

DEVELOPMENT

SYSTEMWIDE

**Report Number 01-23
June 2, 2003**

Members, Committee on Audit

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Kyriakos Tsakopoulos, Vice Chair
Debra S. Farar William Hauck
Frederick W. Pierce, IV

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Senior Director: Janice Mirza
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THE CALIFORNIA STATE UNIVERSITY

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ABBREVIATIONS

CASE	Council for Advancement and Support of Education
CSU	California State University
FASB	Financial Accounting Standards Board
IRS	Internal Revenue Service
SAM	State Administrative Manual

INTRODUCTION

PURPOSE

Our overall audit objective was to ascertain the effectiveness of existing policies and procedures related to the administration of development activity and to determine the adequacy of controls over the related processes to ensure compliance with relevant governmental regulations, Trustee policy, Office of the Chancellor directives, and campus procedures.

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

- ▶ Administration and management of development activity provide an effective internal control environment; adequate development administrative plans, policies, and procedures; and monitoring of goal attainment.
- ▶ Cash and noncash gifts are adequately controlled, sufficiently safeguarded, and properly accounted for and noncash gifts are properly valued.
- ▶ Donations are properly processed and acknowledged and the donor administrative system is reconciled to campus/foundation accounting records.
- ▶ Donor pledges are adequately controlled, properly reported, followed up, and written off when deemed uncollectible.
- ▶ Expenditures are reasonable, adequately supported, and properly authorized and comply with university policies and donor intentions.
- ▶ Reportable charitable contribution information is complete, accurate, and supportable.
- ▶ Donor files and automated donor system information assets are adequately safeguarded and reasonably secure.
- ▶ Development activities comply with relevant gift tax reporting requirements, federal and state regulations, and Trustee and California State University (CSU) policy, including the *CSU Gifts of Software Policy and Procedure*.

SCOPE AND METHODOLOGY

This review emphasized, but was not limited to, compliance with state and federal laws, Board of Trustee policies, and Office of the Chancellor and campus policies, letters, and directives. The audit review period was primarily July 2000 to July 2002. At CSU campuses, university advancement has overall responsibility for development activity.

Our primary focus involved the internal administrative, compliance, and operational controls over the management of the campus fundraising function. Specifically, we reviewed and tested:

- ▶ Administrative plans, policies, procedures, and monitoring tools.
- ▶ Procedures for controlling, processing, and safeguarding cash and noncash contributions.
- ▶ Donation solicitation and acknowledgement practices.
- ▶ Valuation of nonmonetary and marketable securities donations.
- ▶ Gift recording and reconciliation between development and campus/foundation accounting records.
- ▶ Procedures for controlling, authorizing, and processing expenditures of donated funds.
- ▶ Preparation of reports on development activity.
- ▶ Data security, disaster recovery, and backup procedures.

BACKGROUND

As a result of a systemwide risk assessment conducted by the Office of the University Auditor during the last quarter of 1999, the Board of Trustees, at its January 2001 meeting, directed that *Development* be reviewed. In January 2002, the Board of Trustees directed the Office of the University Auditor to expand its review to all CSU campuses.

The proposed scope of the audit as presented in Attachment B, Agenda Item 2 of the January 23-24, 2001, meeting of the Committee on Audit, stated that *Development* includes university advancement and fundraising. Potential impacts include inadequate nonstate funding; acceptance of gifts that are inconsistent with public policy; erroneous valuation of nonmonetary gifts; noncompliance with Internal Revenue Service regulations; use of funds that conflict with donor intentions or are potential violations of trust arrangements; and inaccurate reporting of donations and development activity. *Development* was previously audited in 1995.

Advancement is defined in *Educational Fund Raising – Principles and Practices* as “... 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. These activities and programs include alumni affairs, internal/external communications, government and public relations, enrollment management, and fund raising. This last activity, i.e., fund raising, also known as *Development*, is an important component of institutional advancement and is the focus of the subject audit.”

Development is defined as a sophisticated process, which includes a number of stages and operational steps. In very broad terms, the process begins with the institution’s academic plan from which specific financial needs and fundraising goals are derived. The next stage includes the identification of gift-giving prospects and the development of programs to cultivate prospect interest in the institution and its needs. Once these initial steps are completed, the institution can begin thinking about fundraising and stewardship, which is the process of carrying out the purposes of the gift and maintaining an effective communication link with the donor.

In recent years, it has become apparent to the Board of Trustees, the chancellor's office, and campus executives that to meet the CSU goals of access to higher education, enhanced educational quality, financial stability, and university accountability, there was an ever-increasing need to supplement state support by growing and strengthening the university advancement function at all 23 campuses. To meet these goals, the Board of Trustees challenged the university presidents to generate external support funding that equaled or exceeded 10 percent of the prior year's net General Fund budget.

As reported by the chancellor's office university advancement department's Ten Percent Goal Chart, CSU generated voluntary support (gifts from corporations, foundations, alumni, parents, and others) and special revenue (sponsorships, endowment distributions, and other income) for the three most recent fiscal years as follows:

Fiscal Year	Prior Year Budget Net General Fund	Voluntary Support & Special Revenue		Campuses Meeting/Exceeding 10% Goal
		Amount	% of Budget	
1999/2000	\$1,961,279,342	\$293,349,125	15.0%	17
2000/2001	2,002,189,630	284,831,157	14.2%	13
2001/2002	2,212,956,404	296,115,734	13.3%	12

OPINION

We visited 20 of the 23 CSU campuses from March 12, 2001, through November 22, 2002, and audited the procedures in effect at that time. Audits were not conducted at the Humboldt and Channel Islands campuses and the California Maritime Academy. Campus specific findings and recommendations have been discussed and reported individually.

In our opinion, overall campus administration and management of development activities were adequate to ensure a viable fundraising function. To a large extent, the campuses were in compliance with federal and state regulations in addition to chancellor's office and local directives. The findings presented below have systemwide implications. The most significant findings were related to gift acknowledgement disclosure practices; charitable contribution reporting; and donor system reconciliation, administration, and security. For the most part, the underlying findings were caused by:

- ▶ Failure to effectively monitor campus fundraising activity that took place outside of university advancement's span of control.
- ▶ Campus misinterpretation of Council for Advancement and Support of Education (CASE) *Management Reporting Standards* and chancellor's office directives.
- ▶ Inadequate management attention to the reconciliation, controlling, securing, and protecting of computerized donor system records.

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.

CASH AND NONCASH GIFT ADMINISTRATION AND CONTROL [6]

GIFT PROCESSING [6]

Gift processing controls at 18 of 20 campuses visited did not provide assurance that departments/colleges outside of university advancement's span of control accepted and processed gifts in accordance with Internal Revenue Service (IRS) disclosure regulations and campus gift acceptance policies and procedures. Donation processing that is aligned with IRS regulations and gift acceptance policies and procedures reduces the risk of incorrect reporting to the chancellor's office and disallowance of tax deductions for donors.

DONOR SYSTEM RECONCILIATION [7]

Reconciliations between the computerized donor records maintained by university advancement and the campus foundation accounting system were either not consistently performed on a monthly basis and/or not supported by documented procedures at 14 of the 20 campuses visited. Monthly reconciliations of donor and accounting records and documented reconciliation procedures strengthen accountability and reduce the risk of reporting errors and/or misappropriation of funds.

PLEDGE CONTROLS [8]

Administrative and/or accounting controls over donor pledges at 9 of the 20 campuses visited were inadequate. Effectively managing donor pledge processing reduces the risk of transaction errors, inaccurate financial reporting, and lost opportunities to obtain promised donations.

REPORTING, RECORD KEEPING, AND INVENTORY CONTROL [9]

CHARITABLE CONTRIBUTION REPORTING [9]

Certain fundraising efforts at 18 of 20 campuses visited were overstated a total of \$8.5 million in the 1999/2000 and 2000/2001 Annual Reports on External Support. Accurately reported fundraising efforts facilitate comparisons with other educational institutions and provide reliable information to the chancellor's office, Board of Trustees, and campus management.

DONOR SYSTEM CONTROL AND SECURITY [11]

Access controls to automated donor systems and/or corresponding disaster recovery/business resumption plans were not adequate at 14 of the 20 campuses visited. Maintenance of adequate access controls and disaster recovery/business resumption plans reduces the risk of unauthorized access to, and loss of, donor information.

REGULATORY AND CSU POLICY COMPLIANCE [12]

Campus procedures had not been established to ensure that commercial fundraising consultants and counselors were registered with the State Attorney General before engaging their services at 5 of the 20 campuses visited. Verification of fundraising consultant and counselor registration with the State Attorney General provides some assurance that ethical fundraising agents will represent CSU campuses.

OBSERVATIONS, RECOMMENDATIONS, AND MANAGEMENT RESPONSES

CASH AND NONCASH GIFT ADMINISTRATION AND CONTROL

GIFT PROCESSING

Gift processing controls at 18 of 20 campuses visited did not provide assurance that departments/colleges outside of university advancement's span of control accepted and processed gifts in accordance with Internal Revenue Service (IRS) disclosure regulations and campus gift acceptance policies and procedures.

We noted the following types of weaknesses in donation receipt and acceptance processing by campus departments and colleges:

- ▶ Acknowledgement letters lacked a statement to the effect that no goods and services were received in consideration of the gift or a description and good faith estimate of goods and services actually received.
- ▶ Acknowledgement letters were either not issued to donors or not issued in accordance with campus timeliness standards.
- ▶ Special events contributors were not notified of the fair market value of the goods or services received and the amount of the contribution that was deductible.
- ▶ Gift transmittals, acceptance forms, and/or receipts were not always completed and/or fully completed as required by campus standards.
- ▶ Departments and colleges did not consistently notify university advancement of gifts upon receipt.

IRS Publication 526, *Charitable Contributions*, states that a cash or noncash gift acknowledgement must be written and include: a) the amount of cash contributed or a description of the property but not necessarily the value; b) whether the donee gave the donor any goods or services as a result of the contribution; and if so, c) a description and good faith estimate of the value of any goods or services provided to the donor. Further, the donee organization must provide the donor with a written statement if a donation is made for more than \$75 and is partly a contribution and partly for goods or services (e.g., fundraiser dinner, golf tournament, etc.). The statement must provide a good faith estimate of the value of goods and/or services provided and indicate that the donor can deduct only the amount of the contribution that is more than the value of what was received.

Campus management cited several reasons for these issues including: a) departments and colleges not being familiar with relevant IRS regulations and campus gift processing procedures; b) outdated gift processing policies and procedures; c) processing inconsistencies among the independent fundraising functions; d) lack of coordination between the departments/colleges and university advancement; and e) director of development vacancies.

Donation processing that is not aligned with IRS regulations and gift acceptance policies and procedures increases the risk of incorrect reporting to the chancellor's office and disallowance of a tax deduction for the donor.

Recommendation 1

We recommend that the chancellor's office remind the campuses of the importance of strong gift processing controls and establishment of effective training programs and monitoring procedures to ensure that gift processing is in accordance with IRS regulations and/or campus gift receipt and acceptance policies and procedures.

Management Response

We concur. Campuses will be reminded of the importance of establishing and maintaining strong gift processing controls. The chancellor's office will also continue to provide training programs that support this objective. Reminders to campuses about gift processing controls will be distributed by September 30, 2003.

DONOR SYSTEM RECONCILIATION

Reconciliations between the computerized donor records maintained by university advancement and the campus foundation accounting system were either not consistently performed on a monthly basis and/or not supported by documented procedures at 14 of the 20 campuses visited.

State Administrative Manual (SAM) §7900 states that the accuracy of a number of the accounting records of an agency may be proved partially by making certain reconciliations and verifications. All reconciliations should be prepared monthly within 30 days of the preceding month and will be retained at least two years.

SAM §20050 states that the elements of a satisfactory system of internal administrative controls include, but are not limited to, an effective system of internal review and record-keeping procedures adequate to provide effective control over assets. Further, one danger signal of a vulnerable control system is policy and procedural or operational manuals that are either not currently maintained or are nonexistent.

In most instances, campus management indicated that monthly reconciliations were not completed and procedures were not documented due to staff shortages, resource constraints, and/or system limitations.

Failure to complete donor system reconciliations on a monthly basis and the absence of documented reconciliation procedures compromise accountability and increase the risk of reporting errors and/or misappropriation of funds.

Recommendation 2

We recommend that the chancellor's office remind the campuses of the importance of consistent and timely reconciliations between the computerized donor records maintained by university advancement and the campus foundation accounting system in addition to the benefits of documented reconciliation procedures.

Management Response

We concur. The chancellor's office will remind campuses of the importance of reconciling donor and foundation accounting records, and encourage monthly reconciliation in accordance with SAM §7900. Furthermore, the chancellor's office will encourage campuses to establish and maintain documented procedures in accordance with SAM §20050. These reminders will be distributed by September 30, 2003.

PLEDGE CONTROLS

Administrative and/or accounting controls over donor pledges at 9 of the 20 campuses visited were inadequate.

We noted that:

- ▶ Pledge policies and procedures did not provide adequate guidelines concerning control issues such as record keeping, management reporting, overdue pledge follow-up and write-off, and system maintenance.
- ▶ Pledges were not always supported by pledge commitments and a specific payment schedule.
- ▶ Overdue annual pledges were not written-off after one year.
- ▶ Pledges were not consistently posted to the accounting records.

Title 5 §42401 and §42402 indicate that the campus president shall require that auxiliary organizations operate in conformity with policy of the Board of Trustees and the campus. One of the objectives of the auxiliary organization is to provide fiscal procedures and management systems that allow effective coordination of the auxiliary activities with the campus in accordance with sound business practices. Sound business practice mandates that pledge controls provide for the periodic aging, review, and collection or write-off of donor pledges.

SAM §20050 states, in part, that policy and procedural or operational manuals that are either not currently maintained or are nonexistent are indicative of a poorly maintained or vulnerable control system. The elements of a satisfactory system of internal accounting and administrative control system include, but are not limited to, an effective system of internal review and record-keeping procedures that provide effective control over assets.

The Council for Advancement and Support of Education (CASE) *Management Reporting Standards* state that pledges of cash should be written and should commit to a specific dollar amount that will be

paid according to a fixed time schedule. It further states that the pledge payment period, regardless of when the pledge is made, should not exceed five years.

Financial Accounting Standards Board (FASB) Statement No. 116 states that unconditional promises (i.e., pledges) should be recognized as revenue in the period received and measured at the present value of the estimated future cash flows, with subsequent interest accruals recognized as contribution income.

Campus management stated that, for the most part, pledge processing weaknesses were attributable to inadequate policies and procedures, insufficient staff training, and staff limitations/vacancies.

Failure to effectively manage donor pledge processing increases the risk of transaction errors, inaccurate financial reporting, and lost opportunities to obtain promised donations.

Recommendation 3

We recommend that the chancellor's office establish and disseminate minimum guidelines for the control of donor pledges, including financial and donation reporting requirements, collection and write-off procedures, and record-keeping and documentation standards.

Management Response

We concur. The chancellor's office will prepare pledge reporting and control guidelines for dissemination to campuses based on *CASE Management Reporting Standards* and FASB Statement No. 116. These guidelines will be distributed by September 30, 2003.

REPORTING, RECORD KEEPING, AND INVENTORY CONTROL

CHARITABLE CONTRIBUTION REPORTING

Certain fundraising efforts at 18 of 20 campuses visited were overstated a total of \$8.5 million in the 1999/2000 and 2000/2001 Annual Reports on External Support.

Items we found to be over reported during our selected review of items from the 1999/2000 and 2000/2001 Annual Reports on External Support are summarized below:

Item	Amount Over Reported	Reporting Issue	Number of Campuses
Sponsorships/Grants	\$3,606,063	Contracts reported as sponsorships / grants	9 of 20
Software	1,677,953	Over valued software	9 of 20
Government Gifts	1,475,050	Disallowed per CASE standards	5 of 20
Contributed Services	418,715	Disallowed per CASE standards	4 of 20
Directed Scholarships	431,620	Specification of scholarship recipient disallowed per CASE standards	1 of 20
Charitable Trust	721,460	Reported in wrong year	1 of 20
Gifts Not Received	95,000	Only gifts received should be counted	2 of 20
Pledges	60,015	Disallowed per CASE standards	1 of 20
Total	\$8,485,876		

The Special Revenue Report defines sponsorship as a “specific agreement, normally in writing, between an entity of the university and a corporate outside entity whereby the corporation or organization receives an exchange of value.” Examples include, but are not limited to, signage for a specific time period as a result of an agreement to give funds in support of a program; equipment for similar purposes; and/or the exclusive right to sell beverages (pouring rights) for a specific time period in exchange for a fee.

The *CSU Gifts of Software Policy and Procedure*, dated June 1999, states that the campus should establish a reasonable valuation that closely follows the CASE guidelines by booking the educational discount price. Further, only the license value of the software is to be booked. The number of seats is not to be considered in determining the value.

CASE *Management Reporting Standards* state, in part, that government contributions, exchange transactions (i.e., contracts), contributed services, and pledges should not be counted in reports of annual fundraising results, even if circumstances indicate that the payer regarded them as a contribution. Further, if an individual or organization channels funds through the institution to support a student specified by the individual or organization, these funds are not gifts to the institution, and they should not be reported as gift income anywhere in the report. In addition, the gift income report should include only cash and property received as private, charitable support during the institution’s fiscal year.

IRS Publication 526, *Charitable Contributions*, states that a donor cannot deduct as a charitable contribution the value of time or services. Revenue Rule 89-51 states that the right to use property is defined as a partial interest so it does not provide a tax deduction. A gift of rent-free use of space does not entitle the donor to a deduction for the value of the rental payments.

In the majority of instances, management stated that the two primary causes for the reporting exceptions were a misinterpretation of chancellor’s office guidelines and CASE *Management Reporting Standards*, and employees involved in fundraising outside of university advancement not being fully aware of fundraising reporting requirements.

Overstated fundraising efforts distort campus charitable contribution results, inhibit comparisons with other educational institutions, and provide misleading information to the chancellor's office, Board of Trustees, and campus management.

Recommendation 4

We recommend that the chancellor's office:

- a. Provide the campuses with clear reporting guidelines relative to sponsorships, software valuation, philanthropic grants, contracts, government contributions, and contributed services.
- b. Encourage campus university advancement departments to establish training and monitoring programs to ensure that reported gift information is properly valued, in compliance with established guidelines, and recorded in the proper period.

Management Response

We concur, although it is important to note that the overstatements of value identified by the auditors represent less than 1.5 percent of the total revenue reported during the period examined. The university will continue to utilize *CASE Management Reporting Standards* to provide baseline, industry-wide standards in each of the areas noted. The objective of using these standards is to a) compile fundraising results for the Trustees, the chancellor, donors and all other interested parties; b) compare fundraising results with those of previous years; and c) compare fundraising results with those of other universities. Further, the chancellor's office will develop supplemental guidelines to clarify CASE reporting standards and provide more specific guidance to campuses on gift valuation. These guidelines will be distributed to campuses by September 30, 2003.

The chancellor's office will also continue to work with campus advancement staff to offer best practice training. We will encourage all individuals that work with fundraising and gift reporting, including university advancement staff and staff working in areas other than advancement, to participate in this training. These training programs will be ongoing.

DONOR SYSTEM CONTROL AND SECURITY

Access controls to automated donor systems and/or corresponding disaster recovery/business resumption plans were not adequate at 14 of the 20 campuses visited.

We found that:

- ▶ Donor system access was not automatically disabled after prolonged terminal inactivity.
- ▶ The donor system did not periodically prompt users to change their passwords.
- ▶ A member of university advancement management did not formally authorize access to the donor system.

- ▶ An effective system was not in place to notify university advancement when employees with donor system access terminated employment or transferred to another department.
- ▶ Disaster recovery/business resumption plans were not completed or incomplete.

SAM §4819.31 requires state agencies to protect the integrity of its information management capabilities and databases and ensure the security and confidentiality of information it maintains.

SAM §4989.7 states that the use of workgroup computing configurations within state agencies must be in accordance with all applicable SAM policies dealing with information technology security and risk management.

For the most part, management was not aware of the system security standards and associated best practices, and to some extent, depended upon the campus information technology area to address the system control, security, and disaster recovery issues.

Not maintaining adequate controls over system access and a disaster recovery/business resumption plan increases the risk of unauthorized access to, and loss of, donor information.

Recommendation 5

We recommend that the chancellor's office remind campus university advancement departments of their responsibility to establish adequate controls over system access and appropriate disaster recovery/business resumption plans.

Management Response

We concur and will remind campuses of their responsibility to protect records and data in accordance with SAM §4819.31 and SAM §4989.7. These reminders will be distributed by September 30, 2003.

REGULATORY AND CSU POLICY COMPLIANCE

Campus procedures had not been established to ensure that commercial fundraising consultants and counselors were registered with the State Attorney General before engaging their services at 5 of the 20 campuses visited.

Supervision of Trustees and Fundraisers for Charitable Purposes Act §12599(b) states that a commercial fundraiser for charitable purposes shall, prior to soliciting funds in California for charitable purposes, or prior to receiving and controlling any funds or assets as a result of a solicitation in this state for charitable purposes, register with the Attorney General's Registry of Charitable Trusts on a registration form provided by the Attorney General.

Supervision of Trustees and Fundraisers for Charitable Purposes Act §12599.1(c) states that a fundraising counsel for charitable purposes shall, prior to managing, advising, counseling, consulting, or preparing material for, or with respect to, the solicitation in this state of funds, assets, or property for charitable purposes, register with the Attorney General's Registry of Charitable Trusts on a registration form provided by the Attorney General.

In most instances, management stated that the campus was unaware of the requirement for commercial fundraisers and counselors to register with the State Attorney General and, as such, had not verified that they were registered.

Failure to verify commercial fundraising consultant and counselor registration with the State Attorney General increases the risk that less than ethical fundraising agents may represent CSU campuses.

Recommendation 6

We recommend that the chancellor's office alert the campuses to the benefits of engaging commercial fundraisers and counselors who are registered with the State Attorney General's office.

Management Response

We concur. While most CSU campuses do not utilize fundraising consultants that actively solicit or handle money, we will advise campuses of the benefits of engaging commercial fundraisers or counselors who are registered with the State Attorney General's office. This reminder will be distributed by September 30, 2003.

APPENDIX A: PERSONNEL CONTACTED

Chancellor's Office

Louis Caldera
Freda Hinsche-Otto
Lori Redfearn
Richard P. West

Vice Chancellor, University Advancement
Assistant Vice Chancellor
Director, Foundation Programs and Services
Executive Vice Chancellor and Chief Financial Officer

THE CALIFORNIA STATE UNIVERSITY

BAKERSFIELD • CHICO • DOMINGUEZ HILLS • FRESNO • FULLERTON • HAYWARD • HUMBOLDT • LONG BEACH • LOS ANGELES • MARITIME ACADEMY • MONTEREY BAY
NORTHRIDGE • POMONA • SACRAMENTO • SAN BERNARDINO • SAN DIEGO • SAN FRANCISCO • SAN JOSE • SAN LUIS OBISPO • SAN MARCOS • SONOMA • STANISLAUS

RICHARD P. WEST
EXECUTIVE VICE CHANCELLOR
CHIEF FINANCIAL OFFICER

RECEIVED
UNIVERSITY AUDITOR


JUL 24 2003

THE CALIFORNIA STATE
UNIVERSITY

MEMORANDUM

DATE: July 24, 2003

TO: Larry Mandel
University Auditor

FROM: Richard P. West
Executive Vice Chancellor
Chief Financial Officer 

SUBJECT: Management Response to Recommendations of Audit Report 01-23
Development Systemwide

Thank you for your letter transmitting the draft report of the Systemwide Development audit. In accordance with the Policies and Procedures for the Office of the University Auditor, I am providing our management response to your Systemwide report summary recommendations.

Overall we concur with your recommendations to remind campuses about the importance of documented procedures and controls. The various reminders and guidelines recommended in this report will be distributed by September 30, 2003.

Ms. Lori A. Redfearn, Director, Foundation Programs and Advancement will be coordinating this effort in concert with the campus Vice Presidents for Advancement. Please contact her should you have any questions concerning the response to this report.

c: Ms. Lori A. Redfearn

DEVELOPMENT

SYSTEMWIDE

REPORT NO. 01-23

CASH AND NONCASH GIFT ADMINISTRATION AND CONTROL

GIFT PROCESSING

Recommendation 1

We recommend that the chancellor's office remind the campuses of the importance of strong gift processing controls and establishment of effective training programs and monitoring procedures to ensure that gift processing is in accordance with IRS regulations and/or campus gift receipt and acceptance policies and procedures.

Management Response

We concur. Campuses will be reminded of the importance of establishing and maintaining strong gift processing controls. The chancellor's office will also continue to provide training programs that support this objective. Reminders to campuses about gift processing controls will be distributed by September 30, 2003.

DONOR SYSTEM RECONCILIATION

Recommendation 2

We recommend that the chancellor's office remind the campuses of the importance of consistent and timely reconciliations between the computerized donor records maintained by university advancement and the campus foundation accounting system in addition to the benefits of documented reconciliation procedures.

Management Response

We concur. The chancellor's office will remind campuses of the importance of reconciling donor and foundation accounting records, and encourage monthly reconciliation in accordance with SAM §7900. Furthermore, the chancellor's office will encourage campuses to establish and maintain documented procedures in accordance with SAM §20050. These reminders will be distributed by September 30, 2003.

PLEDGE CONTROLS

Recommendation 3

We recommend that the chancellor's office establish and disseminate minimum guidelines for the control of donor pledges including financial and donation reporting requirements, collection and write-off procedures, and record-keeping and documentation standards.

Management Response

We concur. The chancellor's office will prepare pledge reporting and control guidelines for dissemination to campuses based on CASE Management Reporting Standards and Financial Accounting Standards Board (FASB) Statement No. 116. These guidelines will be distributed by September 30, 2003.

REPORTING, RECORD KEEPING, AND INVENTORY CONTROL**CHARITABLE CONTRIBUTION REPORTING****Recommendation 4**

We recommend that the chancellor's office:

- a. Provide the campuses with clear reporting guidelines relative to sponsorships, software valuation, philanthropic grants, contracts, government contributions, and contributed services.
- b. Encourage campus university advancement departments to establish training and monitoring programs to ensure that reported gift information is properly valued, in compliance with established guidelines, and recorded in the proper period.

Management Response

We concur, although it is important to note that the overstatements of value identified by the auditors represent less than 1.5% of the total revenue reported during the period examined. The university will continue to utilize CASE Management Reporting Standards to provide baseline, industry-wide standards in each of the areas noted. The objective of using these standards is to a) compile fundraising results for the Trustees, the Chancellor, donors and all other interested parties; b) compare fundraising results with those of previous years; and c) compare fundraising results with those of other universities. Further, the chancellor's office will develop supplemental guidelines to clarify CASE reporting standards and provide more specific guidance to campuses on gift valuation. These guidelines will be distributed to campuses by September 30, 2003.

The chancellor's office will also continue to work with campus advancement staff to offer best practice training. We will encourage all individuals that work with fundraising and gift reporting, including university advancement staff and staff working in areas other than advancement, to participate in this training. These training programs will be ongoing.

DONOR SYSTEM CONTROL AND SECURITY**Recommendation 5**

We recommend that the chancellor's office remind campus university advancement departments of their responsibility to establish adequate controls over system access and appropriate disaster recovery/business resumption plans.

Management Response

We concur, and will remind campuses of their responsibility to protect records and data in accordance with SAM §4819.31 and SAM §4989.7. These reminders will be distributed by September 30, 2003.

REGULATORY AND CSU POLICY COMPLIANCE

Recommendation 6

We recommend that the chancellor's office alert the campuses to the benefits of engaging commercial fundraisers and counselors who are registered with the State Attorney General's office.

Management Response

We concur. While most CSU campuses do not utilize fundraising consultants that actively solicit or handle money, we will advise campuses of the benefits of engaging commercial fundraisers or counselors who are registered with the State Attorney General's office. This reminder will be distributed by September 30, 2003.

THE CALIFORNIA STATE UNIVERSITY
OFFICE OF THE CHANCELLOR

AKERSFIELD

July 30, 2003

CHANNEL ISLANDS

CHICO

MEMORANDUM

DOMINGUEZ HILL

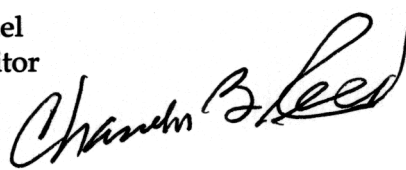
FRESNO

TO: Mr. Larry Mandel
University Auditor

FULLERTON

HAYWARD

FROM: Charles B. Reed
Chancellor



HUMBOLDT

SUBJECT: Draft Final Report Number 01-23 on *Development, Systemwide*

LONG BEACH

LOS ANGELES

In response to your memorandum of July 30, 2003, I accept the response as submitted with the draft final report on *Development, Systemwide*.

MARITIME ACADEMY

MONTEREY BAY

CBR/amd

NORTHRIDGE

Enclosure

POMONA

SACRAMENTO

cc: Mr. Dennis Hordyk, Assistant Vice Chancellor, Financial Services
Mr. Richard P. West, Executive Vice Chancellor and Chief Financial Officer

SAN BERNARDINO

SAN DIEGO

SAN FRANCISCO

SAN JOSE

SAN JIS OBISPO

SAN MARCOS

SONOMA

STANISLAUS