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October 12, 2018

Khira Griscavage
Associate Chancellor
Chancellor's Office

Julie Hooper
Vice Chancellor
University Development and Alumni Relations

Associate Chancellor Griscavage and Vice Chancellor Hooper:

We have completed our audit of affiliated organizations as per our annual service plan, in accordance with the Institute of Internal Auditors' *Standards for the Professional Practice of Internal Auditing* and the University of California Internal Audit Charter.

Our observations with management action plans are presented in the accompanying report. Please destroy all copies of draft reports and related documents. Thank you to the staff of University Development and Alumni Relations and the Chancellor's Office for their cooperative efforts throughout the audit process. Please do not hesitate to call on Audit and Advisory Services if we can be of further assistance in this or other matters.

Respectfully reported,

Jaime Jue
Interim Director

cc: Chancellor Carol Christ
Associate Vice Chancellor Lishelle Blakemore
Executive Director Kevin Crilly
Associate Director Randi Silverman
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AUDIT AND ADVISORY SERVICES

Affiliated Organizations

Audit

Project No. 18-706

October 12, 2018

Prepared by:

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Interim Director

**University of California, Berkeley
Audit and Advisory Services
Affiliated Organizations**

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OVERVIEW

Executive Summary

The purpose of the audit is to assess the infrastructure and system of controls used to evaluate arrangements with affiliated organizations and to monitor related activities and performance for the purpose of ensuring they serve the best interests of the university.

As defined in Regents Policy 5203: *Policy on Support Groups, Campus Foundations, and Alumni Associations*, affiliated organizations are generally volunteer groups or nonprofit organizations that support the university's mission but do not fall under the formally defined categories of support groups, campus foundations or alumni associations.

Based on the results of the audit work performed, we observed the following process improvement opportunities for internal control:

- determine whether a re-delegation of approval authority from the Chancellor to a designee would improve oversight and ensure better visibility to the entire population of affiliated organizations at any given point in time;
- evaluate the extent to which risk-based periodic monitoring of contractual relationships with affiliates is warranted by campus units that partner with affiliates; and
- develop local guidelines to assist campus units considering potential affiliation on topics such as identifying a potential affiliate relationship, negotiating elements of an affiliate agreement, obtaining approval for such an agreement, establishing protocols to ensure the accuracy and completeness of annual reporting requirements to the UC Office of the President, monitoring ongoing relationships, and identifying and escalating potential risk issues.

In the absence of such improvements, there may be increased risk of inappropriate use of university resources (financial, facilities, employees, or brand), unforeseen financial and legal liabilities, and conflicts of interest for individuals serving both the campus and the affiliate.

We note that these observations are similar to our prior 2014 audit on this subject.

Source and Purpose of the Audit

The purpose of the audit is to assess the infrastructure and system of controls used to evaluate arrangements with affiliated organizations and to monitor related activities and performance for the purpose of ensuring they serve the best interests of the university.

Scope of the Audit

The audit scope included organizations identified and reported to the UC Office of the President by the campus as affiliated organizations, as well as those where a determination as to their affiliation status has not yet been made.

Background Information

Over the years, many organizations have worked parallel to or in conjunction with the campus in providing services that ultimately benefit both the students and the campus. Affiliated organizations are defined as organizations that do not fit into the definitions of a support group, campus foundation, or alumni association. UC Regents Policy 5203: *Policy on Support Groups, Campus Foundations, and Alumni Associations* addresses affiliated organizations. The policy indicates that the campus may enter into an affiliation for a defined time period by written agreement. Such an agreement may permit the use of the university's name, facilities, personnel, and other resources in return for specified benefits received by the university. An affiliation by agreement shall be entered into only by the Chancellor or a single campus official so designated by the Chancellor, in accordance with applicable university policies, guidelines, and procedures. The university's relationship with an affiliated organization can be more complex than with a support group. They are often non-profit 501(c)3 entities who maintain their own separate mission, governance, and operations. They do not raise funds primarily on behalf of the university, but do raise funds on behalf of their own mission.

University Development and Alumni Relations (UDAR) annually reports a list of affiliated organizations to the UC Office of the President. However, they note that, as they are not the office of record for approved affiliation agreements, they are not in a position to certify the completeness of the list.

Based upon the most recent annual report to UC Office of the President, additional information and input from UDAR and the Office of Legal Affairs, we identified six organizations that appear to meet the formal definition of an affiliated organization:

- International House
- Haas Partnership for Preeminence (for a donor-built facility)
- CAL Aquatics Legends (for a donor-built facility)
- Berkeley Real Estate Forum
- Young Musicians Program/Choral Orchestra
- Bowles Hall Alumni Association

However, we note that there are additional entities, while not appearing to meet the definition of an affiliated organization, that co-exist with the campus community and have different degrees of affinity and affiliation. In these instances, students, alumni, faculty, or other employees may be

members of the organization, may work with or on behalf of the organization, or may utilize services provided by the organization. We also recognize there may be other entities operating in association with the campus that have not been identified.

In 2014, Audit and Advisory Services conducted an audit of affiliated organizations and support groups. The audit report included an observation on affiliated organizations that contained some of the elements observed in this current audit.

Summary Conclusion

Based on the results of the audit work performed, we observed the following process improvement opportunities for internal control:

- determine whether a re-delegation of approval authority from the Chancellor to a designee would improve oversight and ensure better visibility to the entire population of affiliated organizations at any given point in time;
- evaluate the extent to which risk-based periodic monitoring of contractual relationships with affiliates is warranted by campus units that partner with affiliates; and
- develop local guidelines to assist campus units considering potential affiliation on topics such as identifying a potential affiliate relationship, negotiating elements of an affiliate agreement, obtaining approval for such an agreement, establishing protocols to ensure the accuracy and completeness of annual reporting requirements to the UC Office of the President, monitoring ongoing relationships, and identifying and escalating potential risk issues.

In the absence of such improvements, there may be increased risk of inappropriate use of university resources (financial, facilities, employees, or brand), unforeseen financial and legal liabilities, and conflicts of interest for individuals serving both the campus and the affiliate.

SUMMARY OF OBSERVATIONS & MANAGEMENT RESPONSE AND ACTION PLAN

Administration and Oversight of Affiliated Organizations

Observation

Per Regents Policy 5203, only the Chancellor has the delegated authority for the campus to approve affiliations by agreement with external entities but may re-delegate this authority to a single campus official. There has not yet been an official re-delegation of this authority by the Chancellor. As such, at any given point in time, only the Chancellor's Office, in support of the Chancellor, would have full visibility into the entire population of affiliated organizations.

The Chancellor's Office has not internally assigned responsibilities for maintaining copies of agreements and transactional documentation in its capacity as the office of record. In that the responsibility has not been assigned, the campus does not have a functioning unit or office that ensures the entire population of affiliated organizations is identified and that an accurate and up-to-date list is maintained. It also does not have a functioning unit or office that ensures pertinent campus units are assigned to monitor each affiliate to ensure that it is operating in accordance with the affiliation agreement and is not creating unacceptable financial, operational, compliance, or reputational risk for the campus.

Although the number of affiliated organizations and potential new affiliation opportunities may be small and could be managed on an ad hoc basis, we believe that a brief documented more formalized business process would help to ensure that such opportunities are appropriately identified, developed, and managed over time. It would be beneficial to include this business process in local guidelines that address the following types of topics:

- How to identify a potential affiliate relationship and differentiate it from other types of relationships (e.g., donor-built facilities, public-private partnership, vendor, contract or grant sponsor, corporate sponsor, industry alliance).
- How and on what basis to determine when a formal agreement should be pursued (rather than maintaining an informal relationship).
- Guidance on negotiating with potential affiliates.
- Minimum content requirements for affiliate agreements.
- Guidance on the workflow process for developing, reviewing, and approving such agreements.
- Protocols to ensure the accuracy and completeness of annual reporting requirements of affiliates to the UC Office of the President.
- Guidance on monitoring ongoing relationships with affiliates and protocols for escalating potential risk issues.

In the absence of a formal business process and guidelines to manage relations with affiliated organizations, there is an increased risk of inappropriate use of university resources (financial, employees, facilities, and brand), unforeseen financial and legal liabilities, and conflicts of interest

for individuals serving both the campus and the affiliate. In addition, the benefit gained by the affiliation may not be adequately evaluated or the relationship properly advanced.

Management Response and Action Plan

We have reviewed the 2018 audit of Affiliated Organizations and agree in spirit with the process improvement recommendation. In response, the Chancellor's Office, including legal and risk professionals, in conjunction with University Development and Alumni Relations, will do the following:

- Analyze whether a re-delegation of approval authority from the Chancellor to a designee would improve oversight and ensure better visibility into affiliated organization agreements. At a minimum, it will be necessary for the Chancellor's Office to clarify internal responsibility for tracking, retaining, and following such agreements.
- Determine whether a risk-based periodic monitoring of affiliated organizations is warranted. At a minimum, on an annual basis the office of record should reach out to the responsible unit to confirm adherence to the terms of the agreement and the identity of the individual managing the agreement.
- Analyze the value of, and implement as warranted, local guidelines to assist campus units engaged in or considering potential affiliation agreements.

It is our belief that the necessary controls can be established to reduce the risk of inappropriate use of University resources, unforeseen liability, and conflicts of interest.