

DEVELOPMENT

**CALIFORNIA STATE UNIVERSITY,
DOMINGUEZ HILLS**

**Report Number 02-19
January 31, 2003**

Members, Committee on Audit

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BOARD OF TRUSTEES

THE CALIFORNIA STATE UNIVERSITY

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ABBREVIATIONS

CASE	Council for Advancement and Support of Education
CSU	California State University
CSU Dominguez Hills Foundation	California State University, Dominguez Hills California State University, Dominguez Hills Foundation
IRS	Internal Revenue Service
SAM	State Administrative Manual
G-I-K	Gift(s)-In-Kind

INTRODUCTION

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*.

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 2001 to June 2002. At California State University, Dominguez Hills (CSU Dominguez Hills), university advancement 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.

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. In January 2002, the Board of Trustees directed the Office of the University Auditor to expand its review to all CSU campuses.

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 net General Fund budget for fiscal year 1999/2000 was \$2,002,189,630. For fiscal year 2000/2001, 13 of the 23 campuses met or exceeded the 10-percent goal by generating \$285,561,944 in voluntary support (gifts from corporations, foundations, alumni, parents, and others) and special revenue (sponsorships and endowment distribution only). For this same period, CSU Dominguez Hills generated \$1,553,565 in external support, equaling approximately 3 percent of their 1999/2000 net General Fund budget of \$55,268,452.

OPINION

We visited the CSU Dominguez Hills campus from August 12, 2002, through September 6, 2002, 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, adequate controls were not maintained over cash and noncash donation processing, and donor system reconciliation. In addition, some donation figures reported to the chancellor's office were not aligned with Council for Advancement and Support of Education (CASE) reporting guidelines. 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 [6]

DONATION PROCESSING [6]

Donations were not processed in accordance with California State University, Dominguez Hills (CSU Dominguez Hills) gift acceptance procedures and Council for Advancement and Support of Education (CASE) *Management Reporting Standards*. Donation processing that is aligned with campus policy and procedures and CASE reporting standards reduces the risk of lost or misappropriated donations, acceptance of undesirable gifts, and/or incorrect reporting to the chancellor's office.

TAX DISCLOSURE STATEMENTS [7]

CSU Dominguez Hills was not in compliance with Internal Revenue Service (IRS) disclosure regulations. Providing adequate tax deduction information to the donor reduces the risk of IRS penalties for the university and disallowance of donor tax deductions.

DONOR SYSTEM RECONCILIATION [8]

The reconciliation between computerized donor records maintained by university advancement and the California State University, Dominguez Hills Foundation was not reviewed in a timely manner. Timely review of donor system reconciliations strengthens accountability and reduces the risk that errors and irregularities will not be detected.

DELEGATION OF AUTHORITY [9]

The authority to use the vice president of university advancement's computerized signature specimen was not formally delegated to gift processors who signed acknowledgement letters for gifts less than \$100. Formal delegation of the use of computerized signature specimen files reduces the risk that specimen signatures will be inappropriately used.

REPORTING, RECORD KEEPING, AND INVENTORY CONTROL [10]

DONATION REPORTING [10]

Certain 2000/2001 fundraising efforts reported to the chancellor's office were either overstated, misclassified, or inadequately supported. Fundraising results that are accurately stated, properly classified, and adequately supported facilitate comparisons between campuses and educational institutions.

OBSERVATIONS, RECOMMENDATIONS, AND CAMPUS RESPONSES

CASH AND NONCASH GIFT ADMINISTRATION AND CONTROL

DONATION PROCESSING

Donations were not processed in accordance with California State University, Dominguez Hills (CSU Dominguez Hills) gift acceptance procedures and Council for Advancement and Support of Education (CASE) *Management Reporting Standards*.

We found that:

- ▶ Six of thirty transactions reviewed were not deposited timely. For those six, donation deposit processing took an average of 22 days.
- ▶ Discussions with several directors of development indicated that safeguarding of donations received by academic units was inconsistent and, in some instances, inadequate (30–35% of gifts deposited into the California State University, Dominguez Hills Foundation were received directly from outside of university advancement).
- ▶ Gift-in-kind (G-I-K) acknowledgement letters took an average of 4½ months to issue in 6 of the 17 noncash donations reviewed.
- ▶ The full amount of the contribution (rather than the net) was recorded on the donor system in 10 of 40 quid pro quo transactions reviewed.
- ▶ For 3 of the 17 G-I-K donations reviewed over \$5,000, a qualified independent appraisal was not obtained.
- ▶ Acknowledgement letters were issued prior to the formal gift acceptance in 2 of the 17 transactions reviewed.
- ▶ G-I-K acceptance forms did not have all the required signatures in 2 of the 17 transactions reviewed.
- ▶ The full amount of the contribution was recorded on the donor system for one transaction even though the campus paid the shipping costs.

The CSU Dominguez Hills *Gift Acceptance Policy and Procedures* state that any gift received must be deposited to the California State University, Dominguez Hills Foundation immediately. The CSU Dominguez Hills *Gift and Stewardship Policy Manual* and the *Gift Acceptance Policy and Procedures* state that the acknowledgement letter will be mailed within 48 hours of receipt of gift. Further, gifts to the university are not officially received until the vice president or his/her duly appointed representative signs the Acceptance of Gift form.

Executive Order No. 676, *Delegation of Gift Evaluation and Acceptance to Campuses*, dated February 1, 1998, states that all advancement programs and activities shall adhere to the Code of Ethics and Standards of Practice set forth by CASE. *CASE Management Reporting Standards* state that G-I-K with fair market values of more than \$5,000 should be counted at the values placed on them by qualified independent appraisers, as required by the Internal Revenue Service for valuing noncash charitable contributions.

The vice president of university advancement stated that there was no consistency throughout the university for the processing of donations due, in part, to the fact that many areas of the institution conducted independent development efforts. He further stated that individuals in some areas of the institution either did not know or had not followed required guidelines.

Donation processing that is not aligned with campus policy and procedures and *CASE Management Reporting Standards* increases the risk of lost or misappropriated donations, acceptance of undesirable gifts, and/or incorrect reporting to the chancellor's office.

Recommendation 1

We recommend that the campus provide the necessary training and establish adequate controls to ensure compliance with relevant campus policies and procedures and *CASE Management Reporting Standards*.

Campus Response

We concur. The campus will revisit its current policies and procedures and the *CASE Management Report Standards*. Campus policies and procedures will be modified to address such areas as 1) areas of responsibility, 2) gift acceptance procedures, and 3) reporting requirements/procedures. Training will be conducted for individuals involved with development activities and processing forms/materials related to these activities. The modifications to current policies and procedures and training of campus personnel will be done by July 2003.

TAX DISCLOSURE STATEMENTS

CSU Dominguez Hills was not in compliance with Internal Revenue Service (IRS) disclosure regulations.

We noted that:

- ▶ Golf tournament and awards banquet contributors were not notified of the fair market value of the goods or services received and the amount of the contribution that was deductible.
- ▶ Nine of thirty cash donation acknowledgment letters did not contain a statement disclosing that the campus had not provided any goods or services in consideration of the gift or a good faith estimate of the goods or services received.

- ▶ Fourteen of seventeen marketable securities acknowledgement letters did not contain a statement disclosing that the campus had not provided any goods or services in consideration of the gift or a good faith estimate of the goods or services received.

IRS Publication 526, *Charitable Contributions*, states that a qualified organization must provide a written statement if a payment to it is more than \$75 and is partly a contribution and partly for goods and services (e.g., fundraiser dinner, golf tournament, etc.). The statement must indicate that the donor can deduct only the amount of the contribution that is more than the value of what was received. Further, a cash or noncash gift acknowledgement must be written and include: a) the amount of cash contributed; b) whether the donee gave the donor any goods or services as a result of the contribution; and, if so, c) a description and good faith estimate of the value of any goods or services provided to the donor.

The vice president of university advancement indicated that there had not been sufficient review of correspondence to ensure appropriate disclosures had been included in communications to donors and other contributors. In some instances, he noted that units other than university advancement and/or the president's office sent donor acknowledgements.

Failure to provide adequate tax deduction information to the donor could result in IRS penalties for the university and disallowance of a tax deduction for the donor.

Recommendation 2

We recommend that the campus establish policies, procedures, and controls that ensure that IRS tax disclosure statements are included on all fundraiser invitations and donation acknowledgement letters.

Campus Response

We concur. The campus will include in the modifications to its policies and procedures, and subsequent training, the required IRS disclosure statements. The policies and procedures will also address areas of responsibility for monitoring inclusion of such statements in invitations and donation acknowledgement letters. The policies and procedures modifications and training of campus personnel is to be completed by July 2003.

DONOR SYSTEM RECONCILIATION

The reconciliation between computerized donor records maintained by university advancement and the California State University, Dominguez Hills Foundation was not reviewed in a timely manner.

We noted that the April and May 2002 reconciliations were not approved until August.

State Administrative Manual (SAM) §7901 requires monthly preparation of all reconciliations within 30 days of the preceding month. SAM §7908 requires that all reconciliations show the preparer's name, reviewer's name, date prepared, and date reviewed.

The vice president of university advancement stated that even though the April and May 2002 reconciliations had been performed in a timely manner, it was an oversight that they had not been submitted for final approval prior to August.

Failure to review donor system reconciliations in a timely manner compromises accountability and increases the risk that errors and irregularities will not be detected.

Recommendation 3

We recommend that the campus strengthen procedures to ensure that donor system reconciliations are reviewed in a timely manner.

Campus Response

We concur. The campus has strengthened its procedures for the timely review of donor system reconciliations to ensure that it is an ongoing part of the departmental routine. Done/Completed.

DELEGATION OF AUTHORITY

The authority to use the vice president of university advancement's computerized signature specimen was not formally delegated to gift processors who signed acknowledgement letters for gifts less than \$100.

SAM §8082, *Rubber Stamps Facsimile Signatures*, states that precautions must be taken to prevent the unauthorized use of rubber stamped signatures. When the stamps are not in use, they should be locked in a secure place with the key in the custody of the person authorized to sign checks.

SAM §8001.3 states that it is the agency's responsibility to ensure that adequate safeguards are taken to preclude improper or unauthorized use of facsimile signatures.

The vice president of university advancement stated that it had been an oversight that the gift processors had not been given written delegation of authority to use the computerized signature of the vice president for acknowledgement of gifts under \$100.

Failure to formally delegate the use of computerized signature specimen files increases the risk that signatures will be inappropriately used.

Recommendation 4

We recommend that the campus formally delegate authority to those employees approved to use the vice president's computerized signature specimen to process gift acknowledgement letters.

Campus Response

We concur. The vice president of university advancement has written a memorandum formally delegating authority to certain university advancement staff to use his computerized signature specimen in the processing of gift acknowledgement letters. Done/Completed.

REPORTING, RECORD KEEPING, AND INVENTORY CONTROL

DONATION REPORTING

Certain 2000/2001 fundraising efforts reported to the chancellor's office were either overstated, misclassified, or inadequately supported.

During our review of the 2000/2001 annual report and testing of cash donations, we found the following:

- ▶ Cash donations, totaling \$65,000, for the California Academy of Math and Science, an independent organization leasing space from CSU Dominguez Hills, were incorrectly reported as gifts.
- ▶ Local and federal government contributions, totaling \$63,564, were erroneously reported in the 2000/2001 Annual Report on External Support.
- ▶ In one instance, an athletic department sponsorship was reported where the contributor received equal value in benefits for the sponsorship payment. In addition, four athletic department donations were reported as sponsorships.
- ▶ Promotional/signage arrangements with four companies were not supported by a documented agreement.
- ▶ A donor did not provide sufficient documentation to support the gift valuation for one G-I-K.
- ▶ A documented explanation was unavailable to support the valuation placed on a gift that was outside the range suggested by the donor.

CASE reporting standards indicate that government funds, whether local, state, federal, or foreign, should not be counted in the reports of annual fundraising results.

The chancellor's office Special Revenue Report defines sponsorship 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. Examples include, but are not limited to, signage for a specific time period as a result of an agreement to give funds in support of a program(s); equipment for similar purposes; and/or the exclusive right to sell beverages (pouring rights) for a specific time period in exchange for a fee.

The vice president of university advancement stated that the validation of documents for the categorizing and reporting of various types of gifts had not been sufficiently reviewed.

Overstated, misclassified, or inadequately supported fundraising efforts could distort campus charitable contribution results and inhibit comparisons between other campuses and educational institutions.

Recommendation 5

We recommend that the campus establish controls to ensure that sponsorship and donation information reported to the chancellor's office is adequately supported and complies with CASE *Management Reporting Standards* and chancellor's office directives.

Campus Response

We concur. The campus will include in the modifications to its policies and procedures, and subsequent training, information and reporting requirements for sponsorship and donation information. Some of the areas to be addressed will include 1) reporting requirements, 2) reporting responsibilities, 3) accurate information/documentation, and 4) accuracy of information monitoring responsibilities. The policies and procedures modifications and training of campus personnel is to be completed by July 2003.

APPENDIX A: PERSONNEL CONTACTED

<u>Name</u>	<u>Title</u>
James E. Lyons	President
Olivia Ale	Resource and Fiscal Officer
Alisa Banks	Prospect Data Analyst
Drulet Bowman	Annual Giving Assistant
Alphonce Brown Jr.	Vice President, University Advancement
Aaron Castillo	Director, Annual Giving
Donna Cruz	Assistant to the Vice President, University Advancement
Brian Dahm	Director, Accounting Services
Yuki DeSoto	Systems Analyst
Lois Dunn	Director of Development, School of Education
Tim Farris	Director of Administrative Computing Systems
Kent Gibson	Executive Director, California State University, Dominguez Hills Foundation (Foundation)
Bernadine Grayer	Assistant to the Associate Vice President of Development
Paul Harris	Senior Operating Systems Analyst
Danh Hoang	Accountant, Foundation
Kathleen Hughes	Director, Business Process Management
Ed Liao	Network Administrator
Gary Lo	Database Administrator
Margaret Love	Property Officer
David McCulloch	Assistant Director, Business Process Management
Patricia McNeil	Director of Development, College of Arts and Sciences
Carol Numrich	Audit Consultant, University Advancement
George A. Pardon	Vice President, Administration and Finance
Jeff Polterak	Assistant Associate of Athletics
Dawn Shimizu	Director, Business and Finance, Foundation
Matthew Tinitali	Development Assistant
Deborah Veady	Associate Vice President, University Advancement of Development
Emmit Williams	Director of Procurement and Contracts

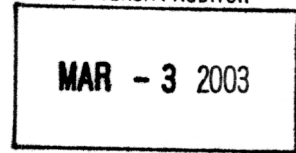


California State University
Dominguez Hills

Office of the Vice President of Administration and Finance
Carson, CA 90747 (310) 243-3750 FAX: (310) 243-3869

March 3, 2003

RECEIVED
UNIVERSITY AUDITOR



THE CALIFORNIA STATE
UNIVERSITY

Mr. Larry Mandel
University Auditor
The California State University
401 Golden Shore
Long Beach, CA 90802

Dear Mr. Mandel:

Enclosed please find California State University, Dominguez Hills' response to the Development Audit 02-19. The campus is committed to addressing and resolving the issues identified in the audit report.

If you have any questions or would like additional information, please contact Mr. Alphonse Brown at (310) 243-3787.

Sincerely,

George A. Pardon, Vice President
Administration and Finance

Alphonse J. Brown, Jr., Vice President+
University Advancement

- c: James E. Lyons, Sr., President
Kathleen Walden, Acting Provost and Vice President of Academic Affairs
Ronald Ambrosetti, Associate Vice President, Academic Affairs
Boice M. Bowman, Vice President, Student Affairs
Kent Gibson, Executive Director, CSUDH Foundation
Kathleen Hughes, Director, Business Process Management

**CALIFORNIA STATE UNIVERSITY, DOMINGUEZ HILLS
DEVELOPMENT AUDIT 02-19
March 3, 2003**

RECOMMENDATION 1

We recommend that the campus provide the necessary training and establish adequate controls to ensure compliance with relevant campus policies and procedures and *CASE Management Report Standards*.

Campus Response

We concur. The campus will revisit its current policies and procedures and the *CASE Management Report Standards*. Campus policies and procedures will be modified to address such areas as 1) areas of responsibility, 2) gift acceptance procedures, and 3) reporting requirements/procedures. Training will be conducted for individuals involved with development activities and processing forms/materials related to these activities. The modifications to current policies and procedures and training of campus personnel will be done *by July 2003*.

RECOMMENDATION 2

We recommend that the campus establish policies, procedures and controls that ensure that IRS tax disclosure statements are included on all fundraiser invitations and donation acknowledgement letters.

Campus Response

We concur. The campus will include in the modifications to its policies and procedures, and subsequent training, the required IRS disclosure statements. The policies and procedures will also address areas of responsibility for monitoring inclusion of such statements in invitations and donation acknowledgement letters. The policies and procedures modifications and training of campus personnel is to be *completed by July 2003*.

RECOMMENDATION 3

We recommend that the campus strengthen procedures to ensure that donor system reconciliations are reviewed in a timely manner.

Campus Response

We concur. The campus has strengthened its procedures for the timely review of donor system reconciliations to ensure that it is an on-going part of the departmental routine. *Done/Completed.*

RECOMMENDATION 4

We recommend that the campus formally delegate authority to those employees approved to use the vice president's computerized signature specimen to process gift acknowledgement letters.

Campus Response

We concur. The vice president of university advancement has written a memorandum formally delegating authority to certain University Advancement staff to use his computerized signature specimen in the processing of gift acknowledgement letters.

Done/Completed.

RECOMMENDATION 5

We recommend that the campus establish controls to ensure that sponsorship and donation information reported to the chancellor's office is adequately supported and complies with *CASE Management Reporting Standards* and chancellor's office directives.

Campus Response

We concur. The campus will include in the modifications to its policies and procedures, and subsequent training, information and reporting requirements for sponsorship and donation information. Some of the areas to be addressed will include 1) reporting requirements, 2) reporting responsibilities, 3) accurate information/documentation, and 4) accuracy of information monitoring responsibilities. The policies and procedures modifications and training of campus personnel is to be *completed by July 2003*.



THE CALIFORNIA STATE UNIVERSITY
 OFFICE OF THE CHANCELLOR

BAKERSFIELD

March 13, 2003

CHANNEL ISLANDS

HICO

MEMORANDUM

DOMINGUEZ HILLS

FRESNO

TO: Mr. Larry Mandel
University Auditor

FULLERTON

HAYWARD

FROM: Charles B. Reed
Chancellor



HUMBOLDT

LONG BEACH

SUBJECT: Draft Final Report Number 02-19 on *Development*,
California State University, Dominguez Hills

LOS ANGELES

MARITIME ACADEMY

In response to your memorandum of March 13, 2003, I accept the response as submitted with the draft final report on *Development*, California State University, Dominguez Hills.

MONTEREY BAY

NORTHRIDGE

POMONA

CBR/amd

SACRAMENTO

Enclosure

SAN BERNARDINO

SAN DIEGO

cc: Dr. James E. Lyons, President

SAN FRANCISCO

SAN JOSE

SAN LUIS OBISPO

SAN MARCOS

SONOMA

STANISLAUS