

DEVELOPMENT

CALIFORNIA STATE UNIVERSITY, LONG BEACH

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Abbreviations

AD	Accounting Department
CFAE	Council for Aid to Education
CSU	California State University
CSULB	California State University Long Beach
CASE	Council for Advancement and Support of Education
SAM	State Administrative Report

PURPOSE

Our overall audit objectives were to review: reliability, confidentiality and integrity of information; compliance with relevant federal and state law, Trustee policy and Chancellor's Office directives; effectiveness, efficiency and economy of operations; and attainment of established objectives and goals.

Within the overall audit objectives, some specific goals included:

- **to determine if internal controls provide adequate assurance that gifts are properly recorded and subject to reasonable accountability;**
- **to determine compliance with relevant tax laws regarding the handling of gifts;**
- **to determine if cash and negotiable items are adequately controlled and properly accounted for;**
- **to determine if nonpayroll operating expenditures are reasonable, comply with University policies, are properly authorized, and are adequately documented;**
- **to evaluate compliance with donor intentions;**
- **to determine if access to gift records is properly controlled with reasonable confidentiality of donor information;**
- **to verify that development activity is accurately reported; and**
- **to provide assurances that specific risks/concerns are addressed by reasonable mitigation measures.**

SCOPE AND METHODOLOGY

In *Educational Fund Raising - Principles and Practices*, institutional advancement is described as a broad function of "all activities and programs undertaken by an institution to develop understanding and support from all its constituencies in order to achieve its goals in securing such resources as students, faculty and dollars" including, for example, alumni affairs, internal and external communications, government and public relations, fund raising, and enrollment management. Educational fund raising is characterized as only one important element of institutional advancement. The author indicates that the term "development" is frequently used interchangeably with "fund raising." This usage was adopted for audit purposes and used throughout this report.

This book also makes a case to establish fund raising as a less sophisticated process than development. According to this model, some initial development activities (identification

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of prospects and cultivation of interest in the institution) need to be completed before the institution is ready for fund raising. Other development activities are carried on after the gift is received to assure that the funds are used for the purpose intended (stewardship). Fund raising is simply asking for the gift. Other distinguishing features are embodied in the following quotation:

Fund raising is episodic; development is continuous. Fund raising is focused on a particular objective or set of goals; development is a generic and long term commitment to the financial and physical growth of the institution.

Although terminology was used somewhat interchangeably, for purposes of this audit, development was considered in the broader concept indicated above - more than just asking for the gift but less than university advancement. For example, the alumni of the campus represent an important development resource, but alumni affairs was not emphasized. However, affiliated alumni organizations as separate 501(c)(3) corporations could be involved in fund raising in addition to their membership program. The fund raising component was included in the audit scope.

Most of the audit was focused in the central development function under the auspices of the campus vice president for university advancement. However, we also interviewed personnel and reviewed procedures related to fund-raising in three colleges (Health and Human Services, Engineering and Arts) as well as the CSULB Foundation, CSULB Library, University Art Museum, 49er Athletic Association, and Radio Station KLON.

The 1994/95 fiscal year was the primary period reviewed. We interviewed campus personnel and tested records pertaining to this period such as: cash receipts; bank deposits; non cash (property) gift acceptance and valuation documents; donor acknowledgments; financial ledgers; endowment investments; expenditure transactions; information data bases on prospects, donors, and donations; and inventory of contributed property.

Within university advancement, there were a number of different initiatives underway that have not matured or progressed to the point when, in our opinion, audit would be worthwhile. We did not pursue audit activity in these areas. Examples include the relatively new positions for major gifts and planned giving, capital campaign, evaluation of performance against a cohort of comparison institutions, and positioning of development officers within additional colleges/schools.

We have not performed any auditing procedures beyond the date of our report. Accordingly, our comments are based on our knowledge as of that date and should be read with that understanding. Since the purpose of our comments is to suggest areas for improvement, comments on favorable matters are not discussed.

BACKGROUND

A pivotal point in the maturation of the development function in the CSU occurred at the January 1991 Board of Trustees meeting. At this meeting and immediately thereafter, a series of actions were put into motion which initially called for implementation of comprehensive institutional advancement programs. Subsequently, the CSU contracted for help in evaluating institutional advancement activities with a consultant - Ketchum, Inc. which began work in March 1993. The consultant issued two reports in July 1993 and January 1994. Both reports were presented to the Board of Trustees in early 1994. In accepting these reports, certain goals were established so that, over time, the CSU would phase in a base of voluntary support summarized as 10/3/1 - 10 percent above net General Fund in private sector giving, 30 percent of the 10 percent in unrestricted operating funds, and 10 percent of the 10% in endowments. Net General Fund was described as excluding fees and other income.

Based on the above timing, 1993/94 was a base year for measurement of performance against systemwide fund raising goals. In terms of the 10 percent goal, recent history for CSU, Long Beach is recapped as follows:

Table 1
Voluntary Giving as a Percent of
Net General Fund

YEAR	NET GENERAL FUND	VOLUNTARY GIVING	PERCENT
1990/91	\$ 125,949,383	\$12,837,943	10.19
1991/92	113,806,780	15,547,833	13.66
1992/93	101,715,562	16,212,894	15.94
1993/94	97,709,055	17,946,113	18.37
1994/95		21,159,841	

On a systemwide basis, twelve campuses reported increased giving in 1994/95 but, overall, there was a decline of approximately 8.5% attributed in part to several outstanding 1993/94 gifts. In 1994/95, CSU Long Beach was ranked first among the campuses in voluntary giving and second in terms of the percent of voluntary giving to net general fund appropriation.

The Chancellor's Office has collected special revenue statistics for the last two years - 1993/94 and 1994/95 and presented the information to the Board of Trustees at their January meeting. CSU Long Beach has reported special revenues in the following categories:

Table 2
Special Revenues

	1993/94	1994/95
Sponsorships	\$51,800	\$ 324,881
Multi-Year Pledges	761,544	300,000
Grants	19,447,863	16,388,449
Bequests and Revocable Trusts	3,250,000	425,785
Endowment and Other Income		786,769
Total		\$ 18,225,884

* = Not reported in 1993-94

The market value of all endowments and similar funds at the campus as of 6-30-95 totaled \$11,185,691.

OPINION

We visited California State University, Long Beach from February 29, 1996 to April 12, 1996 and audited the structure in effect at that time.

In our opinion, there were reasonable internal controls in place and they were operating satisfactorily to assure that gifts are properly recorded, cash and negotiable gift instruments are properly controlled, donor records are secure and kept confidential, and development activity is accurately reported. However, some additional attention is warranted in areas mentioned below in the executive summary including policy dissemination, control over gifts-in-kind, cost accounting for endowment trust funds, and reporting fundraising efforts.

EXECUTIVE SUMMARY

The purpose of this section is to provide management with an overview of conditions requiring their attention. Areas of review not mentioned in this section were found to be satisfactory. Numbers in brackets [] refer to page numbers in the report.

SYSTEM CONTROLS AND SECURITY

POLICY MANUAL [7]

The University Relations and Development Office had not distributed policy and procedure manuals to all development officers. To assure consistency in data reporting, donor acknowledgement, gift acceptance and valuation, and gift accountability, a manual of policies and procedures should be distributed to all staff engaged in fund raising activity.

ACKNOWLEDGING AND RECEIPTING GIFTS [7]

Gifts are not acknowledged and receipted in accordance with current Title 5 requirements. Following current Title 5 requirements will enable the campus to assure that donors are properly acknowledged and that receipts are properly recorded.

GIFTS IN KIND

GIFT VALUATION AND ACCEPTANCE [8]

Campus procedures for valuing gifts-in-kind are inconsistent with the management reporting standards established by the Council for Advancement and Support of Education (CASE). The campus valued and accepted a large gift without a proper evaluation of the gift's worth to the university. Using educational discount, fair market values, and appraisals where appropriate will allow for gift-in-kind contributions to be properly stated on the Council for Aid to Education (CAE) report filed with the Chancellor's Office. Additionally, assessing and reporting non-cash gifts for their beneficial nature would allow for a more accurate assessment of its worth to the university.

GIFT REPORTING [10]

The campus did not always reporting gifts in the year received. Recording a gift in the year in which it was received properly represents the fund raising effort in both years and leads to correct CAE report being filed with, and used by, the Chancellor's Office.

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INVENTORY - GIFTED PROPERTY [11]

Property records on gifts were not accurate. Strengthening internal controls to assure timely recording and tagging of gifted property as soon as possible will decrease the possibility of loss and assure accounting record accuracy.

ACCURACY OF REPORTED CONTRIBUTIONS [12]

Cash contributions for 1994-95 were overstated by approximately \$492,475, while gifts-in-kind were understated by \$75,675. Correct reporting of contributions properly states both the campus development effort and the CFAE statement sent to, and used by, the Chancellor's Office.

ENDOWMENTS/TRUST/RESTRICTED GIFTS [12]

Campus cost accounting practices, internal control procedures, and administration of endowment trust funds are in need of improvements. Specific and direct costing of events and activities paid from endowment funds will alleviate questions of appropriate fund use.

OBSERVATIONS, RECOMMENDATIONS, AND CAMPUS RESPONSES

SYSTEM CONTROLS AND SECURITY

POLICY MANUAL

The University Relations and Development Office had not distributed policy and procedure manuals to all development officers.

SAM Section 20003 states that the elements of a satisfactory system of internal accounting and administrative control, shall include an established system of practices to be followed in the performance of duties and functions in each of the State agencies.

It further states that symptoms of control deficiencies include not currently maintained or nonexistent policy and procedural or operational manuals.

The University Relations and Development Office provides extensive support to campuswide development staff and periodically distributes policy letters. However, due to the increased number development positions, it had not been able to assure that each has a complete manual of policies and procedures.

Not providing a manual of policies and procedures to guide development staff in the practices and standards in fundraising increases the potential for inconsistencies in: data reporting, donor acknowledgements, gift acceptance and valuation, and gift accountability.

Recommendation 1

We recommend that the University Relations and Development Office distribute its manual of policies and procedures to all staff engaged in fund raising activity.

Campus Response

We concur with this recommendation. The Division of University Relations and

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ACKNOWLEDGING AND RECEIPTING GIFTS

Gifts were not acknowledged and receipted in accordance with current Title 5 requirements.

Title 5, Section 42300(a)(3)(D) of the California Administrative Code provides that donations of personal property other than an automobile, truck, or bus will be acknowledged in writing by the president.

Campus management was not aware of these requirements.

Multiple gift acknowledgment letters can be initiated from different levels such as faculty, department chairs, college deans, and development officers. An automated receipt with a presidential facsimile signature goes out to all personal property donors.

The campus donor recognition plan states that the vice president for University Relations and Development shall acknowledge all personal property contributions greater than \$100 and all gift-in-kind contributions. The president personally acknowledges all gifts \$5,000 or greater. Neither the letter of acknowledgment nor the automated receipt contains the prescribed language stated in Title 5, Section 42301. Gift documentation is not forwarded to the Chancellor's Office.

Recommendation 2

We recommend that the campus acknowledge and receipt for gifts in accordance with current Title 5 requirements.

Campus Response

We concur with the recommendation. The campus will accept and acknowledge gifts in accordance with Title 5 requirements.

GIFTS-IN-KIND

GIFT VALUATION AND ACCEPTANCE

Campus procedures for valuing gifts-in-kind were inconsistent with the management reporting standards established by the Council for Advancement and Support of Education (CASE). The campus accepted a large gift with out a proper evaluation of the gift's worth to the university.

CASE is the national governing body for oversight of fundraising and related activities. The standards provide that gifts-in-kind, such as equipment and software valued at \$5,000 or greater, shall first be counted at their educational discount value, second, if the uniqueness of the item precludes the offering of a discount then its retail value is the basis for valuation, and finally, the donee may use a qualified independent appraisal as the basis if none of the above apply.

Title 5 Section 42300 provides for a determination of the beneficial nature of a gift in carrying out the primary function of the university prior to acceptance.

Campus development officers stated that three methodologies were in use for gift valuation: donor valuation, campus valuation, and vendor retail valuation. Generally, the methodology yielding the greater valuation was used. In a random sample selection and examination of seen gift-in-kind items to the university, we found the following:

**Table 3
Gifts-In-Kind Valuations**

Date Received	Description	Item	Valuation Method
8-25-95	Computer Software	\$3,056,000	Vendor Retail
10-2-95	Computer Hardware	38,000	Campus Valuation
8-28-95	Film & Elect. Equip.	14,701	Campus
5-22-95	Office Furniture	20,070	Donor Est.
11-1-95	Computer Hardware	3,945	Donor Est.
11-1-95	Computer Software	628,320	Vendor
12-23-94	Computer Software	6,420,000	Vendor

Three In six of the seven instances above, the campus inventory postings exceeded \$5,000. items had vendor retail valuations while to had donor estimated values recorded.

A gift of computer equipment valued by the donor and accepted by the campus at \$11.1 million was used for its parts. Inoperable and in varying stages of completion when received, the gift of computer equipment would have required special utility connections. However, the campus property officer stated that within days of delivery, parts from the prototype computer were removed. We determined that the parts were taken for use in a robotics class.

Additionally, we noted that in the acceptance of this gift, the campus development officer acknowledged the value of the equipment in a form letter prepared by the donor.

By not using educational discount values and fair market values where indicated, gift-in-kind contributions were overvalued on the Council for Aid to Education (CFAE) report filed with the Chancellor's Office. Further, assessing and reporting non-cash gifts for their beneficial nature to the campus could result in lower valuation amounts. However, this would allow for a more accurate assessment of a gift's worth to the university.

Recommendation 3

We recommend that the campus comply with the CASE standards for valuing gift-in-kind contributions.

Campus Response

We concur with the recommendation. The campus will comply with CASE guidelines standards for valuing gift-in kind contributions.

Recommendation 4

We recommend that the campus evaluate all gifts-in kind for their beneficial nature to the campus and incorporate it into the gift valuation process.

Campus Response

We concur with the recommendation regarding evaluation of all gifts-in-kind for their beneficial nature to the campus and will comply with CASE guidelines for valuing gift-in-kind contributions as outlined on page eight of this audit report.

GIFT REPORTING

The campus was not always reporting gifts in the year received.

The CASE standards state that only those gifts and pledges actually received or committed during the specific period of time identified for the campaign should be counted in campaign totals.

In 1993-94, the campus received a gift of computer hardware valued by the donor at \$11.1 million. During that same year, the campus reported only \$5.55 million as a contribution. The campus reported \$3.7 million of the prior year's gift as a contribution in 1994-95 bringing the recorded gift total to \$9.25 million. No entries were recorded on the 1995-96 gift history report. The director of Information Systems for Development who is responsible for gift-in-kind recordings stated he was directed to record the gift amounts in the two fiscal years. He also stated that no additional entry regarding this gift is anticipated.

Partially recording a gift in a year other than that in which it was received misrepresents the fund raising effort in both years and leads to incorrect CFAE reports being filed with, and used by, the Chancellor's Office.

Recommendation 5

We recommend that the campus record gifts in the year received.

Campus Response

We concur with the recommendation. The campus will comply with CASE guidelines standards for valuing gift-in-kind contributions.

INVENTORY - GIFTED PROPERTY

Property records on gifts were not up-to-date.

Gifts in kind valued at \$7,958,403, and received at the campus between December 1994 and October 1995, had not been posted to the campus property inventory.

SAM Section 8650 requires departments to keep records of all property when acquired. SAM Section 8651 requires the tagging of all state property as soon as practical.

Stewardship of gifted property is considered more a responsibility of the receiving department and property office than university advancement. The campus property clerk stated that gifts of property are generally delivered directly to the departments or someone in the department picks up the item(s). Delays have occurred in forwarding documentation to the property office and in locating property for tagging.

Recent changes in property accountability have raised the general threshold for inventory record keeping from \$500 to \$5,000.

We tested seven 1994-95 gifts-in-kind. Six of the seven items exceeded the \$5,000 threshold requiring capitalization under the new inventory accountability guidelines. One of these six items had been inventoried and five items still needed posting to the campus property records.

Delays in the tagging and recording process increases the possibility of property loss. Additionally, inventory and accounting records are understated by the value of the unrecorded assets.

Recommendation 6

We recommend that the campus strengthen internal control to assure that all gift property is recorded and tagged as soon as possible.

Campus Response

We concur with this recommendation. Procedures and processes have been developed to ensure that gift acknowledgments are forwarded to the property office on a timely basis. This will allow the property office to tag and record all gifted property in a timely manner.

ACCURACY OF REPORTED CONTRIBUTIONS

Donor cash contributions for 1994-95 were overstated by \$492,475, while gifts-in-kind were understated by \$75,675.

SAM Section 20003 provides that the elements of a satisfactory system of internal accounting and administrative control shall include a system of authorization and recordkeeping procedures adequate to provide accounting control over assets, liabilities, revenue, and expenditures.

The campus' 1994-95 contributions by unit report, from which the annual CFAE report is prepared, showed the annual cash contributions figure for radio station KLON at \$1,975,225. For the same period, the audited financial statements for the same period showed cash donations of \$1,482,750, a difference of \$492,475. The controller for KLON stated that the figures reported to the campus development office included concert revenue. Our review also found that in kind contributions were under reported by \$75,675 for 1994-95.

Incorrect accounting of contributions misstates both the campus development effort and the CFAE report sent to, and used by, the Chancellor's Office.

Recommendation 7

We recommend that the campus provide appropriate instructions to affiliated entities for gift reporting.

Campus Response

We concur with this recommendation. The campus will provide appropriate instructions to affiliated entities for gift reporting.

USE OF ENDOWMENT TRUST FUNDS

Campus cost accounting practices, internal control procedures, and administration of endowment trust funds were in need of improvement. Expenditures of endowment proceeds from one trust fund may not have been in accord with the provisions of the trust agreement.

An endowment trust exists when an institution receives funds of which only the earnings from the principal amount can be expended. Generally, an endowment agreement or other supporting documents contain the purposes for fund use.

The events and activities indicated by campus officials as consistent with the endowment purposes lacked adequate supporting documentation of direct costing. Campus officials stated that they fully believe that they are in accord with the intent of the trust.

After the completion of fieldwork, the vice president for administration and finance provided us with additional documentation clarifying campus practices and intentions regarding this endowment.

Specific and direct costing of events and activities paid from endowment funds will alleviate questions of appropriate fund use.

Recommendation 8

We recommend that the campus strengthen its accounting and internal control system to ensure appropriate handling and documentation of expended endowment fund proceeds.

Campus Response

We concur with this recommendation. The Foundation will strengthen its accounting and internal control system to ensure appropriate handling and documentation of expended endowment fund proceeds.

**APPENDIX A:
PERSONNEL CONTACTED**

<u>Name</u>	<u>Title</u>
Robert C. Maxon	President
Ann Allen	Director of Development, College of the Arts
Joanna Aubel	Cashier, CSULB Foundation
Toni Beron	Assistant Vice President for Public Affairs/Publications
Robert Bersi	Special Counsel for University Advancement
Oliver Bohlman	Administrative Services Manager
Kyle Button	Director of Corporate and Foundation Relations
David Corey	Director of Prospect Management and Research
Aristide Collins	Executive Assistant to the Vice President, University Relations and Development
Elliott Collier	Director of Development, Carpenter Performing Arts Center
Armando Contreras	Executive Assistant to the President
Deborah Cordano	Executive Director of Development, School of Engineering
Stephen Feldman	Vice President, University Relations and Development
William Griffith	Vice President, Administration and Finance
Janice Hatanaka	Assistant Vice President of Alumni Relations/Annual Fund
Barbara Holden	Assistant Director of Planning and Gifts/Acknowledgements
William Husak	Executive Director , CSULB Athletic Association
Ilee Kaplan	Associate Director, University Art Museum
Peter Kote	Senior Director of Estate Planning and Gifts
Judy Jankowski	General Manager, KLON Radio
Joseph Latter	Associate Vice President for Financial Management
Rosario Lindquist	Fiscal Officer, School of Engineering
Brian Lawver	Director of Development Information Systems
Robyn Mack	Director of Budget and Human Resources Management
Maryanne Messing	Gifts Processing Coordinator, CSULB Foundation
David Prenovost	Director of Finance and Accounting, CSULB Foundation
Nancy Roberts	Senior Director of Development, College of Health and Human Services
Mark Roberts	Controller, Pacific Public Radio-KLON
Bill Shumard	Assistant Vice President, University Relations and Development
Joan Simmons	Financial Analyst, CSULB Foundation
Mary Ann Solic	Assistant to the Director, Planning and Development/University Library Learning Resources
Jim Suguitan	Business Manager, CSULB Athletic Association
Carl Wayne	Director of Development, College of Natural Sciences
Sandra VanderHeyden	Executive Director, CSULB Foundation
Deborah Veady	Director of Development, Division of Student Services