DEVELOPMENT

SAN FRANCISCO STATE UNIVERSITY

Report Number 02-18
December 11, 2002

CONTENTS

INTRODUCTION

OBSERVATIONS, RECOMMENDATIONS, AND CAMPUS RESPONSES

APPENDICES

ABBREVIATIONS

BSR	Business Systems Resources, Inc.
CAE	Council for Aid to Education
CASE	Council for Advancement and Support of Education
CSU	California State University
FMV	Fair Market Value
Foundation	San Francisco State University Foundation
G-I-K	Gift(s)-In-Kind
IRS	Internal Revenue Service
SAA	Signature Authorization Agreement
SAM	State Administrative Manual
SPA	Special Project Agreement

INTRODUCTION

PURPOSE

Our overall audit objective was to ascertain the effectiveness of existing policies and procedures related to the administration of development activity and to determine the adequacy of controls over the related processes to ensure compliance with relevant governmental regulations, Trustee policy, Office of the Chancellor directives, and campus procedures.

Within the overall audit objective, specific goals included determining whether:

- Administration and management of development activity provide an effective internal control environment; adequate development administrative plans, policies, and procedures; and monitoring of goal attainment.
- Cash and noncash gifts are adequately controlled, sufficiently safeguarded, and properly accounted for and noncash gifts are properly valued.
- Donations are properly processed and acknowledged and the donor administrative system is reconciled to campus/foundation accounting records.
- Donor pledges are adequately controlled, properly reported, followed up, and written off when deemed uncollectible.
- Expenditures are reasonable, adequately supported, and properly authorized and comply with university policies and donor intentions.
- Reportable charitable contribution information is complete, accurate, and supportable.
- Donor files and automated donor system information assets are adequately safeguarded and reasonably secure.
- Development activities comply with relevant gift tax reporting requirements, federal and state regulations, and Trustee and California State University (CSU) policy, including the *CSU Gifts of Software Policy and Procedure*.

SCOPE AND METHODOLOGY

This review emphasized, but was not limited to, compliance with state and federal laws, Board of Trustee policies, and Office of the Chancellor and campus policies, letters, and directives. The audit review period was July 1, 2000, to June 27, 2002. At San Francisco 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.

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 $285,935,329 in voluntary support (gifts from corporations, foundations, alumni, parents, and others) and special revenue (sponsorships, endowment income, and other income). For this same period, San Francisco State University generated $14,025,931 in external support, equaling approximately 11 percent of their 1999/2000 net General Fund budget of $129,826,602.

OPINION

We visited the San Francisco State University campus from June 10, 2002, through July 19, 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, disbursement controls needed to be strengthened, and noncash gift processing, including software and marketable securities valuations, were not always aligned with Council for Advancement and Support of Education standards, Internal Revenue Service regulations, and campus and CSU policy. 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]

GIFT-IN-KIND PROCESSING [6]

Gift-in-kind (G-I-K) processing was not fully aligned with Internal Revenue Service (IRS) acknowledgement regulations and campus policy. G-I-K processing that is aligned with IRS regulations and campus policy reduces the risk of donor tax deduction disallowance and improper valuation and reporting of noncash gifts.

MARKETABLE SECURITIES VALUATIONS [7]

Donations of marketable securities were not properly valued and consistently documented. Proper valuation of marketable securities and maintenance of adequate support positively impact donor relationships and facilitate correct financial and Council for Advancement and Support of Education (CASE) management reporting.

DONOR SYSTEM RECONCILIATION [8]

Reconciliations between computerized donor records maintained by university advancement and the San Francisco State University Foundation (Foundation) general ledger were not consistently performed on a timely basis. Complete reconciliations of donor and accounting records improve the campus' ability to detect errors and/or misappropriation of funds in a timely manner.

FUND EXPENDITURE CONTROL AND DONOR RESTRICTIONS [8]

Controls over disbursements did not ensure that expenditures were properly documented and authorized. Adequate controls over the disbursement of donated funds reduce the risk of unauthorized disbursements and activities and noncompliance with donor intentions.

REPORTING, RECORD KEEPING, AND INVENTORY CONTROL [10]

ANNUAL REPORT [10]

Donor amounts by constituent type were misclassified in the 2000-2001 Annual Report on External Support. Properly classified fundraising efforts accurately reflect charitable contribution results, facilitate comparisons with other educational institutions, and provide useful information to the Office of the Chancellor, the Board of Trustees, and campus management.

SPONSORSHIP REPORTING [11]

Sponsorship totals reported in the 2000-2001 Annual Report on External Support erroneously included presidential lease contracts totaling $103,138. Accurately reported sponsorship totals facilitate comparisons with other educational institutions and provide relevant data to the Office of the Chancellor, the Board of Trustees, and campus management.

CHARITABLE REMAINDER TRUSTS [12]

The campus did not report the discounted present value of three charitable remainder trusts received during the 2000-2001 reporting period. Compliance with reporting standards reduces the risk of inaccurate reporting and facilitates comparison of external funding achievement among CSU campuses.

DISASTER RECOVERY AND BUSINESS RESUMPTION PLAN [12]

University advancement had not developed an adequate disaster recovery and business resumption plan. Maintenance of an adequately documented disaster recovery and business resumption plan reduces the risk of loss of donor information and a prolonged interruption of donation processing.

REGULATORY AND CSU POLICY COMPLIANCE [13]

University advancement was not in full compliance with the *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.

OBSERVATIONS, RECOMMENDATIONS, AND CAMPUS RESPONSES

CASH AND NONCASH GIFT ADMINISTRATION AND CONTROL

GIFT-IN-KIND PROCESSING

Gift-in-kind (G-I-K) processing was not fully aligned with Internal Revenue Service (IRS) acknowledgement regulations and campus policy.

A review of 15 G-I-K donations disclosed that:

- Ten acknowledgment letters included neither a statement that goods or services were not received nor a description and good faith estimate of goods or services received, if any.
- In five instances, Donor Intent or Deed of Trust forms were not on file.

IRS Publication 526, *Charitable Contributions*, states that a cash or noncash gift acknowledgement must be written and include: a) the amount of cash contributed or a description of the property but not necessarily the value; b) whether the donee gave the donor any goods or services as a result of the contribution; and, if so, c) a description and good faith estimate of the value of any goods or services provided to the donor. 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 *Gifts-In-Kind Policy* states, in part, that the development office will obtain a signed letter or statement of donor intent describing the item and its fair market value.

The associate director for development stated that disclosure statements are now in place for all cash and in-kind donations. The previous versions of disclosure statements were specifically for cash gifts, and therefore were not included for in-kind gifts.

G-I-K processing that is not aligned with IRS regulations and campus policy increases the risk of donor tax deduction disallowance and improper valuation and reporting of noncash gifts.

Recommendation 1

We recommend that the campus establish controls that ensure all acknowledgement letters include the appropriate tax disclosure statement and Donor Intent or Deed of Trust forms are received and maintained on file.

Campus Response

We concur. Since July 1, 2002, acknowledgment letters for all gifts, including in-kind, have included the appropriate tax disclosure statement. The development office is updating its written acknowledgment procedures to ensure: 1) the inclusion of the appropriate tax disclosure statement for all gifts and 2) the completion of Donor Intent or Deed of Trust form in cases where donor correspondence for in-kind gifts is missing. Expected completion: February 2003.

MARKETABLE SECURITIES VALUATIONS

Donations of marketable securities were not properly valued and consistently documented.

Our review of seven marketable securities transactions disclosed that all were valued at either the day of delivery price or the total proceeds minus brokerage fees plus any dividends instead of the mean value on the security transfer date. We also noted that the Sale of Securities Transaction Record form was not signed and/or dated by the record preparer, the record verifier, and/or the employee assigned to acknowledge the gift.

IRS Publication 561, *Determining the Value of Donated Property*, states that the value of stocks and bonds is the fair market value (FMV) of a share or bond on the valuation date. The FMV of each share or bond is the average price between the highest and lowest quoted selling prices on the valuation date.

The campus *Processing Stocks or Securities Policy* states that the mean value of the stock gift on the day it was transferred is the amount credited to the donor's account in the Business Systems Resources, Inc. (BSR) system.

The associate director for development stated that there was a need to conduct additional training and that the Sale of Securities Transaction Record form needs to be revised to enhance its use as a control tool.

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

Recommendation 2

We recommend that the campus provide the necessary securities valuation and file maintenance training and implement controls to ensure that marketable securities are correctly valued and adequately supported.

Campus Response

We concur. As of July 1, 2002, valuation of gifts of securities is accurately and consistently recorded based on IRS and CASE standards. The development office is working with the Foundation to revise written procedures for valuing and recording gifts of marketable securities and provide appropriate staff training. The Gift Acceptance form is being revised to include the appropriate information needed to properly value and record marketable securities. Expected completion: February 2003.

DONOR SYSTEM RECONCILIATION

Reconciliations between computerized donor records maintained by university advancement and the San Francisco State University Foundation (Foundation) general ledger were not consistently performed on a timely basis.

We noted that the January 2002 reconciliation was completed in April 2002, and the February and March 2002 reconciliations were completed in May 2002.

State Administrative Manual (SAM) §7901 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 be retained at least two years.

The Foundation chief of operations and corporate counsel stated that late reconciliations were due to inadequate staffing. She further stated that staffing issues would be addressed once the planned department reorganization is completed.

Failure to complete monthly reconciliations increases the risk that errors and irregularities will not be detected in a timely manner.

Recommendation 3

We recommend that the campus and the Foundation establish controls to ensure that donor system reconciliations are consistently completed on a timely basis.

Campus Response

We concur. The campus (development office) and Foundation will establish controls to ensure that donor system reconciliations are completed on a timely basis. Expected completion: February 2003.

FUND EXPENDITURE CONTROL AND DONOR RESTRICTIONS

Controls over disbursements did not ensure that expenditures were properly documented and authorized.

We found that:

- The project period had expired on 16 of 20 Special Project Agreements (SPA) reviewed.
- Employees not identified on the SPA or Signature Authorization Agreements (SAA) had approved 3 of the 42 disbursements reviewed.

- Someone other than the project director signed a SPA signature specimen authorization line.

- Support for five University Club lunches lacked the purpose of the meeting and the attendees.

Executive Order No. 732, *Compilation of Policies and Procedures for CSU Auxiliary Organizations*, Section 9.2, *Policy on Expenditures of Funds for CSU Auxiliary Organizations*, dated March 6, 2000, states that each auxiliary organization shall maintain documentation for expenditures consistent with good business practice and in keeping with applicable documentation standards required by federal, state, and local governments. Each auxiliary will also provide special documentation to ensure expenditures are made consistent with the constraints attached to certain sources of funds.

The Foundation chief of operations and corporate counsel acknowledged that the SPAs had not been renewed and stated that the staff required better training.

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

Recommendation 4

We recommend that the Foundation review, update, and strengthen disbursement controls to ensure that SPAs and SAAs are current, disbursements are properly authorized, and disbursement support is adequate.

Campus Response

We concur. The Foundation will review, update, and strengthen disbursement controls to ensure that disbursements are properly approved by an authorized signer and disbursement support is adequate. Expected completion: February 2003.

The Foundation recently implemented a new Hospitality policy that addresses numerous issues regarding hospitality expenditures, including the requirement of documenting the purpose of a meeting and those who attended.

Since 1998, the Foundation’s practice on SPA has been that SPAs do not expire after three years but continue to be in effect unless changes are needed in the stated provisions. The SPA form in use since 1998 no longer requires renewal after three years. If authorized signatures change, a new SAA will be completed prior to approving disbursement and/or payment.

REPORTING, RECORD KEEPING, AND INVENTORY CONTROL

ANNUAL REPORT

Donor amounts by constituent type were misclassified in the 2000-2001 Annual Report on External Support.

We found that:

- Reported corporation totals were $765,000 less than donor system totals.
- Reported foundation totals were $200,000 greater than donor system totals.
- Reported other organization totals were $553,000 greater than donor system totals.

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

The associate director for development stated that the differences between current donor system 2000-2001 constituent totals and the reported totals is due to data cleanup that occurred after the donation numbers were reported.

Misclassified fundraising efforts do not accurately reflect campus charitable contribution results, inhibit comparisons with other educational institutions, and provide misleading data to the Office of the Chancellor, the Board of Trustees, and campus management.

Recommendation 5

We recommend that the campus establish procedures and controls that ensure donations are properly recorded according to constituent type.

Campus Response

We concur. Effective July 1, 2002, every donor record entered into the BSR database has been researched and verified to ensure accuracy of constituent type. The development office is currently updating written data-entry procedures that will ensure accuracy of constituent type of all records entered into the database system. The Gift Acceptance form is being revised to include verification and confirmation of data to avoid misclassification. Expected completion: February 2003.

SPONSORSHIP REPORTING

Sponsorship totals reported in the 2000-2001 Annual Report on External Support erroneously included presidential lease contracts totaling $103,138.

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 associate director for development stated that proper recording and more detailed procedures on sponsorships are now in place. He further stated that the California State University (CSU) definition of sponsorships needs clarification.

Including presidential lease contracts in sponsorship totals inaccurately reflects campus external support efforts, inhibits comparisons with other educational institutions, and provides misleading data to the Office of the Chancellor, the Board of Trustees, and campus management.

Recommendation 6

We recommend that the campus clearly define and document sponsorship requirements, provide corresponding staff training, and establish controls to ensure that sponsorships are processed in accordance with management's expectations.

Campus Response

We concur. Effective July 2002, the gift processing unit has been trained to review sponsorships thoroughly and according to the revised and improved procedures established internally. The development office is currently updating its written procedure on recording and reporting sponsorships according to the CSU Special Revenue guidelines. Also, the new Gift Acceptance form will contain a section for sponsorships to assist in accurate reporting. Expected completion: February 2003.

It would be helpful if University Advancement in the Office of the Chancellor would issue clarified definitions and provide further guidance to all CSU campuses regarding sponsorship reporting.

CHARITABLE REMAINDER TRUSTS

The campus did not report the discounted present value of three charitable remainder trusts received during the 2000-2001 reporting period.

CASE *Management Reporting Standards* state that gifts made to establish charitable remainder trusts, where the remainder is not subject to change or revocation, and gifts made to pooled income funds should be credited as deferred gifts (future commitments) at both the discounted present value of the remainder interest allowable as a deduction by the IRS and at face (fair market) value.

The associate director for development stated that not calculating and reporting the charitable remainder trusts present values was an oversight.

Failure to comply with reporting standards increases the risk of inaccurate reporting and hinders comparison of external funding achievement among CSU campuses.

Recommendation 7

We recommend that the campus establish procedures to comply with CASE *Management Reporting Standards* and ensure that the employees responsible understand the reporting guidelines.

Campus Response

We concur. Effective July 2002, procedures were implemented to properly record present values on all planned gifts reported in the Council for Aid to Education (CAE) survey. The development office is finalizing written procedures on recording/reporting Planned Gifts. Expected completion: February 2003.

DISASTER RECOVERY AND BUSINESS RESUMPTION PLAN

University advancement had not developed an adequate disaster recovery and business resumption plan.

SAM §4843.1 requires each state agency to establish and maintain both an operational recovery plan to protect its information assets in the event of a disaster or serious disruption to its operations and a plan to resume operation following a disaster affecting those applications. The plan must cover a minimum of four topics: a) summarization of agency strategy for managing disaster situations; b) distinct management and staff assignment of responsibilities immediately following a disaster and continuing through the period of reestablishment of normal operations; c) prioritization for the recovery of critical applications; and d) operational procedures documented in a systematic manner that will allow recovery to be achieved in a timely and orderly way.

The associate director for development stated that advancement services converted to their current donor system about a year ago, and the disaster recovery and business resumption plan had yet to be completed.

Not maintaining an adequate documented disaster recovery and business resumption plan increases the risk of loss of donor information and prolonged interruption of donation processing.

Recommendation 8

We recommend that the campus expand and improve the donor system disaster recovery and business resumption plan.

Campus Response

We concur. The development office is currently working with the division of information technology to incorporate its disaster recovery and business resumption plan for all its information systems functions (servers and BSR database) with the campus-wide plan. Expected completion: February 2003.

REGULATORY AND CSU POLICY COMPLIANCE

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

We noted that:

- The campus reported 29 software gifts totaling $473,559 for fiscal year 2000-2001. We reviewed 12 of these gifts totaling $377,253 and found that the gifts were overreported by $372,023.

- G-I-K Software Acceptance forms in effect during fiscal year 2000-2001 were not designed to facilitate sign-off by Software Policy Committee members. Consequently, Software Acceptance forms reviewed did not evidence approval by all the required committee members.

The *CSU Gifts of Software Policy and Procedure*, dated June 1999, states that the campus should establish a reasonable valuation that closely follows CASE 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. Further, the software license gift acceptance should be incorporated into an existing gift acceptance form. If there is no existing form, a software license gift acceptance form should be developed. 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 of university advancement and development believed that the campus was following CASE guidelines and was in compliance with the chancellor's office software policy.

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

Recommendation 9

We recommend that the campus:

a. Ensure that gift processing personnel are knowledgeable concerning the requirements specified in the *CSU Gifts of Software Policy and Procedure.*

b. Establish procedures to ensure that the Software Policy Committee formally approves gifts of software.

Campus Response

a. We concur. Software gifts that were reported in fiscal year 2000-2001 were corrected in the system based on the *CSU Gifts of Software Policy and Procedure*. Effective July 1, 2002, all software gifts are being recorded with two different values–one for CAE/CSU reporting and the other for recognition and stewardship purposes. The development office is currently updating written procedures on software gifts; the revised procedures will be provided to appropriate staff. Expected completion: February 2003.

   It would be helpful if University Advancement in the Office of the Chancellor would issue clarified definitions and provide further guidance to all CSU campuses regarding the valuation of software gifts that more closely conform with CASE guidelines.

b. We concur. The development office is currently updating the procedures on software gifts to ensure that the Software Policy Committee formally approves acceptance of all gifts of software by signing a revised Software Gift Acceptance form. Expected completion: February 2003.

APPENDIX A:
PERSONNEL CONTACTED

Name	**Title**
Robert A. Corrigan	President
Karen V. Clopton	Chief of Operations and Corporate Counsel, San Francisco State University Foundation
Jim Collier	Vice President for University Advancement
Ben Fernandez	Associate Director, Development
Richard Garbarino	Manager, Distribution Services, Property Office
Carol Hayashino	Associate Vice President, University Advancement and Development
Franz Lozano	Associate Internal Auditor
Leroy Morishita	Vice President for Administration and Finance
Don W. Scoble	Former Vice President for Business and Finance
Jim Van Ness	Internal Auditor
Anthony Victoria	Administrative Services Director, San Francisco State University Foundation

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January 23, 2003

RECEIVED
UNIVERSITY AUDITOR
JAN 27 2003
THE CALIFORNIA STATE UNIVERSITY

Mr. Larry Mandel
University Auditor
The California State University
401 Golden Shore
Long Beach, California 90802-4210

Dear Mr. Mandel:

We have carefully reviewed the Office of the University Auditor Report #02-18 on Development at San Francisco State University. The report identified areas where additional efforts are needed, and we are taking actions to implement the recommendations.

Our responses to the recommendations are attached. Questions regarding the responses may be directed to Leroy Morishita , Vice President for Administration and Finance, at 415/338-2521 or Jim Van Ness, Internal Auditor, at 415/338-7183.

Sincerely,

Robert A. Corrigan
President

JVN/id

Attachment

cc: Leroy M. Morishita, Vice President, Administration & Finance
James Collier, Vice President for University Advancement
Carol Hayashino, Associate Vice President, University Development
Larry Ware, Associate Vice President/Controller, Fiscal Affairs
Karen V. Clopton, Chief of Operations & Corporate Counsel, SFSU Foundation
Ben Fernandez, Associate Director of Development
Jim Van Ness, Internal Auditor
Franz Lozano, Associate Internal Auditor

DEVELOPMENT

SAN FRANCISCO STATE UNIVERSITY

REPORT NO. 02-18

CASH AND NONCASH GIFT ADMINISTRATION AND CONTROL

GIFT-IN-KIND PROCESSING

Recommendation 1

We recommend that the campus establish controls that ensure all acknowledgement letters include the appropriate tax disclosure statement and Donor Intent or Deed of Trust forms are received and maintained on file.

Campus Response

We concur. Since July 1, 2002, acknowledgment letters for all gifts, including in-kind, have included the appropriate tax disclosure statement. The Development Office is updating its written acknowledgment procedures to ensure: 1) the inclusion of the appropriate tax disclosure statement for all gifts; and 2) the completion of Donor Intent or Deed of Trust form in cases where donor correspondence for in-kind gifts is missing. Expected completion: February 2003.

MARKETABLE SECURITIES VALUATIONS

Recommendation 2

We recommend that the campus provide the necessary securities valuation and file maintenance training and implement controls to ensure that marketable securities are correctly valued and adequately supported.

Campus Response

We concur. As of July 1, 2002, valuation of gifts of securities is accurately and consistently recorded based on IRS and CASE standards. The Development Office is working with the Foundation to revise written procedures for valuing and recording gifts of marketable securities and provide appropriate staff training. The Gift Acceptance form is being revised to include the appropriate information needed to properly value and record marketable securities. Expected completion: February 2003.

DONOR SYSTEM RECONCILIATION

Recommendation 3

We recommend that the campus and the Foundation establish controls to ensure that donor system reconciliations are consistently completed on a timely basis.

Campus Response

We concur. The campus (Development Office) and Foundation will establish controls to ensure that donor system reconciliations are completed on a timely basis. Expected completion: February 2003.

FUND EXPENDITURE CONTROL AND DONOR RESTRICTIONS

Recommendation 4

We recommend that the Foundation review, update, and strengthen disbursement controls to ensure that SPAs and SAAs are current, disbursements are properly authorized, and disbursement support is adequate.

Campus Response

We concur. The Foundation will review, update, and strengthen disbursement controls to ensure that disbursements are properly approved by an authorized signer and disbursement support is adequate. Expected completion: February 2003.

The Foundation recently implemented a new Hospitality policy that addresses numerous issues regarding hospitality expenditures, including the requirement of documenting the purpose of a meeting and those who attended.

Since 1998, the Foundation's practice on Special Project Agreements (SPA) has been that SPA's do not expire after 3 years but continue to be in effect unless changes are needed in the stated provisions. The SPA form in use since 1998 no longer requires renewal after three years. If authorized signatures change, a new Signature Authority Agreement (SAA) will be completed prior to approving disbursement and/or payment.

REPORTING, RECORD KEEPING, AND INVENTORY CONTROL

ANNUAL REPORT

Recommendation 5

We recommend that the campus establish procedures and controls that ensure donations are properly recorded according to constituent type.

Campus Response

We concur. Effective July 1, 2002, every donor record entered into the BSR database has been researched and verified to ensure accuracy of constituent type. The Development Office is currently updating written data-entry procedures that will ensure accuracy of constituent type of all records entered into the database system. The Gift Acceptance Form is being revised to include verification and confirmation of data to avoid misclassification. Expected completion: February 2003.

SPONSORSHIP REPORTING

Recommendation 6

We recommend that the campus clearly define and document sponsorship requirements, provide corresponding staff training, and establish controls to ensure that sponsorships are processed in accordance with management's expectations.

Campus Response

We concur. Effective July 2002, the gift processing unit has been trained to review sponsorships thoroughly and according to the revised and improved procedures established internally. The Development Office is currently updating its written procedure on recording and reporting sponsorships according to the CSU Special Revenue guidelines. Also, the new Gift Acceptance form will contain a section for sponsorships to assist in accurate reporting. Expected completion: February 2003.

It would be helpful if University Advancement in the Office of the Chancellor would issue clarified definitions and provide further guidance to all CSU campuses regarding sponsorship reporting.

CHARITABLE REMAINDER TRUSTS

Recommendation 7

We recommend that the campus establish procedures to comply with CASE *Management Reporting Standards* and ensure that the employees responsible understand the reporting guidelines.

Campus Response

We concur. Effective July 2002, procedures were implemented to properly record present values on all planned gifts reported in the CAE (Council for Aid to Education) survey. The Development Office is finalizing written procedures on recording/reporting Planned Gifts. Expected completion: February 2003.

DISASTER RECOVERY AND BUSINESS RESUMPTION PLAN

Recommendation 8

We recommend that the campus expand and improve the donor system disaster recovery and business resumption plan.

Campus Response

We concur. The Development Office is currently working with the Division of Information Technology to incorporate its disaster recovery and business resumption plan for all its information systems functions (servers and BSR database) with the campus-wide plan. Expected completion: February 2003.

REGULATORY AND CSU POLICY COMPLIANCE

Recommendation 9

We recommend that the campus:

a. Ensure that gift processing personnel are knowledgeable concerning the requirements specified in the *CSU Gifts of Software Policy and Procedure.*

b. Establish procedures to ensure that the Software Policy Committee formally approves gifts of software.

Campus Response

a. We concur. Software gifts that were reported in FY 2000-2001 were corrected in the system based on the *CSU Gifts of Software Policy and Procedure*. Effective July 1, 2002, all software gifts are being recorded with two (2) different values– one for CAE/CSU reporting and the other for recognition and stewardship purposes. The Development Office is currently updating written procedures on software gifts; the revised procedures will be provided to appropriate staff. Expected completion: February 2003.

It would be helpful if University Advancement in the Office of the Chancellor would issue clarified definitions and provide further guidance to all CSU campuses regarding the valuation of software gifts that more closely conform with CASE guidelines.

b. We concur. The Development Office is currently updating the procedures on software gifts to ensure that the Software Policy Committee formally approves acceptance of all gifts of software by signing a revised Software Gift Acceptance form. Expected completion: February 2003.

THE CALIFORNIA STATE UNIVERSITY
OFFICE OF THE CHANCELLOR

February 13, 2003

MEMORANDUM

TO: Mr. Larry Mandel
University Auditor

FROM Charles B. Reed
Chancellor

Charles B Reed

SUBJECT: Draft Final Report Number 02-18 on *Development,*
San Francisco State University

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

CBR/amd

Enclosure

cc: Dr. Robert A. Corrigan, President
Mr. Jim Van Ness, Internal Auditor

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