

FUND-RAISING AND GIFT PROCESSING

CALIFORNIA MARITIME ACADEMY

Audit Report 10-67

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ABBREVIATIONS

CASE	Council for Advancement and Support of Education
CMA	California Maritime Academy
CSU	California State University
EO	Executive Order
Foundation	California Maritime Academy Foundation
IRS	Internal Revenue Service
PCI DSS	Payment Card Industry Data Security Standard
SAM	State Administrative Manual

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 Maritime Academy campus from December 13, 2010, through January 21, 2011, and audited the procedures in effect at that time.

Our study and evaluation revealed certain conditions that, in our opinion, could result in significant errors and irregularities if not corrected. Specifically, the campus did not maintain adequate internal control over the following areas: policies and procedures, fund-raising and event planning, cash and non-cash gift administration, donor information security, and gift accounts and expenditures. These conditions, along with other weaknesses, are described in the executive summary and body of this report. In our opinion, due to the effect of the weaknesses described above, the operational and administrative controls of fund-raising and gift processing activities in effect as of January 21, 2011, taken as a whole, were not 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.

GENERAL ENVIRONMENT [6]

Campus and California Maritime Academy Foundation (Foundation) policies and procedures related to fund-raising needed improvement. Specifically, policies and procedures for the management and oversight of critical areas at the campus and the Foundation had not been documented. Also, the campus delegations of authority for gift evaluation and acceptance had not been documented at the time of the audit.

FUND-RAISING AND EVENT PLANNING [7]

The campus did not obtain written approval of the annual development plan from the campus president. Also, Foundation management of commercial fund-raisers needed improvement; specifically, the contract between the Foundation and a commercial fund-raiser did not contain provisions required by the California Nonprofit Integrity Act of 2004. Finally, Foundation policies and procedures for the administration of fund-raising events were inadequate.

CASH AND NON-CASH GIFT ADMINISTRATION [11]

The Foundation did not directly inform donors of administrative fees. Also, there was no formal process in place governing the transfer of assets between the Foundation and the campus. In addition, Foundation policies and procedures for valuing gifts of property did not include a threshold at which gift-in-kind donations would require a formal valuation process, a method to be used in valuing gift-in-kind donations, or documentation requirements for the valuations. Moreover, the Foundation did not always properly acknowledge nor maintain required and complete documentation regarding the receipt of donated vessels. Further, the Foundation did not did not always properly accept and process of gifts of cash and negotiable instruments. Finally, the campus did not require management review and approval of monthly reconciliations performed between the donor system and the general ledger.

DONOR INFORMATION SECURITY [17]

Sensitive donor credit card information (full card number, expiration date, cardholder name, and address) was not properly protected in paper donor files.

GIFT ACCOUNTS AND EXPENDITURES [17]

Gift account agreements were not always properly completed.

INTRODUCTION

BACKGROUND

In March 2005, the Board of Trustees adopted 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:

Group I	Group II	Group III
Bakersfield	Chico	Fresno
Channel Islands	Fullerton	Long Beach
Dominguez Hills	Northridge	San Diego
East Bay	Pomona	San Luis Obispo
Humboldt	Sacramento	
Los Angeles	San Francisco	
Maritime Academy	San Jose	
Monterey Bay	Sonoma	
San Bernardino		
San Marcos		
Stanislaus		

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, the Office of Systemwide Advancement 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.
- ▶ Fund-raising planning aligns with local and systemwide standards, and monitoring processes are adequate to meet stated goals.
- ▶ Fund-raising event administration reflects appropriate internal controls and complies with state and federal regulations and local and CSU policy.
- ▶ Cash and non-cash gifts are adequately controlled, sufficiently safeguarded, and properly accounted for, and non-cash gifts are properly valued.
- ▶ Donations are properly processed and acknowledged, and the donor administrative system is reconciled to campus/foundation accounting records.
- ▶ Corporate matching gifts are eligible, properly directed and evaluated, accepted by authorized personnel, and deposited in a timely manner.
- ▶ Donor files and automated donor system information assets are adequately safeguarded.
- ▶ Reportable charitable contribution and expenditure information is complete, accurate, and supportable.
- ▶ Donor pledges are adequately controlled, properly reported, followed up on, and written off when deemed uncollectible.
- ▶ Controls over the administration of gift accounts are adequate, and gift accounts are established in accordance with state and CSU regulations and donor intent.
- ▶ Expenditures are reasonable, adequately supported, and properly authorized and comply with university policies and donor intentions.

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 of gifts and posting to accounting records, securing of donor information, expending of 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:

- ▶ Fund-raising and event planning.
- ▶ Cash and non-cash gift administration.
- ▶ Donor information security.
- ▶ Reporting and recordkeeping.
- ▶ Gift accounts and expenditures.

OBSERVATIONS, RECOMMENDATIONS, AND CAMPUS RESPONSES

GENERAL ENVIRONMENT

POLICIES AND PROCEDURES

Campus and California Maritime Academy Foundation (Foundation) policies and procedures related to fund-raising needed improvement.

We found that:

- ▶ Areas of operation critical to fund-raising efforts at the campus and the Foundation had not been defined or documented.
- ▶ Policies and procedures for the management and oversight of critical areas at the campus and the Foundation had not been documented.

State Administrative Manual (SAM) §20500 states that a major symptom of a deficient control environment is a lack of documented policies and procedures which address areas of operation which are critical to a department or organization.

Executive Order (EO) 698, *Board of Trustees Policy for the California State University Auxiliary Organizations*, dated March 4, 1999, states that campus presidents are responsible for ensuring that auxiliary organizations operate in conformity with the policies and procedures of the Board of Trustees and the campus.

The university controller stated that the creation and implementation of many policies was delayed in anticipation of the creation and publication of systemwide Integrated California State University Administrative Manual policies around which the campus could tailor the university and Foundation policies.

Failure to maintain adequate policies and procedures for fund-raising activities decreases accountability for the achievement of fund-raising goals, increases the risk that donor funds will be lost or misappropriated, and increases the potential for noncompliance with government regulations.

Recommendation 1

We recommend that the campus and the Foundation:

- a. Define and document the areas of operation that are critical to fund-raising efforts.
- b. Document policies and procedures for the management and oversight of critical areas.

Campus Response

We concur. Senior management will define and document areas of operations that we determine to be critical to fund-raising efforts and establish policies and procedures to strengthen management and oversight of those areas by December 31, 2011.

DELEGATION OF AUTHORITY

The campus delegations of authority for gift evaluation and acceptance had not been documented at the time of the audit.

EO 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 California State University (CSU) system.

The vice president of administration and finance stated that the campus had not properly completed a delegation of authority due to oversight.

Failure to document gift evaluation and acceptance responsibilities increases the risk that donations will be mishandled or misused.

Recommendation 2

We recommend that the campus document delegations of authority for the evaluation and acceptance of gifts.

Campus Response

We concur. The campus will document its delegations of authority for the evaluation and acceptance of gifts by August 1, 2011.

FUND-RAISING AND EVENT PLANNING

DEVELOPMENT PLANS

The campus did not obtain written approval of the annual development plan from the campus president.

Council for Advancement and Support of Education (CASE) Reporting Standards and Management guidelines state that a written campaign plan should be prepared for review by all appropriate bodies

at an institution and the plan should be formally approved by the committee organized to create the plan or the individual who has final authority for the organization's fund-raising activities.

The vice president of university advancement stated that the campus president had informally reviewed the annual advancement plan as it was being developed and that the president's participation, review, and approval of the annual advancement budgets, which detail the development plan activities, met the CASE standards for development plan approval. He also stated that steps will be taken to ensure that the president formally approves the plan in the future.

Failure to obtain written approval of development plans can lead to a lack of accountability and can cause an allocation of resources to efforts that are not of primary concern or focus for executive management.

Recommendation 3

We recommend that the campus obtain written approval of the annual development plan from the campus president.

Campus Response

We concur. The campus shall obtain written approval of the annual development plan from the campus president. Documentation of the president's approval will be in place by August 1, 2011.

COMMERCIAL FUND-RAISERS

Foundation management of commercial fund-raisers needed improvement.

We noted that:

- ▶ The contract between the Foundation and a commercial fund-raiser did not contain provisions required by the California Nonprofit Integrity Act of 2004.
- ▶ The Foundation did not ensure that the commercial fund-raiser had registered with the Office of the Attorney General of the State of California before the initiation of fund-raising campaigns.

Government Code §12599 was amended by the California Nonprofit Integrity Act of 2004 and provides specific provisions which must be included in contracts between a registered not-for-profit organization and a commercial fund-raiser. It further states that a commercial fund-raiser shall, prior to managing, advising, counseling, consulting, or preparing material for, or with respect to, the solicitation in this state of funds, assets, or property for charitable purposes, register with the Attorney General's Registry of Charitable Trusts on a registration form provided by the Attorney General.

The Foundation executive director stated his belief that the incorporation of the following statement into the contract met the requirements of the Non-Profit Integrity Act of 2004: "All acquisitions shall

be made in accordance with CSU General Provisions made part of this agreement by reference. It is the responsibility of the contracting party to familiarize itself with these provisions including insurance requirements available at <http://www.calstate.edu/csp/crl/GP/GP.shtml> and Non-Profit Integrity Act of 2004 available at www.ag.ca.gov/charities”

Failure to include all required stipulations within a commercial fund-raiser contract and to ensure that commercial fund-raisers are registered with the Office of the Attorney General of the State of California increases the likelihood that commercial fund-raisers will act in a manner that is not compliant with required rules and regulations, thereby increasing the CSU’s exposure to financial, legal, and public reputation risk.

Recommendation 4

We recommend that the Foundation:

- a. Ensure that all contracts with commercial fund-raisers include the provisions required by the California Nonprofit Integrity Act of 2004.
- b. Ensure that future commercial fund-raisers register with the Office of the Attorney General of the State of California before the initiation of fund-raising campaigns.

Campus Response

We concur. Beginning immediately, the director of procurement shall ensure that contracts with commercial fund-raisers include provisions required by law, including confirmation of the fundraiser’s registration with the Office of the Attorney General of the state of California. A contract template demonstrating how these clauses will be incorporated into the contract language shall be prepared and available by August 1, 2011.

FUND-RAISING EVENT ADMINISTRATION

Foundation policies and procedures for the administration of fund-raising events were inadequate.

We reviewed five events in fiscal years (FY) 2008/09 and 2009/10 and found that policies and procedures did not exist for the following areas:

- ▶ Tax disclosures to participants. For two events, written tax disclosures specifying which portion of the ticket represented a gift and which portion represented payment for goods and services received had not been provided to ticket holders.
- ▶ Recordkeeping and financial controls. Only one event reviewed demonstrated documented financial controls. In addition, for two events, fully executed copies of vendor contracts with vendor signatures had not been retained and required certificates of insurance had not been obtained. Further, one vendor contract did not contain appropriate indemnification language.

- ▶ Fund-raising auctions. For one event that included an auction, we found that gift revenues were not recorded properly in the donor system, and a list of items auctioned was not maintained. In addition, the original value of items recorded in the donor system was not adjusted to reflect the value of the actual sale price.

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.

Title 5 §42401 and §42402 indicate that the campus president shall require that auxiliary organizations operate in conformity with the 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 business arrangements be supported by complete, written agreements.

EO 849, *CSU Insurance Policy*, dated February 5, 2003, states that auxiliary organizations shall require vendors to provide evidence of adequate insurance coverage to the organization before the execution of contracts or the initiation of events. It further states that indemnification and hold harmless language shall be used in all contracts where material liabilities exist.

CASE Reporting Standards and Management Guidelines, Chapter 1, states that auctions allow the not-for-profit organization to record two separate gifts. The first gift is the recorded value of the item which was donated to the auction, and the second is the amount the auction winner paid in excess of the item's recorded value.

The Foundation executive director stated that the lack of tax disclosures was the result of oversight, as the Foundation events in question had been priced at the cost of goods and services received and did not contain a charitable component in prior years; as the success of the events grew, the price of admission was raised, and it ultimately came to include a charitable component, but tax disclosures were not provided to participants. He further stated that new procedures were put in place to require contracts to be processed through the campus procurement department to strengthen the Foundation's financial controls.

The lack of proper administration of fund-raising events increases the risk of noncompliance with campus, CSU, and state requirements.

Recommendation 5

We recommend that the Foundation develop and document policies and procedures for the administration of fund-raising events that address:

- a. Provision of written tax disclosures to all fund-raising event ticket holders.

- b. Recordkeeping and financial controls, including retention of fully executed vendor contracts that include indemnification provisions and receipt of vendor certificates of insurance.
- c. Proper documentation and recording of auction revenues in the donor database.

Campus Response

We concur. The Foundation will develop written policies and procedures documenting our control over administration of fund-raising activities. These policies and procedures will at a minimum include guidance on written tax disclosure requirements, recordkeeping and financial controls over contracts, and instructions for properly recording auction revenues in the donor database. These policies and procedures will be completed and in place by November 1, 2011.

CASH AND NON-CASH GIFT ADMINISTRATION

ADMINISTRATIVE FEES

The Foundation did not directly inform donors of administrative fees.

We found that administrative fees were noted on the advancement website, but donors were not directed to the website to review the fee policy.

The *Compilation of Policies and Procedures for CSU Auxiliary Organizations* sets sound business practice guidelines for auxiliary organizations operating within the CSU system. Section 8.9.3, *Donations, Program Service Fees, Other Income*, states that the auxiliary should establish a written recordkeeping system that enables gifts to be properly received, recorded, and acknowledged in accordance with donor restrictions and other requirements.

The Foundation executive director stated that the lack of notification regarding administrative fees was due to his belief that posting the fees on the website was adequate disclosure.

Failure to notify donors of administrative fees inhibits transparency and increases exposure to liability.

Recommendation 6

We recommend that the Foundation directly inform all donors of administrative fees.

Campus Response

We concur. The Foundation will include a statement on our donor acknowledgements stating that there may be an administrative fee charged as established by the board of directors policy and provide the donors with the link to the Foundation website where further information about the fee will be detailed. This shall be in place by September 1, 2011.

TRANSFERENCE OF ASSETS

There was no formal process in place governing the transfer of assets between the Foundation and the campus.

Specifically, we found that the Foundation transferred donated vessels to the campus for use in academic programs without a formal written agreement that included provisions establishing cross-indemnification and the campus' acceptance of the vessels on an "as-is" basis.

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 business arrangements be supported by complete, written agreements that are executed in a timely manner and include all appropriate contractual provisions.

EO 715, *California State University Risk Management Policy*, dated October 27, 1999, states that campuses should use reasonable means to reduce or transfer risk using methods which include, but are not limited to, the execution of third-party waivers and hold harmless agreements.

The campus controller stated that any transfer of ownership of assets from the Foundation to the university was designed to assign ownership, risks, and responsibility to the university because the university had control over the risks associated with the operation of its programs and the use and maintenance of the asset.

Failure to clearly invoke cross-indemnifications and acceptance of vessels "as-is" through formal written agreements increases the CSU's exposure to financial and legal risk.

Recommendation 7

We recommend that the campus develop and implement a formal process governing the transfer of assets between the Foundation and the campus.

Campus Response

We concur. The campus and Foundation will establish a formal process governing the transfer of assets between the Foundation and the campus by September 1, 2011.

VALUATION OF NON-CASH GIFTS

Foundation policies and procedures for valuing gifts of property did not include a threshold at which gift-in-kind donations would require a formal valuation process, a method to be used in valuing gift-in-kind donations, or documentation requirements for the valuations.

IRS Publication 561, *Determining the Value of Donated Property*, dated April 2007, provides specific guidelines for how the valuation of donated property should be attained and what documentation should be maintained for such valuation efforts.

CASE Reporting Standards and Management Guidelines, Chapter 1, provides specific guidance on how items should be valued, including the due diligence efforts which should be made on the part of the not-for-profit entity when accepting donor valuation numbers and the recordkeeping requirements to support gift valuations.

The Foundation executive director stated that the Foundation had not established a threshold at which gift-in-kind donations would require a formal valuation process because the size and scope of in-kind donations that the Foundation receives outside of its marine development program were insignificant. He further stated that the time and cost to formally value non-marine program gift-in-kind items was not justified, as the campus ultimately knows the value of those assets because they are sold between a willing seller and buyer at auction at fund-raising events. He also stated that gifts-in-kind accepted through the Foundation's marine donation program are required to have a value of at least \$25,000.

Failure to maintain complete policies and procedures for the valuation of non-cash gifts increases the likelihood that gifts will be reported and valued at incorrect amounts.

Recommendation 8

We recommend that the Foundation revise its policies and procedures for valuing gifts of property to include a threshold at which gifts-in-kind require a formal valuation process, a method to be used in valuing gift-in-kind donations, and documentation requirements for the valuations.

Campus Response

We concur. The Foundation will establish policies and procedures for valuing and recording gifts-in-kind that are valued above an established threshold amount by October 1, 2011.

DONATED VESSELS

The Foundation did not always properly acknowledge nor maintain required and complete documentation regarding the receipt of donated vessels.

We reviewed six donated vessels and found that:

- ▶ In three instances, the Foundation acknowledged receipt of a vessel before taking possession of it. In one of these instances, the acknowledgment occurred in a tax year prior to the one in which the property was received.
- ▶ In all six cases, completed gift acceptance authorization forms were not on file.

- ▶ In three cases, completed IRS forms 8283 were not on file.
- ▶ In one case, a donor was supplied with an IRS form 8283 with written official acknowledgment of the receipt of the vessel, but the donor information and detailed vessel descriptions, including the appraised amount, were missing.

IRS Publication 526, *Charitable Contributions*, states that a cash or non-cash gift acknowledgment must be supplied to a donor upon request after the receipt of the cash or property by the donee.

EO 676, *Delegation of Gift Evaluation and Acceptance to Campuses*, dated February 1, 1998, states that campus presidents are delegated the authority to accept gifts on behalf of the university and, in the course of doing so, must perform a due diligence review to ensure that the gifts meet with the standards set by the campus and the university and will be beneficial to the educational mission of the CSU. Campus presidents may further delegate this authority to campus personnel.

IRS Publication 4302, *A Charity's Guide to Vehicle Donations*, revised February 2009, states that the donor must complete, at a minimum, the sections of a form 8283 detailing the donor name and contact information, as well as a detailed description of the donated property, before a donee can sign the form acknowledging the receipt of the property from the listed donor.

IRS Publication 4302, *A Charity's Guide to Vehicle Donations*, revised February 2009, states that the donee must retain a copy of the complete IRS form 8283 in its files.

The Foundation executive director stated that the failure to track required documentation for each donated vessel was due to Foundation personnel not following or understanding the reporting requirements or the processes for complying with those requirements.

Failure to properly acknowledge the receipt of vessels donated to the Foundation increases the likelihood that donors will be provided incorrect or unsubstantiated tax receipts and increases the CSU's exposure to financial, legal, and public relations risk.

Recommendation 9

We recommend that the Foundation:

- a. Acknowledge receipt of vessels after taking possession.
- b. Ensure that completed gift authorizations are on file for all vessels.
- c. Ensure that completed IRS forms 8283 are on file all donated vessels.
- d. With regard to vessels that were acknowledged prior to actual acceptance (as noted above), consult with legal counsel or other appropriate personnel to determine whether formal written notification should be sent to the donors stating the true date of receipt.

Campus Response

We concur. The vice president for advancement shall monitor and be responsible for compliance with the above items by using a transaction control checklist to ensure the Foundation maintains complete documentation regarding the receipt of donated vessels. He will also contact the Foundation's attorney for consultation on item d. These items will be addressed and completed by August 1, 2011.

GIFT RECEIPTS

The Foundation did not always properly accept and process gifts of cash and negotiable instruments.

We reviewed 20 gifts of cash and negotiable instruments and found that:

- ▶ A threshold value at which cash gifts would require formal acceptance authorization had not been established.
- ▶ In all instances, formal acceptance authorization forms were not on file.
- ▶ In five instances, checks had not been prelisted before being transferred to the main cashier for deposit.

EO 676, *Delegation of Gift Evaluation and Acceptance to Campuses*, dated February 1, 1998, states that campus presidents are delegated the authority to accept gifts on behalf of the university and, in the course of doing so, must perform a due diligence review to ensure that the gifts meet with the standards set by the campus and the university and will be beneficial to the educational mission of the CSU. Campus presidents may further delegate this authority to campus personnel.

EO 698, *Board of Trustees Policy for the CSU Auxiliary Organizations*, dated March 4, 1999, states that campus presidents are responsible for ensuring that auxiliary organizations operate in conformity with the policies and procedures of the Board of Trustees and the campus.

SAM §8032.1 states that all incoming mail receipts consisting of cash and negotiable instruments not payable to the state agency will be prelisted by the person opening the mail to localize accountability of these assets.

The Foundation executive director stated that the campus had not considered the need for the establishment of a threshold for the use of the approved gift acceptance form for cash gifts. He further stated that the lack of formal gift acceptance authorizations and the sporadic compliance with prelisting of checks was due to management oversight.

Failure to properly accept and process gifts of cash and negotiable instruments increases the likelihood of improprieties occurring and increases the CSU's exposure to financial risk.

Recommendation 10

We recommend that the Foundation:

- a. Establish a threshold value at which cash gifts require formal acceptance authorization.
- b. Maintain formal acceptance authorization forms on file for all gifts of cash and negotiable instruments.
- c. Prelist checks before they are transferred to the main cashier for deposit.

Campus Response

We concur. The Foundation will establish a threshold value at which gifts require formal acceptance authorization and maintain those forms on file for all gifts of cash and negotiable instruments. Foundation employees will receive additional notification reaffirming the requirement to prelist checks transferred to the main cashier for deposit. These items shall be addressed by August 1, 2011.

DONOR SYSTEM RECONCILIATIONS

The campus did not require management review and approval of monthly reconciliations performed between the donor system and the general ledger.

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

The campus controller stated that although the accounting staff had performed monthly reconciliations between the general ledger and the donor database, the accounting department's management personnel neglected to formally document their review by signing off on the reconciliations.

Inadequate control over reconciliations increases the risk of errors in reported financial statements.

Recommendation 11

We recommend that the campus require management review and approval of monthly reconciliations between the donor system and the general ledger.

Campus Response

We concur. Management will ensure that, in addition to our monthly reconciliations of the donor system with the general ledger data, the reviewer will sign off on the reconciliation review. This will be in place by July 1, 2011.

DONOR INFORMATION SECURITY

Sensitive donor credit card information (full card number, expiration date, cardholder name, and address) was not properly protected in paper donor files.

Payment Card Industry (PCI) Data Security Standards (DSS) states that sensitive authentication data used to verify card-not-present transactions after authorization should not be stored. It further states that documents which contain cardholder data which are no longer needed for business or legal reasons should be shredded, pulped, or incinerated so that cardholder data cannot be reconstructed.

The vice president of university advancement stated that the presence of unredacted credit card information in donor files resulted from a lack of staff members following training guidelines and not having those guidelines readily accessible for employees to refer to.

Failure to comply with PCI DSS requirements exposes the campus to potential financial penalties and credit card usage restrictions, which could include termination of the ability to accept credit cards.

Recommendation 12

We recommend that the campus:

- a. Ensure that paper donor files containing sensitive donor credit card information are properly protected in the future.
- b. Consider performing a formal evaluation of current donor files to determine whether redaction of sensitive credit card data is necessary to ensure the protection of donor information.

Campus Response

We concur. The Foundation shall review its files for sensitive donor information and consider redacting sensitive credit card data and establish procedures to properly protect this information going forward. The review shall begin immediately and be completed by August 1, 2011.

GIFT ACCOUNTS AND EXPENDITURES

Gift account agreements were not always properly completed.

We reviewed six gift account agreements and noted:

- ▶ Four agreements did not contain the signatures of the individuals authorized to expend gift account funds.

- ▶ None of the agreements contained authorizing signatures and/or approval dates for the creation of the gift account.

SAM §19440 states that each trust account established shall be supported by documentation as to the type of trust, donor, or source of trust moneys, purpose of the trust, time constraints, persons authorized to withdraw or expend funds, specimen signatures, reporting requirements, instructions for closing the account, disposition of any unexpended balance, and restrictions on the use of moneys for administrative or overhead costs. This documentation will be retained until the trust is dissolved.

The campus controller stated that the campus had become much more diligent in regard to the proper execution of new trust account agreements but was waiting for clear guidance from the chancellor's office as to which funds could remain with the Foundation and which funds would be required to be moved to the campus pursuant to newly issued Executive Orders before rewriting older trust agreements.

Failure to properly complete gift account agreements increases the risk of inappropriate expenditures and losses.

Recommendation 13

We recommend that the campus:

- a. Review all existing gift agreements to ensure that they contain the proper signatures and approval dates.
- b. Ensure that future gift agreements are properly completed.

Campus Response

We concur. All trust agreements will be reviewed to ensure that proper signatures are obtained and that all current agreements are properly completed by September 1, 2011.

APPENDIX A: PERSONNEL CONTACTED

Name

Title

OFFICE OF THE CHANCELLOR

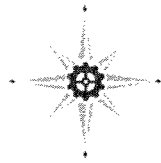
Zachary Gifford	Associate Director, Risk Management and Public Safety
Charlene Minnick	Assistant Vice Chancellor, Risk Management and Public Safety
Steven Raskovich	University Counsel
Carrie Hemphill Rieth	University Counsel

CAMPUS

William B. Eisenhardt	President
Jannette Corpus	Information Security Officer
Vineeta Dhillon	Director, Procurement and Risk Management
Thomas Dunworth	Vice President, University Advancement
Susan Foft	Accounting Manager
Mark Nickerson	Vice President, Administration and Finance
Jelayn Sansone	Accountant
Roberta Solveson	Gift Coordinator
Karen Spall	Administrative Assistant, University Advancement
Ken Toet	Controller

CALIFORNIA MARITIME ACADEMY FOUNDATION

William B. Eisenhardt	President
Thomas Dunworth	Executive Director
Ken Toet	Controller



CAL MARITIME

Vice President for Administration and Finance

RECEIVED
UNIVERSITY AUDITOR

JUN 20 2011

THE CALIFORNIA STATE
UNIVERSITY

June 13, 2011

Mr. Larry Mandel
University Auditor
CSU Office of the Chancellor
401 Golden Shore
Long Beach, CA 90802

Dear Mr. Mandel,

Enclosed please find our responses to findings 1-13 of the Fund-Raising and Gift Processing Audit 10-67.

If we can provide you any further information or documentation, please contact me.

Sincerely,

Mark Nickerson
Vice President
for Administration and Finance

cc: William Eisenhardt, President
Ken Toet, Controller
Thomas Dunworth, Vice President for University Advancement

w/attachments

MN/ss

THE CALIFORNIA MARITIME ACADEMY

200 Maritime Academy Drive, Vallejo, CA 94590-8181 PHONE (707) 654-1038 FAX (707) 654-1013 www.csum.edu E-MAIL mnickerson@csum.edu

The California State University: Bakersfield · Channel Islands · Chico · Dominguez Hills · Fresno · Fullerton · Hayward · Humboldt · Long Beach · Los Angeles · Maritime Academy
Monterey Bay · Northridge · Pomona · Sacramento · San Bernardino · San Diego · San Francisco · San Jose · San Luis Obispo · San Marcos · Sonoma · Stanislaus

FUND-RAISING AND GIFT PROCESSING

CALIFORNIA MARITIME ACADEMY

Audit Report 10-67

GENERAL ENVIRONMENT

POLICIES AND PROCEDURES

Recommendation 1

We recommend that the campus and the Foundation:

- a. Define and document the areas of operation that are critical to fund-raising efforts.
- b. Document policies and procedures for the management and oversight of critical areas.

Campus Response

We concur. Senior management will define and document areas of operations that we determine to be critical to fund-raising efforts and establish policies and procedures to strengthen management and oversight of those areas by December 31, 2011.

DELEGATION OF AUTHORITY

Recommendation 2

We recommend that the campus document delegations of authority for the evaluation and acceptance of gifts.

Campus Response

We concur. The campus will document its delegations of authority for the evaluation and acceptance of gifts by August 1, 2011.

FUND-RAISING AND EVENT PLANNING

DEVELOPMENT PLANS

Recommendation 3

We recommend that the campus obtain written approval of the annual development plan from the campus president.

Campus Response

We concur. The campus shall obtain written approval of the annual development plan from the campus president. Documentation of the President's approval will be in place by August 1, 2011.

COMMERCIAL FUND-RAISERS

Recommendation 4

We recommend that the Foundation:

- a. Ensure that all contracts with commercial fund-raisers include the provisions required by the California Nonprofit Integrity Act of 2004.
- b. Ensure that the future commercial fund-raisers register with the Office of the Attorney General of the State of California before the initiation of fund-raising campaigns.

Campus Response

We concur. Beginning immediately, the Director of Procurement shall ensure that contracts with commercial fund-raisers include provisions required by law including confirmation of the fundraiser's registration with the Office of the Attorney General of the State of California. A contract template demonstrating how these clauses will be incorporated into the contract language shall be prepared and available by August 1, 2011.

FUND-RAISING EVENT ADMINISTRATION

Recommendation 5

We recommend that the Foundation develop and document policies and procedures for the administration of fund-raising events that address:

- a. Provision of written tax disclosures to all fund-raising event ticket holders.

- b. Recordkeeping and financial controls, including retention of fully executed vendor contracts that include indemnification provisions and receipt of vendor certificates of insurance.
- c. Proper documentation and recording of auction revenues in the donor database.

Campus Response

We concur. The Foundation will develop written policies and procedures documenting our control over administration of fund-raising activities. These policies and procedures will at a minimum include guidance on written tax disclosure requirements, recordkeeping and financial controls over contracts and instructions for properly recording auction revenues in the donor database. These policies and procedures will be completed and in place by November 1, 2011.

CASH AND NON-CASH GIFT ADMINISTRATION

ADMINISTRATIVE FEES

Recommendation 6

We recommend that the Foundation directly inform all donors of administrative fees.

Campus Response

We concur. The Foundation will include a statement on our donor acknowledgements stating that there may be an administrative fee charged as established by the Board of Directors policy and provide the donors with the link to the Foundation website where further information about the fee will be detailed. This shall be in place by September 1, 2011.

TRANSFERENCE OF ASSETS

Recommendation 7

We recommend that the campus develop and implement a formal process governing the transfer of assets between the Foundation and the campus.

Campus Response

We concur. The campus and Foundation will establish a formal process governing the transfer of assets between the Foundation and the campus by September 1, 2011.

VALUATION OF NON-CASH GIFTS

Recommendation 8

We recommend that the Foundation revise its policies and procedures for valuing gifts of property to include a threshold at which gifts-in-kind require a formal valuation process, a method to be used in valuing gift-in-kind donations, and documentation requirements for the valuations.

Campus Response

We concur. The Foundation will establish policies and procedures for valuing and recording gifts-in-kind that are valued above an established threshold amount by October 1, 2011.

DONATED VESSELS

Recommendation 9

We recommend that the Foundation:

- a. Acknowledge receipt of vessels after taking possession.
- b. Ensure that completed gift authorizations are on file for all vessels.
- c. Ensure that completed IRS forms 8283 are on file all donated vessels.
- d. With regard to vessels that were acknowledged prior to actual acceptance (as noted above), consult with legal counsel or other appropriate personnel to determine whether formal written notification should be sent to the donors stating the true date of receipt.

Campus Response

We concur. The VP for Advancement shall monitor and be responsible for compliance with the above items by using a transaction control checklist to ensure the Foundation maintains complete documentation regarding the receipt of donated vessels. He will also contact the Foundation's attorney for consultation on item d. These items will be addressed and completed by August 1, 2011.

GIFT RECEIPTS

Recommendation 10

We recommend that the Foundation:

- a. Establish a threshold value at which cash gifts require formal acceptance authorization.
- b. Maintain formal acceptance authorization forms on file for all gifts of cash and negotiable instruments.
- c. Prelist checks before they are transferred to the main cashier for deposit.

Campus Response

We concur. The Foundation will establish a threshold value at which gifts require formal acceptance authorization and maintain those forms on file for all gifts of cash and negotiable instruments. Foundation employees will receive additional notification reaffirming the requirement to prelist checks transferred to the main cashier for deposit. These items shall be addressed by August 1, 2011.

DONOR SYSTEM RECONCILIATIONS

Recommendation 11

We recommend that the campus require management review and approval of monthly reconciliations between the donor system and the general ledger.

Campus Response

We concur. Management will ensure that in addition to our monthly reconciliations of the donor system with the general ledger data that the reviewer sign off on the reconciliation review. This will be in place by July 1, 2011.

DONOR INFORMATION SECURITY

Recommendation 12

We recommend that the campus:

- a. Ensure that paper donor files containing sensitive donor credit card information are properly protected in the future.
- b. Consider performing a formal evaluation of current donor files to determine whether redaction of sensitive credit card data is necessary to ensure the protection of donor information.

Campus Response

We concur. The Foundation shall review its files for sensitive donor information and consider redacting sensitive credit card data and establish procedures to properly protect this information going forward. The review shall begin immediately and be completed by August 1, 2011.

GIFT ACCOUNTS AND EXPENDITURES

Recommendation 13

We recommend the campus:

- a. Review all existing gift agreements to ensure that they contain the proper signatures and approval dates.
- b. Ensure that future gift agreements are properly completed.

Campus Response

We concur. All trust agreements will be reviewed to ensure proper signatures are obtained and that all current agreements are properly completed by September 1, 2011.

THE CALIFORNIA STATE UNIVERSITY
OFFICE OF THE CHANCELLOR

BAKERSFIELD

CHANNEL ISLANDS

July 13, 2011

CHICO

MEMORANDUM

DOMINGUEZ HILLS

EAST BAY

TO: Mr. Larry Mandel
University Auditor

FRESNO

FULLERTON

FROM: Charles B. Reed
Chancellor

HUMBOLDT

LONG BEACH

SUBJECT: Draft Final Report 10-67 on *Fund-Raising and Gift Processing*,
California Maritime Academy

LOS ANGELES

MARITIME ACADEMY

In response to your memorandum of July 13, 2011, I accept the response as submitted with the draft final report on *Fund-Raising and Gift Processing*, California Maritime Academy.

MONTEREY BAY

NORTHRIDGE

POMONA

CBR/amd

SACRAMENTO

SAN BERNARDINO

SAN DIEGO

SAN FRANCISCO

SAN JOSÉ

SAN LUIS OBISPO

SAN MARCOS

SONOMA

STANISLAUS