

CUCRA Internal Audit Report

Years Ended December 31, 2020 and December 31, 2019

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Introduction

In a letter to me dated January 18, 2021, Council of University of California Retiree Associations (“CUCRA” or “Council”) Chair John Meyer engaged me as a volunteer to conduct an internal audit of CUCRA accounting records, financial statements, and internal controls.

CUCRA is a not-for-profit unincorporated association officially recognized by the University of California as an affiliated organization. The purpose of CUCRA is to support and assist local UC retiree associations and their members, and to provide them with a unified voice. The Council's activities in support of the UC retiree associations and their members shall include the following:

1. To encourage each campus, national laboratory, UC Hastings, and the Offices of the President and of the
2. Regents to organize and maintain an active retiree association.
3. Assisting all member associations by keeping them informed about the following:
 - a. Organizational practices in serving retirees and the spouses or domestic partners of retirees.
 - b. Current University actions affecting retirees.
 - c. Maintaining effective communication with the Offices of the President and the Regents on matters relevant to retirees.
4. Advocating for all retirees of the University on issues identified by the associations.
5. Proposing and influencing actions by the University and/or the California Legislature on matters affecting retirees.

The finances of CUCRA are controlled by the Treasurer. Under the CUCRA ByLaws, the Treasurer has the following financial management and internal control responsibilities:

1. Keeping the book(s) of accounts, collecting all monies due the Council, maintaining custody of the funds, paying all authorized bills submitted in writing or by email, and securing the signature of the Chair (or another officer designated by the Chair) on issuance of checks over five hundred dollars (\$500).
2. Preparing and submitting to the Council before the spring meeting an annual, prior year's financial report for approval at the meeting. The financial report will be filed for audit.
3. Developing and presenting to the Council prior to the fall meeting a proposed annual budget for its approval at the meeting.
4. Submitting books for examination by an auditor, appointed by the Chair, whenever requested, but primarily in odd-numbered years or upon a change in Treasurer.
5. Preparing and filing other financial reports and forms as requested or required.
6. Performing other duties as requested by the Chair or the Council.

In connection with this audit, CUCRA Treasurer John Dahl provided me with seventeen complete sets of documents for each accounting year under audit that comprise the “books” of CUCRA. These sets of documents included the following for each accounting year:

- Section 01 Index/Contents
- Section 02 Spring and Fall Meeting Brochure
- Section 03 Financial Statements as of December 31st (full year)
- Section 04 Financial Statements for Spring Meeting
- Section 05 Financial Statements for Fall Meeting
- Section 06 Budget
- Section 07 General Ledger
- Section 08 Bank of America: Checking Account Activity [Register]
- Section 09 Edward Jones: Investment Activity [Register]
- Section 10 Income Documentation: Checks Deposited
- Section 11 Income Documentation: Fee Letters to Campuses
- Section 12 Income Documentation: Campus Fee Letters and Checks
- Section 13 Income Documentation: Travel and Other
- Section 14 Expenditure Documentation
- Section 15 Miscellaneous
- Section 16 Bank of America: Monthly Bank Statements
- Section 17 Edward Jones: Monthly Investment Statements

In addition to the above, CUCRA Treasurer John Dahl provided historical background, information about the allocation percentages used to allocate investment income between CUCRA and the Travel Group liability, other details as to how investment income is accounted for in the general ledger, an internal control and risk assessment narrative, and documents regarding the tax status of CUCRA. Other documents:

- CUCRA Financial Management and Controls
- IRS Form 1024-A, Application for Recognition of Exemption Under § 501(c)(4) of the Internal Revenue Code
- IRS Form SS-4, Application for Employer Identification Number
- Letter dated March 26, 2012 from UC President Yudof establishing CUCEA, CUCRA, as “Affiliated Organizations” under Regents Policy 5203: Policy on Support Groups, Campus Foundations and Alumni Associations
- Other documents

Procedures performed during the Internal Audit

During the audit, I performed the following audit procedures on the CUCRA accounting records, financial statements, and support documentation:

1. Reviewed the CUCRA ByLaws with particular attention to:
 - a. Article IV. Section K, items 1-7, Treasurer responsibilities
 - b. Article VI. Finances
2. Reviewed CUCRA Standing Rules with particular attention to:
 - a. Item #3 - Annual Dues
 - b. Item #6 - JBC Reimbursement
 - c. Item #9 - Travel Program
3. Reviewed the prior CUCRA Internal Audit Report.
4. Reviewed the December 31, 2018 financial statements and confirmed the ending balances to the January 1, 2019 financial statement beginning balances.
5. Reviewed in detail the year-end CUCRA financial statements and general ledger for years 2020 and 2019.
 - a. Reviewed the monthly Bank of America bank and Edward Jones investment statement balances and transactions and traced those transactions to source documents as appropriate. Reviewed the Bank of America monthly bank statements in detail to ensure they were reconciled to the check register and the general ledger. As noted above, an important step of this internal audit included tracing campus membership fee revenue, checks paid for travel expense reimbursement to members of the Travel Group, and for miscellaneous expenses.
 - b. For the balance sheets, confirmed all the line item balances to the general ledger and other documents as appropriate. Also footed all totals and subtotals to check numeric accuracy.
 - c. For the income and expense statements, performed a detailed audit of all entries in the general ledger and confirmed them to the source documents as appropriate. Also footed and cross-footed all totals and subtotals to check numeric accuracy.
6. Reviewed the interim CUCRA financial statements for reasonableness that were prepared for the respective Spring and Fall meetings but did not check them in detail.
7. Reviewed the CUCRA Budget for reasonableness and confirmed the actual amounts to the accounting records.
8. As noted in these procedures, reviewed the general ledger results in detail.
9. Campus retiree association membership fees which are a significant source of revenue to CUCRA, therefore reviewed, traced, and confirmed each campus membership fee to the general ledger, bank statements, and the financial statements. *It should be noted, owing to the coronavirus pandemic in 2020, there was no travel to CUCRA meetings and therefore no travel expenses incurred during calendar year 2020 by the Travel Group.*
10. Travel Group expenditures are a significant source of expenses to CUCRA, therefore reviewed, traced, and confirmed each travel expenditure reimbursement to the general ledger, bank statements, and in whole to the

financial statements. Also reviewed the documentation supporting all travel expenditures. Confirmed that reimbursement checks greater than \$500 were co-signed according CUCRA ByLaws.

11. Reviewed the Edward Jones investment statements in detail to ensure investment transactions such as funds transfers, interest, and other investment income are properly recorded in the statements and to the CUCRA general ledger.
12. Reviewed all accounting records to determine if there were any unusual transactions, adjustments, misstatements, or errors.
13. Reviewed CUCRA Treasurer Financial Management and Controls narrative.

Adequacy of Internal Controls

During the audit I looked for conditions of appropriate internal controls over the financial management of the accounting records, transactions, and supporting documentation.

An important internal control for any business or organization is the monthly review of and reconciliation of bank statements. In reviewing the monthly bank statements, I found that the bank statements were reviewed and reconciled monthly, with copies of paid checks attached to the statements when applicable.

Another important control is separation of duties. This is generally a challenge for very small nonprofit organizations because of lack of staffing resources. As noted above, the CUCRA ByLaws require reimbursement checks greater than \$500 be co-signed. This ensures the issuance of high value checks is controlled.

The majority of CUCRA expenditures involve Travel Group travel expenses for meals, lodging, and transportation incurred for the Spring and Fall meetings. These expenditures are documented consistent with University of California travel documentation standards and are reviewed in detail and approved by the CUCRA Treasurer.

In my review of the documents, I found many communications between the CUCRA Treasurer and Travel Group members concerning aspects of their expenditure reimbursement requests. This indicated to me that requests were carefully reviewed. In a few cases, Travel Group members could not provide copies of their hotel bills. *Travel Group members should be reminded to keep all their records for reimbursement of their travel and incidental expenses allowable under the CUCRA ByLaws.*

For banking and investment internal controls, CUCRA is reliant on the internal control environments at these long-standing financial institutions that are subject to regulatory oversight, industry standards, and annual audits by independent public accounting firms. Routine monthly review and reconciliation of the bank and investment

statements should be sufficient in achieving adequate internal control in these instances.¹

Based on the above review of internal controls, I found the CUCRA internal control environment adequate. There were no indications of failures under the internal control environment.

Findings and Recommendations

There are no findings regarding financial misstatements, lack of or poor documentation, errors or omissions, or fraud.² All the records I reviewed were well organized and supported CUCRA transactions thus greatly facilitating the internal audit.

However, I recommend CUCRA consider updating its financial report presentation to Statement of Financial Accounting Standards (SFAS) for not-for-profit organizations and consider changing cash/investment management and reporting practices. I also voice support for CUCRA requesting tax status with the IRS. These recommendations are as follows:

1. **Financial Statements.** The CUCRA Financial Statements were prepared on a cash basis in a manner consistent with general financial statement presentation. I believe this presentation is acceptable for a very small nonprofit. However, since CUCRA has filed a Determination Letter with the IRS seeking designation as a 501(c)(4) not-for-profit entity for tax purposes, *it may be a good time for CUCRA to consider updating its financial statement presentation consistent with the SFAS No. 117 (as recently updated), applicable to not-for-profit organizations.*³ This standard has been in place for approximately 25 years and was recently updated in 2016. In this regard, if agreed, I recommend implementation as of December 31, 2021 or as of December 31, 2022 if necessary:
 - a. Reconfigure the CUCRA financial statements as follows:
 - i. Statements of Financial Position (formerly “Balance Sheet”) with specific line items under each category below:
 1. Assets
 2. Liabilities
 3. Net Assets
 4. Total Liabilities and Net Assets
 - ii. Statements of Activities (formerly “Income and Expenses”) with specific line items under each category below:

¹ For a large nonprofit organization with substantial assets at risk, it’s standard to obtain a copy of the bank and investment firm Statement on Standards for Attestation Engagements No. 16 (SSAE 16) reports at https://competency.aicpa.org/media_resources/208710-statement-on-standards-for-attestation-engagements. These reports are prepared by an independent public accounting firm, typically the same firm that audits the bank or investment institution.

² Re fraud, CUCRA Treasurer Dahl was provided with a list of three standard questions regarding fraud and he attested that he is not aware of any fraud and nor is it likely for fraud to exist in this organization.

³ See Statement of Financial Accounting Standards (SFAS) No. 117, Financial Statements of Not-for-Profit Organizations at <https://www.fasb.org/summary/stsum117.shtml> and FASB Accounting Standards Update 2016-14 at <https://asc.fasb.org/imageRoot/56/92564756.pdf> and <https://onlinelibrary.wiley.com/doi/pdf/10.1002/9781118386743.app1>.

1. Revenues
 2. Expenses
 3. Changes in Net Assets
 4. Net Assets, Beginning of Year
 5. Net Assets, End of Year
- iii. Statement of Cash Flows
- b. For comparative purposes present two years of Statements of Financial Position and Statements of Activities. The Statement of Cash Flows can be presented for just one year.
- c. Add “Notes to Financial Statements”. The Notes to Financial Statements cover financial reporting and other entity topics such as:
- i. NOTE A—NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
 1. Nature of Activities
 2. Program Advocacy
 3. Contributed Services
 4. Estimates
 5. Financial Statement Presentation
 6. Contributions (note: campus membership dues; other, if applicable)
 7. Income Tax Status (note: once IRS Determination Letter is completed, this will just state the tax status of the organization under the IRC e.g. “CUCRA is a not-for-profit organization tax-exempt under section 501(c)(4) of the Internal Revenue Code”)
 8. Investments
 9. Cash and Cash Equivalents (note: re bank account cash and investment account holdings)
 - ii. NOTE B—RESTRICTIONS ON NET ASSETS (note: if relevant)
 - iii. NOTE C—ADVOCACY PROGRAM
 - iv. NOTE D—INVESTMENTS
 - v. NOTE E—OTHER

2. Investments.

- a. *Investment Policy Statement-* While CUCRAs investments are not substantial compared to other nonprofits, they are very significant to the success and operation of CUCRA. *Given this condition, I recommend that CUCRA establish an Investment Policy Statement (IPS). An IPS, is a document that outlines the rules and guidelines a designated officer like a treasurer must follow when considering asset allocation in the portfolio. In other words, an IPS outlines how the treasurer is to manage CUCRAs investments and cash equivalents. A typical IPS has the following components:*

- i. *Scope and Purpose*
- ii. *Governance*
- iii. *Investment, Return, and Risk Objectives*
- iv. *Risk Management*

b. *Investment Performance Measurement Information-* With an IPS in place that includes investment performance benchmarks, *CUCRA should consider adding investment performance measurement information comparing actual results to benchmark(s) for at a minimum, the following periods:*

- i. *Year-to-date*
- ii. *Calendar Year*

(Generally, in addition to the above, the periods of one month, quarter, 3-years, and 5-years are shown for a much larger entity with various asset classes)

c. *Investment Holdings-* During my review I found that CUCRA invests in interest bearing CDs at Edward Jones for idle cash awaiting use for CUCRA activities, plus a reserve cash balance at Bank of America earning a very low interest rate. The CDs at Edward Jones are technically illiquid until maturity date and thus not available for any activity funding purpose until maturity without incurring penalties. *Given this condition, I recommend that CUCRA consider investing future available funds in liquid investments with investment characteristics that offer the same risk and return, but only if consistent within the parameters of current prudent management of such funds.*

3. **Tax Status.** CUCRA presently does not have a tax status with the IRS. CUCRA became concerned about this matter some time ago and sought legal counsel for advice on how to proceed. CUCRA was advised to file a Determination Letter with the IRS seeking a status consistent with being a not-for-profit organization exempt from income taxes under Section 501(c)(4) of the Internal Revenue Code (IRC). This matter is pending before the IRS. *I believe this is an important matter to resolve as soon as possible so that CUCRA follows the IRC requirements for non-for-profit organizations so that it is not at risk to any potential liability with the IRS.*

Conclusion

In reviewing and auditing the sets of documents and other records provided to me for the years ended December 31, 2020 and December 31, 2019, I was able to validate all balance sheet balances, revenue and expense transactions, while also tracing them through to various source documents including reconciled bank account and investment account statements. The financial statements properly reflected the financial condition of CUCRA.

In reviewing the adequacy of internal controls, I found that the existing internal controls as noted throughout this report are adequate for a not-for-profit organization of this size and complexity. There was no evidence of any internal control failures concerning revenues and expenses, and other transactions.

As noted above under Findings and Recommendations, there are no findings with respect to financial misstatements, lack of or poor documentation, errors or omissions, or fraud, or other internal control failures. However, I do have the following recommendations:

1. Update the financial statement presentation consistent with current SFAS guidance
2. Develop an Investment Policy Statement
3. Implement minimal Investment Performance Measurement
4. Consider an enhanced investment strategy for cash management consistent with prudent management of such funds

I would be pleased to advise CUCRA, as appropriate, in implementing the above recommendations.

It was a pleasure to conduct this internal audit of CUCRA for the Council. I would also like to thank Treasurer John Dahl for his unwavering cooperation in providing all the documentation and historical background I needed to complete this internal audit.