

**DEVELOPMENT**  
**CALIFORNIA STATE UNIVERSITY,**  
**MONTEREY BAY**

**Report Number 01-27**  
**October 16, 2001**

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# CONTENTS

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## INTRODUCTION

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

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## OBSERVATIONS, RECOMMENDATIONS, AND CAMPUS RESPONSES

Cash and Noncash Gift Administration and Control.....	6
Policies and Procedures .....	6
Donation Receipt Processing .....	7
Donor System Reconciliation.....	9
Gift-In-Kind Processing.....	10
Financial Reporting.....	11
Fund Expenditure Control and Donor Restrictions .....	12
Reporting, Record Keeping, and Inventory Control .....	14
Donor System Control and Security .....	14
Inventory Control .....	15
Regulatory and CSU Compliance .....	16

## **APPENDICES**

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

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## **ABBREVIATIONS**

CSU	California State University
CSU Monterey Bay	California State University, Monterey Bay
FASB	Financial Accounting Standard Board
Foundation	CSU Monterey Bay Foundation
G-I-K	Gift-In-Kind
GRT	Gift Receipt and Transmittal
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, 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*.

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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, Monterey Bay (CSU Monterey Bay), 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 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 Monterey Bay generated \$4,152,628 in external support, equaling approximately 12 percent of their 1998/1999 net General Fund budget of \$35,105,453.

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## **OPINION**

We visited the CSU Monterey Bay campus from June 18, 2001, through July 20, 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, disbursement controls needed to be strengthened; a reconciliation between the donor system and general ledger was not in place; and opportunities existed to enhance information asset security. 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.

## **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]**

#### **POLICIES AND PROCEDURES [6]**

Critical policies and procedures that impact the administration and control environment for university advancement were not finalized. Approved and effectively communicated procedural and operational policies and procedures assure that authorized and necessary tasks are performed.

#### **DONATION RECEIPT PROCESSING [7]**

Receipt processing procedures did not ensure that donations were properly controlled and safeguarded. An adequately controlled and secure donation-receiving environment reduces the risks that donations will be mishandled or misused.

#### **DONOR SYSTEM RECONCILIATION [9]**

Reconciliations between computerized donor records maintained by university advancement and the CSU Monterey Bay Foundation (Foundation) accounting system were not performed. Reconciliations between systems lessen the likelihood of reporting errors and cash accountability problems.

#### **GIFT-IN-KIND PROCESSING [10]**

Gift-In-Kind (G-I-K) processing was not in accordance with California State University, Monterey Bay (CSU Monterey Bay) operating practices and standards. Updated donor system records and adequate tax deduction information and support to the donor lessen the chance of Internal Revenue Service (IRS) penalties and disallowance of donor tax deductions.

#### **FINANCIAL REPORTING [11]**

University advancement did not communicate donor pledge information to the Foundation campus accounting unit for inclusion in the financial statement. Properly communicated donor pledge information ensures proper financial reporting and compliance with Financial Accounting Standards Board (FASB) standards.

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

Controls over the disbursement of donated funds did not ensure that disbursements were properly authorized and in accordance with donor intentions. Adequate controls over the disbursement of donated funds decrease the risk of unauthorized disbursements and noncompliance with donor intentions.

## **REPORTING, RECORD KEEPING AND INVENTORY CONTROL [14]**

### **DONOR SYSTEM CONTROL AND SECURITY [14]**

Access to the university advancement donor system was not adequately controlled. Adequate data access security and control procedures ensure the preservation and confidentiality of university advancement information assets.

### **INVENTORY CONTROL [15]**

Noncash, G-I-K inventory control procedures and a recent inventory report had not been finalized. In addition, some donations could not be located while others were not properly tagged. Adequate controls over G-I-K inventory reduce the risk of misplaced or misappropriated donations and ensure the propriety of accounting and donation records.

## **REGULATORY AND CSU COMPLIANCE [16]**

University advancement was not in compliance with the California State University (CSU) software valuation policy. Consistent adherence to software valuation standards reduces the risk of incorrect reporting and facilitates comparisons of external funding achievement among CSU campuses.

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## OBSERVATIONS, RECOMMENDATIONS, AND CAMPUS RESPONSES

### CASH AND NONCASH GIFT ADMINISTRATION AND CONTROL

#### POLICIES AND PROCEDURES

Critical policies and procedures that impact the administration and control environment for university advancement were not finalized.

More specifically, the following policies and procedures were in draft form and, consequently, had not been formally approved by management and disseminated to affected employees:

- ▶ *Private Gift Procedures Reference Manual.*
- ▶ *Property Policies and Procedures.*

State Administrative Manual (SAM) §20050 states that one symptom of a deficient internal control system is policy and procedural or operational manuals that are either not currently maintained or are nonexistent.

The vice president for university advancement stated that the *Private Gift Procedures Reference Manual* was in the process of being drafted at the time of the audit. The director of business and support services stated that the approved *Property Policies and Procedures* were in effect at the time of the development audit, but are currently in the revision process.

The absence of approved and effectively communicated procedural or operational policies and procedures could result in employees performing unauthorized and unnecessary tasks and allocating time to risks that are minimal or nonexistent.

#### **Recommendation 1**

We recommend that the campus finalize the university advancement *Private Gift Procedures Reference Manual* and *Property Policies and Procedures* and communicate the documents to all affected employees.

#### **Campus Response**

We concur. The *Private Gift Procedures Reference Manual* was in draft stage at the time of the audit and is undergoing its final revisions taking into consideration recommendations from the auditor. We expect the final version to go to print no later than December 31, with copies disseminated to the campus by January 31, 2002.

Revisions to the *Property Policies and Procedures* will be completed and in force by March 31, 2002.

## DONATION RECEIPT PROCESSING

Receipt processing procedures did not ensure that donations were properly controlled and safeguarded.

We found that:

- ▶ University advancement was not consistently notified when other university departments or academic colleges received cash and noncash donations. As a result, there was no assurance that the donor file was updated to reflect the gifts received.
- ▶ Employees outside of university advancement who received donations did not complete a Gift Receipt and Transmittal (GRT) form or consistently forward checks to the university advancement department.
- ▶ University advancement did not always forward donation checks to the campus cashier's office timely.
- ▶ Credit card donations recorded on request for deposit forms listed the cardholders' name, credit card type, card number, expiration date, and amount of donation.
- ▶ Only one individual knew the combination to the university advancement safe and the appropriate safe records were not maintained.

The California State University, Monterey Bay (CSU Monterey Bay) *Private Gift Procedures Reference Manual (draft)* states that all checks mailed to any other location must be forwarded to the university advancement services office ideally within 24 hours of receipt. Furthermore, a completed GRT form should accompany the check with any additional information accompanying the gift from the donor. University advancement procedures also require that donation checks be delivered to the cashier's office within two working days to ensure expeditious deposits.

Generally accepted privacy and confidentiality practices dictate that donor credit card information be safeguarded and limited to as few people as possible.

SAM §8024, *Safes and Vaults*, requires that the combination be known to as few persons as possible consistent with operating requirements and the value of the cash stored. In addition, a record should be maintained that details the date the combination was last changed and the names of persons knowing the present combination. The combination should be changed when it becomes known to an excessive number of employees or if any employee having knowledge of the combination leaves the employ of the agency or no longer requires the combination.

SAM §8032.1, *When to Deposit*, states that agencies that have safes, vaults, money chests, or other comparable storage that is adequate to safeguard cash will accumulate collections until they amount to \$1,000 in cash or \$10,000 in cash, checks, money orders, and warrants (excluding state warrants and state checks), whichever occurs first. Agencies that do not have a safe, vault, or money chest that is

adequate to safeguard cash will accumulate \$250 in cash or \$10,000 in cash, checks, money orders, and warrants (excluding state warrants and state checks), whichever occurs first.

The director of accounting stated that the procedure to notify university advancement regarding donation deposits made directly by departments was not consistently followed by foundation accounting. The interim manager of advancement services stated that the policy of having a GRT form completed for each donation has not yet been implemented. Further, all donation checks being deposited within two days, as stated in the procedures and reference manual, was not reasonable considering the current work environment. He also stated that the practice of including complete credit card information on the deposit form was immediately changed when brought to his attention, and in the department's effort to minimize access to cash and checks, only one person knew the safe combination.

Failure to adequately control and secure donations increases the risk that they will be mishandled or misused.

## **Recommendation 2**

We recommend that the campus:

- a. Instruct the campus cashier's office to notify university advancement of all donations that are received from university departments or academic colleges.
- b. Update university advancement policies and procedures to reflect SAM requirements and provide procedural training to all campus employees who participate in the fundraising process.
- c. Limit credit card information recorded on the request for deposit forms.
- d. Share the university advancement safe combination with at least one other employee and maintain the appropriate records.

## **Campus Response**

- a. We concur. Existing, unwritten cashiering procedures which require that university advancement be notified of all donations that are received by the cashier's office will be reiterated. These procedures will be added to existing, written cashiering procedures by January 31, 2002.
- b. We concur. As mentioned in Campus Response 1, the *Private Gift Procedures Reference Manual* is undergoing its final revisions. The revisions include consideration of recommendations in SAM §8024, *Safes and Vaults*, and SAM §8032.1, *When to Deposit*. Dissemination of the *Private Gift Procedures Reference Manual* to CSUMB departments and institutes will include a brief in-service to the appropriate staff, faculty, and administrators regarding policies and procedures, particularly the forwarding of all donations directly to university advancement with the appropriate Gift Report and Transmittal (GRT) form or Chain of Possession (COP) slip.

- c. We concur. Immediately upon recommendation by the auditor in July 2001, we modified our credit card donations process. Previously, the deposit slips included all of the donor's credit card information posing an unnecessary risk to CSUMB. Deposit slips now only include the last four digits of the credit card number as reference.
- d. We concur. Prior to the audit, access to the university advancement's safe was limited to one person. Per the auditor's recommendations and for emergency and safety purposes, a backup staff person now has access. Furthermore, in accordance with SAM §8024, *Safes and Vaults*, appropriate records are maintained.

### **DONOR SYSTEM RECONCILIATION**

Reconciliations between computerized donor records maintained by university advancement and the CSU Monterey Bay Foundation (Foundation) accounting system were not performed.

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.

The director of accounting stated that the procedure to periodically reconcile university advancement donor records to Foundation general ledger activity was not yet in place due to current systems' difficulties with capturing necessary data from the Foundation accounting system.

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

### **Recommendation 3**

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**

- a. We concur. Foundation accounting will collaborate with university advancement to establish and implement reconciliation procedures by February 28, 2002.

- b. We concur. After periodic reconciliation procedures have been formalized and established per Campus Response 3a, both Foundation accounting and University Advancement management will implement a review process for evaluating the results by May 1, 2002.

## GIFT-IN-KIND PROCESSING

Gift-In-Kind (G-I-K) processing was not in accordance with California State University, Monterey Bay (CSU Monterey Bay) operating practices and standards.

We noted the following during our examination of eight G-I-K donations:

- ▶ Six G-I-K donations were formally accepted after the receipt date, and the other two were not formally accepted by the Foundation.
- ▶ The *Donor Letter for Gift of Personal Property, Software and Services* form was not signed by three of the eight donors.
- ▶ The donor system had not been updated to reflect the in-kind gifts.
- ▶ Although thank-you letters had been prepared during June 2001, acknowledgement letters had not been prepared and issued for the in-kind gifts received between December 3, 2000, and May 25, 2001.
- ▶ The campus completed the acknowledgment signature block on the Internal Revenue Service (IRS) Form 8283, *Non-Cash Charitable Contributions*, before the donor and the appraiser completed the donated property information, gift valuation, and appraisal sections.

The CSU Monterey Bay *Private Gift Procedures Reference Manual (draft)* states that faculty/staff members accepting in-kind gifts from donors must first contact the development office and complete Part A (acceptance form for personal property, software, and services) and Part B (donor letter for gifts of personal property, software, and services) of the gift acceptance form. Once Part A is completed, the development representative will forward Part B to the donor so that s/he can formally make the gift. The responsible development officer shall ensure that the gift is recorded in the university advancement database and the appropriate acknowledgement and recognition is made. The Foundation shall provide the donor with an IRS Form 8283 for gifts of a combined total of \$500 or more.

The director of planned giving stated that the above-noted problems occurred when campus contacts for gifts did not notify university advancement to initiate the G-I-K process. He further stated that in the case of the two gifts not formally accepted by the Foundation, the campus chief financial officer felt that it was important to receive confirmed gift valuations from the donors before accepting the gifts. Although phone follow-up calls had been made, the campus was not always successful in obtaining a timely sign-off of the donor letter for gift of personal property, software, and services form by the donor. Typically, acknowledgement letters are not issued until the appropriate information and

documentation has been received from the donor. The director of accounting also stated that the signed copies of IRS Form 8283 were sent to donors in error. The advancement systems coordinator stated that at the time of the audit, the donor data system had not been updated with some of the G-I-K information pending the return of the signed deed letter, which formalizes the gift and confirms the correct value to enter into the system.

Failure to update the donor system and provide adequate tax deduction information and support to the donor in a timely manner could result in incorrect reporting to the chancellor's office, IRS penalties for the university, and disallowance of a tax deduction for the donor.

#### **Recommendation 4**

We recommend that the campus provide the necessary training to assure that CSU Monterey Bay employees involved in the G-I-K process understand university advancement operating policies, procedures, and controls.

#### **Campus Response**

We concur. We have created a new Gift-In-Kind & Pledge Processing Committee with several charges including the formalizing of the GIK review and acceptance process, establishing acceptance procedures and disseminating this information to appropriate campus faculty, staff, and administrators. Although much of this is inherently ongoing, we anticipate full implementation by May 1, 2002.

### **FINANCIAL REPORTING**

University advancement did not communicate donor pledge information to the Foundation campus accounting unit for inclusion in the financial statement.

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.

The director of accounting stated that a procedure to record material pledges as revenue in the period promised in accordance with FASB 116 was not in place.

Failure to communicate donor pledge information to the Foundation and ensure proper financial reporting results in noncompliance with FASB standards.

### **Recommendation 5**

We recommend that the campus establish procedures to periodically communicate donor pledge information to the campus accounting unit and ensure that pledge information is reported in accordance with FASB Statement No. 116.

### **Campus Response**

We concur. Procedures will be established by January 31, 2002, to periodically communicate donor pledge information to the campus accounting unit. The campus accounting unit will establish written instructions by February 28, 2002, to insure that pledge information is reported in accordance with FASB Statement No. 116 and/or other appropriate accounting guidelines.

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

Controls over the disbursement of donated funds did not ensure that expenditures were properly authorized and in accordance with donor intentions.

We found that:

- ▶ Neither university advancement nor accounts payable assured that disbursements were in accordance with donor intentions.
- ▶ The Foundation issued accounting disbursement control reports on a request versus monthly basis as indicated on the account request/update form.
- ▶ In one instance, the person assigned to receive the accounting disbursement control report was not sufficiently independent of the person authorized to approve disbursements.
- ▶ In one instance, the disbursement authorizer was also the person assigned to receive and review the accounting disbursement control report.
- ▶ The account request/update (authorization/signature specimen) forms had not been updated to reflect university advancement and Foundation management transfers, terminations, and new hires.
- ▶ Employees who were not formally authorized to make expenditures for donation accounts approved 9 of the 49 disbursements reviewed.
- ▶ Two different fund payment request forms were in use during the audit period. One form required both department and Foundation management authorization while the other required only department authorization.
- ▶ Foundation management did not approve 12 of the 49 fund payment request forms reviewed.

- ▶ One disbursement authorizer approved a disbursement that was \$100 greater than her limit.

SAM §20050 states that the elements of a satisfactory system of internal accounting and administrative controls shall include, but not 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 director of accounting stated that the Foundation accounts payable procedures to verify alignment of disbursements with donors' intentions were not consistently performed due to critical staff shortages. Further, the procedures to issue accounting control reports on a timely basis was not consistently performed by Foundation accounting due to staff shortages during peak workloads. The director of accounting also stated that the superceded fund payment request forms were submitted because campus departments were not adequately notified that the revised form requiring only department authorization was in effect.

Inadequate controls over the disbursement of donated funds increase the risk of unauthorized disbursements and activities and noncompliance with donor intentions.

### **Recommendation 6**

We recommend that the campus review, update, and strengthen controls over the disbursement of donated funds to ensure disbursements are properly authorized, aligned with donor intentions, and under appropriate internal review.

### **Campus Response**

We concur. In colligation with university advancement, Foundation accounting will review, update, and strengthen controls over the disbursement of donated funds to ensure disbursements are properly authorized, aligned with donor intentions, and under appropriate internal review by February 28, 2002.

## REPORTING, RECORD KEEPING, AND INVENTORY CONTROL

### DONOR SYSTEM CONTROL AND SECURITY

Access to the university advancement donor system was not adequately controlled.

We found that:

- ▶ Raiser's Edge donor system access authorization was not formally documented.
- ▶ The assigned business systems analyst was granted donor system supervisory access clearance.
- ▶ The director of development system access group was granted transaction clearances that were not job related.
- ▶ An unspecified member (guest) was added to the university relations system access group.

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 (see §4840 through §4845) dealing with information technology security and risk management.

The advancement systems coordinator stated that prior to the audit, university advancement had just converted to the Raiser's Edge software package and were still learning the best practices and uses of the system.

The failure to provide adequate data access security and control jeopardizes the preservation and confidentiality of university advancement information assets.

#### **Recommendation 7**

We recommend that the campus:

- a. Establish procedures and corresponding form(s) for university advancement management approval of all employees requesting access to the donor system. Additionally, the form(s) should contain a statement regarding the confidentiality of donor system information.
- b. Revoke the supervisory access clearance for the business systems analyst.
- c. Review current donor system transaction clearances and capabilities to assure that access to donor system information is granted on a job-related "need" basis.
- d. Delete access group member identifications that are not assigned to specific employees.

- e. Establish procedures to periodically review system access clearances to assure that only current, authorized employees with a job-related need have access to donor system information.

**Campus Response**

- a. We concur. Formulation of a *Database Policies and Procedures Manual* is currently underway. This *Manual* will address many database-related issues including donor system security and access. A Database Access Request Form, to include statements regarding the confidentiality of donor system information, will be created and implemented no later than February 2002.
- b. We concur. The business systems analyst referred to in the recommendation was our IT tech support person, Ed Munoz, who was assisting us with our conversion to Raiser's Edge. Since the completion of the conversion, Mr. Munoz no longer needs and no longer has access to the data.
- c. We concur. As forms, policies, and procedures are developed and implemented, we will reevaluate everyone who currently has access to the donor database and make any necessary adjustments. We anticipate completion of the first full review by June 1, 2002, then annually every June.
- d. We concur. Group member identifications that are not assigned to specific employees have been deleted.
- e. We concur. As mentioned in Response 7c, a reevaluation of current access will occur as the forms, policies, and procedures are developed. Subsequently, annual evaluations of access will be scheduled to assure that only current, authorized employees with job-related needs will have access to the donor system information.

**INVENTORY CONTROL**

Noncash, G-I-K inventory control procedures and a recent inventory report had not been finalized. In addition, some donations could not be located while others were not properly tagged.

Our review of five G-I-K donations disclosed discrepancies in two instances. Of the 10 Compaq computers included in two gifts, only five could be located by the campus. The computers that could not be located were valued at \$22,985. An examination of the five computers that were located showed that they were incorrectly bar coded as campus property instead of Foundation property.

CSU Monterey Bay *Property Policy and Procedures (draft)* indicates that desktop and laptop computers will be bar coded prior to delivery. It was the practice of the property department to use different bar codes as one means to make a distinction between campus and Foundation (gift) property.

The director of business and support services stated that the most recent physical inventory was initiated in May 2001, and the reconciliation report will be completed in October 2001. He further stated that the missing computers were moved without notifying the property office and cannot be located until the appropriate faculty members return to the campus for the fall term. In addition, he

acknowledged that the five computers were incorrectly bar coded as campus property and stated that G-I-K acceptance procedures needed to be updated to assure the accuracy of bar coding based on which entity accepts title.

Inadequate controls over G-I-K inventory increase the risk of misplaced and misappropriated donations and the misstatement of accounting and donation records.

### **Recommendation 8**

We recommend that the campus:

- a. Finalize the *Property Policies and Procedures* manual and campus-wide inventory report.
- b. Strengthen controls over the tagging of property.
- c. Take the necessary action to locate the missing computers.

### **Campus Response**

- a. We concur. Completion of the revisions to the *Property Policies and Procedures* manual will be completed by March 31, 2002. Campus-wide inventory reconciliation will be completed by the same date.
- b. We concur. As part of the revisions to the *Property Policies and Procedures* manual mentioned in 8a, we will strengthen controls over the tagging of property.
- c. We concur. In collaboration with university advancement, the property department is in the process of locating the missing computers. A full report of the missing property will be completed by March 31, 2002.

## **REGULATORY AND CSU COMPLIANCE**

University advancement was not in compliance with the California State University (CSU) software valuation policy.

We found that the campus gift policy committee approved a value of \$522,100 for one donation of 374 software floating licenses. Based upon our interpretation of the *CSU Gifts of Software Policy and Procedures*, the gift should be valued at \$3,000, the value of one seat.

The *CSU Gifts of Software Policy and Procedure*, dated June 1999, states that the campus should establish a reasonable valuation that closely follows the Council for Advancement and Support of Education 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.

The director of planned giving stated that the \$522,100 valuation should stand and has provided further detail and substantiation to the vice chancellor for university advancement for his review.

Inconsistent adherence to standards increases the risk of incorrect reporting and hinders comparison of external funding achievement among CSU campuses.

**Recommendation 9**

We recommend that the campus request that the Office of the Chancellor clarify the software valuation policy and act accordingly.

**Campus Response**

We concur. In accordance with communications received from Vice Chancellor Louis Caldera, we have resubmitted our reports to show a site license value of \$3,000 for the software in question.

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## **APPENDIX A: PERSONNEL CONTACTED**

<u>Name</u>	<u>Title</u>
Peter P. Smith	President
George Ball	Property Clerk
Francine Flores	Advancement Systems Coordinator
Lorena Foggio	Payroll/Grants Technician
Daryl Gagliardi	Senior Accountant
Beverly Grova	Senior Director of Development
William Jump	Director of Accounting
Cecilia Lucas	Accounting Manager
John R. McCutchon	Chief of Staff
Bell S. Morgenstern	Accounts Payable Technician
Ed Muñoz	Business Systems Analyst
Colleen A. Nickles	Chief Financial Officer
Monica Rodriguez	Grants Accountant
Holly Roller	Auxiliary Accountant
Richard J. Taylor	Director of Business and Support Services
Scott C. Warrington	Vice President, University Advancement
Stephen A. Weldon	Director of Planned Giving
Richard H. Westing	Interim Manager, Advancement Services



# CALIFORNIA STATE UNIVERSITY MONTEREY BAY

Administration & Finance

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**Date:** December 4, 2001

**RECEIVED**  
University Auditor

DEC 05 2001

**To:** Larry Mandel  
University Auditor

**The California State**  
University

**From:** Colleen Nickles  
Associate Vice President, Finance

*Colleen Nickles*

**Subject:** Campus response to Recommendations of Audit Report Number 01-27,  
*Development at California State University, Monterey Bay*

On behalf of President Smith, in response to your memorandum on the subject dated November 1, 2001, attached is the University's response to recommendations one through nine of your Audit Report Number 01-27.

I would also like to take this opportunity to compliment you on the professionalism of you and your staff, particularly Nate. Should you have any questions concerning our response, please contact me.

Enclosure

cc: Dr. Peter Smith, President (w/enclosures)  
Scott Warrington, Vice President for University Advancement (w/enclosures)

**DEVELOPMENT**

**CALIFORNIA STATE UNIVERSITY,  
MONTEREY BAY**

**Report Number 01-27  
October 16, 2001**

**Recommendation 1**

We recommend that the campus finalize the university advancement *Private Gift Procedures Reference Manual* and *Property Policies and Procedures* and communicate the documents to all affected employees.

**Campus Response**

We concur. The *Private Gift Procedures Reference Manual* was in draft stage at the time of the audit, and is undergoing its final revisions taking into consideration recommendations from the auditor. We expect the final version to go to print no later than December 31, with copies disseminated to the campus by January 31, 2002.

Revisions to the *Property Policies and Procedures* will be completed and in force by March 31, 2002.

**Recommendation 2**

We recommend that the campus:

- a. Instruct the campus cashier's office to notify university advancement of all donations that are received from university departments or academic colleges.
- b. Update university advancement policies and procedures to reflect SAM requirements and provide procedural training to all campus employees who participate in the fundraising process.
- c. Limit credit card information recorded on the request for deposit forms.
- d. Share the university advancement safe combination with at least one other employee and maintain the appropriate records.

**Campus Response**

- a. We concur. Existing, unwritten Cashiering procedures which require that university advancement be notified of all donations that are received by the cashier's office will be reiterated. These procedures will be added to existing written cashiering procedures by January 31, 2002.

- b. We concur. As mentioned in Campus Response 1, the *Private Gift Procedures Reference Manual* is undergoing its final revisions. The revisions include consideration of recommendations in SAM §8024, *Safes and Vaults*, and SAM §8032.1, *When to Deposit*. Dissemination of the *Private Gift Procedures Reference Manual* to CSUMB departments and institutes will include a brief in-service to the appropriate staff, faculty and administrators regarding policies and procedures, particularly the forwarding of all donations directly to University Advancement with the appropriate Gift Report and Transmittal (GRT) form or Chain of Possession (COP) slip.
- c. We concur. Immediately upon recommendation by the auditor in July 2001, we modified our credit card donations process. Previously the deposit slips included all of the donor's credit card information posing an unnecessary risk to CSUMB. Deposit slips now only include the last four digits of the credit card number as reference.
- d. We concur. Prior to the audit, access to the University Advancement's safe was limited to one person. Per the auditor's recommendations and for emergency and safety purposes, a backup staff person now has access. Furthermore, in accordance with SAM §8024, *Safes and Vaults*, appropriate records are maintained.

### **Recommendation 3**

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**

- a. We concur. Foundation Accounting will collaborate with University Advancement to establish and implement reconciliation procedures by February 28 2002.
- b. We concur. After periodic reconciliation procedures have been formalized and established per Campus Response 3a, both Foundation Accounting and University Advancement management will implement a review process for evaluating the results by May 1, 2002.

### **Recommendation 4**

We recommend that the campus provide the necessary training to assure that CSU Monterey Bay employees involved in the G-I-K process understand university advancement operating policies, procedures, and controls.

### **Campus Response**

We concur. We have created a new Gift-In-Kind & Pledge Processing Committee with several charges including the formalizing of the GIK review and acceptance process, establishing acceptance procedures and disseminating this information to appropriate campus faculty, staff and administrators. Although much of this is inherently ongoing, we anticipate full implementation by May 1, 2002.

**Recommendation 5**

We recommend that the campus establish procedures to periodically communicate donor pledge information to the campus accounting unit and ensure that pledge information is reported in accordance with FASB Statement No. 116.

**Campus Response**

We concur. Procedures will be established by January 31, 2002 to periodically communicate donor pledge information to the campus accounting unit. The campus accounting unit will establish written instructions by February 28, 2002 to insure that pledge information is reported in accordance with FASB Statement No. 116 and/or other appropriate accounting guidelines.

**Recommendation 6**

We recommend that the campus review, update, and strengthen controls over the disbursement of donated funds to ensure disbursements are properly authorized, aligned with donor intentions, and under appropriate internal review.

**Campus Response**

We concur. In colligation with university advancement, Foundation accounting will review, update, and strengthen controls over the disbursement of donated funds to ensure disbursements are properly authorized, aligned with donor intentions, and under appropriate internal review by February 28, 2002

**Recommendation 7**

We recommend that the campus:

- a. Establish procedures and corresponding form(s) for university advancement management approval of all employees requesting access to the donor system. Additionally, the form(s) should contain a statement regarding the confidentiality of donor system information.
- b. Revoke the supervisory access clearance for the business systems analyst.
- c. Review current donor system transaction clearances and capabilities to assure that access to donor system information is granted on a job-related “need” basis.
- d. Delete access group member identifications that are not assigned to specific employees.
- e. Establish procedures to periodically review system access clearances to assure that only current, authorized employees with a job-related need have access to donor system information.

**Campus Response**

- a. We concur. Formulation of a *Database Policies and Procedures Manual* is currently underway. This *Manual* will address many database-related issues including donor system

security and access. A Database Access Request Form, to include statements regarding the confidentiality of donor system information, will be created and implemented no later than February 2002.

- b. We concur. The business systems analyst referred to in the recommendation was our IT tech support person, Ed Munoz, who was assisting us with our conversion to Raiser's Edge. Since the completion of the conversion, Mr. Munoz no longer needs and no longer has access to the data.
- c. We concur. As forms, policies, and procedures are developed and implemented we will re-evaluate everyone who currently has access to the donor database and make any necessary adjustments. We anticipate completion of the first full review by June 1, 2002, then annually every June.
- d. We concur. Group member identifications that are not assigned to specific employees have been deleted.
- e. We concur. As mentioned in Response 7c, a re-evaluation of current access will occur as the forms, policies and procedures are developed. Subsequently, annual evaluations of access will be scheduled to assure that only current, authorized employees with job-related needs will have access to the donor system information.

### **Recommendation 8**

We recommend that the campus:

- a. Finalize the *Property Policies and Procedures* manual and campus-wide inventory report.
- b. Strengthen controls over the tagging of property.
- c. Take the necessary action to locate the missing computers.

### **Campus Response**

- a. We concur. Completion of the revisions to the *Property Policies and Procedures* manual will be completed by March 31, 2002. Campus-wide inventory reconciliation will be completed by the same date.
- b. We concur. As part of the revisions to the *Property Policies and Procedures* manual mentioned in 8a, we will strengthen controls over the tagging of property.
- c. We concur. In collaboration with University Advancement, the property department is in the process of locating the missing computers. A full report of the missing property will be completed by March 31, 2002.

### **Recommendation 9**

We recommend that the campus request that the Office of the Chancellor clarify the software valuation policy and act accordingly.

### **Campus Response**

We concur. In accordance with communications received from Vice Chancellor Louis Caldera, we have resubmitted our reports to show a site license value of \$3,000 for the software in question.

THE CALIFORNIA STATE UNIVERSITY  
OFFICE OF THE CHANCELLOR

BAKERSFIELD

January 14, 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 01-27 on *Development* at  
California State University, Monterey Bay

LONG BEACH

LOS ANGELES

In response to your memorandum of January 14, 2002, I accept the response as submitted with the draft final report on *Development* at California State University, Monterey Bay.

MARITIME ACADEMY

MONTEREY BAY

NORTHRIDGE

CBR:amd

POMONA

Enclosure

SACRAMENTO

cc: Peter P. Smith, President

SAN BERNARDINO

SAN DIEGO

SAN FRANCISCO

SAN JOSE

SAN LUIS OBISPO

SAN MARCOS

SONOMA

STANISLAUS