

DEVELOPMENT

**CALIFORNIA STATE UNIVERSITY,
SACRAMENTO**

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ABBREVIATIONS

CASE	Council for Advancement and Support of Education
CFAE	Council for Aid to Education
CSU	California State University
CSUS	California State University Sacramento
IRS	Internal Revenue Service
SAM	State Administrative Manual

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 were 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 were adequately controlled and properly accounted for;
- ▶ to determine if nonpayroll operating expenditures were reasonable, complied with University policies, were properly authorized, and were adequately documented;
- ▶ to evaluate compliance with donor intentions;
- ▶ to determine if access to gift records was properly controlled with reasonable confidentiality of donor information;
- ▶ to verify that development activity was accurately reported; and
- ▶ to provide assurances that specific risks/concerns were 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 affairs. However, we also interviewed personnel and reviewed procedures related to fund-raising in four schools (Arts and Sciences, Education, Health and Human Services, Engineering) as well as the Alumni Association, Associated Students, Aquatics Center, Athletics Department, CSUS Foundation, CSUS Trust Fund, and CSUS Hornet 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; noncash (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 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. Examples include the relatively new area 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 Board of Trustees meeting. 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. 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 California State University, Sacramento is recapped as follows:

Table 1
Voluntary Giving as a Percent of
Net General Fund

YEAR	*NET GENERAL FUND	VOLUNTARY GIVING	PERCENT
1990/91	\$ 108,691,617	\$ 5,030,767	4.63
1991/92	100,490,592	4,009,810	3.99
1992/93	92,218,699	8,623,419	9.35
1993/94	87,632,112	6,984,144	7.97
1994-95	90,019,587	5,574,089	6.19

* = As printed in the Final Budget at the beginning of each respective 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 attributed in part to several outstanding 1993/94 gifts. In 1993/94, California State University, Sacramento was ranked tenth among the campuses in voluntary giving and tenth 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. CSU Sacramento has reported special revenues in the following categories:

Table 2
Special Revenues

	1993-94	1994-95
Sponsorships	\$ 260,336	\$ 259,668
Multi-year Pledges	471,086	13,937
Grants	25,410,119	21,951,271
Bequests and Revocable Trusts	840,864	1,375,000
Endowments and Other Income	*	753,899
Total	\$ 26,982,405	\$ 24,353,795

* = Not reported in 1993-94

The market value of all endowments and similar funds at the campus as of June 30, 1995 was reported as \$4,809,941.

OPINION

We visited California State University, Sacramento from August 19, 1996 to September 20, 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, and donor records are secure and kept confidential. However, some additional attention is warranted in areas mentioned below in the executive summary including: acknowledgment and receipting of gifts, gifts processing and annual reporting of contributions, written policies and procedures, and endowment market value reporting.

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

CAMPUS POLICY MANUAL [6]

The University Affairs Office had not distributed a comprehensive manual of policies and procedures to all development officers. To assure consistency in practices of data reporting, gift acceptance and valuation, and gift accountability, a manual of policies and procedures should be distributed to all staff engaged in fund raising activity.

AUXILIARY POLICY MANUALS [6]

The Associated Students Inc. (ASI) and radio station KXPR/KXJZ did not have written policies and procedures for soliciting, accepting, recording, and acknowledging gifts and contributions. Establishing and distributing written policies and procedures to appropriate staff effectively communicates fund-raising and accountability procedures.

ACKNOWLEDGING GIFTS [7]

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

GIFT DEPOSITS [8]

Radio station membership deposits were not made in the most timely manner. Depositing funds more frequently reduces the potential for loss from mishandling and misuse of funds.

GIFT ACCEPTANCE FORMS [8]

Gift acceptance forms for contributions to the ASI/Aquatic Center were not being prepared in a timely manner. Establishing procedures to assure timely preparation of gift acceptance forms increases accountability in the recording and tagging of gifted property and decreases the possibility of property loss.

MANAGEMENT FEE [9]

Donors were not notified of the five percent management fee assessed against selected restricted gifts. Notifying donors in writing of the management fee reduces the possibility of misunderstandings in the use of gift funds.

REPORTING OF GIFT DATA

FOUNDATION SUPPORT OF THE CAMPUS [10]

The campus misclassified support from the CSUS Foundation, totaling \$887,692, as gifts. Properly reporting gift information assures that the campus will receive appropriate credit for fund-raising efforts and gifts received.

ENDOWMENTS [11]

The campus did not report endowment funds at market value as requested on the 1994-95 Council For Aid to Education (CFAE) report of voluntary support. Properly reporting endowment information assures that the campus will receive appropriate credit for fund-raising efforts and gifts received.

OBSERVATIONS, RECOMMENDATIONS, AND CAMPUS RESPONSES

SYSTEM CONTROLS AND SECURITY

CAMPUS POLICY MANUAL

The University Affairs Office had not distributed a comprehensive manual of policies and procedures to all staff engaged in fund raising activities. Newly hired development directors expressed uncertainty about having a complete file of all issued policy and procedure statements.

SAM Section 20003 states that the elements of a satisfactory system of internal accounting and administrative control, shall include an established system of practices to be followed in the performance of duties and functions in each of the state agencies. It further states that symptoms of control deficiencies include not currently maintained or nonexistent policy and procedural/operational manuals.

We found policy and procedure statements issued on numerous fund-raising subjects. However, they lacked arrangement in a comprehensively arranged format. The vice president for university affairs stated that the development effort at the campus was in its early stages and the focus was on development activity.

By not distributing a comprehensive manual of policies and procedures to guide development staff in the practices and standards of fund-raising, the potential for inconsistencies in data reporting, gift acceptance and valuation, and gift accountability increases.

Recommendation 1

We recommend that the University Affairs office provide comprehensive manuals of policies and procedures to all staff engaged in fund-raising activity.

Campus Response

The campus concurs with the need for all personnel involved with fund raising to be aware of appropriate policies and procedures. As noted, we have documented the pertinent policies and procedures and anticipate having the manuals distributed by the end of this semester.

AUXILIARY POLICY MANUALS

The Associated Students Inc. (ASI) and radio station KXPR/KXJZ did not have written policies and procedures for soliciting, accepting, recording, and acknowledging gifts and contributions. The ASI and radio station KXPR/KXJZ are recognized campus auxiliaries.

The *Manual of Policies and Procedures for Auxiliary Organizations* of The California State University Section 9.3.2 states that each auxiliary organization shall have a written policy and

procedures to assure close interaction and cooperation with the campus president or designee in accepting and administering donations.

The ASI executive director stated that historically there was little accountability in this area, but that they are moving in the direction to provide more accountability.

KXPR/KXXZ management stated that policies and procedures on gifting and gift processing and accountability, though written, lacked board approval. This is a repeat of a finding from a review conducted in 1993 by CSU Sacramento audit staff.

The lack of approved, written policies and procedures to guide development staff in the practices and standards of fund-raising increases the potential for inconsistencies in data reporting, gift acceptance and valuation, and gift accountability.

Recommendation 2

We recommend that the ASI and radio station KXPR/KXJZ establish and distribute written gift policies and procedures in accordance with the *Manual of Policies and Procedures for Auxiliary Organizations*.

Campus Response

As with the previous recommendation, the campus concurrence extends to our auxiliary organizations. ASI has drafted such a policy and will present it to the governing board before the end of this semester. KXPR/KXJZ has begun drafting its policy and will present it to its board as soon as possible.

ACKNOWLEDGING GIFTS

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

Title 5, Section 42300 states that all donations regardless of type or amount will be acknowledged in writing by the president using prescribed language.

The president had delegated acknowledgment responsibility for some non-cash gifts to selected executive level staff. Multiple gift acknowledgment letters have been encouraged from different levels such as faculty members, department chairs, and college deans. Campus management was not aware of the Title 5 requirement.

Improperly acknowledging donors can result in misunderstandings and/or misinterpretations of gift intent.

Recommendation 3

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

Campus Response

The campus concurs with the need to revise our gift acknowledgment letters. We will revise all university acknowledgments to substantially reflect the language contained in Title V. We also want to take this opportunity to suggest it might be appropriate to amend this article. Due to recent expansion of fund raising activities, certain provisions of section 42300 may be obsolete. An example of this obsolescence is requiring campuses to submit two copies of every acknowledgment to the Board of Trustees.

GIFT DEPOSITS

Radio station membership deposits were not made in the most timely manner.

SAM Section 8030.1 requires deposit of accumulated collections when they amount to \$500 in cash or \$5,000 in cash, checks, money orders, and warrants. While this section is directed at campus deposits, for purposes of internal control and consistency of campus practices, the radio station should have similar standards.

Station management established the practice of making bank deposits once weekly. In a random sample selection of weekly bank deposits from three separate months, our review showed deposit amounts of \$21,337, \$62,310, and \$77,742. We note that the funds were continuously received at the radio station throughout the weeks reviewed.

Untimely deposits increase the potential for loss from improper handling of checks and negotiable instruments and reduce the amount of interest earned.

Recommendation 4

We recommend that radio station KXPR/KXJZ deposit contribution and membership funds more timely.

Campus Response

We wish to note that auxiliaries are not required to adhere to the State Administrative Manual. However, we do concur there is an opportunity for KXPR/KXJZ to improve its handling of bank deposits. As reported, the auxiliary has in fact complied with its own policy of making deposits weekly. KXPR/KXJZ does recognize that more frequent deposits during peak revenue periods could result in increasing their bank account's interest earnings. The station is currently revising its policy to make deposits weekly or when collections exceed \$5,000.

GIFT ACCEPTANCE FORMS

Gift acceptance forms for contributions to the ASI/Aquatics Center were not prepared timely. We found gift acceptance forms prepared six months after the Aquatic Center received four in-kind contributions of boating equipment.

Acceptance forms should be prepared upon receiving donor gifts to ensure recording to the inventory and accounting records, and to document donor restrictions.

All gifts to the Aquatic Center require official acceptance and acknowledgment through the ASI Executive Director's Office. The ASI did not have written gift acceptance policies or procedures.

The campus risks inaccurate accountability and inappropriate use of in-kind contributions in the absence of timely documentation supporting donor gifts.

Recommendation 5

We recommend that the ASI/Aquatics Center prepare gift acceptance forms more timely.

Campus Response

The campus concurs with the need for the Aquatic Center to acknowledge gift acceptance sooner. ASI will insure all acknowledgment letters are prepared within one week of receiving any cash gift and two weeks within receiving in-kind gifts.

MANAGEMENT FEES

Donors were not notified of a management fee of five percent on selected gift revenue. The fee was assessed quarterly unless prohibited by the gift instrument or the donor.

The National Society of Fund-Raising Executives adopted and incorporated the following Standards of Professional Practice into its *Code of Ethical Principles*:

- Members shall take care to ensure that all solicitation materials are accurate and correctly reflect the organization's mission and use of solicited funds;
- Members shall, to the best of their ability, ensure that contributions are used in accordance with donors' intentions; and
- Members shall ensure, to the best of their ability, proper stewardship of charitable contributions including: careful investment of funds, timely reports on the use and management of funds, and explicit consent by the donor before altering the conditions of a gift.

The CSUS Trust Foundation Board of Directors authorized the management fee to recover operating and accounting management service costs. There is no campus or systemwide policy requiring notice to be given to donors regarding management fees on cash gifts.

The campus may be using gift funds for unintended purposes by not giving donors notice of the management fee assessed on contributions.

Recommendation 6

We recommend that the campus notify donors in writing of the five percent management fee assessed against cash contributions.

Campus Response

The campus concurs with the recommendation to inform donors of our policy concerning the assessment of management fees. By the end of this semester we will revise all relevant publications to include a statement describing this assessment.

REPORTING OF GIFT DATA

FOUNDATION SUPPORT OF THE CAMPUS

The campus misclassified support from the CSUS Foundation, totaling \$887,692, as gifts. The support amount was included as corporate contributions in both the 1994-95 Council For Aid to Education (CFAE) report, and the report forwarded to the Chancellor's Office.

Title 5, Section 42500 states that auxiliary organizations were created to provide essential functions that are an integral part of the educational mission of the university.

The nationally recognized CFAE, reporting methodology to which the CSU has agreed to comply, states that sales revenue from the foundation cannot be given to the campus and claimed as a gift. Also, any equipment purchased with funds from a contract or governmental agency grant cannot be given to the campus and claimed as a gift.

Campus administration and CSUS Foundation administrators stated that, in their opinion, the funds were gifts to the university. Improperly reporting gift data reduces the ability of the campus to receive appropriate credit for fund-raising efforts and gifts received.

Recommendation 7

We recommend that the campus comply with CFAE guidelines for filing financial and statistical data of voluntary support.

Campus Response

The campus agrees to revise its practice of classifying the funds and property provided by the CSUS Foundation as gifts.

ENDOWMENTS

The campus reported endowment funds at cost rather than market value on the 1994-95 CFAE report of voluntary support. In addition, the endowment fund for the radio station, KXPR/KXJZ Endowment, Inc., was not included on the CFAE Report.

The 1994-95 CFAE instructions for reporting endowment and similar funds indicated that the market value of the funds should have been reported.

The associate vice president for finance stated that staff miscommunication had occurred and that corrective action had taken place. She also stated that no data was available on the market value of campus held endowment funds as they are invested in a pool and not separately tracked. The separately incorporated KXPR/KXJZ endowment is viewed by the campus as an unaffiliated entity though integrally connected with the radio station KXPR/KXJZ, a recognized campus auxiliary.

Improperly reporting endowment data reduces the ability of the campus to receive appropriate credit for fund-raising efforts and gifts received.

Recommendation 8

We recommend that the campus comply with the CFAE guidelines for reporting the value of endowments.

Campus Response

The campus is revising its practice of reporting endowment funds at cost. Effective with this fiscal year, those funds will be reported at a pro rata share of the investment portfolio's market value. Additionally, the campus will include the value of KXPR/KXJZ Endowment Inc. in its submission for the CFAE report.

APPENDIX A PERSONNEL CONTACTED

<u>Name</u>	<u>Title</u>
Donald R. Gerth	President
Carol Ackerson	Executive Director, Associated Students Inc .
Steve Black	Director, Alumni Relations
Donna Brougher	Manager, Accounting Services
Louis Camera	Director, Student Activities
Barbara Caretto	Director of Development, School of Engineering
Larry Cline	Director, Hornet Athletic Foundation
Justine Crossno	Supervisor Trust Accounting
Susan Garcia	Director, Prospect Research
Mernoy Harrison	Vice President for Administration
Douglas Hansen	Director of Development, School of Health and Human Services
Robert Jones	Vice President for University Affairs
Joan Kassis	Director, Administration and Human
Tomas Lopez	Property Supervisor, Resources KXPR/KXJZ Radio
Linda McNamara	Director of Development, School of Education
Marguerite McCurry	Assistant Vice President for University Affairs
Alison McGill	Associate Vice President for Finance
Craig Perez	Director, CSUS Aquatic Center
Jon Self	Director, Management Service
David Webster	Director of Development, School of Arts and Sciences
Joyce Wilson	Athletic Business Manager
Craig Yamamoto	Assistant Director of Financial Aid