

CUCRA Internal Audit Report

For the Years Ended December 31, 2022, and December 31, 2021

Dated April 13, 2023

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Introduction

In a letter to me dated January 26, 2023, 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 Regents to organize and maintain an active retiree association.
2. 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.
3. Advocating for all retirees of the University on issues identified by the associations.
4. 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 or as noted:

- Section 01 Index/Contents
- Section 02 Spring and Fall Meeting Brochures
- 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 – Los Alamos National Laboratory Dues Reduction (2021)
- Section 16 Bank of America: Monthly Bank Statements
- Section 17 Edward Jones: Monthly Investment Statements
- Section 18 IRS & FTB Tax Exemption Status
- Section 19 Prior Year (2020) Internal Audit
- Section 20 Investments – Investment Report, Reserve & Surplus Fund Policy

In addition to the above, CUCRA Treasurer John Dahl provided historical background, an internal control and risk assessment narrative, and documents regarding the tax status of CUCRA. Other documents:

- CUCRA Financial Management and Controls
- FTB Form 199-N Conformation for 10 years plus email correspondence
- 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 financial, bank, and investment statements to confirm the ending balances as of December 31, 2020, agreed to the financial, bank, and investment statements beginning balances as of January 1, 2021.
5. Reviewed in detail the year-end CUCRA financial statements and general ledger for years 2022 and 2021.
 - 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 during the years 2022 and 2021. Footed the balances and tied them to bank, investment, and general ledger balances.
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 are a significant source of revenue to CUCRA, and therefore reviewed, traced, and confirmed each campus membership fee to the general ledger, bank statements, and the financial statements.
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. I also performed similar steps regarding the Edward Jones investment statements.

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

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.

Treasurer John Dahl provided me with an updated Financial Management and Controls document and I found that the financial management and controls details appear to ensure a proper internal control environment with respect to CUCRA funds and activities.

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.¹ All the records I reviewed were well organized and supported CUCRA transactions thus greatly facilitating the internal audit.

In the last audit report for the years ended December 31, 2020, and December 31, 2019, I recommend CUCRA consider the following recommendations:

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.*² 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 needed.

Result: CUCRA accepted and implemented the recommended changes to its financial statements as applicable.

2. **Investments.** Several recommendations were made with respect to investments. First, it was recommended that CUCRA develop an Investment Policy Statement (IPS) according to generally accepted IPS standards undertaken by foundations, charities, and other institutions that hold investments. Second, it was recommended that CUCRA include investment performance information covering standard periods of time that are useful for the stakeholders. Third, it was recommended that CUCRA review its investment holdings to ensure that ample liquidity is available while also considering risk and return measures are appropriate for the investment funds.

Result: CUCRA accepted and substantially implemented the investments recommendations.

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

¹ 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.

² 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>.

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.*

Result: CUCRA successfully appealed to the IRS and received a Determination Letter dated June 5, 2021, confirming the not-for-profit tax-exempt status of CUCRA. A copy of the Determination Letter was provided as part of the audit package. Moreover, CUCRA received a letter from the IRS Tax Exempt and Government Entities dated February 28, 2022, indicating CUCRA disregard a CP120A Revocation Notice issued previously because it had been issued in error.

Separately, as of this writing, a similar matter seeking tax-exempt status is before the state of California Franchise Tax Board (FTB). With a favorable IRS Determination Letter in hand there should not be any issues achieving tax-exempt status with the state. This matter will be noted for follow-up in the next audit.

Conclusion

In reviewing and auditing the sets of documents and other records provided to me for the years ended December 31, 2022, and December 31, 2021, 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. There are no other Findings or Recommendations in connection with this report.

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.