

**DEVELOPMENT**

**CALIFORNIA STATE POLYTECHNIC UNIVERSITY,  
POMONA**

**Report Number 02-14  
December 9, 2002**

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## **ABBREVIATIONS**

Cal Poly Pomona	California State Polytechnic University, Pomona
CASE	Council for Advancement and Support of Education
CSU	California State University
Foundation	Cal Poly Foundation, Inc.
G-I-K	Gift(s)-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, 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 Polytechnic University, Pomona (Cal Poly Pomona), 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. In January 2002, the Board of Trustees directed the Office of the University Auditor to expand its review to all CSU campuses.

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

Advancement is defined in *Educational Fund Raising – Principles and Practices* as “... all activities and programs undertaken by an institution to develop understanding and support from all its constituencies in order to achieve its goals in securing such resources as students, faculty, and dollars. These activities and programs include alumni affairs, internal/external communications, government and public relations, enrollment management, and fund raising. This last activity, i.e., fund raising, also known as *Development*, is an important component of institutional advancement and is the focus of the subject audit.”

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

In recent years, it has become apparent to the 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 1999/2000 was \$2,002,189,630. For fiscal year 2000/2001, 13 of the 23 campuses met or exceeded the 10-percent goal by generating \$286,561,944 in voluntary support (gifts from corporations, foundations, alumni, parents, and others) and special revenue (sponsorships, endowment income, and other income). For this same period, Cal Poly Pomona generated \$11,590,161 in external support, equaling approximately 10 percent of their 1999/2000 net General Fund budget of \$112,188,371.

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## **OPINION**

We visited the Cal Poly Pomona campus from April 8, 2002, through June 6, 2002, 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, donation receipt processing needed to be improved; campaign and annual fundraising plans were not adequately supported; disbursement controls needed to be strengthened; and some donation figures reported to the chancellor's office were not aligned with Council for Advancement and Support of Education reporting guidelines. 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]**

#### **CAMPAIGN AND ANNUAL FUNDRAISING PLANS [6]**

Campaign and annual fundraising plans were not adequately supported. Comprehensive campaign plans reduce the risk that university advancement campaign and fundraising projects will not be completed on time and/or within budget and that university fundraising goals will not be met.

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

Donations were not consistently processed in accordance with Internal Revenue Service (IRS) regulations and campus gift acceptance procedures. Donation processing that is aligned with IRS regulations and campus procedures reduces the risk that donor tax deductions will be disallowed and that the campus will accept an undesirable gift.

#### **DONATION SAFEKEEPING [8]**

Donation safekeeping procedures were not adequate at the two university development locations and the school of hospitality management. Security of donations is strengthened when checks are endorsed upon receipt and the required records for safe combinations are maintained.

#### **PLEDGE CONTROL [9]**

Controls over the collection and write-off of donor pledges were not adequate. Effectively managed donor pledge processing reduces the risk of inaccurate financial reporting and lost opportunities to obtain promised donations.

#### **DONOR SYSTEM RECONCILIATION [10]**

Reconciliations between computerized donor records maintained by university advancement and the Cal Poly Foundation, Inc. (Foundation) general ledger system were not signed and dated to provide accountability and to evidence the timeliness of the reconciliation. Signed and dated reconciliations provide accountability and ensure that errors and irregularities will be detected timely.

## **FUND EXPENDITURE CONTROL AND DONOR RESTRICTIONS [11]**

Foundation accounts payable controls did not consistently ensure that expenditures were properly processed and authorized per the terms of the trust agreements. Disbursements that are uniformly processed, adequately supported, and properly approved reduce the risk that inappropriate expenditures will be made.

## **REPORTING, RECORD KEEPING, AND INVENTORY CONTROL [12]**

### **SPONSORSHIP AND DONATION REPORTING [12]**

Certain fundraising efforts reported in the 2000-2001 Annual Report on External Support were either overstated or misclassified. Correctly reported fundraising results support campus charitable contribution efforts, facilitate comparisons with other educational institutions, and provide reliable information to the Board of Trustees, Office of the Chancellor, and campus management.

### **PHILANTHROPIC VS. RESEARCH GRANT REPORTING [13]**

Corporate and Foundation voluntary support amounts reported in the 2000-2001 Annual Report on External Support erroneously included research grants and funds received from governmental and foreign entities. Proper reporting of philanthropic grants and the exclusion of governmental and foreign funds reduce the risk that voluntary support will be overstated and facilitate comparisons with other educational institutions.

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

Administrative controls over access to the automated donor system did not ensure that system access was revoked timely upon employee termination. Maintenance of adequate system access controls reduces the risk of unauthorized access to donor information.

## **REGULATORY AND CSU POLICY COMPLIANCE [15]**

### **SOFTWARE GIFT POLICY COMPLIANCE [15]**

University advancement was not in full compliance with the *California State University (CSU) Gifts of Software Policy and Procedure*. Consistent adherence to the Software Valuation and Acceptance Policy reduces the risk of valuation errors and/or acceptance of questionable software.

### **FUNDRAISING CONSULTANTS AND COUNSELORS [17]**

Campus procedures had not been established to ensure that fundraising consultants and counselors were registered with the State Attorney General prior to engaging their services. Verification of fundraising consultant and counselor registration with the State Attorney General provides some assurance that ethical fundraising agents represent the campus.

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## **OBSERVATIONS, RECOMMENDATIONS, AND CAMPUS RESPONSES**

### **CASH AND NONCASH GIFT ADMINISTRATION AND CONTROL**

#### **CAMPAIGN AND ANNUAL FUNDRAISING PLANS**

Campaign and annual fundraising plans were not adequately supported.

We noted that:

- ▶ Capital campaigns for the Equipment Project (college of engineering); Building in a Box (college of environmental design); and Center for Technology and Incubation (college of extended university) did not exist or were not in compliance with Council for Advancement and Support of Education (CASE) campaign planning standards.
- ▶ The 2000-2001 annual fundraising plan was not supported by individual plans prepared by the campus development officers.

*CASE Management Reporting Standards* state that a written campaign plan should be prepared for review by all appropriate bodies of the institution. The plan document should describe, at a minimum, the campaign reporting policy, the manner in which exceptions to that policy will be handled, and the fundraising potential of the institution. The committee organized to assist in the planning of the campaign and the appropriate governing board of the institution should formally approve the plan.

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 associate vice president for university development stated that as used in the campus, campaign is a number of individual fundraising efforts, not necessarily correlated to the CASE definition of a campus-wide capital campaign. He further stated that fundraising efforts did, in fact, have documentation on the needs, budgets, and methods to secure private funding. He also stated that the organizational structure for development programs was formerly decentralized and coordination of the campus-wide fundraising planning effort and compilation of results was challenging to accomplish.

The lack of comprehensive campaign and fundraising plans increases the risk that university advancement campaign and fundraising projects will not be completed on time and/or within budget and that university fundraising goals will not be met.

### **Recommendation 1**

We recommend that the campus:

- a. Develop, communicate, and implement campaign and annual fundraising planning policies and procedures.
- b. Ensure that the development directors prepare fundraising plans that are aligned with the California State Polytechnic University, Pomona (Cal Poly Pomona) 2002-2003 annual fundraising plan.

### **Campus Response**

We concur.

Campaign and annual fundraising planning procedures will be formalized and communicated. With the reorganization of the development directors to report to the advancement division, individual fundraising plans will be integrated with the university's overall plan.

Timeline: June 2003

## **DONATION PROCESSING**

Donations were not consistently processed in accordance with Internal Revenue Service (IRS) regulations and campus gift acceptance procedures.

Our review of 30 cash and 13 gift-in-kind (G-I-K) donations and five fundraising events disclosed the following:

- ▶ In five instances, cash donation acknowledgement letters did not contain a statement disclosing that the campus had not provided any goods or services in consideration of the gift.
- ▶ In six instances, G-I-K acceptance forms were signed more than one month after receipt of the gift.
- ▶ Fundraiser contributors were not notified of the fair market value of the goods or services received and the amount of the contribution that was deductible.
- ▶ In four instances, the associate vice president did not sign G-I-K gift acceptance forms.

IRS Publication 526, *Charitable Contributions*, states that a cash gift acknowledgement must be written and include: a) the amount of cash contributed; b) whether the donee gave the donor any goods or services as a result of the contribution; and, if so, c) a description and good faith estimate of the value of any goods or services provided to the donor. Further, the donee organization must provide the donor with a written statement if a donation is made for more than \$75 and is partly a

contribution and partly for goods or services (e.g., fundraiser dinner, golf tournament, etc.). The statement must provide a good faith estimate of the value of goods and/or services provided and indicate that the donor can deduct only the amount of the contribution that is more than the value of what was received.

The campus *Development Policies and Procedures*, Section 8.1, states that gifts to the university are not officially received until the president, or his/her duly appointed representative (the associate vice president, university development), signs the Acceptance of Gift form.

The associate vice president for university development stated that in some cases, those responsible for completing the gift acknowledgement letters did not follow existing policy as is clearly delineated in the University Development Manual.

Donation processing that is not aligned with IRS regulations and campus procedures could result in disallowance of a tax deduction for the donor and acceptance of undesirable gifts.

### **Recommendation 2**

We recommend that the campus provide staff training and establish controls that ensure compliance with relevant IRS acknowledgement requirements and campus gift acceptance policies and procedures.

### **Campus Response**

We concur.

The campus sees the need for basic training and refresher sessions on the procedures defined in the University Development Manual. This training will be completed by January.

Timeline: January 2003

## **DONATION SAFEKEEPING**

Donation safekeeping procedures were not adequate at the two university development locations and the school of hospitality management.

We noted that:

- ▶ Checks were not endorsed from the prior business day at one of the university development locations and the school of hospitality management.
- ▶ Records were not maintained to identify the employees with knowledge of the safe combination and the last time the combination was changed at all three locations.

SAM §8034.1, *General Endorsement Instructions*, states that agencies will endorse checks on the day they are received.

SAM §8024, *Safes and Vaults*, states that the combination will 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 in the performance of his or her duties. Further, a record will be kept showing the date the combination was last changed and the names of persons knowing the present combination.

The associate vice president for university development indicated that the departments were not consistent in complying due to the decentralized reporting structure of the development officers in the colleges and schools.

Security over donations is compromised when checks are not promptly endorsed and access to safes is not adequately controlled.

### **Recommendation 3**

We recommend that the campus establish procedures to ensure that checks are endorsed by the close of each business day and that records are maintained of those employees with knowledge of the safe combination and the last time the combination was changed.

### **Campus Response**

We concur.

The Cal Poly Pomona Foundation, Inc. (Foundation) will review and revise check processing procedures to assure timely endorsement. The Foundation will also maintain a record-keeping system with a list of authorized employees who have the safe combination and a log of the dates the safe combination was changed.

Timeline: March 2003

### **PLEDGE CONTROL**

Controls over the collection and write-off of donor pledges were not adequate.

We found that:

- ▶ Pledge administrative procedures did not specify the circumstances under which pledges would be written off and the position authorized to write off pledges.
- ▶ As of March 22, 2002, 3,252 pledges totaling \$195,644 were more than 120 days overdue. Approximately 1,200 of these were annual fund pledges from the year 2000.

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

SAM §20050 states 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 Foundation chief financial officer stated that there was an annual process to review only those outstanding pledges greater than \$50,000. However, there was no written procedure to specify the circumstances under which any pledges would be written off nor the position authorized to write off pledges.

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

#### **Recommendation 4**

We recommend that the campus establish formalized policies and procedures to ensure that pledges are periodically aged, reviewed, and collected or written off.

#### **Campus Response**

We concur.

The university will work with the Foundation to establish a written procedure to specify the circumstances under which any pledges would be written off and the position authorized to write off such pledges.

Timeline: April 2003

#### **DONOR SYSTEM RECONCILIATION**

Reconciliations between computerized donor records maintained by university advancement and the Cal Poly Foundation, Inc. (Foundation) general ledger system were not signed and dated to provide accountability and to evidence the timeliness of the reconciliation.

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

SAM §7901 requires all reconciliations be prepared monthly within 30 days of the preceding month.

The associate vice president for university development stated that the reconciliation preparer and reviewer were not aware of the requirement to sign and date the reconciliation support.

Failure to sign and date reconciliations compromises accountability and increases the risk that errors and irregularities will not be detected timely.

#### **Recommendation 5**

We recommend that the campus and the Foundation establish procedures to ensure that reconciliation documentation is signed and dated by the preparer and reviewer.

#### **Campus Response**

We concur.

We are revising the reconciliation documents to include lines for the preparer and reviewer to sign and date upon completion of their respective tasks.

Timeline: March 2003

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

Foundation accounts payable controls did not consistently ensure that expenditures were properly processed and authorized per the terms of the trust agreements.

Our review of the Foundation's accounts payable function and an examination of 60 disbursements and 10 interaccount transfers disclosed a number of instances that taken individually, were not significant, but collectively, indicated weaknesses in accounts payable functional controls. We noted failures to:

- ▶ Question or reject incomplete, incorrect, or improperly completed disbursement forms.
- ▶ Challenge disbursement authorizations that were not supported by trust agreements.

Title 5 §42401 and §42402 indicate that the campus president shall require that auxiliary organizations operate in conformity with policy of the Board of Trustees and the campus. One of the objectives of the auxiliary organizations is to provide fiscal procedures and management systems that allow effective coordination of the auxiliary activities with the campus in accordance with sound business practices. Sound business practice mandates that disbursements be uniformly processed, fully supported, and properly authorized.

The Foundation chief financial officer stated that he was in the process of automating a number of the accounts payable controls.

Failure to ensure that disbursements are uniformly processed, adequately supported, and properly approved increases the risk that inappropriate expenditures will be made.

### **Recommendation 6**

We recommend that the Foundation finalize the automation process for the accounts payable controls to ensure that disbursements are in compliance with the terms of the trust agreements.

### **Campus Response**

We concur.

The university will work with the Foundation to finalize the automation process for the accounts payable controls to ensure that disbursements are in compliance with the terms of the trust agreements.

Timeline: May 2003

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

### **SPONSORSHIP AND DONATION REPORTING**

Certain fundraising efforts reported in the 2000-2001 Annual Report on External Support were either overstated or misclassified.

Specifically, we noted the following:

- ▶ A microwave lease that generated \$315,000 in funds for the campus was misreported as a sponsorship rather than a nonreportable contract.
- ▶ Several facility leases that generated \$204,046 in funds for the campus were misreported as sponsorships rather than nonreportable contracts.
- ▶ Several film/photo advertisement shoots that generated \$21,975 in funds for the campus were misreported as sponsorships rather than nonreportable contracts.
- ▶ A student donation of \$337 was misclassified as a sponsorship rather than a donation.
- ▶ A \$35,000 discount was misreported as a donation rather than a nonreportable contribution of services.
- ▶ A \$30,000 video conferencing system was reported and acknowledged as a donation but never received by the campus.

CASE *Management Reporting Standards* indicate that sponsored programs, contracts, and contributed services should not be reported as donations.

The chancellor's office 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(s); 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 vice president for university advancement stated that, in his opinion, the sponsorships and the lease payments were allowable according to his interpretation of chancellor's office guidance and that contributed services were, in fact, a discount that was reportable. He further stated that reporting the student donation and video conferencing system were oversights.

Overstated and misclassified fundraising efforts distort campus charitable contribution results, inhibit comparisons with other educational institutions, and provide misleading data to the Board of Trustees, the Office of the Chancellor, and campus management.

### **Recommendation 7**

We recommend that the campus establish controls to ensure that fundraising information reported to the Office of the Chancellor complies with CASE *Management Reporting Standards* and California State University (CSU) systemwide guidelines.

### **Campus Response**

We concur.

The campus has taken the steps to ensure that fundraising information reported is in compliance with CASE standards and CSU guidelines. The reports are prepared by the advancement division; and before they are submitted, the information is reviewed and verified by the Foundation chief financial officer, the associate vice president of finance and administrative services and the vice president of administrative affairs of the university. Documentation of these actions taken in connection with the preparation of the 2001-2002 reports will be provided in a separate follow-up letter.

Timeline: January 2003

## **PHILANTHROPIC VS. RESEARCH GRANT REPORTING**

Corporate and Foundation voluntary support amounts reported in the 2000-2001 Annual Report on External Support erroneously included research grants and funds received from governmental and foreign entities.

Cal Poly Pomona included \$1.4 million dollars from 62 Foundation and corporate-sponsored projects as voluntary support in its 2000-2001 Annual Report on External Support. Our review of 20 of these projects with reported dollars totaling \$850,444 disclosed that:

- ▶ Seventeen (85%) of the projects with reported dollars totaling \$584,621 were research rather than philanthropic (i.e., donative/voluntary) grants.
- ▶ Three of the sponsors were governmental agencies (\$280,445), and one sponsor was a foreign entity (\$135,420).

CASE *Management Reporting Standards* state that reports should include grant income from private, nongovernmental sources but should not include contract revenue. The difference between a private (e.g., research grant) grant and a contract depends on the intention of the awarding agency and the legal obligation incurred by an institution in accepting the award. A grant, like a gift, is donative (e.g., no strings attached) in nature; it is bestowed voluntarily and without expectation of any tangible compensation. A contract carries an explicit quid pro quo relation between the source and the institution. Government grants and awards, whether local, state, federal, or foreign, should be excluded.

The Foundation chief financial officer stated that CASE standards and chancellor's office guidance are subject to misinterpretation.

Failure to only report philanthropic grants and exclude government and foreign funds overstates reported voluntary support and limits comparisons with other educational institutions.

### **Recommendation 8**

We recommend that the campus establish procedures and controls to ensure that only philanthropic grants are reported as voluntary support contributions.

### **Campus Response**

We concur.

The university will work with the Foundation to establish procedures and controls to ensure that only philanthropic grants are reported as voluntary support contributions.

Timeline: May 2003

## **DONOR SYSTEM CONTROL**

Administrative controls over access to the automated donor system did not ensure that system access was revoked timely upon employee termination.

Our review of 15 individuals from the list of authorized users disclosed that the campus no longer employed four of the individuals, two of which had resigned more than one year ago.

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 accord with all applicable SAM policies dealing with information technology security and risk management.

The information systems coordinator for university advancement stated that he was not always notified of employees who resign and transfer.

Failure to maintain adequate system access controls increases the risk of unauthorized access to donor information.

### **Recommendation 9**

We recommend that the campus establish and monitor controls to ensure that donor system access is expeditiously revoked for terminated and transferred employees.

### **Campus Response**

We concur.

The university is reviewing its controls on donor system access and will make the necessary changes to ensure timely revocation of access for those employees who no longer have authority to enter the system.

Timeline: January 2003

## **REGULATORY AND CSU POLICY COMPLIANCE**

### **SOFTWARE GIFT POLICY COMPLIANCE**

University advancement was not in full compliance with the *California State University (CSU) Gifts of Software Policy and Procedure*.

We found that:

- ▶ The Software Gift Policy Committee did not include a representative from business and finance and/or the Foundation.
- ▶ Software valuations were based upon multiple instead of single seats/licenses.

- ▶ Software license valuation forms were inconsistently used.
- ▶ Software Gift Policy Committee members did not consistently sign off software acceptance forms.

The *CSU Gifts of Software Policy and Procedure*, dated June 1999, states that the campus gift policy committee will be comprised of the chief advancement officer and representatives from business and finance and/or the Foundation. Further, the campus should establish a reasonable valuation that closely follows CASE guidelines by booking the educational discount price, and 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 software license gift acceptance should be incorporated into an existing gift acceptance form. The form should be submitted to the campus gift policy committee for review and approval of the valuation for the gift based on CSU policy guidelines.

The associate vice president for university development stated that there was a misunderstanding regarding valuation of software and the composition of the committee.

Inconsistent adherence to the Software Valuation and Acceptance Policy increases the risk of valuation errors and/or acceptance of questionable software.

### **Recommendation 10**

We recommend that the campus:

- a. Establish a Software Gift Policy Committee that includes a representative from business and finance and/or the Foundation.
- b. Ensure that each member of the Software Gift Policy Committee is familiar with the requirements specified in the *CSU Gifts of Software Policy and Procedure*.
- c. Establish procedures and controls that ensure that software license valuation forms are consistently used and signed off by Software Gift Policy Committee members.

### **Campus Response**

We concur.

A Software Gift Policy Committee has been established. This committee is chaired by the associate vice president of finance and administrative services and reviews compliance with applicable policies and valuation of software gifts. Documentation of these actions will be provided in a follow-up letter.

Timeline: January 2003

## **FUNDRAISING CONSULTANTS AND COUNSELORS**

Campus procedures had not been established to ensure that fundraising consultants and counselors were registered with the State Attorney General prior to engaging their services.

We found that one of the two fundraising consultants engaged by the campus was not registered with the State Attorney General.

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

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

The associate vice president for university development indicated that the campus was not aware of a requirement to check the registration of fundraising consultants prior to engaging their services.

Failure to verify fundraising consultant and counselor registration with the State Attorney General increases the risk that a less than ethical fundraising agent may represent the campus.

### **Recommendation 11**

We recommend that the campus establish formal procedures to ensure fundraising consultants and counselors are registered with the State Attorney General prior to engaging their services.

### **Campus Response**

We concur.

The campus will prepare formal procedures on the registration of fundraising consultants and counselors with the State Attorney General.

Timeline: March 2003

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## **APPENDIX A: PERSONNEL CONTACTED**

<u>Name</u>	<u>Title</u>
Bob Suzuki	President
Ken Bonner	Information Systems Coordinator, University Advancement
Patricia L. Farris	Vice President for Administrative Affairs
Sharon Hinrichsen	Administrative Operations Analyst, Procurement and Support Services
Darwin Labordo	Associate Vice President, Finance and Administrative Services
Marissa Martinez	Administrative Support Assistant, Procurement and Support Services
David Prenovost	Chief Financial Officer, Cal Poly Foundation, Inc.
Debbie Schroeder-Linthicum	Manager, Grants and Contracts
Ronald Simons	Associate Vice President, University Development
Esteban Soriano	Vice President, University Advancement



Office of the Vice President  
for Administrative Affairs

RECEIVED  
UNIVERSITY AUDITOR  
JAN 10 2003  
THE CALIFORNIA STATE  
UNIVERSITY

January 8, 2003

Mr. Larry Mandel, University Auditor  
Office of the Auditor  
The California State University  
400 Golden Shore, Suite 210  
Long Beach, CA 90802

Dear Mr. Mandel:

**Subject: Campus Response to Recommendations of  
Development Audit Report 02-14**

Enclosed is California State Polytechnic's campus response to the Development Audit Report Number 02-14. We appreciate the effort you and your staff have made to indicate areas where our procedures or internal controls could be strengthened. We will take the necessary actions to address the report's recommendations.

Please direct questions concerning the response to Darwin Labordo, Associate Vice President of Finance and Administrative Services at 909-869-2008 or [dlaboro@csupomona.edu](mailto:dlaboro@csupomona.edu).

Sincerely,

Patricia L. Farris  
Vice President, Administrative Affairs

Cc: Bob H. Suzuki, President  
Darwin Labordo, Associate Vice President, Finance & Administrative Services  
David Prenovost, CFO, Cal Poly Foundation, Inc.  
Ronald R. Simons, Associate Vice President, University Development

Enclosures

**Response to Recommendations of Audit Report Number 02-14  
Development at California State Polytechnic University, Pomona  
January 8, 2003**

**CASH AND NONCASH GIFT ADMINISTRATION AND CONTROL**

**CAMPAIGN AND ANNUAL FUNDRAISING PLANS**

**Recommendation 1**

We recommend that the campus:

- a. Develop, communicate, and implement campaign and annual fundraising planning policies and procedures.
- b. Ensure that the development directors prepare fundraising plans that are aligned with the California State Polytechnic University, Pomona (Cal Poly Pomona) 2002-2003 annual fundraising plan.

**Campus Response**

We concur.

Campaign and annual fundraising planning procedures will be formalized and communicated. With the re-organization of the development directors to report to the Advancement Division, individual fundraising plans will be integrated with the University's overall plan.

**Timeline: June 2003**

**DONATION PROCESSING**

**Recommendation 2**

We recommend that the campus provide staff training and establish controls that ensure compliance with relevant IRS acknowledgement requirements and campus gift acceptance policies and procedures.

**Campus Response**

We concur.

The campus sees the need for basic training and refresher sessions on the procedures defined in the University Development Manual. This training will be completed by January.

**Timeline: January 2003**

## **DONATION SAFEKEEPING**

### **Recommendation 3**

We recommend that the campus establish procedures to ensure that checks are endorsed by the close of each business day and that records are maintained of those employees with knowledge of the safe combination and the last time the combination was changed.

### **Campus Response**

We concur.

The Cal Poly Pomona Foundation will review and revise check processing procedures to assure timely endorsement. The Foundation will also maintain a record-keeping system with a list of authorized employees who have the safe combination and a log of the dates the safe combination was changed.

**Timeline: March 2003**

## **PLEDGE CONTROL**

### **Recommendation 4**

We recommend that the campus establish formalized policies and procedures to ensure that pledges are periodically aged, reviewed, and collected or written off.

### **Campus Response**

We concur

The University will work with the Foundation to establish a written procedure to specify the circumstances under which any pledges would be written off and the position authorized to write off such pledges.

**Timeline: April 2003**

## **DONOR SYSTEM RECONCILIATION**

### **Recommendation 5**

We recommend that the campus and the Foundation establish procedures to ensure that reconciliation documentation is signed and dated by the preparer and reviewer.

**Campus Response**

We concur.

We are revising the reconciliation documents to include lines for the preparer and reviewer to sign and date upon completion of their respective tasks.

**Timeline: March 2003**

**FUND EXPENDITURE CONTROL AND DONOR RESTRICTIONS**

**Recommendation 6**

We recommend that the Foundation finalize the automation process for the accounts payable controls to ensure that disbursements are in compliance with the terms of the trust agreements.

**Campus Response**

We concur.

The University will work with the Foundation to finalize the automation process for the accounts payable controls to ensure that disbursements are in compliance with the terms of the trust agreements.

**Timeline: May 2003**

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

**SPONSORSHIP AND DONATION REPORTING**

**Recommendation 7**

We recommend that the campus establish controls to ensure that fundraising information reported to the Office of the Chancellor complies with *CASE Management Reporting Standards* and California State University (CSU) systemwide guidelines.

**Campus Response**

We concur.

The campus has taken the steps to ensure that fundraising information reported is in compliance with CASE standards and CSU guidelines. The reports are prepared by the Advancement Division and before they are submitted, the information is reviewed and verified by the CFO of the Cal Poly

Pomona Foundation, the Associate Vice President of Finance and Administrative Services and the Vice President of Administrative Affairs of the University. Documentation of these actions taken in connection with the preparation of the 2001-02 reports will be provided in a separate follow-up letter.

**Timeline: January 2003**

## **PHILANTHROPIC VS. RESEARCH GRANT REPORTING**

### **Recommendation 8**

We recommend that the campus establish procedures and controls to ensure that only philanthropic grants are reported as voluntary support contributions.

#### **Campus Response**

We concur.

The University will work with the Foundation to establish procedures and controls to ensure that only philanthropic grants are reported as voluntary support contributions.

**Timeline: May 2003**

## **DONOR SYSTEM CONTROL**

### **Recommendation 9**

We recommend that the campus establish and monitor controls to ensure that donor system access is expeditiously revoked for terminated and transferred employees.

#### **Campus Response**

We concur.

The University is reviewing its controls on donor system access and will make the necessary changes to ensure timely revocation of access for those employees who no longer have authority to enter the system.

**Timeline: January 2003**

## REGULATORY AND CSU POLICY COMPLIANCE

### SOFTWARE GIFT POLICY COMPLIANCE

#### Recommendation 10

We recommend that the campus:

- a. Establish a Software Gift Policy Committee that includes a representative from business and finance and/or the Foundation.
- b. Ensure that each member of the Software Gift Policy Committee is familiar with the requirements specified in the *CSU Gifts of Software Policy and Procedure*.
- c. Establish procedures and controls that ensure that software license valuation forms are consistently used and signed off by Software Gift Policy Committee members.

#### Campus Response

We concur.

A software gift policy committee has been established. This committee is chaired by the Associate Vice President of Finance and Administrative Services and reviews compliance with applicable policies and valuation of software gifts. Documentation of these actions will be provided in a follow-up letter.

**Timeline: January 2003**

## FUNDRAISING CONSULTANTS AND COUNSELORS

#### Recommendation 11

We recommend that the campus establish formal procedures to ensure fundraising consultants and counselors are registered with the State Attorney General prior to engaging their services.

#### Campus Response

We concur.

The campus will prepare formal procedures on the registration of fundraising consultants and counselors with the State Attorney General.

**Timeline: March 2003**

  
**THE CALIFORNIA STATE UNIVERSITY**  
 OFFICE OF THE CHANCELLOR

BAKERSFIELD

February 13, 2003

CHANNEL ISLANDS

CHICO

**MEMORANDUM**

DOMINGUEZ HILLS


FRESNO

TO: Mr. Larry Mandel  
University Auditor

FULLERTON

HAYWARD

FROM: Charles B. Reed  
Chancellor



HUMBOLDT

LONG BEACH

SUBJECT: Draft Final Report Number 02-14 on *Development*,  
California State Polytechnic University, Pomona

LOS ANGELES

MARITIME ACADEMY

In response to your memorandum of February 13, 2003, I accept the response as submitted with the draft final report on *Development*, California State Polytechnic University, Pomona.

MONTEREY BAY

NORTHRIDGE

POMONA

CBR/amd

SACRAMENTO

Enclosure

SAN BERNARDINO

SAN DIEGO

cc: Ms. Patricia L. Farris, Vice President, Administrative Affairs  
Dr. Bob H. Suzuki, President

SAN FRANCISCO

SAN JOSE

SAN LUIS OBISPO

SAN MARCOS

SONOMA

STANISLAUS