

FUND-RAISING AND GIFT PROCESSING

HUMBOLDT STATE UNIVERSITY

Audit Report 10-65

March 29, 2011

Members, Committee on Audit

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BOARD OF TRUSTEES

THE CALIFORNIA STATE UNIVERSITY

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ABBREVIATIONS

CASE	Council for Advancement and Support of Education
CSU	California State University
HSU	Humboldt State University
IRS	Internal Revenue Service
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 Humboldt State University campus from November 15, 2010, through December 9, 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 9, 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.

GENERAL ENVIRONMENT [6]

Delegation of authority for gift evaluation and acceptance was not documented. Also, statement of economic interests disclosure forms were not always completed in a timely manner.

FUND-RAISING AND EVENT PLANNING [7]

Administration of fund-raising activities and events needed improvement. For example, policies and procedures were not always documented for the planning and budgeting of fund-raising events, recordkeeping and safeguarding of donations, administration of special events such as raffles and auctions, and reporting of quid pro quo donations.

CASH AND NON-CASH GIFT ADMINISTRATION [9]

Monthly reconciliations between the donor system and the accounting system and quarterly reconciliations of outstanding matching gift claims were not signed or dated by the preparer or reviewer. In addition, the campus did not have written procedures to ensure that gift-in-kind donations with a value

over \$500 that were disposed of within three years of receipt were properly reported to the Internal Revenue Service.

REPORTING AND RECORDKEEPING [11]

Certain gift commitments were incorrectly reported in the 2009/10 Annual Report on External Support.

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

DELEGATION OF AUTHORITY

Delegation of authority for gift evaluation and acceptance was not documented.

We found that individuals within the office of university advancement and the gift processing center did not have written delegations from the president to accept gifts and sign gift acknowledgement agreements and letters.

Executive Order 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 university advancement stated that he was unaware that specific position titles, campus officers, or employees needed to be included in the delegation of authority for gift evaluation.

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

Recommendation 1

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

Campus Response

We concur. The campus is documenting current delegations of authority for the evaluation and acceptance of gifts.

Expected completion date: April 30, 2011

STATEMENT OF ECONOMIC INTERESTS

Statement of economic interests disclosure forms were not always completed by employees in designated positions immediately upon taking office.

We reviewed the statement of economic interests disclosure forms for the three university advancement employees in designated positions, and we found that one employee did not complete the form until four months after assuming his position.

The CSU Office of General Counsel Conflict of Interest Handbook, dated August 2009, states that every employee in a designated position must complete an annual statement of economic interests form. In addition to the annual filing, this form is also required to be filed when the employee first comes into a designated position and when the employee leaves a designated position.

The director of human resources stated that there was a delay in notifying the individual of the need to complete the form immediately upon taking office.

Failure to obtain statement of economic interests disclosure forms increases the probability that employees and the public will not be informed of potential conflicts of interest and situations where disqualification is mandated.

Recommendation 2

We recommend that the campus ensure that employees in designated positions complete statement of economic interests disclosure forms immediately upon taking office.

Campus Response

We concur. The campus will review procedures to ensure that employees in designated positions complete statement of economic interests disclosure forms immediately upon taking office.

Expected completion date: May 31, 2011

FUND-RAISING AND EVENT PLANNING

Administration of fund-raising activities and events needed improvement.

We reviewed the Humboldt State University (HSU) radio station KHSU End of Year Appeal, the 25th Annual Celebrity Dinner and Sports Auction, and the Youth Educational Services Serve-a-thon for fiscal year 2009/10, and we found that:

- ▶ Policies and procedures were not always documented for the planning and budgeting of fund-raising events, recordkeeping and safeguarding of donations, administration of special events such as raffles and auctions, and reporting of quid pro quo donations.
- ▶ Policies and procedures were not consistent for the review and approval of basic fund-raising event information, such as a description of the event, facilities and vendors to be used, authorization of expenditures, and a planning budget.
- ▶ For the 25th Annual Celebrity Dinner and Sports Auction, no contract was in place for one outside vendor, a raffle held in conjunction with the event was not registered with the state attorney general, and marketing materials did not include the estimates disclosure required by athletics policies.

Humboldt Athletics Policies, §1.4.2, *Fundraising*, state that estimates will be used for historical fund-raising results where there is not a complete financial record available, and “all totals are estimates” will be listed on historical summary documents.

State Administrative Manual (SAM) §20050 states that elements of a satisfactory system of internal accounting and administrative controls shall include an established system of practices to be followed in performance of duties and a system of authorization and recordkeeping procedures adequate to provide effective accounting control.

The State of California Department of Justice Office of the Attorney General states that, unless specifically exempted, a nonprofit organization must register with the Attorney General’s Registry of Charitable Trusts prior to conducting a raffle and file financial disclosure reports on each raffle event.

Internal Revenue Service (IRS) Form 990, Schedule G requires organizations with \$15,000 or more in fund-raising event revenue to track and report on events with gross receipts greater than \$5,000, including revenues, charitable contributions, specific categories of direct expenses, and net income.

The advancement services manager stated that policies and procedures did not include all of the required elements of a fund-raising event because the event-sponsoring organizations had not effectively updated their documents.

The lack of consistent policies, procedures, and controls over fund-raising activities and events decreases accountability for the achievement of fund-raising goals, increases the risk that funds will be lost or misappropriated, and increases the risk of potential non-compliance with government regulations.

Recommendation 3

We recommend that the campus:

- a. Establish written policies and procedures that address planning and budgeting for fund-raising activities, recordkeeping and safeguarding of donations, administration of special events such as raffles and auctions, and reporting of quid pro quo donations.
- b. Establish a written fund-raising event approval process that includes the review and approval of basic event information, such as a description of the event, facilities and vendors to be used, authorization of expenditures, and a planning budget.
- c. For future Annual Celebrity Sports Dinner and Auctions, establish contracts with outside vendors, register raffles with the state attorney general, and include disclosures on athletics marketing materials as required by campus policy.

Campus Response

- a. We concur. The campus will establish written policies and procedures that address planning and budgeting for fund-raising activities, recordkeeping and safeguarding of donations, administration of special events such as raffles and auctions, and reporting of quid pro quo donations.
- b. We concur. The campus will establish a written fund-raising event approval process.
- c. We concur. For future Annual Celebrity Sports Dinner and Auctions, the university will establish contracts with outside vendors, register raffles with the state attorney general, and include disclosures on athletics marketing materials as required by campus policy.

Expected completion date: June 30, 2011

CASH AND NON-CASH GIFT ADMINISTRATION

RECONCILIATIONS

Monthly reconciliations between the donor system and the accounting system and quarterly reconciliations of outstanding matching gift claims were not signed or dated by the preparer or reviewer.

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

The HSU Matching Gift Oversight Policy states that matching gifts are reconciled quarterly to ensure prompt payment by the matching gift company.

The advancement services manager stated that the campus has a strong reconciliation process, but that donor system reconciliations were prepared and reviewed in electronic format, and matching gift reconciliations involved the review of a system-generated report, and she had not realized that documentation of signature and date was required.

Failure to properly sign and date reconciliations compromises accountability and limits the campus' ability to detect errors and irregularities.

Recommendation 4

We recommend that the campus ensure that monthly reconciliations between the donor system and the accounting system and quarterly reconciliations of outstanding matching gift claims are signed and dated by the preparer and the reviewer.

Campus Response

We concur. The campus will ensure that reconciliations between the donor system and the accounting system and reconciliations of outstanding matching gift claims are signed and dated by the preparer and the reviewer.

Expected completion date: Fully implemented

DISPOSAL OF DONATED GIFTS

The campus did not have written procedures to ensure that gift-in-kind donations with a value over \$500 that were disposed of within three years of receipt were properly reported to the IRS.

We reviewed ten non-cash donations received in fiscal year 2008/09, and we noted that in two instances, Form 8282 had not been prepared and a copy had not been sent to the donor, with the original going to the IRS, when non-cash donations with individual values of \$500 or more were disposed of.

IRS Publication 526, *Charitable Contributions*, states that if an organization, within three years after the date of receipt of a contribution of property for which it was required to sign a Form 8283, sells, exchanges, or otherwise disposes of the property, the organization must file Form 8282, Donee Information Return, and send the donee a copy of the form. However, if the appraised value of the donated item is \$500 or less, the organization is not required to report the disposal.

The director of financial services stated that the lack of policies and procedures pertaining to the disposal of gifted assets was due to oversight.

The absence of written procedures for disposal of gift-in-kind donations increases the likelihood of non-compliance with IRS regulations.

Recommendation 5

We recommend that the campus establish written procedures to ensure that gift-in-kind donations with a value of more than \$500 that are disposed of within three years of receipt are properly reported to the IRS.

Campus Response

We concur. The campus will establish written procedures to ensure that gift-in-kind donations with a value of more than \$500 that are disposed of within three years of receipt are properly reported to the IRS.

Expected completion date: May 31, 2011

REPORTING AND RECORDKEEPING

Certain gift commitments were incorrectly reported in the 2009/10 Annual Report on External Support.

Specifically, we noted that:

- ▶ Non-reportable donations totaling \$6,951 were in the report, including donations from related entities such as the HSU bookstore, governmental entities, and tribal gaming facilities.
- ▶ Donation revenues were understated by \$3,666 due to quid pro quo calculation errors related to a sporting event auction.

Council for Advancement and Support of Education (CASE) Reporting Standards and Management guidelines prohibit the reporting of gifts from government funds, whether local, state, federal, or foreign, including distributions from Indian Tribal governments and payment from Indian Tribal enterprises acting as conduits for those governments. The guidelines further state that quid pro quo contributions should be reported based on the amount of the contribution that exceeds the value of the benefits the donor receives in return for the gift.

CSU Office of the Chancellor, *Advancement Reporting and Data Collection Process*, dated July 1, 2010, states that funds transferred between related organizations and the institution, or its philanthropic auxiliary, are not reportable gifts.

The advancement services manager stated that including certain related entities, governmental entities, and Indian tribe donations in the Annual Report on External Support was because staff was unaware of recent changes to CSU reporting guidelines. She also stated that the quid pro quo reporting errors were a result of miscalculations by administrative personnel.

Failure to correctly report gift commitments distorts campus charitable contribution results, inhibits comparisons with other educational institutions, and renders misleading the data that is provided to the Office of the Chancellor, the Board of Trustees, and campus management.

Recommendation 6

We recommend that the campus correctly report gift commitments in the Annual Report on External Support.

Campus Response

We concur. The campus will ensure that the gift commitments are correctly reported in the Annual Report on External Support.

Expected completion date: April 30, 2011

APPENDIX A: PERSONNEL CONTACTED

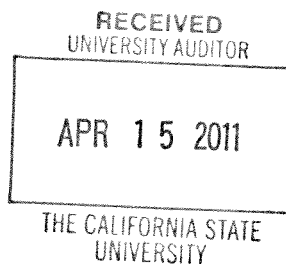
<u>Name</u>	<u>Title</u>
Rollin C. Richmond	President
Sandra Joubert Amiel	Advancement Services Manager, Development and Alumni Relations
Robin Bailie	Director, University Advancement
Tawny Brunner	Accountant, Reporting and Analysis
Dave Bugbee	Director, Contracts and Procurement
Tammy Curtis	Director, Human Resources
Denise Giltzow	Office Manager, Human Resources
Laura Jackson	Associate Vice President, Development and Alumni Relations
Emily Kupec	Accountant, Financial Services
Burt Nordstrom	Vice President, Administrative Affairs
Marylyn Paik-Nicely	Director, MultiCultural Center
David Reed	Development Director, K Humboldt State University Frequency Modulation
Lynne Sandstrom	Director, Financial Services
Debbie Snead	Cashier, Student Financial Services
Mary Stuart	Operations Manager, Youth Educational Services
Edward Subkis	General Manager, K Humboldt State University Frequency Modulation
Carol Terry	Associate Vice President, Business Services
Tom Trepiaak	Associate Director, Athletics
Joan Tyson	Manager, Associated Student Body
Frank Whitlatch	Vice President, University Advancement
Sandra Wieckowski	Supervisor, Student Financial Services



Vice President of Administrative Affairs

April 14, 2011

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



Audit Report 10-65 – Fundraising and Gift Processing

Dear Mr. Mandel:

Please find enclosed Humboldt State University's response to Audit Report 10-65 – Fundraising and Gift Processing, findings #1 through #6.

Please review the information and let us know if there are any questions, concerns, or if we can provide additional information. We appreciate the effort you and your staff have made to indicate areas where our procedures could be strengthened.

Please direct questions regarding the responses to Lynne Sandstrom, CPA, Financial Services at (707) 826-4031 or les37@humboldt.edu.

Sincerely,

Burt Nordstrom, Vice President Administrative Affairs

Cc: Rollin C. Richmond, President (w/o enclosures)
Carol Terry, Associate Vice President of Business Services (w/o enclosures)

FUND-RAISING AND GIFT PROCESSING

HUMBOLDT STATE UNIVERSITY

Audit Report 10-65

GENERAL ENVIRONMENT

DELEGATION OF AUTHORITY

Recommendation 1

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

Campus Response

We concur. The campus is documenting current delegations of authority for the evaluation and acceptance of gifts.

Expected Completion Date: April 30, 2011

STATEMENT OF ECONOMIC INTERESTS

Recommendation 2

We recommend that the campus ensure that employees in designated positions complete statement of economic interests disclosure forms immediately upon taking office.

Campus Response

We concur. The campus will review procedures to ensure that employees in designated positions complete statement of economic interests disclosure forms immediately upon taking office.

Expected Completion Date: May 31, 2011

FUND-RAISING AND EVENT PLANNING

Recommendation 3

We recommend that the campus:

- a. Establish written policies and procedures that address planning and budgeting for fund-raising activities, recordkeeping and safeguarding of donations, administration of special events such as raffles and auctions, and reporting of quid pro quo donations.

- b. Establish a written fund-raising event approval process that includes the review and approval of basic event information, such as a description of the event, facilities and vendors to be used, authorization of expenditures, and a planning budget.
- c. For future Annual Celebrity Sports Dinner and Auctions, establish contracts with outside vendors, register raffles with the state attorney general, and include disclosures on athletics marketing materials as required by campus policy.

Campus Response

- a. We concur. The campus will establish written policies and procedures that address planning and budgeting for fund-raising activities, recordkeeping and safeguarding of donations, administration of special events such as raffles and auctions, and reporting of quid pro quo donations.
- b. We concur. The campus will establish a written fund-raising event approval process.
- c. We concur. For future Annual Celebrity Sports Dinner and Auctions, the University will establish contracts with outside vendors, register raffles with the state attorney general, and include disclosures on athletics marketing materials as required by campus policy.

Expected Completion Date: June 30, 2011

CASH AND NON-CASH GIFT ADMINISTRATION

RECONCILIATIONS

Recommendation 4

We recommend that the campus ensure that monthly reconciliations between the donor system and the accounting system and quarterly reconciliations of outstanding matching gift claims are signed and dated by the preparer and the reviewer.

Campus Response

We concur. The campus will ensure that reconciliations between the donor system and the accounting system and reconciliations of outstanding matching gift claims are signed and dated by the preparer and the reviewer.

Expected Completion Date: Fully Implemented

DISPOSAL OF DONATED GIFTS

Recommendation 5

We recommend that the campus establish written procedures to ensure that gift-in-kind donations with a value of more than \$500 that are disposed of within three years of receipt are properly reported to the IRS.

Campus Response

We concur. The campus will establish written procedures to ensure that gift-in-kind donations with a value of more than \$500 that are disposed of within three years of receipt are properly reported to the IRS.

Expected Completion Date: May 31, 2011

REPORTING AND RECORDKEEPING

Recommendation 6

We recommend that the campus correctly report gift commitments in the Annual Report on External Support.

Campus Response

We concur. The campus will ensure that the gift commitments are correctly reported in the Annual Report on External Support.

Expected Completion Date: April 30, 2011

THE CALIFORNIA STATE UNIVERSITY
OFFICE OF THE CHANCELLOR

BAKERSFIELD

CHANNEL ISLANDS

May 3, 2011

CHICO

MEMORANDUM

DOMINGUEZ HILLS

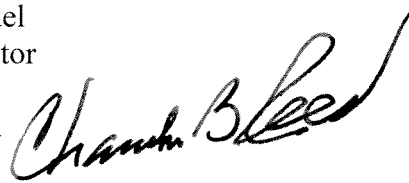
EAST BAY

TO: Mr. Larry Mandel
University Auditor

FRESNO

FULLERTON

FROM: Charles B. Reed
Chancellor



HUMBOLDT

SUBJECT: Draft Final Report 10-65 on *Fund-Raising and Gift Processing*,
Humboldt State University

LONG BEACH

LOS ANGELES

In response to your memorandum of May 3, 2011, I accept the response as submitted with the draft final report on *Fund-Raising and Gift Processing*, Humboldt State University.

MARITIME ACADEMY

MONTEREY BAY

NORTH RIDGE

POMONA

CBR/amd

SACRAMENTO

SAN BERNARDINO

SAN DIEGO

SAN FRANCISCO

SAN JOSÉ

SAN LUIS OBISPO

SAN MARCOS

SONOMA

STANISLAUS