

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

August 22, 2024

Dr. Soraya M. Coley, President
California State Polytechnic University, Pomona
3801 W. Temple Avenue
Pomona, CA 91768

Dear Dr. Coley:

**Subject: Audit Report 23-12, Fundraising and Gift Processing,
California State Polytechnic University, Pomona**

We have completed an audit of *Fundraising and Gift Processing* as part of our 2023-2024 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 university personnel over the course of this review.

Sincerely,



Vlad Marinescu
Vice Chancellor and Chief Audit Officer

c: Mildred García, Chancellor
Lillian Kimbell, Chair, Committee on Audit
Anna Ortiz-Morfit, Vice Chair, Committee on Audit

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FUNDRAISING AND GIFT PROCESSING

**CALIFORNIA STATE
POLYTECHNIC UNIVERSITY,
POMONA**

**AUDIT REPORT 23-12
AUGUST 22, 2024**



EXECUTIVE SUMMARY

AUDIT OBJECTIVES AND BACKGROUND

In accordance with the fiscal year (FY) 2023/24 Audit Plan, as approved by the Board of Trustees, Audit and Advisory Services performed an audit of fundraising and gift processing at California State Polytechnic University, Pomona (Cal Poly Pomona).

The objectives of the audit were to ascertain the effectiveness of operational, administrative, and financial controls related to fundraising and gift processing and to ensure compliance with relevant federal and state regulations, Trustee policy, Office of the Chancellor (CO) directives, and university and auxiliary procedures.

The California State University (CSU) *Delegation of Authority for Gift Evaluation and Acceptance* delegates to each university president the authority to evaluate gifts, bequests, and donations to their university, which can then be delegated to other university officers and employees. Importantly, the policy notes that due diligence by the university is required to ensure that all gifts accepted will aid in carrying out the primary functions of the university and the CSU, and that gifts are used in accordance with restrictions specified by the donor. At Cal Poly Pomona, the Cal Poly Pomona Philanthropic Foundation (Philanthropic Foundation) is responsible for fundraising and increasing charitable support at the university and oversees and solicits all of Cal Poly Pomona’s philanthropic endeavors. Cal Poly Pomona had total gift receipts of \$16,178,585 in FY 2022/23.

OVERALL 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 fundraising and gift processing as of May 24, 2024, taken as a whole, provided reasonable assurance that risks were being managed and objectives were met.

AUDIT SCOPE AND RESULTS

In general, we found that fundraising and gift processing operations were effective and services were provided in compliance with CSU policies and procedures. In our review, we did not note any issues related to the core function of fundraising and gift processing at Cal Poly Pomona. Challenges due to vacancies and turnover in executive management positions had recently been addressed or were in the process of being addressed before our audit began through a comprehensive review of policies and procedures, operational transactions, and potential process improvements performed by the recently appointed vice president of university advancement/chief executive officer of the Philanthropic Foundation and the interim chief operating officer of the Philanthropic Foundation.

However, our review did note areas for improvement in the administration of gifts-in-kind, pledges receivable, dormant accounts, and expenditures. A summary of the observations noted in the report is presented in the table below. Further details are specified in the remainder of the report.

Area	Processes Reviewed	Audit Assessment
General Environment	Organizational structure, policies and procedures, delegations of authority, conflicts of interest, and strategic plan	<i>Effective – no reportable observations noted</i>
Fundraising and Gift Processing	Planning, fundraising events, gift-in-kind receipts, gift valuation, cash receipts, reconciliations, disposals, donations, pledges, and matching gifts	<i>Observations noted related to gifts-in-kind and pledges receivable</i>
Donor Confidentiality	Security and confidentiality of donor system and donor records	<i>Effective – no reportable observations noted</i>
Fiscal Operations	Fund establishment, dormant accounts, expenditures, and suspense/holding accounts	<i>Observations noted related to dormant accounts and expenditures</i>
Reporting	Annual gift and pledge report preparation and submission of data and expenditure reporting	<i>Effective – no reportable observations noted</i>

The audit focused on procedures in effect from January 1, 2022, through May 24, 2024. Our audit and evaluation included the audit tests we considered necessary in determining whether operational, administrative, and financial controls are in place and operative. Our review was limited to gaining reasonable assurance that essential elements of fundraising and gift processing were in place and did not examine all aspects of the program.

OBSERVATIONS, RECOMMENDATIONS, AND RESPONSES

1. GIFTS-IN-KIND

OBSERVATION

Policies and procedures did not adequately address the requirements for recording and reconciling gifts-in-kind.

Specifically, we found that:

- Gifts-in-kind intended for the university's or another auxiliary's programmatic use were formally received by Philanthropic Foundation and were recorded in its donor database. However, through non-cash gifts testing, we found that gifts-in-kind were not always properly accounted for in the Philanthropic Foundation's financial system to accurately reflect the contributions. Rather, they were recorded directly into the receiving entity's financial system (e.g., University or ASI).
- Gifts-in-kind that were consumed or auctioned at events were not always properly expensed in the Philanthropic Foundation's financial records, resulting in duplicate accounting within Philanthropic Foundation and university financial records.
- Monthly reconciliations between the Philanthropic Foundation's donor database and financial system were limited to cash gifts and did not include gifts-in-kind.

Improperly accounting for all gifts received can result in financial misstatements, regulatory non-compliance, and loss of donor trust, negatively impacting the organization's credibility and operational effectiveness.

RECOMMENDATION

We recommend that the university, in conjunction with the Philanthropic Foundation:

- a. Review and revise policies and procedures to ensure that gifts-in-kind are properly accounted for in the appropriate financial system, and communicate these revised policies and procedures to relevant university and auxiliary constituents.
- b. Revise policies and procedures to ensure that monthly gift reconciliations between the Philanthropic Foundation donor database and financial system are comprehensive to include both cash and non-cash gifts.

MANAGEMENT RESPONSE

We concur. The campus will:

- a. Review and revise policies and procedures to ensure that gifts-in-kind are properly accounted for in the appropriate financial system, and communicate these revised policies and procedures to relevant university and auxiliary constituents.
- b. Revise policies and procedures to ensure that monthly gift reconciliations between the Philanthropic Foundation donor database and financial system are comprehensive to include both cash and non-cash gifts.

Expected completion date: January 31, 2025

2. PLEDGE RECEIVABLES

OBSERVATION

Administration of pledges receivable needed improvement.

Specifically, we found that:

- Philanthropic Foundation policies addressed annual reviews of pledges receivable and the approvals required for a pledge receivable to be written off. However, the policy did not provide guidance on write-off considerations, such as the number of days past-due an account should be when collections efforts cease and formal write-off procedures begin.
- Three out of four pledge receivable write-offs selected for testing were not written off timely due to ongoing collection efforts. Pledges were ultimately written off approximately four years after the last recorded payment was received.
- Of the 38 open pledge accounts as of March 2024, 21 appeared to be delinquent but had not been written off due to ongoing collection efforts. We found that of these 21 accounts:
 - 15 had last-payment dates before 2023. At the time of our audit, it had been between 313 and 1,590 business days since the last payment.
 - Six did not have any recorded payments since an initial pledge that occurred before 2023. These initial pledges were made between 320 and 967 business days before the time of our audit.

Proper administration of pledges receivable increases the likelihood of recovery and reduces the risk of inaccurate financial statements.

RECOMMENDATION

We recommend that the university, in conjunction with the Philanthropic Foundation, review and revise policies and procedures to address timely review and write-off of delinquent pledges receivable.

MANAGEMENT RESPONSE

We concur. The campus will review and revise policies and procedures to address timely review and write-off of delinquent pledges receivable.

Expected completion date: November 30, 2024

3. DORMANT ACCOUNTS

OBSERVATION

The Philanthropic Foundation did not have established policies and procedures for assessing dormant gift accounts.

Philanthropic Foundation management stated that project directors receive periodic written and verbal communications, such as monthly fund reports, to keep them informed about fund balance and activity. However, there was no formal guidance for reviewing account activity or performing follow-up procedures for dormant accounts (such as revising the fund’s purpose, discussing it with the board, or closing the account).

We reviewed a sample of 40 accounts with balances as of March 31, 2024, and found that 13 accounts with balances totaling approximately \$812,000 did not have any programmatic activity between January 1, 2022, and March 31, 2024.

Regular assessment of dormant accounts facilitates appropriate distribution and use of funds, ultimately ensuring the fulfillment of donor intent.

RECOMMENDATION

We recommend that the university, in conjunction with the Philanthropic Foundation, establish and implement policies and procedures for reviewing dormant accounts to facilitate appropriate distribution and use of funds in accordance with donor intent.

MANAGEMENT RESPONSE

We concur. The campus will establish and implement policies and procedures for reviewing dormant accounts to facilitate appropriate distribution and use of funds in accordance with donor intent.

Expected completion date: December 20, 2024

4. EXPENDITURES

OBSERVATION

Administration of fund expenditures needed improvement.

We found that authorized approvals and adequate documentation, such as disbursement voucher forms, detailed receipts, and documented business purposes, were not always obtained prior to payment processing. In addition, we found that updated signature forms were not always obtained.

Specifically, we reviewed 40 expenditures and found that:

- Five expenditures were not approved by a project authorized signer. Expenditures were either approved by individuals not on the authorized signature form or by the former Philanthropic Foundation chief operating officer without project-level approval, or there was no evidence of approval. Per Philanthropic Foundation policy, the COO is required to approve all Philanthropic Foundation expenditures after approval by the project director.
- Six did not have all required forms or adequate supporting documents, such as detailed receipts. However, the transactions appeared to be valid travel and hospitality business expenditures.
- Six did not have a documented business purpose to confirm alignment with the fund purpose.

Review of necessary documentation and approvals enhances spending control, ensuring that expenditures align with donor intent and comply with policies and procedures.

RECOMMENDATION

We recommend that the university, in conjunction with the Philanthropic Foundation:

- a. Review fund establishment documents and ensure current signature forms are maintained.
- b. Provide relevant personnel with additional training on expenditure policies and procedures to ensure expenditures are properly approved and adequately documented.

MANAGEMENT RESPONSE
<p>We concur. The campus will:</p> <ul style="list-style-type: none">a. Review fund establishment documents and ensure current signature forms are maintained.b. Provide relevant personnel with additional training on expenditure policies and procedures to ensure expenditures are properly approved and adequately documented. <p>Expected completion date: November 30, 2024</p>

GENERAL INFORMATION

ADDITIONAL BACKGROUND

Though the CSU depends on state funds to support core educational functions, private support provides significant and essential funds that allow the CSU to achieve its goals regarding access to education, enhanced educational quality, and financial stability. Each university has a university advancement office and a charitable foundation that work together to solicit and manage donations. At the CO, the Office of Systemwide Advancement provides support to universities, develops systemwide policies, and consolidates university information to produce accountability reports.

For FY 2022/23, the CSU totaled \$557 million in total gift commitments and \$466 million in total gift receipts. Within the CSU, universities are grouped into one of three peer groups based on number of individual donors, number of full-time professional fundraisers on staff, endowment market value, and fundraising investment as a percentage of state general fund allocation. Cal Poly Pomona belongs to peer group two, with three-year average total gift commitments of \$29 million per year and three-year average total gift receipts of \$26 million per year as of FY 2022/23.

The Cal Poly Pomona Philanthropic Foundation is governed by a board of directors who provide advice and counsel to the president on institutional priorities, maintain fiduciary responsibility for the foundation's assets, and establish a culture of philanthropy for the university. To achieve these goals, the foundation works with the division of University Advancement, whose efforts are dedicated to advancing the university through development, stewardship, fundraising, planned giving, governmental relations, alumni relations, public relations, communications, branding, and special events. The vice president of university advancement also serves as the executive director of the Cal Poly Pomona Philanthropic Foundation. Accounting services for the Philanthropic Foundation are performed by another auxiliary, the Cal Poly Pomona Foundation Inc.

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 university 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:

- Government Accounting Standards Board No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*
- Council for Advancement Support of Education Guidelines
- CSU *Delegation of Authority for Gift Evaluation and Acceptance*
- CSU *Fundraising – Matching Gifts*
- CSU *Hospitality Policy*
- CSU *Delegation of Fiscal Authority and Responsibility*
- CSU *Placement and Control of Receipts for Campus Activities and Programs*
- CSU *Fundraising Events*
- CSU *Campus Auxiliary Organizations*
- CSU *Utilization of Campus Auxiliary Organizations*
- CSU *Auxiliary Organizations Compliance Guide*

- *CSU Auxiliary Organizations Sound Business Practice Guidelines*
- *CSU GAAP Accounting and Reporting Manual*
- *Cal Poly Pomona Philanthropic Foundation Policy No. 110, Gift Acceptance Policy*
- *Cal Poly Pomona Philanthropic Foundation Policy No. 113, Events Policy*
- *Cal Poly Pomona Philanthropic Foundation Policy No. 302, Accounts Payable Payment Processing*
- *Cal Poly Pomona Philanthropic Foundation Policy No. 308, Delinquent Pledge Payment Policy*
- *Cal Poly Pomona Philanthropic Foundation Policy No. 726, Foundation Programs, Scholarship, and Endowment Procedures*

AUDIT TEAM

Audit Manager: Kyle Ishii
Senior Auditor: Carolyn Phu