

**DEVELOPMENT**  
**CALIFORNIA STATE UNIVERSITY,**  
**FRESNO**

**Report Number 01-24**  
**July 31, 2001**

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## **ABBREVIATIONS**

BSR	Business Systems Resources, Inc.
CASE	Council for Advancement and Support of Education
CSU	California State University
EIS	Environmental Impact Studies
Foundation	California State University, Fresno Foundation
G-I-K	Gift-In-Kind
IRS	Internal Revenue Service
SAM	State Administrative Manual

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## INTRODUCTION

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### 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, chancellor office 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*.

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### 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 July 2000 to date. At California State University, Fresno, 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.

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## 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.

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 Fundraising – 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 fundraising. This last activity; i.e., fundraising, 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 CSU 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. The total CSU General Fund budget for fiscal year 1998/1999 was \$1,961,297,342. For fiscal year 1999/2000, 18 of the 23 campuses met or exceeded the 10-percent goal by generating \$304,746,126 in voluntary support (gifts from corporations, foundations, alumni, parents, and others) and special revenue (sponsorships, endowment income, and other income). For this same period, CSU Fresno generated \$29,173,671 in external support, equaling approximately 25 percent of their 1998/1999 net General Fund budget of \$114,626,190.

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## **OPINION**

We visited the CSU Fresno campus from March 12, 2001, through April 13, 2001, and audited the procedures in effect at that time.

In our opinion, the administration and management of development activities were adequate to ensure a viable fundraising function. However, our review disclosed certain conditions that could result in errors and irregularities if not corrected. Specifically, there was a lapse in annual development plan preparation; and adequate controls were not maintained over donor system reconciliation and access, foundation trust fund agreements, and donor record keeping. For the most part, university advancement was in compliance with federal and state regulations in addition to chancellor's office and local directives. Areas in need of improvement are referenced in the executive summary.

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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 found to be satisfactory. Numbers in brackets [ ] refer to page numbers in the report.

### **CASH AND NONCASH GIFT ADMINISTRATION AND CONTROL [6]**

#### **ANNUAL DEVELOPMENT PLANS [6]**

Development plans for fiscal year 2000/2001 were not produced for all academic colleges; completed plans were not approved in writing; and formal plan monitoring procedures were not in place throughout the year. Complete and approved development plans and consistent plan monitoring increase the probability that advancement projects will be completed on time and within budget and university fundraising goals will be met.

## **DONOR SYSTEM RECONCILIATION [7]**

Reconciliations between computerized donor records maintained by university advancement and the California State University, Fresno Foundation (Foundation) accounting system were not adequately performed and reviewed by management. Reconciliations between systems lessen the likelihood of reporting errors and cash accountability problems.

## **MARKETABLE SECURITY DONATIONS [8]**

Donations of marketable securities were not properly valued, recorded in a timely manner, and adequately documented. Properly valuing marketable securities and maintaining current donor records enhance donor relationships and support financial and Council for Advancement and Support of Education (CASE) management reporting.

## **SOFTWARE VALUATION [9]**

Donations of computer software were not always properly valued and accepted in compliance with campus policy. Consistent adherence to software valuation and acceptance policy reduces the risk of incorrect reporting and facilitates comparisons of external funding achievement among California State University (CSU) campuses.

## **OVERDUE PLEDGE CONTROLS [10]**

Directors of development were not using the existing donor system overdue pledge control reports to follow up and/or initiate the write-off of outstanding donor pledges. Following up on overdue donor pledges provides an opportunity to obtain promised donations and results in accurate pledge reporting.

## **ENVIRONMENTAL IMPACT STUDIES [11]**

Environmental Impact Studies (EIS) were not consistently conducted prior to the acceptance of gifts of property. Obtaining a professional environmental impact assessment reduces the university's risk of regulatory fines and/or the costs associated with environmental cleanup.

## **FUND EXPENDITURE CONTROL AND DONOR RESTRICTIONS [12]**

Foundation trust fund account applications were not always fully completed. The existence and use of fully completed trust fund documentation provides a level of assurance that donations will not be misused and/or misappropriated.

## **REPORTING, RECORD KEEPING, AND INVENTORY CONTROL [13]**

### **IRS AND DONOR DOCUMENTATION [13]**

Compliance with donation, Internal Revenue Service (IRS), and fundraising documentation requirements needed to be strengthened. Adequate tax deduction information and support to the donor lessens the chance of IRS penalties and disallowance of donor tax deductions.

### **DONOR RECORD MAINTENANCE AND SECURITY [15]**

Donor file maintenance and security practices were not adequate. Donor records that are complete and properly filed ease the tasks of addressing donor and/or outside agency requests/questions and support reported financial information.

### **SYSTEM CONTROLS [16]**

Access to the automated donor system and corresponding disaster recovery/business resumption controls were not adequate. Strong data access controls and a documented system disaster recovery/resumption plan help to safeguard and preserve university information assets.

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## OBSERVATIONS, RECOMMENDATIONS, AND CAMPUS RESPONSES

### CASH AND NONCASH GIFT ADMINISTRATION AND CONTROL

#### ANNUAL DEVELOPMENT PLANS

Development plans for fiscal year 2000/2001 were not produced for all academic colleges; completed plans were not approved in writing; and formal plan monitoring procedures were not in place throughout the year.

We noted that:

- ▶ Development plans were not documented for the following academic colleges: a) School of Education and Human Development, b) College of Arts and Humanities, c) Craig School of Business, d) College of Health and Human Services, and f) College of Science and Mathematics.
- ▶ Development plans completed by five other academic areas were not dated and formally approved by the responsible directors of development, deans, and university advancement management.
- ▶ Monitoring procedures were not in place during the period July 1, 2000, through January 1, 2001.

The campus's *Advancement Policy and Procedures Manual (Appendix B)* states that each school or unit is responsible for setting fundraising priorities within its program areas. After identifying its highest priority fundraising projects, each school or unit may forward descriptions of three to five such projects for annual fundraising priority. For each priority, deans and their respective development officers will submit a detailed plan of action. This process will begin in March of each year and conclude by June 30. When an annual fundraising plan is approved, specific procedures for monitoring the progress of the campaign will be determined in conjunction with the associate vice president for university advancement.

The vice president for university advancement stated that several development director positions were vacant during the period under review. He further stated that there was no formal process for the vice president for university advancement to indicate approval in writing. Formal monitoring was not accomplished for the cited period because the associate vice president position was vacant. However, the plans were summarized, approved by the campus president, and documented in the CSU Planning for Expanding the Resource Base 2000-2001 report.

The lack of complete and approved development plans and inconsistent plan monitoring increase the risk that university advancement projects will not be completed on time and/or within budget and university fundraising goals will not be met.

### **Recommendation 1**

We recommend that the campus strengthen formalized procedures that ensure that annual development plans are received from all relevant areas; approved in writing by responsible directors of development, deans, and university advancement management; and adequately monitored throughout the year against annual fundraising goals.

### **Campus Response**

We concur with the recommendation. Development is currently in the process of revising development plan preparation, review, approval and monitoring procedures. These procedures will be implemented by September 30, 2001.

## **DONOR SYSTEM RECONCILIATION**

Reconciliations between computerized donor records maintained by university advancement and the California State University, Fresno Foundation (Foundation) accounting system were not adequately performed and reviewed by management.

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 will 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.

The vice president for university advancement stated that the reconciliation process was inadequate and is currently being addressed.

Failure to complete reconciliations of donor and accounting records increases the risk of reporting errors and misappropriation of funds.

### **Recommendation 2**

We recommend that the campus:

- a. Establish formalized, periodic reconciliation procedures between the Foundation accounting system and the computerized donor system.
- b. Ensure that reconciliation results are documented and reviewed by Foundation and/or university advancement management.

### **Campus Response**

We concur with the recommendation. The development of a new reconciliation process is already underway by Advancement staff, Foundation staff, and the Foundation's outside accounting firm. Formal reconciliation procedures will be developed and reviewed for approval by the Vice President for Advancement, the campus Internal Auditor and the Audit Committee of the Foundation. The new procedures will ensure that reconciliation results are documented and reviewed by appropriate Foundation and/or university Advancement management. The new procedures will be implemented by December 31, 2001.

### **MARKETABLE SECURITY DONATIONS**

Donations of marketable securities were not properly valued, recorded in a timely manner, and adequately documented.

We noted that:

- ▶ Gifts of securities were valued at the closing price obtained from the broker on the day the stock was received instead of the mean value of the security on the effective date of the gift.
- ▶ University advancement was not notified of two securities gifted on December 31, 1999, and March 31, 2000, until March 2001, which totaled \$256,658 and \$236,609, respectively.
- ▶ Of the seven marketable securities selected for review, five donation files could not be located by the campus, while the other two files were incomplete.

The campus's *Advancement Policy and Procedures Manual* states that the value of a gift of securities is the mean value of the security on the effective date of the gift. In addition, the gift policies and procedures stipulate that the Foundation office forward stock appraisal and original gift documentation to advancement services where the donor record is updated, gift receipts are processed, and the documentation is filed.

The vice president for university advancement stated that the marketable securities valuation practice was an oversight and has been corrected. He further stated that the stock transactions cited reflected a situation whereby a local broker transferred stock from the donor's account to the Foundation account without notifying the Foundation. When the transaction appeared on the Foundation account statement, the proper receipting was completed.

Failure to properly value gifts of marketable securities and maintain current donor records could negatively impact donor relationships and result in incorrect financial and Council for Advancement and Support of Education (CASE) management reporting.

### **Recommendation 3**

We recommend that the campus develop and implement procedures and controls that assure marketable securities are properly valued, processed in a timely manner, and adequately documented in donor files.

### **Campus Response**

We concur with the recommendation and will develop and implement new procedures and controls for gift valuation, processing and donor file documentation by September 30, 2001.

## **SOFTWARE VALUATION**

Donations of computer software were not always properly valued and accepted in compliance with campus policy.

We found that:

- ▶ Two of the six software gifts reviewed were valued on a “multi” versus “single” seat basis. As a result, one software gift, received on August 16, 2000, was valued at \$122,125 (75 seats) instead of \$4,885; the other software gift, received on September 22, 2000, was valued at \$102,200 (23 seats) instead of \$4,400.
- ▶ Only the responsible director of development signed off on the software Gift-In-Kind (G-I-K) acceptance forms for the aforementioned software gifts even though signatures of the campus person requesting gift acceptance, the department chair, and the college dean were also required.

The *CSU Gifts of Software Policy and Procedure*, dated June 1999, states that if the donor does not provide the educational discount price, the recipient is to independently determine the actual price that would be paid for the software if it were to be purchased directly. Further, the number of software seats is not to be considered in determining the value.

In accordance with the campus G-I-K acceptance form, software acceptance is to be evidenced by the following signatures: a) campus person requesting gift acceptance, b) department chair or equivalent, c) school dean or equivalent, d) director of development (when applicable), and e) executive director for the auxiliary corporation (when applicable).

The vice president for university advancement stated that training on the use of “soft credit” and “hard credit” entries to the donor database was not sufficient. The gift-processing assistant director indicated that there was no control in place to detect G-I-K software acceptance forms without the requisite signatures.

Inconsistent adherence to software valuation and acceptance policy increases the risk of incorrect reporting and hinders comparison of external funding achievement among CSU campuses.

#### **Recommendation 4**

We recommend that the campus:

- a. Train gift-processing personnel on the software valuation requirements as specified in the *CSU Gifts of Software Policy and Procedure*.
- b. Instruct directors of development to obtain the requisite number of signatures on the software acceptance form.
- c. Establish a control step within the gift-processing function to detect and return incomplete software acceptance forms.

#### **Campus Response**

We concur with the recommendation. A training session will be conducted to train gift-processing personnel on the software valuation requirements of the CSU, and to train Director's of Development on how to process acceptance forms for gifts of software. A control step within the gift-processing function will be established to detect and return incomplete software acceptance forms. Corrective action relative to this recommendation will be completed by October 31, 2001.

#### **OVERDUE PLEDGE CONTROLS**

Directors of development were not using the existing donor system overdue pledge control reports to follow up and/or initiate the write-off of outstanding donor pledges.

We found that the College of Agricultural Sciences and Technology had overdue pledges dating back to January 1999, totaling \$300; the Craig School of Business had overdue pledges dating back to February 1999, totaling \$350; and the College of Engineering and Computer Science had overdue pledges dating back to February 1999, totaling \$3,220. A discussion with the three directors of development disclosed that they were not aware that overdue pledge control reports existed on demand.

The campus's *Advancement Policy and Procedures Manual* states that advancement services will issue pledge reminders following the donor's billing preference. Development also forwards summary pledge information at least annually on June 30 to the Foundation controller's office for appropriate disclosure in the financial statements.

The vice president for university advancement stated that the current policy and procedures provide inadequate guidance for the staff.

Failure to follow up overdue donor pledges could result in inaccurate financial reporting and lost opportunities to obtain promised donations.

### **Recommendation 5**

We recommend that the campus train the directors of development to periodically generate overdue pledge reports from the donor system, use the reports to assure that pledges are collected or written off as uncollectible, and update local policies and procedures accordingly.

### **Campus Response**

We concur with the recommendation. A training session for appropriate Development staff will be held that will cover the areas outlined in the recommendation. This training will be completed by September 30, 2001.

## **ENVIRONMENTAL IMPACT STUDIES**

Environmental Impact Studies (EIS) were not consistently conducted prior to the acceptance of gifts of property.

EIS could not be located for three (i.e., two residential properties and one commercial property) of the 11 properties held by the Foundation for resale. In the case of one of the two residential properties gifted, the gift agreement signed on December 24, 1998, stipulated that the parties shall allocate the expenses associated with a Phase I environmental assessment, together with the Natural Hazard Disclosure Statement dated December 14, 1998. There was no evidence that an assessment was completed or the disclosure statement was prepared.

The campus's *Advancement Policy and Procedures Manual* states that development and the executive director of the Foundation will assess the property history, market conditions, potential environmental concerns, and the property value.

The Foundation's *Policy For Accepting and Disposing of Real Property* states that prospective transferors shall provide documentation supporting the fact that the real property is environmentally safe, including a preacquisition assessment of existing or potential environmental hazards associated with the real property. Such assessment shall consist of or include an environmental risk report covering hazardous wastes. The assessment and/or report may be in the form of a standard Phase I environmental analysis. A competent engineer shall assess any known or suspected hazards, and the results shall be reported in writing. A satisfactory written determination of environmental safety shall be available to the Foundation prior to its taking title to the property.

The vice president for university advancement stated that he was not aware that environmental studies were required on gifts of residential property.

Failure to obtain a professional assessment of the existence of hazardous materials or waste on a prospective property gift increases the risk to the university for regulatory fines and/or the cost of environmental cleanup.

### **Recommendation 6**

We recommend that the campus establish controls that assure completion of EIS for all property as a prerequisite of acceptance or update current university advancement and Foundation policies and procedures to reflect the current practice of only requiring EIS for commercial properties.

### **Campus Response**

We concur with the recommendation. Development will work with the Foundation Board to evaluate the current practice of requiring an Environmental Impact Study for residential property gifts. In addition, we will strengthen current procedures to assure completion of an EIS where controlling policy requires such. This corrective action will be completed by December 31, 2001.

## **FUND EXPENDITURE CONTROL AND DONOR RESTRICTIONS**

Foundation trust fund account applications were not always fully completed.

More specifically:

- ▶ Fourteen trust funds account applications did not specify the source of funds.
- ▶ Eleven trust fund account applications did not specify the purpose for which funds were to be used.
- ▶ Five trust fund account applications funded by donations were not reviewed by the vice president for university advancement.

The Foundation's *Account Policy*, dated January 1, 2001, states that the vice presidents have the primary responsibility for approval and use of trust accounts in their respective areas. Additionally, the vice president for university advancement must review and approve establishment of all accounts where the source of funds is donations. The executive director of the auxiliary will review, and as appropriate, approve all accounts on behalf of the Foundation.

The director of financial services stated that the cited items were simply overlooked.

The absence of fully completed trust account documentation could result in the misuse and/or misappropriation of donations.

### **Recommendation 7**

We recommend that the Foundation request vice presidents to fully complete new and updated trust account applications. In addition, Foundation management should establish a control point to detect and return incomplete and/or incorrect trust account applications to the requestor.

### **Campus Response**

We concur with the recommendation. All vice presidents will be asked to renew trust accounts that are over three years old. Foundation management will establish a control point to detect and return incomplete and/or incorrect trust account applications to the requestor. These actions will be completed by September 30, 2001.

## **REPORTING, RECORD KEEPING, AND INVENTORY CONTROL**

### **IRS AND DONOR DOCUMENTATION**

Compliance with donation, Internal Revenue Service (IRS), and fundraising documentation requirements needed to be strengthened.

During our audit, we noted the following documentation weaknesses:

- ▶ Donor acknowledgement letters did not include a statement indicating that goods or services were not received in exchange for a non-*quid pro quo* donation.
- ▶ Craig School of Business and the College of Engineering and Computer Science *quid pro quo* fundraiser invitations and/or donor acknowledgement letters did not include the fair market value of the goods or services provided as part of the fundraiser.
- ▶ G-I-K donor acknowledgement letters included the valuation amounts claimed by the donor.
- ▶ Part IV (donee acknowledgement) of IRS Form 8283, Non-Cash Charitable Contributions, was signed by university advancement management and returned to the donor prior to the donor completing Part I (Information on Donated Property) and Part II (Taxpayer Statement).
- ▶ Part III (Declaration of Appraiser) of IRS Form 8283 was not consistently completed prior to documented acknowledgement of noncash gifts of \$5,000 or more by university advancement.

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.

*Advancement Services*, a research book published by CASE, suggests that the value of noncash gifts should not be documented in the acknowledgement letter; valuation support is documented on the IRS Form 8283.

IRS Publication 526, *Charitable Contributions*, states that the donor must complete IRS Form 8283, Part I, Section A, if the gift is over \$500, and Section B if the deduction is over \$5,000. 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 the 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.

The campus's G-I-K acceptance form notes that if the total claimed fair market value of the gift exceeds \$500, the donor must complete IRS Form 8283. If the claimed amount exceeds \$5,000, the donor must also obtain a qualified appraisal.

The vice president for university advancement stated that the current practices surrounding donor acknowledgement letter preparation have been a standard practice, and development personnel were simply not aware that this was an issue. He further stated that acknowledging a gift on IRS Form 8283 prior to the donor completing the form was both an oversight and a failure to understand the implications of signing an incomplete form. The Craig School of Business has two new development officers who began their duties in November 2000. They have not been trained to comply with the quid pro quo documentation procedure.

Failure to provide adequate tax deduction information and support to the donor could result in IRS penalties for the university and disallowance of a tax deduction for the donor.

### **Recommendation 8**

We recommend that the campus provide the necessary staff training to assure that donor acknowledgement letters and IRS forms are fully completed and contain all the necessary information. More specifically:

- ▶ All non-quid pro quo acknowledgement letters should contain a statement indicating that no goods or services were received in exchange for the donation.
- ▶ All quid pro quo acknowledgement letters should include the fair market value of the good received or service provided to the donor.
- ▶ G-I-K acknowledgement letters should not include a valuation amount.
- ▶ The acknowledgement section of IRS Form 8283 should not be completed before the donor and the appraiser, if applicable, sections are completed.

### **Campus Response**

We concur with the recommendation. A training session for Advancement staff involved in development and gift processing will be conducted to address the issues in this recommendation. This training will be completed by September 30, 2001.

### **DONOR RECORD MAINTENANCE AND SECURITY**

Donor file maintenance and security practices were not adequate.

Our review of 24 cash donation and 13 G-I-K files disclosed that:

- ▶ Twelve cash donation files were missing gift receipt transmittals and/or donor acknowledgement letters.
- ▶ One cash donation file was missing a gift receipt, and one gift receipt was incomplete because the date the gift was received was not included.
- ▶ Two cash donation acknowledgement letters were issued more than two months after the gift was received.
- ▶ Three cash donation files could not be located.
- ▶ Six G-I-K files could not be located by the campus.
- ▶ The donor file room was observed as being open and unattended on several occasions during the first week of the audit.

It is the practice of university advancement to send all gift information, such as gift reporting and transmittal forms, gift receipts, acceptance forms, and acknowledgement letters, to advancement services for processing, distribution, and filing. Advancement services' *Filing Guidelines and Procedures* state that a checkout log will be used when a file needs to be removed from the central files, and files should not be taken out of the central office for any reason. In order to provide an efficient and organized filing system, one person will be assigned to oversee the process and routine "spot checks" will be conducted when time allows.

The vice president for university advancement stated that the development offices where the files are currently maintained are temporary quarters due to an office-remodeling project, and it simply did not occur to those in these quarters that the files were at any risk. Once notified of the issue, the doors to the file rooms were secured, and security practices improved. He further stated that the current filing system has not been properly maintained and appears to be insufficient to meet the needs of university advancement.

Donor documentation that is incomplete, misfiled, or missing increases the risk that donor and/or outside agency requests/questions cannot be addressed and reported financial information cannot be supported.

### **Recommendation 9**

We recommend that the campus redesign and formalize donor file maintenance requirements and procedures. Consideration should be given to such issues as:

- ▶ The type of donor information and data that should be maintained on file.
- ▶ Whether it is cost-effective to maintain hardcopy files regardless of the donation amount.
- ▶ Donor file access, security, and confidentiality.
- ▶ Donor file retention and destruction policies.
- ▶ Donor file copying allowances and restrictions.

### **Campus Response**

We concur with the recommendation. Development is currently in the process of redesigning donor file maintenance processes that will streamline file maintenance while addressing the issues noted in the recommendation. Formal procedures governing file maintenance will be rewritten accordingly. Revised procedures will be implemented by October 31, 2001.

## **SYSTEM CONTROLS**

Access to the automated donor system and corresponding disaster recovery/business resumption controls were not adequate.

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.
- ▶ Access to the donor system was not formally (i.e., documented) authorized by a member of university advancement management.
- ▶ Five campus employees without an apparent need were granted access that enabled them to update and/or delete online donor records.
- ▶ Two employees were granted multiple user identification numbers and passwords.
- ▶ An effective system was not in place to notify advancement services when employees with donor system access terminate employment or transfer to another department. We noted four employees with current system access that had either transferred or had left the university.
- ▶ Advancement services had not developed and documented a disaster recovery/business resumption plan.

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.

The vice president for university advancement stated that automated system security features are readily available within the Business Systems Resources, Inc., (BSR) donor system but have not been activated for unknown reasons. He further stated that the associate vice president for university advancement handles the granting of authorizations for the donor system; and because there are safeguards in the system, no one can gain access without his approval and subsequent changes in system configuration. He also indicated that the controls surrounding notification of employees with system access that transfer or terminate employment have not been periodically reviewed.

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 10**

We recommend that the campus:

- a. Enable system access control features such as:
  - ▶ Password expiration after a certain period of time.
  - ▶ Automatic terminal shutdown after a prolonged period of inactivity.
  - ▶ Automatic terminal shutdown after “x” number of unsuccessful attempts to gain entry to the system.
- b. Redesign the statement of appropriate use form to allow university advancement management to formally approve all employees requesting access to the donor system.
- c. Review the current donor system access profiles to assure that access privileges have been granted on a job-related basis and each system user has been assigned a single user identification and password.
- d. Establish procedures to periodically review the donor system access list to assure that all current users are active university employees who have a need to access the donor system.
- e. Develop and document a disaster recovery/business resumption plan.

### **Campus Response**

We concur with the recommendation. The campus will:

- a. Enable system access control features such as periodic password expiration and automatic terminal shutdown for prolonged periods of inactivity and improper entry.
- b. Redesign the statement of appropriate use form as recommended.
- c. Review current donor system access profiles to assure that access privileges have been granted on a job-related basis. In addition, we will assure that each system user has been assigned a single user identification and password.
- d. Establish procedures to periodically review the current donor system access list to assure that access is removed for all employees who cease to have a need for system access.
- e. Develop and implement a disaster recovery/business resumption plan.

Corrective action relative to this recommendation will be completed by December 31, 2001.

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## **APPENDIX A: PERSONNEL CONTACTED**

<u>Name</u>	<u>Title</u>
John D. Welty	President
Audrey Fay	Manager, Auxiliary Corporation
Alcidia Freitas Gomes	Director of Development
Lolly Granados	Administrative Analyst
Barry R. Humphrey	Associate Vice President for University Advancement
Randy Larson	Director of Financial Services, Auxiliary Corporation
Dana Marie Lucka	Director of Development
Gwen E. Malone-Burks	Administrative Analyst
Corrinne H. Martin	Director of Development
John Melikian	Attorney, CSU Fresno Foundation
Alex Perez	Acting Director of Information Services
Benjamin F. Quillian	Vice President for Administration
J. Chris Robinson	Internal Auditor
Peter N. Smits	Vice President for University Advancement
Madeline Sotelo	Assistant Director



CALIFORNIA  
STATE  
UNIVERSITY,  
FRESNO

August 30, 2001

**RECEIVED**  
University Auditor

**SEP 04 2001**

The California State  
University

## Memorandum

To: Larry Mandel  
University Auditor  
The California State University

From: John D. Welty  
President

A handwritten signature in black ink, appearing to read "John D. Welty", written over the printed name.

Subject: **Campus Response to Audit Report Number 01-24,  
*Development at California State University, Fresno***

My staff and I have reviewed the findings of the above captioned audit report. Enclosed is the Campus Response addressing specific recommendations contained in the report.

Please feel free to contact me if you should have any questions.

JDW:cr  
Enclosure

C: Peter N. Smits  
Benjamin F. Quillian  
Barry Humphrey  
Randy Larson  
Alex Perez  
Chris Robinson

**Office of  
the President**

Thomas Administration  
Building, 103  
5241 North Maple Ave. M/S TA48  
Fresno, CA 93740-8027

559. 278-2324  
Fax 559. 278-4715

**California State University, Fresno**  
**Campus Response to Trustee Audit of**  
**Development**  
**Audit Report 01-24**

**Recommendation #1**

We recommend that the campus strengthen formalized procedures that ensure that annual development plans are received from all relevant areas; approved in writing by responsible directors of development, deans, and university advancement management; and adequately monitored throughout the year against annual fundraising goals.

**Campus Response**

We concur with the recommendation. Development is currently in the process of revising development plan preparation, review, approval and monitoring procedures. These procedures will be implemented by September 30, 2001.

**Recommendation #2**

We recommend that the campus:

- a. Establish formalized, periodic reconciliation procedures between the Foundation accounting system and the computerized donor system.
- b. Ensure that reconciliation results are documented and reviewed by Foundation and/or university advancement management.

**Campus Response**

We concur with the recommendation. The development of a new reconciliation process is already underway by Advancement staff, Foundation staff, and the Foundation's outside accounting firm. Formal reconciliation procedures will be developed and reviewed for approval by the Vice President for Advancement, the campus Internal Auditor and the Audit Committee of the Foundation. The new procedures will ensure that reconciliation results are documented and reviewed by appropriate Foundation and/or university Advancement management. The new procedures will be implemented by December 31, 2001.

**Recommendation #3**

We recommend that the campus develop and implement procedures and controls that assure marketable securities are properly valued, processed in a timely manner, and adequately documented in donor files.

**Campus Response**

We concur with the recommendation and will develop and implement new procedures and controls for gift valuation, processing and donor file documentation by September 30, 2001.

**Recommendation #4**

We recommend that the campus:

- a. Train gift-processing personnel on the software valuation requirements as specified in the *CSU Gifts of Software Policy and Procedure*.
- b. Instruct directors of development to obtain the requisite number of signatures on the software acceptance form.
- c. Establish a control step within the gift-processing function to detect and return incomplete software acceptance forms.

**Campus Response**

We concur with the recommendation. A training session will be conducted to train gift-processing personnel on the software valuation requirements of the CSU, and to train Director's of Development on how to process acceptance forms for gifts of software. A control step within the gift-processing function will be established to detect and return incomplete software acceptance forms. Corrective action relative to this recommendation will be completed by October 31, 2001.

**Recommendation #5**

We recommend that the campus train the directors of development to periodically generate overdue pledge reports from the donor system, use the reports to assure that pledges are collected or written off as uncollectible, and update local policies and procedures accordingly.

**Campus Response**

We concur with the recommendation. A training session for appropriate Development staff will be held that will cover the areas outlined in the recommendation. This training will be completed by September 30, 2001.

**Recommendation #6**

We recommend that the campus establish controls that assure completion of EIS for all property as a prerequisite of acceptance or update current university advancement and Foundation policies and procedures to reflect the current practice of only requiring EIS for commercial properties.

**Campus Response**

We concur with the recommendation. Development will work with the Foundation Board to evaluate the current practice of requiring an Environmental Impact Study for

residential property gifts. In addition, we will strengthen current procedures to assure completion of an EIS where controlling policy requires such. This corrective action will be completed by December 31, 2001.

**Recommendation #7**

We recommend that the Foundation request vice presidents to fully complete new and updated trust account applications. In addition, Foundation management should establish a control point to detect and return incomplete and/or incorrect trust account applications to the requestor.

**Campus Response**

We concur with the recommendation. All vice presidents will be asked to renew trust accounts that are over three years old. Foundation management will establish a control point to detect and return incomplete and/or incorrect trust account applications to the requestor. These actions will be completed by September 30, 2001.

**Recommendation #8**

We recommend that the campus provide the necessary staff training to assure that donor acknowledgement letters and IRS forms are fully complete and contain all the necessary information. More specifically:

- All non-quid pro quo acknowledgement letters should contain a statement indicating that no goods or services were received in exchange for the donation.
- All quid pro quo acknowledgement letters should include the fair market value of the good received or service provided to the donor.
- G-I-K acknowledgement letters should not include a valuation amount.
- The acknowledgement section of IRS form 8283 should not be completed before the donor and the appraiser, if applicable, sections are completed.

**Campus Response**

We concur with the recommendation. A training session for Advancement staff involved in development and gift processing will be conducted to address the issues in this recommendation. This training will be completed by September 30, 2001.

**Recommendation #9**

We recommend that the campus redesign and formalize donor file maintenance requirements and procedures. Consideration should be given to such issues as:

- The type of donor information and data that should be maintained on file.

- Whether it is cost-effective to maintain hardcopy files regardless of the donation amount.
- Donor file access, security, and confidentiality.
- Donor file retention and destruction policies.
- Donor file copying allowances and restrictions.

### **Campus Response**

We concur with the recommendation. Development is currently in the process of redesigning donor file maintenance processes that will streamline file maintenance while addressing the issues noted in the recommendation. Formal procedures governing file maintenance will be rewritten accordingly. Revised procedures will be implemented by October 31, 2001.

### **Recommendation #10**

We recommend that the campus:

- a. Enable system access control features such as:
  - Password expiration after a certain period of time.
  - Automatic terminal shutdown after a prolonged period of inactivity.
  - Automatic terminal shutdown after “x” number of unsuccessful attempts to gain entry to the system.
- b. Redesign the statement of appropriate use form to allow university advancement management to formally approve all employees requesting access to the donor system.
- c. Review the current donor system access profiles to assure that access privileges have been granted on a job-related basis, and each system user has been assigned a single user identification and password.
- d. Establish procedures to periodically review the donor system access list to assure that all current users are active university employees who have a need to access the donor system.
- e. Develop and document a disaster recovery/business resumption plan.

### **Campus Response**

We concur with the recommendation. The campus will:

- a. Enable system access control features such as periodic password expiration and automatic terminal shutdown for prolonged periods of inactivity and improper entry.
- b. Redesign the statement of appropriate use form as recommended.

- c. Review current donor system access profiles to assure that access privileges have been granted on a job-related basis. In addition, we will assure that each system user has been assigned a single user identification and password.
- d. Establish procedures to periodically review the current donor system access list to assure that access is removed for all employees who cease to have a need for system access.
- e. Develop and implement a disaster recovery/business resumption plan.

Corrective action relative to this recommendation will be completed by December 31, 2001.

THE CALIFORNIA STATE UNIVERSITY  
OFFICE OF THE CHANCELLOR

BAKERSFIELD

CHANNEL ISLANDS

September 6, 2001

CHICO

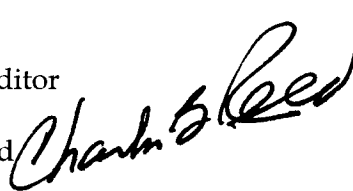
**MEMORANDUM**

DOMINGUEZ HILLS

FRESNO

TO: Larry Mandel  
University Auditor

FULLERTON

FROM: Charles B. Reed  
Chancellor


HUMBOLDT

SUBJECT: Draft Final Report Number 01-24 on *Development at California State University, Fresno*

LONG BEACH

LOS ANGELES

MARITIME ACADEMY

In response to your memorandum of September 6, 2001, I accept the response as submitted with the draft final report on *Development at California State University, Fresno*.

MONTEREY BAY

NORTHBRIDGE

POMONA

CBR:amd

SACRAMENTO

Enclosure

SAN BERNARDINO

cc: Dr. John D. Welty, President  
Mr. J. Chris Robinson, Internal Auditor

SAN DIEGO

SAN FRANCISCO

SAN JOSE

SAN LUIS OBISPO

SAN MARCOS

SONOMA

STANISLAUS