

**Audit and Advisory Services**  
401 Golden Shore  
Long Beach, CA 90802-4210

June 8, 2021

Dr. Mary A. Papazian, President  
San José State University  
One Washington Square  
San José, CA 95192

Dear Dr. Papazian:

**Subject: Audit Report 20-08, Fund-raising and Gift Processing, San José State University**

We have completed an audit of *Fund-raising and Gift Processing* as part of our 2020-2021 Audit Plan, and the final report is attached for your reference. The audit was conducted in accordance with the Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing*.

I have reviewed the management response and have concluded that it appropriately addresses our recommendations. The management response has been incorporated into the final audit report, which will be posted to Audit and Advisory Services' website. We will follow-up on the implementation of corrective actions outlined in the response and determine whether additional action is required.

Any observations not included in this report were discussed with your staff at the informal exit conference and may be subject to follow-up.

I wish to express my appreciation for the cooperation extended by the campus personnel over the course of this review.

Sincerely,



Vlad Marinescu  
Vice Chancellor and Chief Audit Officer

c: Joseph I. Castro, Chancellor  
Adam Day, Chair, Committee on Audit  
Jane W. Carney, Vice Chair, Committee on Audit

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# **FUND-RAISING AND GIFT PROCESSING**

**San José State University**

Audit Report 20-08  
June 8, 2021

## EXECUTIVE SUMMARY

### OBJECTIVE

The objectives of the audit were to ascertain the effectiveness of operational, administrative, and financial controls for fund-raising and gift processing and to ensure compliance with relevant governmental regulations, Trustee policy, Office of the Chancellor directives, and campus and auxiliary organization procedures related to activities that promote charitable giving and establish proper stewardship of donations to the university.

### CONCLUSION

Based upon the results of the work performed within the scope of the audit, except for the weaknesses described below, the operational, administrative, and financial controls for fund-raising and gift processing as of November 20, 2020, taken as a whole, provided reasonable assurance that risks were being managed and objectives were met.

Overall, we noted that University Advancement (UA) had an appropriate framework for accepting and administering gifts received on behalf of the campus. However, in our review, we identified a need to more clearly establish the authority for gift acceptance and to clarify the gift approval process. We further found that administration of gifts-in-kind (GIK) needed improvement, as they were not consistently subject to the full acceptance and approval process, documentation was missing or incomplete, and donated items were not consistently recorded in inventory.

Specific observations, recommendations, and management responses are detailed in the remainder of this report.

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

### **1. DELEGATION OF AUTHORITY**

#### **OBSERVATION**

The authority for gift acceptance needed to be clarified in both the official delegation of authority and in the procedures for gift acceptance.

Philanthropic gifts to the university provide significant benefit to its mission but also pose a degree of reputational risk, depending on the donor or source, and financial risk, depending on the nature of the donation and the potential costs of maintenance. Systemwide policy delegates the authority to accept donations to the campus presidents, and further allows sub-delegation of this responsibility to campus officers and employees.

During the time frame under review, the campus had a delegation of authority for gift acceptance from the president to the individual acting as the vice president of University Advancement (VPUA) and chief executive officer (CEO) of the Tower Foundation. However, there was no further sub-delegation to other individuals defined in the gift acceptance policy as having responsibility for final approval of certain donations.

We reviewed 20 financial donations and found that six were approved by individuals who did not appear to have the proper delegation of authority. We further noted that the process for acceptance of GIKs concluded with an approval by the UA director of advancement services, an individual who did not have written delegation and who worked for the campus rather than the Tower Foundation, the entity with the legal authority to accept donations.

In addition, policies were not clear on the approval process for gifts processed using pledge forms rather than gift agreements. The policies allowed use of the pledge form for less-complex gifts and multiyear pledges, but did not address the manner by which these donations should be processed and routed for proper approval from the authorized delegate.

A current and comprehensive chain of the delegations of authority and clearly defined procedures for gift acceptance provide assurance that all accepted gifts are consistent with the mission of the university and do not pose reputational or financial risk.

#### **RECOMMENDATION**

We recommend that the campus:

- a. Obtain proper written delegations of authority for all individuals accepting gifts on behalf of the university.
- b. Revise the gift acceptance policy to clarify the approval process for GIK donations and gifts accepted using the pledge form.

### MANAGEMENT RESPONSE

We concur. We will:

- a. Obtain proper written delegations of authority for all individuals accepting gifts on behalf of the university.
- b. Revise the gift acceptance policy to clarify the approval process for GIK donations and gifts accepted using the pledge form.

This will be completed by November 30, 2021.

## 2. GIFTS-IN-KIND

### OBSERVATION

Administration of GIK donations needed improvement.

GIK are donations of material or long-lived assets, including tangible personal property such as artwork, books, vehicles, and equipment. The San José State University (SJSU) *Gift Acceptance Policy* outlines the considerations for acceptance of GIKs, including a requirement that the gift is consistent with the mission of the university and does not involve significant additional expense in its use, display, maintenance, or administration. The policy outlines required documentation and describes instances in which GIKs are subject to a higher degree of review and approval, depending on the size, scope, and complexity of the donation. Gifts of \$5,000 or more require an independent appraisal provided by the donor. As with financial gifts, the authority to evaluate and accept gifts has been delegated from the SJSU president to the VPUA & CEO of Tower Foundation, as required by systemwide policy.

In our review of 24 GIK donation records, we found that:

- As noted in the first observation, GIKs were routinely approved by an individual who worked for the campus, rather than the Tower Foundation, and who did not have written delegation of authority.
- Three GIK donation files did not show the additional approvals required for specialized or high-dollar items on the lines provided on the Non-Monetary Gift Acceptance form. In two instances, the form did not show evidence of review by information technology services or the property office for acceptance of computer equipment (\$12,000) and software (\$11,454). In two other instances, the form did not include approval from the property office for photo and studio lighting equipment (\$6,500) and for scientific equipment (\$5,000).
- Three of the GIK donation files were missing critical documentation. The Non-Monetary Gift Acceptance form was missing for two GIK donations, and the donor intent form was missing for one, a refurbished atomic microscope. As a result of the missing donor intent form, the form on which the donor verifies the valuation, we could not verify the valuation for one item that was recorded in donation records at \$4,999, but included

documentation that indicated that the equipment value was greater, potentially \$75,000. Of note is the fact that the valuation below the \$5,000 threshold resulted in the item not being tagged or recorded in inventory.

Appropriate administration of GIK decreases the likelihood of campus and auxiliary exposure to the risk that the gifts will be incongruent with the campus and auxiliary mission or noncompliant with donor terms.

#### **RECOMMENDATION**

We recommend that the campus:

- a. Review and revise policies and procedures to ensure that GIKs are approved in writing by the delegated authority, and by any other individuals or departments required for oversight of the GIK acceptance.
- b. Review and revise policies and procedures to ensure that GIK acceptance documentation is accurately completed, including valuation, and that these documents are retained in accordance with the campus records retention policy.

#### **MANAGEMENT RESPONSE**

We concur. We will review and revise policies and procedures as required in the recommendations above. This will be completed by November 30, 2021.

### **3. PROPERTY AND EQUIPMENT**

#### **OBSERVATION**

Administration of property and equipment, including GIK, needed improvement.

University faculty staff in receipt of GIKs are responsible for completing the Non-Monetary Gift Acceptance Form, and for routing the form and the required attachments to applicable parties prior to submission to UA for approval and acknowledgement. The form requires routing to the property office when the value of the donation exceeds \$5,000, in accordance with the *SJSU Property Office Procedure Manual*. The property office is responsible for tagging all equipment owned by the university, including GIK, with a value of \$5,000 or more, and for recording the items in the asset management system. Once the property office completes these tasks, an authorized individual signs the designated section on the Non-Monetary Gift Acceptance Form and returns it to the requesting department, which in turn completes any outstanding routing and sends the final document to UA.

We found that of 24 GIKs selected for review, eight represented tangible assets valued at more than the \$5,000 threshold, and that of these, seven had not been tagged and recorded in the asset management system. These items included two donations of computer equipment valued at \$12,000 and \$5,000; studio lighting equipment valued at \$5,600; internet security hardware valued at \$11,454; two pieces of technical scientific equipment valued at \$8,000; and an atomic microscope that was, as noted in the observation above, valued on

paper at \$4,999 despite other documentation indicating it was worth more. In all seven cases, the form was either not signed by the property office, indicating that the step to route the form to this area may have been bypassed, or was missing altogether. We requested that the campus locate the items and provide photographic evidence of their existence, and we received this verification for all seven items.

Proper administration of property and equipment decreases the risk that assets may be lost, stolen, or misrepresented in the financial statements.

#### **RECOMMENDATION**

We recommend that the campus, in conjunction with the property office, review and revise policies and procedures to ensure that all GIK valued above the \$5,000 threshold are routed to and recorded into inventory by the property office.

#### **MANAGEMENT RESPONSE**

We concur. We will review and revise policies and procedures to ensure that all GIK valued above the \$5,000 threshold are routed to and recorded into inventory by the property office. This will be completed by November 30, 2021.

## GENERAL INFORMATION

### BACKGROUND

In March 2005, the Board of Trustees (BOT) adopted four principles to measure the productivity of, and investment in, advancement operations at California State University (CSU) campuses. These principles encourage campuses to have adequate resources to achieve stated goals; establish and annually evaluate performance goals; maintain a well-rounded development program; and create and support a culture of philanthropy.

Fund-raising, and the associated processing of gifts received, is an integral component of advancement operations. Although the CSU depends on state funds to support core educational functions, private support provides significant and essential funds allowing the CSU to achieve its goals regarding access to education, enhanced educational quality, and financial stability. The CSU tracks the gift commitments, which are pledges and planned giving, separate from the gift receipts for the academic year. Over the past three years, the CSU has averaged \$518.1 million per year in gift commitments and \$339.7 million per year in gift receipts. In the 2018/19 academic year, the CSU received almost \$570 million in gift commitments and more than \$370 million in gift receipts, with both figures surpassing previous all-time highs.

When it comes to fund-raising, CSU campuses are separated into three peer groups based on the maturity of the campus advancement program, which is measured by the number of full-time professional fund-raisers in the program, the endowment's market value, and the number of individual donors pledging gifts to the endowment. 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 is calculated based on gift commitments, including gifts that have been received, as well as pledges and support promised through testamentary provisions. The San Jose campus is in Group III and has averaged more than \$27 million in gift commitments and \$20 million in gift receipts over the last three years.

Fund-raising and gift-processing activities may be administered on the state side or through auxiliary organizations. Each campus has a UA office and a charitable foundation that work together to solicit and manage donations. At the Office of the Chancellor (CO), the Office of Systemwide Advancement provides support to campuses, develops systemwide policies, and consolidates campus information to produce accountability reports.

After a period of turnover, SJSU hired a new VPUA in May 2020. As is common at CSU campuses, the VPUA also acts as the CEO for the philanthropic auxiliary for the campus, the Tower Foundation. University gifts are received and booked by the Tower Foundation, while UA is responsible for donor management, including all documentation necessary to ensure proper recording for both the university and the donor. The Tower Foundation filled the vacant chief operating officer position in December 2020.

## SCOPE

Due to temporary operating procedures and limitations resulting from the COVID-19 public health emergency, we performed fieldwork remotely from September 21, 2020, through November 20, 2020. Our audit and evaluation included the audit tests we considered necessary in determining whether operational, administrative, and financial controls are in place and operative. The audit focused on procedures in effect from January 1, 2019, to November 20, 2020.

Specifically, we reviewed and tested:

- Organizational roles and responsibilities for oversight of UA and fundraising activities, including any donation solicitations occurring outside of UA.
- Strategic planning within UA and its connection to the plans and goals of the university.
- Processes for planning and implementing fund-raising events, including reviews to ensure that goals are measurable and results are assessed.
- Processes in place to ensure that gifts are received, acknowledged, and recorded in accordance with regulations and CSU and campus policies.
- Proper stewardship of gifts, including safekeeping and recording of donor intent.
- Proper and accurate compilation of donation information submitted to the CO for the CSU annual report on giving.

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.

Our testing and methodology, which was designed to provide a review of key financial, operational and administrative controls, included interviews, walkthroughs, and detailed testing on certain aspects of fundraising and gift processing. Due to the fact that the audit was conducted remotely, certain steps, such as validation of the existence and location of GIK, could not be performed. The audit did not include detailed review of areas that conduct specialized fund-raising activities, such as athletics, beyond assessing the governance and oversight structure of the areas, nor did it include a review of expenditures from the gift accounts.

## CRITERIA

Our audit was based upon standards as set forth in federal and state regulations and guidance; Trustee policy; Office of the Chancellor directives; and campus (and auxiliary, if applicable) procedures; as well as sound administrative practices and consideration of the potential impact of significant risks. This audit was conducted in conformance with the Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing*.

This review emphasized, but was not limited to, compliance with:

- Executive Order 676, *Delegation of Gift Evaluation and Acceptance*
- Integrated California State University Administrative Manual (ICSUAM) §1301.00, *Hospitality, Payment or Reimbursement of Expenses*
- ICSUAM §11002.01, *General Policy Requirements for the Administration of Grants and Contracts in Support of Externally Funded Research and Sponsored Program Activities*
- ICSUAM §13680, *Placement and Control of Receipts from Campus Activities*
- ICSUAM §15401.00, *Fundraising-Matching Gifts*
- ICSUAM §15501.00, *Naming of California State Facilities and Properties*
- ICSUAM §15502.00, *Naming of California State University Schools, Colleges, Programs and Other Academic and Non-Academic Units*
- ICSUAM §15701.00, *Fundraising Events*
- 26 United States Code 170, Internal Revenue Code 26 USC 170
- California Business and Professions Code (CBPC) §17510
- CBPC §19986
- California Corporation Code §5233
- CSU Auxiliary Organizations Sound Business Practices, Section 3.0, *Donations, Program Service Fees, Other Income*
- CSU Auxiliary Organizations Sound Business Practices, Section 4.0, *Receivables and Pledges*
- CSU *Conflict of Interest Handbook*
- Human Resources 2014-14, *Conflict of Interest - Revisions to FPPC Gifts to Agency Policy and CSU Policy for the Distribution of Tickets and Passes to Events and Report of Ceremonial Roles*
- Title 11, §410-426, *Non-Profit Raffle Program Regulations*
- SJSU *Gift Acceptance Policy*
- SJSU *Property Office Procedure Manual*
- SJSU *Advancement Services Cash Handling Policy and Procedure*
- SJSU *Tower Foundation Pledge Management and Review Process*
- SJSU *Tower Foundation Fundraising Policy*

## AUDIT TEAM

Senior Audit Manager: Ann Hough  
Internal Auditor: Cinthia Santamaria