FUND-RAISING AND GIFT PROCESSING

CALIFORNIA STATE UNIVERSITY,
FULLERTON

Audit Report 10-63
February 28, 2011

Members, Committee on Audit

Henry Mendoza, Chair
Nicole M. Anderson  Margaret Fortune
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Staff

University Auditor: Larry Mandel
Senior Director: Michelle Schlack
Acting Audit Manager: Wendee Shinsato
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ABBREVIATIONS

CASE Council for Advancement and Support of Education
CFO Chief Financial Officer
CIS Center for Insurance Studies
CSU California State University
CSUF California State University, Fullerton
ECS Engineering and Computer Science
EO Executive Order
Foundation CSU Fullerton Philanthropic Foundation
FY Fiscal Year
IRS Internal Revenue Service
PCI DSS Payment Card Industry Data Security Standards
SAM State Administrative Manual
TWS Tucker Wildlife Sanctuary
EXECUTIVE SUMMARY

As a result of a systemwide risk assessment conducted by the Office of the University Auditor during the last quarter of 2009, the Board of Trustees, at its January 2010 meeting, directed that Fund-Raising and Gift Processing be reviewed. The Office of the University Auditor had previously reviewed fund-raising and gift processing activities as part of the 2001 and 2002 audits of Development and, for the majority of campuses, during the Auxiliary Organizations triennial audits.

We visited the California State University, Fullerton (CSUF) campus from October 11, 2010, through November 5, 2010, and audited the procedures in effect at that time.

Our study and evaluation revealed certain conditions that, in our opinion, could result in significant errors and irregularities if not corrected. Specifically, the campus did not maintain adequate internal control over the following areas: fund-raising and event planning, cash and non-cash gift administration, donor information security, and reporting and recordkeeping. These conditions, along with other weaknesses, are described in the executive summary and body of this report. In our opinion, except for the effect of the weaknesses described above, the operational and administrative controls for fund-raising and gift processing activities in effect as of November 5, 2010, taken as a whole, were sufficient to meet the objectives stated in the “Purpose” section of this report.

As a result of changing conditions and the degree of compliance with procedures, the effectiveness of controls changes over time. Specific limitations that may hinder the effectiveness of an otherwise adequate system of controls include, but are not limited to, resource constraints, faulty judgments, unintentional errors, circumvention by collusion, and management overrides. Establishing controls that would prevent all these limitations would not be cost-effective; moreover, an audit may not always detect these limitations.

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

GENERAL ENVIRONMENT [6]

Delegation of authority for gift evaluation and acceptance was not documented.

FUND-RAISING AND EVENT PLANNING [6]

The campus had not developed policies and procedures for the administration of fund-raising events. In addition, administration of the 2010 Front and Center fund-raising event needed improvement.

CASH AND NON-CASH GIFT ADMINISTRATION [10]

The campus did not have standard cash handling policies and procedures for acceptance of gifts in areas outside of the CSU Fullerton Philanthropic Foundation (Foundation). Additionally, policies and procedures for the review and follow-up of outstanding matching gift claims were not being followed.
DONOR INFORMATION SECURITY [12]

The Foundation did not ensure that documentation containing sensitive credit card information was properly stored for donations made prior to March 2009. Also, personnel with access to the Advance donor system had not completed campus information security awareness training. These are repeat findings from the prior Auxiliary Organizations audit.

REPORTING AND RECORDKEEPING [13]

Gift commitments reported on the fiscal year (FY) 2008/09 and FY 2009/10 Annual Reports of External Support were misstated or overstated. In addition, the campus did not report all eligible private grants and campus sponsorships in the Annual Report on External Support. Further, the campus did not have a documented process for compiling and reporting advancement expenditures to the Office of Chancellor, and advancement expenditures in the FY 2007/08 and FY 2008/09 Measuring Advancement reports were understated. Also, donor pledges were not always established in accordance with university advancement policies and procedures. Finally, certain items on campus financial statements were misclassified as non-capital gift revenue.

GIFT ACCOUNTS AND EXPENDITURES [18]

Expenditures were not always processed in accordance with Foundation policies and procedures.
INTRODUCTION

BACKGROUND

In March 2005, the Board of Trustees adopted four guiding principles to measure the productivity of, and investment in, advancement operations. These principles include adequate resources to achieve stated goals, establishment and annual evaluation of performance goals, a well-rounded development program, and a culture of philanthropy.

Fund-raising, and the associated processing of the gifts received, are an integral component of advancement operations. Although the California State University (CSU) depends on state funds to support core educational functions, private support provides a significant and essential source of funding toward the CSU’s goals of access to education, enhanced educational quality, and financial stability. Over the past three years, the CSU has averaged $252 million per year in gift receipts.

With regard to fund-raising, the CSU campuses are separated into three peer groups based on the campus advancement program’s maturity, which is measured by the number of full-time professional fundraisers, the endowment’s market value, and the number of individual donors. Group I campuses have a fund-raising productivity goal of 10 percent of the state general fund allocation, Group II campuses have a goal of 10 to 15 percent of the state general fund allocation, and Group III campuses have goals that equal or exceed 15 percent of the state general fund allocation. Fund-raising productivity at the CSU is calculated based on gift commitments, including gifts that have been received, as well as pledges and support promised through testamentary provisions.

Campuses are categorized as follows:

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Fund-raising and gift processing activities may be administered on the state side or through auxiliary organizations. Each campus has a university advancement office and a charitable foundation that work together to solicit and manage donations. In the Office of the Chancellor, the Office of Systemwide Advancement provides support to campuses, develops systemwide policies, and consolidates campus information to produce accountability reports.
Our overall audit objective was to determine the effectiveness of existing policies and procedures related to fund-raising and gift processing and to determine the adequacy of controls that ensure compliance with relevant rules and regulations, Trustee policy, Office of the Chancellor directives, industry standards, and campus procedures.

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

- The structure and administration of fund-raising and gift processing provides clear lines of organizational authority and responsibility, an effective internal control environment, and policies and procedures that are current and comprehensive.

- Fund-raising planning aligns with local and systemwide standards, and monitoring processes are adequate to meet stated goals.

- Fund-raising event administration reflects appropriate internal controls and complies with state and federal regulations and local and CSU policy.

- Cash and non-cash gifts are adequately controlled, sufficiently safeguarded, and properly accounted for, and non-cash gifts are properly valued.

- Donations are properly processed and acknowledged, and the donor administrative system is reconciled to campus/foundation accounting records.

- Corporate matching gifts are eligible, properly directed and evaluated, accepted by authorized personnel, and deposited in a timely manner.

- Donor files and automated donor system information assets are adequately safeguarded.

- Reportable charitable contribution and expenditure information is complete, accurate, and supportable.

- Donor pledges are adequately controlled, properly reported, followed up on, and written off when deemed uncollectible.

- Controls over the administration of gift accounts are adequate, and gift accounts are established in accordance with state and CSU regulations and donor intent.

- Expenditures are reasonable, adequately supported, and properly authorized and comply with university policies and donor intentions.
SCOPE AND METHODOLOGY

The proposed scope of the audit as presented in Attachment A, Agenda Item 2 of the January 26 and 27, 2010, meeting of the Committee on Audit stated that fund-raising and gift processing would include a review of controls over the analysis of development needs, identification of prospective donors and donor relations, solicitation and acknowledgment of donations, valuation of non-monetary donations, recording of gifts and posting to accounting records, securing of donor information, expending of donated funds, and preparation of reports on development activity.

Our study and evaluation were conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing*, issued by the Institute of Internal Auditors, and included the audit tests we considered necessary in determining whether operational and administrative controls are in place and operative. 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 focused on procedures in effect from fiscal year 2008/09 through fiscal year 2009/10.

A preliminary risk assessment of fund-raising and gift processing was used to select for our audit testing those areas or activities with highest risk. This assessment was based upon a systematic process using prior audits, management’s feedback, and professional judgments on probable adverse conditions and other pertinent information, including prior audit history in this area. We sought to assign higher review priorities to activities with higher risks. As a result, not all risks identified were included within the scope of our review.

Based upon this assessment of risks, we specifically included within the scope of our review the following:

- Fund-raising and event planning.
- Cash and non-cash gift administration.
- Donor information security.
- Reporting and recordkeeping.
- Gift accounts and expenditures.
OBSERVATIONS, RECOMMENDATIONS, AND CAMPUS RESPONSES

GENERAL ENVIRONMENT

Delegation of authority for gift evaluation and acceptance was not documented.

We found that the executive director of the CSU Fullerton Philanthropic Foundation (Foundation) did not have a written delegation from the president to accept monetary gifts and sign gift acknowledgement agreements and letters.

Executive Order (EO) 676, Delegation of Gift Evaluation and Acceptance to Campuses, dated February 1, 1998, states that authority is delegated to campus presidents to evaluate and accept gifts, bequests, and donations to campuses. Campus presidents may further delegate this authority in whole or in part to campus officers and employees to ensure that all gifts accepted by the campus will aid in carrying out the primary functions of the campus and the California State University (CSU) system.

The executive director of advancement operations stated that a memorandum of understanding was in place to assign gift processing and acceptance responsibilities to the Foundation and that he was unaware that a specific delegation of authority was required.

Failure to document the delegation of gift evaluation and acceptance responsibilities increases the risk that donations will be mishandled or misused.

Recommendation 1

We recommend that the campus document delegations of authority for the evaluation and acceptance of gifts.

Campus Response

We concur. Delegations of authority will be formally documented for the university’s gift acceptance process by June 30, 2011.

FUND-RAISING AND EVENT PLANNING

POLICIES AND PROCEDURES

The campus had not developed policies and procedures for the administration of fund-raising events.

We reviewed nine events in fiscal years (FY) 2008/09 and 2009/10 and found that policies and procedures did not exist for the following key areas:
Planning, budgeting, and approval processes. We noted that for two of the events, event approval had not been documented, a review of event promotional materials had not been performed, and revenue and expenditure budgets had not been prepared in advance of the event.

Recordkeeping and financial controls. We noted weaknesses in financial controls for five events and a lack of documentation to authorize certain expenditures for two events.

Certain activities such as auctions and opportunity drawings. We noted that proceeds from an auction at one event were incorrectly reported as a gift.

Calculation and reporting of premiums for quid pro quo gifts. We noted that premiums for quid pro quo gifts at two events were not reported.

State Administrative Manual (SAM) §20050 states that one symptom of a deficient internal control system is policy and procedural or operational manuals that are either not currently maintained or are nonexistent.

The executive director of advancement operations stated that he did not know why campus policies had not been implemented for fund-raising events. He further stated that he had started the compilation of a policy and procedure manual during the current fiscal year.

The lack of policies and procedures for the administration of fund-raising events decreases accountability for the achievement of fund-raising goals, increases the risk that event funds will be lost or misappropriated, and increases the risk of potential non-compliance with government regulations.

**Recommendation 2**

We recommend that the campus develop and document policies and procedures for the administration of fund-raising events that address:

a. Planning, budgeting, and approval of fund-raising events.

b. Recordkeeping and financial controls.

c. Specific types of fund-raising activities that may require additional guidance, such as auctions or opportunity drawings.

d. The calculation and reporting of premiums for events that involve quid pro quo donations.

**Campus Response**

We concur.
a. The Foundation will document its policy to formally plan, budget, and approve fund-raising events by July 31, 2011.

b. The Foundation will document its policies for improved financial and accounting controls and recordkeeping over event activities by July 31, 2011.

c. Policies and procedures will be documented to formally address specific types of fund-raising activities, such as auctions and opportunity drawings, and other specific areas requiring additional guidance by July 31, 2011.

d. Policies and procedures will be documented to formally address the calculation and reporting of premiums for events that involve quid pro quo donations by July 31, 2011.

FRONT AND CENTER

Administration of the 2010 Front and Center fund-raising event needed improvement.

Specifically, we found that:

- Documentation and approvals for campus and auxiliary purchases of tables and tickets were not adequate. A total of $267,292 from campus and auxiliary funds was expended to purchase tickets and tables for university employees and guests. This included the purchase of approximately 269 table seats, of which 82 were used by university employees and their spouses, and 3,956 tickets. Required supporting documentation was not provided for 26 percent of these expenses, and the supporting documentation that was provided for the remaining expenses did not demonstrate that there was no personal benefit derived from the purchase of the tables and tickets, or that attendance of the employees and spouses at the event was necessary and appropriate.

- Only 13 percent of donations to the Front and Center event were available to be directed toward student scholarships. Revenues from advertising and sales to the public accounted for only 69 percent of total event expenses. The remaining cost of the event had to be funded by either campus or auxiliary support, or from outside donations to the event in the form of outright gifts, sponsorships, and premium table seating.

California State University, Fullerton (CSUF) President’s Directive 11, Administrative Guidelines for the Expenditure of University Funds, dated April 8, 2002, addresses expenditures related to hospitality and states that payment for a university administrator, faculty member, staff member, or student to attend a special event of the university is permissible as long as attendance at the event is necessary for the success of the event or directly relates to the individual’s responsibilities and role at the university. Required documentation for these expenditures includes an original, itemized receipt, written approval by the division head, confirmation that event attendance is necessary for the success of the event or directly related to the individual’s responsibilities and role at the university, and written confirmation that any other ancillary event expenses, such as spouse/partner attendance, are
appropriate. This policy applies to all university employees, organizations, and auxiliaries and outlines specific documentation required to support these expenditures.

EO 761, *Hospitality, Payment or Reimbursement of Expenses*, dated October 31, 2000, states that hospitality expenses must be consistent with the mission and fiduciary responsibilities of the university. It further states that when a university employee acts as an official host, the occasion must serve a clear university business purpose, with no personal benefit derived by the official host or other university employees. In addition, the expenditure of funds for hospitality should be cost-effective and in accordance with the best use of public funds.

The executive director of advancement operations stated that, although the appropriate vice presidents had approved the expenditures, the supporting documents were not completed.

Use of campus and auxiliary funds to purchase employee tickets and tables may create the appearance of impropriety, as well as increasing the risk of noncompliance with state regulations.

Failure to adequately document disbursements increases the risk of unauthorized and inappropriate payments.

**Recommendation 3**

We recommend that the campus:

a. Review and update existing campus policy on documentation and approval of event expenses to clarify documentation requirements and to ensure that purchases of fund-raising event tickets and tables for employees, spouses, and guests are only made when appropriate, necessary, and consistent with the mission of the university.

b. Communicate updated policies to campus departments.

c. Assign management on campus to perform an analysis on an annual basis of event finances in order to ensure compliance with EO 761.

**Campus Response**

We concur. By July 1, 2011, the campus will review and update existing policy on documentation and approval of event expenses to clarify documentation and purchase requirements for fund-raising event tickets and tables for employees, spouses, and guests; communicate updated policies to campus departments; and assign management on campus to analyze event finances on an annual basis.
CASH AND NON-CASH GIFT ADMINISTRATION

GIFT RECEIPTS

The campus did not have standard cash handling policies and procedures for acceptance of gifts in areas outside of the Foundation.

We reviewed gift receipt processes for the athletics department, the College of Engineering and Computer Science (ECS), the Tucker Wildlife Sanctuary (TWS), student affairs, and the Center for Insurance Studies (CIS), as well as departmental deposits to the Foundation, and we found that:

- Gift checks meant for deposit at the Foundation were not logged at ECS, TWS, or CIS when they were received.

- At ECS, TWS, and CIS, there was no formal segregation of duties in the processing of gift deposits, and there was no documentation to prove that there was a secondary review of the funds deposited.

- Deposits were not always made in a timely manner; 8 of the 15 gift checks to the Foundation that we reviewed were dated from 14 to 52 days prior to the date of deposit.

SAM §8020.1 states that all incoming mail receipts consisting of cash and negotiable instruments not payable to the state agency will be prelisted by the person opening the mail to localize accountability of these assets.

SAM §8032.1 states that accumulated receipts of any amount will not remain undeposited for more than ten working days.

SAM §8032.3 states that except where the supervisor and the person depositing cash are not at the same location, the person supervising the person depositing cash will verify that receipts have been deposited intact.

The executive director for advancement operations stated that campuswide cash handling policies and procedures were not delineated but that campus employees were encouraged to deposit monies into the appropriate account within three days of receipt.

Inadequate controls for cash handling increase campus exposure to inappropriate activity and loss of funds.

Recommendation 4

We recommend that the campus implement standard cash handling policies and procedures for acceptance of gifts in areas outside of the Foundation that address:

a. Maintenance of a log of gifts received.
b. Adequate segregation of duties in the processing of gift deposits and documentation of secondary reviews of funds deposited.

c. Timeliness of deposits made to the Foundation.

**Campus Response**

We concur. Philanthropic Foundation will update and implement its policy for acceptance of gifts to include areas outside the Foundation for the maintenance of a log of gifts received, and to improve related controls such as adequate segregation of duties or other necessary mitigated controls concerning departments accepting gifts. Updated policy will ensure the timeliness of deposits made to the Foundation by July 31, 2011.

**MATCHING GIFTS**

Policies and procedures for the review and follow-up of outstanding matching gift claims were not being followed.

We reviewed the outstanding matching gift claim listing as of September 30, 2010, and found that 56 matching gift claims had been outstanding for more than one year.

The Foundation *Matching Gift Procedures* states that the assistant director for annual campaigns will periodically review outstanding matching gifts. For any matching gifts that are over a year old, the assistant director of annual campaigns will contact the participating company to find out the status of that gift. If the matching gift is uncollectible, the assistant director of annual campaigns will notify the gift processor to delete the matching gift claim from the donor’s record and remove backup paperwork from the outstanding matching gifts binder.

The Foundation chief financial officer (CFO) stated that personnel changes and lack of clear lines of supervision had caused a breakdown in the process of reviewing outstanding matching gift claims.

Insufficient administration of outstanding matching gift claims reduces the likelihood of receipt of outstanding claims.

**Recommendation 5**

We recommend that the Foundation ensure that policies and procedures for the review and follow-up of outstanding matching gift claims are being followed.

**Campus Response**

We concur. Oversight for matching gifts will be given to the Foundation’s CFO and a process for monitoring matching gift claims will be implemented by June 30, 2011.
DONOR INFORMATION SECURITY

PAYMENT CARD INDUSTRY DATA SECURITY STANDARDS

The Foundation did not ensure that documentation containing sensitive credit card information was properly stored for donations made prior to March 2009. This is a repeat finding from the prior Auxiliary Organizations audit.

We found that sensitive credit card information (full card number, three-digit security code, expiration date, cardholder name, and address) stored in the FileNet Imaging system between July 2007 and March 2009 had not been redacted or otherwise removed.

Payment Card Industry (PCI) Data Security Standards (DSS) prohibit the unencrypted storage of full credit card numbers, cardholder names, service codes, and expiration dates and prohibit any storage, whether encrypted or not, of three-digit security codes.

The Foundation CFO stated that as a result of the prior Auxiliary Organizations audit, corrective action had been taken to redact credit card information on a go-forward basis, but information previously scanned had not been redacted.

Failure to comply with PCI DSS requirements exposes the Foundation to potential financial penalties and credit card usage restrictions, which could include termination of the entities’ ability to accept credit cards.

Recommendation 6

We recommend that the Foundation redact or otherwise remove sensitive credit card information stored in the FileNet Imaging system.

Campus Response

We concur. Sensitive credit card information will be redacted from the FileNet Imaging system by July 31, 2011.

INFORMATION SECURITY AWARENESS TRAINING

Personnel with access to the Advance donor system had not completed campus information security awareness training. This is a repeat finding from the prior Auxiliary Organizations audit.

We reviewed the records of ten Advance system users and found that six had not completed information security awareness training.

The Integrated CSU Administrative Manual §8075 states that all employees with access to protected data and information assets must participate in appropriate information security awareness training. After receiving initial security awareness training, employees must receive regular updates in
policies, standards, procedures, and guidelines. The updates should be relevant to the employee’s job function, duties, and responsibilities.

The vice president for information technology stated that although the campus had implemented systemwide information security awareness training, completion of the training was not mandatory.

Failure to provide employees with information security awareness training increases the risk of mismanagement of protected data and exposure to security breaches.

Recommendation 7

We recommend that the campus ensure that personnel with access to the Advance donor system receive information security awareness training.

Campus Response

We concur. The campus will implement required safeguards and monitor compliance to ensure all Advance donor system users receive security awareness training by June 30, 2011.

REPORTING AND RECORDKEEPING

DONATION REPORTING

Gift commitments reported in various fiscal years were misstated or overstated.

We reviewed the FY 2008/09 and FY 2009/10 Annual Reports of External Support and found that:

- For certain pledges, donors fulfilled their commitment through donor-advised funds, community foundations, or another third-party method of payment. Each third-party contribution was recorded as a new gift, and no offsetting write-off to the pledge balance was recorded. Adjustments of this type totaled $49,600 in FY 2008/09 and $20,730 in FY 2009/10. Although the technical recording was correct, it resulted in an overstatement of new gifts for CSU reporting purposes.

- Two pledges recorded at $15,500 and $100,000 were signed by both the donor and the college in May 2009 but were not signed and reported by advancement until July 2009, the next fiscal year.

- A $2,000 sponsor payment for the golf tournament fund-raiser in FY 2009/10 did not include an adjustment for a premium of $680.

- A pledge payment of $5,001 made in FY 2009/10 was recorded as a new gift.

- An $850 payment for auction items purchased at an event in FY 2009/10 was recorded as a gift.
Gifts of $2,500 in FY 2008/09 from a community college district and $1,000 in FY 2009/10 from a public university were erroneously reported and were not reviewed for appropriateness.

Council for Advancement and Support of Education (CASE) Reporting Standards and Management guidelines prohibit reporting of gifts or pledges that have already been counted in previous campaigns; gifts from government funds, whether local, state, federal, or foreign; and proceeds from sales of merchandise. Additionally, CASE guidelines state that for quid pro quo contributions, the amount reported should only be the amount of the contribution that exceeds the value of benefits the donor receives.

EO 698, Board of Trustees Policy for the California State University Auxiliary Organizations, dated March 3, 1999, states that the review of auxiliary organizations will be used to determine appropriate separation of duties, safeguarding of assets, and reliability and integrity of information.

Title 5 §42401 and §42402 indicate that the campus president shall require that auxiliary organizations operate in conformity with policy of the Board of Trustees and the campus. One of the objectives of the auxiliary organizations is to provide fiscal procedures and management systems that allow effective coordination of the auxiliary activities with the campus in accordance with sound business practices. Sound business practice mandates proper reporting of gift commitments.

The Foundation CFO stated that in implementing the policy to record third-party pledge adjustments, he had not recognized the implications on CASE reporting. He further stated that the other misstatements were due to oversight.

Misstated or overstated fund-raising efforts distort campus charitable contribution results, inhibit comparisons with other educational institutions, and render misleading the data that is provided to the Office of the Chancellor, the Board of Trustees, and campus management.

**Recommendation 8**

We recommend that the Foundation:

a. Revise its method of handling third-party pledge payments to ensure that these payments are not counted twice when reported in the Annual Report of External Support.

b. Review CASE reporting guidelines with appropriate Foundation staff and campus department personnel to ensure that gifts are appropriately classified and reported in the correct time periods.

**Campus Response**

We concur. To date, the Foundation has revised its method of handling third-party pledge payments. The campus will compile a summary of CASE standards for external support and gift recording policies for distribution to the campus community by July 31, 2011.
GRANT AND SPONSORSHIP REPORTING

The campus did not report all eligible private grants and campus sponsorships in the Annual Report on External Support.

Specifically, we found that:

- Of the 29 possible reportable private grants included in the FY 2009/10 Summary of Awards report, only six, totaling $171,000, appeared to be in the Annual Report on External Support. It was unclear whether the remaining 23 grants, totaling $1.7 million, represented reportable private support for the university.

- Sponsorship agreements for athletics and other university departments were not reported to advancement. A preliminary estimate of non-reported sponsorships for FY 2009/10 was $190,873.

CSU Office of the Chancellor Advancement Reporting and Data Collection Process, dated July 1, 2010, states that a grant or sponsorship for which there is no arrangement or expectation that the funding entity will receive any substantial return, other than the use or acknowledgement of the name or logo of the entity/business in connection with the campus activity, is a gift that should be reported.

The executive director of advancement operations stated that it has been difficult to separate the administration of private grants from the reporting aspect for the Annual Report on External Support. He further stated that the reporting of sponsorship revenue was a new area for FY 2009/10, and its omission was due to oversight.

Failure to capture all fund-raising efforts inhibits comparisons with other educational institutions and renders incomplete the data provided to the Office of the Chancellor, the Board of Trustees, and campus management.

Recommendation 9

We recommend that the campus ensure that all eligible private grants and campus sponsorships are reported in the Annual Report on External Support.

Campus Response

We concur. The campus will document its process to ensure that all eligible private grants and philanthropic sponsorships for campus programs are reported in the Annual Report on External Support by July 31, 2011.
EXPENDITURE REPORTING

The campus did not have a documented process for compiling and reporting advancement expenditures to the Office of Chancellor, and advancement expenditures in the FY 2007/08 and FY 2008/09 Measuring Advancement reports were understated.

We reviewed FY 2007/08 and FY 2008/09 expenditures and found that no campus or Foundation non-personnel expenditures related to advancement had been reported. These expenditures included items such as printing and duplication, meetings and entertainment, professional fees, office supplies, donor management software, and others.

CSU Office of the Chancellor, Expenditure Guidelines, state that the CSU reports expenditures in university advancement under the categories of administration, fund-raising, alumni relations, and other constituent (public relations). The purpose of this report is to collect comparative data to benchmark investments in university advancement and its impact on fund-raising success. It further states that these reports will require collection of data from outside the university advancement division, including decentralized development units, alumni associations, and institutionally related foundations. It defines the two categories of non-personnel expenditures to be reported as services, supplies, and other current expenses, and capital expenditures for equipment and software.

The executive director of advancement operations stated that he could not definitively state why these expenditures had been excluded. He also stated his belief that expenditures may have been inadvertently excluded due to lack of clear understanding of the reporting process.

Failure to accurately report expenditures inhibits comparisons with other campuses in Board of Trustee reports and renders misleading the data provided to the Office of the Chancellor, the Board of Trustees, and campus management.

Recommendation 10

We recommend that the campus:

a. Establish procedures for compiling and reporting advancement expenditures to the Office of the Chancellor.

b. Revise FY 2007/08 and FY 2008/09 advancement expenditures to include campus and Foundation non-personnel expenditures and resubmit them to the Office of the Chancellor.

Campus Response

We concur. The campus will develop a procedure manual for the compilation of advancement expenditures by July 31, 2011. The advancement expenditures for 2007/08 and 2008/09 have been compiled and resubmitted to the Office of the Chancellor.
DONOR PLEDGES

Donor pledges were not always established in accordance with advancement policies and procedures.

We reviewed 20 multiyear pledges from FY 2008/09 and FY 2009/10 and found that nine pledge agreements did not include signatures from appropriate campus officials.

CSUF Advancement gift agreement processes state that gift agreements should be reviewed by the executive director of advancement and should include the signature of the college dean or appropriate program director, the vice president of advancement, and the donor.

The executive director of advancement operations stated that certain exceptions for some colleges had been allowed to simplify the process of obtaining pledge agreements. He further stated that this exception had been terminated in 2009.

Failure to fully execute donor pledge agreements reduces the enforceability of pledge agreements and reduces the likelihood of collection.

Recommendation 11

We recommend that the campus ensure that advancement policies and procedures are followed when establishing donor pledges.

Campus Response

We concur. The campus will update and distribute the gift pledge process to University Advancement personnel by July 31, 2011.

CAMPUS FINANCIAL STATEMENTS

Certain items on campus financial statements were misclassified as non-capital gift revenue.

We reviewed campus financial statements for FY 2008/09 and FY 2009/10 and found that the following items were erroneously reported as non-capital gift revenue:

- Campus contributions of in-kind services and utilities of $91,846 in FY 2008/09 and $91,847 in FY 2009/10 to the Fullerton Arboretum.
- A deposit from student affairs of $8,873 in FY 2009/10 for the financial aid emergency loan program.
CSU Office of the Chancellor *Generally Accepted Accounting Principles Reporting Manual* defines the category of non-capital gift revenue as including contributions received for non-capital purposes such as for research or student scholarships, or to subsidize a particular program of the university.

SAM §20050 states that the elements of a satisfactory system of internal accounting and administrative controls shall include, but are not limited to, a system of authorization and recordkeeping procedures adequate to provide effective accounting control over assets, liabilities, revenues, and expenditures.

The controller stated that these items had not been caught in the review process because the amounts were not material to the campus financial statements and were significantly less than the materiality threshold established by the CSU’s external audit firm.

Failure to properly categorize items on financial statements increases the possibility of misinterpretation by users and inhibits comparisons with other institutions.

**Recommendation 12**

We recommend that the campus review and evaluate the expenditures in the non-capital gift account for proper reporting beginning with the FY 2010/11 financial statements.

**Campus Response**

We concur. The campus will review and evaluate the expenditures in the non-capital gift account for proper reporting beginning with the FY 2010/11 financial statements by April 30, 2011.

**GIFT ACCOUNTS AND EXPENDITURES**

Expenditures were not always processed in accordance with Foundation policies and procedures.

We reviewed 25 disbursements in FY 2009/10 and found that:

- Six disbursements related to hospitality, event attendance, and recognition awards did not contain adequate supporting documentation.
- Eight disbursements that included a service component were not preauthorized by the Foundation in the form of a purchase order.

CSUF President’s Directive 11 addresses expenditures related to hospitality expenses, event attendance, get-well gestures, recognition awards, personal gifts and meals, and other similar expenses. This policy applies to all university employees, organizations, and auxiliaries and outlines specific documentation required for each type of expenditure.
Foundation disbursement procedures state that in order to be compliant with federal, state, and CSU regulations, all requests for payment of services and service-related items through the Foundation must be preauthorized by the Foundation before services are performed. Examples of services include contracted services, speaker compensation and reimbursement, honorariums, hotels, catering/food services, and event services.

The Foundation CFO stated that the Foundation had implemented the required documentation processes, but that due to changes in personnel and conflicting guidance across the campus on hospitality expenses, it had been more difficult than anticipated to ensure that campus departments complied with the procedures.

Failure to follow disbursement policies and procedures increases the risk of unauthorized and inappropriate payments.

**Recommendation 13**

We recommend that the Foundation:

a. Obtain adequate supporting documentation for hospitality-related disbursements.

b. Ensure that disbursements that include a service component are preauthorized by the Foundation in the form of a purchase order.

**Campus Response**

We concur. The Foundation will implement enhanced procedures to ensure compliance with the campus policy regarding hospitality expenditures and purchases of services by June 30, 2011, to ensure:

a. Adequate documentations for hospitality-related disbursements are obtained and maintained.

b. Preauthorizing disbursements including service components in the form of purchase orders.
### APPENDIX A: PERSONNEL CONTACTED

<table>
<thead>
<tr>
<th>Name</th>
<th>Title</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>CAMPUS</strong></td>
<td></td>
</tr>
<tr>
<td>Milton A. Gordon</td>
<td>President</td>
</tr>
<tr>
<td>Kerry Boyer</td>
<td>University Information Security Officer</td>
</tr>
<tr>
<td>Pat Carroll</td>
<td>Executive Assistant to the President</td>
</tr>
<tr>
<td>Karon Cornell</td>
<td>Director, Tucker Wildlife Sanctuary</td>
</tr>
<tr>
<td>Kellie Cox</td>
<td>Athletics Marketing and Spirit Coordinator</td>
</tr>
<tr>
<td>Amir Dabirian</td>
<td>Vice President for Information Technology and Chief Information Technology Officer</td>
</tr>
<tr>
<td>Mark Filowitz</td>
<td>Associate Dean, College of Natural Sciences and Mathematics</td>
</tr>
<tr>
<td>Naomi Goodwin</td>
<td>Assistant Vice President for Administration and Finance</td>
</tr>
<tr>
<td>Willie Hagan</td>
<td>Vice President for Administration and Finance and Chief Financial Officer</td>
</tr>
<tr>
<td>Bahram Hatefi</td>
<td>Director of Internal Audit</td>
</tr>
<tr>
<td>Rommel Hidalgo</td>
<td>Director of Infrastructure Services</td>
</tr>
<tr>
<td>Pamela Hillman</td>
<td>Vice President for University Advancement</td>
</tr>
<tr>
<td>Laura Hultman</td>
<td>Senior Financial Reporting Specialist</td>
</tr>
<tr>
<td>Brian Jenkins</td>
<td>Associate Vice President of Finance</td>
</tr>
<tr>
<td>Christa Johnson</td>
<td>Budget Analyst, College of Natural Sciences and Mathematics</td>
</tr>
<tr>
<td>Pamela Jones-Tintle</td>
<td>Senior Director of Development, Student Affairs and Intercollegiate Athletics</td>
</tr>
<tr>
<td>Kandy Mink-Salas</td>
<td>Dean of Students</td>
</tr>
<tr>
<td>Bob Minor</td>
<td>Technical Services Coordinator, Audio and Computer Systems Technician</td>
</tr>
<tr>
<td>Marilyn Moore</td>
<td>Assistant to the Director of the Main Art Gallery</td>
</tr>
<tr>
<td>Ivan Munguia</td>
<td>Budget and Data Analyst, College of Engineering and Computer Science</td>
</tr>
<tr>
<td>Mary Ellen Nossaman</td>
<td>Administrative Support Assistant, Center for Insurance Studies</td>
</tr>
<tr>
<td>Robert Scialdone</td>
<td>Associate Director of Athletics, Business Affairs</td>
</tr>
<tr>
<td>James Stroh</td>
<td>Property Clerk</td>
</tr>
<tr>
<td>Greg Sweet</td>
<td>Tax Compliance Manager</td>
</tr>
<tr>
<td>Esiquio Uballe</td>
<td>Associate Dean, Student Life</td>
</tr>
<tr>
<td>Ira Unterman</td>
<td>Executive Director of Advancement Operations</td>
</tr>
<tr>
<td>Steven Yim</td>
<td>University Controller</td>
</tr>
<tr>
<td><strong>CSU, FULLERTON, AUXILIARY SERVICES CORPORATION</strong></td>
<td></td>
</tr>
<tr>
<td>Frank Mumford</td>
<td>Director, Finance and Administration</td>
</tr>
<tr>
<td><strong>CSU FULLERTON PHILANTHROPIC FOUNDATION</strong></td>
<td></td>
</tr>
<tr>
<td>Patricia Boggs</td>
<td>Director, Board Relations, Planning and Special Programs</td>
</tr>
<tr>
<td>Julie Chung</td>
<td>Accounting Manager and Gift Administrator</td>
</tr>
<tr>
<td>Pamela Hillman</td>
<td>Executive Director</td>
</tr>
<tr>
<td>Valerie Nguyen</td>
<td>Information Services Supervisor</td>
</tr>
<tr>
<td>Ira Unterman</td>
<td>Chief Financial Officer</td>
</tr>
</tbody>
</table>
DATE: March 25, 2011

TO: Larry Mandel
    University Auditor

FROM: Milton A. Gordon
      President

SUBJECT: Response for the Fund-Raising & Gift Processing Audit Report 10-63

I am pleased to forward California State University, Fullerton’s official response to the thirteen (13) recommendations in the Fund-Raising and Gift Processing Audit Report 10-63.

Once again, we would like to thank the University Auditor and his staff for conducting the audit in a professional manner in identifying meaningful ways to improve the operational and administrative controls for fund raising and gift processing activities to ensure compliance with relevant governmental regulations, Trustee policy, Office of the Chancellor directives, and campus procedures.

The Campus Auditor, Bahram Hatefi, will also forward the responses to you electronically for your convenience. Should you have questions, please contact Bahram at (657) 278-7299 or bhatefi@fullerton.edu.

Attachments

cc: Pat Carroll, Executive Assistant to the President
    Amir Dabirian, Vice President for Information Technology and CITO
    Bahram Hatefi, Director of CSUF Internal Audit
    Pam Hillman, Vice President for University Advancement
    Naomi Goodwin, Associate Vice President for Administration & Finance
    Ira Unterman, Executive Director of Advancement Operations
FUND-RAISING AND GIFT PROCESSING

CALIFORNIA STATE UNIVERSITY,
FULLERTON

Audit Report 10-63

GENERAL ENVIRONMENT

Recommendation 1

We recommend that the campus document delegations of authority for the evaluation and acceptance of gifts.

Campus Response

We concur. Delegations of authority will be formally documented for the University’s gift acceptance process by June 30, 2011.

FUND-RAISING AND EVENT PLANNING

POLICIES AND PROCEDURES

Recommendation 2

We recommend that the campus develop and document policies and procedures for the administration of fund-raising events that address:

a. Planning, budgeting, and approval of fund-raising events.

b. Recordkeeping and financial controls.

c. Specific types of fund-raising activities that may require additional guidance, such as auctions or opportunity drawings.

d. The calculation and reporting of premiums for events that involve quid pro quo donations.

Campus Response

We concur.

a. Philanthropic Foundation will document its policy to formally plan, budget, and approve fundraising events by July 31, 2011.

b. Philanthropic Foundation will document its policies for improved financial and accounting controls and recordkeeping over event activities by July 31, 2011.
c. Policies and procedures will be documented to formally address specific types of fund-raising activities, such as auctions and opportunity drawings, and other specific areas requiring additional guidance by July 31, 2011.

d. Policies and procedures will be documented to formally address the calculation and reporting of premiums for events that involve quid pro quo donations by July 31, 2011.

FRONT AND CENTER

Recommendation 3

We recommend that the campus:

a. Review and update existing campus policy on documentation and approval of event expenses to clarify documentation requirements and to ensure that purchases of fund-raising event tickets and tables for employees, spouses, and guests are only made when appropriate, necessary, and consistent with the mission of the university.

b. Communicate updated policies to campus departments.

c. Assign management on campus to perform an analysis on an annual basis of event finances in order to ensure compliance with EO 761.

Campus Response

We concur. By July 1, 2011, the campus will review and update existing policy on documentation and approval of event expenses to clarify documentation and purchase requirements for fund-raising event tickets and tables for employees, spouses, and guests; communicate updated policies to campus departments; and assign management on campus to analyze event finances on an annual basis.

CASH AND NON-CASH GIFT ADMINISTRATION

GIFT RECEIPTS

Recommendation 4

We recommend that the campus implement standard cash handling policies and procedures for acceptance of gifts in areas outside of the Foundation that address:

a. Maintenance of a log of gifts received.

b. Adequate segregation of duties in the processing of gift deposits and documentation of secondary reviews of funds deposited.

c. Timeliness of deposits made to the Foundation.
Campus Response

We concur. Philanthropic Foundation will update and implement its policy for acceptance of gifts to include areas outside the foundation for the maintenance of a log of gifts received, and to improve related controls such as adequate segregation of duties or other necessary mitigated controls concerning departments accepting gifts. Updated policy will ensure the timeliness of deposits made to the Foundation by July 31, 2011.

MATCHING GIFTS

Recommendation 5

We recommend that the Foundation ensure that policies and procedures for the review and follow-up of outstanding matching gift claims are being followed.

Campus Response

We concur. Oversight for matching gifts will be given to the Foundation’s Chief Financial Officer and a process for monitoring matching gift claims implemented by June 30, 2011.

DONOR INFORMATION SECURITY

PAYMENT CARD INDUSTRY DATA SECURITY STANDARDS

Recommendation 6

We recommend that the Foundation redact or otherwise remove sensitive credit card information stored in the FileNet Imaging system.

Campus Response

We concur. Sensitive credit card information will be redacted from the FileNet Imaging system by July 31, 2011.

INFORMATION SECURITY AWARENESS TRAINING

Recommendation 7

We recommend that the campus ensure that personnel with access to the Advance donor system receive information security awareness training.

Campus Response

We concur. The campus will implement required safeguards and monitor compliance to ensure all Advance donor system users receive security awareness training by June 30, 2011.
REPORTING AND RECORDKEEPING

DONATION REPORTING

Recommendation 8

We recommend that the Foundation:

a. Revise its method of handling third-party pledge payments to ensure that these payments are not counted twice when reported in the Annual Report of External Support.

b. Review CASE reporting guidelines with appropriate Foundation staff and campus department personnel to ensure that gifts are appropriately classified and reported in the correct time periods.

Campus Response

We concur. To date, the Foundation has revised its method of handling third-party pledge payments. The campus will compile a summary of CASE standards for external support and gift recording policies for distribution to the campus community by July 31, 2011.

GRANT AND SPONSORSHIP REPORTING

Recommendation 9

We recommend that the campus ensure that all eligible private grants and campus sponsorships are reported in the Annual Report on External Support.

Campus Response

We concur. The campus will document its process to ensure that all eligible private grants and philanthropic sponsorships for campus programs are reported in the Annual Report on External Support by July 31, 2011.

EXPENDITURE REPORTING

Recommendation 10

We recommend that the campus:

a. Establish procedures for compiling and reporting advancement expenditures to the Office of the Chancellor.

b. Revise FY 2007/08 and FY 2008/09 advancement expenditures to include campus and Foundation non-personnel expenditures and resubmit them to the Office of the Chancellor.

Campus Response

We concur. The campus will develop a procedure manual for the compilation of advancement expenditures by July 31, 2011. The advancement expenditures for 2007 – 2008 and 2008 – 2009 have been compiled and re-submitted to the Office of the Chancellor.
DONOR PLEDGES

Recommendation 11

We recommend that the campus ensure that advancement policies and procedures are followed when establishing donor pledges.

Campus Response

We concur. The campus will update and distribute the gift pledge process to University Advancement personnel by July 31, 2011.

CAMPUS FINANCIAL STATEMENTS

Recommendation 12

We recommend that the campus review and evaluate the expenditures in the non-capital gift account for proper reporting beginning with the FY 2010/11 financial statements.

Campus Response

We concur. The campus will review and evaluate the expenditures in the non-capital gift account for proper reporting beginning with the FY 2010/11 financial statements by April 30, 2011.

GIFT ACCOUNTS AND EXPENDITURES

Recommendation 13

We recommend that the Foundation:

a. Obtain adequate supporting documentation for hospitality-related disbursements.

b. Ensure that disbursements that include a service component are preauthorized by the Foundation in the form of a purchase order.

Campus Response

We concur. The Foundation will implement enhanced procedures to ensure compliance with the campus policy regarding hospitality expenditures and purchases of services by June 30, 2011, to ensure:

a. Adequate documentations for hospitality-related disbursements are obtained and maintained.

b. Preauthorizing disbursements including service components in the form of purchase orders.
April 21, 2011

MEMORANDUM

TO: Mr. Larry Mandel
    University Auditor

FROM: Charles B. Reed
      Chancellor

SUBJECT: Draft Final Report 10-63 on Fund-Raising and Gift Processing,
        California State University, Fullerton

In response to your memorandum of April 21, 2011, I accept the response as
submitted with the draft final report on Fund-Raising and Gift Processing,
California State University, Fullerton.

CBR/amd