

California State University, Sacramento

Capital Public Radio – Forensic Services

August 14, 2024

Prepared by:
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CliftonLarsonAllen LLP



CPAs | CONSULTANTS | WEALTH ADVISORS

[CLAconnect.com](https://www.CLAconnect.com)



August 14, 2024

California State University, Sacramento
6000 J Street, Sacramento, CA, 95819

Re: Capital Public Radio – Forensic Services

To Whom It May Concern:

CliftonLarsonAllen LLP was retained by California State University, Sacramento, (“Sacramento State”) to perform analysis and forensic accounting services with regard to the above referenced matter. We have been asked to provide our services in this matter specifically related to, but not limited to, (1) expenditures and disbursements to determine if there is evidence of personal benefit to the former _____ of Capital Public Radio (“CPR”), (2) contracts, loans, and credit agreements executed by the former _____ specifically including those with local furniture companies, for evidence of possible conflicts of interest, and (3) the procurement card activity for all cardholders for evidence of inappropriate or personal use. Additional areas of investigation were determined through discussion with Sacramento State during the engagement. The purpose of this report is to summarize the results of our work.

We performed our engagement in accordance with the Statement on Standards for Forensic Services No. 1 (“SSFS No. 1”) of the American Institute of Certified Public Accountants (“AICPA”) and the Code of Professional Standards of the Association of Certified Fraud Examiners (ACFE). This report does not constitute an audit, compilation, or review, in accordance with standards of the AICPA, the objective of which would be the expression of an opinion on any specified elements, accounts, or items. Accordingly, CLA does not express such an opinion. The professional standards promulgated by the AICPA prohibit CLA from rendering an opinion as to whether there has been any fraud or other criminal activity by anyone associated with this engagement. The professional standards promulgated by the ACFE prohibits Certified Fraud Examiners (CFEs) from expressing opinions regarding the guilt or innocence of any person or party. Therefore, CLA does not render such opinions.

This report has been updated to correct the grand total shown in the tables included in the Executive Summary and Conclusion sections. The individual line items and subtotals in the tables remain accurate and unchanged. Additionally, clarification has been added to include the dates of service of certain CPR board members and other information shared with CLA subsequent to the release of the original version of the report.

Respectfully submitted,

CliftonLarsonAllen LLP

A handwritten signature in black ink, appearing to read 'Jenny Dominguez'.

Jenny Dominguez, CPA/CFF, CFE
Principal

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1. Executive Summary

CLA was engaged by Sacramento State to examine several potential avenues of personal benefit by a former executive and board members of CPR. The initial scope period for this examination was July 1, 2020, through June 30, 2023; however, due to limitations in obtaining documentation and new information obtained during the examination, the period of review differed for certain areas, which is detailed in the Results of Forensic Services section.

The transactions summarized below were identified by CLA as having been directly disbursed to specific individuals or were purchases made via credit card by specific individuals without the support of expense reports and/or receipts, while other areas of forensic review focused on other types of transactions are discussed in detail in the results of forensic services section.

CLA examined expenditures and disbursements to determine if there is evidence of personal benefit to _____, Subject #1.¹ Our investigation included interviews with individuals involved in CPR finances, financial analysis, and a review of documents provided by CPR. As detailed within this report, CLA determined that a total of \$460,831.93 in unsupported payments were either directly disbursed to Subject #1, or Subject #1 made purchases via credit card that were subsequently paid by CPR without corresponding evidence of expense reports and/or receipts.

An additional \$307,493.41 in unsupported payments made by CPR to AMEX may have been related to purchases incurred by Subject #1; however, the statements and supporting documentation were not available or could not be located. The overall breakdown of the unsupported payments is detailed as follows:

Description	Time Period	Amount	Attachment
American Express (AMEX) charges paid by CPR that are not supported by either expense reports or receipts.	January 2021 – June 2022	\$ 127,552.08	1
AMEX charges paid by CPR that have associated expense reports, but no receipts.	May 2022 – June 2023	6,807.94	2
Disbursements to Subject #1 that have no support.	July 2020 – June 2023	266.32	4
ACH payments to Subject #1 that have no support.	February 2020 – September 2021	53,016.00	5
Additional American Express (AMEX) charges paid by CPR that are not supported by either expense reports or receipts (expanded scope period).	December 2017 – December 2020	273,189.59	6
Subtotal		<u>\$460,831.93</u>	

¹ See table in Background section for names of individuals referenced throughout this report.

Description	Time Period	Amount	Attachment
Payments to AMEX identified in CPR's online banking for which statements and supporting documentation are not available or could not be located. This includes: 1) payments to AMEX within the date range of the statements provided to CLA but not associated with those statements or 2) payments to AMEX with dates prior to the dates on the statements provided.	November 2019 – November 2023	133,237.53	3
Payments to AMEX with dates prior to the dates on the statements provided.	May 2017 – November 2017	174,255.88	7
Subtotal		<u>\$307,493.41</u>	
Grand Total		<u>\$768,325.34</u>	

CLA initially contacted Subject #1 on February 20, 2024, in an attempt to inquire about these transactions and request supporting documentation. Subject #1 has retained legal counsel, who has been corresponding with CLA regarding this request. On March 29, 2024, at the request of Subject #1's legal counsel, CLA provided to Subject #1 and their legal counsel a list of possible questions to be asked in an interview and the schedule of transactions in question. An interview of Subject #1 was eventually scheduled for May 24, 2024, the soonest availability provided by Subject #1's legal counsel. On May 23, 2024, CLA emailed Subject #1 and their counsel to confirm the interview the following day and add additional topics to the list of interview questions. Later that afternoon, Subject #1's counsel called CLA to communicate that Subject #1 no longer wanted to participate in the interview with CLA and desired to engage in discussions about reimbursement to CPR. CLA indicated to Subject #1's counsel that CLA was not authorized to engage in those discussions on behalf of CPR or Sacramento State but would relay the message to Sacramento State. In communications with Subject #1's counsel, CLA indicated that if Subject #1 had any documentation to support the list of transactions that were provided, those could be provided in advance of the scheduled interview, if desired.² However, as of the date of this report, no additional information or documentation regarding these transactions has been submitted by Subject #1 or their counsel. Our conclusions on these transactions are subject to change should Subject #1 provide additional information or documentation related to these transactions.

In addition to the possibility of misappropriation of CPR funds, CLA also examined leases and contracts, including those with local furniture companies, for evidence of possible conflicts of interest with various Board members

Per Section 7.02(a) of the

² The list of transactions sent to Subject #1 and their counsel included: American Express transactions beginning in December 2020, American Express payments beginning in November 2019, expense report transactions beginning in June 2022, check payments to Subject #1 beginning in February 2019, and ACH payments to Subject #1 beginning in February 2020. Subsequent to Subject #1 canceling the interview with CLA, Sacramento State gathered evidence of additional payments made by CPR on credit cards held by Subject #1, which included transactions as far back as May 2017. These additional transactions were not shared with Subject #1 or their counsel by CLA.

Capital Public Radio Board of Directors Bylaws, “this Corporation shall not engage in any transaction which meets the definition of a “self-dealing transaction” as defined in section 5233 of the Nonprofit Public Benefit Corporation Law unless the transaction has been approved by one of the means specified in subparagraph (d) of said section 5233.”^{4, 5}

Section 89906 of the California Education Code provides that, “No member of the governing board of an auxiliary organization shall be financially interested in any contract or other transaction entered into by the board of which he is a member, and any contract or transaction entered into in violation of this section is void.” Further, Section 89907 provides that, “No contract or other transaction entered into by the governing board of an auxiliary organization is void under the provisions of Section 89906, nor shall any member of such board be disqualified or deemed guilty of misconduct in office under said provisions, if the circumstances specified in the following subdivisions exist: (a) The fact of such financial interest is disclosed or known to the governing board and noted in the minutes, and the governing board thereafter authorizes, approves, or ratifies the contract or transaction in good faith by a vote sufficient for the purpose without counting the vote or votes of such financially interested member or members, and (b) The contract or transaction is just and reasonable as to the auxiliary organization at the time it is authorized or approved.”⁶

For four contracts, CLA found that there is evidence of possible conflicts of interest as, at the time certain procurement contracts and one property lease were executed, CPR had board members who were either also a President/CEO or partner of the counterparty or had a spousal relationship with an individual acting as a principal of the counterparty.⁷ However, such circumstances were not noted in the CPR board meeting minutes from July 2019 through May 2022 that CLA reviewed.⁸ This report has been clarified to reflect that one former CPR Board member, Board Member #5, was not a member of the CPR Board of Directors at the time of the transaction between CPR and the company they founded, Business #8. Thus, Business #8 is excluded from CLA’s finding of evidence of a possible conflict of interest.

CLA identified evidence of a possible conflict of interest in the process of leasing one of the new CPR headquarters locations (located at 730 I St.).⁸ It appears the spouse of a board member at the time held an ownership interest in the property, which, at a minimum, demonstrates at least the appearance of a potential conflict of interest. The spousal relationship was not noted in the Board meeting minutes. The majority of meeting minutes which detail discussions of the 730 I St. lease negotiations do not contain detail as to whether

⁴ A copy of the bylaws is attached as Exhibit 1.

⁵ A copy of California Corporations Code, Section 5233 is attached as Exhibit 2. Section 5233 falls within Division Two: Nonprofit Corporation Law, as referenced in the bylaws.

⁶ A copy of California Education Code Sections 89906 and 89907 are attached as Exhibit 3.

⁷ The four contracts include: (1) 730 I Street lease, (2) contract with Business #1, (3) contract with Business #6, and (4) contract with Business #7.

⁸ CLA is not making any legal claims, performing any analysis as to adherence to relevant laws, codes, or statutes, or reaching any conclusions of guilt or wrongdoing. In cases where certain documents or communications could not be found, CLA does not deny the existence of these records nor suggest any intentional withholding of them. Any statements or conclusions made in this report are subject to change pending the presentation of new information or records.

Board Member #1 was recused from the discussions when listed as in attendance at those meetings. Further, there was only one vote documented related to this property which took place during a meeting in which Board Member #1 was in attendance, however, the meeting minutes do not provide detail on the votes cast and instead only state that the motion passed. The period of negotiations and execution of this contract spanned from September 2019 through March 2021. No official motion or vote was recorded in the minutes related to the final lease execution. Board Member #1 benefitted from the execution of this lease as their spouse is a partial owner in the 730 I St. property.

Additionally, CLA identified evidence of a possible conflict of interest in procuring a furniture contract to furnish the new CPR headquarters location.⁸ The contract with Business #1 was entered into without evidence of undergoing a competitive bid process. The President/CEO of Business #1, Board Member #2, was a CPR Board Member at the time the contract was being negotiated and executed (October 2017 through May 2022), therefore presenting evidence of a possible conflict of interest.⁸ The Board approved the contract with Business #1 after being told by Subject #1 that the contract went through a competitive bid process administered by Business #4, but interviews conducted by Sacramento State of Business #4 representatives confirmed that they did not administer a bid process. Additionally, interviews by Sacramento State of two vendors represented as submitting bids confirmed they were never asked to provide a formal bid or proposal.

CLA also performed a limited analysis of ERC COVID-19 funding received by CPR during the scope period. A comprehensive review of all underlying documentation was not performed by CLA due to a determination by Sacramento State and CLA to prioritize the forensic analysis of other scope areas. CLA identified two deposits of funds that appear to be related to ERC COVID-19 funding: \$425,995.12 on April 19, 2023, and \$885,850.50 on June 5, 2023. CPR received a statement from their consultants in June 2023 indicating that CPR was ineligible for the ERC funding and was required to remit payment in the amount of \$885,850.50, the full amount received and deposited by CPR on June 5, 2023, to Business #11, their consultants used for the ERC claim.

For the two other contracts reviewed, CLA determined that a CPR Board member was a partner at the vendor. As such, the contracts with CPR may have provided a financial benefit to the Board members associated with each vendor.⁹ No discussions of potential conflicts of interest were identified in the board minutes.

Other areas reviewed by CLA include a timeshare gifted to CPR and P-Cards that all CPR department heads have access to. Based on the documentation reviewed, there was no evidence of inappropriate activity or personal benefit in these additional areas of analysis.

⁹ CLA is not making any legal claims, performing any analysis as to adherence to relevant laws, codes, or statutes, or reaching any conclusions of guilt or wrongdoing. In cases where certain documents or communications could not be found, CLA does not deny the existence of these records nor suggest any intentional withholding of them. Any statements or conclusions made in this report are subject to change pending the presentation of new information or records.

2. Background

According to the bylaws of Capital Public Radio, Inc., this corporation is “an auxiliary ... of, but legally separate from, the California State University, it is organized specifically for the purpose of operating the radio stations licensed to the Board of Trustees of the California State University, specifically its Sacramento, Chico and Humboldt campuses.”¹⁰ The California State University describes their auxiliary organizations on their website and states, “Auxiliary organizations at the California State University (CSU) are non-profit organizations and separate legal entities. They operate pursuant to written operating agreement with the CSU Board of Trustees, have separate governing boards with close connections to a campus and follow all legal and policy rules established by the CSU system and the respective campus administration.”¹¹ The California State University Chancellor’s Office completed an audit of CPR in September 2023 noting numerous instances of financial mismanagement.¹² Following the release of the audit, Sacramento State, by mutual agreement with CPR, moved the radio station’s fiscal administrative functions, including the accounting department and finances, to the University. At this time, Sacramento State took custody of all accounting related records. Therefore, CLA worked with Sacramento State to access records for the forensic review. While the fiscal functions were moved to Sacramento State, CPR still retains independence in its leadership, Board of Directors, and daily operations as it pertains to content and programming.

Following completion of the CSU Chancellor’s Office audit in September 2023, Sacramento State became concerned about various issues

. One concern brought to Sacramento State’s attention was a possible conflict of interest related to the new CPR headquarters building lease at 730 I Street. CPR Board Member #1 is spouse to Individual #1, partial owner of the 730 I Street property. Another concern regarding a conflict of interest is related to the furniture contract for the new headquarters property. CPR purchased furniture for its new headquarters from Business #1, whose President/CEO, Board Member #2, was a CPR Board Member at the time of negotiations and execution of the purchase from October 2017 through May 2022.¹³ Additionally, CPR staff identified unknown American Express and CHASE credit card statements, paid for by CPR, which did not appear to be legitimate CPR cards.¹⁴ Sacramento State requested CLA review concerns regarding other

¹⁰ Bylaws of Capital Public Radio, Inc. (A California Nonprofit Public Benefit Corporation), Article III - Specific Purpose, as amended July 28, 2022.

¹¹ <https://www.calstate.edu/csu-system/auxiliary-organizations/Pages/about-us.aspx>

¹² The audit report was issued on September 27, 2023, and covered the period January 1, 2021, through April 21, 2023. Observations and recommendations were identified in 17 areas. A copy of the report can be found at: <https://www.calstate.edu/csu-system/transparency-accountability/audit-reports/Documents/auxiliary-organizations/2022/2237CapitalPublicRadioSacramento.pdf>.

¹³ Board Member #2 was listed as “present” as a board member at 28 of the 36 Board of Directors meetings held from January 26, 2017, through November 17, 2022.

¹⁴ One American Express card in the name of Subject #1 was determined to not be a legitimate CPR card by staff. Additionally, a Chase card without an individual’s name and only identified as “Business Card” on the statements and two other CHASE cards belonging to Individual #3 and Individual #2 were identified.

areas such as other specifically identified contracts that may have benefitted certain Board Members, COVID funding received by CPR, a timeshare gifted to CPR, and P-Cards that all CPR department heads have access to.

The following table includes the names of individuals and businesses referenced throughout this report. Board Members listed may be former Board Members, and their dates of service on the Board are listed in the relevant sections.

Name	Reference
	Subject #1
	Subject #2
	Board Member #1
	Individual #1
	Board Member #2
	Witness #1
	Witness #2
	Witness #3
	Witness #4
	Individual #2
	Individual #3
	Individual #4
	Board Member #3
	Board Member #4
	Board Member #5
	Individual #5
	Individual #6
	Individual #7
	Individual #8
	Business #1
	Business #2
	Business #3
	Business #4
	Business #5
	Business #6
	Business #7
	Business #8
	Business #9
	Business #10
	Business #11
	Business #12
	Business #13
	Business #14
	Business #15
	Business #16

3. Scope of Forensic Services

The original scope period for the forensic services was July 1, 2020, through June 30, 2023, though the actual period of review varied for different areas of analysis based on available information and documentation.

Therefore, the forensic review was focused on this period, which is understood to be when Subject #1 had the most influence over the finances of CPR. Documents reviewed by CLA include:

1. The general ledger
2. The disbursement ledger
3. AMEX credit card statements in the name of Subject #1 from January 2021 through November 2023 and CHASE credit card statements in the names of Individual #2, Individual #3, and Business Card from January 2018 through June 2020
4. ACH transactions from February 2020 through September 2021
5. Bank statements
6. Documentation for specific contracts identified by Sacramento State entered into from 2018 to 2023, including the contracts with Business #1
7. All documentation that could be located by Sacramento State related to the headquarters building leases
8. Computer files for Subject #1, Witness #1, and Witness #2¹⁵
9. Email files for Subject #1, Witness #1, and Witness #2

CLA analyzed the documents received to determine whether CPR sustained a loss through the misappropriation of funds by Subject #1 and for evidence of conflicts of interest related to leases and contracts. CLA did not perform procedures to ensure all CPR internal policies and policies from oversight organizations were followed in each area of review. The examination assessed whether there was evidence of adequate supporting documentation and indication of a reasonable business purpose by the individual receiving the disbursement or reimbursement. This work included the following steps:

1. Conduct review over the email and computer files of Subject #1, Witness #1, and Witness #2;
2. Conduct information gathering interviews with the following individuals:
 - a. Witness #1
 - b. Witness #3,
 - c. Witness #4,
3. Perform public records searches on Subject #1, Subject #2, and the various owners and managers of the headquarters building leases;

4. Analyze the general ledger, disbursement ledger, and ACH transactions for payments to Subject #1 or Subject #2 for the scope period or period of available documentation;
5. Analyze the AMEX and CHASE credit card statements for the scope period or period of available documentation;
6. Review of specific contracts identified by Sacramento State entered into from 2018 to 2023;
7. Review of the headquarters building leases;
8. Review of P-Card transactions for the scope period or period of available documentation;
9. Review of ERC COVID funding; and
10. Review of timeshare.

After the initial work steps outlined above were complete, Sacramento State provided CLA with additional payments made by CPR on credit cards held by Subject #1. Sacramento State obtained AMEX statements from December 2017 through December 2020 and uncovered additional payments from CPR's Five Star Bank account to AMEX, dated May 2017 through November 2017, for which statements were unavailable. CLA reviewed the work performed by Sacramento State on these documents and incorporated the results into this report.

CLA also reached out to Subject #1 on February 20, 2024, in an attempt to schedule an interview regarding unsupported CPR transactions during their tenure. Subject #1's attorney replied to CLA on their behalf to request the interview questions be provided in advance of any meeting. After getting permission from Sacramento State to honor this request, CLA provided anticipated questions and a list of transactions to Subject #1 and their attorney on March 29, 2024. In the same email, CLA requested options for dates and times to schedule the interview of Subject #1. The attorney responded that they were on vacation for two-and-a-half weeks in April, and requested the interview be scheduled for May. CLA attempted contact with Subject #1's attorney by phone and email to see if an interview could be scheduled upon their return from vacation. An interview with Subject #1 was eventually scheduled for May 24, 2024, the soonest availability communicated by Subject #1's attorney. On May 23, 2024, CLA emailed Subject #1 and their counsel to confirm the interview the following day and add additional topics to the list of interview questions. Later that afternoon, Subject #1's counsel called CLA to communicate that Subject #1 no longer wanted to participate in the interview with CLA and desired to engage in discussions about reimbursement to CPR. CLA indicated to Subject #1's counsel that CLA was not authorized to engage in those discussions on behalf of CPR or Sacramento State but would relay the message to Sacramento State. In communications with Subject #1's counsel, CLA indicated that if Subject #1 had any documentation to support the list of transactions that were provided, those could be provided in advance of the scheduled interview, if desired.¹⁶ As of

¹⁶ The list of transactions sent to Subject #1 and their counsel included: American Express transactions beginning in December 2020, American Express payments beginning in November 2019, expense report transactions beginning in June 2022, check payments to Subject #1 beginning in February 2019, and ACH payments to Subject #1 beginning in February 2020. Subsequent to Subject #1 canceling the interview with CLA, Sacramento State gathered evidence of additional payments made by CPR on credit cards held by Subject #1, which included transactions as far back as May 2017. These additional transactions were not shared with Subject #1 or their counsel by CLA.

the date of this report, no additional information or documentation regarding these transactions has been submitted by Subject #1 or their counsel.

4. Results of Forensic Services

This section communicates the results of the various areas analyzed by CLA as listed in section 3. The results of interviews conducted, public records searches, and the review of emails and computer files are included within each section to the extent there was relevant information identified. The following procedures and results are for the scope period July 1, 2020, through June 30, 2023, unless stated otherwise.

The following sections present the factual findings obtained during the course of performing the procedures of this engagement. CLA is not making any legal claims or reaching any conclusions of guilt or wrongdoing. In cases where certain documents or communications could not be found, CLA does not deny the existence of these documents nor suggest any intentional withholding of them. Any statements made are subject to change pending the presentation of new information or records.

Summary of Results

A. Unsupported payments to Subject #1 and credit cards held by Subject #1

According to the 2020 CPR employee handbook, employees will be reimbursed for reasonable business travel expenses incurred while on assignments away from their normal work location. Certain limitations and guidelines are providing by expense type, such as airfare. Within 30 days of completion of a trip, employees must submit a check request and supporting documentation to obtain reimbursement.¹⁷

According to the 2020 CPR employee handbook, receipts or invoices for all employee credit card purchases, regardless of amount, should be retained and forwarded to the finance department for accounting purposes.¹⁷

Beginning with updated policies for fiscal year 2022-2023 (effective July 1, 2022), CPR provides for reimbursement to employees for “all necessary work-related expenses incurred.” For non-travel related expenses, this includes “other work-related items that cannot be obtained through CapRadio (Sacramento) Office Coordinator and pre-approved by the manager.”¹⁷

Credit Cards

(1) Analysis performed on the initial scope period of July 1, 2020, through June 30, 2023

During interviews, CLA learned that Subject #1 may have had personal credit cards paid by CPR. During email review, CLA discovered that Subject #1 had access to a CHASE card ending in 8425. Sacramento State provided CLA with statements for three CHASE cards.

¹⁷ See Exhibit 4 for a copy of the relevant sections of the CPR employee handbook for 2020. Similar language is included in all employee handbooks and CPR policies provided to CLA. This exhibit also includes the section on reimbursements from the policy updates for fiscal year 2022-2023 (effective July 1, 2022).

The card ending in 8425 is labeled on the statements as “Business Card,” and CLA identified payment notification emails from CHASE directly to Subject #1, suggesting that Subject #1 was the cardholder or controlled this card. Sacramento State provided CLA with statements for card 8425 for April 2018 through October 2019.¹⁸ Charges to card 8425 during this period total \$36,404.85.¹⁹ Sacramento State, CPR, and CLA were unable to locate additional statements, or any support such as receipts or reconciliations, to support the transactions on these credit cards. Additionally, Sacramento State was unable to determine who was truly the user for any of these cards. Sacramento State confirmed that these accounts are now closed. CLA does not have conclusive evidence to show Subject #1 was using these CHASE cards. Because of this, these transactions are not included in the calculation of unsupported payments.

The card that was initially brought to Sacramento State’s attention as a potential concern was an AMEX card in Subject #1’s name. Witness #1 explained to CLA that these statements were scheduled for autopayment from CPR’s operating bank account, and Witness #1 never received any support or explanation for what business purpose the transactions served. According to Witness #1, Subject #1 had directed payments be made without providing support for the transactions. Sacramento State provided CLA with AMEX statements from January 2021 through November 2023.²⁰ Per review of the AMEX statements, general ledger, and bank statements, CLA determined that CPR made payments on the AMEX account from January 2021 through June 2022. The total payments CPR made to AMEX in this timeframe equal \$127,552.08 (See Attachment 1). Sacramento State was unable to locate supporting documentation for any of these expenses.

In May 2022, the AMEX card ceased being on autopay, and it is believed that Subject #1 started paying the card themselves, as they began requesting reimbursement from CPR for certain transactions at that time. Sacramento State was able to provide CLA with some supporting documentation of Subject #1’s expense reimbursements. CLA also located several expense reports during the review of Subject #1’s email. Reimbursements to Subject #1 for AMEX expenses with proper supporting documentation indicating the business purpose total \$50,726.710. While Subject #1 provided a business purpose for some line items, Sacramento State determined that some of those items were not compliant with policies and regulations.²¹ Additionally, many of the requests for

¹⁸ These are the only dates that statements were available.

¹⁹ It was communicated to CLA in interviews that CPR was making payments on the CHASE cards. CLA identified GL entries indicating payments to CHASE but because the dates of the statements and GL don’t line up exactly, the total amount paid cannot be verified. Additionally, the statements provided were not complete and do not include all the payments made.

²⁰ Sacramento State stated that American Express was only able to provide statements going back as far as January 2021.

²¹ For example, in the 2020 employee handbook, CPR provides for a \$50 stipend to employees eligible for a company mobile device but opt to use their personal device. The first year that this stipend appears is in the 2020 employee handbook. The updated policies for fiscal year 2022-2023 (effective July 1, 2022) remove the \$50 stipend and states that anyone who uses their personal phone for CPR business purposes is doing so at their own choice (see Exhibit 4).

reimbursement do not contain receipts or expense reports. Total reimbursement to Subject #1 for AMEX expenses that do not contain adequate support is \$6,807.94 (See Attachment 2).²² CLA noted that there were certain card charges CPR paid for when the card was on autopay that Subject #1 no longer requested reimbursement for after they started paying the card themselves. An example of this is late fees and the annual AMEX membership renewal fee. This indicates that there could be other items CPR was paying for when the card was on autopay that are personal in nature.

As part of the analysis, CLA extracted all payments to AMEX directly from the Five Star Bank website.²³ CLA noted that there are payments made to AMEX within the date range of the AMEX statements provided, January 2021 through November 2023, that are not associated with those statements. There are also payments made to AMEX dated November 2019 through December 2020, which is prior to the dates of the statements provided to CLA. This indicates the possibility that another AMEX card/account was being paid by CPR. CLA was not provided documentation that identifies the extent to which Subject #1 controlled or used the credit cards associated with these other payments; however, it was communicated to CLA that the only official CPR credit cards were with Diners Club. Additionally, based on the established use by Subject #1 of the AMEX credit cards that they caused CPR to pay, it is likely that these additional AMEX payments relate to activity of Subject #1 and include personal expenses. The total of these payments is \$133,237.53 (See Attachment 3).

(2) Analysis performed on transactions occurring prior to the initial scope period

After the initial analysis of credit card activity discussed above, Sacramento State provided CLA with additional AMEX statements from December 2017 through December 2020. The total transactions on the AMEX card that CPR subsequently paid equal \$439,324.66.²⁴ Through Sacramento State's review of the statements, it determined that \$166,135.07 of the \$439,324.66 are appropriate business related payments to American Public Media for station programming. According to the CPR employee handbook, receipts or invoices for all employee credit card purchases, regardless of amount, should be retained and forwarded to the finance department for accounting purposes. Sacramento State was unable to locate any support, such as receipts or reconciliations, to support the transactions on the credit card. Although supporting documentation for the transactions could not be located, the nature of the charges appearing on the statements indicate that the remaining transactions could be personal in nature, particularly without supporting receipts or documentation of the business purpose. The credit card charges include, but are not limited to, restaurants, airlines, hotels, groceries, concert tickets, rental cars, cell phone bills, and other retail shopping. The total AMEX

²² This amount does not include transactions Sacramento State has determined did not comply with policies and regulations that may have had adequate support.

²³ Five Star Bank is used for CPR's Operating Account.

²⁴ Sacramento State confirmed payments totaling \$439,324.66 from the CPR Five Star Bank account to AMEX during this time period. Total charges to the AMEX credit card during this time period equal \$445,702.40. Credits to the statements total \$7,329.38 and payments from unknown sources total \$15,350.82.

transactions paid by CPR for which Sacramento State could not determine a CPR business purpose is \$273,189.59 (See Attachment 6).

During their review, Sacramento State uncovered additional payments from CPR's Five Star Bank account to AMEX, dated May 2017 through November 2017, for which statements were unavailable. CLA was not provided documentation that identifies the extent to which Subject #1 controlled or used the credit cards associated with these other payments; however, it was communicated to CLA that the only official CPR credit cards were with Diners Club. Additionally, based on the established use by Subject #1 of the AMEX credit cards that they caused CPR to pay, it is likely that these additional AMEX payments relate to activity of Subject #1 and include personal expenses. The total of these payments is \$174,255.88 (See Attachment 7).

Disbursements

Sacramento State provided CLA with the CPR disbursement ledger, and CLA extracted all payments made to Subject #1 to review for support. Most of the disbursements are associated with the AMEX reimbursements discussed above. However, there are two disbursements made to Subject #1, totaling \$266.32, that do not have an expense report or receipt to support the validity and business purpose of the expense (See Attachment 4). One for \$187.20 is part of a larger reimbursement to Subject #1 for which there is adequate supporting documentation for all but the \$187.20. The other is a check issued to Subject #1 for \$79.12 for which there is no supporting documentation.

ACH Payments

During interviews, CLA learned that Subject #1 may have been paying himself via ACH.²⁵ CLA used Five Star Bank online banking to extract all ACH payments made to Subject #1.²⁶ The dates of the ACH payments range from February 2020 through September 2021. CLA noted that all ACH payments to Subject #1 were both entered and approved solely by Subject #1. ACH payments made to Subject #1 total \$53,016.00 (See Attachment 5). Sacramento State could not locate supporting documentation for these ACH payments. This amount includes a recurring payment of \$2,825.00, as well as other round dollar payments to Subject #1. CLA reviewed the general ledger recordings of these payments and noted several were recorded to "HSA Payable" and "Fringe Benefits." Due to the nature of the recurring amount, CLA performed review of emails and files to determine if these payments were related to fringe benefits and could not find any evidence of this. Additionally, CLA reviewed the HSA Payable and Fringe Benefits accounts to identify if any amounts were being contributed from Subject #1's withholdings to these accounts and could not identify any. Individuals at Sacramento State also performed research and could

²⁵ ACH (Automatic Clearing House) payments are a type of electronic payment from one bank to another and are a method by which electronic payments can be transmitted to an individual or vendor.

²⁶ CLA also searched for ACH payments to Subject #2, Board Member #2 (Board member involved in furniture negotiations), Individual #8 (Associate of Board Member #2), and Board Member #1. Subject #2 had small payments that appeared to be related to payroll due to many other employees receiving the same payments. The search for other names produced no results.

not locate a personnel file or employee agreement for Subject #1 or determine through other documentation whether they had some other benefit or compensation that would explain these payments.

B. Review of Downtown Headquarters Leases

Per Section 7.02(a) of the Capital Public Radio Board of Directors Bylaws, "this Corporation shall not engage in any transaction which meets the definition of a "self-dealing transaction" as defined in section 5233 of the Nonprofit Public Benefit Corporation Law unless the transaction has been approved by one of the means specified in subparagraph (d) of said section 5233."^{27, 28}

Section 89906 of the California Education Code provides that, "No member of the governing board of an auxiliary organization shall be financially interested in any contract or other transaction entered into by the board of which he is a member, and any contract or transaction entered into in violation of this section is void." Further, Section 89907 provides that, "No contract or other transaction entered into by the governing board of an auxiliary organization is void under the provisions of Section 89906, nor shall any member of such board be disqualified or deemed guilty of misconduct in office under said provisions, if the circumstances specified in the following subdivisions exist: (a) The fact of such financial interest is disclosed or known to the governing board and noted in the minutes, and the governing board thereafter authorizes, approves, or ratifies the contract or transaction in good faith by a vote sufficient for the purpose without counting the vote or votes of such financially interested member or members, and (b) The contract or transaction is just and reasonable as to the auxiliary organization at the time it is authorized or approved."²⁹

The following sections present the factual findings obtained during the course of performing the procedures of this engagement. CLA is not making any legal claims, performing any analysis as to adherence to relevant laws, codes, or statutes, or reaching any conclusions of guilt or wrongdoing. In cases where certain documents or communications could not be found, CLA does not deny the existence of these records nor suggest any intentional withholding of them. Any statements or conclusions made in this report are subject to change pending the presentation of new information or records.

The relevant events surrounding the signing of the Downtown Headquarters leases are as follows:

- CPR headquarters are located at two separate properties, 1010 8th Street and 730 I Street, both located in the city of Sacramento, CA. Sacramento State requested

²⁷ A copy of the bylaws is attached as Exhibit 1.

²⁸ A copy of California Corporations Code, Section 5233 is attached as Exhibit 2. Section 5233 falls within Division Two: Nonprofit Corporation Law, as referenced in the bylaws.

²⁹ A copy of California Education Code Sections 89906 and 89907 are attached as Exhibit 3.

that CLA investigate the involvement of multiple specific individuals with respect to the negotiations and execution of contracts related to both of these locations.

- CLA learned through interviews that the original plan for a headquarters called for only the lease of the 1010 8th Street location. Board Member #1 was appointed to the Board by a passing motion at the July 25, 2019, Board of Directors meeting.³⁰ At the October 4, 2019, Board of Directors meeting, the first meeting Board Member #1 attended as a member of the full Board, the Board began looking at 730 I Street as a second location.
- According to Witness #4,³¹ the Board began discussing the 730 I Street location around this time, commenting that the Board had a good relationship with the landlord there.
- CLA notes there is discussion of the second location in the September 2019 Board minutes.
- At the November 2019 Board meeting, Subject #2 reported that lease negotiations for both locations were moving forward.

730 I Street

- CLA conducted research on the ownership of the 730 I Street building through proprietary databases and publicly available records and identified Business #3, a corporation formed in the state of Delaware, to be the owner of the property.
- Corporation documents for Business #3 were ordered from the Delaware Secretary of State's office; however, the documents do not contain the names of any founders, owners, or officers of the corporation.
- An email identified from Board Member #1 indicates that their spouse, Individual #1, is a "% owner" of this property. See Exhibit 5.
- CLA performed a review of Subject #1's emails to identify any communications related to the negotiations and leasing of 730 I Street.
- Email chains occurring in June and July 2020 show that Individual #1, spouse of Board Member #1, was involved in the lease negotiation process in the capacity of the landlord of the 730 I Street property.
- An email dated May 24, 2023, from Individual #1 to Subject #1 and others at Capital Public Radio refers to "our 730 I St ownership group" and proceeds to

³⁰ Board Member #1 was a member of the Board of Directors beginning July 2019 and was listed as "present" as a board member at 14 of the 20 Board of Directors meetings held from October 4, 2019, through November 17, 2022.

³¹ Witness #4's information comes from an analysis of historical CPR Board meeting minutes.

address “serious concerns” the owners have with CPR and their occupancy of 730 I St.³² See Exhibit 6.

- CLA identified an email sent on July 2, 2020.³³ This email was sent to Subject #1 and others at Business #4 during the negotiation process, stating, “The numbers seem to keep benefiting [Individual #1] every time they look at this.”³⁴ No responses to this email were identified. See Exhibit 7.
- Several of the emails mentioned above also included Individual #4 as a recipient. According to the Business #2 website, the site belonging to the development company owned by Individual #1 and Board Member #1, Individual #4 is the parent of Individual #1, and is a co-owner of Business #5.
- A review of the Business #5 website lists the 730 I Street as one of their development projects.
- The minutes of the October 4, 2019, Board of Directors meeting show that Subject #2 asked Board Member #1 to step out of the meeting prior to discussions surrounding 730 I Street. At this meeting, the Board reviewed a cost comparison for 1010 8th Street and 730 I St. and discussed pros and cons of both properties, but no official actions were taken. The minutes do not describe what, if anything, was communicated to the Board as to the details of Board Member #1’s possible relationship or connection to Individual #1.
- Another discussion on 730 I St. occurred at the November 21, 2019, Board of Directors meeting. The minutes indicate Board Member #1 was in attendance. Subject #2 communicated to the Board that management is pursuing both the 1010 8th St. and 730 I St. locations, and a motion to continue lease negotiations on both locations was passed. The minutes do not list the votes for the motion, nor do they indicate whether Board Member #1 recused themselves for this discussion or vote.
- Additional discussions on the 730 I St. property occurred at the January 23, 2020, March 26, 2020, November 19, 2020, Board of Directors meetings where Board Member #1 was in attendance. The minutes for these meetings do not indicate whether Board Member #1 recused themselves for these discussions.

³² The concerns relate to CPR’s delinquency on payments to contractors and subcontractors, one of which filed a lien on the property’s title, putting CPR in default of their lease.

³³ Business #4 was CPR’s tenant improvement (“TI”) architect.

³⁴ The statement made by Business #4 is in response to an email sent by Individual #1 during lease negotiations discussing the total square footage CPR would potentially be leasing. It is unclear from the context provided what benefit to Individual #1 that Business #4 finds concerning.

- It does not appear that the full Board of Directors voted on the signing of the 730 I St. lease, but that the Finance Committee “directed” Subject #1 to pursue the lease signing at the November 18, 2020, Finance Committee meeting. The minutes from the March 17, 2021, Finance Committee meeting state that the lease was now fully executed. Board Member #1 was not a member of the Finance Committee and was not present for these discussions.
- CLA located an email dated September 27, 2023, from Board Member #3 to Board Member #1 inquiring about Board Member #1’s involvement in the 730 I St. lease execution, stating they were trying to get some answers to questions that were raised in the CPR audit. Board Member #1 stated that they were careful to not attend or to recuse themselves when the 730 I St. property was being discussed. See Exhibit 5.
- There were no earlier emails identified communicating or discussing this potential conflict of interest.

1010 8th Street

- Lease documents show that the property is owned by Business #12.
- Other lease documentation located in the email review indicate that Business #12 is a joint venture between Business #13³⁵ and Business #14.
- All three corporations associated with 1010 8th Street were formed in the state of Delaware. Corporation documents were ordered from the Delaware Secretary of State’s website; however, the documents do not contain the names of any founders, owners, or officers of the corporations.
- Further email review and public record research was conducted in an attempt to identify any owner information or possible connection to CPR or their board. Public records research did not indicate any evidence of ownership of this property by a board member. However, a review of email files did show that a board member donated \$1 million to CPR for naming rights of a portion of the 1010 8th Street building. See Exhibit 8.
- Based on the available information, there is no evidence that any board member or employee of CPR has any direct ownership or interest in 1010 8th Street and would have benefited from the lease of the property.
- CLA did not interview Individual #1 or anyone from the associated businesses.³⁶

³⁵ Per the 1010 8th Street lease, Business #13 is the designated landlord.

³⁶ See Exhibit 9 for a series of emails reflecting efforts by CPR and Sacramento State to contact Individual #1.

C. Review of Business #1 Contract

Per Section 7.02(a) of the Capital Public Radio Board of Directors Bylaws, “this Corporation shall not engage in any transaction which meets the definition of a “self-dealing transaction” as defined in section 5233 of the Nonprofit Public Benefit Corporation Law unless the transaction has been approved by one of the means specified in subparagraph (d) of said section 5233.”^{27, 28}

Section 89906 of the California Education Code provides that, “No member of the governing board of an auxiliary organization shall be financially interested in any contract or other transaction entered into by the board of which he is a member, and any contract or transaction entered into in violation of this section is void.” Further, Section 89907 provides that, “No contract or other transaction entered into by the governing board of an auxiliary organization is void under the provisions of Section 89906, nor shall any member of such board be disqualified or deemed guilty of misconduct in office under said provisions, if the circumstances specified in the following subdivisions exist: (a) The fact of such financial interest is disclosed or known to the governing board and noted in the minutes, and the governing board thereafter authorizes, approves, or ratifies the contract or transaction in good faith by a vote sufficient for the purpose without counting the vote or votes of such financially interested member or members, and (b) The contract or transaction is just and reasonable as to the auxiliary organization at the time it is authorized or approved.”³⁷

PolicyStat ID 12796348 (Campus Auxiliary Organizations) of The California State University (“CSU”) system states, “Campus auxiliary organizations shall **not** operate outside the regulation and oversight of the campus” (emphasis added). Additionally, the related CSU policies listed in this policy include the *CSU Contracts and Procurement* PolicyStat ID 15202482. Section E.15., Compliance - Public Advertising, provides that each CSU campus Procurement Officer “may establish procedures and criteria for exemptions to the requirements for publicly advertising solicitations as set forth in the CSU Procurement Policy.” Sacramento State has established a threshold of \$100,000, above which contracts for personal property (equipment, parts, supplies, or other merchandise) must be awarded as the result of a formal solicitation process (see Sacramento State Guide for Vendors and Contractors).^{38, 39}

The following section presents the factual findings obtained during the course of performing the procedures of this engagement. CLA is not making any legal claims, performing any analysis as to adherence to relevant laws, codes, or statutes, or reaching any conclusions of guilt or wrongdoing. In cases where certain documents or

³⁷ A copy of California Education Code Sections 89906 and 89907 are attached as Exhibit 3.

³⁸ See Exhibit 10 for a copy of the relevant sections of CSU PolicyStat ID 12796348 and 15202482, and a copy of Sacramento State Guide for Vendors and Contractors.

³⁹ CLA is not performing a legal analysis or making a legal conclusion that campus auxiliary organizations must comply with the CSU Contracts and Procurement policy. The policies referenced are the policies identified by CLA that relate to campus auxiliary organizations and procurement, but no determination is made regarding the legal requirement of the campus auxiliary organization to adhere to the CSU policies.

communications could not be located, CLA does not deny the existence of these records nor suggest any intentional withholding of them. Any statements or conclusions made in this report are subject to change pending the presentation of new information or records.

The relevant events surrounding the Business #1 Contract are as follows:

- CPR purchased furniture for its new headquarters office space from Business #1, whose President/CEO, Board Member #2, was a CPR Board Member at the time.⁴⁰
- The negotiations and execution of this purchase spanned from October 2017 through May 2022, and Board Member #2 was a Board member of CPR during this entire time.
- CLA identified various emails indicating that CPR intended to use Business #1. See Exhibit 11.
- An email from Board Member #2 in October 2017 indicates that discussion of using Business #1 for the furniture started at the Board retreat in 2017.
- In two emails, one in April 2018 and one in April 2021, Board Member #2 mentions offering aggressive pricing for the contracts, stating “we are in a great position to offer a very aggressive pricing structure.” In the April 2021 email, Board Member #2 states, “my rep mentioned getting information about using multiple furniture vendors? Not sure what that means... [Business #1] and [manufacturer] have positioned a very aggressive pricing schedule for maximum value and benefit to Cap Radio.”
- In another April 2021 email to the Business #4⁴¹ team, Subject #1 states that Board Member #2 is “our ” for the contract and that they would be getting most, if not all, the furniture from Business #1.
- CLA reviewed the Business #1 proposal submitted on December 17, 2021, for 1010 8th Street. The proposal was signed by Subject #1 on December 22, 2021, creating a binding purchase agreement.
- CLA did not locate any notation in the Board meeting minutes regarding Board Member #2’s status as President/CEO of Business #1, nor did CLA locate Board approval for this proposal relating to 1010 8th Street in the Board minutes.
- The total agreement amount is \$126,944.98, requiring a 50% deposit of \$63,472.49 due within 30 days.

⁴⁰ Board Member #2 was a member of the full Board of Directors as early as January 2017 and continued through at least May 2022.

⁴¹ Business #4 is the interior design team associated with the new headquarters locations.

- Neither CLA nor Sacramento State could locate a general ledger entry for \$63,472.49.
- Per documentation from Business #1, the deposit amount was actually \$58,365.50 and paid on January 27, 2022. A progress payment authorized by Subject #1 for this amount was issued from First American to Business #1 on January 27, 2022.
- CLA reviewed the Business #1 proposal submitted on May 6, 2022, for 730 I Street. The proposal was signed by Board Member #2 on May 17, 2022, and Subject #1 on May 18, 2022, creating a binding purchase agreement.
- Approval by the Board for 730 I Street did not occur until May 26, 2022, which is after the date of the signed Business #1 proposal. CLA did not locate any notation in the Board meeting minutes regarding Board Member #2's status as President/CEO of Business #1 prior to this Board approval.
- The total agreement amount is \$992,240.17, requiring a 30% deposit of \$297,672.05 due within 30 days.
- Per documentation from First American, the \$297,672.05 deposit amount was issued from an escrow account to Business #1 on May 24, 2022 (two days prior to the Board approval for the 730 I Street contract). CPR repaid the same amount back to the First American escrow account in November 2022 to cover the funds withdrawn for the furniture deposit. Business #1 refunded the deposit back to CPR in January 2023, which was confirmed by CLA via bank statements.
- When Witness #4 performed a review of the Business #1 contract in November 2023, Witness #4 received communication from a representative at Business #1 stating, "In Cap Public Radio's case, we actually refunded the large deposit as CPR was facing financial problems and we were asked to hand it back. We did that because we had mostly been paid for the larger order by the funding sources that were provided to us."⁴²
- It is noted in the May 26, 2022, Board minutes that the decision to use Business #1 went through a bid process administered by Business #4.
- In an email to Witness #4 dated November 28, 2023, a representative from Business #4 confirmed that they never administered a formal bid process. See Exhibit 12.
- In 2018, Business #4 provided space plans for 1010 8th Street to two other furniture vendors, Business #15 and Business #16, to develop pricing for the

⁴² CLA did not interview anyone from Business #1 but Witness #4 identified in review of the related documents and communications that CPR used loans to pay Business #1 for the furniture.

project, but no additional work was performed when the project expanded to include 730 I Street.

- The project scope changed from the original estimates for 1010 8th Street to when the project was split between 1010 8th Street and 730 I Street. Initial plans were to have administrative offices, studios, and the events center all co-located at 1010 8th Street, but that changed when 730 I Street was added to the plans. The original project proposals from Business #15 and Business #16 were just for the 1010 8th Street plan.
- There is no record of a Business #1 proposal from 2018. In 2019, when 730 I Street became part of the plan, CPR was to coordinate with Business #1, Business #16, and Business #15 for proposals, but Business #4 was not involved.
- In an email to Witness #4 dated November 29, 2023, a representative from Business #15 stated that they never heard back from CPR or Business #4 regarding project status, and they were never asked to provide a formal bid or proposal. See Exhibit 13.
- CLA identified emails from October 2018 and March 2019 where Business #15 was attempting to contact CPR about project status, but we identified no reply from CPR. See Exhibit 14.
- Subject #1 represented to the Board that the contract with Business #1 underwent a formal bid process and won based on its low price.
- The Board approved the contract with Business #1 after being told by Subject #1 that it went through a formal bidding process administered by Business #4 with bids received by Business #15 and Business #16, but based on the documents and emails described above, that bid process never occurred. Interviews conducted by Sacramento State of Business #4 representatives confirmed that they did not administer a bid process. Additionally, interviews by Sacramento State of Business #15 and Business #16 representatives confirmed they were never asked to provide a formal bid or proposal.

Sacramento State provided CLA with an email containing a summary of a conversation that occurred on June 12, 2024, between _____ CPR, Sacramento State, and Board Member #2. See Exhibit 15. Per the email, Board Member #2 denied knowing anything about a conflict of interest and indicated that they recused themselves any time furniture was discussed in a Board meeting. Per the email, Board Member #2 stated they were not aware that Subject #1 had caused CPR to take out loans for the furniture.

D. Review of Other Contracts

Per Section 7.02(a) of the Capital Public Radio Board of Directors Bylaws, "this Corporation shall not engage in any transaction which meets the definition of a "self-

dealing transaction" as defined in section 5233 of the Nonprofit Public Benefit Corporation Law unless the transaction has been approved by one of the means specified in subparagraph (d) of said section 5233."^{27, 28}

Primarily, Section 89906 of the California Education Code provides that, "No member of the governing board of an auxiliary organization shall be financially interested in any contract or other transaction entered into by the board of which he is a member, and any contract or transaction entered into in violation of this section is void." Further, Section 89907 provides that, "No contract or other transaction entered into by the governing board of an auxiliary organization is void under the provisions of Section 89906, nor shall any member of such board be disqualified or deemed guilty of misconduct in office under said provisions, if the circumstances specified in the following subdivisions exist: (a) The fact of such financial interest is disclosed or known to the governing board and noted in the minutes, and the governing board thereafter authorizes, approves, or ratifies the contract or transaction in good faith by a vote sufficient for the purpose without counting the vote or votes of such financially interested member or members, and (b) The contract or transaction is just and reasonable as to the auxiliary organization at the time it is authorized or approved."⁴³

The following sections present the factual findings obtained during the course of performing the procedures of this review. CLA is not making any legal claims, performing any analysis as to adherence to relevant laws, codes, or statutes, or reaching any conclusions of guilt or wrongdoing. In cases where certain documents or communications could not be located, CLA does not deny the existence of these records nor suggest any intentional withholding of them. Any statements made are subject to change pending the presentation of new information or records.

The relevant events surrounding other contracts are as follows:

Sacramento State expressed concern that other contracts may involve conflicts of interest with CPR executives or Board members. CLA reviewed the contract activity for Business #6, Business #7, and Business #8 at the direction of Sacramento State.

Business #6 Contract:

- Business #6, a Sacramento based law firm, was paid \$42,395.60 by CPR from January 2019 through May 2023.
- The contract with Business #6, dated October 16, 2018, and signed by Subject #1, is for legal services related to lease negotiations.
- Payments appear reasonable based on the stated services rendered.
- CLA notes that the contract was signed in 2018 for lease negotiation services, but they are still billing CPR as of March 2023.

⁴³ A copy of California Education Code Sections 89906 and 89907 are attached as Exhibit 3.

- This indicates that there may be another contract with Business #6 in addition to the contract CLA reviewed. However, Sacramento State has been unable to locate any other contracts and no further outreach was made to Business #6.
- Board Member #3, _____ has been employed at Business #6 since 2005 and is currently a partner at the firm.⁴⁴
Board Member #3 was elected to the firm partnership 2014.⁴⁵

Business #7 Contract:

- Business #7, a national law firm with an office in Sacramento, was paid \$11,062.50 by CPR from November 2020 through November 2022.
- The contract with Business #7, dated October 22, 2020, is for legal services related to trademark matters. The copy of the contract CLA received is not signed but Witness #2 is listed as the signer.
- The payments and contract appear reasonable for the stated services.
- Board Member #4, _____ has been employed at Business #7 since 2014 and is currently a partner at the firm.⁴⁶
Board Member #4 joined the firm as a partner.
- An email chain was identified (beginning with an email dated September 2, 2020) from Witness #2 to Board Member #4 regarding an intellectual property matter and stating that Subject #1 mentioned Board Member #4's firm had expertise in that area.
- The rest of the chain shows a conversation between Witness #2 and another partner at Business #7 discussing Witness #2's IP concerns. See Exhibit 16.

⁴⁴ Board Member #3 was nominated and elected to the Board at the July 28, 2018, meeting. Board Member #3 was listed as "present" as a Board member for all Board meetings from October 5, 2018, through November 17, 2022, with the exception of one absence at the May 30, 2019, Board meeting.

⁴⁵ Due to a decision by Sacramento State and CLA to prioritize other areas of forensic analysis, CLA did not perform a review of the Board meeting minutes to determine what actions were taken by the Board pertaining to this contract and if Board Member #3 recused themselves from any discussions or votes.

⁴⁶ Board Member #4 was listed as "present" as a Board member for all but two Board meetings from November 21, 2019, through November 17, 2022.

- Discussions surrounding this contract are not noted in the minutes from the Board of Directors, Executive Committee, or Finance committee meetings that fiscal year.

Business #8 Contract:

- Business #8, a management consulting firm, was paid once by CPR for \$4,000 in November 2019.
- Sacramento State could not locate a copy of this contract but based on an invoice identified during CLA's email review, CLA determined that Business #8 helped plan and facilitate the Board retreat in 2019. See Exhibit 17.
- Business #8 assisted in the creation of the retreat agenda and planning of sessions throughout the retreat.
- Board Member #5 was a member of the Board of Directors as early as January 2018, through the end of October 2018. Board Member #5 re-joined the Board of Directors in November 2020. Board Member #5 was also a member of Committee as early as February 2018 through at least June 2022.⁴⁷
- Board Member #5 is the founder of Business #8.
- Board Member #5 remained an active member of the committee throughout the time in 2019 and 2020 that they were not a member on the full Board of Directors and at the time payment was made to Business #8.
- The July 11, 2019, Executive Committee meeting minutes indicate that Board Member #5 agreed to facilitate the Board retreat but there was no discussion noted regarding the contract details or price of services.
- Board Member #5 was not a member of the Executive committee and was not present at this meeting.

For two contracts discussed above (Business #6 Contract and Business #7 Contract), CLA determined that a CPR Board member was a partner of the vendor. As such, the contracts with CPR may have provided a financial benefit to the Board members associated with each vendor. No discussions of potential conflicts of interest were identified in the board minutes. For Business #8 Contract, Board Member #5 was not a member of the Board of

⁴⁷ CLA did not review committee meeting minutes prior to 2018 or after June 2022.

Directors at the time of the transaction between CPR and Business #8. Thus, Business #8 Contract is excluded from CLA's finding of evidence of a possible conflict of interest.⁴⁸

CLA conducted a limited email search and document review regarding these contracts due to a decision by Sacramento State and CLA to prioritize other forensic analysis; however, in that limited review, no email discussions were located regarding the procurement of these contracts. CLA communicated the limitations of review in this area to Sacramento State, and CLA and Sacramento State agreed that Sacramento State would be granted access to the document review platform used by CLA to complete a wider review into their concerns. CLA also notes that due to the limitations of review in this scope area, research was not conducted into any other board members or executives and their potential conflicts of interest.

E. Timeshare

It was communicated to CLA during interviews that CPR pays for maintenance fees of a timeshare, Olympic Village Inn (managed by Grand Pacific Resorts), owned by Capital Public Radio Endowment ("CPRE"). The timeshare property was donated to CPRE in 2016; however, CPR has been paying for the annual fees associated with the property. CLA did not identify any disbursements to Grand Pacific Resorts or Olympic Village on the general ledger or disbursement ledger. CLA was unable to determine the exact amount CPR has been paying for annual fees related to the timeshare; however, an email was identified in which Witness #2 communicates "we pay about \$1k annually in fees." See Exhibit 18. Use of the property by CPR or CPRE Board Members or employees is unknown as there is limited information available regarding specific use of the property. In an email chain from May 2022, Witness #1 suggests raffling timeshare weeks to donors, but Witness #2 describes the timeshare as "shabby" and "not suitable for gifting to donors." See Exhibit 19. CLA identified emails in 2021 that indicate CPR was looking to sell the property; however, as of the date of this report and information available to CLA, the property has not been sold.

F. COVID Funding

Sacramento State expressed concern regarding CPR potentially obtaining COVID-related funding when it did not appropriately qualify. According to Sacramento State, CPR hired three companies, Business #9, Business #10, and Business #11, to consult on obtaining and receiving ERC funding.⁴⁹ Through the analysis and email review performed, the firms CLA identified that assisted CPR with the ERC claim were Business #10 and Business #11, two of the three firms identified by Sacramento State.

Business #10 invoiced CPR \$212,997.52 for their services, which was 25% of the expected federal tax benefit of \$851,990.08, per their invoice. Business #10 estimated the net

⁴⁸ Section 5233 of the Nonprofit Public Benefit Corporation Law and Section 89906 of the California Education Code relate specifically to members of the Board of Directors and not non-Board committee members.

⁴⁹ ERC is short for "The Employee Retention Credit": a refundable tax credit for certain eligible businesses and tax-exempt organizations designed to encourage businesses to retain employees by providing a credit against payroll taxes.

payment to CPR as \$553,793.55. Business #11 is the advanced payment financing partner, and they were paid an additional 10% of the benefit amount for their services. CLA identified two transactions in the general ledger that appear related to the receipt of ERC funds. One receipt was recorded to the operating account on April 19, 2023, for \$425,995.12, and another receipt was recorded to the money market account on June 5, 2023, for \$885,850.50.

CLA did not perform a comprehensive review of all COVID-related funding applications, including review of underlying documentation, to determine accuracy and qualification of CPR for the awards. However, Sacramento State stated that the federal government required CPR to return the amount of \$885,850.50 due to being ineligible to receive the funds.⁵⁰ This was discovered by Sacramento State after they took over the accounting functions of CPR in October 2023. CLA viewed the statement dated June 6, 2023, from Business #11 requesting payment directly to them in the amount of \$885,850.50 and the check from CPR to Business #11's affiliate company dated June 21, 2023, for "IRS ERC Payment" in the same amount.⁵¹

G. P-Card Transactions

Due to concerns surrounding the AMEX and CHASE credit cards, Sacramento State requested that CLA review the FNBO P-Card activity for all cardholders. According to interviews with CPR employees, all department heads have FNBO cards to use for business expenses. The statements are reviewed by the finance team. CLA received the statements for 16 card users during the scope period. CLA notes that Individual #5 and Individual #6 have the highest card usage with \$132,631.94 and \$128,063.63, respectively, followed by Individual #7 with \$44,986.44 in card usage.

CLA notes the largest vendors, those with over \$10,000 in payments, across users include Facebook, Amazon, MailChimp, Sticker Mule, Dropbox, and Zendesk. The rest of the vendors have many small transactions as opposed to large purchases. There were no obvious personal charges on the FNBO P-Cards; however, a detailed review of each transaction and the related supporting documentation was not performed.

⁵⁰ Additional statements made to CLA by a former CPR employee subsequent to the release of the original version of this report suggest that CPR was not ineligible to receive the COVID related funds. Due to limited documentation available, additional research or inquiry by CPR or Sacramento State would be required to determine the purpose of the repayment made by CPR to Business #11.

⁵¹ CLA noted the \$425,995.12 receipt was recorded to the general ledger as ERC COVID-19 funding. CLA is not aware of CPR or Sacramento State receiving communication stating CPR was ineligible for this funding or requesting repayment.

5. Conclusion

This report presents factual findings obtained during the course of performing the procedures of this engagement. CLA is not making any legal claims or reaching any conclusions of guilt or wrongdoing. In cases where certain documents or communications could not be found, CLA does not deny the existence of these records nor suggest any intentional withholding of them. Any statements or conclusions made in this report are subject to change pending the presentation of new information or records.

As a result of the procedures performed, a total of \$460,831.93 in unsupported payments were identified that were either directly disbursed to Subject #1, or Subject #1 made purchases via credit card that were subsequently paid by CPR without corresponding expense reports and/or receipts.

An additional \$307,493.41 in unsupported payments made by CPR to AMEX may have been related to purchases incurred by Subject #1; however, the statements and supporting documentation were not available or could not be located.

The overall breakdown of the unsupported payments is detailed in the following table, with the time period indicated for each area analyzed based on available documentation.

Description	Time Period	Amount	Attachment
AMEX charges paid by CPR that are not supported by either expense reports or receipts.	January 2021 – June 2022	\$ 127,552.08	1
AMEX charges paid by CPR that have associated expense reports, but no receipts.	May 2022 – June 2023	6,807.94	2
Disbursements to Subject #1 that have no support.	July 2020 – June 2023	266.32	4
ACH payments to Subject #1 that have no support.	February 2020 – September 2021	53,016.00	5
Additional AMEX charges paid by CPR that are not supported by either expense reports or receipts (expanded scope period).	December 2017 – December 2020	273,189.59	6
Subtotal		<u>\$460,831.93</u>	
Payments to AMEX identified in CPR's online banking for which statements and supporting documentation are not available or could not be located. This includes: 1) payments to AMEX within the date range of the statements provided to CLA but not associated with those statements or 2) payments to AMEX with dates prior to the dates on the statements provided.	November 2019 – November 2023	133,237.53	3
Payments to AMEX with dates prior to the dates on the statements provided.	May 2017 – November 2017	174,255.88	7
Subtotal		<u>\$307,493.41</u>	
Grand Total		<u>\$768,325.34</u>	

CLA initially contacted Subject #1 on February 20, 2024, in an attempt to inquire about these transactions and request supporting documentation. Subject #1 has retained legal counsel, who has been corresponding with CLA regarding this request. On March 29, 2024, at the request of Subject #1's legal counsel, CLA provided to Subject #1 and their legal counsel a list of possible questions to be asked in an interview and the schedule of transactions in question. An interview of Subject #1 was eventually scheduled for May 24, 2024, the soonest availability communicated by Subject #1's counsel. On May 23, 2024, CLA emailed Subject #1 and their counsel to confirm the interview the following day and add additional topics to the list of interview questions. Later that afternoon, Subject #1's counsel called CLA to communicate that Subject #1 no longer wanted to participate in the interview with CLA and desired to engage in discussions about reimbursement to CPR. CLA indicated to Subject #1's counsel that CLA was not authorized to engage in those discussions on behalf of CPR or Sacramento State but would relay the message to Sacramento State. In communications with Subject #1's counsel, CLA indicated that if Subject #1 had any documentation to support the list of transactions that were provided, those could be provided in advance of the scheduled interview, if desired.⁵² However, as of the date of this report, no additional information or documentation regarding these transactions has been submitted by Subject #1 or their counsel. Our conclusions on these transactions are subject to change should Subject #1 provide additional information or documentation related to these transactions.

Additionally, the contract with Business #1 was entered into without undergoing a competitive bid process. Sacramento State's Guide for Vendors and Contractors provides that contracts for personal property (equipment, parts, supplies, or other merchandise) above \$100,000 must be awarded as the result of a formal solicitation process.⁵³ The President/CEO of Business #1, Board Member #2, was a CPR Board Member at the time the contract was entered, therefore presenting evidence of a possible conflict of interest.⁵⁴ The Board approved the contract with Business #1 after being told by Subject #1 that the contract went through a competitive bid process administered by Business #4, but interviews conducted by Sacramento State of Business #4 representatives confirmed that they did not administer a bid process. Additionally, interviews by Sacramento State of two vendors represented as submitting bids confirmed they were never asked to provide a formal bid or proposal.

One of the two downtown headquarters properties appears to be owned in part by a Board member's spouse, which, at a minimum, demonstrates at least the appearance of a potential conflict of interest.⁵⁴ The spousal relationship was not noted in the Board meeting minutes.

⁵² The list of transactions sent to Subject #1 and their counsel included: American Express transactions beginning in December 2020, American Express payments beginning in November 2019, expense report transactions beginning in June 2022, check payments to Subject #1 beginning in February 2019, and ACH payments to Subject #1 beginning in February 2020. Subsequent to Subject #1 canceling the interview with CLA, Sacramento State gathered evidence of additional payments made by CPR on credit cards held by Subject #1, which included transactions as far back as May 2017. These additional transactions were not shared with Subject #1 or their counsel by CLA.

⁵³ See Exhibit 10 for a copy of the relevant sections of CSU PolicyStat ID 12796348 and 15202482, and a copy of Sacramento State Guide for Vendors and Contractors.

⁵⁴ CLA is not making any legal claims, performing any analysis as to adherence to relevant laws, codes, or statutes, or reaching any conclusions of guilt or wrongdoing. In cases where certain documents could not be found, CLA does not deny the existence of these records nor suggest any intentional withholding of them. Any statements or conclusions made in this report are subject to change pending the presentation of new information or records.

The majority of meeting minutes which detail discussions of the 730 I St. lease negotiations do not contain detail as to whether Board Member #1 was recused from the discussions when listed as in attendance at those meetings. Further, there was only one vote documented related to this property, which took place during a meeting in which Board Member #1 was in attendance. However, the meeting minutes do not provide detail on the votes cast and instead only state that the motion passed. No official motion or vote was recorded in the minutes related to the final lease execution. Board Member #1's spouse is a partial owner in the 730 I St. property.

For two contracts reviewed for legal services, CLA determined that a CPR Board member was a partner at the vendor. As such, the contracts with CPR may have presented a conflict of interest to the Board members associated with each vendor.⁵⁴ No discussions of potential conflicts of interest were identified in the board minutes.

Further, CLA reviewed communications between CPR and consultants regarding ERC COVID funding. While CLA's forensic examination did not entail an assessment of eligibility, Sacramento State indicated that CPR was required to return the ERC funding to the federal government as a result of being found ineligible for the award.

Finally, CLA reviewed the activity of a timeshare gifted to CPR and the activity of P-Cards associated with all other cardholders during the scope period. CLA did not identify any indications of personal benefit or inappropriate activity in these areas.

6. Professional Standards Followed by CliftonLarsonAllen LLP

The overall scope of work and approach was conducted utilizing standards in accordance with the Statement on Standards for Forensic Services No. 1 (“SSFS No. 1”) of the American Institute of Certified Public Accountants (“AICPA”) and the Code of Professional Standards of the Association of Certified Fraud Examiners (ACFE). This report does not constitute an audit, compilation, or review, in accordance with standards of the AICPA, the objective of which would be the expression of an opinion on any specified elements, accounts, or items. Accordingly, CLA does not express such an opinion.

Because of the unique nature of fraud, and because our engagement was limited to the matters described in the engagement letter, fraud and/or financial irregularities may exist within the organization that we may not have identified during the performance of our procedures. However, if during the performance of our services other matters had come to our attention suggesting possible financial improprieties and/or irregularities, we would have communicated such matters to California State University, Sacramento.

The professional standards promulgated by the AICPA prohibit CLA from rendering an opinion as to whether there has been any fraud or other criminal activity by anyone associated with this engagement. Therefore, CLA does not render such opinions.

7. Information about CliftonLarsonAllen LLP

Established on January 2, 2012, as the nation's newest top 10 accounting firm, CLA is well positioned with knowledge, insight, and industry-specific accounting, tax, and consulting services. CLA is the result of a union between Clifton Gunderson and LarsonAllen, both established more than 60 years ago. CLA has a national forensic practice.

According to Accounting Today, CLA is the 8th largest accounting firm by revenue. With a nationwide network of experienced professionals, clients include law firms, school districts, CEOs, leaders in education, municipalities, governmental agencies, the law enforcement community, commercial businesses, and not-for-profit agencies. The CLA Forensic Services team is a highly respected and sought-out authority in fraud prevention, detection, and investigation. Our multi-disciplined team is comprised of Certified Public Accountants, Certified Fraud Examiners, professionals Certified in Financial Forensics, Certified Internal Auditors, former law enforcement officers, and private investigators. While other professionals assisted in this matter, the following professionals were primarily responsible for this engagement.

Jenny Dominguez, CPA/CFF, CFE, is a principal in the Forensic Services practice of CLA and was responsible for the oversight of this engagement. Her practice areas include accounting and auditing, fraud investigations and examinations, forensic accounting, internal control review and analysis, and litigation support. Her experience includes seven years with Ernst & Young as a fraud investigator and forensic accountant, three years with Kroll as a financial fraud investigator, and two years as an independent consultant in the field of forensic accounting and litigation support before joining CLA at a management position over 13 years ago.

Ayla Grady, CPA, CFE, is a manager in the Forensic Services practice of CLA. Ms. Grady has over ten years of audit, tax, and consulting experience serving clients in many industries, including nonprofit organizations, state and local government agencies (including single audits), and various for-profit entities. She has experience leading and assisting in various forensic engagements, including trust matters, partnership disputes, employee embezzlement schemes, and asset misappropriation.

Lea Wyatt, Esq. CFE is a Director in the Forensic Services practice of CLA. She specializes in fraud and independent investigations, and corporate due diligence. With over 15 years of experience as an attorney and investigator, Ms. Wyatt also possesses a strong background in corporate finance and assists a diverse range of clients, including government entities, higher education institutions, and private companies.

8. List of Exhibits

Exhibit 1
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9. List of Attachments

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