

**SPECIAL INVESTIGATION**  
**HUMBOLDT STATE UNIVERSITY**

**Report Number 01-93**  
**July 26, 2001**

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# EXECUTIVE SUMMARY

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## **ALLEGATIONS**

- Reimbursement claims made by the then current Executive Director of University Advancement (Director) were false.
- Certain fundraising results had been overstated in Humboldt State University (HSU) records and reports developed by the Director.

## **INVESTIGATION RESULTS – ALLEGATIONS**

### ***Travel, Entertainment, and Business Reimbursements to Advancement Director***

False reimbursement claims for travel, entertainment, and business expenses were made against funds maintained in both state and auxiliary accounts by the Director.

- Virtually all of the \$55,000 in HSU Foundation (Foundation) reimbursement claims were fraudulently prepared and submitted by the Director.
- Nearly half of the \$29,000 in university reimbursement claims was fraudulently prepared and submitted by the Director.
- Supporting documentation for expense claims was either missing or misrepresented.

### ***Misstated and Misrepresented Fundraising Efforts and Results***

Fundraising efforts and results were inadequately supported, misstated, and intentionally misrepresented by the Director.

- The Director falsified and misrecorded, or directed the misrecording of, numerous gifts, pledges, and bequests in University Advancement's (Advancement) gift accounting system.
- Support for the surveys submitted to the Council for Aid to Education (CAE) and reported to the Trustees during the Director's tenure (fiscal years ended in 1998, 1999, and 2000) was not maintained.
- Parity and linkage could not be readily or reasonably established between the numbers reported to CAE and those reported by the Foundation.
- Significant variances between annual results reported to the Trustees and CAE lacked satisfactory quantifiable explanation.
- Promotional information distributed publicly perpetuated numerous false and misleading representations regarding support given to the university.
- Academic departments were misled to believe that certain programs were being supported through voluntary contributions when, in fact, funds were merely being transferred from one account to another.
- Misrepresentations were made by the Director regarding the nature and availability of scholarship programs.
- As a result of the falsified and misrepresented reporting of fundraising outcomes, the Director fraudulently obtained salary increases.
- Because of the Director's reporting of falsified and misrepresented fundraising efforts, additional university resources are/will be required to re-create and reprint materials.

## **INVESTIGATION RESULTS – ANCILLARY FINDINGS**

### ***Misappropriations and Misrepresentations Made by the Advancement Director***

Numerous misappropriations and misrepresentations were made by the Director within the scope of authority and responsibility given to him by the university. Funds from various sources were impacted.

- The Director prepared and promulgated fraudulent audited financial statements for KHSU, the public radio station operated by the university.
- The Director prepared and submitted fraudulent and misleading compliance reports to the Corporation for Public Broadcasting.
- The Director was responsible for forgeries and falsely attributed correspondence.
- The Director altered Alumni Association meeting minutes to support unauthorized transfers of alumni funds.
- The Director improperly closed various trust accounts maintained by the university and the Foundation.
- In accordance with specific instructions from the Director, Advancement staff altered the number of hours paid to annual and parent fund telephone campaign solicitors in order to pay sales incentives.
- The Director erroneously offered a directed scholarship program to donors, changing a payment of fees into a tax-deductible contribution.

### ***Inadequate Oversight and Control of the University Advancement Function***

The university did not exercise appropriate and sufficient oversight and control over its Advancement function. Various policies, procedures, and practices established by the Director circumvented or eliminated existing procedures and controls.

- The control environment associated with the University Advancement function contributed to the mismanagement of funds and the failure of internal controls to prevent or detect errors and irregularities timely.
- The Director mismanaged the university's alumni membership program and presented alumni statistics that could not be adequately supported.
- Under the general supervision of the Director, scholarships were inadequately administered.
- The Director improperly classified contracts, grants, and fees as gifts to the university.

### ***Inadequate Oversight and Control of Funds Under Advancement's Control***

The university did not exercise appropriate and sufficient oversight and control over the use and expenditure of university and alumni funds administered by university auxiliaries on behalf of its Advancement function.

- Fundraising ledgers within the gift accounting system were inappropriately controlled and improperly maintained.
- Fund transfers were inadequately managed and controlled.
- Trust funds were improperly managed and controlled.
- Fiduciary responsibilities over alumni funds were not met.
- Donations to university athletics were unsuitably managed.
- Matching donations were not properly administered and accounted.
- The management and control of vendor payees were inadequate.

- Advancement inadequately and improperly controlled cash receipts.
- The Director improperly managed and controlled the KHSU credit card.
- Charges made on credit were inadequately controlled and administered.
- Travel, entertainment, and business reimbursements were improperly classified.
- Corporation for Public Broadcasting grants were inappropriately controlled and administered.

***Inadequate Response to Actual and Potential Defalcations and Deficiencies***

The university did not take sufficient and suitable action upon the presentation of certain facts and circumstances regarding the Director's administration of the Advancement function.

- Various "red flags" regarding the Director's activities were neither seen nor adequately acted upon by campus administration.

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# **INTRODUCTION**

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## **ALLEGATIONS**

The Vice President for Development and Administrative Services (Vice President) at Humboldt State University (HSU) apprised the CSU Office of the University Auditor of the possibility that funds may have been improperly expended by the then current Director of University Advancement for HSU. Our inquiry regarding the facts and circumstances surrounding the suspected misuse of funds found that a group of University Advancement employees had recently brought to the Vice President's attention certain questionable reimbursement claims made by the Director. The Vice President believed that an administrative investigation was clearly called for, and communicated this to the university President. The President submitted a formal request for investigation to the Chancellor on March 29, 2001. On that same day, the Chancellor asked that the University Auditor investigate the suspected improprieties.

Prior to the commencement of our investigation, the Vice President indicated that HSU's Public Safety Department (UPD) had been notified of the facts and circumstances and that a criminal investigation was underway. He further indicated that additional allegations had arisen, the main one being that the Director had overstated certain fundraising results in reports to the Chancellor's Office. The university President invited further investigation and offered full support from the university and its auxiliaries.

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## **BACKGROUND**

HSU's funding is provided largely by state appropriations and student fees. Additionally, the Trustees of the California State University have called upon each of the system's presidents to seek augmentation of funds available for academic and student programs through local community and alumni support. At HSU, the President has placed responsibility for this effort with the Vice President for Development and Administrative Services. Operating under the general supervision of the Vice President, the Executive Director of University Advancement (Director) has been given responsibility to coordinate all aspects of a University Advancement program, including major gifts, annual giving, and corporate and foundation support. Additionally, the Director is to be an active participant in the cultivation, solicitation, and stewardship of major gifts. Certain suspected improprieties of this Director prompted our special investigation.

The Director accepted his position in July 1998. In the summer of 1999, at the recommendation of a campus task force charged with reviewing ancillary programs and their budgets, the Director's responsibilities were expanded beyond traditional University Advancement to include oversight of the university's First Street Art Gallery, HSU Natural History Museum, and KHSU, the university's public radio station. Later that year, he also acquired the responsibility for administration of certain aspects of university scholarships.

In a memo to the Vice President, dated February 10, 2001, the Director indicated that he had accepted another position, and his last day of employment would be March 30, 2001. Effective March 20, 2001, the Director was placed on administrative leave because of suspected improprieties in travel, entertainment, and business expense claims.

Advancement staff indicated that the week of February 11, 2001, they became concerned with a claim for reimbursement submitted by the Director. They believed the claim included a meal reimbursement with an individual the Director was not believed to have known. Quiet verification of this fact was made by an

Advancement staff member who was familiar with the individual with whom the Director claimed to have met. Advancement staff delayed reporting their findings until the middle of March because of concerns as to how to best present this information to university administrators. There was concern both of retribution by the Director and that university administrators might perceive them as disgruntled employees.

As a result of this situation, a university Ombudsman (a campus faculty member) was contacted. After being provided a detailed account of the facts and circumstances, the Ombudsman arranged to meet with concerned Advancement staff and the Vice President on March 21, 2001, to discuss all that had been discovered to date.

Prior to the proposed meeting, Advancement staff continued to research and question the Director's reimbursement claims submitted to the university and its foundation. Advancement staff presented to an alumni board member a document, apparently signed by the board member, which led to the transfer of Alumni Association funds. The board member indicated that she did not authorize the transaction and requested immediate access to the details of Alumni Association accounts maintained at the Foundation.

The alumni board member, who requested a review of records, and other alumni board members, subsequently performed a review of Alumni Association account activity. They discovered several questionable transactions. This prompted a meeting on March 19, 2001, between alumni board members and the Vice President, that resulted in the Director being placed on administrative leave the following day. At that point, the university administration notified the State Department of Finance, the State Auditor, and the CSU Chancellor's Office, including the Office of the University Auditor of suspected wrong doing. The meeting arranged by the university Ombudsman followed, presenting more concerns to the Vice President. Shortly thereafter, the Chancellor of the CSU requested our investigation.

On April 4, 2001, the Director acknowledged certain culpability and responsibility for what had occurred and what was being discovered. In a letter to the HSU Director of Human Resources, the Director stated that he was sorry for what he had done and apologized for his actions.

Subsequent to the Director's apology, he also sought to reimburse the university with a check as partial repayment for suspected misappropriations of funds. The university returned the check because it was determined that it was inappropriate to accept the payment, since the investigation was ongoing. In the correspondence accompanying the returned check, the university indicated that it appreciated the spirit in which the payment was offered.

The Director made himself available to us by telephone. He provided us with frank acknowledgement of certain misrepresentations and misappropriations he had made during his tenure as the Director of Advancement at HSU.

Throughout our investigation, we found university and university auxiliary staff to be very cooperative and helpful. Where appropriate, information was shared between the criminal and the administrative investigative teams. Further, university administration provided full support for our efforts, as their stated desire was to seek and acknowledge the truth in what had occurred and what was being discovered.

## ***SCOPE AND METHOD OF INVESTIGATION***

To investigate the allegations, we reviewed the activities and practices of the Director for the period of July 1, 1998, to March 20, 2001. This review included consideration of his administration of the university's Advancement function as well as his administration and oversight of other HSU functions such as KHSU, the university radio station. We examined available financial and nonfinancial records and documents as deemed appropriate. Additionally, we interviewed current and previous employees of the university, its auxiliaries, and certain other individuals associated with the university regarding their knowledge of HSU Advancement's function and operation during the Director's tenure.

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## RESULTS OF INVESTIGATION

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### ***INVESTIGATION RESULTS – ALLEGATIONS***

#### ***Travel, Entertainment, and Business Reimbursements to Advancement Director***

False reimbursement claims for travel, entertainment, and business expenses were made against funds maintained in both state and auxiliary accounts by the Director of University Advancement at HSU.

At the time of our investigation, UPD was performing a criminal investigation regarding these alleged fraudulent reimbursement claims. Because of this, we did not duplicate contacts to alleged donors or recipients of business meals, gifts, etc. When and where appropriate, UPD shared information in support of our investigation.

#### **Fraudulent Foundation Reimbursements**

During his tenure with the university, the Director was personally reimbursed by the Foundation for over \$41,000 in travel, entertainment, and business expenses. Further, a credit card company was paid \$14,000, which largely related to expenses charged by the Director. *Based upon our investigation, we believe that virtually all of these claims were fraudulently prepared and submitted by the Director.* The Director has affirmed that he, in fact, did submit the majority of these claims fraudulently. He acknowledged this with the intent of making restitution.

#### **Fraudulent State Reimbursements**

During his tenure with the university, the Director was also personally reimbursed by HSU for over \$29,000 in travel, entertainment, and business expenses. *Based upon our investigation, we again believe that nearly half of these claims were fraudulently prepared and submitted by the Director.* Again, the Director affirmed that he did submit a significant number of these claims fraudulently. However, he stated that travel claims associated with CSU Advancement meetings were legitimately charged, but claims associated with mileage were generally fraudulent (approximately \$6,000 related to mileage).

#### **Analysis of Reimbursement Claims Submitted**

We found the following with regard to supporting documents submitted with reimbursement claims by the Director:

- Reimbursement was requested for travel expenses without any evidence that travel occurred.
- The majority of meals claimed were supported by handwritten restaurant check stubs, which are easily forged and not as common as computerized checks. Further, generally little or no detailed information was shown on actual purchases.
- Inconsistent meal and entertainment claims were submitted, which included significant variances in tipping by the Director.
- Business expenses claimed were submitted for reimbursement from retailers out of the area when the Director was not in travel status.

- Significant variances in mileage claims to allegedly meet the same individuals at the same locations.
- Reimbursements were made on credit card purchases where the Director was not the cardholder.
- Reimbursement of charges incurred on behalf of a contractor was made with no documentation supporting the existence of the contractor.
- Charges for a rental car were concurrently submitted with a mileage claim for hundreds of miles within the same period.

We additionally noted:

- Claims for purchases of gifts that were never given.
- Meals, travel, and entertainment with people the Director never met.
- Meals, travel, and entertainment associated with donations to the campus that never existed.
- Purchases of tangible items for the workplace that cannot currently be located.

In a telephone conversation with the Director, he indicated that he was able to successfully defraud HSU because various control weaknesses existed, such as inadequate review of reimbursements; his ability to control accounts from which he was being reimbursed; and a lack of control of how restricted funds were spent.

### ***Misstated and Misrepresented Fundraising Efforts and Results***

Fundraising efforts and results were inadequately supported, misstated, and intentionally misrepresented by the Director.

### **Falsified and Misrecorded Gifts, Pledges, and Bequests**

Gifts, pledges, and bequests were recorded daily in an automated gift accounting system maintained by Advancement. This system links accounting data with fundraising/donation management information data into a single integrated system.

*Our review indicates that the Director falsified and misrecorded, or authorized the misrecording of numerous gifts, pledges, and bequests in Advancement's gift accounting system.*

Overall, the results of the Director's fundraising efforts made on behalf of HSU were grossly overstated in these records. Over \$15 million dollars in falsified, unsupported, and misrecorded gifts, pledges, and bequests have been brought into question by the university. Some gifts and pledges appear to have been fraudulently recorded, and others were recorded without appropriate documentation.

Over \$6 million of these questioned transactions were entered into Advancement's gift accounting records on September 1, 2000, representing gifts and pledges allegedly received during the period from March of 1999 through September of 2000. According to the analyst responsible for these accounting records, she entered these transactions on September 1, 2000, at the request of the Director who did not present any supporting documentations at the time of his request. The analyst indicated that documents for one such transaction, a \$2 million dollar anonymous cash donation, were subsequently provided by the Director. The analyst made no notation in Advancement's accounting

or other records, indicating that she had coded transactions as cash received when, in fact, no proof or other indication was presented that cash had been donated to HSU.

On December 21, 2000, the Director entered over \$4 million in inadequately or unsupported gifts and pledges into the Advancement gift accounting system. These gifts and pledges, in a manner similar to those entries into the gift accounting system made on September 1, 2000, reflected donations from both the current and prior periods.

Finally, approximately \$2 million in inappropriately supported bequests were recorded in the gift accounting system. Another \$3 million in other unsupported or erroneously classified gift and pledge transactions were also found in Advancement's gift accounting records.

In a phone interview with the Director, he indicated and acknowledged that he had falsely recorded various transactions.

### **Unsupported External Fundraising Reporting**

Annually, the CSU vice presidents of advancement are required to report voluntary campus support to the Vice Chancellor of University Advancement. The CSU also participates in the national Voluntary Report of Education Survey conducted by the Council for Aid to Education (CAE). Reporting required for this survey is also utilized as the basis for reporting annual fundraising results to the Trustees of the CSU. This survey is completed based upon standards established by Council for the Advancement and Support of Education (CASE) and the National Association of College and University Business Officers (NACUBO). Such standards have been adopted to provide information that is both informative and useful to the Trustees, as the results of the CSU can then be measured against similarly configured and funded institutions.

*We found that appropriate support for the surveys submitted to the CAE and reported to the Trustees, during the Director's tenure (fiscal years ended in 1998, 1999, and 2000) was not maintained.*

According to the current acting HSU Director of Advancement, the CAE reports that were submitted to the Chancellor's Office, in support of annual reporting to the Trustees of the CSU, were prepared by the Director with limited or no assistance from other advancement staff. Detailed accounting or similar files that would be the basis for the preparation of the survey reports could not be found.

We must reject the validity of all three reports prepared by the Director due to the lack of support. Even though HSU had received national recognition for its results in 1998-1999, the Vice President has informed CAE and the Chancellor's Office that HSU could not accept any awards for fundraising reported for the fiscal year ended in 2000.

## **Oversight and Management of Fundraising Efforts**

Information regarding the results of fundraising efforts came to HSU management from essentially two sources. The first source was financial and operational information prepared and presented by the Director. The second source was financial information prepared and presented by the Foundation. Certain parity and linkage in the reported results of fundraising efforts should be apparent from these two sources, as the Foundation is the designated recipient and fiscal custodian of donations to HSU.

### **Excerpted Fundraising Totals from CAE Report(s) on Voluntary Support of Education Survey for HSU**

Fiscal Year	Individuals	Organizations	Total
1997-1998	\$1,417,865	\$401,243	\$1,819,108
1998-1999	\$3,897,410	\$2,560,982	\$6,458,392
1999-2000	\$7,054,281	\$4,410,441	\$11,464,722

*During our investigation, we found that parity and linkage could not be readily or reasonably established between the numbers reported to CAE (chart above) and those reported by the Foundation.*

Specifically, when overall fundraising results for fiscal year 1998-1999 were reported to the Trustees as being over \$6 million, the Foundation's financial statements reflected approximately \$3 million in donation revenue. For fiscal year 1999-2000, where \$11 million was reported to the Trustees as the results of fundraising efforts, the Foundation reported a little over \$1 million in donation revenue. While there can be explainable differences (e.g., donations in-kind which come directly to the university), these differences were not in fact explained by the Director nor the university. We believe that the differences were never clearly delineated within the succession of reports, memos, emails, and verbal presentations made by the Director regarding the success of his fundraising results.

### **Excerpted Alumni Counts and Totals from CAE Report(s) on Voluntary Support of Education Survey for HSU**

Fiscal Year	Number of Alumni	Number of Alumni Contacted	Number of Donors	Amount Donated by Alumni
1997-1998	26,693	20,264	3,272	\$556,393
1998-1999	23,411	23,411	5,126	\$801,857
1999-2000	23,611	23,611	6,825	\$3,058,252

*We found that results reported annually to the Trustees and CAE also lacked reasonable comparability between years.*

This could be seen in the reporting on the results of alumni solicitations. HSU received national recognition for this area. As reported, the number of alumni decreased from fiscal year 1998 to 1999

and only increased 200 from 1999 to 2000. During this period, approximately 1,500 students were graduating annually from HSU, and it seems such should have been reflected or otherwise explained as reflected between years.

We also noted that CAE reports reflected that all alumni were contacted in fiscal years 1999 and 2000; a fact that seems unlikely and, at a minimum, warrants questioning by administration (as did the exponential increase in the number of donors and amounts donated). This growth in alumni support appeared to occur with little apparent cause, as the Director utilized the same methodology of garnering such support as had been used in previous years (telephone solicitations).

According to several HSU employees we interviewed, university staff did have questions, but never formally raised them to administration for reasons mentioned previously. The Vice President indicated that he did not question the disparity and lack of correlation in fundraising reporting to cash in hand, as he and other university administrators wanted to believe that alumni, community, and corporate support reflected in the Director's correspondences and reports was really present. The Vice President indicated that he directed his efforts toward areas and situations where problems were known to exist at the university, not in an area where results were apparently successful. He indicated that while responses to his inquiries as to fundraising results were often vague from the Director, the positive reports received concerning the Director's performance from various sources, including university faculty, contributed to his belief that support was present.

We believe that because the scope of the Vice President's responsibility included both university advancement (fundraising, public relations, etc.) and university administration (budgeting, accounting, personnel services, auxiliary services, etc.), the level of oversight provided was extremely vulnerable to compromise, insufficient oversight was inevitable.

### **Erroneous Fundraising Reporting to Academics, Students, and the Public**

Voluntary contributions to a university allow it to greatly enhance the educational experience for students. This is especially true for the CSU, which has been mandated to seek such funds because of certain limitations in state subsidy. Modern equipment, new facilities, assistance with tuition and living expenses, etc. often could only be possible with such support of community donors and corporate sponsors. In an effort to thank its supporters and garner further support for the university, the results of fundraising are reported in various forms to academics, students, and the public.

*Our investigation found that promotional information promulgated publicly contained numerous false and misleading representations regarding support given to the university.*

Various brochures, publications, press releases, broadcasts, and other like materials indicated that HSU was receiving tremendous community and corporate support. Such documents and representation were, at best, misleading and, at worst, represented false advertising. This worst-case scenario manifested itself during the 2000-01 KHSU on-air pledge campaign when a well-known Foundation was said to have offered, as a pledge, a matching type grant. (Note that KHSU staff were unaware that the Director had fabricated the grant.)

Another instance where misadvertising of support occurred at the hand of the Director is contained within a glossy, multi-page brochure intended to better establish the identity of the university to potential academics, students, and donors. In the brochure, it was noted that the national average for

private support per student was \$887; for the CSU, it was \$983; and for HSU, it was \$1,524. The last number is based upon the Director's inflation of fundraising results. Similarly, another brochure was completed to support fundraising for the HSU Main Street Gallery; it offered thanks to an anonymous benefactor who never existed.

*Our investigation found that academic departments were misled by the Director to believe that certain programs were being supported through voluntary contributions.*

More important than brochures and broadcasts is the academic credibility of the campus; it has also been impacted by falsified and misrepresented support of academic programs. For example, based upon representations from the Director that donated support was obtained for an expensive piece of scientific equipment, an academic dean approved its purchase. From funds transferred by the Director from another account (not voluntary contributions), first phase purchases associated with the acquisition and installation of this equipment have been made. Now funding needed to complete the project are in question. In another instance, an internationally significant historical conference envisioned by an HSU faculty member was identified by the Director as receiving external support when none was there. Acting upon his confirmation that funds had been secured for this purpose, the planning and promulgation of the event was begun. The President indicated that other sources for funds were identified to ensure the conference's realization.

*Misrepresentations were made regarding the nature and availability of scholarship programs.*

Certain scholarships were noted by the Director as being sponsored by major corporations. In several instances, such support was falsified. Misrepresenting available sponsorships might result in an improper inducement for students to attend HSU because of the perceived abundance of newly available scholarships at the university.

### **Fraudulently Obtained Salary Increases by the Director**

*As a result of the falsified and misrepresented reporting of fundraising outcomes, the Director obtained salary increases.*

The Director's apparent success was reflected in annual personnel evaluations where the Vice President recognized him as generally performing at a superior level. Specifically, this would mean that administration believed that the Director consistently performed at a level that exceeded expectations for the position, as well as for the goals and objectives of specific assignments. This performance was recognized with merit increases in pay during the Director's tenure at the university.

### **Wasting of University Resources**

*Because of the Director's reporting of falsified and misrepresented fundraising efforts, additional university resources are/will be required to recreate and reprint materials.*

Funds were used to purchase brochures and other advertising materials, which currently must be destroyed because of the misrepresentations contained therein. Additional funds must be expended to recreate and reprint these materials. As a result of negative publicity, certain additional costs in future fundraising are inevitable. Finally, the cost of time associated with impacted academic and administrative personnel additionally constitutes a wasting of university resources.

## **INVESTIGATION RESULTS – ANCILLARY FINDINGS**

### ***Misappropriations and Misrepresentations Made by the Advancement Director***

Numerous misappropriations and misrepresentations were made by the Director within the scope of the authority and responsibility given to him by the university. Funds impacted included those obtained from university and alumni fundraising efforts and from state and federal sources.

### **False and Misleading Audited Financial Statements at KHSU**

*The Director prepared and promulgated fraudulent audited financial statements for KHSU, the public radio station operated by the university.*

The Director prepared financial statements for the year ending June 30, 1999, and the year ending June 30, 2000. These statements included an Independent Auditor's Report, which the Director signed under an assumed name represented as being that of a certified public accountant. The report contained a Statement of Financial Position as of June 30, a Statement of Financial Activity for the Year Ending June 30, Statement of Changes in Net Assets for the Year Ending June 30, a Statement of Changes in Cash Flows for the Year Ending June 30, the Notes to Financial Statements, and Supplemental Data Exhibits, including Statement of Functional Expenses and Corporation for Public Broadcasting (CPB) Report.

These financial statements required auditing pursuant to the Public Telecommunications Financing Act of 1978.

### **EXCERPTS FROM KHSU FINANCIAL STATEMENTS**

<b>Fiscal Year</b>	<b>Current Assets</b>	<b>Fixed Assets</b>	<b>Support and Revenues</b>	<b>Expenses</b>	<b>Support over Expenses</b>
1997-1998 (amounts audited by legitimate CPA)	\$19,620	\$389,564	\$595,923	\$538,986	\$56,937
1998-1999 (false audit)	\$23,418	\$580,204	\$787,892	\$556,354	\$221,538
1999-2000 (false audit)	\$25,162	\$638,992	\$680,067	\$619,013	\$61,054

In a telephone interview with the Director, he acknowledged that the certified public accountant did not exist, and that he prepared and promulgated these statements in an effort to save KHSU the cost of an audit. He indicated that he believed that the financial statements properly reflected the results of operations for KHSU for the two years the financial statements were presented. Financial and accounting management and staff at HSU and the Foundation indicated that they had not provided anyone with accounting detail in support of the preparation of financial reports for KHSU, including

the Director. We clearly have no basis to support an assertion that the statements are reasonably stated; however, we did seek to determine if auditable records existed for the CPB grant and KHSU.

We requested that HSU and Foundation management prepare accounting lead schedules for the KHSU accounts they maintain. (Note that records for the radio station were maintained by both entities.) These lead schedules would represent the groundwork that must be completed in order for financial statements to be prepared, and then audited. We found that sufficient records do exist to perform the required audit. However, we conclude that the university is out of compliance with CPB regulations regarding audited financial statements.

### **False and Misleading Reports to the Corporation for Public Broadcasting**

*The Director prepared and submitted fraudulent and misleading compliance reports to the Corporation for Public Broadcasting.*

The reporting periods affected were those ending June 30, 1999 and June 30, 2000. Note that these annual reports included an attestation of KHSU's compliance with certain CPB regulations.

These reports were also signed by the Director under an assumed name represented as being that of a certified public accountant.

CPB is aware of this, and we believe that there is a risk that the amount of CPB grant funds received by KHSU was not appropriate as each year's grant was based upon financial data presented in the audited financial statements from the previous year. Regardless of the accuracy of the above financial statements, KHSU is currently in a deficit funding position and at risk of losing federal funding.

### **Forgeries and Falsely Attributed Correspondence**

*The Director is responsible for forgeries and falsely attributed correspondence.*

The following forgeries have been identified.

- The President's signature on scholarship documentation.
- The Vice President for Development and Administrative Services' signature on accounting documents, travel claims, and documents associated with reporting fundraising results to the Chancellor's Office.
- An alumni board member's signature on a memorandum regarding alumni funds.
- The signatures of donors on gift notification memoranda.
- Benefactors' signatures on endowment documentation.

We also noted various unsigned memos and letters attributed to university employees or others associated with the university, which appear to have been prepared by the Director or have been represented as legitimate by the Director. Most notably, we identified a memo, which indicated that HSU accounting had received a \$2 million wire transfer associated with an anonymous donation. This memo was not prepared by the accounting person to whom it was attributed, and that individual indicated that the wire transfer was neither received nor could otherwise be identified as valid.

In a telephone interview, the Director generally acknowledged his forgeries, but did not recall all instances where this was done.

### **Altered Meeting Minutes**

*The Director altered Alumni Association meeting minutes to support unauthorized transfers of alumni funds.*

In one instance, Foundation accounting management was unwilling to transfer funds without sufficient evidence that the Alumni Association approved moving funds from the alumni trust fund to the advancement public affairs trust fund. The Director presented altered alumni board minutes as support for the funds transfer; the funds were then moved. Altered minutes from the alumni board's January 5, 2000 meeting included specific wording regarding the transfer of \$9,000. Alumni board members have indicated that the transaction was false.

In another instance, the Director transferred alumni funds based upon falsified minutes; however, this time the funds were transferred to his development trust fund. Altered minutes, dated February 2, 2000, included specific wording regarding the transfer of \$9,265. Alumni board members again indicated that the transaction was false.

Regarding the control of minutes and board actions, we noted that a system of certifying the legitimacy of minutes and specifically identifying the board's actions did not exist. Specific resolutions were not numbered or otherwise delineated.

### **Fraudulent and Improper Closure of Campus Trust Accounts**

*The Director improperly closed various trust accounts maintained by HSU and the Foundation.*

One of the forgeries noted above resulted in the improper closure of a \$14,000 trust account. The Director created a false document indicating that the benefactor's wish was to redirect his scholarship endowment for the purposes of establishing an alumni center or alumni house at the university. Believing the document was genuine, the Vice President countersigned the agreement and the Foundation transferred the funds.

The Director closed various state endowed scholarship accounts utilizing this same methodology (absent the Vice President's counter signature). Note that HSU accounting staff acted to prevent several such closures when facts about an endowment led them to believe that the benefactor clearly would not have wanted the account closed. However, when such information was not known, trust accounts were closed, and the funds were transferred. The Director then represented to campus administrators and faculty that he had raised funds for their programs.

In other instances, the Director acted to close trust accounts based upon correspondence to endowment benefactors, notifying them to contact the university if they did not wish to allow the university to redirect their endowment. The purported basis for this notification was that the purpose for which the endowment was established was no longer valid on the campus.

A review of these letters, which impacted over 60 trust accounts, found that many of them did not have addresses, and according to Advancement staff, no one could be identified as having mailed them. Utilizing a negative confirmation of a benefactor's wishes provides no assurance that the letter was received, nor does it provide any evidence of its being mailed. Letters were never mailed, and all such accounts were improperly closed.

The apparent reason for closing these accounts was to make it look as if new funds had arrived at the university. The Director improperly closed trust accounts and then represented to campus administrators and faculty that he had raised funds for their program.

### **False and Misleading Time Reporting**

*In accordance with the specific instructions of the Director, Advancement staff altered the number of hours paid to annual and parent fund telephone campaign solicitors in order to pay sales incentives.*

Incentives were paid by inflating the number of hours worked on a solicitor's time sheet. Advancement staff coded inflated hours claimed, noting it with the letter "I."

Upon discovery of this coding by the Director, he attempted to hide the facts regarding the incentive pay arrangements. The Director, in a handwritten note written his last week stated, "we've been asked to do two things to help with auditor review 1) Do not write an "I" on the timesheet to indicate incentive. 2) Do not include the spreadsheet that shows pay and incentives for students."

### **Incentives Paid to Telephone Solicitors**

	<b>1999 Amount Raised</b>	<b>Incent.</b>	<b>2000 Amount Raised</b>	<b>Incent.</b>	<b>2001 Amount Raised</b>	<b>Incent.</b>	<b>Total Incent.</b>
Parent Fund	\$44,000	\$5,400	\$51,000	\$6,400	\$47,000	\$6,000	-
Loyalty Fund	No data	\$5,300	\$78,000	\$8,400	Pending	Pending	-
Total		\$10,700		\$14,800		\$6,000	\$31,500

### **Erroneous Offering of Directed Scholarships**

*The Director erroneously offered a directed scholarship program to donors, changing a payment of fees into a tax-deductible contribution.*

Advancement staff, with guidance from the Director, inappropriately offered to make a fee payment into a tax-deductible contribution to the university. Such directed scholarships violate Internal Revenue Service requirements associated with tax-deductible donations. In one example, a \$1,000 donation was received in November 2000 to a university fundraising campaign. It was directed that the proceeds be made available to the son of the donor to "pay any of his financial requirements." Another example, related to \$8,500, was treated in the same manner.

## **False and Misleading Documentation**

*Various false and misleading documents affecting the operation of the university were prepared and disseminated by the Director.*

In one instance, a committee evaluated the funding of Athletics on the campus. The Director submitted documentation to the committee that overstated the voluntary support Athletics received by several hundred thousand dollars.

In another instance, the Director submitted a lengthy marketing study, which appeared to be completed by a legitimate marketing/management consulting firm. The report was received and transmitted to campus administration by the Vice President. The consulting firm was contacted, and they indicated they knew nothing of the study. The Director indicated to the Vice President that the cost of the study was to be \$10,000; no payment was made or requested as the report's presentation to the campus coincided with the Director's departure.

In yet another instance, the Director prepared inaccurate financial information, which he then presented at an alumni board meeting.

## ***Inadequate Oversight and Control of the University Advancement Function***

The university did not exercise appropriate and sufficient oversight and control over its Advancement function. Various policies, procedures, and practices were inappropriate or deficient as established by the past Director.

## **Control Environment**

*The control environment associated with the Advancement function contributed to the mismanagement of funds and the failure of internal controls to prevent or detect errors and irregularities timely.*

We found that several internal controls had been superseded or overridden by the Director. This was exacerbated after the scope of his authority was expanded to include various ancillary functions incongruent with Advancement (i.e., the HSU Natural History Museum, the HSU First Street Gallery, KHSU radio, and the HSU scholarship administration function).

The Director made himself the sole signer on all accounts under Advancement's control, including the ancillary functions. The Director's intent was to gain control over additional funds rather than increase his ability to oversee areas which required significant voluntary funding. Once he gained signatory control, he moved employees out of their areas of expertise. He then restricted access to financial records to himself.

A specific example best describes the nature of Advancement's control environment. A manager of one of the ancillary functions added to Advancement expressed concern regarding the management of funds for this area. The manager wanted to examine certain fiscal records, but was instructed that she was no longer in control of the finances and had no reason to examine such records. The manager was insistent, and requested to make copies of reports for her review. The Director told the manager that she would not be allowed to make copies; however, she could browse the reports. As a result, the manager was forced to sit down and manually copy numbers presented in these financial records.

In another instance, the Director assigned a manager responsibility for one of the ancillary functions for which she had no prior experience. This manager contacted an area more familiar with the function with questions and concerns in an attempt to better manage and understand the function's detailed requirements. Upon discovery of this contact, the Director severely reprimanded the manager.

Allowing the Director sole control over all fiscal aspects of the Advancement function and the additional ancillary functions created the opportunity for misappropriation and dampened controls that might have prevented or at least detected these misappropriations.

### **Alumni Membership**

*The Director mismanaged the university's alumni membership program and presented alumni statistics that could not be adequately supported.*

As noted earlier, the Director misreported alumni membership and giving. Tracking of alumni is a complicated, and at times, difficult task because such lists have not been maintained over time. As noted above, counts between periods did not follow a systematic pattern. We believe that the number of alumni was reduced in an effort to present a picture of greater alumni participation.

Reviews of university archives by university admissions staff found that in the last 20 years, over 27,000 degrees had been conferred. This fact brings into question the Director's reporting that the campus had only 23,000 alumni, solicited all of them and obtained pledges from over 6,800. We believe that current records do not provide an appropriate basis for reporting alumni counts and memberships.

We found that the Director operated under a policy that anyone could be an alumnus, whether or not the person actually matriculated at the university. Membership included the rights to discounted purchases at local vendors and use of the university library and email system for a nominal fee. In effect, Advancement was selling coupon discounts rather than alumni memberships under these circumstances.

Further, the Director offered certain individuals complimentary memberships. In one instance, he provided Advancement staff with a roster from a local Coast Guard installation and indicated that all were to be given complimentary memberships.

### **Administration of Scholarship Functions**

*Under the general supervision of the Director, certain HSU scholarships were inadequately administered.*

In the summer of 1999, the Director became more involved in HSU scholarship programs. This entailed administration of endowed and other scholarships offered and administered by the university. At the time, claims were made by the Director and others that proper acknowledgements were not being given to donors; hence, this aspect of the HSU scholarship program could be better administered if Advancement were responsible.

We found the following deficiencies relating to the administration of this program through the Advancement function:

- Advancement management and staff, who were given responsibility for the function, were clearly not trained or lacked knowledge of financial aid and scholarship administration. (These individuals reported that attempts to receive training and support were thwarted by the Director.)
- Transfer of scholarship files did not progress in an orderly fashion, including formal transfer of accountability. A list of specific scholarships being transferred was not initially a part of the transfer process.
- Files were in disarray. Various records were thrown away at the instruction of the Director. Endowment records were in disorder, complicated by the improper closure of many such accounts as discussed earlier.
- Future funding obligations for the President's Scholars Program had not been properly budgeted and accounted.
- Funds received for non-HSU scholarships had been mishandled, including limited instances where refunds were not appropriately made when scholarship recipients failed to attend HSU. In one such instance, fees that should have been refunded to the scholarship grantor appeared to have been misdirected to the President's Scholars Program.
- Checks ordered by Advancement staff were then returned to those same individuals; this represents a significant separation of duties issue.

The result of the transfer of this function was not enhanced service and capability. Instead, the managers and staff were kept from becoming privy to the Director's misappropriations.

### **Classification of Gifts**

*The Director improperly classified contracts, grants, and fees as gifts to the university.*

We noted numerous instances where grants were recorded as gifts. Currently, \$2 million in potentially misclassified gifts have been identified in Advancement's records. In one instance, it appears that \$32,000 in faculty release time from a contract was classified as a gift to the university.

The Director classified fees paid by non-HSU scholarship programs as gifts to the university. In these instances, local charities or fraternal organizations transmitted their scholarship program awards for fees, housing, etc. to the university. Advancement then transferred these amounts to the appropriate student's account and recorded it as a gift in its gift accounting system.

### ***Inadequate Oversight and Control of Funds Under Advancement's Control***

The university did not exercise appropriate and sufficient oversight and control over the use and expenditure of university and alumni funds administered by university auxiliaries for its advancement function.

## **Fundraising Ledgers**

*Fundraising ledgers within the gift accounting system were not appropriately controlled and properly maintained.*

As previously noted, the Director falsified recorded numerous gifts, pledges, and bequests. These gifts, pledges, and bequests were recorded into a computerized fundraising application maintained by Advancement. This application maintains accounting and donor management information. We found the accounting components of the system to be inappropriately controlled.

The analyst responsible for this system and for overseeing gift recording did not believe that these were accounting records. She indicated that this had never been clearly communicated to her. We believe that these are, in fact, state accounting records and should be maintained in a manner consistent with state accounting standards.

We found that:

- Access to the application and its various modules was inadequately controlled.
- Appropriate reconciliations of activity were not performed.
- Appropriate reconciliations of cash were not performed.
- Necessary supporting documents were not properly maintained.
- Adjustments and deletions of records were not adequately supported.
- Policies and procedures were not clearly established or documented.
- Proper segregation of duties was not consistently maintained.

## **Fund Transfers**

*Fund transfers were inadequately managed and controlled.*

Oversight of both university and Foundation fund transfers was insufficient. As noted previously, the Director was the sole signer on all accounts. We found inappropriately authorized transfers done in university and Foundation accounting.

The Director authorized several inappropriate transfers of university scholarship funds to augment the President's Scholars Program. Additionally, at Foundation accounting, transfers were made between funds without sufficient consideration for specific restrictions placed on the funds, as the Foundation merely followed the fund signer's requests, acting as a fiscal agent or bank rather than a trustee.

## **Trust Funds**

*Trust funds were improperly managed and controlled.*

We found that the Foundation did not properly manage trust funds. Further, it appeared that certain of the funds it held were in fact state trust funds which should have been administered by university accounting.

We found that:

- Trust agreements were not established in writing. Such agreements should specifically describe when and how funds deposited should be spent and controlled.
- Signature authority was not appropriately delegated. Memos indicating delegation were accepted without a facsimile signature of the delegates, and period of delegation was at times unclear.
- Donor or other fund restrictions were not always clearly presented by account holders.

These control weaknesses also impact other Foundation trust accounts as, in many instances, accounts were set up in the name of the Director, who has sole signing ability on each account.

### **Alumni Funds**

*Fiduciary responsibilities over alumni funds were not met.*

Our review, along with that of Advancement management and staff, identified numerous inappropriate transactions.

Specifically, in addition to transfers previously discussed:

- The Director transferred \$12,000 utilizing a forged signature of a board member.
- More than \$23,000 for inappropriately reimbursed business expenses (i.e., alumni funds) were charged for a web developer that provided services not budgeted or otherwise agreed to by the alumni board.

As these inappropriate transfers of funds and charges have been identified, the Vice President has directed the reimbursement of alumni funds for the inappropriate transactions.

### **Athletics' Donations**

*Donations to HSU Athletics were inappropriately administered.*

Because it appears that the Director falsified and misrecorded numerous gifts, pledges, and bequests in Advancement's gift accounting system, we included within the scope of our investigation his reporting of donations to HSU Athletics. We noted that the Director over-reported donations to HSU Athletics to both campus officials and to the Chancellor's Office. For the CAE reporting period 1999-2000, Athletics' records indicated that approximately \$400,000 had been received. However, the Director reported receipt of nearly \$700,000.

Further inquiry of the location of financial records for Athletics found that these records were being maintained by the HSU Student Center, a recognized campus auxiliary.

We noted the following:

- HSU Athletics' financial records were not included in financial statements for the Student Center or the university. Essentially, they were not subject to audit.

- For taxation purposes, the tax identification number of the Student Center was being used by Athletics. However, this activity was not included in reports to taxing authorities.
- Since donations were made to HSU Athletics (not the Student Center or the Foundation), donations should have been receipted by university accounting and deposited in state accounts and records maintained within university accounting records. The bank account held by Athletics has been inappropriately established.
- Recording, acknowledging, and reporting gifts to HSU Athletics was not integrated into the university's gift accounting system.
- The agreement between Athletics and the Student Center for fiscal administration services, including an agreement by Athletics to pay interest for overdrafts of funds, was not appropriately approved by campus administration.

Several documents, one dating back to 1991, were identified which indicated that university financial managers were aware of the location of these funds and the manner in which they were maintained and accounted.

### **Matching Donations**

*Matching donations were not properly administered and accounted.*

Certain corporations, employee associations, and unions offer donation matching programs. We found that it was possible for matching donation checks to be written to the Director. During our investigation, this actually occurred. Two checks arrived as matching funds from a large corporation's employee contribution trust; each was made payable to the Director. Because the potential for misappropriation was high, we expanded our investigation to include a review of these types of transactions.

We found that:

- The Director told staff not to pursue matching payments.
- Matching fund receivables were not recorded and totals reconciled to activity.
- Adjustments of gift records were not sufficiently controlled.
- Documentation was to be thrown away once collections were made.
- Matching funds were not identified in receipting or deposit support.
- Postings to gift records were not done in a consistent manner.

### **Vendor Payees**

*The management and control of vendor payees was inadequate.*

According to Foundation management, vendor evaluation and selection was left to the signer on a trust account. This was the case with Advancement's accounts that were under the control of the Director.

We identified several payments to vendors (independent contractors and service providers) where no verification of appropriate insurance indemnification occurred. For example, a contractor whose duties included electrical contracting, was not required to provide evidence of appropriate insurance coverage. Such evidence would provide protection to both the vendor and the university. Further,

we saw that there was generally no verification that vendors had appropriate experience and qualifications. Within the context of this report, most notably, there was a failure to confirm that a certified public accountant (allegedly) hired to audit the financial statement of KHSU had a license and was qualified to perform such an audit.

### **Cash Receipts**

*Advancement inadequately and improperly controlled cash receipts.*

We found that:

- At the Director's request, cash receipting records were not retained.
- Detailed accounting records were not maintained in an auditable manner, as transaction specifics were not consistently recorded (in accordance with the Director's instructions).
- Appropriate reconciliations of credit card receipts were not completed.
- Cash and checks were not properly secured. Advancement did not have a safe or similar facility for securing cash.

### **Credit Cards**

*Advancement improperly managed and controlled the KHSU credit card.*

The Director established a credit card in the name of the radio station. Both state and Foundation employees involved with the radio station's operation utilized these cards. It appears that Foundation and HSU management were not fully aware of these cards and responsibility for controlling them was confused as both state and Foundation employees access the account.

### **Credit Charges**

*Charges made on credit were not adequately controlled and administered.*

The Director made purchases by credit card and on a tab account at the local country club. When reimbursement payments were made by the Foundation based upon these charges, the Director and others were not required to submit full statements or invoices as evidence that services or supplies were actually received and paid for only partial billings and statements were required. This risks erroneous charges being reimbursed as well as double payments.

### **Classification of Reimbursements**

*Travel, entertainment, and business reimbursements were improperly classified.*

The Director's travel, entertainment, and business reimbursements were improperly classified as supplies. This was done by the Director who assigned transaction account coding. This practice can be misleading to university administration and readers of financial reports.

## **Corporation for Public Broadcasting Grants**

*Corporation for Public Broadcasting grants were inappropriately controlled and administered.*

Because the Director had fraudulently prepared financial statements, we included within the scope of our investigation certain aspects of the general management and operation of KHSU and the CPB grant.

We noted the following:

- An appropriate operating agreement had not been executed between HSU and the Foundation regarding the station and its employees and operations.
- The CPB grant was accepted in the name of the university and then administered by the Foundation. This creates ambiguity as to the organization responsible for the station's operations and finances.
- Similarly, ambiguity exists with respect to contracting for services or space. We noted an agreement for operating space lacked appropriate review and approval.
- Upon acceptance of the CPB grant, certain imprecise assertions were made with respect to public meeting requirements as mandated by Section 396 of the Communications Act. The Director indicated that public meetings were held by KHSU where, in fact, they were not.

Clearly, if responsibility for the operations and finances of the station were held within one organization rather than two, greater assurance could be given that grants were appropriately controlled and administered.

### ***Inadequate Response to Actual and Potential Defalcations and Deficiencies***

The university did not take sufficient and suitable action upon the presentation of certain facts and circumstances regarding the Director's administration of the Advancement function.

*Various "red flags" regarding the Director's activities were neither seen nor adequately acted upon by campus administration. Many of these facts and circumstances foreshadowed the results of our investigation.*

The following memos indicated that campus administration was aware of certain concerns regarding travel, entertainment, and business reimbursements claimed by the Director.

- On June 23, 2000, the Vice President was provided copies of two forged travel claims to the Director for his investigation. The claims were submitted to the Foundation for reimbursement with the forged signature of the Vice President. One claim was for local travel (car mileage) for \$128, and the other claim was for travel expenses associated with an alleged business trip to San Francisco and Pomona for \$1,038. On June 29, 2000, the Vice President requested that the Director repay \$225 for expenses that were "erroneously and inadvertently reimbursed out of the development trust." The memo stated, "this was to confirm the understanding we reached at our June 29, 2000 meeting."

- On July 11, 2000, regarding the forged travel claims, the Director told the Vice President that he “asked each person if they had signed the claims, and/or if they had any knowledge about this situation.” Then, the Director indicated that “every person denied signing the claim and having any knowledge about the situation.”

These memos, and other handwritten documents we observed, indicated that campus administration was, to some extent, aware of the potentially extensive nature of abuse that might be present in the Director’s claims for travel, entertainment, and business reimbursements.

Around the same time period, certain Foundation accounts under the Director’s control were operating at a deficit.

Furthermore, the production of the Director and the Advancement function was not appreciably impacted by the significant increase in campus administrative duties and responsibilities placed upon them (i.e., ancillary functions and scholarship administration). The details of fundraising reports contain various inconsistencies that were not questioned.

Finally, while the university seemingly achieved exponential increases in the success of its fundraising efforts, (including numerous large donations, many from anonymous donors or donors from out of the area), campus administration was not asked by the Director to meet with these significant donors or to even call and personally thank them.

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## RECOMMENDATIONS

Our investigation was administrative in nature. Conclusions drawn were made within that context. Recommendations, which would mitigate the recurrence of similar findings in the future, are presented below along with recommendations to effect specific corrective actions:

### 1. ***Travel, Entertainment, and Business Reimbursements***

#### 1.1 **Fraudulent Foundation Reimbursements**

We recommend that the:

- a. Campus oversee Foundation expenditures requested by state employees.
- b. Campus require that personal reimbursements consistently be reviewed by the individual's supervisor.
- c. Foundation review requests for reimbursement for reasonableness as to both substance and form.

#### ***Campus Response:***

- a. We concur. The campus and the Foundation will jointly review their procedures to ensure that Foundation expenditure requests by state employees receive proper oversight. Completion date: no later than February 1, 2002.
- b. We concur. Procedures will be established to ensure that campus supervisory approval will be required for all funds reimbursed to state employees. Completion date: no later than February 1, 2002.
- c. We concur. While the Foundation currently reviews requests for reimbursement for reasonableness and form, additional safeguards will be put in place. Completion date: no later than February 1, 2002.

#### 1.2 **Fraudulent State Reimbursements**

We recommend that the campus:

- a. Review requests for reimbursement for reasonableness as to both substance and form.
- b. Establish reimbursement claim audit procedures to ensure that mileage is appropriately charged.

#### ***Campus Response:***

- a. We concur. The university's Department of Fiscal Affairs follows State and CSU policy governing the amount and extent of reimbursement. Department employees will be reminded of the necessity to review each reimbursement request as to substance and form. Completion date: no later than February 1, 2002.

- b. We concur. Fiscal Affairs uses a website (AOL.com/Travel) to verify mileage claims, and returns claims that do not conform to the distance figure given. Department employees will be reminded of the necessity to review each mileage claim for appropriateness. Completion date: no later than February 1, 2002.

### **1.3 Analysis of Reimbursement Claims Submitted**

We recommend that the campus and the Foundation:

- a. Continue to scrutinize Advancement function transactions executed between July 1998 to March 2001 for additional errors or irregularities.
- b. Establish a central point through which these transactions will be evaluated and corrective measures can be taken.

#### ***Campus Response:***

- a. We concur. The HSU Foundation is continuing to review Advancement transactions that occurred in the aforementioned period. The Assistant Director of the Foundation is coordinating that activity and will make any necessary recommendations for additional procedural or control changes at the conclusion of the review. Completion date: no later than February 1, 2002.
- b. We concur. The campus will establish a central point through which these transactions will be evaluated and corrective measures can be taken. Completion date: no later than February 1, 2002.

## **2. Reporting of Fundraising Efforts and Results**

### **2.1 Falsified and Misrecorded Gifts, Pledges, and Bequests**

We recommend that the campus:

- a. Establish standards for confirming and validating larger gifts, pledges, and bequests.
- b. Update policies and procedures regarding recording of gifts, pledges, and bequests.
- c. Continue to scrutinize the Director's gift, pledge, and bequest transactions recorded between July 1998 to March 2001 for additional errors or irregularities.
- d. Establish a central point through which these transactions will be evaluated and corrective measures can be taken.

#### ***Campus Response:***

- a. We concur. Numerous control procedures, which the former Executive Director disabled or eliminated, will be reestablished. Among these will be the provision of documentation for every major gift, pledge or bequest. Completion date: no later than February 1, 2002.
- b. We concur. Appropriate supporting material will be noted in the recording of gifts, pledges and bequests. Completion date: no later than February 1, 2002.

- c. The newly appointed Director of University Advancement will oversee the continued review of gift, pledge and bequest transactions recorded between July 1998 and March 2001, and will provide recommendations, following consultation with the Assistant Director of the Foundation and the Director of Fiscal Affairs, on corrective action. Completion date: no later than February 1, 2002.
- d. We concur. The campus will establish a central point through which these transactions will be evaluated and corrective measures can be taken. Completion date: no later than February 1, 2002.

## 2.2 Unsupported External Fundraising Reporting

We recommend that the campus:

- a. Establish policies and procedures which ensure that external reporting of fundraising efforts is appropriately supported and reviewed in detail prior to their submission to the CSU Trustees and CASE.
- b. Ensure that subsidiary schedules be prepared and retained supporting amounts reported externally by Advancement.

### ***Campus Response:***

- a. We concur. Prior to the arrival of the former Director of University Advancement, both the Foundation and the Department of Fiscal Affairs assisted in the preparation of the annual fundraising report. The Vice President for Development and Administrative Services will direct, by memorandum, the readoption of past practice, which included the maintenance of data verification. Completion date: no later than February 1, 2002.
- b. We concur. Subsidiary schedules will be prepared and retained supporting amounts reported externally by Advancement. Completion date: no later than February 1, 2002.

## 2.3 Oversight and Management of Fundraising Efforts

We recommend that the campus:

- a. Establish analytical policies and procedures which evaluate and reconcile fundraising data from different sources.
- b. Evaluate the current configuration of the campus' development and administrative functions to determine if restructuring is appropriate or if mitigating organizational controls would be sufficient to ensure appropriate oversight.

### ***Campus Response:***

- a. We concur. The university believes the most effective safeguard against possible future wrongdoing in University Advancement is greater involvement by knowledgeable personnel from other areas of the university. All university fundraising will be reconciled with records maintained in the university's two

authorized areas for receipt of gifts and grants—the HSU Foundation and the Department of Fiscal Affairs. Completion date: no later than February 1, 2002.

- b. The recent decision to establish a new position for community relations to oversee the ancillary operations of the university lessened the administrative span of the Director of University Advancement. Additional restructuring of the administration of University Advancement will be considered. Completion date: no later than February 1, 2002.

## **2.4 Erroneous Fundraising Reporting to Academics, Students, and the Public**

We recommend that the campus:

- a. Establish standards and methods to ensure that fundraising results transmitted to the campus community and the public are accurate.
- b. Establish a formal methodology and channel whereby members of the public and the campus community can request verification of the accuracy of information they had previously received from Advancement.

### ***Campus Response:***

- a. We concur. The basis for all public reporting of university fundraising is the annual report prepared for the Council for the Advancement and Support of Education and the Chancellor of the California State University. Broadening participation in the development of that annual fundraising report, along the lines proposed in 2.2 and 2.3, will provide a touchstone for any subsequent, public document containing fundraising results. Completion date: no later than February 1, 2002.
- b. We concur. Except for those rare instances where a donor has requested anonymity, university fundraising information is open to the public. How this information might be more easily and readily provided (perhaps as part of the university's website) will be discussed. Completion date: no later than February 1, 2002.

## **2.5 Fraudulently Obtained Salary Increases by the Director**

We recommend that the campus require Advancement employees to annually present a document to the Vice President that certifies and enumerates significant fundraising accomplishments.

### ***Campus Response:***

We concur. However, in conjunction with our periodic evaluation of employee performance, the Vice President for Development and Administrative Services will be requesting quarterly reports. Completion date: no later than February 1, 2002.

## 2.6 Wasting of University Resources

We recommend that the campus:

- a. Continue to scrutinize the Director's use of university resources during the period of July 1998 to March 2001 for additional errors or irregularities.
- b. Establish a central point through which these transactions will be evaluated and corrective measures can be taken.

### ***Campus Response:***

- a. We concur. The review will continue in University Advancement, Fiscal Affairs, and the Foundation, with all three areas reporting any additional findings to the Vice President for Development and Administrative Services. Completion date: no later than February 1, 2002.
- b. We concur. The campus will establish a central point through which these transactions will be evaluated and corrective measures can be taken. Completion date: no later than February 1, 2002.

## 3. ***Appropriations and Representations Made by the Advancement Director***

### 3.1 False and Misleading Audited Financial Statements at KHSU

We recommend that the campus:

- a. Ensure that legitimate financial statement audits be done in compliance with CPB regulations for past, improperly audited years.
- b. Seek advice from CPB regarding any additional audit procedures they deem necessary under the circumstances.

### ***Campus Response:***

- a. We concur. The campus will undertake the reconstruction of spreadsheets and other missing financial data, and then hire a certified financial accountant to perform the required audits. Completion date: no later than February 1, 2002.
- b. We concur. The depth and breadth of the audits will be determined with advice from the Corporation for Public Broadcasting. Completion date: no later than February 1, 2002.

### 3.2 False and Misleading Reports to the Corporation for Public Broadcasting

We recommend that the campus:

- a. Ensure that corrected reports be sent to CPB as soon as possible.
- b. Seek advice from CPB regarding any additional information they would require under the circumstances.

***Campus Response:***

- a. We concur. Copies of the audit reports will be provided in a timely manner to the Corporation for Public Broadcasting. Completion date: no later than February 1, 2002.
- b. We concur. We will seek advice from the Corporation for Public Broadcasting for any additional information they would require. Completion date: no later than February 1, 2002.

### **3.3 Forgeries and Falsely Attributed Correspondence**

We recommend that the campus:

- a. Continue to scrutinize university documents executed during the period of July 1998 to March 2001 for additional errors or irregularities.
- b. Establish a central point through which these transactions will be evaluated and corrective measures can be taken.

***Campus Response:***

- a. We concur. While the university believes its review of relevant documents for this period has been quite thorough, the review will continue in University Advancement, Fiscal Affairs, and the Foundation, and any new discoveries will be reported to the Vice President for Development and Administrative Services. Completion date: no later than February 1, 2002.
- b. We concur. The campus will establish a central point through which these transactions will be evaluated and corrective measures can be taken. Completion date: no later than February 1, 2002.

### **3.4 Altered Meeting Minutes**

We recommend that the campus:

- a. Establish policies and procedures to better control alumni board minutes and actions, including a system of certifying the legitimacy of minutes and specifically identifying the board's actions.
- b. Continue to scrutinize fund transfers made during the period of July 1998 to March 2001 for additional errors or irregularities.
- c. Establish a central point through which these transactions will be evaluated and corrective measures can be taken.

***Campus Response:***

- a. We concur. We will recommend to the Board of the HSU Alumni Association that the minutes of their meetings be certified by the Board president and secretary. Completion date: no later than February 1, 2002.

- b. We concur. The Executive Director of the Alumni Association is conducting a further review of fund transfers during the subject period, and will report any additional errors or irregularities to the Vice President for Development and Administrative Services for appropriate action. Completion date: no later than February 1, 2002.
- c. We concur. The campus will establish a central point through which these transactions will be evaluated and corrective measures can be taken. Completion date: no later than February 1, 2002.

### **3.5 Fraudulent and Improper Closure of Campus Trust Agreements**

We recommend that the campus:

- a. Develop a formal protocol addressing when and how alterations of trust agreements can be made, and what events and circumstances allow for appropriate closure of such a fund.
- b. Evaluate the appropriateness of all trust account closures which occurred during the period of July 1998 to March 2001.
- c. Reimburse funds where trust accounts had been closed inappropriately.

#### ***Campus Response:***

- a. We concur. The university will develop policy that requires a notarized letter of permission between the donor and the university to alter or close a trust agreement. Completion date: no later than February 1, 2002.
- b. We concur. The university will evaluate the appropriateness of all trust closures that occurred during the period of July 1998 to March 2001. Completion date: no later than February 1, 2002.
- c. We concur. The university believes it has both moral and legal obligations to honor the terms of its trust agreements, and will reimburse all scholarship accounts breached as a result of actions by the former Director. Completion date: no later than February 1, 2002.

### **3.6 False and Misleading Time Reporting**

We recommend that the campus:

- a. And the Foundation ensure that deviations in compensation offered to employees are appropriately approved by management and accounted for in a manner consistent with established policies and procedures.
- b. Ensure that payroll reporting to taxing and other authorities properly reflects the nature of compensation.

#### ***Campus Response:***

- a. We concur. The Foundation will revise and develop a policy relative to certification of hours worked and appropriate authorization. Completion date: no later than February 1, 2002.

- b. We concur. The Foundation will continue to follow prescribed rules on reporting payroll to taxing and other authorities. Completion date: no later than February 1, 2002.

### **3.7 Erroneous Offering of Directed Scholarships**

We recommend that the campus:

- a. Discontinue its directed scholarship program.
- b. Notify participants in this program that the university had offered it erroneously.

#### ***Campus Response:***

- a. We concur. Directed scholarships have never been an accepted practice at Humboldt State University, and until the arrival of the former Executive Director of Advancement such inquiries were politely but firmly rejected. There will be no further activity in this area. Completion date: no later than February 1, 2002.
- b. We concur. Past participants will be notified that their payments, in all likelihood, are not tax deductible. Completion date: no later than February 1, 2002.

### **3.8 False and Misleading Documentation**

We recommend that the campus:

- a. Continue to scrutinize the documents prepared by the Director between July 1998 to March 2001 for additional errors or irregularities.
- b. Establish a central point through which these transactions will be evaluated and corrective measures can be taken.

#### ***Campus Response:***

- a. We concur. While the university believes its review of relevant documents for this period has been quite thorough, the review will continue in University Advancement, Fiscal Affairs, and the Foundation, and any new discoveries will be reported to the Vice President for Development and Administrative Services. Completion date: no later than February 1, 2002.
- b. We concur. The campus will establish a central point through which these transactions will be evaluated and corrective measures can be taken. Completion date: no later than February 1, 2002.

## **4. Oversight and Control of the University Advancement Function**

### **4.1 Control Environment**

We recommend that the campus evaluate the current control environment at Advancement and establish controls that ensure proper administration of funds and accounts, including appropriate policies regarding signature authority on accounts.

***Campus Response:***

We concur. As a first step, the Director of University Advancement will revisit the report of the last advancement audit and check current policy and procedure against the narrative and recommendations contained in the report. Secondly, the Director will determine which administrative controls were dismantled by the former Director and reestablish those control mechanisms. Finally, the Director will formulate, with assistance and advice from the Assistant Director of the Foundation and the Director of Fiscal Affairs, policy needed to ensure proper administrative oversight of accounts. Completion date: no later than February 1, 2002.

**4.2 Alumni Membership and Counts**

We recommend that the campus ensure that:

- a. The current alumni membership database be systematically verified for accuracy, and policies and procedures to ensure that accuracy is maintained as any official record of the CSU would be maintained.
- b. Alumni Association membership be granted only to those that qualify under CASE and NACUBO accepted standards.
- c. Other options be explored for nonalumni affinity toward the university.
- d. Alumni member fees and fee waivers be controlled in a manner that provides assurance that revenues are adequately protected and waivers are sufficiently controlled to avoid errors or irregularities.

***Campus Response:***

- a. We concur. The Director of Alumni Relations will be charged with reviewing the alumni membership database for accuracy and the development of policies and procedures to ensure future accuracy. Completion date: no later than February 1, 2002.
- b. We concur. Alumni Association membership will be restricted only to those that qualify. Completion date: no later than February 1, 2002.
- c. We concur. The creation of an associate membership for nonalumni will be explored. Completion date: no later than February 1, 2002.
- d. We concur. Additionally, policy will be developed, if necessary, to protect against the possible misuse of member dues. Completion date: no later than February 1, 2002.

**4.3 Administration of Scholarship Programs**

We recommend that the campus ensure that:

- a. The accuracy of all scholarships initiated, altered, or closed during the period of July 1998 to March 2001 be checked systematically. We further recommend that funds inappropriately set up, altered, or closed be disposed of, corrected, or repatriated as appropriate.

- b. Scholarship files be reconstructed, as information is available, and numerically maintained.
- c. The President's Scholars Program be administered in a manner that guarantees that future funding obligations are budgeted and accounted.
- d. Funds received for non-HSU scholarships be processed as fee payments and controlled as such through existing campus systems.
- e. Checks not be returned to the person requesting them to ensure proper segregation of duties.

***Campus Response:***

- a. We concur. The university's commitment to honor the terms of all trust agreements is manifest in our response to recommendation 3.5. Where the previous Director violated the terms of trust agreements, remedial action will be taken. Completion date: no later than February 1, 2002.
- b. We concur. Scholarship files will be reconstructed, as information is available, and numerically maintained. Completion date: no later than February 1, 2002.
- c. We concur. The President's Scholars Program will operate within budget and provide for future funding. Completion date: no later than February 1, 2002.
- d. We concur. Funds received for non-HSU scholarships generally will be processed as fee payments and controlled as such. Completion date: no later than February 1, 2002.
- e. We concur. Scholarship checks will be primarily handled through the Financial Aid Office, rather than having University Advancement request and make the awards directly. Completion date: no later than February 1, 2002.

#### **4.4 Classification of Gifts**

We recommend that the campus:

- a. Establish policies and procedures to ensure gifts are appropriately classified.
- b. Provide additional training to campus and advancement staff to ensure that they clearly understand the significant differences between gifts, grants, and fee payments.

***Campus Response:***

- a. We concur. The proper handling, classification and stewardship of gifts are paramount in our efforts to build upon the relationship we enjoy with our friends and alumni. We will re-examine our current policies and procedures to ensure that gifts are appropriately classified. Completion date: no later than February 1, 2002.
- b. We concur. While we believe staff are knowledgeable about the differences between and among gifts, grants, and fees, we concede they appear to have played a supporting role in some misclassifications, and we intend to ascertain why. Completion date: no later than February 1, 2002.

## 5. ***Oversight and Control of Funds Under Advancement's Control***

### 5.1 **Fundraising Ledgers**

We recommend that the campus ensure that:

- a. All employees are informed that the accuracy of university records is mandated in all situations and circumstances.
- b. Access to the fundraising application and its various modules be appropriately limited.
- c. Appropriate reconciliations of fundraising activity recorded in fundraising ledgers be performed regularly.
- d. Appropriate reconciliations of cash to fundraising ledgers be performed regularly.
- e. Necessary supporting documents for fundraising ledger transactions be properly maintained.
- f. Adjustments and deletions of records within the fundraising ledgers be adequately supported.
- g. Policies and procedures associated with fundraising ledgers be clearly established and documented.
- h. Proper segregation of duties associated with fundraising ledgers be consistently maintained.
- i. All entries to fundraising ledgers be done based upon appropriate supporting documentation.

#### ***Campus Response:***

- a. We concur. Appropriate steps will be taken to ensure accuracy of university records. While access to fundraising application is best limited as noted in (c) above, the painful lesson learned from the experience that precipitated this audit is that wrongdoing can be the result of overly restricted access. Completion date: no later than February 1, 2002.
- b. We concur. Appropriate steps will be taken to limit access to the fundraising application and its various modules. Completion date: no later than February 1, 2002.
- c. We concur. Reconciliations of fundraising activity to fundraising ledgers will be performed regularly. Completion date: no later than February 1, 2002.
- d. We concur. Reconciliations of cash to fundraising ledgers will be performed regularly. Completion date: no later than February 1, 2002.
- e. We concur. Supporting documentation for fundraising ledgers will be maintained. Completion date: no later than February 1, 2002.
- f. We concur. Adjustments and deletions in fundraising ledgers will be adequately supported. Completion date: no later than February 1, 2002.
- g. We concur. Policies and procedures associated with fundraising ledgers will be established and documented. Completion date: no later than February 1, 2002.
- h. We concur. Proper segregation of duties with regard to fundraising ledgers will be maintained. Completion date: no later than February 1, 2002.
- i. We concur. All entries to fundraising ledgers will be done based upon appropriate supporting documentation. Completion date: no later than February 1, 2002.

## 5.2 Fund Transfers

We recommend that the campus and the Foundation:

- a. Improve controls over fund transfers.
- b. Ensure that fund transfers receive appropriate scrutiny by campus administration when restricted and fiduciary funds are involved.

### ***Campus Response:***

- a. We concur. The Assistant Director of the Foundation will examine Foundation policy on this subject, and develop new or expanded policy, if needed. Completion date: no later than February 1, 2002.
- b. We concur. The university will ensure that fund transfers receive appropriate review when restricted and fiduciary funds are involved. Completion date: no later than February 1, 2002.

## 5.3 Trust Funds

We recommend that the campus and the Foundation:

- a. Develop comprehensive, written trust agreements for accounts maintained by the Foundation.
- b. Ensure that delegations of authority be properly documented.
- c. Ensure that donor and other fund restrictions be fully documented and available to all involved with the administration of accounts.

### ***Campus Response:***

- a. We concur. While written agreements are in place for endowments, it may be advisable to extend the same limiting conditions to trust accounts. Completion date: no later than February 1, 2002.
- b. We concur. All delegations of authority will be properly documented. Completion date: no later than February 1, 2002.
- c. We concur. Donor and other fund restrictions will be fully documented. Completion date: no later than February 1, 2002.

## 5.4 Alumni Funds

We recommend that the campus:

- a. Establish policies and procedures regarding the Alumni Association's operation on the campus, including clear delineation of the university's fiduciary duties associated with alumni funds.
- b. Continue to scrutinize the transactions within alumni accounts executed by the Director between July 1998 to March 2001 for additional errors or irregularities.
- c. Establish a central point through which these transactions will be evaluated and corrective measures can be taken.

***Campus Response:***

- a. We concur. Approximately twenty-five years ago, the HSU Alumni Association elected to abandon its independent, nonprofit status and operate under the aegis of the Foundation. The Association has flourished under that arrangement and the university has received concomitant benefit. Be that as it may, a review of the university/Foundation's fiduciary role with regard to Alumni Association funds is clearly warranted. Completion date: no later than February 1, 2002.
- b. We concur. Review of the Director's involvement in Alumni Association accounts will continue by the Director of Alumni Relations. Completion date: no later than February 1, 2002.
- c. We concur. The campus will establish a central point through which these transactions will be evaluated and corrective measures can be taken. Completion date: no later than February 1, 2002.

**5.5 Athletics' Donations**

We recommend that:

- a. HSU Athletics' financial records be incorporated within the books and records of the Foundation or the university, ensuring that such activity would be appropriately included in financial statements and subject to audit.
- b. The campus ensure appropriate reporting to taxing authorities.
- c. Funds be deposited in the appropriate Foundation or university account and that the external account established by athletics be closed.
- d. The university ensure that recording, acknowledging, and reporting gifts to HSU Athletics are integrated into the university's single gift accounting system.
- e. Agreements involving the payment of interest be appropriately authorized by campus administration.

***Campus Response:***

- a. We concur. We understand that although the special investigation found no direct involvement of the Director in Athletics fundraising, it did reveal some unrelated procedural concerns. The recommendation has merit, and our first act will be to transfer the Athletics fundraising accounting function into the Foundation or the university. Completion date: no later than February 1, 2002.
- b. We concur. If tax reporting is necessary, we will report it to the appropriate authorities. Completion date: no later than February 1, 2002.
- c. We concur. Funds will be deposited in the appropriate Foundation or university account and the external account established by Athletics will be closed. Completion date: no later than February 1, 2002.
- d. We concur. The university will ensure that recording, acknowledging, and reporting gifts to HSU Athletics are integrated into the university's single gift accounting system. Completion date: no later than February 1, 2002.
- e. We concur. Agreements involving the payment of interest will be appropriately authorized by campus administration. Completion date: no later than February 1, 2002.

## 5.6 Matching Donations

We recommend that:

- a. The university establish policies and procedures to ensure appropriate processing and pursuit of matching payments.
- b. Matching fund receivables be recorded and totals regularly reconciled to activity.
- c. Adjustments of gift records be sufficiently controlled.
- d. Sufficient documentation be maintained to evidence matching fund collections.
- e. Postings to fundraising ledgers associated with matching donations be done in a consistent manner.
- f. The university continue to scrutinize matching donation transactions which occurred between July 1998 to March 2001 for additional errors or irregularities.
- g. The university establish a central point through which these transactions will be evaluated and corrective measures can be taken.

### ***Campus Response:***

- a. We concur. University Advancement will reinstitute procedures, which were abandoned over the last three years, for the handling of corporate matching gifts. Completion date: no later than February 1, 2002.
- b. We concur. The maintenance of photocopied matching gift forms to facilitate reconciliation to activity will be located in an office other than that designated for gift receipt. Matching fund receivables will be recorded and totals regularly reconciled to activity. Completion date: no later than February 1, 2002.
- c. We concur. Adjustments of gift records will be controlled. Completion date: no later than February 1, 2002.
- d. We concur. Documentation will be maintained to evidence matching fund collections. Completion date: no later than February 1, 2002.
- e. We concur. Posting to fundraising ledgers associated with matching donations will be done in a consistent manner. Completion date: no later than February 1, 2002.
- f. We concur. The university will continue to scrutinize matching donation transactions which occurred between July 1998 to March 2001 for additional errors or irregularities. Completion date: no later than February 1, 2002.
- g. We concur. The campus will establish a central point through which these transactions will be evaluated and corrective measures can be taken. Completion date: no later than February 1, 2002.

## 5.7 Vendor Payees

We recommend that the campus and the Foundation:

- a. Establish policies and procedures regarding vendor payees.
- b. Ensure that all vendor payees are appropriately insured and qualified.

***Campus Response:***

- a. We concur. Policies and procedures are in place within the Foundation and the university Office of Contracts, Procurement and Risk Management. Completion date: no later than February 1, 2002.
- b. We concur. We will ensure that all vendor payees are appropriately insured and qualified. Completion date: no later than February 1, 2002.

**5.8 Cash Receipts**

We recommend that:

- a. Fundraising cash receipting records be retained.
- b. Detailed cash receipting accounting records be maintained in an auditable manner.
- c. Appropriate reconciliations of credit card receipts be completed.
- d. Cash and checks be properly secured within a safe or similar facility.

***Campus Response:***

- a. We concur. Fundraising policies and procedures will be reviewed. Cash receipting records will be retained. Completion date: no later than February 1, 2002.
- b. We concur. Detailed cash receipting accounting records will be maintained in an auditable manner. Completion date: no later than February 1, 2002.
- c. We concur. Currently, Foundation reconciliations are completed monthly. Appropriate reconciliations of credit card receipts will be completed. Completion date: no later than February 1, 2002.
- d. We concur. No cash or checks are held overnight in an unsecured environment. Cash and checks will be properly secured within a safe or similar facility. Completion date: no later than February 1, 2002.

**5.9 Credit Cards**

We recommend that the campus and the Foundation:

- a. Reach an agreement with respect to responsibility for the administration and use of these cards.
- b. Establish policies and procedures for the use of credit cards at KHSU.

***Campus Response:***

- a. We concur. The Foundation issues no credit cards.
- b. We concur. American Express cards obtained by the Director for use by staff at KHSU have been cancelled.

## 5.10 Credit Charges

We recommend that the campus and the Foundation:

- a. Establish policies and procedures for reimbursements paid upon presentation of tab accounts maintained at facilities, such as the local country club.
- b. Only accept complete credit card statements as evidence of expenditure.

### ***Campus Response:***

- a. We concur. We will establish policies and procedures for reimbursements paid upon presentation of tab accounts maintained at local facilities. Completion date: no later than February 1, 2002.
- b. We concur. Though some employees object to the invasion of privacy inherent in providing a monthly credit card statement, we will develop policy to provide evidence of expenditure. Completion date: no later than February 1, 2002.

## 5.11 Classification of Reimbursements

We recommend that travel, entertainment, and business reimbursements be classified as such in accounting records rather than combining all such costs into the category of supplies.

### ***Campus Response:***

We concur. The policy exists; we will be more diligent in our enforcement of it. Completion date: no later than February 1, 2002.

## 5.12 Corporation for Public Broadcasting Grants

We recommend that:

- a. An appropriate operating agreement be executed between HSU and the Foundation regarding the KHSU and its employees and operations.
- b. The CPB grant be accepted and administrated by the same organization, either the university or the Foundation.
- c. Review and approval of agreements with respect to the use of space on and off campus be appropriately approved.
- d. Assertions made to the CPB regarding public meeting requirements be corrected.

### ***Campus Response:***

- a. We concur. An appropriate operating agreement will be executed between HSU and the Foundation regarding the KHSU and its employees and operations. Completion date: no later than February 1, 2002.

- b. We concur. The CPB grant will be accepted and administered by the same organization, either the university or the Foundation. Completion date: no later than February 1, 2002.
- c. We concur. Review and approval of agreements with respect to the use of space on and off campus will be appropriately approved. Completion date: no later than February 1, 2002.
- d. We concur. Assertions made to the CPB regarding public meeting requirements will be corrected. Completion date: no later than February 1, 2002.

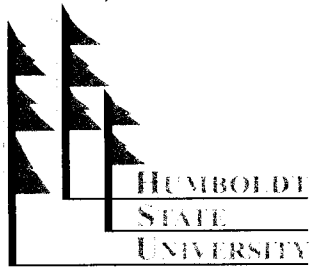
**6. Response to Actual and Potential Defalcations and Deficiencies**

We recommend that the campus:

- a. Aggressively pursue any errors or irregularities detected or suspected regarding campus management and properly report such to the Chancellor's Office, including appropriate personnel actions and reductions in authority or responsibility.
- b. Administration apply a more consistent, a "hands on" approach regarding larger gifts, pledges, and bequests.

***Campus Response:***

- a. We concur. Our internal review of the activities of the former Director will continue, and any evidence of complicity will be dealt with appropriately. Completion date: no later than February 1, 2002.
- b. We concur. Senior administrators will also insist upon resuming a role in the cultivation and stewardship of major gifts. Completion date: no later than February 1, 2002.



Office of the President

July 20, 2001

Larry Mandel  
University Auditor  
Office of the Chancellor  
The California State University  
400 Golden Shore  
Long Beach, CA 90802-4210

**RECEIVED**  
University Auditor

JUL 23 2001

The California State  
University

Dear Mr. Mandel:

Please find enclosed Humboldt State University's response to audit report 01-93, which conveys the results of the special investigation recently undertaken.

We appreciate your courtesy and cooperation, and that of your staff, throughout the audit process and trust that you will concur with our remedial action plan. Please contact me at 707/826-3311 if you have questions or require additional information.

Cordially yours,

Alistair W. McCrone  
President  
AWM:pl

Enclosure

cc: University Executive Committee

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**RESPONSES TO AUDIT REPORT NO. 01-93.****1. Travel, Entertainment, and Business Reimbursements****1.1 Fraudulent Foundation Reimbursements**

- a. We concur. The campus and the Foundation will jointly review their procedures to ensure that Foundation expenditure requests by state employees receive proper oversight. Completion date: no later than February 1, 2002.
- b. We concur. Procedures will be established to ensure that campus supervisory approval will be required for all funds reimbursed to state employees. Completion date: no later than February 1, 2002.
- c. We concur. While the Foundation currently reviews requests for reimbursement for reasonableness and form, additional safeguards will be put in place. Completion date: no later than February 1, 2002.

**1.2 Fraudulent State Reimbursements**

- a. We concur. The university's Department of Fiscal Affairs follows State and CSU policy governing the amount and extent of reimbursement. Department employees will be reminded of the necessity to review each reimbursement request as to substance and form. Completion date: no later than February 1, 2002.
- b. We concur. Fiscal Affairs uses a Web site (AOL.com/Travel) to verify mileage claims, and returns claims that do not conform to the distance figure given. Department employees will be reminded of the necessity to review each mileage claim for appropriateness. Completion date: no later than February 1, 2002.

**1.3 Analysis of Reimbursement Claims Submitted**

- a. We concur. The HSU Foundation is continuing to review Advancement transactions that occurred in the aforementioned period. The Assistant Director of the Foundation is coordinating that activity and will make any necessary recommendations for additional procedural or control changes at the conclusion of the review. Completion date: no later than February 1, 2002.
- b. We concur. The campus will establish a central point through which these transactions will be evaluated and corrective measures can be taken. Completion date: no later than February 1, 2002.

## **2. Reporting of Fundraising Efforts and Results**

### **2.1 Falsified and Misrecorded Gifts, Pledges, and Bequests**

- a. We concur. Numerous control procedures, which the former Executive Director disabled or eliminated, will be reestablished. Among these will be the provision of documentation for every major gift, pledge or bequest. Completion date: no later than February 1, 2002.
- b. We concur. Appropriate supporting material will be noted in the recording of gifts, pledges and bequests. Completion date: no later than February 1, 2002.
- c. The newly appointed Director of University Advancement will oversee the continued review of gift, pledge and bequest transactions recorded between July 1998 and March 2001, and will provide recommendations, following consultation with the Assistant Director of the Foundation and the Director of Fiscal Affairs, on corrective action. Completion date: no later than February 1, 2002.
- d. We concur. The campus will establish a central point through which these transactions will be evaluated and corrective measures can be taken. Completion date: no later than February 1, 2002.

### **2.2 Unsupported External Fundraising Reporting**

- a. We concur. Prior to the arrival of the former Director of University Advancement, both the Foundation and the Department of Fiscal Affairs assisted in the preparation of the annual fundraising report. The Vice President for Development and Administrative Services will direct, by memorandum, the readoption of past practice, which included the maintenance of data verification. Completion date: no later than February 1, 2002.
- b. We concur. Subsidiary schedules will be prepared and retained supporting amounts reported externally by Advancement. Completion date: no later than February 1, 2002.

### **2.3 Oversight and Management of Fundraising Efforts**

- a. We concur. The university believes the most effective safeguard against possible future wrongdoing in University Advancement is greater involvement by knowledgeable personnel from other areas of the university. All university fundraising will be reconciled with records maintained in the university's two authorized areas for receipt of gifts and grants—the HSU Foundation and the Department of Fiscal Affairs. Completion date: no later than February 1, 2002.
- b. The recent decision to establish a new position for community relations to oversee the ancillary operations of the university lessened the administrative span of the Director of University Advancement. Additional restructuring of the administration of University Advancement will be considered. Completion date: no later than February 1, 2002.

#### **2.4 Erroneous Fundraising Reporting to Academics, Students, and the Public**

- a. We concur. The basis for all public reporting of university fundraising is the annual report prepared for the Council for the Advancement and Support of Education and the Chancellor of the California State University. Broadening participation in the development of that annual fundraising report, along the lines proposed in 2.2 and 2.3, will provide a touchstone for any subsequent, public document containing fundraising results. Completion date: no later than February 1, 2002.
- b. We concur. Except for those rare instances where a donor has requested anonymity, university fundraising information is open to the public. How this information might be more easily and readily provided (perhaps as part of the university's website) will be discussed. Completion date: no later than February 1, 2002.

#### **2.5 Fraudulently Obtained Salary Increases by the Director**

We concur. However, in conjunction with our periodic evaluation of employee performance, the Vice President for Development and Administrative Services will be requesting quarterly reports. Completion date: no later than February 1, 2002.

#### **2.6 Wasting of University Resources**

- a. We concur. The review will continue in University Advancement, Fiscal Affairs, and the Foundation, with all three areas reporting any additional findings to the Vice President for Development and Administrative Services. Completion date: no later than February 1, 2002.
- b. We concur. The campus will establish a central point through which these transactions will be evaluated and corrective measures can be taken. Completion date: no later than February 1, 2002.

### **3. Appropriations and Representations Made by the Advancement Director**

#### **3.1 False and Misleading Audited Financial Statements at KHSU**

- a. We concur. The campus will undertake the reconstruction of spreadsheets and other missing financial data, and then hire a certified financial accountant to perform the required audits. Completion date: no later than February 1, 2002.
- b. We concur. The depth and breadth of the audits will be determined with advice from the Corporation for Public Broadcasting. Completion date: no later than February 1, 2002.

#### **3.2 False and Misleading Reports to the Corporation for Public Broadcasting**

- a. We concur. Copies of the audit reports will be provided in a timely manner to the Corporation for Public Broadcasting. Completion date: no later than February 1, 2002.

- b. We concur. We will seek advice from the Corporation for Public Broadcasting for any additional information they would require. Completion date: no later than February 1, 2002.

### **3.3 Forgeries and Falsely Attributed Correspondence**

- a. We concur. While the university believes its review of relevant documents for this period has been quite thorough, the review will continue in University Advancement, Fiscal Affairs, and the Foundation, and any new discoveries will be reported to the Vice President for Development and Administrative Services. Completion date: no later than February 1, 2002.
- b. We concur. The campus will establish a central point through which these transactions will be evaluated and corrective measures can be taken. Completion date: no later than February 1, 2002.

### **3.4 Altered Meeting Minutes**

- a. We concur. We will recommend to the Board of the HSU Alumni Association that the minutes of their meetings be certified by the Board president and secretary. Completion date: no later than February 1, 2002.
- b. We concur. The Executive Director of the Alumni Association is conducting a further review of fund transfers during the subject period, and will report any additional errors or irregularities to the Vice President for Development and Administrative Services for appropriate action. Completion date: no later than February 1, 2002.
- c. We concur. The campus will establish a central point through which these transactions will be evaluated and corrective measures can be taken. Completion date: no later than February 1, 2002.

### **3.5 Fraudulent and Improper Closure of Campus Trust Accounts**

- a. We concur. The university will develop policy that requires a notarized letter of permission between the donor and the university to alter a trust agreement or close a trust account. Completion date: no later than February 1, 2002.
- b. We concur. The university will evaluate the appropriateness of all trust closures that occurred during the period of July 1998 to March 2001. Completion date: no later than February 1, 2002.
- c. We concur. The university believes it has both moral and legal obligations to honor the terms of its trust agreements, and will reimburse all scholarship accounts breached as a result of actions by the former Director. Completion date: no later than February 1, 2002.

### **3.6 False and Misleading Time Reporting**

- a. We concur. The Foundation will revise and develop a policy relative to certification of hours worked and appropriate authorization. Completion date: no later than February 1, 2002.
- b. We concur. The Foundation will continue to follow prescribed rules on reporting payroll to taxing and other authorities. Completion date: no later than February 1, 2002.

### **3.7 Erroneous Offering of Directed Scholarships**

- a. We concur. Directed scholarships have never been an accepted practice at Humboldt State University, and until the arrival of the former Executive Director of Advancement such inquiries were politely but firmly rejected. There will be no further activity in this area. Completion date: no later than February 1, 2002.
- b. We concur. Past participants will be notified that their payments, in all likelihood, are not tax deductible. Completion date: no later than February 1, 2002.

### **3.8 False and Misleading Documentation**

- a. We concur. While the university believes its review of relevant documents for this period has been quite thorough, the review will continue in University Advancement, Fiscal Affairs, and the Foundation, and any new discoveries will be reported to the Vice President for Development and Administrative Services. Completion date: no later than February 1, 2002.
- b. We concur. The campus will establish a central point through which these transactions will be evaluated and corrective measures can be taken. Completion date: no later than February 1, 2002.

## **4. Oversight and Control of the University Advancement Function**

### **4.1 Control Environment**

We concur. As a first step, the Director of University Advancement will revisit the report of the last advancement audit and check current policy and procedure against the narrative and recommendations contained in the report. Secondly, the Director will determine which administrative controls were dismantled by the former Director and reestablish those control mechanisms. Finally, the Director will formulate, with assistance and advice from the Assistant Director of the Foundation and the Director of Fiscal Affairs, policy needed to ensure proper administrative oversight of accounts. Completion date: no later than February 1, 2002.

#### **4.2 Alumni Membership and Counts**

- a. We concur. The Director of Alumni Relations will be charged with reviewing the alumni membership database for accuracy and the development of policies and procedures to ensure future accuracy. Completion date: no later than February 1, 2002.
- b. We concur. Alumni Association membership will be restricted only to those that qualify. Completion date: no later than February 1, 2002.
- c. We concur. The creation of an associate membership for nonalumni will be explored. Completion date: no later than February 1, 2002.
- d. We concur. Additionally, policy will be developed, if necessary, to protect against the possible misuse of member dues. We concur. no later than February 1, 2002.

#### **4.3 Administration of Scholarship Programs**

- a. We concur. The university's commitment to honor the terms of all trust agreements is manifest in our response to recommendation 3.5. Where the previous Director violated the terms of trust agreements, remedial action will be taken. Completion date: no later than February 1, 2002.
- b. We concur. Scholarship files will be reconstructed, as information is available, and numerically maintained. Completion date: no later than February 1, 2002.
- c. We concur. The President's Scholars Program will operate within budget and provide for future funding. Completion date: no later than February 1, 2002.
- d. We concur. Funds received for non-HSU scholarships generally will be processed as fee payments and controlled as such. Completion date: no later than February 1, 2002.
- e. We concur. Scholarship checks will be primarily handled through the Financial Aid Office, rather than having University Advancement request and make the awards directly. Completion date: no later than February 1, 2002.

#### **4.4 Classification of Gifts**

- a. We concur. The proper handling, classification and stewardship of gifts is paramount in our efforts to build upon the relationship we enjoy with our friends and alumni. We will re-examine our current policies and procedures to ensure that gifts are appropriately classified. Completion date: no later than February 1, 2002.
- b. We concur. While we believe staff are knowledgeable about the differences between and among gifts, grants, and fees, we concede they appear to have played a supporting role in some misclassifications, and we intend to ascertain why. Completion date: no later than February 1, 2002.

## **5. Oversight and Control of Funds Under Advancement's Control**

### **5.1 Fundraising Ledgers**

- a. We concur. Appropriate steps will be taken to ensure accuracy of university records. While access to fundraising application is best limited as noted in (c) above, the painful lesson learned from the experience that precipitated this audit is that wrongdoing can be the result of overly restricted access. Completion date:
- b. We concur. Appropriate steps will be taken to limit access to the fundraising application and its various modules. Completion date: no later than February 1, 2002.
- c. We concur. Reconciliations of fundraising activity to fundraising ledgers will be performed regularly. Completion date: no later than February 1, 2002.
- d. We concur. Reconciliations of cash to fundraising ledgers will be performed regularly. Completion date: no later than February 1, 2002.
- e. We concur. Supporting documentation for fundraising ledgers will be maintained. Completion date: no later than February 1, 2002.
- f. We concur. Adjustments and deletions in fundraising ledgers will be adequately supported. Completion date: no later than February 1, 2002.
- g. We concur. Policies and procedures associated with fundraising ledgers will be established and documented. Completion date: no later than February 1, 2002.
- h. We concur. Proper segregation of duties with regard to fundraising ledgers will be maintained. Completion date: no later than February 1, 2002.
- i. We concur. All entries to fundraising ledgers will be done based upon appropriate supporting documentation. Completion date: no later than February 1, 2002.

### **5.2 Fund Transfers**

- a. We concur. The Assistant Director of the Foundation will examine Foundation policy on this subject, and develop new or expanded policy, if needed. Completion date: no later than February 1, 2002.
- b. We concur. The university will ensure that fund transfers receive appropriate review when restricted and fiduciary funds are involved. Completion date: no later than February 1, 2002.

### **5.3 Trust Funds**

- a. We concur. While written agreements are in place for endowments, it may be advisable to extend the same limiting conditions to trust accounts. Completion date: no later than February 1, 2002.
- b. We concur. All delegations of authority will be properly documented. Completion date: no later than February 1, 2002.
- c. We concur. Donor and other fund restrictions will be fully documented. Completion date: no later than February 1, 2002.

#### **5.4 Alumni Funds**

- a. We concur. Approximately twenty-five years ago, the HSU Alumni Association elected to abandon its independent, nonprofit status and operate under the aegis of the Foundation. The Association has flourished under that arrangement and the university has received concomitant benefit. Be that as it may, a review of the university/Foundation's fiduciary role with regard to Alumni Association funds is clearly warranted. Completion date: no later than February 1, 2002.
- b. We concur. Review of the Director's involvement in Alumni Association accounts will continue by the Director of Alumni Relations. Completion date: no later than February 1, 2002.
- c. We concur. The campus will establish a central point through which these transactions will be evaluated and corrective measures can be taken. Completion date: no later than February 1, 2002.

#### **5.5 Athletics' Donations**

- a. We concur. We understand that although the special investigation found no direct involvement of the Director in Athletics fundraising, it did reveal some unrelated procedural concerns. The recommendation has merit, and our first act will be to transfer the Athletics fundraising accounting function into the Foundation or the university. Completion date: no later than February 1, 2002.
- b. We concur. If tax reporting is necessary, we will report it to the appropriate authorities. Completion date: no later than February 1, 2002.
- c. We concur. Funds will be deposited in the appropriate Foundation or university account and the external account established by Athletics will be closed. Completion date: no later than February 1, 2002.
- d. We concur. The university will ensure that recording, acknowledging, and reporting gifts to HSU Athletics are integrated into the university's single gift accounting system. Completion date: no later than February 1, 2002.
- e. We concur. Agreements involving the payment of interest will be appropriately authorized by campus administration. Completion date: no later than February 1, 2002.

#### **5.6 Matching Donations**

- a. We concur. University Advancement will reinstitute procedures, which were abandoned over the last three years, for the handling of corporate matching gifts. Completion date: no later than February 1, 2002.
- b. We concur. The maintenance of photocopied matching gift forms to facilitate reconciliation to activity will be located in an office other than that designated for gift receipt. Matching fund receivables will be recorded and totals regularly reconciled to activity. Completion date: no later than February 1, 2002.
- c. We concur. Adjustments of gift records will be controlled. Completion date:
- d. We concur. Documentation will be maintained to evidence matching fund collections. Completion date: no later than February 1, 2002.

- e. We concur. Posting to fundraising ledgers associated with matching donations will be done in a consistent manner. Completion date: no later than February 1, 2002.
- f. We concur. The university will continue to scrutinize matching donation transactions which occurred between July 1998 to March 2001 for additional errors or irregularities. Completion date: no later than February 1, 2002.
- g. We concur. The campus will establish a central point through which these transactions will be evaluated and corrective measures can be taken. Completion date: no later than February 1, 2002.

### **5.7 Vendor Payees**

- a. We concur. Policies and procedures are in place within the Foundation and the university Office of Contracts, Procurement and Risk Management. Completion date: no later than February 1, 2002.
- b. We concur. We will ensure that all vendor payees are appropriately insured and qualified. Completion date: no later than February 1, 2002.

### **5.8 Cash Receipts**

- a. We concur. Fundraising policies and procedures will be reviewed. Cash receipting records will be retained. Completion date: no later than February 1, 2002.
- b. We concur. Detailed cash receipting accounting records will be maintained in an auditable manner. Completion date: no later than February 1, 2002.
- c. We concur. Currently, Foundation reconciliations are completed monthly. Appropriate reconciliations of credit card receipts will be completed. Completion date: no later than February 1, 2002.
- d. We concur. No cash or checks are held overnight in an unsecured environment. Cash and checks will be properly secured within a safe or similar facility. Completion date: no later than February 1, 2002.

### **5.9 Credit Cards**

- a. We concur. The Foundation issues no credit cards.
- b. We concur. American Express cards obtained by the Director for use by staff at KHSU have been cancelled.

### **5.10 Credit Charges**

- a. We concur. We will establish policies and procedures for reimbursements paid upon presentation of tab accounts maintained at local facilities. Completion date: no later than February 1, 2002.
- b. We concur. Though some employees object to the invasion of privacy inherent in providing a monthly credit card statement, we will develop policy to provide evidence of expenditure. Completion date: no later than February 1, 2002.

**5.11 Classification of Reimbursements**

- a. We concur. The policy exists; we will be more diligent in our enforcement of it. Completion date: no later than February 1, 2002.

**5.12 Corporation for Public Broadcasting Grants**

- a. We concur. An appropriate operating agreement will be executed between HSU and the Foundation regarding the KHSU and its employees and operations. Completion date: no later than February 1, 2002.
- b. We concur. The CPB grant will be accepted and administered by the same organization, either the university or the Foundation. Completion date: no later than February 1, 2002.
- c. We concur. Review and approval of agreements with respect to the use of space on and off campus will be appropriately approved. Completion date: no later than February 1, 2002.
- d. We concur. Assertions made to the CPB regarding public meeting requirements will be corrected. Completion date: no later than February 1, 2002.

**6. Response to Actual and Potential Defalcations and Deficiencies**

- a. We concur. Our internal review of the activities of the former Director will continue, and any evidence of complicity will be dealt with appropriately. Completion date: no later than February 1, 2002.
- b. We concur. Senior administrators will also insist upon resuming a role in the cultivation and stewardship of major gifts. Completion date: no later than February 1, 2002.

**DAC:om**

**July 20, 2001**

THE CALIFORNIA STATE UNIVERSITY  
OFFICE OF THE CHANCELLOR

BAKERSFIELD

CHANNEL ISLANDS

July 26, 2001

CHICO

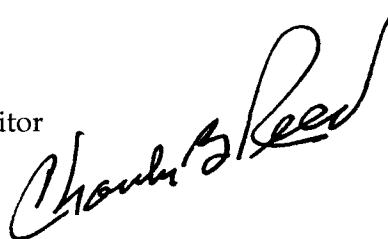
**MEMORANDUM**

DOMINGUEZ HILLS

FRESNO

TO: Larry Mandel  
University Auditor

FULLERTON

FROM: Charles B. Reed  
Chancellor


HAYWARD

HUMBOLDT

SUBJECT: Draft Final Report Number 01-93 on *Special Investigation*,  
Humboldt State University

LONG BEACH

LOS ANGELES

MARITIME ACADEMY

In response to your memorandum of July 26, 2001, I accept the response as submitted with the draft final report on *Special Investigation*, Humboldt State University.

MONTEREY BAY

NORTHRIDGE

CBR/ac

POMONA

Enclosure

SACRAMENTO

cc: Dr. Alistair W. McCrone, President

SAN BERNARDINO

SAN DIEGO

SAN FRANCISCO

SAN JOSE

SAN LUIS OBISPO

SAN MARCOS

SONOMA

STANISLAUS