

**DEVELOPMENT**  
**CALIFORNIA STATE UNIVERSITY,**  
**SAN BERNARDINO**

**Report Number 95-19**  
**February 26, 1997**

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# CONTENTS

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## INTRODUCTION

Purpose.....	1
Scope and Methodology.....	1
Background .....	2
Opinion .....	4
Executive Summary.....	5

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## OBSERVATIONS, RECOMMENDATIONS, AND CAMPUS RESPONSES

System Controls And Security .....	7
Policy/Procedures Manual.....	7
Gift Deposits.....	7
Gift Acknowledgements.....	9
Internal Control Procedures .....	10
Reconciliation Of Gift And Accounting Records .....	11
Gifts-In-Kind.....	11
Valuation .....	11
Inventory - Gifted Property .....	12
Endowments/Trusts & Restricted Gifts.....	13
Investment Policy.....	13
Reporting Of Gift Data.....	13

## APPENDICES

APPENDIX A:	PERSONNEL CONTACTED
APPENDIX B:	CAMPUS RESPONSE
APPENDIX C:	CHANCELLOR'S ACCEPTANCE

### Abbreviations

ADS	Alumni Development System
CFAE	Council for Aid to Education
CSU	California State University
CSUSB	California State University, San Bernardino
CASE	Council for Advancement and Support of Education
SAM	State Administrative Manual
SUAM	State University Administrative Manual

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## INTRODUCTION

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### 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.

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### 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

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## INTRODUCTION

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 under the auspices of the campus vice president for university advancement. However, the campus was in the process of implementing a decentralized model which provides for fund-raising to take place in the various colleges. In order to gain the proper prospective of development functions campuswide and to complete review procedures related to fund-raising, we also interviewed key personnel in athletics and alumni affairs as well as the Foundation for the California State University, San Bernardino.

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 had not matured or progressed to the point when, in our opinion, audit would be worthwhile. An example includes the positioning of development officers within the colleges/schools. We did not pursue audit activity in these areas.

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.

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## BACKGROUND

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 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 percent in endowments. Net General Fund was described as excluding fees and other income.

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

**Table 1**  
**Voluntary Giving as a Percent of**  
**Net General Fund\***

YEAR	NET GENERAL FUND *	VOLUNTARY GIVING	PERCENT
1990/91	\$49,500,913	\$1,919,886	3.88
1991/92	47,406,722	1,044,507	2.20
1992/93	44,319,069	2,109,216	4.76
1993/94	44,512,207	1,039,902	2.34
1994/95	46,425,490	2,750,348	5.92

\*—As printed in the Final Budget at the beginning of each fiscal year.

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 Bernardino ranked fifteenth among the campuses in voluntary giving and twelfth 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 1996 meeting. CSU, San Bernardino has reported special revenues in the following categories:

**Table 2**  
**Special Revenues**

	1993/94	1994/95
Sponsorships	\$19,085	\$150,000
Multi-Year Pledges	740,771	140,059
Grants and Contracts	6,803,082	7,459,709
Property Transfer		2,500,000
Bequests and Revocable Trusts	2,500,000	250,000
Subtotal	\$10,062,938	\$10,499,768
Endowment and Other Income	*	62,412
Total	\$10,062,938	\$10,562,180

\*=Not reported in 1993-94

Endowment accounts were maintained at the campus by the Foundation for the CSU, San Bernardino. The reported market value of the endowments at 6/30/95 was \$3,061,132.

Effective May, 1995, the title of the chief advancement officer at CSUSB was changed to vice president for university relations. This change brings the campus in line with a majority of other CSU campuses.

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## OPINION

We visited the California State University, San Bernardino campus from August 7, 1996 to September 20, 1996, and audited the structure in effect at that time.

In our opinion, internal controls were adequate to assure that gifts were properly recorded, cash and negotiable gift instruments were properly controlled, donor intentions were followed, donor records were secure and kept confidential, and development activity was accurately reported. However, some additional attention is warranted in areas mentioned in the executive summary below including the distribution of operating policies and procedures, security over donor data bases maintained by departments, reconciliation of donor records with accounting information, the timely transfer of restricted gifts, and control over 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 found to be satisfactory. Numbers in brackets [ ] refer to page numbers in the report.

### **SYSTEM CONTROLS AND SECURITY**

#### **POLICY/PROCEDURES MANUAL [7]**

The campus did not include control requirements for employee donations in the formal distribution of development policies and procedures to local constituents. Misunderstandings and inconsistencies are reduced when written operating policies and procedures are properly distributed to campus constituents.

#### **GIFT DEPOSITS [7]**

Gift checks made payable by donors to the campus were not properly deposited in state accounts. Proper deposit of checks reduces the possibility of misunderstandings with the donor and the state.

#### **GIFT ACKNOWLEDGEMENTS [9]**

The campus system for acknowledging and receipting gifts did not meet Title 5 requirements. Properly acknowledging donors reduces the possibility of misunderstandings occurring.

#### **INTERNAL CONTROL PROCEDURES [10]**

Gift processing procedures in the Office of University Relations did not allow for a timely transfer of checks to the foundation for bank depositing. The timely deposit of daily collections reduces the potential for theft along with the possibility of lost interest earnings to the state.

#### **RECONCILIATION OF GIFT AND ACCOUNTING RECORDS [11]**

A reconciliation of gifts/donations recorded in the donor database and foundation accounting records was not performed. The timely reconciliation of gifts/donations recorded in the donor database to the foundation accounting records reduces the risk of errors going undetected for long periods.

## **GIFTS-IN-KIND**

### **VALUATION [11]**

Gifts-in-kind valuation documentation and acknowledgment procedures were deficient. Omitting valuation amounts in acknowledgment letters for gifts-in-kind reduces misunderstandings as to the source of the valuation.

### **INVENTORY - GIFTED PROPERTY [12]**

Gifts-in-kind, including furniture items received by campus departments, were not tagged and placed on the campus inventory in a timely manner. Affixing tags and placing property on the inventory in a timely manner increases control over property and properly states inventory value.

## **ENDOWMENTS/TRUSTS AND RESTRICTED GIFTS**

### **INVESTMENT POLICY [13]**

The foundation did not complete formal written policy guidelines regarding the investment of endowment funds. Formally adopting written investment policies and procedures reduces the potential for misunderstandings and errors to be made in investment decisions.

### **REPORTING OF GIFT DATA [13]**

Gift-in-kind records for 1994-95 indicated that used books were donated from the Coyote Bookstore to the campus library and incorrectly included in reports on development efforts. Excluding gifts from auxiliary organizations on the annual CFAE report will lead to a more correct picture of the campus's development efforts.

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## **OBSERVATIONS, RECOMMENDATIONS, AND CAMPUS RESPONSES**

### **SYSTEM CONTROLS AND SECURITY SYSTEM CONTROLS AND SECURITY SYSTEM CONTROLS AND SECURITY SYSTEM CONTROLS AND SECURITY**

#### **POLICY/PROCEDURES MANUAL MANUAL POLICY/PROCEDURES MANUAL POLICY/PROCEDURES MANUAL**

The campus did not include control requirements for employee donations in the formal distribution of development policies and procedures to local constituents.

Education Code Section 89045 and State University Administrative Manual (SUAM) Section 2411.09 require written policies and procedures and descriptions of local control mechanisms to be developed to ensure compliance with applicable provisions of law and trustee policy.

The vice president for university relations indicated that employee donations are to be monitored by the schools/departments and the campus practice is not to allow employees to receive direct benefits from such donations.

When operating policies and procedures are not in writing, misunderstandings occur and inconsistencies in application of procedures develop.

#### **Recommendation 1**

We recommend that the campus include control requirements for employee donations as part of the comprehensive development policies and procedures distributed to local constituents.

#### **Campus Response**

The campus has drafted a policy which will comply with this recommendation. The policy will be distributed in memo form in May and incorporated into the policy on Gift Acceptance at the time of the next revision.

#### **GIFT DEPOSITS**

Gift checks made payable to the campus were not properly deposited in state accounts.

University gift solicitation procedures required prospective donors to make their gift checks payable to the foundation for subsequent deposit into non-state accounts maintained by the foundation and university center.

Education Code, Section 89721 requires the chief fiscal officer to deposit gifts and donations to the campus into local trust accounts.

The staff in the university relations and athletics departments indicated that, while their gift checks were not deposited in campus accounts, the prospective donors were given verbal assurances regarding the disposition of their donations.

Improperly depositing gift checks to non-state accounts increases the possibility of misunderstandings and non-compliance with Education Code requirements.

## **Recommendation 2**

We recommend that the campus:

- a. deposit gift checks made payable to the campus into a local campus trust account; and,
- b. adjust solicitation procedures to assure compliance with donor intent.

## **Campus Response**

The campus has taken action to instruct donors to make their checks payable to the “CSUSB Foundation.”

## **GIFT ACKNOWLEDGEMENTSGIFT ACKNOWLEDGEMENTSGIFT ACKNOWLEDGEMENTSGIFT ACKNOWLEDGEMENTS**

The campus system for acknowledging and receipting gifts did not meet Title 5 requirements.

Official acknowledgment letters from the campus were issued by the president to cash donors whose donations were a minimum of \$100. However, these letters of acknowledgment did not contain the language prescribed in Title 5 and copies were not sent to the trustees.

Title 5, Section 42301 of the California Administrative Code indicates that all donations regardless of type or amount will be acknowledged in writing by the president using prescribed language with two copies of the acknowledgment sent to the Board of Trustees.

The development office staff indicated that they were unaware of the specific requirements for gift acknowledgments stipulated in Title 5.

When donors are not properly acknowledged, misunderstandings and/or misinterpretations of gift intent can occur.

## **Recommendation 3**

We recommend that the campus adjust current gift acceptance procedures to assure compliance with the requirements of Title 5.

### **Campus Response**

With the large number of gifts being made to the university, many of which are for small amounts of money, it is not reasonable to expect the President to personally sign or respond to all gifts over \$100.00. It is also believed that the President has the authority to delegate this responsibility to a responsible management employee.

Through the efforts of the Vice Chancellor for University Advancement, the Trustees will be asked to seek amendment of Title 5.

### **INTERNAL CONTROL PROCEDURES INTERNAL CONTROL PROCEDURES INTERNAL CONTROL PROCEDURES INTERNAL CONTROL PROCEDURES**

Gift processing procedures in the Office of University Relations did not allow for a timely transfer of checks to the foundation for bank depositing.

A sample selection of twenty-three gift checks received during 1994-95 indicated that, in fifteen instances, checks remained in university relations five days or more before transfer to the foundation for bank depositing.

SAM Section 8030.1 requires accumulated collections totaling \$50 or more not to remain undeposited for more than five working days and no collection will remain undeposited for more than fifteen working days.

The vice president for university relations indicated that the major contributor to processing delays was department staff positions which remained vacant during the year.

Non-timely deposits of daily collections serves to increase the potential for theft along with the possibility of lost interest earnings to the state.

### **Recommendation 4**

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

### **Campus Response**

Steps have been taken to assure checks are deposited within five days of receipt.

## **RECONCILIATION OF GIFT AND ACCOUNTING RECORDS RECONCILIATION OF GIFT AND ACCOUNTING RECORDS RECONCILIATION OF GIFT AND ACCOUNTING RECORDS RECONCILIATION OF GIFT AND ACCOUNTING RECORDS**

A reconciliation of gifts/donations recorded in the automated donor database and foundation accounting records was not performed

SAM Section 7900 requires a reconciliation to properly verify accounting records.

The director of advancement operations indicated that gift income is reviewed through monthly meetings between the gift recorder and the foundation staff.

A loss of funds could go undetected for an extended period of time when reconciliations are not prepared.

### **Recommendation 5**

We recommend that a reconciliation of donations from the campus recordkeeping system and the foundation accounting records be regularly performed by university relations.

### **Campus Response**

Action has been taken to ensure that reconciliations are regularly performed between the Accounting Office and the University Relations Division.

## **GIFTS-IN-KIND GIFTS-IN-KIND GIFTS-IN-KIND GIFTS-IN-KIND**

### **VALUATION VALUATION VALUATION VALUATION**

Gifts-in-kind valuation documentation and acknowledgment procedures were deficient.

Entries into campus accounting/property records should always be supported by proper documentation. Campus departments did not always retain such documentation indicating the method of valuation for gifts-in-kind. Letters of acknowledgment, issued by the athletics department and the campus president, included a valuation established by the donor, even though the university's internal gift-in-kind policy requires that a dollar value on gifts not be included in acknowledgment letters.

The vice president for university relations indicated that donors usually provide a value for their gift-in-kind donations but campus departments were not aware of the need to obtain supporting documentation during the valuation process. She also indicated that some letters were prepared by campus departments for the president's signature.

Including valuation amounts in acknowledgment letters for gifts-in-kind may create misunderstandings

as to the source of the valuation.

### **Recommendation 6**

We recommend that the campus:

- a. retain supporting documentation for the valuation methodology of gifts-in-kind, and
- b. enforce its own policy to ensure that valuation amounts of gifts-in-kind are not included in letters of acknowledgment issued to donors.

### **Campus Response**

The campus has stepped up its efforts to obtain supporting documentation for the valuation methodology of gifts-in-kind. We are enforcing the existing policy to ensure that valuation amounts are not included in letters of acknowledgment to donors. The gift transmittal form has a new line added requiring such documentation.

### **INVENTORY - GIFTED PROPERTY INVENTORY - GIFTED PROPERTY INVENTORY - GIFTED PROPERTY INVENTORY - GIFTED PROPERTY**

Property identification procedures did not include the tagging and capitalization of art works and furniture items donated to the campus. Gifts-in-kind, including high risk/theft sensitive items received by campus departments, are not always tagged and placed on the inventory in a timely manner.

A sample selection of gift-in-kind property item donations received in 1994-95 indicated that nine of the ten items selected for review were not tagged and placed on the campus inventory. Eight of these nine items were related to art works and furniture items.

SAM Sections 8602, 8650 and 8651 require, when practical, that all state property will be tagged after acquisition. CSU Systemwide Memorandum AD 96-05 and State Management Memo 95-22 require inventory record keeping from \$500 to \$5,000. Executive Order No. 649 further requires tagging and inventory recordkeeping for high risk/theft sensitive property items with an acquisition cost of at least \$500.

The property clerk indicated that the art works had not been tagged/capitalized because they were being reviewed to determine, for insurance coverage purposes, whether they should be classified as gifts to the campus or the foundation. The campus policy was not to tag/capitalize furniture items. In addition, departments did not always inform the property office when property items were received in order to assure a proper identification.

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

### **Recommendation 7**

We recommend that the campus improve property identification and inventory recordkeeping procedures to assure that property donations, including high risk/theft sensitive items along with art works and furniture, are tagged and inventoried in a timely manner.

### **Campus Response**

The campus has improved its property identification and inventory recordkeeping procedures. Although not all property will be "tagged," methods will be instituted to identify and inventory art holdings in a timely manner.

## **ENDOWMENTS/TRUSTS & RESTRICTED GIFTS ENDOWMENTS/TRUSTS & RESTRICTED GIFTS ENDOWMENTS/TRUSTS & RESTRICTED GIFTS**

### **INVESTMENT POLICY INVESTMENT POLICY INVESTMENT POLICY**

The foundation did not complete formal written policy guidelines regarding the investment of endowment funds donated to the campus.

Prudent business practice requires that formal investment policies and procedures be reduced to writing to prevent potential misunderstandings regarding investment decisions.

The foundation staff provided internal documentation indicating that the policy regarding the investment of endowment funds is currently in draft format and had not been finalized by the foundation board of directors.

When written investment policies and procedures have not been formally adopted, the potential for errors to be made in investment decisions is increased.

### **Recommendation 8**

We recommend that the campus complete formal written policy guidelines regarding the investment of endowment funds donated to the campus.

### **Campus Response**

The campus is in the process of implementing a new Investment Policy, which is expected to be completed by October 1997.

## **REPORTING OF GIFT DATA**

Gift-in-kind records for 1994-95 indicated that used books were donated from the Coyote Bookstore to

the campus library and included in reports on development efforts.

The operating agreement between the trustees of the CSU and the Foundation for the CSU, San Bernardino indicates that, as an official auxiliary organization, the foundation will perform functions such as bookstores and other related activities in support of the university. In addition, the CFAE requires that gifts reported in the annual giving statistics not include items from bookstore receipts.

The foundation and bookstore staff believed that donating gifts-in-kind which were obsolete and no longer in use to be both an acceptable practice, and warrant inclusion in gift data reporting.

The inclusion of "gifts" from the bookstore on the annual CFAE report improperly states the campus development efforts.

### **Recommendation 9**

We recommend that the campus discontinue the practice of including gifts from auxiliary organizations on any reports of contributions.

### **Campus Response**

The campus no longer includes gifts from auxiliaries on its reports of contributions.

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**APPENDIX A:  
PERSONNEL CONTACTED**

<b><u>Name</u></b>	<b><u>Title</u></b>
Debbie Allen	Controller, Foundation for CSU, San Bernardino
Curt Apsey	Director of Development, Athletics Department
Arthur Butler	Director, Foundation for CSU, San Bernardino
Suzanne Bolowich	Assistant Director, Accounting
Mary Colacurcio	Director of Advancement Operations, Office of University Relations
David DeMauro	Vice President for Administration and Finance
Lorraine Frost	Assistant Director, Administrative Computing
Linvol Henry	Department Chair, Department of Accounting
Richard Johnston	Director, Robert V. Fullerton Art Museum
Pamela Langford	Director of Alumni Affairs
Eldon Lewis	Dean, School of Business and Public Administration
Jerry Monahan	Property Clerk
Carol Northcutt	Staff Accountant, Foundation for CSU, San Bernardino
Pamela Palmer	Clerical Assistant, Office of University Relations
Collen Rocha	Executive Director, Office of University Relations
Judith Rymer	Vice President for University Relations
Beverly Smith	Director of Business Services, Foundation for CSU, San Bernardino