FUND-RAISING AND GIFT PROCESSING

CALIFORNIA STATE UNIVERSITY
OFFICE OF THE CHANCELLOR

Audit Report 10-66
February 3, 2011

Members, Committee on Audit

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BOARD OF TRUSTEES
THE CALIFORNIA STATE UNIVERSITY
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ABBREVIATIONS

ARES Annual Report on External Support
CFO Chief Financial Officer
CO Office of the Chancellor
CSU California State University
MA Measuring Advancement
SA Systemwide Advancement
SAM State Administrative Manual
VPA Vice President of Advancement
EXECUTIVE SUMMARY

As a result of a systemwide risk assessment conducted by the Office of the University Auditor during the last quarter of 2009, the Board of Trustees, at its January 2010 meeting, directed that Fund-Raising and Gift Processing be reviewed. The Office of the University Auditor had previously reviewed fund-raising and gift processing activities as part of the 2001 and 2002 audits of Development and, for the majority of campuses, during the Auxiliary Organizations triennial audits.

We visited the California State University Office of the Chancellor (CO) from November 15, 2010, through December 3, 2010, and audited the procedures in effect at that time.

Our study and evaluation did not reveal any significant internal control problems or weaknesses that would be considered pervasive in their effects on fund-raising and gift processing activities. However, we did identify other reportable weaknesses that are described in the executive summary and body of this report. In our opinion, the operational and administrative controls for fund-raising and gift processing activities in effect as of December 3, 2010, taken as a whole, were sufficient to meet the objectives stated in the “Purpose” section of this report.

As a result of changing conditions and the degree of compliance with procedures, the effectiveness of controls changes over time. Specific limitations that may hinder the effectiveness of an otherwise adequate system of controls include, but are not limited to, resource constraints, faulty judgments, unintentional errors, circumvention by collusion, and management overrides. Establishing controls that would prevent all these limitations would not be cost-effective; moreover, an audit may not always detect these limitations.

The following summary provides management with an overview of conditions requiring attention. Areas of review not mentioned in this section were found to be satisfactory. Numbers in brackets [ ] refer to page numbers in the report.

CHANCELLOR’S OFFICE REPORTING [5]

Procedures for the CO’s data submission for the Annual Report on External Support (ARES) were not formalized and documented.

SYSTEMWIDE REPORTING [6]

The campus approval process for the ARES and Measuring Advancement (MA) reports submitted by the campuses to Systemwide Advancement (SA) needed improvement. In addition, procedures were not sufficient for the documentation and approval of revised submissions of campus data for the ARES and the MA presentation. Finally, procedures were not sufficient for SA’s internal review and compilation of the data submitted by the campuses for the ARES and the MA presentation.
INTRODUCTION

BACKGROUND

In March 2005, the Board of Trustees adopted a set of four guiding principles to measure the productivity of, and investment in, advancement operations. These principles include adequate resources to achieve stated goals, establishment and annual evaluation of performance goals, a well-rounded development program, and a culture of philanthropy.

Fund-raising, and the associated processing of the gifts received, are an integral component of advancement operations. Although the California State University (CSU) depends on state funds to support core educational functions, private support provides a significant and essential source of funding toward the CSU’s goals of access to education, enhanced educational quality, and financial stability. Over the past three years, the CSU has averaged $252 million per year in gift receipts.

With regard to fund-raising, the CSU campuses are separated into three peer groups based on the campus advancement program’s maturity, which is measured by the number of full-time professional fund-raisers, the endowment’s market value, and the number of individual donors. Group I campuses have a fund-raising productivity goal of 10 percent of the state general fund allocation, Group II campuses have a goal of 10 to 15 percent of the state general fund allocation, and Group III campuses have goals that equal or exceed 15 percent of the state general fund allocation. Fund-raising productivity at the CSU is calculated based on gift commitments, including gifts that have been received, as well as pledges and support promised through testamentary provisions.

Campuses are categorized as follows:

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<thead>
<tr>
<th>Group I</th>
<th>Group II</th>
<th>Group III</th>
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<tr>
<td>Bakersfield</td>
<td>Chico</td>
<td>Fresno</td>
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<td>Channel Islands</td>
<td>Fullerton</td>
<td>Long Beach</td>
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<td>Dominguez Hills</td>
<td>Northridge</td>
<td>San Diego</td>
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<td>Pomona</td>
<td>San Luis Obispo</td>
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<td>Humboldt</td>
<td>Sacramento</td>
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<td>Los Angeles</td>
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<td>Maritime Academy</td>
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<td>Monterey Bay</td>
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<td>Stanislaus</td>
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Fund-raising and gift-processing activities may be administered on the state side or through auxiliary organizations. Each campus has a university advancement office and a charitable foundation that work together to solicit and manage donations. In the Office of the Chancellor (CO), the Office of Systemwide Advancement (SA) provides support to campuses, develops systemwide policies, and consolidates campus information to produce accountability reports.
PURPOSE

Our overall audit objective was to determine the effectiveness of existing policies and procedures related to fund-raising and gift processing and to determine the adequacy of controls that ensure compliance with relevant rules and regulations, Trustee policy, Office of the Chancellor directives, industry standards, and campus procedures.

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

- The structure and administration of fund-raising and gift processing provides clear lines of organizational authority and responsibility, an effective internal control environment, and policies and procedures that are current and comprehensive.

- Reportable charitable contribution information in the Annual Report on External Support (ARES) is complete, accurate, and supportable.

- Campus advancement goals and investment returns reported in the Measuring Advancement (MA) presentation are complete, accurate, and supportable.
SCOPE AND METHODOLOGY

The proposed scope of the audit as presented in Attachment A, Agenda Item 2 of the January 26 and 27, 2010, meeting of the Committee on Audit stated that fund-raising and gift processing would include a review of controls over the analysis of development needs, identification of prospective donors and donor relations, solicitation and acknowledgment of donations, valuation of non-monetary donations, recording gifts and posting to accounting records, securing donor information, expending donated funds, and preparation of reports on development activity.

Our study and evaluation were conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing*, issued by the Institute of Internal Auditors, and included the audit tests we considered necessary in determining whether operational and administrative controls are in place and operative. 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 focused on procedures in effect from fiscal year 2008/09 through fiscal year 2009/10.

A preliminary risk-assessment of fund-raising and gift processing was used to select for our audit testing those areas or activities with highest risk. This assessment was based upon a systematic process using prior audits, management’s feedback, and professional judgments on probable adverse conditions and other pertinent information, including prior audit history in this area. We sought to assign higher review priorities to activities with higher risks. As a result, not all risks identified were included within the scope of our review.

Based upon this assessment of risks, we specifically included within the scope of our review the following reports compiled at the CO and presented to the Board of Trustees:

- The ARES
- The MA presentation
CHANCELLOR’S OFFICE REPORTING

Procedures for the Office of the Chancellor’s (CO) data submission for the Annual Report on External Support (ARES) were not formalized and documented.

Specifically, we found that:

- Systemwide Advancement’s (SA) process for gathering, compiling, and reviewing the CO data in the ARES was not documented, and the endowment market value was underreported in the 2008/09 ARES.

- The process for obtaining written approval of the CO ARES data submission was not documented, and approvals were not provided for the 2008/09 submission.

State Administrative Manual (SAM) §20050 states that elements of a satisfactory system of internal accounting and administrative controls include, but are not limited to, a system of authorization and recordkeeping procedures adequate to provide effective accounting control, an established system of practices to be followed in performance of duties, and an effective system of internal review.

The assistant vice chancellor of SA stated that improvement could be made with a more formalized process to compile CO data. She further stated that the lack of documented approval for the 2008/09 CO submission was due to the transition of the executive vice chancellor and chief financial officer (CFO) and the vice chancellor for university relations and advancement.

Lack of a formal process for gathering, compiling, reviewing, and approving CO data in the ARES increases the risk that information reported to the Board of Trustees will be inaccurate or misleading.

**Recommendation 1**

We recommend that SA develop and document procedures that address:

a. The process for gathering, compiling, and reviewing CO data in the ARES, including the sources of the data.

b. The process for obtaining documented approval of the CO ARES data submission.

**Management Response**

We concur. SA will document the procedure for gathering, compiling, and reviewing CO data in compliance with the CSU philanthropic report guidelines and Council for Advancement and Support of Education management reporting standards. This will include the steps for internal control and certification by the vice chancellor for University Relations and Advancement, as well as the chief financial officer.
Anticipated date of completion: On or before April 30, 2011

SYSTEMWIDE REPORTING

CAMPUS APPROVALS

The campus approval process for the ARES and Measuring Advancement (MA) reports submitted by the campuses to SA needed improvement.

We noted that:

- ARES information submitted by the campuses was not formally approved by the campus vice president for advancement (VPA) and the campus CFO. SA procedures instructed the campuses to copy the VPA and CFO on the e-mail submission of information sent to SA as evidence of approval. This negative confirmation did not provide strong evidence of review and approval of the data at the campus level. Moreover, one of the five campus e-mail submissions for the 2008/09 ARES that we reviewed did not include the required carbon copy to the CFO.

- Policies and procedures did not exist for the campus approval of the MA reports submitted by the campuses to SA. Although SA indicated that campus MA submissions should be approved by the campus VPA and president, there was no consistent method of campus approval in the five campus e-mail submissions we reviewed.

SAM §20050 states that elements of a satisfactory system of internal accounting and administrative controls include, but are not limited to, a system of authorization and recordkeeping procedures adequate to provide effective accounting control, an established system of practices to be followed in performance of duties, and an effective system of internal review.

The assistant vice chancellor of SA stated that the current negative confirmation approval process was recently adopted in an effort to streamline processes and move toward electronic submission.

Lack of a formal approval process decreases accountability and increases the risk that information provided by the campus and reported to the Board of Trustees will be inaccurate or misleading.

Recommendation 2

We recommend that SA:

a. Revise the campus process for ARES data submissions to include a positive confirmation of campus review and approval.

b. Develop and document procedures for the campus approval of campus MA data submissions.
Management Response

We concur. The procedure for documenting approval of ARES and MA data submissions will be strengthened by requiring affirmative certifications. This requirement will be updated in the Advancement Reporting and Data Collection Process and the Expenditure Guidelines and Definitions documents.

Anticipated date of completion: On or before April 30, 2011

CHANGE CONTROL

Procedures were not sufficient for the documentation and approval of revised submissions of campus data for the ARES and the MA presentation.

We reviewed campus data for the 2008/09 ARES and the 2009/10 MA presentation and noted that in two instances, adequate documentation of changes made to campus submissions was not maintained, and in three instances, changes made to campus data were not carried through to systemwide reports. However, these changes were not material.

SAM §20050 states that elements of a satisfactory system of internal accounting and administrative controls include, but are not limited to, a system of authorization and recordkeeping procedures adequate to provide effective accounting control, an established system of practices to be followed in performance of duties, and an effective system of internal review.

The assistant vice chancellor of SA stated that a process for documenting revisions to campus submissions had not been formalized and the timing of changes necessitates that some are corrected on the subsequent year’s report. She also stated that a formalized change process will help ensure that changes are carried through and will minimize the potential for error.

Lack of procedures for revised submissions of campus data increases the risk that changes to data will not be properly approved, that accountability for data will not be maintained, and that information provided by the campus and reported to the Board of Trustees will be inaccurate or misleading.

Recommendation 3

We recommend that SA develop and document procedures for documentation and approval of revised submissions of campus data for the ARES and the MA presentation.

Management Response

We concur. SA will develop and document a more formalized procedure for informing campuses about potential errors or omissions. The procedure will include control measures for changes, including a document retention period of three years.
Anticipated date of completion: On or before April 30, 2011

SYSTEMWIDE REVIEW PROCESS

Procedures were not sufficient for SA’s internal review and compilation of the data submitted by the campuses for the ARES and the MA presentation.

Specifically, we noted:

- SA’s review of the accuracy and reasonableness of the campus data submissions for the ARES and the MA presentation was not documented, and there were various errors or questionable dollar amounts in submissions that should have been noticed and pursued during the SA review.

- There were no procedures to address the process of importing campus data into the Access database, and there was one error in the import of campus expenditure data that affected calculations used in the 2009/10 MA presentation.

- There were no procedures to address the compilation of campus data and the creation of campus dashboards and systemwide charts for the 2009/10 MA presentation. In one instance, the calculation used to create a systemwide chart was incorrect.

Although the errors noted in our review were not material to the data presented as a whole, they indicate a need for improvement and documentation of SA review processes.

SAM §20050 states that elements of a satisfactory system of internal accounting and administrative controls include, but are not limited to, a system of authorization and recordkeeping procedures adequate to provide effective accounting control, an established system of practices to be followed in performance of duties, and an effective system of internal review.

The assistant vice chancellor of SA stated that the process could be improved with a more systematic review and compilation of campus data, and that the errors were due to oversight.

Lack of documented processes for the review and compilation of campus data for use in systemwide reports increases the risk that errors and irregularities will not be detected and that information reported to the Board of Trustees will be inaccurate or misleading.

Recommendation 4

We recommend that SA develop and document policies and procedures that address:

a. The documented review of campus data submissions for accuracy and reasonableness.

b. The process for importing campus data into the Access database, and a review to ensure that the import was successful.
c. The compilation of campus data and the creation of campus dashboards and systemwide charts for the MA presentation, including documentation of the calculations used for each chart.

**Management Response**

We concur. SA will develop a standard protocol for testing campus data submissions for accuracy and reasonableness. The Advancement Analyst Manual will include calculations for the standard dashboards and Board of Trustees presentation graphs.

Anticipated date of completion: On or before April 30, 2011
# APPENDIX A:
## PERSONNEL CONTACTED

<table>
<thead>
<tr>
<th>Name</th>
<th>Title</th>
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<tbody>
<tr>
<td>George Ashkar</td>
<td>Assistant Vice Chancellor/Controller, Financial Services</td>
</tr>
<tr>
<td>Garrett P. Ashley</td>
<td>Vice Chancellor of University Relations and Advancement</td>
</tr>
<tr>
<td>Laura Hahn</td>
<td>Advancement Analyst</td>
</tr>
<tr>
<td>Benjamin F. Quillian</td>
<td>Executive Vice Chancellor and Chief Financial Officer</td>
</tr>
<tr>
<td>Lori Redfearn</td>
<td>Assistant Vice Chancellor, Systemwide Advancement</td>
</tr>
</tbody>
</table>
March 25, 2011

Mr. Larry Mandel, University Auditor
California State University
Office of the University Auditor
401 Golden Shore, 4th Floor
Long Beach, California 90802

SUBJECT: MANAGEMENT RESPONSES – CHANCELLOR’S OFFICE FUNDRAISING AND GIFT PROCESSING AUDIT

Dear Mr. Mandel:

Enclosed is the response to the recommendations in Audit Report Number 10-66 Fundraising and Gift Processing for the Office of the Chancellor. Upon acceptance of this response, we will follow up with your office in providing supporting documentation for each recommendation by the anticipated completion dates.

Please let me know if you have any questions or need additional information.

Sincerely,

Garrett P. Ashley
Vice Chancellor
University Relations and Advancement

GPA:lar
Enclosure

c: Charles B. Reed, Chancellor
Benjamin F. Quillian, Executive Vice Chancellor and Chief Financial Officer
FUND-RAISING AND GIFT PROCESSING

CALIFORNIA STATE UNIVERSITY
OFFICE OF THE CHANCELLOR

Audit Report 10-66

CHANCELLOR’S OFFICE REPORTING

Recommendation 1

We recommend that SA develop and document procedures that address:

a. The process for gathering, compiling, and reviewing CO data in the ARES, including the sources of the data.

b. The process for obtaining documented approval of the CO ARES data submission.

Management Response

We concur. SA will document the procedure for gathering, compiling and reviewing CO data in compliance with the CSU philanthropic report guidelines and Council for Advancement and Support of Education management reporting standards. This will include the steps for internal control and certification by the Vice Chancellor for University Relations and Advancement as well as the Chief Financial Officer.

Anticipated date of completion: on or before April 30, 2011.

SYSTEMWIDE REPORTING

CAMPUS APPROVALS

Recommendation 2

We recommend that SA:

a. Revise the campus process for ARES data submissions to include a positive confirmation of campus review and approval.

b. Develop and document procedures for the campus approval of campus MA data submissions.
Management Response

We concur. The procedure for documenting approval of ARES and MA data submissions will be strengthened by requiring affirmative certifications. This requirement will be updated in the Advancement Reporting and Data Collection Process and the Expenditure Guidelines and Definitions documents.

Anticipated date of completion: on or before April 30, 2011.

CHANGE CONTROL

Recommendation 3

We recommend that SA develop and document procedures for documentation and approval of revised submissions of campus data for the ARES and the MA presentation.

Management Response

We concur. SA will develop and document a more formalized procedure for informing campuses about potential errors or omissions. The procedure will include control measures for changes, including a document retention period of three years.

Anticipated date of completion: on or before April 30, 2011.

SYSTEMWIDE REVIEW PROCESS

Recommendation 4

We recommend that SA develop and document policies and procedures that address:

a. The documented review of campus data submissions for accuracy and reasonableness.

b. The process for importing campus data into the Access database, and a review to ensure that the import was successful.

c. The compilation of campus data and the creation of campus dashboards and systemwide charts for the MA presentation, including documentation of the calculations used for each chart.

Management Response

We concur. SA will develop a standard protocol for testing campus data submissions for accuracy and reasonableness. The Advancement Analyst Manual will include calculations for the standard dashboards and Board of Trustees presentation graphs.

Anticipated date of completion: on or before April 30, 2011.
April 21, 2011

MEMORANDUM

TO: Mr. Larry Mandel
   University Auditor

FROM: Charles B. Reed
       Chancellor

SUBJECT: Draft Final Report 10-66 on Fund-Raising and Gift Processing,
         California State University, Office of the Chancellor

In response to your memorandum of April 21, 2011, I accept the response as
submitted with the draft final report on Fund-Raising and Gift Processing,
California State University, Office of the Chancellor.

CBR/amd