

DEVELOPMENT

SAN FRANCISCO STATE UNIVERSITY

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ABBREVIATIONS

CASE	Council for Advancement and Support of Education
CFAE	Council for Aid to Education
CSU	California State University
GIK	Gift-in-Kind (Non monetary gifts)
SFSU	San Francisco State University

INTRODUCTION

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 non payroll 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 establishes fund-raising as a less sophisticated process than development. According to this model, some initial development activities (identification 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 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. However, we also interviewed personnel and reviewed procedures related to fund-raising in three colleges (Business, Creative Arts, and Education) as well as two affiliated organizations the SFSU Foundation and the SFSU Alumni Association.

The 1994/95 fiscal year was the primary period reviewed. We interviewed campus and foundation 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.

BACKGROUND

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.

A pivotal point in the maturation of the development function in the CSU occurred at the January 1991 meeting of the Board of Trustees. At that 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 targets 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 percent in endowments.

Based on the above timing, 1993/94 could be considered a base year for measurement of performance against systemwide fund raising goals. In terms of the General Fund standard, recent history for San Francisco is recapped as follows:

Table 1
Voluntary Giving as a Percent of
Net General Fund

YEAR	NET GENERAL FUND	VOLUNTARY GIVING	PERCENT
1990/91	\$ 104,755,592	\$ 4,954,867	4.73
1991/92	96,398,624	3,205,560	3.33
1992/93	87,072,422	2,594,850	2.98
1993/94	84,433,427	8,675,634	10.28
1994/95	86,705,900	9,141,846	10.54

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

In 1995/96, San Francisco reported voluntary giving of \$3,378,018.

The Chancellor's Office has collected special revenue statistics for the last two years 1993/94 and 1994/95. San Francisco has reported special revenues in the following categories:

Table 2
Special Revenues

	1993/94	1994/95
Sponsorships	\$ 21,185	\$ 738
Bequests and Revocable Trusts	1,835,000	8,105,000
Multi-Year Pledges	524,479	248,000
Contracts/Grants	20,611,971	22,568,898
Property Transfer		4,390
Endowment and Other Income	*	976,722
Total	\$ 22,992,635	\$ 31,903,748

* = Not reported in 1993-94.

There was a decline in reported Special Revenues to \$23,205,926 in 1995/96.

Recent reports of endowment market value at SFSU have shown an increase from \$5,119,350 on June 30, 1994, to \$8,493,463 on June 30, 1995, and a decrease back to \$6,352,558 on June 30, 1996.

SFSU was one of six CSU campuses which recently participated in a joint procurement of the BSR Advance C/S a relational database related to development activities. Implementation of the new system is planned for July 1997. The predecessor system in use at the campus is the ADIS (Alumni Development Information System) module of Wang ABACUS. In 1994/95, ABACUS was augmented by records maintained in an Excel spreadsheet for preparation of the CFAE Report. The spreadsheet was converted to a File Maker Pro database application in 1995/96.

OPINION

We visited the San Francisco State University campus from June 17 through August 1, 1996, and audited the structure in effect at that time.

In our opinion, internal controls were adequate to assure that gifts were properly acknowledged, donor intentions were followed, and donor records were secure and kept confidential. Reports on development activity for 1994/95 were overstated. Additional attention is warranted in areas mentioned in the executive summary below including property accountability for gifts-in-kind.

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 satisfactory. Numbers in brackets [] refer to page numbers in the report.

SYSTEM CONTROLS

GIFT ACKNOWLEDGMENTS [7]

Gifts were not acknowledged in accordance with current Title 5 requirements. Properly acknowledging donors reduces the possibility of misunderstandings occurring.

GIFT DEPOSITS [8]

Gift checks made payable by the donors to the campus were not properly recorded in state accounts. Depositing donation checks to the account of the payee reduces the risk that the campus may not meet donor intentions.

INTERNAL CONTROL PROCEDURES [9]

Gift checks were not consistently transmitted to, and deposited by, the foundation on a timely basis. Depositing funds more frequently reduces the potential for loss from mishandling and misuse of funds.

RECONCILIATIONS [9]

The gift and accounting records were not reconciled. The timely reconciliation of gifts in the donor records database with the campus and foundation accounting records reduces the risk of errors going undetected for long periods.

GIFTS-IN-KIND

ACCEPTANCE AUTHORIZATION [10]

Gifts-in-kind were counted in fund-raising reports before completion of authorization documents. The presence of an advance authorization for acceptance of gifts-in-kind reduces the risk that inappropriate gifts will be accepted

INVENTORY - GIFTED PROPERTY [11]

Gifts-in-kind were not added to the campus property records on a timely basis. Tagging and capitalizing gifts-in-kind in a timely manner increases control over property and the accuracy of the accounting records.

REPORTING OF GIFT DATA

MORRISON TRUST [12]

The corpus/principal of the May Treat Morrison Trust was reported as a \$2.67 million gift in 1994/95, even though it was established by the donor prior to that time. Counting irrevocable trust arrangements in the year in which the trust was established accurately states the results of campus fund-raising activities.

CONTRACTS [12]

The CFAE Report was overstated by inclusion of transactions categorized as contracts. Excluding contract revenue from the CFAE Report leads to a more comparable statement of the results of the campus fund-raising activities.

SPECIAL REVENUE REPORT [13]

The Special Revenue Report included over \$2.6 million in grants which were already counted on the CFAE Report. Counting these grants on only the CFAE Report more properly states the Special Revenue Report and the results of campus fund-raising activities.

OBSERVATIONS, RECOMMENDATIONS, AND CAMPUS RESPONSES

SYSTEM CONTROLS

GIFT ACKNOWLEDGMENTS

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

All cash gifts of \$150 or more were acknowledged in a letter signed by the campus president. Gifts below \$150 were acknowledged by the acting director for university development.

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 using certain prescribed language.

Discussions with staff in the development office indicated that current acknowledgment practices evolved away from Title 5 prior to their involvement. They could not provide any specific insight as to why Title 5 was not followed.

Inconsistencies can occur when acknowledgment letters do not substantially contain the language stated in the Title 5 requirement.

Recommendation 1

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

Campus Response

We concur. All gifts of personal property will be acknowledged with appropriate Title 5 language and the President's signature. Additional acknowledgement letters may also be sent, signed by the President or a Development Office employee based on the size/significance of the contribution.

However, we believe the language in Title 5, Section 42300/1 is too restrictive and should be modified. The Notice of Acceptance language is too formal to use verbatim in a personal letter accepting a gift and thanking a donor. A campus president should be able to delegate acknowledgment of small gifts to another campus administrator. We request the Chancellor's Office review of this issue and request revision of Title 5 to provide more flexibility to the campuses.

GIFT DEPOSITS

Gift checks made payable by donors to the campus were not properly recorded in state accounts.

Campus practice was to countersign checks made payable to the campus and deposit them in the SFSU Foundation through an endorsement stamp available in the development office.

Education Code Section 89721 requires the chief fiscal officer to deposit gifts and donations to the campus in either a local trust account or the State Treasury.

Administration within the development office had not indicated to the check processors that there must be a differentiation made between checks payable to the campus and those made payable to the foundation.

Automatically redirecting and depositing all donation checks to the SFSU Foundation increases the risk that the campus may not meet donor intentions.

Recommendation 2

We recommend that gift checks made payable to the campus be recorded in a local campus trust account.

Campus Response

We concur that all gift checks clearly intended for the University should, and will be, deposited into a local campus trust account. All gifts intended for the Foundation will be deposited there. Campus policy is that “gifts should be administered and managed by the University Foundation except in those special cases where the donor, for clearly specified reasons, requests that the gift be administered and managed by the University.” Gift solicitation materials direct donors to make checks payable to the “SFSU Foundation.” Donor error or oversight does result in some checks not being payable to the Foundation. In these cases, where there is documentation directing contributions to the Foundation and no clear evidence of donor intent to restrict the gift to the University, the gift checks will be deposited to the Foundation. We will also increase our efforts, in solicitation materials and through training of campus Development staff, to have donors make checks payable to the Foundation unless they clearly intend otherwise.

INTERNAL CONTROL PROCEDURES

Gift checks were not consistently transmitted to, and deposited by, the foundation on a timely basis.

SAM Section 8030.1 requires deposit of accumulated collections when they amount to \$500 in cash or \$5,000 in cash, checks, money orders, and warrants. While this section is directed at campus deposits, for purposes of internal control and consistency of campus practices, the foundation should have similar standards.

There was no follow-up on untimely deposits and uncertainty by development personnel as to responsibility for this function.

Untimely deposits increase the potential for loss from improper handling of checks and negotiable instruments and reduce the amount of interest earned.

Recommendation 3

We recommend that the campus and the foundation improve gift processing procedures to assure that checks are deposited as soon as practicable after receipt.

Campus Response

We concur. In most cases, checks received by the Gift Processing Department of the Development Office are deposited into Foundation accounts or sent to the Controller's Office the next day. Exceptions to this rule (delays in check processing) usually occur as a result of inadequate gift documentation. Once the proper destination is found, the check is processed immediately.

Checks initially received by faculty or staff in academic departments are sometimes not forwarded promptly for processing and deposit. The Development Office will work through the deans and development officers in each college to inform faculty and staff that all gift checks are to be forwarded immediately to the Development Office to assure prompt deposit, recording, and acknowledgement.

RECONCILIATIONS

Gift and accounting records were not reconciled.

The accounting records for gifts are maintained by the SFSU Foundation and the campus accounting office. Gift records were maintained in a donor record keeping system the ADIS (Alumni Development Information System) module of the WANG "ABACUS" system.

Cumulative amounts in ABACUS reflecting donations which have been acknowledged/receipted were not reconciled with the cash and property actually received and recorded by the foundation.

SAM Section 7900 requires a reconciliation to properly verify accounting records. CASE emphasizes the importance of a reconciliation through their publication *CASE Management Reporting Standards*.

According to gift processing personnel, past reconciliations have not been a priority.

Without reconciling records, there is a risk that loss of funds could go undetected for an extended period of time.

Recommendation 4

We recommend that the campus and the SFSU Foundation reconcile gift and accounting records on a regular basis.

Campus Response

We concur. Beginning July 1, 1996, Development Office gift records and Foundation gift accounting records are being reconciled monthly.

GIFTS-IN-KIND

ACCEPTANCE AUTHORIZATION

Gifts-in-kind were counted in fund-raising reports before completion of acceptance authorization documents.

Four 1994/95 gifts-in-kind were counted on the 1994/95 CFAE based on a verbal authorization. Other gifts-in-kind approval documents were processed late and without completion of all required signatures.

Title 5, Section 42300 of the California Code of Regulations establishes limits on what can be accepted by the campus. In order to conform with these provisions, the campus requires a Gift-in-Kind Acceptance Form signed off at several different levels and forwarded to the president.

Discussions with gift processing personnel indicate that timely processing of this form has not occurred due to lack of incentives or emphasis by management to hold up a gift due to lack of paperwork.

The absence of an advance authorization for acceptance of gifts-in-kind increases the risk that inappropriate gifts are accepted. It also inhibits documentation of gift-in-kind valuation.

Recommendation 5

We recommend that the campus approve the Gift-in-Kind Acceptance form before gifts are received and retain the form as part of the gift-in-kind valuation records.

Campus Response

We concur and will endeavor to implement this recommendation. Development Office staff will work with development officers in the colleges to inform faculty and staff of the importance of completing Gift-In-Kind Acceptance forms as quickly as possible.

INVENTORY - GIFTED PROPERTY

Gifts-in-kind (GIKs) were not added to the campus property records on a timely basis.

The CFAE Report for 1994/95 indicates that at least fourteen items exceeding a unit value of \$5,000 were acquired by the campus as gifts-in-kind. The total value of these fourteen property assets was more than \$600,000. None of these items were added to the campus property inventory during either 1994/95 or 1995/96.

State Administrative Manual Sections 8602, 8650, and 8651 require, when practical, that state property will be tagged after acquisition. CSU Systemwide Memorandum AD 96-05 and State Management Memo 95-22 require inventory record keeping to support asset capitalization when unit acquisition costs exceed \$5,000.

Property office personnel indicated that Gifts-in-Kind Acceptance forms had not been received from the development office for the above items.

When property items are not tagged and capitalized in a timely manner, control over property and the accuracy of the accounting records is reduced along with an understated inventory value.

Recommendation 6

We recommend that the campus improve procedures to inventory gifts-in-kind on a more timely basis.

Campus Response

We concur. The Development Office is currently reviewing its Gift-In-Kind processing to improve its timeliness, efficiency, and coordination with the Property Office and other campus departments. The Development Office will forward Gift-In-Kind Acceptance forms to the Property Office for recording in the inventory as soon as they are approved; how promptly this occurs will depend on our success in implementing Recommendation #5.

REPORTING OF GIFT DATA

MORRISON TRUST

The corpus/principal of the May Treat Morrison Trust was reported as a \$2.67 million gift in 1994/95, even though it was established by the donor prior to that time.

The CFAE nationally recognized reporting methodology indicates that the way in which trust arrangements are counted is based upon whether the trust is irrevocable.

Based on a review of the May Treat Morrison Trust documentation and discussion with an outside consultant, the former director of development determined that the trust was irrevocable, that the corpus/principal had not been reported in prior years, and it could therefore be reported in 1994/95. Discussions with various development personnel did not point out any significant changes in 1994/95 regarding the trust provisions that would have signified changes in the way the trust should be counted for CFAE reporting purposes. As such, it should have been included in prior year totals.

Reporting trust corpus/principal in a year other than that in which the campus became aware it was the irrevocable trust beneficiary inaccurately states the results of fund-raising activities.

Recommendation 7

We recommend that the campus restate 1994/95 gifts to exclude the corpus/principal of the May Treat Morrison Trust.

Campus Response

We concur. The campus has restated 1994/95 gifts to exclude the corpus/principal of the Morrison Trust .

CONTRACTS

The CFAE Report was overstated by inclusion of transactions categorized as contracts.

The campus Office of Sponsored Programs and Research categorized as contracts the funding arrangements in sixteen 1994/95 transactions totaling \$506,596. These contracts were counted on both the CFAE Report and the Special Revenue Report because the data from different campus sources was not compared and consolidated as part of the report preparation process.

The nationally recognized CFAE reporting methodology states that contract revenues cannot be counted in reports of annual fund-raising results.

Including contract revenue within the CFAE overstates the results of the campus fund-raising activities.

Recommendation 8

We recommend that the campus assure that contract arrangements not be included within the CFAE Report.

Campus Response

We concur. All grants received and administered by the Office of Research and Sponsored Programs (ORSP) are now reconciled with the Development Office every three months to assure that contract arrangements are not included in the CFAE Report.

SPECIAL REVENUE REPORT

The Special Revenue Report included over \$2.6 million in grants which were already counted on the CFAE Report.

The systemwide methodology for reporting special revenues notes that the report is to include only those revenues which are not part of the CFAE Report.

Inclusion of grants in both the CFAE and Special Revenue Reports resulted because data from the campus office of sponsored programs and research was not compared against the gift database and spreadsheet used for report preparation.

Counting these grants on both the CFAE Report and the Special Revenue Report overstates the Special Revenue Report and misstates the results of campus fund-raising activities.

Recommendation 9

We recommend that the campus assure that grant reporting is not duplicated within the CFAE and Special Revenue Reports.

Campus Response

We concur. All grants and contracts received and administered by the Office of Research and Sponsored Programs (ORSP) are now reconciled with the Development Office every three months to assure that grant reporting is not duplicated within the CFAE and Special Revenue Reports.

**APPENDIX A:
PERSONNEL CONTACTED**

CAMPUS

Aludia Artiga	Accountant - Property Accounting
Kathleen Branagan	Executive Director, Alumni Association
Richard Chen	Accountant - Trust and Project Accounting
William F. Clark	Director, Office of Research and Sponsored Programs
Kevin Collins	Property Clerk
Sharon Collins	Assistant Dean, College of Business
Catherine Conway	Assistant Dean, College of Education
Paul Fonteyn	Acting Director, University Development
Carole Hayashino	Associate Director, Corporations and Foundations
Byron Johnson	Assistant Director, Individual Giving
Richard McKenzie	Assistant Dean, College of Creative Arts
Lucy Morse	Administrative Assistant, University Advancement
Laureen O'Brien	Gift Processor/Steward
Billie Lou Sands	Professor and Chair, Consumer and Family Studies/Dietetics Department
Don Scoble	Vice President for Business and Finance
Manindra Singh	Coordinator, Information Systems
Jim Van Ness	Internal Auditor
Burkland Wong	Manager, Special Funds Accounting

SFSU FOUNDATION, INC.

Larry Ware	Interim Director of Administration
Anthony Victoria	Director, Personnel and Project Administration