

**REPORT BY THE
AUDITOR GENERAL
OF CALIFORNIA**

**A REVIEW OF THE
CALIFORNIA STATE SUMMER SCHOOL FOR THE ARTS**



Kurt R. Sjoberg, Auditor General (acting)

State of California
Office of the Auditor General
660 J Street, Suite 300, Sacramento, CA 95814
Telephone : (916) 445-0255

March 20, 1991

P-052

Honorable Robert J. Campbell, Chairman
Members, Joint Legislative Audit Committee
State Capitol, Room 2163
Sacramento, California 95814

Dear Mr. Chairman and Members:

Summary

Since its creation in 1985, we estimate that the California State Summer School for the Arts (CSSSA) has accumulated a fund deficit of \$418,917 as of June 30, 1990. This deficit occurred, in part, because the CSSSA has consistently overstated revenues in its development plans. The deficit consists primarily of approximately \$350,000 that the CSSSA borrowed from the California Department of Education (department) for the cost of a summer school session held at Loyola-Marymount University in July 1988 when the CSSSA was experiencing cash flow problems.

In addition to the deficit, there is, according to the CSSSA's director and the president of the California State Summer School Arts Foundation (foundation), a lack of effective collaboration between the CSSSA board of trustees (board) and the foundation. Specifically, according to the CSSSA director, the lack of a clear line of authority and accountability between these two entities has increased disagreements in the decision-making process and undermined the effectiveness of the governance of the CSSSA. According to the foundation's president, the foundation would like its role expanded to allow the same level of input into the CSSSA's decision-making process as that of the board. Recognizing

the need to improve collaboration between the board and the foundation, the CSSSA organized a planning retreat to reach an agreement on the roles, missions, and responsibilities of the board, the CSSSA, and its foundation. Also, some board members believe that a 1990 amendment to the California Education Code adding four members appointed by the foundation to the board will result in better collaboration. Moreover, our review of the contracts between the CSSSA and its foundation indicates that contractor requirements were not clearly specified and contract services were sometimes provided before contract approval.

Finally, although the CSSSA met its match requirement on a cumulative basis from fiscal years 1986-87 through 1989-90, the CSSSA did not match at least 50 percent of its actual costs with fees and private support in fiscal year 1987-88 because it did not raise sufficient funds. Also, the legislation is unclear regarding the calculation of the match. For example, the legislation does not specify how and when private support is to be accounted for and what the CSSSA's actual costs are to include.

Background

The CSSSA is designed to identify and recognize high school students who have demonstrated exceptional talent and excellence in the arts. The CSSSA's mission is to provide four weeks of intensive training each year to approximately 400 students aspiring to careers in California's arts and entertainment industries--the State's third largest business sector.

Chapter 1131, Statutes of 1985, amended the California Education Code (commencing with Section 8950) to authorize the funding for the CSSSA and established an 11-member board of trustees. The board was required to appoint a director to the CSSSA, provide for its operation and governance, and develop a statewide application and audition procedure. The legislation also directed the board to establish a nonprofit foundation and a permanent endowment fund. The foundation is organized under the California Nonprofit Public Benefit Corporation Law for the primary purpose of providing fund-raising services to the CSSSA.

As initially enacted, Section 8957 of the Education Code required the CSSSA to meet at least 50 percent of its actual costs with fees and private support to be eligible for state matching monies. Private support may include grants from private corporations or foundations, individual contributions, in-kind contributions, or fund-raising benefits conducted by any entity. (In-kind donations primarily include materials and services donated for use at summer school sessions.) All state funds allocated to the CSSSA were to be returned to the department if the match requirement was not met, according to Chapter 1131, Statutes of 1985. However, Chapter 1515, Statutes of 1988, amended the appropriation language originally enacted as part of Chapter 1131, Statutes of 1985, to require the CSSSA to return that portion that is not matched to the department rather than all of the state funds allocated to the CSSSA. A 1990 amendment to Section 8957 increased state funding from no more than 50 percent to at least 50 percent but no more than 75 percent of the CSSSA's actual costs beginning in fiscal year 1991-92.

The CSSSA and the department made an agreement that the department is responsible for the accounting for the CSSSA's revenues and expenditures. When the CSSSA submits an invoice to the department, the department records and pays the CSSSA's expenditures. Also, the CSSSA sends cash it collects from student fees, donations, and other sources to the department to be recorded as revenue and deposited into a state bank account. Contributions derived by the foundation are first deposited into the foundation's bank account. To support the CSSSA's needs, the foundation then sends a check for the contributions to the department where the check is recorded as revenue and deposited into a state bank account. In-kind contributions are not accounted for by the department since these transactions do not involve the receipt or disbursement of cash. For fiscal year 1990-91, the CSSSA has a total budget of approximately \$1.3 million.

**Scope and
Methodology**

The Supplemental Report of the 1990 Budget Act requested that the Office of the Auditor General conduct an independent fiscal and program audit of the CSSSA and its foundation. To evaluate the CSSSA's annual expenditures and revenues, including the value of in-kind donations, in comparison with annual budget projections, we met with staff at the CSSSA and the department to obtain the CSSSA's accounting records. To attempt to verify their accuracy, we reviewed the records from fiscal years 1986-87 through 1989-90. However, the CSSSA did not have sufficient documentation to allow us to verify all revenue and expenditure transactions for fiscal years 1986-87 through 1989-90. In addition, the department could not provide sufficient documentation for all revenue and expenditure transactions for fiscal years 1986-87 and 1987-88. Thus, our review was limited to compiling revenue and expenditure information from the available records of the CSSSA and the department. We also performed a limited review of certain selected department expenditure accounts for fiscal years 1986-87 through 1989-90 to determine the existence of documents that support the totals of these expenditure accounts. Moreover, to evaluate the ability of the CSSSA to meet 50 percent of its actual costs with private support, we also reviewed the laws governing the CSSSA and reviewed the CSSSA's accounting for the matching funds. Further, we reviewed the foundation's financial statements and tax forms to determine the level of private support. We did not attempt to determine the appropriateness of the amounts used in the CSSSA's computation of the in-kind contributions it has received from fiscal years 1986-87 through 1989-90.

To evaluate the organizational structure of the CSSSA and its relationship with its board, the foundation, and the department, we reviewed the CSSSA's contractual agreement with its foundation and conducted interviews with representatives of each entity. We did not conduct a review of the foundation's financial records. To evaluate whether any statutory constraints existed to improving the performance and fund-raising capability of the CSSSA and its foundation, we conducted interviews and obtained statements from selected representatives of the CSSSA and its foundation. All of these tasks were performed to develop recommendations for improving the CSSSA's fiscal accountability, performance, and fund-raising capability.

**The CSSSA
Has an
Estimated
Fund Deficit
of \$418,917**

Since its creation in 1985, we estimate that the CSSSA has accumulated a fund deficit of \$418,917 as of June 30, 1990. The deficit consists primarily of approximately \$350,000 that the CSSSA owes to the department for the cost of a summer school session held at Loyola-Marymount University in July 1988. Because the CSSSA was experiencing cash flow problems at that time, the department paid the fee for the summer school site. As of June 30, 1990, the CSSSA had insufficient funds to reimburse the department for this amount. Table 1 presents our compilation of the CSSSA's revenues, expenditures, and cumulative special deposit fund deficit for fiscal years 1986-87 through 1989-90.

**Table 1 California State Summer School for the Arts
Analysis of Revenues, Expenditures,
and Cumulative Special Deposit Fund Deficit
Fiscal Years 1986-87 Through 1989-90**

	Special Deposit Fund ^a
Revenues	
Fees	\$ 843,801
Donations	264,550
Total Revenues	\$1,108,351
Expenditures	
Expenditures	\$1,717,613
Forgiveness	(190,345) ^b
Total Expenditures	\$1,527,268
Excess of Expenditures Over Revenues	\$ (418,917)
Fund Balance, July 1, 1986	\$ 0
Estimated Fund Balance, June 30, 1990	\$ (418,917)

Source: Data provided by the California Department of Education

^aThis fund includes all revenues received from the private sector, and it provides payments for summer school sessions.

^bThis amount, which was an accounts payable that the CSSSA owed to the department, was forgiven by the Legislature in the fiscal year 1990-91 Budget Act.

The CSSSA Ineffectively Forecasts Its Revenues

The CSSSA partly forecasts its revenues based on how much the foundation expects to earn through its fund-raising efforts. However, the foundation has not achieved its fund-raising goals. Table 2 compares the foundation's budgeted fund-raising monies with its actual fund-raising monies and shows that, with the exception of endowments, its fund-raising goals have not been achieved.

Table 2 **CSSSA Foundation**
Budgeted Versus Actual Fund-Raising Monies
Fiscal Years 1987-88 Through 1989-90
(In Thousands)

Fiscal Year	Grants ^a		Contributions		Endowments		Other ^b	
	Budgeted	Actual	Budgeted	Actual	Budgeted	Actual	Budgeted	Actual
1987-88	\$452	\$178	\$125	\$4	\$25	\$25	\$55	\$0
1988-89	250	174	150	7	25	25	100	0
1989-90	250	198	0	4	25	75	100	45

Source: CSSSA foundation annual development plans for private sector support.

^aThese include corporate and foundation grants and scholarship programs.

^bThis category includes special events such as the Governor's Gala.

Table 2 also shows that the foundation's weakest fund-raising efforts are in the category of contributions. For example, in fiscal year 1987-88, the foundation indicated that it would raise \$125,000 in contributions for the CSSSA but only raised \$4,000. Instead of adjusting its fund-raising goals in fiscal year 1988-89 to reflect its previous year's experience, the foundation indicated that it would raise \$150,000 in contributions. However, the foundation only raised \$7,000 during the fiscal year. The CSSSA cannot effectively budget its revenues when it cannot rely on the estimates of the amounts of monies the foundation anticipates it will raise for the

CSSSA. The foundation has not achieved its fund-raising goals partly because the CSSSA's board has not formally required the foundation to develop a long-range fund-raising plan that would clearly specify the fund-raising activities to be performed, when the activities would be performed, and how these activities would achieve the stated goals.

The CSSSA Ineffectively Forecasts Student Enrollment

Full enrollment is based on a total of 400 students each paying full tuition either through personal or scholarship funds. However, the CSSSA has never achieved full enrollment in its summer school sessions. For example, actual enrollment in the summer school has ranged from 318 students in 1988 to 386 students in 1990. Low enrollment in 1988 was intentional to reduce the CSSSA's operating costs.

One reason the CSSSA has not reached its goal of full enrollment for a summer school session is that the CSSSA's director has not developed a long-range marketing plan to strengthen its public outreach and student recruitment efforts. Such a plan is needed to specify outreach efforts, designate responsibility for these activities, and indicate when these activities will occur.

Lack of Effective Collaboration Between the Board and the Foundation

Section 8953.5 of the California Education Code requires that the CSSSA's board provide for the operation and governance of the CSSSA and directs the CSSSA to establish a nonprofit foundation. The foundation is organized under the California Nonprofit Public Benefit Corporation Law for the primary public and charitable purpose of supporting the CSSSA. In carrying out its purpose, the foundation is to collaborate with the board to determine how funds received by the foundation should be used in the CSSSA's operations. Although these responsibilities are

identified in the foundation's bylaws, the board and the foundation seem to disagree about each other's roles. According to the CSSSA director, the foundation has been unclear about its role and authority. According to the foundation's executive director, the partnership between the board and the foundation has never been clearly understood because of a statutory constraint. Specifically, the executive director stated that legislation did not clearly articulate the responsibilities of the foundation. According to the foundation president, it has been difficult to attract members to the foundation because the foundation has no control over how the private funds raised by the foundation are to be spent.

The foundation president also stated that the foundation would like its role to be expanded to allow for the same level of input into the CSSSA's decision-making process as that afforded to the board. According to the CSSSA director, the foundation's desire for a more expanded role in the CSSSA's operations has, at times, precipitated an adversarial climate. He stated that the lack of a clear line of authority and accountability between the foundation and the board has increased disagreements in the decision-making process and undermined the effectiveness of the CSSSA's governance. According to the chairperson of the board, the relationship between the board and the foundation has been strained and communication has been uneven or nonexistent. The chairperson added that the job descriptions for the board and the foundation were not clearly defined. Finally, she stated that the unclear job descriptions, coupled with the lack of unity and confidence between the foundation and the board, as well as a small number of active directors from the foundation, have resulted in frustration, poor communication, and a narrow base of community support.

Recognizing the need to improve collaboration between the board and the foundation, the CSSSA organized a Joint Boards Planning Retreat in November 1989 to reach an agreement on the roles, missions, and responsibilities of the board, the CSSSA, and its foundation. A key assumption of the planning retreat was that the partnership between the board and the foundation was not

working and that it needed to be improved. As a result, joint committees were formed that included board and foundation members to address finance, scholarships, site selection, curriculum and faculty, strategic planning, and fund-raising issues. Furthermore, a 1990 amendment to Section 8952.5 of the Education Code expanded the size of the board from 11 to 15 members, adding 4 members appointed by the foundation to the board. Some board members believe this legislation will result in better collaboration.

**Inadequate
Contracts**

Contracts between the CSSSA and its foundation are necessary to ensure that fund-raising services are provided in accordance with the CSSSA's fund-raising needs. Further, these contracts are required to properly reimburse the salary of the foundation's executive director and the administrative costs of the foundation. We found that the CSSSA's contracts have not specified contractor requirements and that contract services were sometimes provided before obtaining contract approval.

Contract Requirements Not Specified

Section 1205 of the State Administrative Manual requires that contracts provide a clear and complete statement of the services to be performed. However, the original contracts between the CSSSA and its foundation for the provision of fund-raising services have been broad and nonspecific. Specifically, typical contract language only states generally what the foundation should do. For example, one of the contracts states that the foundation should provide fund-raising services for the CSSSA and that the foundation will be responsible for raising private donations and in-kind contributions for the program to match the annual state appropriation. No other contractor requirements are specified in the CSSSA's original contract agreements with the exception of the contract for fiscal year 1990-91. This contract specifies, among other requirements, that the foundation will develop an

annual program to raise matching funds from the private sector, submit quarterly fund-raising reports to the CSSSA, and jointly develop with the CSSSA all grant requests, except those for scholarships and special fund-raising events, before their submission to potential donors.

The contracts generally fail to specify contractor requirements such as specific tasks to be performed by the foundation, how and when private funds are to be transferred to the CSSSA, the amounts of funds raised, the methods used to raise them, how the foundation is to prepare and submit financial reports to the CSSSA, and whether the CSSSA should require a periodic financial audit of the foundation. Because the contracts lack these specifics, the responsibilities and reporting requirements of the foundation are not clear and the executive director of the foundation is not contractually required to carry out specific projects or programs.

Contract Services Provided Before Approval

According to the CSSSA's contracts with its foundation, the foundation cannot commence work before the receipt of the fully executed copy of the contract. Any work begun before the contract is approved is done at the contractor's risk. We determined that the foundation provided contract services before the contract was approved. According to the CSSSA's director, the contract for fiscal year 1990-91 was not approved until November 1990. However, the foundation provided fund-raising services beginning in July 1990. Such services included the preparing of fund-raising plans and the planning of a benefit event. Because the contract was not approved before work began, the foundation provided services that the CSSSA was not contractually obligated to pay.

**The CSSSA's
Match
Requirement**

We were asked to determine whether the CSSSA met the requirement to match 50 percent of its actual costs with fees and funds from the private sector. Until the appropriation language that was originally enacted as part of Chapter 1131, Statutes of 1985, was amended in January 1991, the CSSSA was required to fund at least 50 percent of its actual costs through fees and private support to be eligible for state funds. Table 3 shows that although the CSSSA met its match requirement based on 50 percent of actual costs on a cumulative basis, from fiscal year 1986-87 through fiscal year 1989-90, the CSSSA did not meet the match requirement in fiscal year 1987-88 because it did not raise sufficient funds.

In addition, the appropriation language is unclear regarding the calculation of the match. For example, language is unclear regarding how and when private support is to be accounted for and what the CSSSA's actual costs are to include. Further, the author of the legislation stated that the intent of the statute was that the CSSSA match the state appropriation with fees and private support. However, even under this interpretation, the CSSSA did not raise enough funds to meet the match of the cost funded by the state appropriation in fiscal year 1987-88.

**Table 3 California State Summer School for the Arts
Analysis of Match Requirement
Fiscal Years 1986-87 Through 1989-90**

	1986-87	1987-88	1988-89	1989-90	Total
Private Support					
Foundation Revenue ^a	\$153,329	\$213,918	\$217,890	\$ 419,460	\$1,004,597
Special Deposit					
Fund Receipts	132,425	59,652	281,010	370,714	843,801
Foundation In-Kind ^b	144,342	18,828	26,640	37,263	227,073
CSSSA In-Kind ^c		70,930	64,600	213,575	349,105
Total Private Support	\$430,096	\$363,328	\$590,140	\$1,041,012	\$2,424,576
Actual Costs					
General Fund (Funded by State Appropriation)	\$391,262	\$386,964	\$410,202	\$ 587,728	\$1,776,156
Special Deposit Fund	261,895	476,475	520,110	459,133	1,717,613
Total Actual Costs	\$653,157	\$863,439	\$930,312	\$1,046,861	\$3,493,769
Match Requirement (50 percent of Total Actual Costs)	\$326,579	\$431,720	\$465,156	\$ 523,431	\$1,746,885

^aFoundation revenue amounts were obtained from unaudited foundation income statements. These revenue amounts exclude revenues derived from government sources. Of the total revenue of \$1,004,597, only \$264,550 has been transferred to the CSSSA. On June 30, 1990, the foundation had a cash balance on hand of \$221,986. The remaining balance of \$518,061 has been used for operating, fund-raising, and promotional expenses that benefit the CSSSA.

^bFoundation in-kind amounts were obtained from unaudited federal tax forms.

^cCSSSA in-kind amounts were obtained from unaudited site proposals submitted to the CSSSA by the contributor.

Conclusion We estimate that, since fiscal year 1986-87, the California State Summer School for the Arts has accumulated a fund deficit of \$418,917 as of June 30, 1990. This deficit occurred, in part, because the CSSSA has consistently overstated revenues in its development plans. The deficit consists primarily of approximately \$350,000 that the CSSSA borrowed from the California Department of Education for the cost of a summer school session held at Loyola-Marymount University in July 1988 when the CSSSA was experiencing cash flow problems.

In addition to the deficit, there is, according to the CSSSA's director and the president of the California State Summer School Arts Foundation, a lack of effective collaboration between the CSSSA board of trustees and the foundation. To improve collaboration between the board and the foundation, the CSSSA organized a planning retreat to reach an agreement on the roles, missions, and responsibilities of these entities. Also, some members believe that a 1990 amendment to the California Education Code adding four members appointed by the foundation to the board will result in better collaboration. Moreover, we identified problems with the contractual agreements between the CSSSA and its foundation. Specifically, contractor requirements were not clearly specified and sometimes contract services were provided before contract approval. Finally, although the CSSSA met its match requirement on a cumulative basis from fiscal years 1986-87 through 1989-90, the CSSSA did not match at least 50 percent of its actual costs with fees and private support in fiscal year 1987-88 because it did not raise sufficient funds. Also, the legislation is unclear regarding the calculation of the match. For example, the legislation does not specify how and when private support is to be accounted for and what the CSSSA's actual costs are to include.

Recommendations

To eliminate its current deficit and improve its fiscal accountability, performance, and fund-raising capabilities, we recommend that the California State Summer School for the Arts take the following actions:

- Consider expenditures and revenues from previous years, including enrollment figures, when preparing budget projections;
- Develop a long-range marketing plan to strengthen public outreach efforts and increase student enrollment;
- Require the foundation to develop a specific long-range fund-raising plan to enable it to achieve its fund-raising goals;

- Continue to work more closely with the foundation to achieve its goals;
- In its contracts with the foundation, incorporate specific requirements including identifying the roles and responsibilities of the foundation; describing how the foundation should report to the board; stating whether the CSSSA requires a financial audit of the foundation; reporting the amount of funds raised by the foundation; describing the methods used to raise the funds; and identifying when the funds raised by the foundation are to be transferred to the CSSSA;
- Ensure that the foundation provides services only after the contract is approved; and
- Request that the Legislature clarify the role of the foundation in its relationship with the CSSSA and clarify the legislative intent of the match requirements.

We conducted this review under the authority vested in the auditor general by Section 10500 et seq. of the California Government Code and according to generally accepted governmental auditing standards. We limited our review to those areas specified in the audit scope section of this letter report.

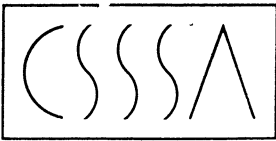
Respectfully submitted,



KURT R. SJOBERG
Auditor General (acting)

**Response to
the Audit**

California State Summer School for the Arts



March 13, 1991

Kurt R. Sjoberg,
Acting Auditor General
Office of the Auditor General
660 J Street, Suite 300
Sacramento, CA 95814

Dear Mr. Sjoberg:

This letter is in response to your draft letter report evaluating the fiscal accountability and performance of the California State Summer School for the Arts (CSSSA).

We would like to begin by commending you and your staff on the thoroughness and professionalism with which the audit was conducted. From the onset we viewed this audit as a constructive inquiry and feel your staff approached their work with that same spirit.

The CSSSA Board of Trustees and the CSSS Arts Foundation are in general agreement with the conclusions drawn in the report and consider the recommendations to be both fair and constructive. The Boards are aware of the majority of the issues identified in the recommendations. Many of these suggestions have been, or are in the process of being implemented. The following are specific changes in procedure and policy undertaken in the past year relating to issues raised in the report.

- Revenue projections in the 1990/91 and 1991/92 CSSSA budgets have been developed based upon 1988/89 and 1989/90 actuals. It is the policy of the Board to continue this practice in the development of all future budgets.
- The CSSSA and the CSSS Arts Foundation are currently collaborating on a long range development plan which will provide consistent and predictable private sector funding for the school.
- The 1991 CSSSA Strategic Plan identifies the marketing strategies and resources that will be required to increase the school's recruitment base. The CSSSA has applied to the Sacramento Business Volunteers for the Arts for a loaned executive to assist the school in the development of a long range marketing plan.
- The addition of four Foundation appointed Trustees through legislation, and the development of a joint boards committee structure has significantly increased opportunities for collaborative decision making between the Boards.

We wish to underscore the conclusion that revenue projections only partly contributed to the school's deficit. Other significant contributing factors include:

- The original General Fund appropriation of \$400,000 per year for the first two years was based on 1979 costs. Using an inflation factor of 4% over the seven years, the first appropriation should have been \$512,000, or 28% more.
- The first two year tuition was set at \$750 in legislation; 30% below actual need.
- No lead time was provided for fund-raising. The CSSS Arts Foundation was incorporated only two months prior to the opening of the first school.
- The original school cost estimates were based upon the assumption that CSU/UC would host the school at low cost to gain access to students.
- Initial legislation mandated "that no talented applicant will be denied admission to the school based upon their inability to pay". In 1986/87 and 1987/8 scholarship revenues were \$57,000 less than the amount expended to fulfill this mandate.
- The Department of Education lost sight of CSSSA's indebtedness for three years, leading CSSSA to believe they had a fund reserve.

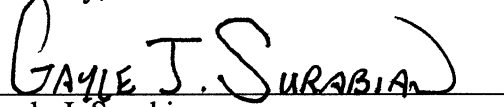
In addition, we would like to note that the Foundation has provided leadership to meet the legal requirements articulated in SB 45 to match State funds and create a permanent endowment fund.

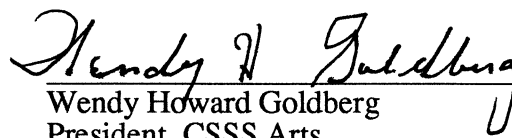
Support from major Fortune 500 corporations (e.g., AT&T, Coca Cola, American Express and El Paso Natural Gas Company), private foundations (e.g., David and Lucile Packard Foundation, William R. Hearst Foundation), and entertainment industry gifts and resources from Time Warner, MCA Inc, Columbia Pictures Entertainment Inc., Twentieth Century Fox Film Corporation and CBS Network Television would never have been available to the State without Foundation leadership.

We would like to thank you and your staff for assisting the school in its efforts to both address and learn from its problems. Our goal is to provide stable and accountable support for our students, program and staff. Given the steps we have already taken, we anticipate that the majority of the report's recommendations will be fully implemented by the end of the calendar year.

It has been a pleasure working with your office. If you have any questions please contact William Cleveland 445-8919.

Sincerely,


Gayle J. Surabian
Chairperson, CSSSA Board
of Trustees


Wendy Howard Goldberg
President, CSSS Arts
Foundation