

DEVELOPMENT

**CALIFORNIA STATE UNIVERSITY,
HAYWARD**

**Report Number 01-26
December 12, 2001**

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THE CALIFORNIA STATE UNIVERSITY

CONTENTS

INTRODUCTION

Purpose.....	1
Scope and Methodology	1
Background	2
Opinion.....	3
Executive Summary	4

OBSERVATIONS, RECOMMENDATIONS, AND CAMPUS RESPONSES

Cash and Noncash Gift Administration and Control.....	6
Internal Controls (Cash Gifts).....	6
Internal Controls (Noncash Gifts).....	7
General Fund Reimbursements	9
Pledge Reporting and Record Keeping	10
Donor System Reconciliation.....	11
Fund Expenditure Control and Donor Restrictions	12
Reporting, Record Keeping, and Inventory Control.....	13
Fundraising Reporting.....	13
System Access Security.....	14

APPENDICES

APPENDIX A:	Personnel Contacted
APPENDIX B:	Campus Response
APPENDIX C:	Chancellor's Acceptance

ABBREVIATIONS

CASE	Council for Advancement and Support of Education
CSU	California State University
CSU Hayward	California State University, Hayward
CSUH Foundation	California State University, Hayward Foundation, Inc.
Educational Foundation	CSU Hayward Educational Foundation
FASB	Financial Accounting Standards Board
GASB	Governmental 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 July 1999 to June 2000. At California State University, Hayward (CSU Hayward), 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.

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 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 Hayward reported \$4,137,421 in external support, equaling approximately 6 percent of their 1998/1999 net General Fund budget of \$74,626,596.

O P I N I O N

We visited the CSU Hayward campus from May 21, 2001, through June 29, 2001, and audited the procedures in effect at that time.

In our opinion, the development operational policies and procedures were not effective, and the associated system of internal control was not adequate. More specifically, fundraising reporting was overstated; and cash receipting, disbursement processing, and accounting responsibilities were not adequately segregated. Other areas in need of improvement are referenced in the executive summary.

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]

INTERNAL CONTROLS (CASH GIFTS) [6]

The controls surrounding the receipt and processing of cash gifts were inadequate. Adequately controlling and safeguarding checks and cash decrease the risk of donations being mishandled or misused.

INTERNAL CONTROLS (NONCASH GIFTS) [7]

Gifts-in-kind processing was not aligned with California State University, Hayward (CSU Hayward) operating practices and Internal Revenue Service (IRS) regulations. Complying with established policies, procedures, and regulations for noncash gifts reduces the risk of incorrect reporting to the Office of the Chancellor, IRS penalties for the university, disallowance of tax deductions for donors, and property loss from inappropriate acts.

GENERAL FUND REIMBURSEMENTS [9]

The General Fund was not reimbursed for costs incurred on behalf of the CSU Hayward Educational Foundation (Educational Foundation) and faculty release time. Reimbursing the General Fund for costs incurred using state resources for nonstate activity reduces the risk of inappropriate use of state funds.

PLEDGE REPORTING AND RECORD KEEPING [10]

The campus had not established sufficient pledge accounting controls. Accounting for donor pledges and ensuring proper financial reporting result in compliance with Financial Accounting Standards Board (FASB) standards.

DONOR SYSTEM RECONCILIATION [11]

Reconciliations between the donor database system and the Educational Foundation accounting system were not signed and dated and did not include pledges and gifts-in-kind. Complete reconciliations decrease the risk of reporting errors and/or misappropriation of funds.

FUND EXPENDITURE CONTROL AND DONOR RESTRICTIONS [12]

Disbursement internal controls were not adequate. Adequate review processes, supporting documentation, authorization procedures, and management oversight reduce the risk of financial errors and irregularities.

REPORTING, RECORD KEEPING, AND INVENTORY CONTROL [13]

FUNDRAISING REPORTING [13]

Certain fundraising efforts reported in the 1999-2000 Annual Report on External Support (Special Revenue Report) were misstated or overstated. Reporting accurate fundraising efforts facilitates California State University (CSU) comparisons and reporting.

SYSTEM ACCESS SECURITY [14]

The system access control that prompted users to periodically change their passwords was not in place within the donor database. Changing user passwords helps to preserve the confidentiality of university advancement's information assets.

OBSERVATIONS, RECOMMENDATIONS, AND CAMPUS RESPONSES

CASH AND NONCASH GIFT ADMINISTRATION AND CONTROL

INTERNAL CONTROLS (CASH GIFTS)

The controls surrounding the receipt and processing of cash gifts were inadequate.

We noted that:

- ▶ There were no written procedures for processing gifts of cash/checks.
- ▶ Cash gifts were not logged upon receipt; consequently, there was not an effective audit trail in place.
- ▶ The campus was unable to provide deposit information in 23 of the 30 instances tested.
- ▶ The CSU Hayward Educational Foundation (Educational Foundation) accountant was assigned responsibility for donation receipt processing, bank deposits, cash accounting, and bank reconciliations.
- ▶ The Educational Foundation accountant had sole control of, and access to, the automated gift processing system.
- ▶ Checks made payable to California State University, Hayward (CSU Hayward) were endorsed by the Educational Foundation accountant and deposited directly into Educational Foundation bank accounts.

State Administrative Manual (SAM) §20050 states that the elements of a satisfactory system of internal accounting and administrative controls shall include, but not be limited to: a) a plan of organization that provides segregation of duties appropriate for proper safeguarding of state assets; b) a plan that limits access to state assets to authorized personnel who require these assets in the performance of their assigned duties; c) a system of authorization and record-keeping procedures adequate to provide effective accounting control over assets, liabilities, revenues, and expenditures; and d) an effective system of internal review.

The vice president for advancement indicated that in a small operation, duties are assigned to staff that are not always consistent with good internal controls, and checks made payable to CSU Hayward but intended as donations to the Educational Foundation were a matter of educating their donors.

Failure to adequately control and safeguard checks and cash increases the risk that donations will be mishandled or misused.

Recommendation 1

We recommend that the campus:

- a. Develop and document gift (cash and checks) receipt policies and procedures. The procedures should include independent logging, timely depositing, and effective record keeping of gift receipts.
- b. Segregate gift receipting, processing, accounting, and (bank) reconciling responsibilities.
- c. Establish system access authorization and accounting transaction monitoring procedures.
- d. Establish procedures that ensure that checks made payable to the campus are deposited into the proper accounts.

Campus Response

We concur. The campus will develop and document gift receipt policies and procedures, segregate responsibilities, establish system access and monitoring procedures, and establish policies and procedures to ensure that checks made payable to the campus are deposited into the proper accounts.

Anticipated Completion Date: July 31, 2002

INTERNAL CONTROLS (NONCASH GIFTS)

Gifts-in-kind processing was not aligned with California State University, Hayward (CSU Hayward) operating practices and Internal Revenue Service (IRS) regulations.

We found the following:

- ▶ Gifts-in-kind had not been approved in advance of acceptance by the official campus designee in 11 of 15 instances tested.
- ▶ The campus property clerk was not always notified when gifts-in-kind were received.
- ▶ Formal appraisals were not obtained for gifts-in-kind valued at \$5,000 or greater.
- ▶ Gifts-in-kind were not posted to the general accounting records.

The advancement office's policies and procedures handbook states that the development office is the only administrative unit that may officially accept, acknowledge, and process gifts to the university. It further states that the development office must approve in advance the acceptance of all noncash gifts.

Campus property management procedures provide that the property clerk is to be notified of all gifts of property, and IRS regulations require an independent appraisal of all gifts valued at \$5,000 or above prior to the donee signing of Form 8283.

SAM §20050 states that the elements of a satisfactory system of internal accounting and administrative controls shall include, but not be limited to: a) a system of authorization and record-keeping procedures adequate to provide effective accounting control over assets, liabilities, revenues, and expenditures and b) an effective system of internal review.

The vice president for advancement indicated that staffing changes had resulted in a breakdown in gifts-in-kind processing control procedures.

Failure to comply with established policies, procedures, and regulations for noncash gift processing could result in incorrect reporting to the Office of the Chancellor, IRS penalties for the university, disallowance of tax deductions for donors, and misappropriation of gifts.

Recommendation 2

We recommend that the campus:

- a. Ensure that gifts-in-kind are formally accepted by the designated campus representative.
- b. Notify the campus property clerk of all gifts-in-kind upon receipt.
- c. Ensure that all gifts-in-kind valued at \$5,000 or more are supported by an independent appraisal before signing the acknowledgement section of IRS Form 8383, *Non-Cash Charitable Contributions*.
- d. Ensure that gifts-in-kind are posted to the campus inventory accounting records.

Campus Response

We concur. The campus will establish policies and procedures for gifts-in-kind as necessary to ensure formal acceptance, notification of the campus property clerk, compliance IRS appraisal requirements, and recording in the campus inventory records.

Anticipated Completion Date: July 31, 2002

GENERAL FUND REIMBURSEMENTS

The General Fund was not reimbursed for costs incurred on behalf of the CSU Hayward Educational Foundation (Educational Foundation) and faculty release time.

Government Code §16301 states:

Except as otherwise provided by law, all money belonging to the State received from any source whatever by any state agency shall be accounted for to the Controller at the close of each month, or more frequently if required by the Controller or the Department of Finance, in such form as he prescribes, and on the order of the Controller be paid into the Treasury and credited to the General Fund, provided that amounts received as partial or full reimbursement for services furnished shall be credited to the applicable appropriation.

The Educational Foundation is the corporate entity established for the purpose of soliciting, managing, and distributing private gifts and donations given for the benefit of CSU Hayward. As this auxiliary has no employees, the campus agreed to provide business, financial, legal, public relations, and consulting services at no charge. The office of advancement was assigned administrative and managerial oversight for gifts processed through the Educational Foundation. Advancement office staff performed the following duties for the Educational Foundation: a) receiving and processing cash gifts; b) making bank deposits; c) posting entries to the general ledger records; d) preparing bank reconciliations; e) preparing check requests; and f) distributing checks.

The dean of the school of science stated that during 2000/2001, he received faculty release time reimbursement funds totaling \$14,361 as part of a sponsored research agreement. The funds were deposited into an Educational Foundation trust account. He further stated that he had not instructed the campus accounting office to invoice the trust account to reimburse the General Fund.

On May 1, 2001, the campus ceased providing accounting services to the Educational Foundation. The Educational Foundation then entered into an agreement with the California State University, Hayward Foundation, Inc. (CSUH Foundation) for gift account services at a fee that was being negotiated at the time of this review.

State funds are inappropriately used when the campus fails to obtain reimbursement for costs incurred using state resources for nonstate activity.

Recommendation 3

We recommend that the campus develop and implement controls that ensure reimbursement of the General Fund for all costs associated with campus employees performing work for, or in connection with, the Educational Foundation.

Campus Response

We concur. The campus will develop and implement controls that ensure reimbursement of the General Fund for all costs associated with campus employees performing work for, or in connection with, the Educational Foundation.

Anticipated Completion Date: July 31, 2002

PLEDGE REPORTING AND RECORD KEEPING

The campus had not established sufficient pledge accounting controls.

We found the following:

- ▶ Prior to May 1, 2001, pledges were not posted to the accounting records.
- ▶ Beginning May 1, 2001, only pledges of \$1,000 or greater were posted to the accounting records.
- ▶ Pledge write-off procedures were not documented.

Financial Accounting Standards Board (FASB) Statement No. 116, effective fiscal year starting December 15, 1994, 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.

The vice president for advancement stated that fundraising at the campus is in its infancy and specific policies and procedures have not been addressed in all operating areas.

Failure to account for donor pledges and ensure proper financial reporting results in noncompliance with FASB standards.

Recommendation 4

We recommend that the campus adhere to FASB No. 116 and document pledge accounting and write-off procedures.

Campus Response

Effective for financial statement reporting for the fiscal year ended June 30, 2001, the campus and all auxiliaries follow generally accepted accounting principles promulgated by the Governmental Accounting Standards Board (GASB). The campus will document pledge accounting and write-off procedures in accordance with those standards.

Anticipated Completion Date: July 31, 2002

DONOR SYSTEM RECONCILIATION

Reconciliations between the donor database system and the Educational Foundation accounting system were not signed and dated and did not include pledges and gifts-in-kind.

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 §7908 states that all reconciliations will show the name of the preparer and the reviewer and the date prepared and reviewed.

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 advancement stated that a pledge policy had not been established at the campus and that the accounting system was not configured to handle gifts-in-kind transactions. Further, he stated that a key staff member had not consistently followed gift accounting policies and procedures.

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

Recommendation 5

We recommend that the campus:

- a. Establish formalized, periodic reconciliation procedures between the CSUH Foundation accounting system and the computerized donor system that take into consideration pledges and gifts-in-kind.
- b. Ensure that reconciliation results are documented and reviewed by the CSUH Foundation and/or university advancement management.

Campus Response

We concur. The campus will establish procedures for reconciliation and appropriate management review of the foundation accounting records with the donor database, including pledges and gifts-in-kind.

Anticipated Completion Date: July 31, 2002

FUND EXPENDITURE CONTROL AND DONOR RESTRICTIONS

Disbursement internal controls were not adequate.

We found that:

- ▶ University advancement had not established controls to assure that disbursements were aligned with donors' intentions.
- ▶ Separate trust accounts and signature authorization files were not established for donations received and disbursements released.
- ▶ The Educational Foundation accountant was responsible for check requests, check distribution, disbursement accounting, and bank reconciliation.
- ▶ The Educational Foundation accountant maintained complete and sole password control of the foundation's general accounting system.

We noted the following exceptions during our examination of 41 disbursements:

- ▶ Twenty-two disbursements tested were not supported by adequate documentation.
- ▶ Check requests had not been approved for two disbursements.
- ▶ The payee on a \$7,679 check differed from the one on the check request.
- ▶ In one instance, a check made in error for \$1,500 had not been voided.
- ▶ A \$2,660 reimbursement was made to a campus executive for a capital improvement to a personal residence.
- ▶ Trust fund disbursements were issued based on e-mail requests and signed letters.
- ▶ In seven separate instances, hotel room fees, airfare, gasoline reimbursements, and catering services totaling \$6,947 were paid without supporting documentation (i.e., receipts, invoices, travel expense claim).

SAM §20050 states that the elements of a satisfactory system of internal accounting and administrative controls shall include, but not be limited to: a) a plan of organization that provides segregation of duties appropriate for proper safeguarding of state assets; b) a plan that limits access to state assets to authorized personnel who require these assets in the performance of their assigned duties; c) a system of authorization and record-keeping procedures adequate to provide effective accounting control over assets, liabilities, revenues, and expenditures; and d) an effective system of internal review.

The vice president for advancement stated that over a three-year period, the Educational Foundation's gift receipts tripled; however, concomitant internal controls were not put in place. He also stated that in a small operation, duties are assigned to staff that are not always consistent with good internal controls.

Inadequate review processes, supporting documentation, separation of duties, authorization procedures, and management oversight increase the risk of financial errors, irregularities, and misappropriation of funds.

As a result of the above exceptions, an investigation was initiated to determine if assets had been misappropriated. The results of that investigation and related recommendations are contained in Report #01-94, *Special Investigation, California State University, Hayward.*

REPORTING, RECORD KEEPING, AND INVENTORY CONTROL

FUNDRAISING REPORTING

Certain fundraising efforts reported in the 1999-2000 Annual Report on External Support (Special Revenue Report) were either misstated or overstated.

During our review and test of the annual report, we found the following:

- ▶ Over a three-year period, a local municipality made improvements to campus land totaling \$1,160,756. This particular item was reported as a sponsorship instead of a contract.
- ▶ A homebuilder was granted an easement across campus land for development of a housing subdivision. For the 1999-2000 reporting year, the homebuilder paid, and the campus reported, under sponsorship, \$26,144 for the easement right. This item did not qualify for inclusion in the Special Revenue Report.
- ▶ A \$43,600 contract to support faculty release time and pay research assistants was reported in 1999-2000 as voluntary support. This item did not qualify for inclusion in the Special Revenue Report.

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 Council for Advancement and Support of Education (CASE) management reporting standards state that contract revenue, including sponsored research funds, should not be counted in reports of annual fundraising results, even if circumstances indicate that the payer regarded them as a contribution.

The vice president for advancement stated that he had contacted University Advancement at the Office of the Chancellor and had received an affirmative response to reporting the cost of improvements made to campus land as a sponsorship. Additionally, he indicated that it was a management interpretational decision to report the revenue received from the easement agreement as a sponsorship. The vice president for advancement further indicated that the advancement office makes determinations of whether to report a grant or contract as voluntary support based on information provided by other campus departments.

Overstated fundraising efforts distort campus charitable contribution results, inhibit comparisons with other educational institutions, and provide misleading data to the Trustees.

Recommendation 6

We recommend that the campus establish controls that assure annual reporting is in compliance with Office of the Chancellor and CASE reporting standards.

Campus Response

The campus will establish controls that assure annual reporting is in compliance with Office of the Chancellor and CASE reporting standards. We believe this may be a systemwide issue, since the chancellor's office provided the guidance for reporting of the sponsorship in question.

Anticipated Completion Date: July 31, 2002

SYSTEM ACCESS SECURITY

The system access control that prompted users to periodically change their passwords was not in place within the donor database.

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

The vice president for advancement stated that the donor database system is not configured to provide prompts for periodic password changes and that this would have to be a manual process.

Failure to establish adequate system access security controls jeopardizes the preservation and confidentiality of university advancement's information assets.

Recommendation 7

We recommend that the campus establish procedures to ensure that user passwords within the donor database are changed periodically.

Campus Response

We concur. Since the donor database is not able to provide automatic prompts for the changing of user passwords, the campus will establish alternative procedures to ensure that passwords are changed periodically.

Anticipated Completion Date: July 31, 2002

APPENDIX A: PERSONNEL CONTACTED

<u>Name</u>	<u>Title</u>
Norma S. Rees	President
John Abby	Assistant Controller
John Charles	Associate Vice President for Information Technology
Dennis Eloë	Vice President, University Advancement
Elizabeth Graw	Director, Alumni Relations
Neal Hoss	Controller
Andre Johnson	Systems Administrator
Richard Metz	Vice President, Administration and Business Affairs
Darwin Patnode	Director, Major Giving
Kathy Pitta	Property Clerk
Marilyn Steiger	Controller, CSU Hayward Foundation
Lynn Strong	Director, Annual Fund
David Wright	Accountant, CSU Hayward Educational Foundation
Joseph Zelan	Director, Research and Sponsored Programs



Office of the President

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RECEIVED
University Auditor

JAN 31 2002

**The California State
University**

January 28, 2002

Mr. Larry Mandel
University Auditor
The California State University
401 Golden Shore
Long Beach, CA 90802

Subject: **Campus Response to Recommendations of Development Audit 01-26
California State University, Hayward**

Dear Mr. Mandel,

Please find enclosed California State University, Hayward's response to the recommendations resulting from our Development Audit 01-26. For each recommendation, we have included a corrective action plan and an anticipated date for implementation.

We appreciate the efforts of you and your staff during the process and the professional manner in which the audit and the related special investigation were performed.

Sincerely,

Norma S. Rees
President

Enclosure

Cc: Chancellor Reed
Vice President Metz
Interim Vice President Servatius

Recommendation 1 - CASH AND NONCASH GIFT ADMINISTRATION AND CONTROL – INTERNAL CONTROLS (CASH GIFTS)

We recommend that the campus:

- a. Develop and document gift (cash and checks) receipt policies and procedures. The procedures should include independent logging, timely depositing, and effective record keeping of gift receipts.
- b. Segregate gift receipting, processing, accounting, and (bank) reconciling responsibilities.
- c. Establish system access authorization and accounting transaction-monitoring procedures.
- d. Establish procedures that ensure that checks made payable to the campus are deposited into the proper accounts.

Campus Response

We concur. The campus will develop and document gift receipt policies and procedures, segregate responsibilities, establish system access and monitoring procedures, and establish policies and procedures to ensure that checks made payable to the campus are deposited into the proper accounts.

Anticipated Completion Date: July 31, 2002

Recommendation 2 - CASH AND NONCASH GIFT ADMINISTRATION AND CONTROL – INTERNAL CONTROLS (NONCASH GIFTS)

We recommend that the campus:

- a. Ensure that gifts-in-kind are formally accepted by the designated campus representative.
- b. Notify the campus property clerk of all gifts-in-kind upon receipt.
- c. Ensure that all gifts-in-kind valued at \$5,000 or more are supported by an independent appraisal before signing the acknowledgement section of IRS Form 8383, *Non-Cash Charitable Contributions*.
- d. Ensure that gifts-in-kind are posted to the campus inventory accounting records.

Campus Response

We concur. The campus will establish policies and procedures for gifts-in-kind as necessary to ensure formal acceptance, notification of the campus property clerk, compliance IRS appraisal requirements, and recording in the campus inventory records.

Anticipated Completion Date: July 31, 2002

Recommendation 3 – GENERAL FUND REIMBURSEMENTS

We recommend that the campus develop and implement controls that ensure reimbursement of the General Fund for all costs associated with campus employees performing work for, or in connection with the Educational Foundation.

Campus Response

We concur. The campus will develop and implement controls that ensure reimbursement of the General Fund for all costs associated with campus employees performing work for, or in connection with the Educational Foundation.

Anticipated Completion Date: July 31, 2002

Recommendation 4 – PLEDGE REPORTING AND RECORD KEEPING

We recommend that the campus adhere to FASB No. 116 and document pledge accounting and write-off procedures.

Campus Response

Effective for financial statement reporting for the fiscal year ended June 30, 2001, the campus and all auxiliaries follow generally accepted accounting principles promulgated by the Governmental Accounting Standards Board (GASB). The campus will document pledge accounting and write-off procedures in accordance with those standards.

Anticipated Completion Date: July 31, 2002

Recommendation 5 – DONOR SYSTEM RECONCILIATION

We recommend that the campus:

- a. Establish formalized, periodic reconciliation procedures between the foundation accounting system and the computerized donor system that take into consideration pledges and gifts-in-kind.
- b. Ensure that reconciliation results are documented and reviewed by foundation and/or university advancement management.

Campus Response

We concur. The campus will establish procedures for reconciliation and appropriate management review of the foundation accounting records with the donor database, including pledges and gifts-in-kind.

Anticipated Completion Date: July 31, 2002

Recommendation 6 – REPORTING, RECORD KEEPING, AND INVENTORY CONTROL

We recommend that the campus establish controls that assure annual reporting is in compliance with Office of the Chancellor and CASE reporting standards.

Campus Response

The campus will establish controls that assure annual reporting is in compliance with Office of the Chancellor and CASE reporting standards. We believe this may be a systemwide issue, since the Chancellor's Office provided the guidance for reporting of the sponsorship in question.

Anticipated Completion Date: July 31, 2002

Recommendation 7 – INFORMATION TECHNOLOGY

We recommend that the campus establish procedures to ensure that user passwords within the donor database are changed periodically.

Campus Response

We concur. Since the donor database is not able to provide automatic prompts for the changing of user passwords, the campus will establish alternative procedures to ensure that passwords are changed periodically.

Anticipated Completion Date: July 31, 2002

THE CALIFORNIA STATE UNIVERSITY
OFFICE OF THE CHANCELLOR

BAKERSFIELD

February 6, 2002

CHANNEL ISLANDS

CHICO

MEMORANDUM

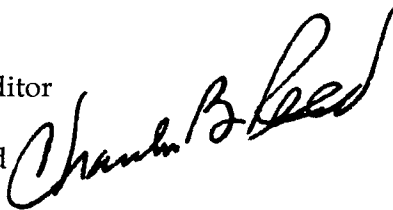
DOMINGUEZ HILLS

FRESNO

TO: Larry Mandel
University Auditor

FULLERTON

FROM: Charles B. Reed
Chancellor



HAYWARD

HUMBOLDT

SUBJECT: Draft Final Report Number 01-26 on *Development* at
California State University, Hayward

LONG BEACH

LOS ANGELES

MARITIME ACADEMY

In response to your memorandum of February 6, 2002, I accept the
response as submitted with the draft final report on *Development* at
California State University, Hayward.

MONTEREY BAY

NORTHRIDGE

POMONA

CBR:amd

SACRAMENTO

Enclosure

SAN BERNARDINO

cc: Norma S. Rees, President
Richard Metz, Vice President, Administration and Business Affairs

SAN DIEGO

SAN FRANCISCO

SAN JOSE

SAN LUIS OBISPO

SAN MARCOS

SONOMA

STANISLAUS