

**DEVELOPMENT**

**CALIFORNIA STATE UNIVERSITY,  
SAN MARCOS**

**Report Number 01-29  
January 11, 2002**

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## **ABBREVIATIONS**

CAE	Council for Aid to Education
CASE	Council for Advancement and Support of Education
CSU	California State University
CSU San Marcos	California State University, San Marcos
Foundation	California State University, San Marcos Foundation
G-I-K	Gift(s)-In-Kind
IRS	Internal Revenue Service

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## INTRODUCTION

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### PURPOSE

Our overall audit objective was to ascertain the effectiveness of existing policies and procedures related to the administration of development activity and to determine the adequacy of controls over the related processes to ensure compliance with relevant governmental regulations, Trustee policy, Office of the Chancellor directives, and campus procedures.

Within the overall audit objective, specific goals included determining whether:

- ▶ Administration and management of development activity provide an effective internal control environment; adequate development administrative plans, policies, and procedures; and monitoring of goal attainment.
- ▶ Cash and noncash gifts are adequately controlled, sufficiently safeguarded, and properly accounted for and noncash gifts are properly valued.
- ▶ Donations are properly processed and acknowledged and the donor administrative system is reconciled to campus/foundation accounting records.
- ▶ Donor pledges are adequately controlled, properly reported, followed up, and written off when deemed uncollectible.
- ▶ Expenditures are reasonable, adequately supported, and properly authorized and comply with university policies and donor intentions.
- ▶ Reportable charitable contribution information is complete, accurate, and supportable.
- ▶ Donor files and automated donor system information assets are adequately safeguarded and reasonably secure.
- ▶ Development activities comply with relevant gift tax reporting requirements, federal and state regulations, and Trustee and California State University (CSU) policy, including the *CSU Gifts of Software Policy and Procedure*.

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### SCOPE AND METHODOLOGY

This review emphasized, but was not limited to, compliance with state and federal laws, Board of Trustee policies, and Office of the Chancellor and campus policies, letters, and directives. The audit review period was July 2000 to date. At California State University, San Marcos (CSU San Marcos), university advancement, known as external affairs, has overall responsibility for development activity.

Our primary focus involved the internal administrative, compliance, and operational controls over the management of the campus fundraising function. Specifically, we reviewed and tested:

- ▶ Administrative plans, policies, procedures, and monitoring tools.
- ▶ Procedures for controlling, processing, and safeguarding cash and noncash contributions.
- ▶ Donation solicitation and acknowledgement practices.
- ▶ Valuation of nonmonetary and marketable securities donations.
- ▶ Gift recording and reconciliation between development and campus/foundation accounting records.
- ▶ Procedures for controlling, authorizing, and processing expenditures of donated funds.
- ▶ Preparation of reports on development activity.
- ▶ Data security, disaster recovery, and backup procedures.

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## BACKGROUND

As a result of a systemwide risk assessment conducted by the Office of the University Auditor during the last quarter of 1999, the Board of Trustees, at its January 2001 meeting, directed that *Development* be reviewed.

The proposed scope of the audit as presented in Attachment B, Agenda Item 2 of the January 23-24, 2001, meeting of the Committee on Audit, stated that *Development* includes university advancement and fundraising. Potential impacts include inadequate nonstate funding; acceptance of gifts that are inconsistent with public policy; erroneous valuation of nonmonetary gifts; noncompliance with Internal Revenue Service regulations; use of funds that conflict with donor intentions or are potential violations of trust arrangements; and inaccurate reporting of donations and development activity. *Development* was previously audited in 1995.

Advancement is defined in *Educational Fund Raising – Principles and Practices* as “...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. These activities and programs include alumni affairs, internal/external communications, government and public relations, enrollment management, and fund raising. This last activity, i.e., fund raising, also known as *Development*, is an important component of institutional advancement and is the focus of the subject audit.”

*Development* is defined as a sophisticated process, which includes a number of stages and operational steps. In very broad terms, the process begins with the institution’s academic plan from which specific financial needs and fundraising goals are derived. The next stage includes the identification of gift-giving prospects and the development of programs to cultivate prospect interest in the institution and its needs. Once these initial steps are completed, the institution can begin thinking about fundraising and stewardship, which is the process of carrying out the purposes of the gift and maintaining an effective communication link with the donor.

In recent years, it has become apparent to the CSU Board of Trustees, the chancellor's office, and campus executives that to meet the CSU goals of access to higher education, enhanced educational quality, financial stability, and university accountability, there was an ever-increasing need to supplement state support by growing and strengthening the university advancement function at all 23 campuses. To meet these goals, the Board of Trustees challenged the university presidents to generate external support funding that equaled or exceeded 10 percent of the prior year's net General Fund budget. The total CSU General Fund budget for fiscal year 1998/1999 was \$1,961,297,342. For fiscal year 1999/2000, 18 of the 23 campuses met or exceeded the 10-percent goal by generating \$304,746,126 in voluntary support (gifts from corporations, foundations, alumni, parents, and others) and special revenue (sponsorships, endowment income, and other income). For this same period, CSU San Marcos generated \$4,311,577 in external support, equaling approximately 11 percent of their 1998/1999 net General Fund budget of \$39,915,333.

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## **O P I N I O N**

We visited the CSU San Marcos campus from September 9, 2001, through October 9, 2001, and audited the procedures in effect at that time.

In our opinion, the administration and management of development activities were adequate to ensure a viable fundraising function. However, our review disclosed certain conditions that could result in errors and irregularities if not corrected. Specifically, some of the donation figures reported on the most recent Annual Report on External Support were not in compliance with the Council for Advancement and Support of Education (CASE) or chancellor's office guidelines, and opportunities existed to improve gift-in-kind processing. For the most part, university advancement was in compliance with federal and state regulations in addition to chancellor's office and local directives. Areas in need of improvement are referenced in the executive summary.

## **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.

### **CASH AND NONCASH GIFT ADMINISTRATION AND CONTROL[5]**

Gifts-in-kind (G-I-K) were not processed in accordance with local standards. Processing that is aligned with standards decreases the risk of incorrect reporting to the chancellor's office and disallowance of a tax deduction for the donor.

### **REPORTING, RECORD KEEPING, AND INVENTORY CONTROL[6]**

Certain donation figures reported on the most recent Annual Report on External Support were not in compliance with Council for Advancement and Support of Education (CASE) or chancellor's office guidelines. Accurate reporting decreases the risk of misrepresentations to the chancellor's office and the Board of Trustees and facilitates systemwide comparisons of fundraising results.

### **REGULATORY AND CSU POLICY COMPLIANCE [7]**

Campus procedures that assure fundraising consultants and counselors were registered with the State Attorney General prior to engaging their services did not exist. Adequate verification of fundraising consultant and counsel's registration with the State Attorney General provides some assurance that the campus is represented by ethical fundraising agents.

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

### **CASH AND NONCASH GIFT ADMINISTRATION AND CONTROL**

Gifts-in-kind (G-I-K) were not processed in accordance with local standards.

We noted the following exceptions during our examination and evaluation of 15 G-I-K donations:

- ▶ Fourteen authorizations of acceptance were not completed in accordance with the California State University, San Marcos Foundation (Foundation) G-I-K policy.
- ▶ Thirteen G-I-K acceptance forms were not properly completed.
- ▶ Valuation appraisal, as required by Foundation policy, did not exist for the one G-I-K that required such an appraisal.
- ▶ In six of the applicable cases, documentation was not on file evidencing that university development either sent Internal Revenue Service (IRS) Form 8283 to donors or sent a memo to departments notifying them of their responsibility in the event a gift was sold within two years.

The Foundation's G-I-K policy requires the following:

- ▶ A California State University, San Marcos (CSU San Marcos) G-I-K acceptance form must be completed.
- ▶ The Foundation must sign off on all gifts prior to acceptance.
- ▶ If the gift is valued at \$5,000 or over, the university development office will send a letter to the individual or corporate donor informing them that they are required to file IRS Form 8283.
- ▶ The Foundation will send the department a memo as a reminder that the Foundation must be notified if the equipment is sold within two years after receipt.

The Foundation's business manager stated that as G-I-K procedures have evolved, written policies have not been updated to reflect current practices.

G-I-K processing that is not aligned with local standards could result in incorrect reporting to the chancellor's office and disallowance of a tax deduction for the donor.

#### **Recommendation 1**

We recommend that the campus update procedures, provide staff training, and establish controls that assure G-I-K processing is accurate and aligned with local policies.

### **Campus Response**

We concur. The campus will work with the Foundation in updating procedures and establishing controls to assure that gift-in-kind processing is accurate and aligned with local policies.

The updated procedures and controls will be implemented by June 30, 2002.

### **REPORTING, RECORD KEEPING, AND INVENTORY CONTROL**

Certain donation figures reported on the most recent Annual Report on External Support were not in compliance with Council for Advancement and Support of Education (CASE) or chancellor's office guidelines.

Specifically, we noted:

- ▶ The campus classified a percentage of sales from Aztec Shops, Ltd., totaling \$296,986, as a sponsorship.
- ▶ Four of the five sponsorship agreements reviewed, totaling \$7,520, were contracts for service.
- ▶ Endowment earnings were reported net of market change.

The Special Revenue Report states that sponsorship is defined as a "specific agreement, normally in writing, between an entity of the university and a corporate outside entity whereby the corporation or organization receives an exchange of value."

The Special Revenue Report further states that "endowment and other income" should include earnings generated from trusts, endowments, stock holdings, and other income-bearing property excluded from the Council for Aid to Education (CAE).

The Foundation's business manager stated that the monies from Aztec Shops, Ltd., were included based on the interpretation of the sponsorship definition provided in the Special Revenue Report.

The vice president for external affairs stated that endowment and other income were being reported in accordance with previous policy. Furthermore, the reporting of endowment income was discussed at the most recent vice presidents' meeting, and a new reporting policy was agreed upon and disseminated.

Inaccurate reporting increases the risk of misrepresentations to the Office of the Chancellor and the Board of Trustees and limits systemwide comparisons of fundraising results.

## **Recommendation 2**

We recommend that the campus establish controls to assure that the Annual Report of External Support data is in compliance with CASE and systemwide reporting standards.

### **Campus Response**

We concur. The campus, in conjunction with the Foundation, will develop a system of controls to assure that the Annual Report of External Support data is in compliance with CASE and systemwide reporting standards. In particular, the campus and Foundation will seek guidance from the CSU with the interpretation of items requested in the report, such as the “Sponsorship” and “Endowment Income” revenue definitions.

These reporting control systems will be implemented by June 30, 2002.

## **REGULATORY AND CSU POLICY COMPLIANCE**

Campus procedures that assure fundraising consultants and counselors were registered with the State Attorney General prior to engaging their services did not exist.

We found that one of the two fundraising counsels engaged by the campus were not registered with the State Attorney General.

Supervision of Trustees and Fundraisers for Charitable Purposes Act §12599(b) states that a commercial fundraiser for charitable purposes shall, prior to soliciting funds in California for charitable purposes, or prior to receiving and controlling any funds or assets as a result of a solicitation in this state for charitable purposes, register with the Attorney General’s Registry of Charitable Trusts on a registration form provided by the Attorney General.

Supervision of Trustees and Fundraisers for Charitable Purposes Act §12599.1(c) states that a fundraising counsel for charitable purposes shall, prior to managing, advising, counseling, consulting, or preparing material for, or with respect to, the solicitation in this state of funds, assets, or property for charitable purposes, register with the Attorney General’s Registry of Charitable Trusts on a registration form provided by the Attorney General.

The vice president for external affairs stated that the campus was unaware of the requirement for commercial fundraisers to register with the State Attorney General and, as such, had not verified that they were registered.

Failure to verify fundraising consultant and counsel’s registration with the State Attorney General increases the risk that a less than ethical fundraising agent may represent the campus.

**Recommendation 3**

We recommend that the campus establish formal procedures to assure fundraising consultants and counselors are registered with the State Attorney General prior to engaging their services.

**Campus Response**

The University has established a policy to insure any future fundraising consultants or counselors contracted are registered with the State Attorney General. All appropriate external affairs personnel have been notified. The control point is the external affairs planning and operations officer.

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## APPENDIX A: PERSONNEL CONTACTED

<u>Name</u>	<u>Title</u>
Alexander Gonzalez	President
Barbara Bashein	Vice President for External Affairs
Tina Bell	Planning and Financial Officer
Jim Carr	Material Management Lead
Stephen Garcia	Vice President, Finance and Administrative Services
Susana Gonzalez	Interim Executive Director, Associated Students, Inc.
Brenda Kritser	Director, Development Operations
Karen Risley	Development Operations Analyst
Greg Svatora	Business Manager, Foundation



Office of the President

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www.csusm.edu**RECEIVED**  
University Auditor

FEB 19 2002

The California State  
University

## MEMORANDUM

DATE: February 13, 2002

TO: Larry Mandel  
University AuditorFROM: Alexander Gonzalez  
President

SUBJECT: **Campus Response to Recommendations of Audit Report Number 01-29,  
Development at California State University San Marcos**

In accordance with *the Policies and Procedures for the Office of the University Auditor*, enclosed please find California State University San Marcos' responses to recommendations one through three of Audit Report Number 01-29, *Development*. The responses have been incorporated into the audit recommendations located on the enclosed diskette/file.

Should you have any questions concerning the responses, please contact Vice President Stephen Garcia at (760) 750-4950 or [ssgarcia@csusm.edu](mailto:ssgarcia@csusm.edu).

Enclosure

AG:kjh

c: Stephen Garcia, Vice President, Finance and Administrative Services

The California State University

**CALIFORNIA STATE UNIVERSITY,  
SAN MARCOS****DEVELOPMENT  
AUDIT REPORT NO. 01-29****CASH AND NONCASH GIFT ADMINISTRATION AND CONTROL****Recommendation 1**

We recommend that the campus update procedures, provide staff training, and establish controls that assure G-I-K processing is accurate and aligned with local policies.

**Campus Response**

We concur. The campus will work with the Foundation in updating procedures and establishing controls to assure that gift-in-kind processing is accurate and aligned with local policies.

The updated procedures and controls will be implemented by June 30, 2002.

**REPORTING, RECORD KEEPING, AND INVENTORY CONTROL****Recommendation 2**

We recommend that the campus establish controls to assure that the Annual Report of External Support data is in compliance with CASE and systemwide reporting standards.

**Campus Response**

We concur. The campus, in conjunction with the Foundation, will develop a system of controls to assure that the Annual Report of External Support data is in compliance with CASE and systemwide reporting standards. In particular, the campus and Foundation will seek guidance from the CSU with the interpretation of items requested in the report, such as the "Sponsorship" and "Endowment Income" revenue definitions.

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**REGULATORY AND CSU POLICY COMPLIANCE****Recommendation 3**

We recommend that the campus establish formal procedures to assure fundraising consultants and counselors are registered with the State Attorney General prior to engaging their services.

**Campus Response**

The University has established a policy to insure any future fundraising consultants or counselors contracted are registered with the State Attorney General. All appropriate External Affairs personnel have been notified. The control point is the External Affairs Planning and Operations Officer.

THE CALIFORNIA STATE UNIVERSITY  
OFFICE OF THE CHANCELLOR

BAKERSFIELD

March 7, 2002

CHANNEL ISLANDS

CHICO

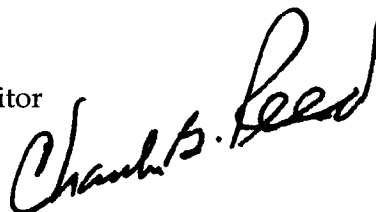
**MEMORANDUM**

DOMINGUEZ HILLS

FRESNO

TO: Larry Mandel  
University Auditor

FULLERTON

FROM: Charles B. Reed  
Chancellor


HAYWARD

HUMBOLDT

SUBJECT: Draft Final Report Number 01-29 on *Development at California State University, San Marcos*

LONG BEACH

LOS ANGELES

MARITIME ACADEMY

In response to your memorandum of March 7, 2002, I accept the response as submitted with the draft final report on *Development at California State University, San Marcos*.

MONTEREY BAY

NORTHRIDGE

CBR:amd

POMONA

Enclosure

SACRAMENTO

SAN BERNARDINO

cc: Mr. Stephen Garcia, Vice President, Finance and Administrative Services  
Dr. Alexander Gonzalez, President

SAN DIEGO

SAN FRANCISCO

SAN JOSE

SAN LUIS OBISPO

SAN MARCOS

SONOMA

STANISLAUS