

DEVELOPMENT

SAN JOSE STATE UNIVERSITY

**Report Number 95-12
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Audit

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THE CALIFORNIA STATE UNIVERSITY

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Abbreviations

CFAE	Council for Aid to Education
CSU	California State University
IRS	Internal Revenue Service
MLML	Moss Landing Marine Laboratories
SJSU	San Jose State University

INTRODUCTION

PURPOSE

Our overall audit objectives were to review: reliability, confidentiality and integrity of information; compliance with relevant federal and state law, Trustee policy and Chancellor's Office directives; effectiveness, efficiency and economy of operations; and attainment of established objectives and goals.

Within the overall audit objectives, specific goals included:

- ▶ to determine if internal controls provide adequate assurance that gifts are properly recorded and subject to reasonable accountability;
- ▶ to determine compliance with relevant tax laws regarding the handling of gifts;
- ▶ to determine if cash and negotiable items are adequately controlled and properly accounted for;
- ▶ to determine if non payroll operating expenditures are reasonable, comply with University policies, are properly authorized, and are adequately documented;
- ▶ to evaluate compliance with donor intentions;
- ▶ to determine if access to gift records is properly controlled with reasonable confidentiality of donor information;
- ▶ to verify that development activity is accurately reported; and
- ▶ to provide assurances that specific risks/concerns are addressed by reasonable mitigation measures.

SCOPE AND METHODOLOGY

In *Educational Fund Raising - Principles and Practices*, institutional advancement is described as a broad function of "all activities and programs undertaken by an institution to develop understanding and support from all its constituencies in order to achieve its goals in securing such resources as students, faculty and dollars" including, for example, alumni affairs, internal and external communications, government and public relations, fund-raising, and enrollment management. Educational fund-raising is characterized as only one important element of institutional advancement. The author indicates that the term "development" is frequently used interchangeably with "fund-raising." This usage was adopted for audit purposes and used throughout this report.

This book also establishes fund-raising as a less sophisticated process than development. According

to this model, some initial development activities (identification of prospects and cultivation of interest in the institution) need to be completed before the institution is ready for fund-raising. Other development activities are carried on after the gift is received to assure that the funds are used for the purpose intended (stewardship). Fund-raising is simply asking for the gift. Other distinguishing features are embodied in the following quotation:

Fund-raising is episodic; development is continuous. Fund-raising is focused on a particular objective or set of goals; development is a generic and long term commitment to the financial and physical growth of the institution.

Although terminology was used interchangeably, for purposes of this audit, development was considered in the broader concept indicated above - more than just asking for the gift but less than university advancement. For example, the alumni of the campus represent an important development resource, but alumni affairs was not emphasized. However, affiliated alumni organizations as separate 501(c)(3) corporations could be involved in fund-raising in addition to their membership program. The fund-raising component was included in the audit scope.

Most of the audit was focused in the central development function under the auspices of the campus vice president for university advancement. However, we also interviewed personnel and reviewed procedures related to fund-raising in three colleges (Business, Engineering and Science) as well as two foundations - the SJSU Foundation and Spartan Foundation.

The 1994/95 fiscal year was the primary period reviewed. We interviewed campus personnel and tested records pertaining to this period such as: cash receipts; bank deposits; non cash (property) gift acceptance and valuation documents; donor acknowledgments; financial ledgers; endowment investments; expenditure transactions; information data bases on prospects, donors, and donations; and inventory of contributed property.

Within university advancement, there were a number of different initiatives underway that had not matured or progressed to the point when, in our opinion, audit would be worthwhile. We did not pursue audit activity in these areas. Examples include the relatively new positions for major gifts and planned giving, capital campaign, evaluation of performance against a cohort of comparison institutions, and positioning of development officers within additional colleges/schools.

We have not performed any auditing procedures beyond the date of our report. Accordingly, our comments are based on our knowledge as of that date and should be read with that understanding. Since the purpose of our comments is to suggest areas for improvement, comments on favorable matters are not discussed.

BACKGROUND

A pivotal point in the maturation of the development function in the CSU occurred at the January 1991 meeting of the Board of Trustees. At this meeting and immediately thereafter, a series of actions were put into motion which initially called for implementation of comprehensive institutional advancement programs. Subsequently, the CSU contracted for help in evaluating institutional advancement activities with a consultant—Ketchum, Inc. which began work in March 1993. The consultant issued two reports in July 1993 and January 1994. Both reports were presented to the Board of Trustees in early 1994. In accepting these reports, certain goals were established so that, over time, the CSU would phase in a base of voluntary support summarized as 10/3/1—10 percent above net General Fund in private sector giving, 30% of the 10 percent in unrestricted operating funds, and 10% of the 10 percent in endowments. Net General Fund was described as excluding fees and other income.

Based on the above timing, 1993/94 was a base year for measurement of performance against systemwide fund-raising goals. In terms of the 10 percent goal, recent history for SJSU is recapped as follows:

Table 1
Voluntary Giving as a Percent of
Net General Fund

YEAR	NET GENERAL FUND *	VOLUNTARY GIVING	PERCENT
1990/91	\$ 122,349,197	\$ 3,947,498	3.23
1991/92	113,296,324	4,665,679	4.12
1992/93	100,736,840	8,183,741	8.12
1993/94	95,473,261	8,518,590	8.92
1994/95	98,668,812	7,060,580	7.16

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

On a systemwide basis, twelve campuses reported increased giving in 1994/95 but, overall, there was a decline of approximately 8.5 percent which was attributed in part to several outstanding 1993/94 gifts. The 1994/95 decline at SJSU was about twice the systemwide average. Nevertheless, in 1994/95, SJSU ranked the seventh highest among the CSU campuses in voluntary giving and ninth in terms of the percent of voluntary giving to net general fund appropriation.

The Chancellor's Office has collected special revenue statistics for the last two years—1993/94 and 1994/95 and presented the information to the Board of Trustees at their January 1996 meeting as a

supplemental report to voluntary giving. SJSU has reported special revenues in the following categories:

Table 2
Special Revenues

	1993/94	1994/95
Sponsorships	\$ 245,000	\$ 20,825
Multi-Year Pledges	1,250,000	345,257
Contracts & Grants	21,088,080	28,858,436
Bequests and Revocable Trusts	750,000	
Sub-Total	23,333,080	29,224,518
Endowment and Other Income	*	1,498,949
Total	\$ 23,333,080	\$ 30,723,467

* = Not reported in 1993/94

SJSU has a split in endowments mainly between the SJSU Foundation and campus trust measured on the basis of endowment market value as follows:

Table 3
Endowment Market Value as of 6/30/95

	Amount	Percent
SJSU Foundation	\$ 11,279,334	85
Campus Trust Fund	1,895,263	14
SJSU Alumni Association	156,263	1
TOTAL	\$ 13,330,860	100

Since 1986, SJSU has been using a database for donor record keeping called "Benefactor" which was purchased from Datatel Inc. This system is used by two other CSU campuses.

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

OPINION

We visited the San Jose State University campus from October 29, 1995 through January 19, 1996 and audited the structure in effect at that time.

In our opinion, there were reasonable internal controls in place and they were operating satisfactorily to assure that gifts are properly recorded, cash and negotiable gift instruments are properly controlled, donor intentions are followed, donor records are secure and kept confidential, and development activity is accurately reported. However, some additional attention is warranted in areas mentioned below in the executive summary including policy dissemination, reconciliation of donor records with accounting information, and control over gifts-in-kind.

EXECUTIVE SUMMARY

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

SYSTEM CONTROLS AND SECURITY

DISTRIBUTION OF DEVELOPMENT POLICY [8]

A significant amount of development policy was drafted but not formally distributed. There will be less risk of disparities among campus constituencies responsible for implementation and monitoring of development activities if these policies were finalized and formally distributed.

ACKNOWLEDGING AND RECEIPTING GIFTS [9]

Gifts are not acknowledged and receipted in accordance with current Title 5 requirements. Following current Title 5 requirements will enable the campus to assure that donors are properly acknowledged and that receipts are properly recorded.

RECONCILIATION OF GIFT AND ACCOUNTING RECORDS [10]

The Benefactor system was not reconciled with the accounting records of both the campus and the SJSU Foundation. A reconciliation would mitigate the risks of gifts being entered into the Benefactor system without a corresponding deposit, or gift deposits that do not get acknowledged or counted in gift totals.

"DRIVE TO VICTORY" FUND-RAISER [11]

Language in promotional literature and tickets for the "Drive to Victory" fund-raiser was confusing and could be construed as misrepresentation. Legal guidance should be circulated to ticket sellers and administrators to: avoid confusion regarding the donative portion of the cost; and mitigate the risk of running an illegal lottery.

DISASTER RECOVERY [12]

The plan for recovering from a Benefactor system malfunction had not been tested. A loss of donor records or long disruption in services could be avoided by periodic testing.

GIFTS-IN-KIND

ITEMIZATION OF GIFTS-IN-KIND ON THE COUNCIL FOR AID TO EDUCATION (CFAE) REPORT [13]

The Benefactor system did not accurately reconstruct gifts-in-kind summarized on the CFAE report. An itemized breakdown enhances the credibility and reliability of gifts-in-kind numbers and the CFAE report.

MOSS LANDING MARINE LABORATORIES (MLML) BOAT [14]

The campus did not receive credit for a MLML boat donated in 1994/95. Coordination of resources in the processing of gift paperwork will avoid any inconsistencies or oversights.

INVENTORY - GIFTED PROPERTY [15]

Property records on gifts were not accurate. Capturing a property tag number on the gift acceptance form provides additional assurances of proper accountability and stewardship.

DISPOSAL OF GIFTS [16]

The campus property inventory system did not adequately support the reporting responsibilities of the campus for gifts disposed of within two years of receipt.

ENDOWMENTS/TRUSTS/RESTRICTED GIFTS

FUND TRANSFERS [16]

Restricted donations were not made available to campus departments in a timely manner. Stewardship of restricted gifts will be improved by expediting fund transfers from the annual fund to department/program accounts.

UNREGISTERED CHARITIES [17]

Several college-based alumni associations and one affiliated group were not registered with the State Attorney General. The campus needs to assure that entities performing fund-raising activities or holding assets for charitable purposes are operating within the spirit of the law regarding registration and periodic reporting.

OBSERVATIONS, RECOMMENDATIONS, AND CAMPUS RESPONSES

SYSTEM CONTROLS AND SECURITY

DISTRIBUTION OF DEVELOPMENT POLICY

A significant amount of development policy was drafted but not formally distributed.

Mature systems typically have well-developed policies and procedures that are widely disseminated for communication of expectations to all constituents who share in the responsibility for implementation and compliance.

Several key development policies were presented during the audit as having the necessary approval by the campus president but not yet formalized and distributed. These documents included:

- ▶ Donor Data Collection and Privacy Policy;
- ▶ Major Campaign Policy;
- ▶ Policy for Establishment of Endowments; and
- ▶ Policy for Acceptance of Gifts.

The campus was also in the process of updating a policy on "Naming of Campus Facilities."

Other development related policy statements of the SJSU Foundation were either still in draft form or not distributed pending final design and formatting of a proposed policy manual.

In the absence of widespread policy dissemination, campus constituents who share in implementation and monitoring cannot be expected to be aware of expectations and requirements.

Recommendation 1

We recommend that the campus formalize and distribute development policies.

Campus Response

The campus acknowledges the need to distribute development policies to the campus in a timely manner. The following policies have been distributed as Presidential Directives:

- Donor Data Collection and Privacy Policy (PD: 95-3-R3)
- Major Campaign Policy (PD: 95-10)
- Establishment of Endowments (PD: 95-2-R3)
- Acceptance of Gifts (PD: 95-1-R3)
- Endowed Faculty Position (PD:97-02)

ACKNOWLEDGING AND RECEIPTING GIFTS

Gifts were not acknowledged and receipted in accordance with current Title 5 requirements.

Title 5, Section 42300 (a)(3)(D) of the California Administrative Code provides that donations of personal property other than an automobile, truck, or bus will be acknowledged in writing by the president with two copies of the acknowledgement sent to the Board of Trustees.

Title 5, Section 42301 prescribes the language to be used in acknowledging donations to the university and specifically requires the acknowledgements to be signed by the president of the campus.

The 1991 University Property Manual reaffirms Title 5 with the following language:

The Property Office can provide you with a Questionnaire - Gift Acceptance Form to initiate action on behalf of the university. To initiate gift acceptance, send the original copy of this form to the Property Office. The Property Office will contact the university departments that may be affected and, at the conclusion of this process, will submit a Gift Acceptance Form through the Development Office for approval by the President. Once signed by the President, the form is sent to the donor and copies mailed to the Chancellor's Office. At that point, the gift becomes university property.

The version of the "Questionnaire: Gift Equipment or Supplies" form referenced in the Property Manual doesn't have a signature space for the president. The form suggests that this authorization has been delegated to the college dean level for everything except computer equipment which requires the additional signature of the director of information systems and computing.

Multiple gift acknowledgment letters can be initiated by different levels such as faculty members, department chairs, college deans, and possibly the provost. For non cash donations, an official letter is generated from the Benefactor system for signature by either the president (on gifts over \$10,000) or the vice president for university advancement. For cash contributions, the donor receives a computer generated receipt from the Benefactor system. Documentation on individual gifts is not forwarded to the Chancellor's Office.

Recommendation 2

We recommend that the campus acknowledge and receipt for gifts in accordance with current Title 5 requirements.

Campus Response

While the language of Title 5, Section 42300 (a) (3) (D) and section 42301 would appear to require multiple copies of gift acceptances signed by the campus president, this appears to have been written in an earlier period when ongoing development efforts had not yet been institutionalized. The burden to a contemporary president would run an additional 13,000-20,000 signings on a campus such as San Jose State University and double that number in multiple copies sent to the Chancellor's Office.

While this might have been prudent at one time, much stronger fiscal controls are imposed by having the acknowledging administrator responsible for a gift being made. Electronic technologies make it possible to provide the Chancellor's Office with a copy of any gift acceptance without the burden of maintaining the copies at the Chancellor's Office. The campus respectfully requests that the Chancellor's Office seek relief in law from this burdensome and obsolete regulation.

RECONCILIATION OF GIFT AND ACCOUNTING RECORDS

The Benefactor system was not reconciled with the accounting records of both the campus and the SJSU Foundation. In addition, there is no reconciliation activity for gifts which enter the Benefactor system from non SJSU Foundation sources - such as campus cashiering nor with other donor databases across campus such as the PACIOLAN system in athletics.

On a monthly basis, the SJSU Foundation sent university advancement a listing of deposits and adjustments to reflect what had been recorded in their system for contributions. Beginning in January 1995, university advancement started a reconciliation process. However, the results of the reconciliation were not shared with the SJSU Foundation to balance the books.

University advancement had undertaken the reconciliation with SJSU Foundation records without the benefit of accounting expertise. Without a proper reconciliation there exists a risk of gifts being entered into the Benefactor system without a corresponding deposit while gift deposits may not be acknowledged or counted in gift totals.

Recommendation 3

We recommend that the campus reconcile gift and accounting records on a regular basis for both the campus and the SJSU Foundation.

Campus Response

Advancement will continue its reconciliation with Foundation records. It will notify Foundation in writing of any reconciling items. The Foundation will make any appropriate adjustments to its records and provide documentation as needed to advancement. Advancement will then make any appropriate adjustments to its records.

"DRIVE TO VICTORY" FUND-RAISER

Language in promotional literature and tickets for the "Drive to Victory" fund-raiser was confusing and could be construed as misrepresentation to participants.

The California Penal Code prohibits lotteries defined in Section 319 as:

A lottery is any scheme for the disposal or distribution of property by chance, among persons who have paid or promised to pay any valuable consideration for the chance of obtaining such property or a portion of it, or for any share or any interest in such property, upon any agreement, understanding, or expectation that it is to be distributed or disposed of by lot or chance, whether called a lottery, raffle, or gift enterprise, or by whatever name the same may be known.

In applying this definition, General Counsel has indicated that the legal guidance exists in two relevant opinions of the State Attorney General—Opinion No. CR 77-1 dated 4/8/77 and Opinion No. 85-901 dated 10/11/85.

The Council for Aid to Education (CFAE) categorizes raffle proceeds as non-gift revenue similar to advertisements and sale of memorabilia. This definition precludes the counting of raffle proceeds as voluntary support for annual reporting purposes.

Internal Revenue Service regulations and publications also prohibit deductions as a charitable contribution for amounts paid to buy raffle or lottery tickets or play games of chance. IRS Publication 526 on Charitable Contributions specifically states:

You cannot deduct contributions that you give to qualified organizations if, as a result, you receive or expect to receive a financial or economic benefit equal to the contribution. These include: . . . Costs of raffles, bingo, lottery, etc. - You cannot deduct as a charitable contribution amounts you pay to buy raffle or lottery tickets or to play bingo or other games of chance.

The raffle tickets to this event describe the amount solicited as a donation. This could be confusing to participants and cause potential donor relations problems if the IRS were to subsequently disallow a donor's charitable contribution.

Recommendation 4

We recommend that the campus circulate the two opinions of the State Attorney General on illegal lotteries to ticket sellers and administrators involved in the "Drive to Victory" fund-raiser and any similar activities.

Campus Response

The campus strongly endorses Recommendation 4. A copy of the cited opinions has been sent to all members of the management team and academic chairs with a cover memorandum.

Recommendation 5

We recommend that the campus restate the terminology used in the promotional literature and tickets for the "Drive to Victory" fund-raiser to avoid use of the term donation.

Campus Response

The campus has communicated this recommendation to the athletics advancement staff and the president of the Spartan Foundation. They have complied with the recommendation for the 1997 "Drive to Victory".

DISASTER RECOVERY

The plan for recovering from a Benefactor system malfunction had not been tested.

The campus records system for donors and development information (called Benefactor) runs on an IBM RISC 6000, Model 390 computer with a UNIX operating system. This machine is physically located in the campus computer center.

The State recognizes the importance of information assets and the need for disaster planning and periodic testing of the recovery process for critical computer applications in State Administrative Manual Section 4843.

Although the campus had a process for backing up Benefactor information, the recovery of the system has not been tested using the backed up medium. The testing process was not emphasized because a similar system was **recently** restored and the system operator indicated that this same result could be repeated for Benefactor. Without testing the disaster recovery system, the campus remains at risk of loss of information on donors and donations

Recommendation 6

We recommend that the campus test the disaster recovery plan for the Benefactor record keeping system.

Campus Response

The disaster recovery system was successfully tested by John Siroka, Specialist in the Computer Operating Systems office, in the fall of 1996.

GIFTS-IN-KIND

ITEMIZATION OF GIFTS-IN-KIND ON THE COUNCIL FOR AID TO EDUCATION (CFAE) REPORT

The Benefactor system did not accurately reconstruct gifts-in-kind summarized on the CFAE report. In Benefactor printouts generated on different dates, the 1994/95 gifts-in-kind numbers fluctuated slightly as follows:

Table 4
Gift-in-Kind Differences

DATE	GIFTS	AMOUNT
11/15/95	51	\$1,244,373
12/12/95	49	1,234,373
DIFFERENCE	2	\$10,000

The earlier 11/15/95 Benefactor printout contained two separate \$5,000 gifts that subsequently dropped off—a cash gift from Ford Motor Co. and a gift of boarding stairs for a Boeing 727 from American Airlines.

The cash gift was voided as a probable error when the paperwork couldn't be located. We could not determine why the system didn't consistently report the boarding stairs that was a legitimate transaction.

The total for 1994/95 gifts-in-kind which could be itemized by the Benefactor system was 50 items valued at \$ 1,239,373 (the 12/12/95 totals plus the American Airlines boarding stairs).

Statistics reported by the campus were extracted from summaries generated by the Benefactor program using the features provided by the vendor—Datatel, Inc. One possible explanation for the variations is that this program is flawed. The campus participates in a user support group with other Benefactor clients and indicated that the possibility of a programming problem could be brought to the attention of the group as a starting point in understanding the different numbers being generated.

Recommendation 7

We recommend that the campus:

- a. pursue an explanation of why the Benefactor program does not accurately reconstruct reported gifts-in-kind totals; and
- b. on an interim basis (until the matter is resolved), reconcile the Benefactor totals generated for reporting purposes to an itemized list of gifts-in-kind before filing the annual CFAE.

Campus Response

The campus has actively pursued the potential flaw in Benefactor's programming for gifts-in-kind totals.

The campus employed a manual back-up list to reconcile the benefactor tables for the 1995-96 CAE reports (formerly known as CFAE)

MOSS LANDING MARINE LABORATORIES (MLML) BOAT

The campus did not receive credit for a MLML boat donated in 1994/95.

MLML is a consortium of six CSU campuses. SJSU is the host campus for administering MLML and is responsible for approving and recording MLML gifts.

In 1994/95, a boat valued at \$400,000 was donated to MLML. This donation was not formally accepted by the campus. The boat was not recorded in the Benefactor system and accordingly was not accounted for as a gift. The SJSU Foundation provided notification of the gift to university advancement on 9/1/94. An acknowledgment to the donor was made by the MLML Executive Director on 1/11/95. Since the boat was not recorded in Benefactor, a Title 5, Section 42301 notice was not generated for signature by the campus president.

A reasonable control for assuring that major property gifts are properly recorded is comparison of the audited financial statements of the SJSU Foundation with the Benefactor system and the CFAE report totals. The audited statements are due approximately 10/1 each year which makes them available immediately prior to the due date for the annual CFAE report of voluntary giving.

Recommendation 8

We recommend that the campus reconcile the audited financial statements of the campus and all affiliated fund-raising organizations to Benefactor generated totals before filing the annual CFAE report.

Campus Response

Advancement will reconcile the audited financial statements of the University and its auxiliaries to Benefactor-generated totals before filing the CFAE report, if the financials are available. (This is not always the case. For example, fieldwork for the University's 1995-96 audit did not start until mid-October.) If audited financials are not available, Advancement will use unaudited amounts instead. Foundation will also develop a procedure to notify Advancements of gifts-in-kind when received.

INVENTORY - GIFTED PROPERTY

Property records on gifts were not accurate.

Stewardship of gifted property is considered more a responsibility of the receiving department and property office than university advancement.

Recent changes in property accountability have raised the threshold for inventory record keeping from \$500 to \$5,000 (CSU Coded memorandum AD 96-05 and State Management Memo 95-22) with a lower level for theft sensitive items changing from \$50 to \$500 (CSU Executive Order 649).

An audit test of five transactions involving property donated prior to the increase in accountability thresholds indicated that none of the items were carried on the campus property inventory. For one transaction involving computer equipment, the items were assigned property tag numbers but were not listed on the property inventory. At least one of these items (the network server) would exceed the \$5,000 threshold requiring inventory accountability.

The campus is undergoing a transition in responsibility for property accountability between two offices. The combination of this changeover and implementation of the new inventory requirements contributed to the lack of accountability for gifted property items.

Recommendation 9

We recommend that the campus revise the "Questionnaire: Gift Equipment of Supplies" form to include property tag numbers and a signature line attesting that gifts have been added to the property inventory.

Campus Response

University Property and Advancement will revise the "Questionnaire: Gift Equipment or Supplies" form to include property tag numbers and a Property Department Sign-off.

Comments: Implementation of this recommendation will ensure that property correctly records in its system gifts-in-kind over \$5,000 formally accepted by the University. However, it will not ensure that campus departments report all gifts received to Advancement or Property. Observations by the

University and Foundation Property departments indicate that a substantial amount of gifted property is not captured on any system. We are continuing to work on this issue.

DISPOSAL OF GIFTS

The campus property inventory system does not adequately support the reporting responsibilities of the campus for gifts disposed of within two years of receipt.

The IRS requires the University to notify the service of all gifts disposed of within two years of receipt when the donor claimed a value exceeding \$5,000. However, because the campus inventory system does not produce reliable information concerning disposal dates, we could not confirm compliance with the IRS regulation.

Recommendation 10

We recommend that the campus shore up the system for tracking property gifts for the two years following the date of acquisition.

Campus Response

The University has already reassigned responsibility for the Property Department to the Director of Accounting. In the past year, property has thoroughly reviewed the property records and has resumed the ongoing physical inventory that had been discontinued several years before due to budget cuts. We believe that these steps will result in accurate tracking of gifts over \$5,000.

ENDOWMENTS/TRUSTS/RESTRICTED GIFTS

FUND TRANSFERS

Restricted donations were not made available to department/program accounts in a timely manner.

The campus annual fund provides donors with the opportunity to restrict gifts to a particular campus source such as a school, department, program, or scholarship. The campus instructs annual fund contributors to make all checks payable to the SJSU Foundation. All annual fund donations are deposited to foundation A/C# 34-2002-0050 and then subsequently transferred—first to a college level account and ultimately to the department/program account. For the fourth quarter of 1994/95, it took six to ten months to distribute the funds from the annual fund account to the college accounts.

The foundation delayed the distribution until there were sufficient funds available in the annual fund account. A more timely distribution would make the funds available to the programs sooner.

Recommendation 11

We recommend that the foundation expedite the transfer process and move restricted funds to

restricted accounts as soon as possible after receipt.

Campus Response

A thorough restructuring of the Annual Fund was undertaken from October 1, 1996 - January 31, 1997 to improve pledge/gift acquisition and fulfillment. Restricted gifts will be moved to the appropriate accounts on a monthly basis beginning July 1, 1997.

UNREGISTERED CHARITIES

Several college-based alumni associations and one affiliated group were not registered with the State Attorney General.

Government Code Section 12580 et seq.—the Uniform Supervision of Trustees for Charitable Purposes Act—addresses registration and periodic reporting requirements for charitable corporations and their trustees under the auspices of the State Attorney General. A charitable corporation is defined as "any nonprofit corporation organized for charitable or eleemosynary purposes." The state is exempted from these requirements but they apply to auxiliaries and other affiliated organizations that are separate 501(c)(3) corporations.

Implementing regulations of the Attorney General in their publication "Guide for Charities" indicate in part that "California common law defines 'charitable purpose' very broadly to include advancement of education or other purposes which are beneficial to the community."

Instructions on the State Attorney General's form CT-2 state that registrants must file an annual report unless gross revenue or total assets are less than \$25,000. The smaller registrants only report once every ten years. CT-2 reports are due by the fifteenth day of the fifth month following the close of the registrant's accounting period. Non filers are subject to loss of tax exemption and assessment of a minimum fine of \$800 plus interest.

Our review of registrants with the State Attorney General indicates that there are eleven organizations affiliated with SJSU registered as follows:

Table 5
SJSU Registrants with the
State Attorney General

TRUST #	NAME
1800	Spartan Foundation
3514	San Jose State University Foundation
10394	Associated Students
10518	Spartan Shops, Inc.
11067	San Jose State College Faculty Club
11250	San Jose State University Alumni Association
47162	Art Alumni Association
48895	School of Applied Arts & Sciences Alumni Association
54215	School of Social Science Alumni Association
54601	School of Education Alumni Association
59901	San Jose State Judo Foundation, Inc.

Omissions from the above list are:

- ▶ the alumni associations in four or five of the eight colleges depending on whether the Art Alumni Association is the only alumni group for the College of Humanities and The Arts; and
- ▶ one support group involved in fund-raising, i.e., the Society of Archimedes in the College of Science.

Recommendation 12

We recommend that the campus review the registration and reporting requirements of Government Code Section 12580 et seq. (and the implementing regulations of the State Attorney General) with all affiliated fund-raising organizations.

Campus Response

The Director of Alumni Affairs is currently working with each of the college based alumni associations listed as non-registrants in the Development Office to see that all filing requirements are complied with and future filings are monitored. The five college alumni associations identified as not registered were found to all be registered with the Secretary of State. The college based alumni groups do not all use identical nomenclature which may have caused the confusion. [Copies of the documentation are attached.]

**APPENDIX A:
PERSONNEL CONTACTED**

<u>Name</u>	<u>Title</u>
Robert L. Caret	President
Laurie A. Antognini	Advancement Services Manager
Shawn Bibb	Assistant Controller
Jamie Carr	Development Assistant
George Carter	Planned Giving Officer
Janet Elliot	Scholarship Coordinator
Jeff Gray	Assistant Athletic Director, Fund Development
Barbara Green	Controller
Kevin W. Grossman	Annual Giving Manager
James F. Hill	Director of Logistical Services
Roxanne Hood	Administrative Secretary
Don Kirk	Dean, College of Engineering
Ginny Lebacqz	Executive Director, College of Business Alumni Association
William G. Petchauer	Director of Business and Finance - SJSU Foundation
Elizabeth A. Pugliese	Director of Alumni Affairs
Janet C. Redding	Vice President for University Advancement
Virgina Rivera	Major Gifts Officer
Donald R. Ryan	Financial Aid Director
Paul Siegel	Accounting Officer
Daniel Soriano	Mail Room Supervisor/Property Clerk
John A. Sroka	Staff Systems Software Specialist
Alex A. Sydnor	Director of Development
John Troyan	Accounting Manager - SJSU Foundation
Lauria R. Urbanejo	Director, Corporate and Community Relations - College of Science