve balances align with the Foundation's level of activity, the following remediation actions are required by the Foundation: a. Revise the reserve methodology to rely on actual or budgeted operating expenditures.

12. NET SURPLUS

The Foundation did not consistently document or report cumulative net surplus balances, reducing transparency and limiting the ability of stakeholders to assess and plan for future spending.

Historically, the Foundation generated a recurring net surplus balance from its multiple sources of revenue, including:

- Earnings on non-endowed cash
- Endowment administrative fees
- Indirect cost recovery
- Handling fees
- Administrative fees

We found that the Foundation's calculation of net surplus relied on net asset balances without donor restrictions and was derived from the total unrestricted cash balance. However, as the net surplus amount relies on cash balances tied to the fund-level reconciliation, as previously discussed, we could not independently confirm the accuracy of the specific surplus amounts reported. In addition, because revenue sources are not directly traceable to expenses, we could not quantify how much of the net surplus is related to each of the revenue categories identified above.

Further, although the Foundation's annual budget includes a net surplus figure, the Foundation did not present a consolidated roll-forward or cumulative surplus balance within the budget. This practice reduced transparency over the Foundation's true year-end net surplus and resulted in recurring unallocated balances. For example, in FY2023/24, actual interest earned on non-endowed cash exceeded the budget by $2,297,481. The variance remained unallocated and was carried forward within the Foundation's net surplus balance into the following fiscal year. Though various reports document prior-year uses of surplus to support university distributions and a cumulative assessment of net surplus was available upon request, we found that this information was not made available on a consistent and standardized basis.

Additionally, the Foundation had not established a documented net surplus policy or a mission-driven spending plan to guide the spending of surplus funds. We found that distributions were planned through the annual budget process and consultation with university leadership and the Foundation's board. However, a standardized structure did not exist to support these decisions and guide the process from year to year. In our review of seven other CSU auxiliaries, we noted the following best practices:

Net Surplus Reporting Best Practice: One foundation included carryforward reserve balances within its annual budget to transparently report the full net surplus amount to the university and board.

Net Surplus Policy: Though net surplus spending plans were not consistently documented across the auxiliaries we reviewed, we noted the following effective practices for determining allocations:

- Net surplus spending aligned with the university's strategic plan.
- University and board leadership were engaged in the decision, providing input on relevant initiatives and their priority level.
- Independent assessments, such as those from external consultants, were used to assist in identifying the most critical needs of the university from a third-party perspective to inform targeted investments in initiatives.

Standardizing net surplus reporting and providing cumulative balances enhances the transparency of total fund balances for relevant stakeholders, ensuring informed decision-making. Further, implementing a net surplus policy and spending plan ensures distributions are mission-driven and provides a documented basis for funding initiatives.

12. REMEDIATION ACTION REQUIRED – NET SURPLUS

To enhance transparency and ensure that net surplus spending is adequately supported and documented, the following remediation actions are required by the Foundation:

a. Include a roll-forward cumulative net surplus balance within its annual budget or other consistent reporting to the board and university management.

b. Establish a documented net surplus spending policy that outlines the methodology for distribution of that net surplus.

INDIRECT COST RECOVERY

13. INDIRECT COST RECOVERY ALLOCATIONS

The Foundation relied on an outdated methodology to prepare the IDC recovery allocation on an annual basis, resulting in the university's lack of confidence in the calculation and a net surplus IDC amount maintained by the Foundation at year-end.

Fresno State maintained the eighth largest research program in the CSU system based on research dollars collected in FY 2023/24. However, the Foundation's methodology for calculating allocation of IDC revenue relied on outdated assumptions, did not align with fluctuations in actual IDC collection, and imposed a cap on AA allocation amounts, resulting in surplus IDC maintained by the Foundation. Specifically, we found that the Foundation's IDC allocation to AA was documented annually as outlined in the FY 2023/24 example below:

Chart 3
Foundation FY 2023/24 IDC Allocation Calculation

		2023-24
		(based on FY 2022-23 Actual)
Direct Grant & Contract:	*$*	*36,542,294*
IDC:	*$*	*3,751,315*
Value of 1% IDC:	*$*	-
Less: Fdn Direct Exp	*$*	*(1,541,808)*
Net Earned IDC:	$	2,209,507
Projected IDC to AA:	*$*	*1,427,351*
Less:IDCR to Univ:	*$*	*(447,700)*
Estimated Net IDC to AA:	*$*	*979,651*
Total Distribution from Foundation:	***$***	***2,150,000***
Less: Allocation to Academic Affairs:	$	979,651
Less: Allocation to Advancement:	$	888,000
Less: Allocation to UIF:	$	325,000
Net Surplus/Deficit:	$	(42,651)
Gross Allocation made to AA trust account	**$**	**1,437,000**

We identified the following necessary improvements within the current calculation methodology:

- **Direct Grant & Contract and IDC:** The calculation used prior-year grants and contracts revenue, as well as IDC recovery, rather than allocating current year dollars, creating a lag in allocation of actual IDC amounts. For example, in FY 2023/24 the Foundation's actual IDC revenue totaled $5,858,940.

As such, the current methodology resulted in $2,107,625 in excess IDC maintained by the Foundation, until the calculation reconciled in FY 2024/25.

- **Less: FDN Direct Exp:** The Foundation recovers its direct expenses related to administration of sponsored programs before allocation of IDC to other departments. However, expenses were based on amounts calculated in FY 2009/10 and incrementally increased 3% per year thereafter.

- **Projected IDC to AA:** The Foundation projects 38.05% of total IDC collected to be allocated to AA. We found that this percentage was established in FY 2011/12; however, the Foundation had not retained documentation supporting the original calculation. Additionally, the methodology had not been reviewed since its implementation to assess whether it continued to reflect current market standards or whether it adequately supports the evolving needs of both the university and the Foundation.

- **Less: IDCR to Univ:** The Foundation reduced the IDC revenue passed through to the university by subtracting the amount owed under the university's cost allocation plan. As a result, a portion of the IDC was instead used to fulfill the Foundation's obligation to the university. We found that this offset accounted for 100% of the Foundation's required contribution to the cost allocation plan, effectively placing the full burden on the research function.

- **Total Distribution from Foundation:** The Foundation provides a lump-sum distribution to the university on an annual basis that contains three separate categories of support: IDC allocation to AA, university advancement support, and contribution to the university initiatives fund. The total distribution amount had historically been capped at $2.15 million, as approved by the Foundation's board of governors, and was raised to $2.615 million in FY 2024/25. We found that two portions of the annual distribution remained stagnant while the IDC passthrough amount absorbed any necessary reductions imposed due to the cap. This methodology restricted the actual IDC allocation amount below 38.05% of total IDC collected, preventing the IDC allocation to AA from fluctuating with the actual IDC amount recovered.

Due to the limitations imposed within the Foundation's calculation as outlined above, we found that an unallocated IDC amount remained after the calculation was performed each year, as detailed in Chart 4. This surplus was maintained within the Foundation's central account and could not be directly traced to specific expenses to determine whether IDC was spent in support of research. We noted the following excess IDC amounts that were unallocated in the previous three fiscal years:

Chart 4
Unallocated IDC by Fiscal Year

Fiscal Year	Total IDC Surplus Unallocated Due to Capped University Distribution
2021/22	$971,923
2022/23	$1,414,897
2023/24	$772,507
*The Foundation board of governors approved an additional $500,000 allocation in FY 2023/24, which reduced the unallocated IDC amount and brought the actual distributed percentage to 39%.	

We found that methodologies for calculating IDC allocations varied across other CSU auxiliaries housing the post-award function. Specifically, we reviewed seven auxiliaries that we selected based on comparable collection of research dollars and identified the best practices:

Chart 5
IDC Percentage Transferred to the University

CSU Auxiliary	IDC Percentage Transferred to University
Fresno State Foundation	38.05% (estimated)
A	65% to AA
B	50% to AA
C	45% to AA, 11% to pre-award
D	23% to AA, 17% to pre-award
E	29% to university
F	30% to university
G	21% to AA, 23% to pre-award

A Best Practice: One auxiliary housing the post-award function employed the following methodology for calculating and allocating IDC on an annual basis:

- 35% is assessed to cover the auxiliary’s post-award expenses.
- 15% is allocated to colleges.
- 10% is returned to the principal investigator if they were able to secure the full negotiated IDC rate.
- 40% is allocated to the pre-award office operating out of the university to cover partial pre-award-related expenses and assist in growing the research function.

Establishing an IDC allocation methodology based on current data and actual research dollars collected enhances the accuracy of the calculation and increases transparency for all relevant stakeholders. Documentation of a transparent methodology improves stakeholder confidence in the IDC allocation process and supports the university’s efforts to grow the research function in alignment with its mission and strategic plan.

13. REMEDIATION ACTION REQUIRED – INDIRECT COST RECOVERY ALLOCATIONS

To improve transparency in the calculation for IDC allocation, strengthen university relationships, and support the university’s efforts to grow the research function, the following remediation actions are required by the Foundation:

a. Establish a revised IDC allocation methodology that relies on current assumptions, reflects actual expenses incurred, and ensures that IDC is used appropriately.

b. Document the methodology for IDC allocation in a concise and transparent manner and make it available for review by relevant stakeholders.

14. FOUNDATION SURCHARGE

The Foundation's administrative surcharge on grants and contracts revenue was not transparently disclosed or reported.

The Foundation had established a 1% administrative fee on grants and contracts revenue that was not otherwise subject to IDC. The surcharge was initially established in FY 1999/00 and was implemented after approval from dean's council and the university president at the time. The surcharge was intended to cover a portion of the Foundation's costs in the administration of grants and contracts in cases where IDC would not otherwise be collected. The fee was invoiced quarterly to university departments with instructions to use funding sources other than the associated grant or contract accounts, as indirect costs were not allowable. However, the surcharge had not been formally documented in Foundation policies or procedures, resulting in lack of clarity among university personnel.

Additionally, the Foundation had historically reported surcharge revenue within its total IDC revenue line item in its annual budget and financial statements. However, as the fee is administrative in nature and was not related to allowable grants and contracts activity, it would more appropriately be classified and reported as administrative fee revenue.

Establishing a formalized procedure and properly classifying administrative fee revenue enhances transparency and prevents inaccurate financial reporting. Further, clear documentation and communication of surcharges and fees helps stakeholders make informed decisions regarding appropriate funding sources and allowable uses.

14. REMEDIATION ACTION REQUIRED – FOUNDATION SURCHARGE
To ensure accuracy in financial reporting and enhance transparency for relevant stakeholders, the following remediation actions are required by the Foundation: a. Establish a formally documented policy or procedure governing the implementation, calculation, and classification of the surcharge, available for university review. b. Reclassify administrative fee revenue separately from IDC for financial reporting purposes.

ENDOWMENT MANAGEMENT

Endowments are long-term gifts that are typically invested together through a pooled, unitized investment model intended to preserve purchasing power, honor donor intent, and provide a stable source of support to university programs. Each endowment holds "units" (like shares) based on the amount contributed, and the balance rises or falls with the pool's market value change as the unit price moves. In a standard period, three linked processes drive how individual endowment balances change: 1) market value change is posted to update each fund's invested balance in proportion to its units; 2) an endowment administrative fee (EAF) is assessed (where policy or donor agreement allow) to recover investment, accounting, and stewardship costs, commonly as a percentage of market value; and 3) the board-approved income distribution is applied and transferred to the related spending accounts in accordance with donor terms. As discussed in the observations below, these three core processes were assessed for consistency with board approvals and underlying gift agreements, accuracy, and proper documentation and transparency.

15. ENDOWMENT MARKET VALUE CHANGE

The Foundation's use of manual calculations and absence of a supporting endowment management system limited its ability to post endowment market value changes in alignment with industry standards and resulted in inconsistent treatment of total variances in posting.

We found that the Foundation's standard practice for posting endowment market value changes involved performing an annual unitization of the portfolio's gain or loss at year-end. Each endowment's ownership in the pooled investment portfolio was expressed in units based on the amount contributed and the unit value at the time of the allocation. The performance of the overall pool is reflected through changes in the unit value, which supports equitable treatment of all participating endowments regardless of size.

Although this methodology aligned with standard investment accounting practices, the Foundation posted market value changes only once annually. Through discussions with subject matter experts and review of comparable CSU philanthropic foundations, we found that quarterly posting of market value change was the standard practice. Although the Foundation used JDE to calculate unitized values, other critical components of endowment management, including application of the EAF and annual income distribution, were calculated manually. As these processes are performed on an annual basis and rely heavily on various market value rates, shifting to a quarterly market value posting would increase complexity, workload, and the potential for errors under the process. We found that other institutions have been successful in posting more frequent changes due to the use of an endowment management system.

Further, we found that the market value calculation applied across endowments in the JDE system typically resulted in a small rounding variance. The Foundation's practice for addressing this variance was to reduce the balance of a single endowment account, which historically was chosen due to it maintaining the largest balance. However, we found that this account was no longer the largest maintained within the endowment pool, and the Foundation could not provide documentation supporting the appropriateness of allocating the variance in this manner. In FY 2023/24, this approach resulted in a $2,895 reduction to the selected endowment.

Implementing a quarterly market value change process and a transparent, systematic method for addressing rounding variances enhances the accuracy and timeliness of endowment reporting. Aligning the Foundation's practices with industry standards ensures that financial information reflects current conditions, enabling stakeholders to make informed spending and investment decisions.

15. REMEDIATION ACTION REQUIRED – ENDOWMENT MARKET VALUE CHANGE

To better align the Foundation's endowment management practices with industry standards, provide current financial information to relevant stakeholders, and ensure appropriate treatment of variances in critical calculations, the following remediation actions are required by the Foundation:

a. Increase the frequency of market value postings (e.g., quarterly) to provide timely and accurate reporting in alignment with industry standards, with the understanding that implementation of an endowment management system (see Observation 18) may be necessary to support this process efficiency and reduce the risk of error.

b. Establish and document an equitable methodology for addressing rounding variances within key endowment management calculations, ensuring compliance with underlying donor restrictions and intent.

16. ENDOWMENT ADMINISTRATIVE FEE

The Foundation's EAF structure relied on a fixed lump-sum approach, creating complexity in application, limiting donor clarity, and preventing alignment with industry standards and market trends.

We found that the Foundation employed a methodology for establishing the EAF that was not adequately documented within current policies and procedures. The current methodology was initially approved by the Foundation's board of governors by resolution passed in 1996 that approved the assessment of an EAF on pooled endowments maintained by the Foundation. The resolution included the following requirements:

- Amounts assessed for administrative fees shall not diminish the original principal amount of the endowment.
- All assessments for management fees shall in no event exceed 2.5% of the average fair market value of the implicated endowment fund.
- Assessment for management fees shall be deposited in the Foundation Designated Fund account for ultimate use and distribution as approved by the board.

In practice, we found that the fee remained stagnant at a $1.561 million lump-sum fee annually, with the amount unitized across endowment accounts, rather than reflecting a set percentage. This equated to 0.92% in FY 2023/24 and an anticipated 0.8% in FY 2024/25 of the total market value of the pooled endowment balance. Use of a lump-sum fee rather than a set percentage increased risk and created a higher workload. Specifically, the methodology:

- Prevented fluctuation of the fee in alignment with market performance.
- Required complex, manual application, performed outside of the system, of the fee rate across endowment accounts.
- Reduced donor clarity of the fee rate applied to individual endowment accounts as the rate fluctuated from year to year.

We found that this methodology was uncommon among other CSU philanthropic auxiliaries, as detailed in benchmarking results included below:

EAF Methodology: We found that the Foundation was the only philanthropic auxiliary in the CSU system that employed a lump-sum EAF methodology. The other 23 foundations reviewed had established a percentage-based fee.

CSU EAF Rates: We found that 21 of the 24 foundations in the CSU system had established an annual EAF between 1% and 2%. All seven philanthropic foundations within Fresno State's peer group had established an EAF between 1% and 2%.

A Best Practice: One philanthropic auxiliary had established a sliding scale model in which larger endowments were assessed a lower fee. For example, endowments with a market value under $1 million were assessed a fee of 1.45%, while those over $10 million were assessed a fee of 1.05%.

Chart 6
External Institution EAF Rates

University	Endowment Balance FY 2023/24	EAF Rate
UC Irvine	$899 million	0.5% annual
Washington State University	$733 million	1.5% annual
Oregon State University	$1.54 billion	0.75% annual

Further, we found that the fee was intended to compensate the Foundation for managing pooled endowment assets and providing stewardship support to scholarship and trust accounts, university advancement, and donors. However, due to the structure of the Foundation's expense accounts, it was not possible to determine whether revenues collected through the EAF were used in relation to philanthropic activity and management of endowments.

Appropriate documentation of EAF methodology and approval for allocation rates ensures transparency to relevant stakeholders, providing assurance that endowment funds are administered in alignment with donor intent and in support of the university's mission. Further, implementation of a percentage-based EAF methodology allows the Foundation's cost recovery to scale in alignment with the pooled endowment's market fluctuations, protect donor endowments in bear markets, and allow the Foundation to prevent structural budget deficits over time. Additionally, percentage-based fees account for inflation and prevent complex unitization calculations across the endowment pool.

16. REMEDIATION ACTION REQUIRED – ENDOWMENT ADMINISTRATIVE FEE

To better align the Foundation's EAF methodology with industry standards and provide transparency in the rate allocation for relevant stakeholders, the following remediation actions are required by the Foundation:

a. Revise the EAF structure to implement a percentage-based fee in alignment with best practices.

b. Document the EAF methodology within Foundation policies, including assessment for all pools maintained.

17. ENDOWMENT INCOME DISTRIBUTION

The Foundation's process for calculating endowment distributions introduced unnecessary risk and administrative burden by relying on manual procedures and informal consultation with account owners, resulting in inconsistent distribution practices that did not always align with underlying endowment agreements.

The Foundation prepared an income distribution from the endowment on an annual basis, taking into consideration analysis and input from its investment and budget committees, as well as the needs of university programs that benefited from the distribution. The distribution was measured as a percentage of the endowment's average fair value over the prior 12 quarters through the calendar year-end preceding the fiscal year in which the distribution was planned. We found that Foundation management prepared this calculation and presented the rate to the board of governors; however, the standard rate was not representative of the underlying application.

Foundation management prepared the endowment distribution calculation and presented the standard distribution rate to the appropriate committee for approval; however, the approved rate was not consistently applied in practice. Though the annual process included a calculated distribution rate based on the methodology documented above, the Foundation also consulted with deans and account owners before transferring funds from endowment accounts to associated trust or scholarship funds. This consultation allowed colleges to take the full distribution amount, reinvest the full distribution into the endowment, or accept a reduced portion with the remainder reinvested. As a result, the actual distribution varied from the board-approved rate and did not align with donor intent. In FY 2023/24, the approved rate prepared by the Foundation for endowments that were not underwater was 3.65%, but due to these adjustments and other nuances in the process, the effective rate applied was 5%. Per systemwide benchmarking statistics, we found that this process was not aligned with common practice, as outlined within benchmarking results below:

CSU Endowment Distribution Rates: We found that 21 of 24 foundations in the CSU system had established an annual set distribution rate that was not adjusted year-to-year. Fifteen foundations reviewed used a 4% distribution rate based on a moving average of the endowment market value, including five of the seven foundations within Fresno State's peer group. The highest percentage noted was 4.5%, and the lowest was 3%.

Distribution Best Practice: Discussions with subject-matter experts and review of distribution practices across other CSU foundations revealed that industry-standard methodology did not allow individual units to modify the board-approved endowment distribution rate for specific funds. Instead, distributions were required to be taken in full or fully reinvested into the endowment, with no partial or alternative variations permitted.

Standardizing the application of the board-approved endowment distribution rate across all funds and units allows the Foundation to reduce inconsistencies, uphold the integrity of the pooled investment model, and ensure compliance with donor intent. Consistency in application minimizes the need for complex manual calculations and reduces the administrative burden associated with tracking and reporting variable rates. Further, applying a consistent methodology enables the Foundation to more effectively support the university's mission by ensuring that funds are used in a timely and impactful manner that promotes continued philanthropy and support for university initiatives.

17. REMEDIATION ACTION REQUIRED – ENDOWMENT INCOME DISTRIBUTION
To ensure compliance with donor intent, minimize the risk of inconsistencies and calculation errors, and reduce administrative burden, the following remediation actions are required by the Foundation a. Implement an endowment income distribution process that applies the board-approved distribution rate uniformly across all applicable funds. b. Eliminate account owner input where documentation of donor intent is present.

18. ENDOWMENT MANAGEMENT SYSTEM

The Foundation's reliance on manual operations no longer adequately supported the size and complexity of its endowment portfolio, increasing the risk of error and inefficiency.

Review of the Foundation's endowment management processes revealed that key calculations, such as the allocation of the annual EAF and income distribution, were performed manually outside of the financial system. These calculations relied heavily on large, complex workpapers that were carried forward and modified year after year. This approach introduces risks of manual error and version control issues and reduces the Foundation's ability to revise its procedures to align with industry standards, particularly as the volume and complexity of endowment activity grows. We found that Fresno State's endowment was the third-largest in the CSU system; however, the Foundation was one of two auxiliaries within its peer group that had not implemented the use of an endowment management system. We conducted systemwide benchmarking to provide background on commonly used endowment management systems as outlined below:

Systemwide Endowment Management Systems:

- 14 CSUs used Fundriver to manage endowment activity.
- Five CSUs used PeopleSoft and Excel.
- Two CSUs used Financial Edge with Cognos reporting.
- One CSU used an internally developed program.
- Fresno State Foundation used JDE and Excel.

Relevant Peer Group Endowment Management Systems:

- Five of seven CSUs used Fundriver, one CSU used an internally developed system, and one relied on capabilities in Financial Edge.

Transitioning from manual to system-based processes for key functions like endowment management improves accuracy in calculations, reduces the risk of error, and increases operational efficiency.

18. REMEDIATION ACTION REQUIRED – ENDOWMENT MANAGEMENT SYSTEM
To strengthen internal controls surrounding endowment management, the following remediation actions are required by the Foundation: a. Evaluate potential endowment management systems. b. Implement services offered of selected system to ensure alignment with the volume and complexity of the Foundation's endowment activity.

OTHER OPERATIONAL AREAS

19. POLICIES AND PROCEDURES

The Foundation had not established documented policies and procedures for several key operational areas, resulting in a lack of formalized guidance to support consistency and compliance within critical functions.

We found that as the Foundation expanded over time, key operational responsibilities gradually shifted from the Association to the Foundation; however, longstanding personnel continued to rely on institutional knowledge rather than documented policies and procedures to carry out day-to-day operations. As a result, formal guidance was lacking in several critical areas. Specifically, we identified the following policy gaps related to core functions performed within the Foundation, as outlined in Chart 7 below:

Chart 7
Foundation Policy Gaps

Policy Area	Key Function
Accounts Receivable	Oversight of accounts receivable, including aging schedules and recording allowance for doubtful accounts
	Collection of receivables and authorization of write-offs
Cash Management	Control of cash and cash equivalents, including separation of cash-handling duties, safeguarding of funds, and accountability
Revenue Recognition	Controls and processes for invoicing
Long-Term Debt	Documentation for when debt may be incurred, appropriate authorization, and ongoing and periodic recording of debt liabilities and amortization
Property and Equipment	Physical counts of property and equipment, tagging, tracking, capitalization, and disposal of assets
Vendor Master File Management	Processes for adding and removing vendors, verifying vendor information, and general supplier change management
Disbursements	Delegation of authority procedures, authorized payment pathways, and defined roles and responsibilities within the disbursement cycle
Credit Cards	Allowable purchases, reconciliation procedures, and separation of duties
Financial Reporting	Periodic account reconciliations, including bank reconciliations, cash-to-fund balance reconciliations, accounts receivable, investments, debt, property and equipment, and accounts payable
	Review of financial statements, flux analysis, and period-end closing

	procedures
Philanthropic Activities	Processing and recording procedures for cash gifts and cash management, check-handling procedures, and deposit reconciliation
	Processing and recording of non-cash gifts, including custody, tagging, and capitalization
	Fundraising events, safeguarding of assets and custody, and non-cash gifts disposal procedures
Foundation Administrative Fees	Purpose of the Foundation 1% administrative fee related to grants and contracts, authority to establish the fee, and methodology for setting the rate
Endowment Administrative Fee	Methodology for establishing the fee and approval process, including the fee structure for all endowment pools maintained

Establishment of comprehensive and current policies and procedures promotes consistency in operations, improves compliance with applicable regulations, and prevents loss of historical knowledge when the organization experiences turnover.

19. REMEDIATION ACTION REQUIRED – POLICIES AND PROCEDURES

To strengthen internal controls, improve compliance with applicable regulations, and ensure consistent performance of key operations, the following remediation actions are required by the Foundation:

a. Develop and document written policies to address the gaps identified, including definition of roles and responsibilities and appropriate segregation of duties.

b. Establish and document a defined policy review process, including required frequency of review.

20. SERVICE PROVIDERS

The Foundation relied on longstanding service providers without periodically evaluating alternative options, limiting assurance that services remained competitive and aligned with organizational needs.

We found that the Foundation had engaged the same external audit firm for more than 10 years and the same investment manager for more than 15 years without initiating a formal bidding process or conducting a competitive review of alternative providers. While these long-term relationships provided continuity, particularly during recent system upgrades, the absence of periodic reevaluation limited assurance that services remained competitive, are aligned with the Foundation’s evolving need, and that service quality remained high.

Implementation of a formal process to periodically review and competitively bid long-term service provider relationships strengthens governance, promotes transparency in operations, and ensures the Foundation is receiving high-quality services at a competitive value.

20. REMEDIATION ACTION REQUIRED – SERVICE PROVIDERS

To enhance transparency and strengthen internal controls surrounding service providers, the following remediation actions are required by the Foundation:

a. Implement a formal process to periodically engage in competitive bidding for key services.