

**DEVELOPMENT**

**SAN JOSÉ STATE UNIVERSITY**

**Report Number 02-15  
October 17, 2002**

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## **ABBREVIATIONS**

|       |  |
|-------|--|
| CASE  | Council for Advancement and Support of Education |
| CSU   | California State University                      |
| 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 1, 2000, to June 27, 2002. At San José State University, 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 net 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 \$285,935,329 in voluntary support (gifts from corporations, foundations, alumni, parents, and others) and special revenue (sponsorships and endowment distribution only). For this same period, San José State University generated \$14,608,748 in external support, equaling approximately 11 percent of their 1999/2000 net General Fund budget of \$135,636,652.

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## **OPINION**

We visited the San José State University campus from May 28, 2002, through June 27, 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, adequate controls were not maintained over campaign fundraising plans, gift processing, donor system reconciliation, fundraiser invitations, access to the donor system, and valuation of software gifts. 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]**

Policies and procedures that impact the administration and control environments for university advancement and the San José State University Foundation were incomplete or not documented. This is a repeat finding from the prior Development audit conducted by the Office of the University Auditor in 1995. Properly documented and effectively communicated procedural and operational policies and procedures strengthen the internal control structure and reduce the risk that employees will perform unnecessary tasks and/or allocate time to risks that are minimal or nonexistent.

#### **CAMPAIGN FUNDRAISING PLANS [7]**

Campaign fundraising plans were not always aligned with management guidelines and standards from the Council for Advancement and Support of Education (CASE). Comprehensive development plans reduce the risks that advancement campaigns and fundraising projects will not be completed on time and/or within budget and university fundraising goals will not be met.

#### **SEGREGATION OF DUTIES [7]**

Advancement cash receipt and deposit preparation and processing control duties were not adequately segregated. Adequate separation of duties reduces the risk that errors and irregularities will not be prevented or detected in a timely manner.

#### **CASH DONATION PROCESSING [8]**

The Spartan Foundation cash handling internal controls did not sufficiently safeguard cash donations. Adequate controls over cash handling reduce the risk of loss or misappropriation of donated funds.

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

Reconciliations between computerized donor records maintained by university advancement and the San José State University Foundation were not completed in a timely manner and did not evidence the preparer's name and the date the reconciliation was completed. Timely and complete preparation of reconciliations improves accountability and the campus' ability to detect errors and irregularities.

### **GIFT-IN-KIND PROCESSING [9]**

Gift-in-kind (G-I-K) processing was not in accordance with campus operating practices and CASE standards. Compliance with G-I-K campus policies and CASE standards reduces the risk that noncash gifts will not be improperly valued, inappropriately accepted, and inaccurately reported.

### **IRS COMPLIANCE [11]**

The fundraising invitations for an auction, a golf tournament, and an awards banquet did not include the appropriate tax disclosure language. Providing adequate tax deduction information to the donor reduces the risk of Internal Revenue Service (IRS) penalties and disallowance of donor tax deductions.

## **REPORTING, RECORD KEEPING, AND INVENTORY CONTROL [11]**

### **DONOR SYSTEM CONTROL [11]**

Administrative controls over access to the automated donor system were not adequate. Adequate system access administrative controls reduce the risk that university advancement information assets will be compromised.

### **INVENTORY CONTROL [12]**

G-I-K donations were not always inventoried and tagged. This is a repeat finding from the prior Development audit conducted by the Office of the University Auditor in 1995. Effective management and control of noncash gifts intended for the university reduce the risk that donated gifts will be misappropriated.

## **REGULATORY AND CSU POLICY COMPLIANCE [13]**

### **DELEGATION OF AUTHORITY [13]**

Delegation of authority for gift evaluation and acceptance was not formally delegated from the president to the individual responsible for the process. Formally delegating gift evaluation and acceptance responsibility reduces the risk that undesirable gifts will be accepted.

### **SOFTWARE VALUATION [14]**

The campus was not in compliance with the *California State University (CSU) Gifts of Software Policy and Procedure*. Consistent adherence to CSU policy and procedures reduces the risk of improperly accepting, valuing, and reporting software gifts.

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

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

#### **POLICIES AND PROCEDURES**

Policies and procedures that impact the administration and control environments for university advancement and the San José State University Foundation were incomplete or not documented. This is a repeat finding from the prior Development audit conducted by the Office of the University Auditor in 1995.

We noted that policies and procedures were not documented or were incomplete for the following:

- ▶ Fundraising and capital campaign plans.
- ▶ Cash donation processing.
- ▶ Suspense accounting.
- ▶ Donor system reconciliations.
- ▶ Foundation hospitality expenditure processing.

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.

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 policy and procedures be documented and maintained on a current basis.

The director of advancement services and the director of client financial services indicated that documented policies and procedures for advancement activities were in the process of being completed.

The absence of properly documented and effectively communicated procedural and/or operational policies and procedures increases the risk of deficient internal controls and could result in employees performing unnecessary tasks and allocating time to risks that are minimal or nonexistent.

#### **Recommendation 1**

We recommend that the campus and the San José State University Foundation finalize development policies and procedures and distribute them to employees involved in fundraising administration and solicitation.

#### **Campus Response**

We concur. The campus and Foundation will complete all policies and procedures by March 28, 2003.

## **CAMPAIGN FUNDRAISING PLANS**

Campaign fundraising plans were not always aligned with management guidelines and standards from the Council for Advancement and Support of Education (CASE).

The athletics training facility campaign was not supported by documented plans.

*CASE Management Reporting Standards* state that a written campaign plan should be prepared for review by all appropriate bodies 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.

The senior associate athletic director for external operations indicated that the department was not aware of the requirement to document campaign fundraising plans in accordance with CASE guidelines and standards.

The lack of a comprehensive development plan increases the risk that advancement capital campaigns will not be completed on time and/or within budget and university fundraising goals will not be met.

### **Recommendation 2**

We recommend that the campus strengthen its future campaign plans by establishing procedures and controls to comply with *CASE Management Reporting Standards*.

### **Campus Response**

We concur. The campus will develop procedures and controls for campaigns based on the *CASE Management Reporting Standards* by March 28, 2003.

## **SEGREGATION OF DUTIES**

Advancement cash receipt and deposit preparation and processing control duties were not adequately segregated.

The gift processing coordinator was responsible for: (a) receiving and processing donation checks; (b) updating the computerized donor system; (c) completing the deposit slip; and (d) performing the general ledger to donor system reconciliation.

SAM §8080.1 states “No one person shall perform more than one of the following eleven types of duties: (7) Receiving and depositing remittances...(8) Inputting receipts information... (10) Reconciling input to output.”

The director of advancement services indicated that segregating duties for cash receipt and deposits was difficult to achieve due to the limited number of personnel.

Inadequate separation of duties increases the risk that errors and irregularities will not be prevented or detected in a timely manner.

### **Recommendation 3**

We recommend that the campus review the cash receipt and deposit preparation process and take action to appropriately segregate the duties or establish effective mitigating controls.

### **Campus Response**

We concur. The campus will review the cash receipt and deposit preparation process and create appropriate segregation of duties by February 15, 2003.

## **CASH DONATION PROCESSING**

The Spartan Foundation cash handling internal controls did not sufficiently safeguard cash donations.

We found that:

- ▶ The drawer used to store deposits during business hours was not locked.
- ▶ Checks received were not restrictively endorsed on the day of receipt.
- ▶ There was not a listing of authorized couriers for transporting deposits.

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 adequate internal controls over cash receipts and handling.

The senior associate athletic director responsible for foundation cash handling indicated that the cash control processes were not fully considered.

Inadequate controls over cash handling increase the risk of loss or misappropriation of donated funds.

#### **Recommendation 4**

We recommend that the Spartan Foundation:

- a. Maintain donation checks in a secured location.
- b. Restrictively endorse all checks received for deposit no later than the end of the working day.
- c. Ensure that a current authorized courier listing is obtained on a periodic basis.

#### **Campus Response**

We concur. Points “a” and “b” were mitigated the next day after discovery. The campus will obtain an authorized courier list from the vendor by December 15, 2002.

### **DONOR SYSTEM RECONCILIATION**

Reconciliations between computerized donor records maintained by university advancement and the San José State University Foundation were not completed in a timely manner and did not evidence the preparer’s name and the date the reconciliation was completed.

During our review of donor system reconciliations in June 2002, we noted that the most recently completed reconciliation was for February 2002 and reconciliations for September 2001 through February 2002 were not reconciled within 30 days of the preceding month.

SAM §7901 requires monthly preparation of all reconciliations within 30 days of the preceding month. SAM §7908 requires that all reconciliations show the preparer’s name, reviewer’s name, date prepared, and date reviewed.

The director of advancement services indicated that the timing for completing the donor system reconciliations was due to staffing shortages.

Not preparing donor system reconciliations in a timely and complete manner compromises accountability and increases the risk that errors and irregularities will not be detected.

#### **Recommendation 5**

We recommend that the campus strengthen procedures to ensure that donor system reconciliations are completed in a timely and complete manner.

#### **Campus Response**

We concur. The campus will reassign the reconciliation duties to another staff that will be able to complete them in a timely manner by January 15, 2003.

### **GIFT-IN-KIND PROCESSING**

Gift-in-kind (G-I-K) processing was not in accordance with campus operating practices and CASE standards.

Our review of 16 G-I-K donations disclosed the following:

- ▶ A qualified appraisal was not on file for 10 of the 12 gifts reviewed valued over \$5,000. The total value recorded for the 10 gifts was \$1,626,958.
- ▶ One G-I-K donation of a temporary use of space was incorrectly reported as a donation.

Presidential Directive 99-03, *Acceptance of Gifts Policy*, dated September 7, 1999, states that the donor is responsible for acquiring a qualified appraisal for donations of equipment and tangible personal property in excess of \$5,000 within 60 days of the gift. The donor must submit the appraisal to the university for signature, to acknowledge the university's receipt of the appraisal.

CASE *Management Reporting Standards* state that gift income includes the outright gift of real property for the use of the institution.

Internal Revenue Service (IRS) Publication 526, *Charitable Contributions*, revised December 2000, states that a contribution of the right to use property is a contribution of less than an entire interest in the property and is not deductible.

The director of advancement services indicated that the departments receiving the gifts did not always contact university advancement prior to acceptance and valuation in accordance with campus policy.

Noncompliance with G-I-K campus policies and CASE standards increases the risk that noncash gifts will be improperly valued, inappropriately accepted, and inaccurately reported.

### **Recommendation 6**

We recommend that the campus strengthen controls over G-I-K processing to ensure that noncash valuations, acceptance, and reporting are aligned with campus, CASE, and IRS standards.

### **Campus Response**

We concur. The campus will review its G-I-K policy and procedures and adjust elements that will ensure alignment with campus, CASE, and IRS standards by March 28, 2003.

## **IRS COMPLIANCE**

The fundraising invitations for an auction, a golf tournament, and an awards banquet did not include the appropriate tax disclosure language.

IRS Publication 526, *Charitable Contributions*, revised December 2000, states that a qualified organization must provide a written statement if a payment to it is more than \$75 and is partly a contribution and partly for goods and services.

The vice president of university advancement stated that failure to provide an adequate tax deduction statement was an oversight that needs to be resolved in coordination between campus fundraisers and university advancement.

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

### **Recommendation 7**

We recommend that the campus ensure that a quid pro quo contribution disclosure is included in all fundraiser invitations.

### **Campus Response**

We concur. The campus will distribute an Event and Fundraiser invitation policy to the campus community by February 15, 2003.

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

### **DONOR SYSTEM CONTROL**

Administrative controls over access to the automated donor system were not adequate.

We found that:

- ▶ An authorization access clearance form was not used to establish/grant access to the donor system.
- ▶ Donor system access was not automatically disabled after prolonged terminal inactivity.
- ▶ The donor system did not periodically prompt users to change their passwords.

SAM §4819.31 states, in part, that each state agency is required to protect the integrity of its information management capabilities and databases and ensure the security and confidentiality of the information it maintains.

The director of advancement services stated that requests for access are submitted through e-mail messages from the manager of the employee receiving access. He further indicated that controls for inactivity and password changes were not fully considered.

Failure to establish adequate system administrative controls increases the risk that university advancement information assets will be compromised.

### **Recommendation 8**

We recommend that the campus establish or enable donor system controls to ensure that:

- a. University advancement management formally approves all employees requesting access.
- b. The terminal is logged out after a predetermined period of inactivity.
- c. Passwords are periodically changed.

### **Campus Response**

We concur. A form will be developed for individuals to request access to the development system by January 15, 2003. Management prior to access being extended will approve the form. Point "b" has been mitigated by adding screensavers on timers for all users of the development system. A quarterly system of changing passwords will be implemented by January 15, 2003.

## **INVENTORY CONTROL**

G-I-K donations were not always inventoried and tagged. This is a repeat finding from the prior Development audit conducted by the Office of the University Auditor in 1995.

During our view of 11 G-I-K donations over \$5,000, we noted that:

- ▶ In two instances, a nonmonetary gift acceptance form was not completed by the property department and the G-I-K donation was not inventoried.
- ▶ In four instances, the donated gifts were not tagged.

The campus *Gift Acceptance Form (Non-Monetary)* requires that the property office complete the form and tag items greater than or equal to \$5,000.

SAM §8651 requires that all state property be tagged after acquisition.

The manager of accounting and costing stated that the six exceptions were due to oversights.

Failure to manage and control noncash gifts intended for the university increases the risk that donated gifts will be misappropriated.

### **Recommendation 9**

We recommend that the campus strengthen controls to ensure that:

- a. The departments originating the *Gift Acceptance Form (Non-Monetary)* notify the property office of all noncash gifts greater or equal to \$5,000.
- b. The property office tags all noncash gifts that meet the campus capitalization policy.

### **Campus Response**

We concur. The campus will assure that all reported gifts greater or equal to \$5,000 will be sent to the property office. The property office will tag all noncash gifts that meet the campus capitalization policy. This will occur by December 31, 2002.

## **REGULATORY AND CSU POLICY COMPLIANCE**

### **DELEGATION OF AUTHORITY**

Delegation of authority for gift evaluation and acceptance was not formally delegated from the president to the individual responsible for the process.

Executive Order No. 676, *Delegation of Gift Evaluation and Acceptance to Campuses*, dated February 1, 1998, states that authority is delegated to campus presidents to evaluate and accept gifts, bequests, and donations to campuses. Campus presidents may further delegate this authority in whole or in part to campus officers and employees to ensure that all gifts accepted by the campus will aid in carrying out the primary functions of the campus and the CSU.

The director of advancement services stated that the campus was not aware of the requirement for a formal delegation of authority for gift evaluation and acceptance activities.

Failure to formally delegate gift evaluation and acceptance responsibility increases the risk that undesirable gifts will be accepted.

### **Recommendation 10**

We recommend that the campus document delegations of authority for the acceptance of gifts and implement a process to ensure that only properly authorized gifts are accepted.

### **Campus Response**

We concur. The office of the president will issue the delegation of authority per Executive Order 676, *Delegation of Gift Evaluation and Acceptance*, to campuses by January 15, 2003.

### **SOFTWARE VALUATION**

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

We found that one software gift reviewed was valued on a multi- versus a single-license basis. The gift was valued at \$212,550. Based upon our interpretation of the *CSU Gifts of Software Policy and Procedure*, the gift should be valued at \$3,146, the value of one seat per gift.

The *CSU Gifts of Software Policy and Procedure*, dated June 1999, states that 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 vice president of university advancement stated that the campus had a different interpretation of the software valuation policy.

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

### **Recommendation 11**

We recommend that the campus train gift processing personnel on the software valuation requirements as specified in the *CSU Gifts of Software Policy and Procedure*.

### **Campus Response**

We concur. The campus does have a software gift committee. The committee will review the *CSU Gifts of Software Policy* and assure that all staff involved with processing software donations are following the guidelines by January 31, 2003.

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## APPENDIX A: PERSONNEL CONTACTED

| <u>Name</u>       | <u>Title</u>  |
|-------------------|---|
| Robert L. Caret   | President   |
| Ruben Araiza      | Property Clerk, Accounting and Costing                                      |
| Shawn Bibb        | Director, Accounting/Systems and Technology                                 |
| Rick Costello     | Assistant Athletic Director/Business Manager                                |
| Robert Drury      | Director of Advancement Services, University Advancement                    |
| Debbie Gallizioli | Programmer, University Advancement  |
| John Glass        | Senior Associate Athletic Director for External Operations                  |
| Lou Ann Griego    | Administrative Operations Analyst, Spartan Foundation                       |
| Paul Harris       | Director of Finance and Accounting, San José State University Foundation    |
| Byron Kamp        | Executive Assistant to the Vice President, University Advancement           |
| Don Kassing       | Vice President, Administration and Finance                                  |
| Kam Lam           | Controller, San José State University Foundation                            |
| Loretta Lange     | Presidential Aide, President's Office                                       |
| Matthew Martinez  | Gift Processing Coordinator, University Advancement                         |
| Suzanne Murphy    | Director of Client Financial Services, San José State University Foundation |
| Caroline Panches  | Director of Development, Library  |
| Maria Ramirez     | Gift Processing Supervisor, University Advancement                          |
| Janet Redding     | Former Vice President, University Advancement                               |
| Mary Sidney       | Chief Operating Officer, San José State University Foundation               |
| Paul Siegel       | Manager, Accounting and Costing   |
| Carmen Sigler     | Interim Vice President, University Advancement                              |
| Julie Stone       | Director of Administrative Services, University Advancement                 |

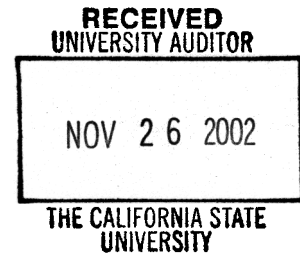


**San José State**  
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November 22, 2002



**Mr. Larry Mandel**  
University Auditor  
The California State University  
401 Golden Shore, 4<sup>th</sup> Floor  
Long Beach, CA 90802

**Campus Response to Audit Report Number 02-15  
DEVELOPMENT AUDIT at San José State University**

Enclosed is San José State University's response to Audit No. 02-15.  
The campus is committed to addressing the issues identified in this audit  
report.

Please let me know if I can provide you with additional information.

A handwritten signature in black ink that reads "Don W. Kassing".

**DON W. KASSING**  
Vice President for Administration and Finance

**Enclosure**

**c: President Robert L. Caret**  
**Senior Director Shawn Bibb**

**SAN JOSÉ STATE UNIVERSITY**

**DEVELOPMENT  
AUDIT REPORT NO. 02-15**

**CASH AND NONCASH GIFT ADMINISTRATION AND CONTROL**

**POLICIES AND PROCEDURES**

**Recommendation 1**

We recommend that the campus and the San José State University Foundation finalize development policies and procedures and distribute them to employees involved in fundraising administration and solicitation.

**Campus Response**

We concur. The campus and Foundation will complete all policies and procedures by March 28, 2003.

**CAMPAIGN FUNDRAISING PLANS**

**Recommendation 2**

We recommend that the campus strengthen its future campaign plans by establishing procedures and controls to comply with *CASE Management Reporting Standards*.

**Campus Response**

We concur. The campus will develop procedures and controls for campaigns based on the CASE Management Reporting Standards by March 28, 2003.

**SEGREGATION OF DUTIES**

**Recommendation 3**

We recommend that the campus review the cash receipt and deposit preparation process and take action to appropriately segregate the duties or establish effective mitigating controls.

**Campus Response**

We concur. The campus will review the cash receipt and deposit preparation process and create appropriate segregation of duties by February 15, 2003.

## CASH DONATION PROCESSING

### Recommendation 4

We recommend that the Spartan Foundation:

- a. Maintain donation checks in a secured location.
- b. Restrictively endorse all checks received for deposit no later than the end of the working day.
- c. Ensure that a current authorized courier listing is obtained on a periodic basis.

### Campus Response

We concur. Points "a" and "b" were mitigated the next day after discovery. The campus will obtain an authorized courier list from the vendor by December 15, 2002.

## DONOR SYSTEM RECONCILIATION

### Recommendation 5

We recommend that the campus strengthen procedures to ensure that donor system reconciliations are completed in a timely and complete manner.

### Campus Response

We concur. The campus will reassign the reconciliation duties to another staff that will be able to complete them in a timely manner by January 15, 2003.

## GIFT-IN-KIND PROCESSING

### Recommendation 6

We recommend that the campus strengthen controls over G-I-K processing to ensure that noncash valuations, acceptance, and reporting are aligned with campus, CASE, and IRS standards.

### Campus Response

We concur. The campus will review its G-I-K policy and procedures and adjust elements that will ensure alignment with campus, CASE, and IRS standards by March 28, 2003.

## IRS COMPLIANCE

### Recommendation 7

We recommend that the campus ensure that a quid pro quo contribution disclosure is included in all fundraiser invitations.

**Campus Response**

We concur. The campus will distribute an Event and Fundraiser invitation policy to the campus community by February 15, 2003.

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

**DONOR SYSTEM CONTROL**

**Recommendation 8**

We recommend that the campus establish or enable donor system controls to ensure that:

- a. University advancement management formally approves all employees requesting access.
- b. The terminal is logged out after a predetermined period of inactivity.
- c. Passwords are periodically changed.

**Campus Response**

We concur. A form will be developed for individuals to request access to the development system by January 15, 2003. Management prior to access being extended will approve the form. Point "b" has been mitigated by adding screensavers on timers for all users of the development system. A quarterly system of changing passwords will be implemented by January 15, 2003.

**INVENTORY CONTROL**

**Recommendation 9**

We recommend that the campus strengthen controls to ensure that:

- a. The departments originating the *Gift Acceptance Form (Non-Monetary)* notify the property office of all noncash gifts greater or equal to \$5,000.
- b. The property office tags all noncash gifts that meet the campus capitalization policy.

**Campus Response**

We concur. The campus will assure that all reported gifts greater or equal to \$5,000 will be sent to the property office. The property office will tag all noncash gifts that meet the campus capitalization policy. This will occur by December 31, 2002.

## REGULATORY AND CSU POLICY COMPLIANCE

### DELEGATION OF AUTHORITY

#### **Recommendation 10**

We recommend that the campus document delegations of authority for the acceptance of gifts and implement a process to ensure that only properly authorized gifts are accepted.

#### **Campus Response**

We concur. The Office of the President will issue the delegation of authority per Executive Order 676, Delegation of Gift Evaluation and Acceptance to Campuses by January 15, 2003.

### SOFTWARE VALUATION

#### **Recommendation 11**

We recommend that the campus train gift processing personnel on the software valuation requirements as specified in the *CSU Gifts of Software Policy and Procedure*.

#### **Campus Response**

We concur. The campus does have a software gift committee. The committee will review the CSU Gifts of Software Policy and assure that all staff involved with processing software donations are following the guidelines by January 31, 2003.


THE CALIFORNIA STATE UNIVERSITY  
OFFICE OF THE CHANCELLOR

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December 10, 2002

**MEMORANDUM**

TO: Mr. Larry Mandel  
University Auditor

FROM: Charles B. Reed   
Chancellor

SUBJECT: Draft Final Report Number 02-15 on *Development*,  
San José State University

In response to your memorandum of December 10, 2002, I accept the response as submitted with the draft final report on *Development*, San José State University.

CBR/amd

Enclosure

cc: Dr. Robert L. Caret, President  
Mr. Don W. Kassing, Vice President for Administration and Finance