



AUDIT AND ADVISORY SERVICES
SANTA BARBARA, CALIFORNIA 93106-5140
Tel: (805) 893-2829
Fax: (805) 893-5423

December 15, 2020

To: Distribution

Re: **Alumni Affairs – Internal Control Review
Audit Report No. 08-20-0011**

We have completed a limited review of Alumni Affairs as part of the 2019-20 annual audit services plan. The audit was conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing*. Enclosed is the report detailing the results of our work.

We sincerely appreciate the cooperation and assistance provided by Alumni Affairs and UC Santa Barbara Foundation personnel during the review. If you have any questions, please contact me.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ashley Andersen".

Ashley Andersen
Director
Audit and Advisory Services

Enclosure

Distribution

Alumni Affairs

George Thurlow, Assistant Vice Chancellor
Samantha Putnam, Associate Director

UC Santa Barbara Foundation

Christian Treitler, Chief Financial Officer

cc: Chancellor Henry Yang
John Longbrake, Associate Vice Chancellor, External Affairs
Chuck Haines, Assistant Chancellor for Finance and Resource Management
UCSB Audit Committee
Alexander Bustamante, Senior Vice President and Chief Compliance and Audit Officer

This page intentionally left blank.

UC SANTA BARBARA

UCSB Audit and Advisory Services

Internal Audit Report

Alumni Affairs – Internal Control Review

December 15, 2020

Performed by:

Antonio Mañas-Melendez, Associate Director
Irene Camargo, Senior Auditor

Approved by:

Ashley Andersen, Audit Director

Report No. 08-20-0011

EXECUTIVE SUMMARY

OBJECTIVE

The primary purpose of our review was to assess whether Alumni Affairs is operating consistently with University policies and procedures applicable to their operations. The objectives of this audit were to determine whether:

- Administrative processes are documented
- Departmental operations provide financial sustainability
- Financial reporting is efficient and accurate
- The department financial system is adequate

CONCLUSION

Based on the results of the work performed within the scope of the audit, we found Alumni Affairs has established overall effective internal control procedures and appear to be functioning as intended. However, our work identified opportunities to improve:

- Financial sustainability by implementing initiatives and strategic planning
- Efficiencies in financial reporting and accuracy in payroll classifications
- Department financial system security

OBSERVATIONS, RECOMMENDATIONS, AND RESPONSES

1. STANDARD OPERATING PROCEDURES

OBSERVATION

Our evaluation of standard operating procedures found documented and detailed instructions to assist staff in supporting business processes to complete administrative tasks.

We reviewed relevant Alumni Affairs standard operating procedures and found processes for particular tasks, such as procurement, reconciliations, and cash handling, including detailed workflows and instructions to assist staff with business processes. However, our review revealed that staff positions responsible to prepare and review/approve tasks performed were not always clearly identified. During our audit, standard operating procedures were updated to identify staff positions responsible for preparing and reviewing administrative tasks.

2. FINANCIAL STABILITY

OBSERVATION

We found that Alumni Affairs has had net operating losses of \$377k in fiscal year 2017-18 and \$337k in fiscal year 2018-19. The overdraft has been subsidized by draws from Alumni Association reserves. These funds are held in an investment account that has been depleting over the years.

We assessed financial data over a multi-year period to determine whether the department has overdrafts that require attention. We also identified causes of overdraft and opportunities for managing and monitoring them. Table 1 summarized our sustainability assessment.

Table 1		Alumni Affairs Operating Surplus/Deficit				
Category	FY 2014-15	FY 2015-16	FY 2016-17	FY 2017-18	FY 2018-19	
Revenue & Support	\$3,510,754	\$3,885,656	\$3,698,891	\$3,484,745	\$3,426,399	
Expenditures & Transfers	\$3,510,754	\$3,869,189	\$3,697,765	\$3,861,741	\$3,762,881	
Net Operating Surplus (Deficit)	\$0	\$16,467	\$1,126	(\$376,996)	(\$336,482)	

Source: Santa Barbara Foundation CEO.

We determined that the contributing factors in the current situation could be the cancellation of the membership program and the increase of fixed costs such as payroll and University fees. In addition, we were informed that Alumni Affairs rates have not been consistently updated and may not be covering total operational costs for programs and services provided to the campus and the public.

We found that the overall total expenditures increased by 7.2% since fiscal year 2014-15.

- Programs and salary benefits increased by 11%. Total salary and benefit expenses had increased from \$1,257K in fiscal year 2014-15 to \$1,691K in fiscal year 2018-19.

- Total University fees assigned to Alumni Affairs increased by 25%.

Financial Stability Strategies

Alumni Associations removal of membership fee transition included a plan to provide alternative revenues through several sources including fundraising, UC Santa Barbara Alumni reserves, sponsorship/affinity programs, and donations from Gaucho alumni. While donations, Family Vacation Center (FVC), Summer Inn (SI), Mosher Alumni House (MAH), and University support increased, revenue initiatives to compensate for the loss of the membership program has not been enough to make the financial model sustainable.

Alumni Affairs is currently evaluating new strategies to increase revenues and reduce fixed costs:

- Family Vacation Center management is considering some changes based on feedback from guest surveys. For example, adding a small storefront at the FVC location with available essentials. They are also looking into creating a virtual gaming room and are evaluating offering additional on-property and off-property social events to guests to create a variety of experiences and additional revenue. Management is also considering changing the program start and end days to reduce labor costs.
- Alumni Programs recently established a Gaucho Network to improve networking among Gaucho alumni. We found there are approximately 5K followers on a social media platform that could be potential candidates to target for additional funding through a campaign. We were informed that program surveys are performed and a follow-up discussion meeting is conducted to improve services.
- Mosher Alumni House management is considering optimizing indoor and outdoor space for meeting and events. For example, the use of the roof top venue with mountain and ocean views for social events and the use of floor space to create additional meeting rooms and reaching out to the general public to provide conference rooms.

We found that it would be beneficial to follow-up with surveys sent to clientele to provide management with insight to the needs and wants of customers conducting business or pleasure at the MAH.

RECOMMENDATION

We recommend Alumni Affairs evaluate:

- Short-term and long-term opportunities to improve financial stability by generating revenue opportunities, while reducing costs. Some of the opportunities could include the following:
 - Improving experiences for Family Vacation Center guests
 - Soliciting client feedback for business meetings and events
 - Developing a campaign that reaches Alumni through social media platforms
 - Evaluating the Mosher Alumni House floorplan to host additional meetings/events

- Updating rates for services to align with inflation costs and University fees. This will help to cover operating expenses.

MANAGEMENT RESPONSE

Alumni Affairs agreed to take the following actions in response to our recommendations to evaluate:

- Short-term and long-term opportunities to improve financial stability by generating revenue opportunities, while reducing costs. Some of the opportunities could include the following:
 - Improving experiences for Family Vacation Center guests
 - Soliciting client feedback for business meetings and events
 - Developing a campaign that reaches Alumni through social media platforms
 - Evaluating the Mosher Alumni House floorplan to host additional meetings/events
- Updating rates for services to align with inflation costs and University fees. This will help to cover operating expenses.

Audit and Advisory Services will follow up on the status of these issues by March 30, 2021.

3. FINANCIAL REPORTING

OBSERVATION

Our evaluation highlighted opportunities to develop a more efficient financial reporting process. Additionally, we found that some payroll transactions associated with career employees were not adequately classified.

Financial Operations

We evaluated the consistency of the financial reports generated for the core operating units Family Vacation Center, Alumni Programs, and the Mosher Alumni House. We found that each of the core operating units has different financial operations and uses different reports and tools to track and report financial data.

The Financial Officer is charged with verifying and entering financial data in the departmental financial system QuickBooks (QB) and reconciling this information to the campus financial system (GL) from the different operational units. We found that it may be beneficial to define a common mechanism to report each unit's financial data into the financial system with less assistance from the Financial Officer.

Payroll Reporting

Some payroll transactions for career employees have been classified as non-career salaries. During our audit we were informed that the Office of Development, who is charged with administering Alumni Affairs payroll, has addressed the classification errors.

Financial Reconciliations

We performed a limited reconciliation of FVC expenses¹ between the GL and the departmental financial system used by the department for May 2019 and found the data in both financial systems are consistent. We also reviewed account mapping between the two financial systems and found that classifications of expenses in departmental financial system is aligned with object code descriptions in the GL.

RECOMMENDATION

We recommend Alumni Affairs implement financial functionalities in order to improve reporting by:

- Evaluating a common mechanism to report each unit's financial data into the financial system with less participation from the Financial Officer.
- Addressing career staff payroll classification errors with the Office of Development.

MANAGEMENT RESPONSE

Alumni Affairs will implement financial functionalities in order to improve reporting by:

- Evaluating a common mechanism to report each unit's financial data into the financial system with less participation from the Financial Officer.
- Confirming Office of Development has addressed the payroll classification errors.

Audit and Advisory Services will follow up on the status of these issues by March 30, 2021

4. FINANCIAL SYSTEM

Alumni Affairs' departmental financial system QuickBooks is an outdated version with potential reported vulnerabilities.

Alumni Affairs uses the 2008 version of QuickBooks Enterprise Solutions Nonprofit edition 9.0. Between the year 2007 to 2012 there have been twelve identified vulnerabilities related to this version of QuickBooks, 3 of them being classified as critical risk. If the system has not been patched with updates released in 2012, some of these vulnerabilities could be exploited, and unauthorized users or intruders could get full control of the Alumni Affairs' departmental financial system. The department could not confirm if security patches released in 2012 were installed.

RECOMMENDATION

We recommend Alumni Affairs install the mentioned security patches as soon as possible and evaluate the adequacy of upgrading the departmental financial system to a more updated version of QuickBooks or acquiring a new financial system solution.

¹ FVC expenditures represent 73% of the total Alumni Affairs expenses during fiscal year 2018-19.

MANAGEMENT RESPONSE

Alumni Affairs will install the mentioned security patches as soon as possible and evaluate the adequacy of upgrading the departmental financial system to a more updated version of QuickBooks or acquiring a new financial system solution.

Audit and Advisory Services will follow up on the status of these issues by March 30, 2021.

GENERAL INFORMATION

BACKGROUND²

Gauchos worldwide have a special connection to one another and to the university. University of California Santa Barbara (UCSB) Alumni promotes and cultivates that unique relationship, engaging thousands of graduates, current students, and the university community. Through networking, social, reunion and community service events; student scholarship support; and opportunities to advocate for students and the university, UCSB Alumni maintains the vital link between all Gauchos, now numbering 220,000+ so that the remarkable UCSB story continues for all.

Their Mission: To build mutually beneficial lifelong relationships with UCSB Alumni for the purpose of promoting philanthropy, mobilizing for advocacy and providing opportunities for service to UC Santa Barbara.

As a largely self-supported organization, donations are critical in their ongoing outreach. They are tasked with building strong, mutually beneficial relationships with 220,000+ alumni. They do this through a strategic combination of events and communications. Additionally, they help to build a culture of family with current students and provide opportunities for them to connect with alumni.

Family Vacation Center

The Family Vacation Center, originally called the “Alumni Vacation Center,” has been hosting families since 1969. The program was created by the UCSB Alumni Association with the primary purpose of engaging Alumni and their families. Dale Lauderdale spearheaded the inaugural summer with a staff of 9. Today, they host about 2,000+ guests each summer with a staff of approximately 65 college-aged students. Overtime, the Family Vacation Center has developed countless family traditions, such as the cozy family campfire – s’mores, singing, and sunsets included.

Mosher Alumni House

The Mosher Alumni House (MAH) serves as the living room of the UC Santa Barbara campus. The building is a permanent, visible presence on campus of the contributions of UCSB alumni and the lens that enables numerous generations of Gauchos to focus their attention and support on the needs of today’s campus. MAH meeting rooms, many named for alumni whose generosity helped make the building possible, are used as a warm gathering place for

² UCSB Alumni and Mosher Alumni House websites.

returning alumni, a comfortable study spot for hundreds of students as well as a vehicle to recruit top faculty and staff members.

Alumni Programs

There are multiple programs that Alumni are involved in to stay connected. Since 1960 UC Santa Barbara Alumni has presented awards of achievement and recognition to hundreds of outstanding alumni and friends of UCSB. Gauchos Day of Service continues UCSB's longstanding tradition of using their talents, skills, and time to care for others to strengthen their community through a service project of their choice. Additional worthwhile programs include a newly launched Gaucho Professional Network, Alumni Publications, and the All Gaucho Reunion. All Gaucho Reunion is a weekend long celebration featuring events and activities for all generations.

Financial Reporting Systems

QuickBooks³ uses a standard chart of account to categorize all of a company's accounts as well as classifying all transactions according to the accounts they affect. Classes within the account is used to separate transactions that relate to different units or types of business. Standard chart of accounts includes assets, liabilities, shareholders' equity, revenue, and expenses for financial reporting. The UCSB campus financial system⁴ uses an account-fund string to record transactions and a four-character object code assigned to each transaction to classify as a specific income, expense, asset, liability, or fund balance.

Alumni Association⁵

The University of California, Santa Barbara Alumni Association is a non-profit organization incorporated in 1965 to advance interests and promote the welfare of the University of California Santa Barbara (UCSB) and to serve and involve the UCSB alumni and students. The Association has been granted tax exempt status by the Internal Revenue Service and the Franchise Tax Board under section 501(c)(3) and 23071d, respectively. The Organization is not considered a private foundation.

The Alumni Association provides financial support to UCSB in several ways. First, some expenses of the UCSB Department of Alumni Affairs are paid for by the Alumni Association, such as salary expense for Alumni Affairs personnel and the upkeep and maintenance of the Mosher Alumni House, which houses both the Alumni Association and the Department of Alumni Affairs. In addition, the Association periodically gives direct funding to the University.

SCOPE

The limited scope of our work included financial short-term and long-term sustainability, financial reporting, and strategic revenue generating initiatives. Specifically, we:

- Researched and reviewed relevant UC and UCSB policies, best practices, and other guidance related to equipment management of University Inventory.

³ QuickBooks: Financial Accounting System.

⁴ UCSB General Accounting: Business and Financial Services website.

⁵ Alumni Association external audit report, June 30, 2019.

- Conducted interviews with personnel in UC Santa Barbara Foundation, Family Vacation Center, Alumni Programs, and Mosher Alumni House to gain an understanding of department processes, policies, and procedures for administering and managing University units.
- Evaluated Alumni Affairs business practices to determine whether they incorporated adequate internal controls and reviewed opportunities to enhance and improve operational efficiency.
- Performed an analysis of Alumni Affairs financial sustainability over a five-year period.
- Reviewed financial reporting to ensure adequate monitoring of revenue and expenses.
- Reviewed and discussed strategies to improve revenue for Family Vacation Center, Alumni Programs, and Mosher Alumni House.
- Reviewed the financial system security vulnerabilities and risks to sensitive information.

CRITERIA

Our audit was based upon standards as set forth in the UC and UCSB policies, best practices, and other guidance relevant to the scope of the audit. This audit was conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing*.

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

- University of California Business and Finance Bulletin BUS 10, *Principles of Accountability with Respect to Financial Transactions*. (UC Policy BUS 10)
- University of California Business and Finance Bulletin BUS 49, *Policy for Cash and Cash Equivalents Received*. (UC Policy BUS 49)
- University of California Business and Finance Bulletin BUS 79, *Expenditures for Business Meetings, Entertainment, and Other Occasions*. (UC Policy BUS 79)
- Regents Policy 5203: Policy on Support Groups, Campus Foundations, and Alumni Associations, dated October 2012.

AUDIT TEAM

Ashley Andersen, Audit Director
Antonio Mañas-Melendez, Associate Director
Irene Camargo, Senior Auditor