

**DEVELOPMENT**

**SAN DIEGO STATE UNIVERSITY**

**Report Number 95-15  
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### ABBREVIATIONS

- CASE Council for Advancement and Support of Education
- CFAE Council for Aid to Education
- CSU California State University
- SDSU San Diego State University
- VSE Voluntary Support of Education - Annual Survey by CFAE



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## INTRODUCTION

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### 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, some 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.

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### 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 relations and development. However, we also interviewed personnel and reviewed procedures related to fund-raising in three colleges (Business, Education, and Health and Human Services) as well as three affiliated organizations—the SDSU Foundation, the KPBS public radio/television station, and the Aztec Athletic Foundation.

The 1994/95 fiscal year was the primary period reviewed. We interviewed campus and foundation 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 relations and development, there were a number of different initiatives underway that have not matured or progressed to the point when, in our opinion, audit would be worthwhile. We did not pursue audit activity in these areas.

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 percent of the 10 percent in unrestricted operating funds, and 10 percent of the 10 percent in endowments.

Based on the above timing, 1993/94 could be considered somewhat of a base year for measurement of performance against systemwide fund raising goals. In terms of the General Fund standard, recent history for San Diego is recapped as follows:

**Table 1**  
Voluntary Giving as a Percent of  
Net General Fund

YEAR	NET GENERAL FUND	VOLUNTARY GIVING	PERCENT
1990/91	\$ 147,824,118	\$ 13,887,998	9.39
1991/92	135,404,891	14,758,327	10.90
1992/93	120,855,730	15,564,727	12.88
1993/94	115,968,778	16,008,520	13.80
1994/95	118,723,570	17,340,441	14.61

On a systemwide basis, twelve campuses reported increased giving in 1994/95 but, overall, there was a decline of approximately 8.5 percent attributed in part to several outstanding 1993/94 gifts. In 1994/95, San Diego ranked second among the campuses in voluntary giving and third 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. San Diego has reported special revenues in the following categories:

**Table 2**  
Special Revenues

	1993/94	1994/95
Sponsorships	\$ 380,000	\$ 380,000
Bequests and Revocable Trusts	571,374	6,300,853
Multi-Year Pledges	1,182,093	1,541,333
Contracts/Grants	56,132,208	53,591,356
Endowment and Other Income		1,549,506
Total	\$ 58,265,675	\$ 63,363,048

The annual VSE Survey is a consolidation of the campus and affiliated fund-raising organizations. The component pieces at SDSU are as follows:

**Table 3**  
Breakdown of 1994/95 Voluntary Support

	Total	Percent
KPBS FM/TV Station	\$ 6,970,628	40%
University Relations and Development	6,497,646	37%
Non Governmental Grants and Contracts	3,020,472	17%
Athletics	851,695	5%
Total	\$ 17,340,441	100%

San Diego is in the process of significant conversions in record keeping systems for donors/donations. University Relations and Development is converting from the XRM alumni/development module of SRN Harvest to BSR Advance; the planned conversion is January 1997. SDSU was one of six CSU campuses that participated in a systemwide procurement process for BSR Advance. Other major systems for recording donations and donor information at SDSU include PACIOLAN for athletics and the ACCESS Enterprise (moved from MEMTRAC approximately 1/96) at the public radio/television station KPBS. None of the existing systems are presently integrated with one another.

There are plans on the part of the campus to do certain things differently under the new procedures and systems. To the extent possible, the report has been structured to allow the campus the flexibility to pursue these changes with specific improvements in mind such as the handling of athletic donations. The most recent plan for implementation of BSR Advance was to convert the SRN Harvest records and then try to incorporate athletics based on the understanding that PACIOLAN is compatible with BSR Advance. The plan for KPBS was to keep them separate because of so many unique nuances.

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## OPINION

We visited the San Diego State University campus from March 11 through June 12, 1996, and audited the structure in effect at that time.

In our opinion, internal controls were adequate to assure that gifts were properly recorded, cash and negotiable gift instruments were properly controlled, donor intentions were followed, and donor records were secure and kept confidential. Reports on development activity for 1994/95 were overstated by premiums provided by KBPS to subscribers. Additional attention is warranted in areas mentioned in the executive summary below.

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## **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 satisfactory. Numbers in brackets [ ] refer to page numbers in the report.

### **SYSTEM CONTROLS**

#### **GIFT DEPOSITS [6]**

San Diego State University (SDSU) directs all gift deposits to the SDSU Foundation even though the gift may be designated for receipt by the campus. Depositing donation checks to the account of the payee reduces the risk that the campus may not meet donor intentions.

#### **GIFT ACKNOWLEDGMENTS [7]**

Gifts were not acknowledged and receipted in accordance with current Title 5 requirements. Properly acknowledging donors reduces the possibility of misunderstandings occurring.

#### **KPBS RECONCILIATION'S [8]**

The gift and accounting records for KPBS were not reconciled. The timely reconciliation of gifts/donations recorded in the Enterprise database to the foundation accounting records reduces the risk of errors going undetected for long periods.

### **GIFTS-IN-KIND**

#### **VALUATION [8]**

Campus records do not support the basis for gift-in-kind valuations. Retaining supporting documentation for gifts-in-kind valuation methodology reduces the possibility of overstating the campus inventory value and inaccurately reporting the financial statements.

#### **KBPS PREMIUMS [9]**

The value of KPBS subscriber premiums (quid pro quo) was not excluded from the annual CFAE report. Use of the CFAE reporting methodology will allow the station to conform with national standards in the declaration of voluntary support to the campus.

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

### **SYSTEM CONTROLS**

#### **GIFT DEPOSITS**

San Diego State University (SDSU) directs all gift deposits to the SDSU Foundation even though the gift may be designated for receipt by the campus.

SDSU and the SDSU Foundation are empowered to engage in fund-raising activities through separate provisions in the Education Code. The campus receives its authority through delegations from the Trustees made pursuant to Section 89720. The foundation is authorized as an auxiliary organization with an approved fund-raising function through Section 89901(d)(1). These two references establish donor options—a contribution can be made to the campus or directly to the foundation.

Donations to the campus must be deposited in accordance with Education Code Section 89721 which states:

each campus of the California State University shall deposit into and maintain in local trust accounts, trust accounts established pursuant to Government Code Section 16305 to 16305.7, or in the CSU Trust Fund moneys received in connection with gifts, bequests, devises, and donations.

Current SDSU policy indicates that:

All gifts (cash, gifts-in-kind, equipment, real property, etc.) to SDSU or any of its programs or areas must be made payable to the SDSU Foundation and be officially receipted through SDSU's University Advancement Services in the division of University Relations and Development.

Automatically depositing all donation checks to the SDSU Foundation increases the risk that the campus may not meet donor intentions. Such a system does not comply with the framework established in the Education Code for permitting donations to the campus/trustees and depositing any such checks in trust accounts/funds recorded on the campus books.

#### **Recommendation 1**

We recommend that donations made payable to the university be deposited into an applicable on-campus trust account.

#### **Campus Response**

In accordance with California Code of Regulations, Title 5, Section 42500, Education Code Section 89901 and the policies and procedures of San Diego State University, it is the purpose of the Foundation, at the discretion of and on behalf of the campus, to receive gifts, property

and funds to be used for the benefit of the campus in accordance with the donor's intent. Centralizing the management and reporting of all donations under the Foundation improves oversight and consistent processing. The University's division of University Relations and Development is responsible for acknowledging all donations and such acknowledgment includes sending the donor a receipt which currently indicates the Foundation's tax identification number and other information required by IRS regulations.

The campus, working with the Foundation, will: (1) revise the receipt, as appropriate, to more clearly indicate that the gift has been received by SDSU Foundation on behalf of the University; and (2) continue to fully inform donors that their donation is to the Foundation on behalf of the University and request that checks be made payable to the Foundation. The University will, of course, accommodate donors who object to the Foundation as recipient and will deposit the donation to trust in accordance with Education Code Section 89721.

## **GIFT ACKNOWLEDGMENTS**

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

All cash gifts of \$1,000 or more were acknowledged in a letter signed by the campus president. Acknowledgment responsibility for most non-cash gifts below \$1,000 was delegated by the president to the vice president for university relations and development.

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 using certain prescribed language.

Although checks were made payable to the foundation, these transactions were a contribution to the campus and thus subject to Title V because:

- campus employees solicit the donations in the name of the campus;
- the campus issues tax receipts under the campus name and logo and with the signature of a campus official;
- the campus bears the cost for donor receipting and recordkeeping; and
- the foundation does not have any discretion in use of funds on deposit in campus program accounts.

In addition to one or more acknowledgment letters, all donors also receive a machine generated tax receipt which is based predominantly on the campus logo and letterhead and signed by a campus official using the tax exempt identification number of the SDSU Foundation.

Inconsistencies can occur when acknowledgment letters do not substantially contain the language stated in the Title 5 requirement.

## **Recommendation 2**

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

**Campus Response**

Section 42310 of Title 5, which contains the prescribed acknowledgment language referred to in the audit report, was modified for content more than 24 years ago. We believe the language is archaic and inconsistent with a professional and effective approach towards fund-raising within the CSU. It stresses bureaucracy rather than professionalism and gratitude. Finally, the Code fails to address tax acknowledgment issues. Therefore, the campus recommends that the University Auditor propose to the Board of Trustees that the California Code of Regulations be revised.

**KPBS RECONCILIATIONS**

The gift and accounting records for KPBS were not reconciled.

The accounting records for the public service radio/television station KPBS are maintained by the SDSU Foundation. KPBS records gifts in a donor record keeping system entitled "Enterprise" from the vendor Access International. Cumulative amounts in the Enterprise system reflecting donations which have been acknowledged/receipted were not reconciled with the cash and property actually received and recorded by the foundation.

SAM Section 7900 requires a reconciliation to properly verify accounting records.

Without reconciling records, there is a risk that any loss of funds would go undetected for an extended period of time.

**Recommendation 3**

We recommend that KPBS gift documents and SDSU Foundation accounting records be reconciled on a regular basis.

**Campus Response**

We concur and have already complied. The auditor's site visit occurred when KPBS was in the process of transitioning from biannual reconciliations, and from an older gift accounting system to a new one. Reconciliations are now completed at each month-end, and show an extremely low variance rate.

**GIFTS-IN-KIND**

**VALUATION**

Campus records did not support the basis for gift-in-kind valuations.

We reviewed three gifts above \$5,000 and two gifts below \$5,000. The campus was unable to provide us with supporting documentation indicating the methodology used to determine gift value.

Entries into campus accounting/property records should always be supported by proper documentation.

Not retaining documentation from donors in support of the valuation for gifts-in-kind could result in the overstatement of the campus inventory and the inaccurate reporting of the financial statements.

**Recommendation 4**

We recommend that the campus generate and retain complete documentation for the valuation methodology of gifts-in-kind.

**Campus Response**

We concur and will comply. Procedures have been revised to ensure valuation documentation is retained and accessible.

**KPBS PREMIUMS**

The value of KPBS subscriber premiums (quid pro quo gifts) was not excluded from the annual CFAE report.

The IRS defines a quid pro quo gift as “a payment made partly as a contribution and partly in consideration for goods and services provided to the payor by the donee organization.” The value of the benefits, or “premiums,” the donor receives is a key factor in determining the amount of the actual gift.

KPBS does not account for quid pro quo gifts when funds are deposited to the SDSU Foundation. The full amount of the check or credit card transaction is reflected as a gift, is coded as a gift, and deposited accordingly.

Premiums are presently handled in accordance with the station’s emphasis on reporting standards of the Center for Public Broadcasting. The CFAE Report is constructed using different standards which the station did not heretofore understand.

By using the reporting standards of the Center for Public Broadcasting rather than those from CFAE, the station has overstated the amount of voluntary support to the campus.

**Recommendation 5**

We recommend that KPBS exclude subscriber premiums in counting gifts for purposes of the annual CFAE Report.

**Campus Response**

We will study the issue. The issue of whether the subscriber premiums are “de minimus” or “immaterial” has not been evaluated. It remains to be determined whether subscriber premiums are of an amount sufficient to justify the costs of collecting and reporting such information. Furthermore, it appears to the campus that there may be inconsistencies between treatments under Internal Revenue Service Requirements and under Generally Accepted Accounting Standards. Finally, any change in this area should come as the campus attempts to improve consistency of gift reporting to various internal and external entities. The Foundation, KPBS and University Relations and Development will mutually address the issue.

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## **APPENDIX A: PERSONNEL CONTACTED**

### **Campus**

Thomas B. Day	President
Harry Albers	Vice President, University Relations and Development
Chris Audette	Development Officer, College of Business Administration
Barbara Barrow	Director of Alumni/Annual Fund
Keith Benton	Director of University Advancement Services
Mary Ruth Carleton	Development Officer, College of Health and Human Services
Christie Chaney	Development Coordinator, College of Business Administration
Leslie Chase	Financial Reporting Administrator
Christa Christian	Gifts Manager - University Advancement Services
Ellene Gibbs	Director, Internal Review & Business Information Systems
Denise Gove	Property Clerk - Material Management
Tom Gutenberger	Development Officer, College of Education
Myrna Hall	Director of Development and Special Gifts
Jim Herrick	Associate Athletic Director, External Affairs
Ken Perry	Director, Financial Management
D. Timothy Poisson	Assistant Director of Annual Giving

### **SDSU Foundation**

Robert Benshoff	Associate General Manager for Financial Management
Patti Kastner	Accounting Manager
Gladys Steagall	Associate Director - Campus Programs
Frank Sweeney	Director of Financial Management

### **KPBS**

Horst Bruenjes	Associate General Manager, Administration and Finance
David Clark	Director of Membership
Doug Myrland	General Manager