REPORT OF

THE

STATE AUDITOR

University of Colorado Foundation

PERFORMANCE AUDIT
October 2005

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October 18, 2005

Members of the Legislative Audit Committee:

This report contains the results of a performance audit of the University of Colorado Foundation. The audit was conducted in conjunction with an audit of the University of Colorado under Section 2-3-103, C.R.S., which authorizes the State Auditor to conduct audits of all departments, institutions, and agencies of state government. The report presents our findings, conclusions, and recommendations, and the responses of the University of Colorado Foundation and the University of Colorado.

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OFFICE OF THE STATE AUDITOR **REPORT SUMMARY**

JOANNE HILL, CPA
State Auditor

University of Colorado Foundation
Performance Audit
October 2005

Authority, Purpose, and Scope

This performance audit of the University of Colorado Foundation (Foundation) was conducted in conjunction with an audit of the University of Colorado (University) pursuant to Section 2-3-103, C.R.S., which authorizes the Office of the State Auditor to conduct audits of all departments, institutions, and agencies of state government. The audit work, performed from March through September 2005, was conducted in accordance with generally accepted government auditing standards. The purpose of the audit was to evaluate the effectiveness and efficiency of the Foundation's operations. As part of our audit, we reviewed the Foundation's management and disbursement of donor contributions; acceptance and valuation of non-monetary gifts; management of loans; administrative policies, procedures, and expenses; and the services provided to the University. The Office of the State Auditor retained BKD, LLP and KPMG, LLP to assist with the audit work.

We acknowledge the assistance and cooperation extended by management and staff at the University of Colorado Foundation and the University of Colorado.

Overview

The University of Colorado Foundation was established in 1967 to support the University of Colorado. The Board of Regents of the University has authorized the Foundation to receive gifts and bequests of money or property on behalf of the University. The Foundation is a privately governed, nonprofit corporation under Section 501(c)(3) of the Internal Revenue Code and provides a number of services to the University including gift management, fund-raising, donor cultivation, coordination of special events, investment management, and guaranteeing of loans.

The Foundation is governed by a Board of Directors which is part of a larger Board of Trustees. Foundation operations are managed on a day to day basis by 138 staff, who are located at Foundation offices in Boulder, Denver, and Colorado Springs. The Foundation is funded by fees from the University, investment earnings, alumni membership dues, special events, and contributions. In Fiscal Year 2005 the Foundation received $7 million from the University for development services and donor cultivation.

For further information on this report, contact the Office of the State Auditor at 303.869.2800.

Key Findings

Management of Donor Gifts

Both the Foundation and the University are responsible for having controls that ensure donated monies are expended in a manner consistent with donor restrictions. We reviewed the Foundation's procedures for handling cash contributions and transferring gift monies to the University and the University's expenditure of gift monies. In addition, we reviewed the Foundation's procedures for handling non-monetary gifts, or gifts in kind. We found:

- **The Foundation should improve procedures to ensure monies are deposited in funds that reflect donor intent.** The Foundation is responsible for recording each contribution in a gift fund that accurately reflects the donor's purpose. Out of a sample of 67 cash contributions totaling about $292,300, we found problems with 16 items, or almost a quarter of those tested, including inadequate documentation to determine the donors' intent, gifts recorded in funds that did not correspond to the donors' intent, and checks made payable to the University that were erroneously deposited into Foundation accounts. The Foundation has no policy or procedure for handling donations that are not accompanied by clear written instructions from the donor or a formalized policy with the University addressing how the Foundation should handle gift checks made payable to the University, which is a separate legal entity.

- **The Foundation and the University lack a clear, coordinated system for transferring gift monies that ensures donor intent is met.** Out of a sample of 134 transfers of gift monies totaling about $6.9 million from the Foundation to the University, in 54 instances (40 percent) we were unable to determine if the gifts were transferred for a purpose consistent with the donors' intentions because of inadequate documentation and poor coordination between the Foundation and the University.

- **The University should improve procedures to ensure expenditures are consistent with donor intent.** Out of a sample of 51 University expenditures of gift monies totaling about $139,000, in 7 instances (14 percent) we found problems including commingled gift monies with differing purposes within a single account, inadequate documentation to determine if the expenditure was appropriate, and an instance in which the expenditure did not appear to comply with donor restrictions. We found that University staff charged with expending gift monies do not always receive sufficient guidance regarding the appropriate use of the gifts, and that neither the University nor the Foundation regularly audits the use of gift monies to ensure compliance with donor restrictions.

- **The Foundation has not exercised adequate oversight over acceptance of non-monetary gifts.** Foundation policy requires that a Board committee give prior approval for accepting certain high-risk non-monetary gifts such as property, art work, or equipment. Out of a sample of 53 gifts in kind worth about $21.1 million, half did not comply with Foundation policies and procedures for accepting gifts. Problems included lack of evidence of approval to accept the gift, lack of adequate documentation to support the valuation of the gift, and no evidence that costs of maintaining the donated item had been assessed. The Foundation and the University have agreed to transfer responsibility for accepting non-monetary gifts to the University; however, the University does not currently have a policy for accepting and valuing these gifts.

- **The Foundation should correct errors made in recording gifts.** We identified errors in how the Foundation recorded two large gifts worth a total of about $6.58 million. Most significantly, as a result of one error the Foundation's assets have been overstated by about $5.75 million since Fiscal Year 2000.

Administration

We reviewed the Foundation's administrative policies, procedures, and expenses, and found:

- **The Foundation has inadequate controls over employee reimbursements and use of credit cards to ensure its policies are meaningful and effective.** Out of a sample of 1,087 purchases totaling about $163,100, in 490 instances (45 percent) we found policy violations, errors, and/or a lack of supporting documentation. The Foundation's review and approval processes are not sufficient to ensure all purchases are consistent with its stated policies and related to the Foundation's core mission. For example, the Foundation does not consistently enforce its policies requiring receipts to support purchases or documentation of a business purpose for meals, and it does not require staff to submit itemized receipts that would enable it to determine if staff had purchased prohibited items such as alcohol and personal goods. We identified 278 purchases totaling about $52,600 that did not have an itemized receipt needed to verify compliance with policies.

- **The Foundation should establish policies and procedures designed to limit administrative costs.** Foundation policy does not contain limits or guidelines on appropriate costs for hotels and meals, which appears to have resulted in instances of excessive costs. We found lodging costs up to $435 per night and staff-only meal expenses as high as $110 per person. In addition, in Fiscal Year 2004, the Foundation spent an average of $940 per week on meals for employees and associates; these meals were not related to Board meetings, out-of-town travel, or meetings with donors. We identified several purchases of meals and lodging for staff spouses, transportation by limousine, and first-class airfare.

Transparency and Accountability

We reviewed the financial relationship between the University and the Foundation and identified several concerns about the lack of transparency and accountability for how the University uses some funds, including:

- **University expenses were paid through the Foundation, circumventing University purchasing policies and State Fiscal Rules.** Each year, the University has transferred more than $600,000 to the Foundation to pay for certain University expenses. This process bypassed University controls and policies and State Fiscal Rules and prevented a full public accounting of the University's use of funds. In our sample of 64 purchases totaling about $46,700 that were made by University staff but paid by the Foundation, many violated State Fiscal Rules and/or University policy. Violations included about $1,600 for limousine services and $760 for meals in excess of State Fiscal Rule limits. We also found that the University used gift funds at the Foundation to pay expenses that violated the Board of Regent policies against doing business with discriminatory organizations. Overall, for Fiscal Years 2004 and 2005, we noted about $94,000 for flowers and gifts, about $15,200 for alcohol, and about $606,600 for food and catering, among other expenses, all of which are considered "donor cultivation" expenses. However, there was no evidence that the expenses were evaluated to determine if they actually increased the donor base or led to increased donations. The University reports that it eliminated the practice of transferring monies to the Foundation to pay University expenses as of Fiscal Year 2006.

- **The University lacks adequate contracts with the Foundation, limiting its capacity to monitor performance and ensure accountability.** The University pays the Foundation approximately $11.3 million each year for a variety of services. From Fiscal Year 2002 through 2005, payments from the University to the Foundation totaling about $5.9 million were made without any contracts, which is a violation of State Fiscal Rules. Many of the contracts that were in place lacked signatures, performance measures, and effective dates, and were not consistently monitored by the University. Overall we found insufficient contracts or problems with contracts for most services the Foundation provides to the University.

- **Unclear definition of responsibilities between the University and the Foundation for planning and control of special events, creating inefficiencies and lack of accountability.** The University and the Foundation jointly manage about 35 to 40 fund-raising special events each year. The Foundation collects an administrative fee from event revenues for handling special event accounting and administration. In a sample of eight events, we found that, based on the information available, some events were not profitable and some had not been approved as required by Foundation policy. In addition, the Foundation did not consistently apply the administrative fee, and formal cash controls were lacking.

- **The Foundation lacks formal polices governing the loans it issues.** The Foundation makes loans to various parties on a case-by-case basis and with the approval of the Foundation's Investment Committee; however, the Foundation does not have any formal policies or procedures governing these loans. Further, it is unclear whether the Foundation issuance of such loans is consistent with its mission. Between July 1, 2001 and March 31, 2005, the Foundation issued or had outstanding 12 loans, with a total loan receivable balance ranging from about $2.7 million in Fiscal Year 2002 to about $740,800 in March 2005. We noted concerns with all seven of the Foundation-issued loans reviewed, which had original combined loan issuance amounts of about $2.9 million.

- **The complex financial arrangements between the Foundation and the University prevent a full and clear accounting for University monies.** Each year the Foundation transfers about $57 million of gift monies to the University and receives about $11.3 million from the University through direct payments, transfers, and fees. Some of the money the University uses to pay the Foundation is gift money originally received from the Foundation. The complexity of the flow of money, combined with inadequate contracts governing the relationship between the two entities, reduces accountability for and transparency of expenditures and highlights the need for the University and Foundation to assess their financial arrangements.

The Relationship Between the University and the Foundation

- **The University should evaluate the structure, role, and function of the Foundation.** Our review of the Foundation and its relationship with the University raises questions about the Foundation's effectiveness and efficiency in supporting the University. We noted concerns with the Foundation's handling of gifts and fulfillment of its fiduciary responsibility to donors and found inefficiencies in the Foundation's daily operations. Our findings also illustrate a lack of transparency regarding University and Foundation activities and the flow of funds between the two organizations, and a lack of accountability for both donor and public monies. The University needs to evaluate the structure and role of the Foundation and consider options to ensure the organizations interrelate in a manner that best serves the University.

Our recommendations and the Foundation's and University's responses can be found in the Recommendation Locator on pages 7 through 10 of this report.

RECOMMENDATION LOCATOR

Rec. No.	Page No.	Recommendation Summary	Agency Addressed	Agency Response	Implementation Date
1	22	Formalize additional written policies and procedures for managing cash contributions, including (a) obtaining documentation from donors when donations are over a specified amount; (b) establishing a document retention policy; (c) implementing a standard format for documenting donors' verbal instructions; (d) contacting donors for clarification before recording any gift whose purpose is not clear.	University of Colorado Foundation	Agree	January 2006
2	23	Work together to finalize, approve, and implement policies and procedures for handling checks received by the Foundation that are made payable to the University.	University of Colorado Foundation University of Colorado	Agree Agree	November 2005 November 2005
3	28	Maintain all transfer requests from the University to provide supporting documentation for monies sent to the University.	University of Colorado Foundation	Agree	January 2006
4	28	Strengthen controls over transfers of gift funds from the Foundation to the University by establishing a direct relationship between all Foundation gift funds and all University gift accounts and their respective purposes.	University of Colorado Foundation University of Colorado	Agree Agree	February 2006 February 2006
5	29	Make immediate improvements in the process of transferring gift monies from the Foundation to the University by providing instructions to University departments on completing transfer request forms, reaching an agreement on the review of the purpose codes during the transfer process, and ensuring exceptions are resolved timely and prior to the University's use of monies.	University of Colorado Foundation University of Colorado	Agree Agree	November 2005 November 2005
6	30	Make permanent improvements in the process of transferring gift monies from the Foundation to the University by providing periodic training to staff and ensuring that purpose codes are consistent between the University and the Foundation.	University of Colorado Foundation University of Colorado	Agree Agree	February 2006 February 2006

RECOMMENDATION LOCATOR

Rec. No.	Page No.	Recommendation Summary	Agency Addressed	Agency Response	Implementation Date
7	33	Work together to implement and strengthen controls to ensure that gift monies are spent according to donor restrictions, including providing fund managers with adequate documentation of donor restrictions; and establishing plans for Foundation and University internal auditors to audit gift expenditures.	University of Colorado Foundation	Agree	February 2006
			University of Colorado	Agree	February 2006
8	34	Strengthen controls over the gift monies received by discontinuing the practice of commingling gift monies with various purpose restrictions within a single gift account, and developing written policies and procedures related to managing the gift monies the University receives.	University of Colorado	Agree	February 2006
9	39	Work together to develop written policies for accepting gifts in kind.	University of Colorado Foundation	Agree	October 2005
			University of Colorado	Agree	November 2005
10	39	Strengthen the Gift Acceptance Policy and procedures by clarifying the tenure and operations of the Gift Acceptance Committee, and requiring that staff maintain documentation of the gift valuation, usefulness, ongoing costs the University or Foundation may incur, and any consideration given to the donor.	University of Colorado Foundation	Agree	October 2005
11	41	Adjust the financial records by removing the $5.75 million pledge receivable recorded in 1999 related to the leased property, reclassifying the property into land and building portions, and reflecting amortization only on the building. In addition, follow the policy with respect to recording gifts of privately held securities as gifts in kind.	University of Colorado Foundation	Agree	October 2005

RECOMMENDATION LOCATOR

Rec. No.	Page No.	Recommendation Summary	Agency Addressed	Agency Response	Implementation Date
12	50	Strengthen and enforce policies governing employee expense reimbursements and credit card purchases by (a) requiring itemized receipts for all purchases over a specified amount, a written explanation of the business purpose, and a list of meal participants and entertainment expenses; (b) requiring documented supervisory approval for expenses for all staff; (c) establishing policies to hold staff accountable for policy violations; (d) requiring the President's approval and written justification for employees to purchase airline tickets directly, and considering prohibiting first-class and nonemployee travel.	University of Colorado Foundation	Agree	October 2005
13	53	Improve controls over administrative expenses by (a) establishing maximum daily limits for travel costs; (b) clarifying the types of expenses that may be charged to the Foundation for Board members and non-staff; and (c) requiring preapproval for high-dollar credit card expenses.	University of Colorado Foundation	Agree	October 2005
14	60	Increase transparency and accountability for all University and gift funds by continuing the prohibition on transferring monies to the Foundation to pay University staff expenses and eliminating the practice of allowing the Foundation to reimburse University employees or using gift monies to directly pay University expenses.	University of Colorado	Agree	November 2005
15	64	Improve accountability for services contracted through the University of Colorado Foundation by (a) establishing formal contracts for Foundation services; (b) including remedies in the contracts to address any failure to meet requirements; (c) establishing a system for monitoring contract services; and (d) annually assessing the fees paid to the Foundation.	University of Colorado	Agree	January 2006

RECOMMENDATION LOCATOR

Rec. No.	Page No.	Recommendation Summary	Agency Addressed	Agency Response	Implementation Date
16	65	Develop performance standards in service contracts and use the standards to evaluate the Foundation's performance. The Foundation should continue to explore methods for comparing its performance with peer foundations.	University of Colorado Foundation	Agree	January 2006
			University of Colorado	Agree	January 2006
17	69	Evaluate who should be responsible for special event administration and accounting and develop a written agreement if appropriate.	University of Colorado Foundation	Agree	December 2005
			University of Colorado	Agree	December 2005
18	69	Strengthen management for special events by (a) implementing written policies and controls over revenues and expenses; (b) developing criteria for approving special events in written policies; (c) establishing procedures to assess the cost-benefit of special events; and (d) establishing cash control policies and procedures for all situations in which staff handle cash.	University of Colorado Foundation	Agree	December 2005
			University of Colorado	Agree	December 2005
19	73	Reassess the Foundation's loan program and determine if it is a service the Foundation should continue to provide.	University of Colorado Foundation	Agree	October 2005
			University of Colorado	Agree	January 2006
20	75	Conduct a comprehensive assessment of the financial arrangements between the two organizations and consider ways to improve accountability and transparency as they simultaneously evaluate the restructuring options discussed in Recommendation No. 21.	University of Colorado Foundation	Agree	January 2006
			University of Colorado	Agree	January 2006
21	82	Conduct a comprehensive evaluation of the structure, role, and functions of the Foundation and consider options such as (a) limiting the Foundation's functions to development services; (b) limiting the Foundation's functions to investment management; or (c) continuing the current arrangement, which includes both functions.	University of Colorado	Agree	January 2006

Overview

Background

The University of Colorado Foundation (Foundation) was established in 1967 to support the University of Colorado (University). Section 23-5-112, C.R.S., entitles nonprofit foundations organized for the sole benefit of higher education institutions to receive gifts and bequests of money or property, which may be tendered by will or gift. The Foundation is a privately governed, Colorado nonprofit corporation and a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code. The Foundation provides a number of services to the University including gift management, fund-raising, donor cultivation, investment management, and securing of loans.

The Foundation operates on the same fiscal year as the State, with a June 30 year-end. According to its unaudited financial statements, in Fiscal Year 2005 the Foundation received about $50 million in donor contributions for the University, earned about $52 million on investments, and transferred about $48 million in gift funds to the University. As of the end of Fiscal Year 2005, the Foundation held about $568 million in net assets. Donors may donate cash; nonmonetary gifts such as securities and real estate; and property (gifts in kind) such as computer hardware and software, art work, and equipment. Donors may also establish endowments or deferred (planned) giving arrangements, such as bequests and trusts, or make pledges to give over time.

In Fiscal Year 2005 nearly all of the donor contributions received were restricted, meaning they were earmarked by donors for specific programs or projects such as scholarships or athletics. In Fiscal Year 2005 gifts from alumni and individual donors represented 45 percent of total donations while gifts from corporations, foundations, and other organizations accounted for the remaining 55 percent.

Foundation Organization and Services

The Foundation has its headquarters in Boulder with offices in downtown Denver and on the University campuses in Boulder, Denver, and Colorado Springs.

The Foundation is governed by a Board of Directors comprising 15 members who meet at least four times per year. The University President and a member of the University's Board of Regents serve as nonvoting, ex-officio members of the Board of Directors. The Directors' duties include providing policy, business, and fiduciary oversight of Foundation operations. The Board of Directors also has several committees that focus on specific issues within the Foundation, including Audit, Governance, Compensation, Investment Policy, and Finance and Operations Committees. In addition to the Board of Directors, the Foundation has a Board of Trustees that provides leadership and support in fund-raising, and elects the Board of Directors. The Board of Trustees is made up of about 60 members, including the members of the Board of Directors, the Foundation President, the University President, one University Regent, and the University campus Chancellors; the University officials serve as nonvoting, ex-officio members.

At Fiscal Year-End 2005, the Foundation employed 138 staff assigned to several departments including development, stewardship and donor relations, finance and accounting, legal, human resources, data and technology management, and the Boulder Alumni Association. Foundation and University staff jointly conduct record-keeping, communication, donor education, budgeting, special event coordination, and accounting functions related to donor cultivation, fund-raising, and special events. The Foundation currently tracks gifts and donor information internally using the SunGard Business Systems Resources' (BSR) Advance software program.

The Foundation provides a variety of services to the University, including:

- **Gift Acceptance and Cultivation –** The Foundation's primary responsibility is to serve as the fund-raising partner of the University. The Foundation provides development and cultivation services by soliciting and managing contributions from individuals and other donors. These services include donor outreach, gift acceptance and processing, stewardship, research, maintaining a database of University alumni and donors, and overseeing the Annual Giving Program. These services are discussed in Chapter 1.

- **Investment Management –** According to its unaudited financial statements, as of June 30, 2005, the Foundation had about $665 million in investments and cash. This includes $517 million in endowments (including $85 million in University endowments held by the Foundation at the University's request); $81 million in callable funds (cash, current gifts and endowment earnings held by the Foundation prior to their use or "call" by the University); $50 million in life income arrangements; and $17 million in other invested funds such as securities and real estate. Investment Management services are discussed in Chapter 4.

- **Securing Loans –** The Foundation guarantees loans under the Faculty Housing Assistance Program (FHAP) up to a maximum of $50,000 for individual loans. This program is a faculty recruiting and retention tool for the University. During the period of July 1, 2001, through March 31, 2005, approximately 50 FHAP loans were issued or outstanding to University faculty members. In addition, the Foundation offers other loans on a case-by-case basis to support its own activities and University initiatives and programs. From July 1, 2001, through March 31, 2005, the Foundation issued 12 of these other loans, and the total amount issued or outstanding on the loans ranged from about $740,800 to about $2.7 million over the period. Loans are discussed in Chapter 3.

- **Special Events –** The Foundation assists the University in administering fund-raising and donor events. Typical special events include golf tournaments, galas, receptions, dinners, and auctions. The Foundation primarily serves an accounting and record-keeping function and at times assists in planning and working at events. These services are discussed in Chapter 3.

- **System Advancement Funds –** The Foundation manages a System Advancement account, which is specifically earmarked for general use by University officials within the University of Colorado System Offices. University officials use the funds primarily to support fund-raising activities and related travel expenses incurred by the University President's office. The University reports that these services were discontinued as of July 1, 2005. They are discussed in Chapter 3.

- **Alumni Services –** The University of Colorado at Boulder Alumni Association (Boulder Alumni Association) is a division of the Foundation with 21 staff. The Boulder Alumni Association's Controller is also the Assistant Controller of the Foundation. The Boulder Alumni Association's financial information is reported as part of the Foundation's consolidated financial statements, and it is subject to Foundation administrative policies. The Alumni Association has a separate Board of Directors comprising 51 members including three Foundation officers. The Alumni Association's expenses, totaling about $3.1 million in Fiscal Year 2005, are funded through membership dues, event fees, and support from the University. These services are discussed in Chapter 3.

- **Student Housing –** In June 2002 the Foundation established Bear Creek I, LLC, a Colorado limited liability company, to finance and develop a student housing facility on University land in Boulder. The Foundation established a contract with a real estate development and management company to oversee construction and management of the facility. In Fiscal Year 2005 the Foundation's student housing-related expenses were about $9.5 million and revenues were $4.7 million. That year the University paid the Foundation $3.6 million to supplement student housing revenues due to low occupancy in the Bear Creek I facility.

Foundation Revenues and Expenses

The following table shows the Foundation's revenues and expenses for Fiscal Years 2001 through 2005.

University of Colorado Foundation
Revenues and Expenses
Fiscal Years 2001 Through 2005 (In Thousands)

	2001	2002	2003	2004	2005
Net Assets, Beginning of Year	**$478,988**	**$531,659**	**$509,193**	**$499,089**[1]	**$559,034**
Revenue & Fee Receipts					
Gifts & Contributions for the University	$81,415	$76,128	$70,676	54,928	50,054
Gifts & Contributions for the University Hospital Authority[2]	49,863[3]	5,164	4,631	12,452	1,844
Net Investment Gain (Loss)	(1,743)	(22,838)	16,115	72,995	51,954
University - Development Fees	7,363	7,778	7,295	7,282	6,971
University - Other Fees	892	1,108	1,013	865	1,276
Boulder Alumni Association	3,281	3,255	3,541	3,092	3,458
Student Housing[4]	-0-	-0-	-0-	3,414	8,268
Other Revenue[5]	2,512	(3,948)	(969)	5,180	2,622
Total Revenue & Fees	**$143,583**	**$66,647**	**$102,302**	**$160,208**	**$126,447**
Expenses & Distributions					
Gifts & Income Distributed to the University	$58,511	$55,088	$63,305	$60,537	$48,496
Gifts, Income, & Pledges Distributed to the University Hospital Authority[2]	10,897	12,108	13,058	13,947	37,368
Development	13,196	12,938	13,451	10,183	10,608
Supporting Services[6]	5,261	5,822	6,799	7,758	8,291
Boulder Alumni Association	3,047	3,157	3,203	2,957	3,132
Student Housing[4]	-0-	-0-	163	4,881	9,488
Other Program Services[7]	-0-	-0-	756	-0-	-0-
Total Expenses & Distributions	**$90,912**	**$89,113**	**$100,735**	**$100,263**	**$117,383**
Total Change in Net Assets	**52,671**	**(22,466)**	**1,567**	**59,945**	**9,064**
Net Assets, End of Year	**$531,659**	**$509,193**	**$510,760**	**$559,034**	**$568,098**

Source: University of Colorado Foundation's audited financial statements and data for Fiscal Years 2001 through 2003. Foundation unaudited restated financial statements for Fiscal Year 2004 and unaudited financial statements for Fiscal Year 2005.

1 In Fiscal Year 2005 the Foundation restated its Fiscal Year 2004 financial statements. The adjustment is reflected in the Fiscal Year 2004 beginning net assets.

2 The University of Colorado Hospital Authority is a separate organization from the University.

3 According to Foundation staff, gifts and contributions were higher in Fiscal Year 2001 because it was an exceptional year for the Foundation's seven-year fund-raising campaign, which ended in June 2003.

4 The Foundation began incurring student housing expenses related to Bear Creek I, LLC, in Fiscal Year 2003, and began generating revenues in Fiscal Year 2004.

5 Includes change in value of split-interest agreements (trusts) and net assets released from restrictions.

6 Includes restructuring costs, administrative, and operational costs not directly related to development activities.

7 Pledges distributed to the University of Colorado Real Estate Foundation when it separated from the Foundation in Fiscal Year 2003.

In Fiscal Year 2005 the Foundation's primary source of revenue was investment earnings totaling about $52 million, followed by gifts and donor contributions of about $51.9 million. From Fiscal Year 2001 to 2005, contributions for the University declined by 39 percent. The Foundation also receives approximately $11.3 million annually, either directly or indirectly, from the University for development, fund-raising, donor cultivation, and other services. Annually the Foundation's largest distribution is the transfer of gift funds to the University in accordance with agreements with various donors; during Fiscal Year 2005 the transfer to the University was about $48.5 million. The Foundation's expenses for development (gift acceptance, donor development and cultivation services) ranged from about $13.2 million in Fiscal Year 2001 to about $10.6 million in Fiscal Year 2005. Over the same period the Foundation's net assets increased from about $532 million at June 30, 2001, to about $568 million at June 30, 2005, or approximately 7 percent.

University Payments and Transfers to the Foundation

As mentioned above, each year the University pays the Foundation to provide fund-raising and other services. In Fiscal Year 2005 the University provided about $7 million to the Foundation for development services and donor cultivation. In Fiscal Year 2005 the ratio of contributions collected to University development payments to the Foundation was seven to one.

Audit Scope and Methodology

The Office of the State Auditor undertook this audit at the request of the President of the University of Colorado and with the agreement of the University of Colorado Foundation Board of Directors and management. The audit reviewed the expenditure of gift funds and compliance with donor intent, the Foundation's overall role and mission and its relationship with the University, and several administrative areas within the Foundation. We interviewed representatives from University and Foundation management and staff, the Foundation Board of Directors, and the University Board of Regents. We conducted a survey of other universities and foundations to gain an understanding of the policies and practices of other entities similar to the University and Foundation.

Management of Donor Gifts

Chapter 1

Background

One of the primary functions of the University of Colorado Foundation (Foundation) is to raise funds to support the University of Colorado (University). The Foundation accepts donations in the form of pledges, cash, nonmonetary gifts such as securities and real estate, and gifts in kind such as computer equipment, art work, and other property. Donors may also make deferred or planned giving arrangements in the form of bequests, annuities, and trusts. According to the Foundation's unaudited financial statements, in Fiscal Year 2005 the Foundation received about $50 million in contributions for the benefit of the University, of which about $522,800 was gifts in kind. Typically, the Foundation processes the gifts and passes them through to the University. For example, for cash contributions, the Foundation establishes "funds," or accounts, to maintain and invest donated monies until they are requested by the University. For each cash contribution, the Foundation issues a gift receipt to the donor that indicates the amount of the donation and the fund to which it was deposited. For gifts in kind, the Foundation has historically accepted and recorded the donated items and forwarded them to the appropriate University program or college. In addition, the Foundation provides annual endowment status reports to donors.

As of the end of Fiscal Year 2005, the Foundation had approximately $568 million in net assets within the following categories:

- **Permanently Restricted.** These funds are permanently maintained by the Foundation with all or part of the earnings used for donor-specified purposes. Pure endowments (gifts that have been given to the Foundation with instructions from the donor that the value of the original gift be invested and held in perpetuity) are permanently restricted. The purpose of a pure endowment is to provide a permanent stream of income over time while holding the principal intact. As of June 30, 2005, the Foundation held about $190 million in permanently restricted net assets.

- **Temporarily Restricted.** These funds are subject to donor restrictions that will be met through Foundation or University actions or the passage of time. Quasi-endowments, which are funds that must be held and invested by the Foundation for a period specified by the donor, but not in perpetuity, are one type of temporarily restricted funds. Investment earnings on both pure and quasi-endowments are recorded in separate endowment earnings funds that are temporarily restricted and are available on call to the University. Other types of gifts that are not required to be held in perpetuity by the Foundation, such as gifts of cash, are also considered temporarily restricted until the donor's intended use of the funds has been fulfilled. As of June 30, 2005, the Foundation held about $348 million in temporarily restricted net assets.

- **Unrestricted.** These funds are not subject to donor restrictions. According to the Foundation, unrestricted monies are typically generated from earnings on investments and are available for Foundation operations, to be used according to Board of Director guidelines or approvals. As of June 30, 2005, the Foundation had about $30.2 million in unrestricted net assets.

Unless a cash donation is given with instructions that it is intended to support an existing fund, the Foundation creates a new gift fund with a unique fund number for each gift. Within the categories of permanently and temporarily restricted net assets, the Foundation maintains over 5,000 distinct gift funds. Each gift fund is assigned a fund manager, generally a University employee, who is responsible for monitoring and approving transactions within the fund. Gift monies are transferred from the Foundation to the University upon request from the University.

Donor Intent

University of Colorado President Elizabeth Hoffman requested that the State Auditor conduct an audit of the Foundation and the University with a particular focus on the "chain of custody" of monies donated to the Foundation and subsequently transferred to and expended by the University. A primary purpose of the audit was to determine whether the final expenditure of gift monies is in compliance with donor restrictions on the gifts. The first three sections of this chapter discuss the process used by the Foundation and University to ensure monies are spent in compliance with donor intent. The remainder of the chapter addresses gifts in kind and related issues.

According to the Foundation, nearly all gifts are designated, or restricted, by donors for specific purposes at the time of the donation. To sustain fund-raising and attract and maintain donors over the long term, it is critical for the Foundation and the University to ensure that donor restrictions are honored. To evaluate whether gift funds received by the Foundation and expended by the University are being handled in accordance with donor intent, we reviewed the three major components of the process for receiving and expending gift monies. These components and the results of our review are covered in the following three sections:

- **Cash Contributions,** which discusses the Foundation's processes for receiving and recording gift monies.

- **Distribution of Gift Monies,** which discusses the University's process for requesting gift monies, the Foundation's process for transferring gift monies to the University, and the University's receipt of those monies.

- **Expenditure of Gift Monies,** which discusses the University's management and expenditure of gift monies.

For the University and the Foundation to ensure compliance with donor intent, controls must be in place and operating as intended for each component of the process. Our review identified issues in each component of the process and an overall need for better coordination between the University and the Foundation. These issues must be addressed to help ensure that donor intent is met from the point of initial receipt of the gift to the final expenditure of gift monies.

We contracted with the accounting firms BKD, LLP and KPMG, LLP to conduct a portion of the testing in these areas.

Cash Contributions

The first step in ensuring that donor restrictions on contributions are fulfilled is to record the donated monies in gift funds that reflect the donor's intent. We reviewed the Foundation's written policies for accepting gifts and managing gift funds. The Foundation's Endowment and Current Fund Policy requires that documentation about the use of a fund (correspondence, account request form, or Donor Fund Agreement) be obtained to establish gift funds. In addition to the formal policy, the Foundation has written procedures that outline the process for establishing new gift funds.

To determine if the Foundation records cash contributions in the correct gift funds (i.e., funds that reflect restrictions imposed by the donors), we reviewed a sample of 67 cash contributions totaling about $292,300 for the period July 1, 2001, through March 31, 2005. For 51 of the contributions we tested (76 percent) totaling about $206,600, the monies appeared to have been deposited into the correct fund. However, for the other 16 contributions (24 percent) totaling about $85,700, either we could not determine whether the donation was recorded in the appropriate fund or we identified other problems, as described below.

Lack of documentation on donor intent. For nine of the contributions we tested (13 percent) totaling about $82,900, the Foundation did not have adequate documentation to determine the gift fund to which the monies should have been recorded. Specifically:

- For four of the contributions we tested totaling $170, the Foundation had no documentation of any kind of the purpose of the donations.

- For three of the contributions we tested totaling about $6,300, the Foundation had notes regarding the purpose of the gifts that were written by staff based on phone conversations with the donors. While two of these donations were for nominal amounts, the third was a single donation of over $6,200.

- For two of the contributions we tested totaling about $76,400, the Foundation had some documentation, such as internal correspondence regarding the contribution, but no documentation directly from the donor indicating the purpose of the donations.

Foundation policy requires documentation in the form of correspondence, an account request form, or a fund agreement to establish a fund. However, the Foundation has no written policy or procedure for documenting donor intent when donations are made to existing funds. According to the Foundation, when the intent is not apparent from the check or documentation accompanying a donation, staff review the donor's giving history and record the contribution in the fund to which the donor made previous donations. However, without written instructions from the donor, the Foundation cannot be sure this approach fulfills the donor's intent for that specific contribution. In addition, donors sometimes provide information on restrictions of their gifts verbally. For example, if there is no giving history for the donor, Foundation staff contact the donor by phone. Similarly, when the Foundation holds fund-raising drives, staff often contact current or potential donors by phone to solicit donations.

According to the Foundation, a primary control to ensure gifts are processed correctly is the receipt it mails to donors. The gift receipt shows the fund to which the gift was recorded. To help ensure that donor restrictions are being honored, the Foundation should also require staff to obtain written confirmation of intent from the donor for donations over a specified amount. For example, if Foundation staff receive verbal instructions from a donor with respect to the purpose of a gift, staff should send a follow-up letter to the donor outlining the intent of the gift that can be signed and returned by the donor. For contributions below this specified amount, the Foundation should establish and follow a consistent format for staff to use in documenting verbal instructions from donors.

Recording of donations to incorrect gift funds. For three of the contributions we tested (4 percent) totaling $1,700, the Foundation recorded the monies in incorrect funds, as follows:

- One check contribution for $1,000 included a notation that it was intended for the "CU football camps," which at that time were operated by a private entity, not the University or the Foundation. The Foundation originally deposited the check into the Coaches' Incentive Fund to be used by University coaches. A month after the check was received, Foundation staff realized they had erred in accepting the donation and sent the football camp a check for the donated amount.

- One contribution for $500 was intended for theater productions, but the Foundation deposited it into the Theater and Dance fund. According to Foundation staff, there was no theater productions fund at the time the gift was received. Although a theater productions fund was created later the same month the gift was received, this $500 contribution was not transferred into that fund. To ensure donor intent was met, the Foundation should have established the separate fund for theater productions at the time the $500 gift was first received.

- One check contribution was made payable to the "Golden Buffalo Scholarship Fund"; however, the memo line on the check stated "Buffalo Beef Club." According to the Foundation, the Buffalo Beef Club is a project operated by the football coaches, and as a result, staff recorded the gift in the head football coach's discretionary fund. In this case, the Foundation should have contacted the donor to clarify intent because of the inconsistencies between the payee and the information on the memo line of the check.

To ensure the donor's wishes are respected, the Foundation should apply strict standards on recording contributions by following up with donors on any gifts for which the donor's intent is not clearly documented.

Deposit of checks made payable to the University. For four of the contributions we tested (6 percent) totaling about $1,100, the Foundation deposited checks that were made out to the University or a University program, not to the Foundation. Checks were made to the University, the School of Journalism and Mass Communication, the University of Colorado Cancer Center, and the Barbara Davis Center for Childhood Diabetes. Although we did not identify problems regarding donor intent with the funds into which the Foundation placed these gifts, it is not appropriate for the Foundation to deposit checks that are made out to the University or its programs.

Foundation deposit of checks made out to the University was raised as an issue in the University's Fiscal Year 2002 financial audit. That report noted that in some cases, the checks may have either represented contract and grant monies that belong to the University or gifts that donors intended to go directly to the University. In June 2003 the University drafted a policy for processing donations made payable to the University. The draft policy requires that "when the designated payee on a gift instrument . . . is the University of Colorado . . . or a [University] program, and there is no accompanying information to indicate that the donor is responding to a specific solicitation [such as a fund-raising drive by the Foundation], the gift is . . . deposited into a designated . . . University of Colorado bank account." The Foundation also developed a process such that when the Foundation receives a gift check payable to the University or a department thereof, Foundation staff contact the donor to clarify which entity should deposit the check. To date, neither the University nor the Foundation has formally adopted policies in this area. Since our audit also identified exceptions in this area, it is important that the University and Foundation move forward to formalize policies addressing this concern.

Recommendation No. 1:

The University of Colorado Foundation should formalize additional written policies and procedures for managing cash contributions, including:

a. Requiring that written documentation from the donor be obtained for all donations over a specified amount.

b. Establishing a document retention policy to ensure that documentation from donors is maintained until the donated monies have been fully used or are no longer restricted.

c. Implementing a standard format for documenting verbal instructions from donors for contributions below the specified amount.

d. Contacting donors for clarification before recording any gift whose purpose is not clearly evident from information accompanying the gift and appropriately documenting the donors' instructions.

University of Colorado Foundation Response:

Agree.

a. Implementation Date: January 2006. The Foundation has adopted a new Gift Acceptance Policy that requires written documentation for all gifts, regardless of amount. In addition, the Foundation is developing standardized gift acknowledgment and receipt letters that will clearly restate the significant terms of gifts of $1,000 and above, including (1) the form of the gift (pledge, check, credit card, cash, other), (2) the amount of the gift (if cash or cash equivalent), (3) a detailed description of the gift (if non-cash), (4) the intended purpose of the gift, and (5) restrictions (if any). Donors will be requested to note any corrections, sign and return the letters by fax or mail.

b. Implementation Date: January 2006. The Foundation will develop a document retention and destruction policy.

c. Implementation Date: December 2005. The Foundation will develop a standard form for documenting verbal instructions from donors for contributions when written documentation was not provided or the documentation was not clear as to the donor's intent.

d. Implementation Date: October 2005. The Foundation's new Gift Acceptance Policy requires contacting donors for clarification of the gift purpose if it is not clearly evident from information accompanying the gift.

Recommendation No. 2:

The University of Colorado Foundation and the University of Colorado should work together to finalize, approve, and implement policies and procedures for handling checks received by the Foundation that are made payable to the University.

University of Colorado Foundation Response:

Agree. Implementation Date: November 2005. In October 2005, the Foundation Board approved a policy and implemented standard procedures governing checks received by the Foundation but made payable to the University. This policy was developed with coordinated efforts and agreement from the University.

University of Colorado Response:

Agree. Implementation Date: November 2005. The University and Foundation have been working through the issues to draft a policy governing the deposit of gift instruments since 2003. After careful consideration of the complex issues, the University policy is expected to be adopted effective no later than November 1, 2005.

Distribution of Gift Monies

The second step in ensuring donor intent is met is to transfer gift monies from the Foundation and deposit them into University gift accounts that correctly reflect their restrictions. When a University department determines a need for gift monies from the Foundation, the department submits a "Request for Transfer of Funds," or a transfer request, to the Foundation. The University includes the following information on the request form:

- The number and name of the Foundation fund from which the University is requesting the transfer.
- The number of the University gift account into which the funds will be deposited.
- The amount requested.
- A brief description of the purpose of the request.

When the Foundation receives the transfer request, accounting staff review the information on the form to determine if it is complete, if gift monies are available, and if the intended use of the monies indicated on the form by the University is consistent with the purpose for which the gift fund at the Foundation was established.

To determine whether the Foundation disburses gift monies to the University in accordance with donor restrictions, we reviewed a sample of 134 transfers the Foundation made to University gift accounts between July 1, 2001, and March 31, 2005, totaling about $6.9 million. For 54 of the transfers we reviewed (40 percent) totaling about $2 million, we were unable to conclude whether the gift monies were transferred for a purpose consistent with the donors' intentions due to issues in the two areas described below. For some of the transfers, we noted more than one issue.

Lack of Documentation

First, the Foundation could not provide sufficient documentation for us to assess compliance with donor restrictions for 13 of the transfers we reviewed (10 percent) totaling about $501,000. Specifically:

- For three of the transfers in our sample totaling about $126,500, the Foundation could not provide the transfer request forms from the University; as a result, we were unable to determine the purpose for which the University requested the monies.

- For 10 of the transfers in our sample totaling about $374,500, the Foundation could not provide any original documentation regarding the restrictions placed on the fund; it could only provide information that had been entered into its automated donor system. The Foundation should have had either internally generated "new account request" forms or fund agreements signed by the donors documenting the donors' restrictions on the funds. For these 10 transfers, the issues identified are similar to those noted in the previous section under Cash Contributions.

Lack of Coordination for Transfers

The second main area in which we identified issues was during the actual transfer of monies from the Foundation and subsequent receipt by the University. Both the Foundation and the University reported that they rely on the knowledge of the University department staff to request monies in accordance with donor restrictions. However, the use of transfer forms that describe the purpose for requesting monies and the assignment of purpose codes to Foundation gift funds and University gift accounts are intended to serve as controls to help ensure donor intent is met. Overall, we found a lack of adequate coordination of efforts and information between the University and Foundation and a lack of sufficiently defined procedures to ensure compliance with donor intent.

Purpose descriptions on the transfer request forms are vague. Foundation accounting staff report that the University's description of the purpose of the requested monies is one of the primary pieces of information on the transfer form used to determine if the request is appropriate. For 19 transfers totaling about $769,900 in our sample of 134 transfers, the written description on the request form was insufficient to allow us to determine if the purpose was consistent with donor restrictions. For example, some of the descriptions of the stated purpose on transfer request forms included "for expenditures," "for program activities' food and beverage costs," and "for support of the various programs that have received funding through gifts or grants to the Foundation." The Foundation has written procedures for its staff to follow in reviewing the request forms submitted by the University. However, the procedures do not provide specific direction on the level of detail staff should expect on a transfer request form in order to properly evaluate the purpose. On the other hand, the University does not have written procedures directing department staff to provide complete and detailed information on the purpose for which the monies are being requested and how the purpose meets donor intent. In addition, neither the University nor the Foundation provides routine training to personnel responsible for handling transfers of gift monies to assist them in carrying out their fiscal duties. Joint training sessions could be particularly beneficial to clear up inconsistencies and address communication issues.

Purpose codes assigned by the Foundation and University do not provide an effective control over the use of donor monies. The Foundation assigns an alphabetic purpose code to each of its gift funds to help identify the primary restriction or purpose of the fund. Similarly, the University assigns a four-digit expense purpose code to each of its gift accounts. The University and Foundation have developed a "cross-over" table that correlates both entities' purpose codes. Foundation staff enter information for each transfer request into a spreadsheet that is sent to the University Treasurer's Office at the time the requested monies are wired to the University each week. When the University receives the wire transfer and spreadsheet, it uploads the spreadsheet into its accounting system and runs an automated query that compares the Foundation and University purpose codes, identifies transfers where codes do not "cross-over" or align, and generates an exception report. This is forwarded to the appropriate campus controllers and University departments for resolution.

This process could function as a control to help ensure that gift monies are deposited to the proper University gift account. However, we noted the following issues:

- Each Foundation purpose code reflects a relatively narrow purpose for which the monies can be used, but donations can be made to serve multiple purposes. For example, when the Foundation receives a contribution that the donor has designated for both scholarships and purchases of academic materials, the Foundation may assign an "A" purpose code, designating it only as a scholarship fund. If a University department requested monies from the fund to purchase academic or instructional materials (which would be allowed), it would transfer the monies into a gift account with a University purpose code of "instruction" (1100). However, the Foundation's (A/scholarship) code does not correlate to the University's (1100/instruction) code on the "cross-over" table, resulting in a discrepancy.

  For our sample, we compared the purpose codes assigned by both the University and the Foundation to their respective gift funds and accounts. For 36 of the transfers in our sample (27 percent) totaling about $1.5 million, the purpose code on the Foundation gift fund from which the monies were requested did not correlate to the purpose code of the University gift account into which the monies were being deposited. For example, the exceptions included 23 transfers that the University requested for deposit into gift accounts with the purpose code of 1100/instruction; however, the Foundation gift funds from which the monies were requested had purpose codes that were for a variety of noninstructional purposes, such as to provide financial aid and scholarships and to support nonacademic units.

- The Foundation reports that it uses other information on the transfer form, not the purpose codes, to evaluate whether transfers to the University are intended for the appropriate purposes. The Foundation uses the purpose codes for general reporting on use of gift monies.

- As mentioned previously, the University has assigned responsibility to the campus controllers for addressing exceptions identified during the automated query. However, the University has no centralized control to monitor and document that exceptions are properly resolved in a timely manner and prior to the deposit of monies into a University gift account.

The University reports that it is currently working to address the lack of alignment of the purpose codes by adopting the Foundation's coding system for gift transfers by the end of Calendar Year 2005. While this would make a comparison of the purpose codes more useful, the University should also reach an agreement with the Foundation on the importance of the codes in the transfer process and the need for the Foundation to consider these codes during its review of transfer requests. Further, the University should develop procedures to resolve all exceptions from the automated query in a timely manner before the monies are made available for University expenditure.

In terms of the overall process of transferring gift monies, the University's long-range goal is to establish a one-to-one relationship between Foundation gift funds and University gift accounts and their respective purposes. Establishing a direct link between each Foundation gift fund and an associated University gift account should be an effective way to ensure that gift monies are transferred to appropriate University accounts, as long as such information is kept current in both the Foundation and University systems. However, until this goal is accomplished, there is a risk that gift monies are transferred to the University for purposes that are not consistent with donor restrictions on the gifts.

Until the relationship between Foundation gift funds and University gift accounts is resolved, there are other steps the University and Foundation should take to improve controls over transfers. First, the Foundation should ensure that all transfer requests from the University are maintained to provide support for monies sent to the University. Second, the University and the Foundation should reach an agreement on what constitutes sufficient description for Foundation staff to determine whether the University's purpose correlates to the purpose of the Foundation fund from which the monies will be transferred. University staff should be instructed to include the necessary level of detail in the description of the purpose on each transfer request. Both the Foundation and the University should conduct periodic staff training, including joint sessions, on the coding and transfer process for handling gift monies. Third, the Foundation and University should work together to resolve problems with the purpose codes and use these codes to help ensure compliance with donor intent.

Recommendation No. 3:

The University of Colorado Foundation should maintain all transfer requests from the University to provide supporting documentation for monies sent to the University.

University of Colorado Foundation Response:

Agree. Implementation Date: January 2006. As a matter of practice, the Foundation does maintain transfer requests from the University. Three of the 134 transfers requested for review over a four-year time frame could not be located. The Foundation will develop a record retention and destruction policy as noted in the response to Recommendation No. 1. The long-term plan is to implement a document management system that will electronically capture and store these requests.

Recommendation No. 4:

The University of Colorado Foundation and the University of Colorado should strengthen controls over transfers of gift funds from the Foundation to the University by establishing a direct relationship between all Foundation gift funds and all University gift accounts and their respective purposes. This information should be updated periodically in both entities' systems to ensure consistency as new funds and accounts are created.

University of Colorado Foundation Response:

Agree. Implementation Date: February 2006. The Foundation and the University are currently working on program modifications to establish a direct relationship between all Foundation gift funds and all University gift accounts to include the respective donor purpose. A process will be established to update this information on a weekly basis.

University of Colorado Response:

Agree. Implementation Date: February 2006. The University, in collaboration with the Foundation, has begun work to design a process that provides a direct relationship between the University and Foundation gift accounts. The process is expected to include a routine schedule to update the information in both entities' systems.

Recommendation No. 5:

The University of Colorado Foundation and the University of Colorado should make immediate improvements in the process of transferring gift monies from the Foundation to the University until the direct relationship recommended above is established by:

a. Providing instructions to University departments on completing transfer request forms to describe how the purpose of the request is consistent with the restrictions on the Foundation gift fund from which monies are requested.

b. Reaching an agreement on the review of the purpose codes during the transfer process and ensuring exceptions identified during the transfer process are resolved timely and prior to the University's use of monies.

University of Colorado Foundation Response:

Agree. Implementation Date: November 2005.

a. Working closely with the University, the Foundation will develop written instructions for University staff describing how to complete the gift transfer request form, emphasizing that the purpose of the request must be clearly documented and consistent with the donor intent or restrictions specified in the gift fund.

b. The Foundation will work closely with the University to reach an agreement on the review process of purpose codes and to resolve in a timely manner purpose code exceptions identified in the transfer process.

University of Colorado Response:

Agree. Implementation Date: November 2005. The University, in collaboration with the Foundation, will make immediate improvements to the gift transfer process by adopting university written procedures that specify how:

a. Departmental gift managers are expected to complete the fund transfer request form to demonstrate compliance with donor restrictions; and

b. Campus controllers are expected to timely review and resolve purpose code exceptions identified in the transfer process.

Recommendation No. 6:

The University of Colorado Foundation and the University of Colorado should make permanent improvements in the process of transferring gift monies from the Foundation to the University by:

a. Providing periodic training to staff on the processing of gift fund transfers, including joint sessions.

b. Improving the use of purpose codes as a control over donor monies by ensuring the codes are consistent between the University and the Foundation.

University of Colorado Foundation Response:

Agree. Implementation Date: February 2006.

a. The Foundation and the University will collaboratively develop a training program for University staff on requesting and processing gift transfers.

b. The Foundation will work closely with the University to establish an enhanced coding system (see Recommendation No. 4) to ensure there is consistency and clarity of donor purpose between the Foundation and the University.

University of Colorado Response

Agree. Implementation Date: February 2006. The University, in collaboration with the Foundation, will make permanent improvements to the gift management process by establishing (as part of Recommendation No. 4):

a. A training program for University staff responsible for gift transfers and spending which highlights the control processes and departmental roles and responsibilities; and

b. An enhanced coding system to provide consistency between the University and Foundation, and adequate and understandable definitions related to donor restrictions.

Expenditure of Gift Monies

After the Foundation records a cash contribution into the proper gift fund and distributes monies to the University in a manner consistent with the purpose of the contribution, the final step is to ensure the monies are actually spent in accordance with the donor's restrictions.

The University has policies that assign fiscal responsibility to departmental staff at all levels, including departmental administrators, department chairs, deans, and vice chancellors. These individuals are responsible for ensuring that only allowable costs are incurred, including those that are allowed under the restrictions placed by a donor on gift monies.

Generally, University departments do not request transfers from the Foundation for each expenditure they make using gift monies. In other words, there is not a one-to-one relationship between a request for gift monies and an expenditure of gift monies. Therefore, to assess whether gifts are spent in accordance with donor intent once they are transferred to the University, we reviewed a sample of 51 University expenditures of gift monies in Fiscal Year 2004 totaling about $139,000, traced them to the University gift accounts from which they were expended, and then traced transfers into those University gift accounts to the Foundation gift funds where the monies originated. We found problems with seven of the 51 expenditures we tested (14 percent), including:

- For four expenditures we reviewed totaling about $2,800, we could not determine whether the monies were used according to donor restrictions, because the University commingles monies from various sources and with various purposes within its gift accounts. The first expenditure was for meals for residents in the orthodontics program paid using monies from an account that contained donations made (1) to support the dental school, (2) to support building and equipment costs for the dental school, and (3) to establish an orthodontics residency program. The second expenditure was for a dinner for graduate students paid using monies from an account that contained donations made (1) for undergraduate scholarships, (2) to support undergraduate students participating in research in the Psychology Department, and (3) for general discretionary use by faculty. The third expenditure was for a scholarship or award paid for using monies from an account that contained (1) donations made to establish a chair in environmental and community development policy and (2) proceeds from a special event to generally raise money for a University campus. The fourth expenditure was for a departmental Holiday party paid using monies from a gift account that contained donations (1) for discretionary use by the department, and (2) to support departmental professorships and research.

- For two expenditures we reviewed totaling about $240, we could not determine whether the monies were used according to donor restrictions because of poor documentation of the use of the monies. The first expenditure was for office supplies paid using monies donated for research. We could not determine if the supplies were specifically for research or for general program use. The second expenditure was for alcohol paid using monies donated for operating expenses of a University program. The University had no documentation describing the event for which the alcohol was purchased and showing that it related to program operations.

- For one expenditure we reviewed totaling about $90, the expenditure did not appear to be consistent with donor restrictions on the monies used. The expenditure was to purchase wine for faculty recruitment receptions using monies donated to pay for expenses and supplies for biological research.

We identified three conditions that create a risk that University gift expenditures will not meet donor intent. First, as noted above, the University commingles monies from various sources in its gift accounts, such as donations from different sources and with different purposes. As a result, the University cannot always ensure that a given purchase meets all the restrictions on the monies used. If the University established an individual account associated with each Foundation gift fund, as discussed in the previous section, the University could eliminate the commingling of gift monies.

Second, the University and the Foundation do not provide the gift fund managers clear guidance regarding their responsibilities for complying with donor intent. Each Foundation gift fund is assigned a fund manager (often a chair, dean, or chancellor from the University) who is authorized to approve both transfer requests to obtain gift monies and expenditures of those monies. In other words, the University has delegated responsibility for proper spending of gift monies to the individual departments and programs, which approve expenditures of gift monies. Personnel at the department and program level are expected to ensure expenditures comply with donor restrictions. Although the University has various written policies and procedures regarding fiscal management and control, the policies and procedures are not specific regarding how gift fund managers should document the use of gift monies according to donor restrictions. In addition, fund managers do not always have adequate documentation that explains the donor restrictions on gift monies for which they are responsible.

Third, neither the University nor the Foundation has processes in place to regularly monitor the use of gift monies after they are expended. In Fiscal Year 2005 the Foundation established an internal audit function that was intended to be responsible for, among other things, auditing gift expenditures at the University to evaluate compliance with donor intent. To date, no such audits have been scheduled or completed. The University's Internal Audit department may review some gift expenditures as part of its risk-based departmental audits, but it does not conduct audits for the specific purpose of evaluating whether gift monies have been spent according to donor intent.

Overall, we found weaknesses in the University's and Foundation's processes for ensuring donor intent, creating a risk that gift monies are spent for purposes other than those intended by the donors. Both the University and the Foundation have a fiduciary duty to honor donor wishes and are responsible for establishing clear, comprehensive policies, processes, and training to ensure that gift monies are handled appropriately. As the recipient of the gifts, the Foundation has a responsibility to donors to record the gifts in the correct funds and transfer monies to the appropriate University accounts. Once the Foundation transfers gift monies to the University, they become the property of the University Board of Regents. As such, the University has a responsibility to ensure the monies are spent in accordance with the intent of the donors. The University and the Foundation need to have adequate controls in place to give donors assurance that their gifts are being used as intended. To protect their donor base, the University and the Foundation should work together to improve policies and processes to ensure donor intent is met whenever gift monies are expended.

Recommendation No. 7:

The University of Colorado Foundation and the University of Colorado should work together to implement and strengthen controls to ensure that gift monies are spent in accordance with donor restrictions. This should include:

a. Providing each fund manager with adequate documentation specifying the restrictions on the accounts for which they are responsible including, where appropriate, written fund agreements.

b. Establishing plans for both Foundation and University internal auditors to conduct specific audits of gift expenditures for compliance with donor intent and addressing concerns noted during the audits in a timely manner.

University of Colorado Foundation Response:

Agree.

a. Implementation Date: February 2006. Working together with the University, the Foundation will enhance the donor restriction documentation provided to each fund manager by establishing a direct relationship between all Foundation gift funds and all University gift accounts as noted in Recommendation No. 4. Imaging of gift agreements can also enhance the timeliness and adequacy of documentation that fund mangers need to understand donor intent.

b. Implementation Date: November 2005. In September 2004 the Foundation created an Internal Audit position to evaluate risk, review compliance with established policies and procedures, and provide recommendations to enhance internal controls within the Foundation. The Foundation will establish written plans for this function to conduct periodic audits (at least annually) of gift expenditures for compliance with donor intent. Additional audit plans will be developed to follow-up on the effectiveness of responses from this performance audit (within six months of implementation dates). All findings will be reported to the Foundation's Audit Committee.

University of Colorado Response:

Agree. The University, in collaboration with the Foundation, has begun work to strengthen its controls.

a. Implementation Date: February 2006. The University will provide enhanced information to departmental gift managers related to donor restrictions through the direct relationship process (discussed in Recommendation No. 4), and, where appropriate, imaged documentation such as gift agreement excerpts.

b. Implementation Date: November 2005. The University will modify its internal audit plan and programs in the following ways: (i) adding an audit of the effectiveness of the implementation of the solutions to the recommendations in this audit report within six months of their implementation dates, (ii) ensuring that its current audit programs, such as departmental audits and procurement card audits, test donor restriction compliance when gift monies are identified as the funding source, and (iii) adding a separate audit on gift compliance to its annual audit plan risk evaluation.

Recommendation No. 8:

The University of Colorado should strengthen controls to ensure the gift monies that it receives are spent in accordance with donor restrictions by:

a. Discontinuing the practice of commingling gift monies with various purpose restrictions within a single gift account.

b. Developing written policies and procedures for University fund managers related to managing the gift monies the University receives.

University of Colorado Response:

Agree. Implementation Date: February 2006. The University of Colorado will strengthen controls over gift monies by:

a. Implementing the direct relationship process and enhanced coding system (discussed in Recommendation Nos. 4 and 6) which is intended to prevent the commingling gift monies with various purpose restrictions within a single gift account; and

b. Developing written procedures setting forth the control processes and departmental roles and responsibilities for gift management.

Gifts In Kind

As noted earlier, the Foundation receives gifts of property on behalf of the University. We reviewed the Foundation's policies and procedures governing the treatment of these non-cash gifts, or gifts in kind. The Foundation's Gift Acceptance Policy states that "the Foundation Board of Directors is responsible for accepting or declining all gifts to the Foundation." The Board has delegated the authority to accept gifts, including gifts in kind, to either a Gift Acceptance Committee or Foundation staff, depending on the type of gift. According to the Gift Acceptance Policy:

- All gifts considered to be of significant or moderate risk must be approved by the Gift Acceptance Committee. Such gifts include non-publicly traded securities, personal property with a fair market value of $100,000 or more (such as works of art, vehicles, and computer hardware and software), and gifts that have the potential to adversely reflect on the Foundation or the University or would require undue expenditures, such as maintenance costs.

- All other gifts are to be considered low risk and may be accepted by Foundation staff on behalf of the Board. For example, cash donations not accompanied by unusual restrictions would be considered low risk.

In addition to the formal policy, the Foundation has written gift acceptance procedures with stipulations to guide staff in receiving and recording gifts, including the following:

- Generally, nonmonetary gifts with a fair market value exceeding $5,000 will be recorded at the values placed on them by qualified independent appraisers.

- For gifts of equipment donated by the manufacturer, the Foundation will record the gift at the fair market value documented by the manufacturer's financial office at the time of the donation or at "blue book" value.

- Prior to the acceptance of a gift in kind, the appropriate Foundation unit or University program must submit to the Foundation a written recommendation as to the usefulness of the gift to the University or Foundation.

According to Foundation staff, the Gift Acceptance Policy and the associated procedures were officially approved by the Board of Directors in January 2004. However, staff also stated that the policy requirements and procedures had been followed for several years prior to their formal adoption in 2004.

We reviewed a sample of 53 gifts in kind received by the Foundation from July 1, 2001 through March 31, 2005. The gifts we tested totaled about $21.1 million. We found that half the gifts in kind in our sample did not comply with the Foundation's policies and procedures for accepting gifts, as follows (some gifts had several compliance problems and are reflected in more than one section below).

Lack of evidence of approval to accept gifts. For all 25 of the gifts in kind we tested that were individually valued at $100,000 or more (47 percent of the total sample), with a combined value of about $20.6 million, there was no evidence that either the Board (prior to January 2004) or the Gift Acceptance Committee (since January 2004) had approved acceptance of the gifts. Our sample included the largest gifts in kind the Foundation received in each fiscal year reviewed, representing over 86 percent of the total gifts in kind accepted during the period. Our sample included gifts of computer equipment, scientific equipment, and an aircraft.

Lack of support for valuation of gifts. For 15 of the 53 gifts in kind tested (28 percent) totaling about $8.9 million, the Foundation did not have documentation to adequately support the valuation of the donation. Specifically:

- For nine of the gifts we reviewed totaling about $5.8 million, the valuation was not supported by documentation from the donor or other verifiable source, such as an independent appraiser.

- For four of the gifts we reviewed totaling about $1.3 million, the Foundation overstated the value of the gifts by about $176,400 in total when recording them. For two of the gifts, the Foundation could not explain why they were recorded at higher values than indicated on the documentation provided by the donors. For the other two gifts, there were mathematical errors in calculating the values.

- For one of the gifts we reviewed with a value of just over $1 million, there was no documentation explaining the valuation method for the donated item, and the valuation was not reduced to account for an agreement allowing the donor use of the gift for 14 days each year. Since the donor agreement was silent regarding who was required to cover the cost of the donor's use, the University must cover the costs. We estimate the value of the donor use of the gift to be about $39,200 per year, or about $52,300 from the date of the donation in March 2004 through June 2005.

- For one of the gifts we reviewed with a value of $830,000, the Foundation received three separate appraisals valuing the donated item, but none of the appraisals described their valuation methods. The Foundation determined the value of the gift by averaging two appraisals, which were completed in November 1999 and February 2002, or more than two years apart.

Lack of evaluation of the costs to maintain gifts. For 2 of the 53 gifts in kind we tested (4 percent) totaling about $1.8 million, there was no documentation indicating that the Foundation had considered the costs of maintaining the donated items.

- One item was a Learjet originally recorded by the Foundation in 2002 at $830,000 and written down to $100,000 in 2004, about two years after the original donation. About five months after the write-down, the Foundation sold the aircraft for the written-down value. In meetings of the Foundation's Board of Directors, Executive Committee, and Audit Committee subsequent to receiving the gift, one Board member requested a summary of the aircraft's operating expenses. We found no evidence that a summary was provided.

- One item was a piece of scientific equipment recorded by the Foundation in 2004 at just over $1 million. The signed memorandum of agreement between the donor and the Foundation for the gift specified that the item was donated in "as-is" condition and that the University was responsible for all costs related to acquisition, operation, and maintenance of the equipment. The Foundation had no documentation indicating that these costs had been evaluated.

Lack of documentation supporting the usefulness of gifts. For 13 of the 53 gifts in kind tested (25 percent) totaling about $16.5 million, the Foundation did not have documentation from the University regarding the usefulness of the donated item. According to Foundation staff, the majority of gifts in kind are sent to the University for use by a particular college or program. Documenting the need for the gift before it is accepted is important to ensure the Foundation only accepts gifts that are useful to the University. We selected five of the largest gifts in kind for the period reviewed and confirmed with the University that it had received and was currently using the items.

Gift Acceptance Policy

One reason for the issues we found is that the Foundation's Gift Acceptance Policy and procedures do not clearly stipulate the documentation that staff should generate, obtain, and/or maintain when accepting a gift in kind. For example, the policy and procedures do not require staff to document that costs of maintaining donated equipment were estimated and considered or that the University had confirmed a need for the gift before it was accepted. The policy and procedures also do not describe how the Gift Acceptance Committee should document its decisions to accept or deny gifts.

Additionally, we found no evidence that the Gift Acceptance Policy had been approved by the Foundation's Board of Directors, and in fact, the March and May 2004 meeting minutes of the Board's Audit Committee indicate that the Gift Acceptance Policy was not formally adopted as of those dates. In addition, Foundation staff and Board members confirmed that as of July 2005, no Board members had been assigned to the Gift Acceptance Committee and the Committee had not been operating as intended under Foundation policy.

The Foundation and the University are in the process of transferring the responsibility for accepting certain gifts in kind to the University. The two organizations have an unwritten agreement that the University will take a much larger role in accepting gifts in kind beginning in Fiscal Year 2006. The University has not yet finalized a policy or procedures for accepting gifts in kind. The University and the Foundation both need to formally adopt gift in kind acceptance policies that address the concerns expressed here. Once adopted, both the University and the Foundation should train personnel to help ensure they carry out the policies properly.

Recommendation No. 9:

The University of Colorado Foundation and the University of Colorado should work together to develop written policies for accepting gifts in kind. The policies should address authority to approve gifts in kind, acceptable valuation procedures, evaluation of maintenance costs, and documentation of the need for each gift.

University of Colorado Foundation Response:

Agree. Implementation Date: October 2005. On October 3, 2005 the Foundation Board of Directors reviewed and approved updates to its Gift Acceptance Policy. This revised policy clarifies that gifts in kind proffered for use and benefit of the University shall be handled directly by the University according to its Administrative Policy Statement "Gift In Kind Transactions." The revised Foundation Gift Acceptance Policy also clarifies procedures necessary to accept gifts in kind proffered to the Foundation for its own benefit. These procedures address authority to approve and accept gifts in kind, acceptable valuation procedures, consideration and evaluation of maintenance costs, and documentation of the need for each gift.

University of Colorado Response:

Agree. Implementation Date: November 2005. The University will assume responsibility for gifts in kind intended for use by the University. The University will have approving policies and procedures which will govern the process. The policies will identify acceptance authority, valuation procedures, cost evaluation, and business use evaluation.

Recommendation No. 10:

The University of Colorado Foundation should strengthen its Gift Acceptance Policy and procedures by:

a. Clarifying the tenure and operations of the Gift Acceptance Committee. Specifically, the policy should state the process by which the Committee will document its decisions about accepting or denying gifts and report its decisions to the Board of Directors on a periodic basis.

b. Requiring that staff collect and maintain documentation of the technique used to value each gift, the usefulness of the gift to the University, the analysis of any ongoing costs the University or Foundation may incur by accepting the gift, and the calculation of any consideration to be given to the donor.

University of Colorado Foundation Response:

Agree. Implementation Date: October 2005.

a. The Gift Acceptance Committee has adopted administrative procedures governing its actions, including: voting, minutes of meetings, retention of committee documents, and reporting to the Board of Directors. In addition, the Board of Directors has approved a revised "Gift Acceptance Policy" which clarifies the membership of the Committee to include the Vice-Chair of the Board and the Chair of the Board's Development Committee. Additional Board members may be appointed to the Committee at the discretion of the Board Chair. Staff members on the Committee shall include the chief development officer, chief financial officer/treasurer, chief development services officer, general counsel, and chief planned giving officer, who shall serve as Secretary to the Committee.

b. Documentation regarding specific gifts proffered for acceptance, including analysis of usefulness and/or anticipated costs associated with the gift, will become part of the Committee's minutes. It should be noted that the University's new role and responsibility with respect to the direct acceptance of gifts in kind (as noted in the Foundation's response to Recommendation No. 9 above) will virtually eliminate the Committee's involvement in the review/acceptance of such gifts, except in special circumstances where a particular gift in kind is being proffered to the Foundation for its own benefit.

Recording Nonmonetary Gifts

In addition to the concerns noted above, we identified issues with the Foundation's recording of two large gifts totaling about $6.58 million. The first gift was a large pledge made to the Foundation in October 1999 when a property owner promised to give the Foundation the land and building in which the Foundation currently conducts its main operations. At the same time, the Foundation entered into a 15-year lease with the property owner for the same land and building, ending one month before the date the pledge is to be fulfilled. We identified two errors in the Foundation's recording of these transactions, as follows:

- The Foundation recorded a contribution receivable and contribution revenue for $5.75 million related to this pledge, which reflects the fair value of the land and building. However, over the 15-year term of the lease, the Foundation will pay about $9.9 million, or about $4.1 million more than the fair value of the property (including implied interest). There is no real gift component to the agreement.

- The Foundation recorded both the land and building portions of the lease together and is amortizing both over the useful life of the lease. Since the donor pledged to give the Foundation title after the end of the lease term, FASB Statement No. 13 indicates the Foundation should have recorded the land and the building separately and only amortized the building, not the land.

As a result of the first error in recording the lease transaction, in Fiscal Year 2000 the Foundation overstated its assets and revenues by about $5.75 million (by recording a contribution and related revenue for $5.75 million). As a result of the second error, related to amortization costs, the Foundation is charging excess amortization against the property and overstating these expenses. We did not calculate the impact of this error.

The second gift was the Learjet aircraft discussed earlier in the chapter, which was received and recorded by the Foundation in Fiscal Years 2002 and 2003 as a result of three separate contributions of stock in the company that owned the plane. The first two gifts of stock were originally recorded as gifts in kind but later reversed and recorded as regular cash contributions; the third gift of stock was originally recorded as a cash contribution. According to Foundation staff, donations of publicly traded stock are recorded as regular cash contributions rather than gifts in kind because they are immediately liquidated. However, since the donated stock for the Learjet company was a privately held security and was not liquidated, all three gifts should have been recorded as gifts in kind. Although there is no impact on the Foundation's Fiscal Year 2005 financial statements as a result of this error, the supplemental disclosure of gifts in kind on the Statements of Cash Flows were understated in Fiscal Years 2002 and 2003.

Recommendation No. 11:

The University of Colorado Foundation should adjust its financial records to correct the recording of gifts by removing the $5.75 million pledge receivable recorded in 1999 related to the leased property. In addition, the Foundation should reclassify the related property into land and building portions and adjust its financial records to reflect amortization only on the building portion, in accordance with FASB

Statement No. 13. The Foundation should also ensure that it follows its policy with respect to recording gifts of privately held securities as gifts in kind.

University of Colorado Foundation Response:

Agree. Implementation Date: October 2005. The Foundation has restated its 2004 financial statements to properly account for the capital lease and the conditional promise to give. This restatement is reflected in the Foundation's audited consolidated financial statements of June 30, 2005 and 2004.

Administration

Chapter 2

Background

The University of Colorado Foundation (Foundation) is organized into several departments including development, stewardship and donor relations, finance and accounting, legal, human resources, and data and technology management. As discussed in the Overview, the Boulder Alumni Association (Alumni Association) is a division of the Foundation and is included in the Foundation's annual financial statements. At Fiscal Year-End 2005 the Foundation employed 138 full- and part-time staff carrying out a variety of development and administrative duties such as:

- Soliciting donations through donor visits, mail and phone campaigns, and special events.
- Accepting and processing gifts.
- Accounting and administration.
- Maintaining a database of University of Colorado alumni and donors.
- Managing endowments and other investments.
- Working with the University to coordinate special events on behalf of University departments and alumni.
- Supporting the University with special projects such as the Faculty Housing program and the Bear Creek I student housing facility.

The Foundation's operating costs averaged about $22.1 million annually from Fiscal Year 2003 through 2005. The table below shows a breakdown of the Foundation's operating expenses for this period.

University of Colorado Foundation
Operating Expenses[1]
Fiscal Years 2003 Through 2005

Expense Category	2003	2004	2005
Salaries & Other Personnel Expenses[2]	$14,204,300	$11,194,800	$11,056,100
Professional Services[3]	1,556,600	2,684,800	$3,209,500
Facilities & Equipment[4]	2,357,900	2,418,100	$2,410,400
Office Supplies & Administration[5]	2,144,800	1,712,300	$2,067,300
Donor Cultivation Meals, Tickets, & Events[6]	1,519,000	1,313,700	$1,524,000
Other Expenses[7]	1,011,600	1,122,900	$1,225,300
Employee Travel[8]	658,900	451,500	$539,000
TOTAL	**$23,453,100**	**$20,898,100**	**$22,031,600**

Source: University of Colorado Foundation General Ledger.
1 Includes Boulder Alumni Association. Expenses related to the Foundation Boards of Directors and Trustees are included within the categories listed.
2 Includes salaries, incentives, temporary labor costs, payroll taxes, and life/health insurance costs.
3 Includes consulting, auditing, and legal expenses.
4 Includes rent, utilities, insurance, maintenance, office equipment, furniture, and depreciation.
5 Includes office supplies, staff training, memberships, licenses, subscriptions, telecommunication services, advertising, and meals and meeting costs that involve only Foundation employees.
6 Includes donor-related food, beverages, entertainment, tickets, facilities rentals, awards, and gifts.
7 Includes bank, credit card, and trust management fees; interest expenses; transfers between funds and net asset classes; prior year corrections; and other miscellaneous expenses.
8 Includes airfare, lodging, meals, car rental, mileage reimbursements, other transportation, parking, tips, and toll fees.

Our audit reviewed the Foundation's policies and procedures and related internal controls over expenses such as travel and related costs, donor cultivation, meetings, meals, and club and membership dues. The Foundation incurs other expenses that were not included in the scope of our audit such as for staff compensation, building and equipment rental and utilities, information technology services, and professional services. In the areas we reviewed, our audit identified a significant lack of controls as well as deficiencies in Foundation policies and procedures that have led to unallowable and questionable expenses.

Operating Expenses

The Foundation pays operating costs through direct payments to vendors, credit card charges, and reimbursements to employees. The Foundation is liable for 20 general-use credit cards with a total combined credit limit of $340,000 and maximum individual card limits ranging from $1,000 to $50,000. With respect to reimbursements, the Foundation's policies allow employees to be reimbursed for business-related expenses and are consistent with Internal Revenue Service guidelines in terms of requirements for supporting documentation. Foundation policies prohibit reimbursement for certain types of purchases, as discussed later in this section, but do not prohibit any type of credit card purchases.

In Fiscal Year 2005 the Foundation reimbursed its staff a total of about $390,100 and used Foundation credit cards to pay about $603,200 in expenses. We reviewed policies and procedures and examined samples of actual expenses to determine whether the Foundation reimbursements and credit card charges were appropriate and limited to business-related expenses. We found problems with controls over both employee reimbursements and credit card purchases, as discussed in this section. Overall, the Foundation's written policies and internal controls are not sufficient to ensure that reimbursements or credit card purchases are consistent with Foundation policies.

An organization's upper management is responsible for establishing a commitment to standards of professional conduct, including compliance with policies and procedures. To test employee reimbursements, we selected a sample of five Foundation staff from those with the highest amount of reimbursements from July 1, 2003, through March 31, 2005 (21 months). The five staff selected were all upper-level managers. We reviewed a total of 40 reimbursement vouchers paid to these employees, which included 669 separate purchases totaling about $50,900, or about 51 percent of the total dollar amount reimbursed to the five staff during the period of review. To test credit card purchases, we selected a sample of 13 credit card bills from July 1, 2001, through March 31, 2005, with total charges of more than $112,200 and containing 418 transactions. In total, our sample of reimbursements and credit cards included 1,087 purchases with a value of about $163,100.

Our review of employee reimbursements and credit card charges revealed unacceptable levels of policy violations. Overall, in 490 of the 1,087 reimbursed purchases and credit card transactions (45 percent), we found policy violations, errors, and/or lack of supporting documentation. We found that Foundation management commonly received reimbursements for purchases that were not supported by documentation sufficient to determine whether the expense was legitimate. Similarly, we found the Foundation paid for credit card charges for which there was inadequate documentation to ensure the expenses were appropriate and business-related. The errors we detected indicate a disregard for ensuring that limited funds are used appropriately and in accordance with the Foundation's mission to support the University. We found significant weaknesses in the policies themselves and in the Foundation's enforcement of policies, as described below.

Ineffective Review Process. The Foundation has a written policy for approving employee reimbursements and credit card purchases. The reimbursement policy requires supervisory and accounting approval for expenses incurred by all staff. The Foundation's practice is for employees to obtain a supervisor's approval when submitting a payment voucher for credit card purchases as well. By policy, a Foundation officer and the employee's supervisor must sign payment vouchers for both reimbursements and credit cards bills totaling $2,500 or more before the payment is made.

We found a large number of reimbursements and credit card payment requests that were not properly approved. Specifically:

- 7 of the 13 credit card payment vouchers we reviewed containing transactions totaling about $60,800 were approved by the employee who originated the voucher. This is a lack of segregation of duties and creates a risk that inappropriate expenses could go undetected.

- 31 of the 40 reimbursement vouchers we examined totaling about $37,500 were reviewed and approved by peers or other non-supervisors of the payee (e.g., other Senior Vice Presidents), rather than by the President. The Foundation President is required by policy to approve the reimbursements of the staff in our sample.

- 8 of the 40 reimbursement vouchers we examined totaling about $13,100 were approved by a subordinate, rather than by a supervisor of the employee requesting the reimbursement.

- 1 of the 40 reimbursement vouchers we examined for about $170 lacked any type of approval, and 3 credit card payment vouchers we examined that exceeded $2,500 each and totaling about $23,700 also lacked approval.

In December 2003 the Foundation implemented a computer-based reimbursement system that requires an electronic signature from an employee's supervisor before a reimbursement can be paid. While this system is intended to increase controls over reimbursements, we identified a number of weaknesses that impair its effectiveness. First, the system is not used for reimbursements to Alumni Association staff, who received a total of about $50,700 in reimbursements in Fiscal Year 2005, representing 13 percent of the $390,100 reimbursed to all staff. Second, the system does not require the President to approve senior managers' expenses. Finally, approving supervisors do not receive the receipts supporting the reimbursement requests, so they cannot evaluate whether purchases are allowable under Foundation policies. Instead, an accounts payable clerk is responsible for reviewing receipts for policy compliance, such as the prohibition against alcohol purchases. In effect, this means that a subordinate is responsible for identifying and enforcing policy violations of higher-level staff, which is not an effective control mechanism.

Lack of Enforcement of Documentation Requirements. The Foundation's policies are intended to be consistent with Internal Revenue Service (IRS) guidelines that require documentary evidence confirming the amount, date, place, and essential character of a business expense and the number of people served at meals. Specifically, until October 2004, Foundation policy required staff to submit receipts for all purchases included on a reimbursement or credit card payment voucher except those that do not typically generate a receipt, such as tolls and tips. Since October 2004, the Foundation has only required receipts for purchases over $25. The policy also requires staff to provide a written explanation of the business purpose of each expense and a list of all participants for meal and entertainment expenses. We found that the Foundation does not enforce these requirements, as illustrated by the following violations:

- **No receipts of any kind.** Out of our sample of 1,087 reimbursements and credit card purchases totaling $163,100, we found that there were 822 purchases totaling about $160,200 that should have been supported by receipts under the Foundation's policy (the remaining expenses were for items that would not generate a receipt or for which receipts were not required). Of these 822 purchases, we found that 159 purchases with a value of more than $28,000 did not have a receipt as required. This included reimbursement to one employee of about $1,200 for expenses related to a donor cultivation trip without receipts or other proof of payment, such as a cancelled check or credit card bill.

- **No written explanation of business purpose.** For 145 reimbursed purchases and credit card transactions in our sample totaling about $29,400, the Foundation's documentation did not contain any written explanation of the business purpose. These purchases included questionable items such as meals, lodging, and airfare for employee spouses.

- **No lists of participants for meals and meetings.** Our sample contained 305 reimbursed expenses and credit card charges for more than $53,300 that related to meals and entertainment. For 172 of these, totaling about $39,600, documentation did not include lists of the participants as required by Foundation policy.

Lack of Itemized Receipts. We found that staff did not submit itemized receipts for expenses, although such receipts were needed to determine compliance with Foundation policies. Prior to October 2004, Foundation policy prohibited reimbursement of personal expenses such as casual meals, birthday gifts, and nonbusiness travel, and limited the amount of alcohol staff could purchase with meals to 50 percent of the total bill. In October 2004 the Foundation expanded the list of nonreimbursable expenses to include hotel laundry charges if traveling fewer than five days, luxury and premium rental cars, personal entertainment expenses, and all alcohol purchases. We reviewed the supporting documentation for all reimbursements to the five staff in our sample to evaluate whether staff were complying with these policies. We found that staff had not provided itemized receipts for about one-third of the purchases we reviewed, representing almost one-quarter of the dollar amount of reimbursed expenses we examined. In particular, 57 percent of all meal purchases were not supported by an itemized receipt. As a result, we could not identify whether employees complied with the Foundation's policy limiting the purchase of alcohol. For the 219 credit card purchases in our sample that required an itemized receipt, we found 139 transactions (39 percent), totaling about $42,400, that were not supported by an itemized receipt. Without itemized receipts, it is not possible to determine if staff have purchased prohibited items.

In October 2004 the Foundation changed its policy to require itemized receipts to support reimbursements for purchases over $25 that employees make on their personal credit cards but not for purchases made with cash or checks. The Foundation should require itemized receipts for purchases over $25 regardless of the payment method, and review receipts to enforce compliance with its policies.

Lack of Evidence of Prior Approvals. According to its policies, the Foundation will only pay for first class airfare, nonemployee travel-related costs, and premium car rentals (vehicles above the compact or mid-size categories but below the luxury category) if prior approval is obtained from the employee's supervisor. In our sample, we identified several violations of the preapproval requirement, as follows:

- A $2,500 credit card charge for an overseas trip made by a Foundation employee's spouse and 25 meal and hotel reimbursements totaling about $1,700 that contained evidence of nonemployees traveling with employees. We found no evidence of prior approval or a business purpose for the non-employees' travel. The reimbursements included two instances when the Foundation reimbursed about $1,200 in restaurant, room service, and other in-room service charges for two room occupants.

- Four rentals of premium cars at an average cost of more than $100 per day with no evidence of prior approval from the Foundation President.

- Six upgrades to first-class airline tickets for which there was no evidence of prior approval. We could not determine the additional cost incurred for these higher-cost tickets.

The Foundation should enforce its policy requiring prior approval by the Foundation President for all first-class airfare and nonemployee travel expenses to ensure costs are appropriate. Further, as a steward of public funds, the Foundation should consider prohibiting first-class and nonemployee travel.

In January 2004 the Foundation began requiring all staff to arrange flights through a travel coordinator in order to control high-dollar airline ticket purchases. An employee's supervisor is required to preapprove the purchase, which is then charged on one of the Foundation's credit cards. Our sample of five Foundation credit card bills after January 2004 contained 33 airfare purchases made by the travel coordinator, but the Foundation could provide documentation of supervisor pre-approval for only 21 of these purchases (64 percent). In addition, seven airline tickets in our sample totaling about $4,500 were not purchased through the travel coordinator.

As noted on page 45, we found at least one policy violation (e.g., lack of required documentation, lack of proper approvals) for about 45 percent of the transactions we reviewed. Due to the lack of itemized receipts, particularly in the area of meals, we were not able to determine the total number or amount of unallowed reimbursements or credit card charges in our sample. Without itemized receipts, there is a risk that the Foundation is paying for unallowed expenses. This risk is elevated because the Foundation has not established any consequences for staff who violate policies, such as holding an employee personally liable for unallowed expenses or recording repeated violations in personnel records. This is a concern particularly for credit card charges because the Foundation is liable for all expenses charged to the cards in our sample, and Alumni Association staff, who have card limits ranging from $1,000 to $40,000, can charge significant amounts without prior approval. Of the 418 credit card purchases we reviewed totaling $112,200, there were 61 individual purchases costing $500 or more, for a total of $66,300 in high-dollar purchases with no prior approval.

Overall, the Foundation needs to expand its policies to require appropriate supervisory approvals and itemized receipts for all reimbursable expenses and credit card charges over a specified amount, such as $25. The Foundation should ensure all policies are enforced, such as those requiring complete documentation of business purpose and meal participants, documented supervisory preapprovals when required, and supervisory approvals for all expenses. In addition, the Foundation should hold employees personally liable for expenses that do not comply with policies or preapproval requirements and reflect repeated violations in personnel records and evaluations.

Recommendation No. 12:

The University of Colorado Foundation should strengthen and enforce its policies governing employee expense reimbursements and credit card purchases by:

a. Requiring that staff provide itemized receipts for all purchases over a specified amount, such as $25, as well as a written explanation of the business purpose of the expense and a list of participants for all meal and entertainment expenses.

b. Requiring documented supervisory approval for expenses for all staff, including top management.

c. Holding staff accountable for policy violations by requiring employees to pay for any unallowed expenses.

d. Requiring the President's approval and a written justification for employees to purchase airline tickets directly rather than through the travel coordinator, and considering a prohibition on first-class and nonemployee travel.

University of Colorado Foundation Response:

Agree. Implementation Date: October 2005.

a. The Foundation's Board of Directors approved a revised update to the Travel and Expense Reimbursement Policy in October 2005. The policy is much clearer in its wording to require itemized receipts for all purchases over $25 as well as written explanations of the purpose of the expense and a list of participants for all meal and entertainment expenses.

b. Documented supervisory approval is a requirement in the policy mentioned above. Expense reimbursements for the Chief Executive Officer will be reviewed a least annually by the Audit Committee of the Board. The Foundation controller will provide the CEO a written expense report summary and review of all Foundation officers and executives at the senior vice president level and above on a quarterly basis.

c. In the revised Travel and Expense Reimbursement Policy noted above, staff are clearly accountable for policy violations.

d. The Revised Travel and Expense Reimbursement Policy does not allow staff to purchase airline tickets directly. First class travel is not permitted by the Foundation per this policy. Non-employee travel, when such travel is conducted on behalf of and for the benefit of the Foundation, must be approved in advance by the CEO.

Administrative Cost Savings

In addition to the concerns relating to expense reimbursements and credit card expenses, we identified areas where the Foundation could realize cost savings by improving its spending policies. Currently the Foundation's policies state: "When travel, entertainment, or other business expenses are necessary, it is the goal that all employees incur those expenses at the most reasonable cost . . . ." The policy does not give any further guidance as to "reasonable cost" or set specific limits.

This broad policy language and lack of spending guidelines increases the risk of misuse of funds and the appearance of impropriety in spending. While reviewing expenses incurred by the Foundation between July 1, 2001, and March 31, 2005, we identified several types of expenses that could be reduced by establishing spending limits or developing clearer definitions of allowable costs in the Foundation's policy.

Employee Travel and Entertainment

Foundation staff travel domestically and abroad for a variety of reasons, such as to attend conferences, training seminars, and investment meetings and to cultivate donors. As a nonprofit organization, the Foundation is not subject to State Fiscal Rule limits for travel expenses. Because Foundation policy places no limits on these expenses, employees have little incentive to choose more affordable hotels and restaurants. The Foundation spent about $539,000 on travel in Fiscal Year 2005.

The Foundation could realize cost savings by implementing "not to exceed" limits for lodging and travel-related meal expenses where no donors are present. We found a range on staff-only meals from about $4 to more than $110 per person , and hotels up to $435 per night. The federal government has established a maximum daily allowance for its employees' travel that varies depending on the cost of living in the destination city. These limits were established after extensive review of average hotel and restaurant prices by city, and employee and employer surveys. If the Foundation implemented a limit that fell within the federal allowances, travel costs could be reduced.

We identified a number of specific purchases during our review of Foundation expenses that appeared excessive and could have been reduced if the Foundation had established spending limits, as follows:

- Payment of nearly $1,300 for five Foundation employees for one night's lodging in hotels where Board meetings were held within 35 miles of the employees' homes.

- Payment of about $120 for a limousine to transport a Foundation employee and a Board member between the airport and their hotel, when a taxi service would have charged about $30 for the trip.

- Payment of about $680 for a charter flight from Englewood, Colorado, to Broomfield, Colorado, (25 miles by road) for a University coach. The Foundation had no information regarding the purpose of this trip.

- Payment of $200 to a Foundation employee who submitted ATM withdrawal slips for reimbursement with no receipts or log of expenses. According to the Foundation, the withdrawals were reimbursed to provide the employee with cash for incidental costs for an upcoming trip. However, the employee also itemized incidental expenses on the request for reimbursement submitted at the conclusion of the trip, receiving an additional reimbursement without repaying the $200 in cash.

- Payment for six last-minute airfare purchases, resulting in considerably higher costs than tickets purchased in advance. We were not able to estimate the incremental costs of these tickets.

- Payment of $260 for theater tickets for the spouses of a Foundation employee and a Board member who were traveling on official Foundation business. The Foundation reported that the spouse of the Board member is also a substantial donor. However, according to documentation from the Foundation, the Board member was traveling in his official capacity and the trip was not for purposes of donor cultivation. The Foundation has no policies guiding appropriate expenses for Board members traveling on Foundation business.

The Foundation should strengthen its written policies to prohibit payments for (1) lodging for employees within a specified distance from their homes, (2) luxury travel such as limousine expenses (in addition to the current prohibition on renting luxury cars), and (3) cash withdrawals. In addition, the Foundation should implement a policy requiring two- to three-week advance purchase of airline tickets unless the employee receives prior approval from his or her supervisor. The Foundation should also stipulate in its policies the circumstances under which it will pay nonemployee transportation costs. Finally, the Foundation should develop guidelines for appropriate expenses for Board members traveling in their official capacity for Foundation business.

Foundation Meetings and Meals

Foundation policy allows staff to charge meals with fellow employees and other non-donors as long as the business purpose is fully documented. The policy requires that "business lunches with fellow employees must be limited and the business purpose fully explained . . . all employees should exercise reasonable judgement in the incurrence of these expenses." However, similar to the travel expense policy discussed above, there is no definition of "limited" or "reasonable judgement."

In Fiscal Year 2004 the Foundation spent about $48,800, or about $940 per week, on meetings and meals for employees and business associates that were not related to Board meetings, travel, or donor cultivation. Because Foundation staff work in close proximity to one another, we question the appropriateness of holding frequent meetings outside the office and charging the Foundation for these meals. The Foundation could realize cost savings by limiting the frequency and/or dollar amount it will pay for staff-only meals.

Overall, the Foundation has not established spending limits or clear guidance on what is reasonable for travel, employee meals, lodging, and entertainment expenses. More explicit spending limits, such as maximum daily limits for travel expenses, clarification of appropriate expenses for Board members and other non-staff, and restrictions on staff-only meals would help eliminate ambiguities and improve use of operating funds. Further, the Foundation should consider instituting a pre-approval process on its corporate liability credit cards for high-dollar charges such as meals and entertainment for groups over a certain size, and lodging .

Recommendation No. 13:

The University of Colorado Foundation should improve controls over administrative expenses by:

a. Establishing maximum daily limits for travel costs such as meals and lodging, restricting the use of limousine travel, paying expenses only for travel that has a business purpose, paying lodging expenses only for accommodations beyond a specified distance from the employee's home, and restricting the frequency and cost of staff-only meals.

b. Clarifying the types of expenses that are allowable and may be charged to the Foundation for Board members and non-staff.

c. Requiring preapproval for high-dollar credit card expenses such as lodging in excess of established limits, last-minute air fares, and group meals and entertainment.

University of Colorado Foundation Response:

Agree. Implementation Date: October 2005.

a. Maximum daily limits for travel costs, including meals and lodging have been established. Exceptions can only be made, if done so in advance and in writing, by the CEO or, in the event of CEO travel, by the Chair of the Board.

b. Expenses that are allowable and may be charged to the Foundation for Board members and non-staff are now covered in the Travel and Expense Policy.

c. As addressed in item a. above, any exceptions for reimbursement under the Travel and Expense Policy require pre-approval.

Transparency and Accountability

Chapter 3

Background

In this chapter we discuss our evaluation of the financial relationship between the University and the Foundation. Specifically, this chapter addresses concerns with University expenses paid through the Foundation; the quality and completeness of written contracts between the University and the Foundation; undefined responsibilities and controls for special events; and a lack of policies and controls for loans issued by the Foundation. Overall, the issues in this chapter pose questions regarding accountability and transparency on the part of both the University and the Foundation that need to be immediately addressed.

As explained in the Overview, the Foundation performs a variety of services for the University, such as processing gifts, managing the University's consolidated endowments, and developing donor support. The University pays fees to the Foundation for these services. At the same time, the Foundation provides gift monies to the University. These financial arrangements are described below.

The University compensates the Foundation for its services in a variety of ways. First, under an Agreement for Development Services, the University makes outright payments to the Foundation for some services such as major fund-raising, donor cultivation, and securing faculty housing assistance loans. Second, the University allows the Foundation to charge fees against certain revenues to pay for some fund-raising activities and for management and investment of the University's custodial endowments. These amounts are effectively fees paid by the University because they reduce the amount of monies available to the University for other uses. In addition, the University pays a portion of the salaries and provides office space at no charge for some Foundation staff.

As detailed in the table below, over the past four fiscal years the University has provided an average of about $11.3 million annually to the Foundation, either directly or indirectly, for various services.

University of Colorado Fees, Transfers, and Reimbursements to the Foundation[1]
Fiscal Years 2002 Through 2005
(In Thousands)

	2002	2003	2004	2005	% Change 2002-2005
Development Services Agreement[1]					
System Offices	$2,948	$3,000	$3,000	$2,942	0%
Boulder Campus	$1,765	$1,302	$1,559	$1,609	-9%
Boulder Athletic Department	$1,146	$1,134	$1,239	$1,172	2%
Health Sciences Center	$1,122	$1,189	$754	$766	-32%
Denver Campus	$297	$311	$300	$315	6%
Colorado Springs Campus	$500	$359	$323	$167	-67%
Subtotal Development Services	$7,778	$7,295	$7,175	$6,971	-10%
Program Fees and Transfers					
Boulder Alumni Association	$969	$956	$879	$879	-9%
System Advancement	$831	$752	$600	$700	-16%
Coleman Institute	$177	$160	$165	$158	-11%
College & Program Fees[2]	$0	$0	$106	$124	N/A
Faculty Housing Assistance Program	$100	$100	$100	$100	0%
Parents Fund	$97	$71	$55	$54	-44%
Subtotal Program Fees	$2,174	$2,039	$1,905	$2,015	-7%
Donor Cultivation Fees and Reimbursements[3]					
Annual Giving Program[4]	$0	$0	$1,084	$1,202	N/A
Special Events	$55	$47	$6	$27	-51%
Gift Administration[5]	$1,002	$788	$0	$0	N/A
Subtotal Donor Cultivation Fees & Reimb.	$1,057	$835	$1,090	$1,229	16%
Custodial Investment & Management Fees[6]	$579	$1,021	$1,427	$749	29%
TOTAL	**$11,588**	**$11,190**	**$11,597**	**$10,964**	**-5%**

Source: General Ledger data provided by the University of Colorado Foundation and the University of Colorado.
1 Excludes the value of office facilities the University provides to Foundation staff that is not tracked.
2 The Foundation established separate service agreements with three colleges/programs for which it receives a separate fee–the Leeds School of Business, the College of Arts & Sciences, and the ATLAS Institute.
3 Fees charged by the Foundation against gift revenues.
4 In Fiscal Year 2004 the Foundation began contracting with a firm to conduct the Annual Giving Program and collecting a fee from gift revenues to cover Foundation contract costs.
5 The Foundation eliminated the Gift Administration fee beginning in Fiscal Year 2004.
6 The Foundation charges fees on the endowments it holds for the University. The fees have ranged from a high of 2.2 percent of the value of the endowments in Fiscal Years 2003 and 2004 down to 1 percent in Fiscal Year 2005.

The remainder of this chapter covers the financial and service arrangements between the Foundation and University.

System Advancement Funds

As discussed above, the University provides the Foundation an average of about $11.3 million annually, either directly or indirectly, for various services. A portion of the monies transferred is used to establish a System Advancement account specifically earmarked for use by University officials, primarily for fund-raising and travel expenses incurred by the University President's office. The University has transferred between $600,000 and $831,100 to the Foundation each year between Fiscal Year 2002 and 2005 for this account. During the course of our audit, the University reports that it eliminated the System Advancement account at the Foundation, effective in Fiscal Year 2006.

System Advancement monies were budgeted by the University, transferred to the Foundation, paid out by the Foundation for expenses incurred by the University, then reflected in the Foundation's financial records as revenues and expenses. However, the Foundation believed that it was not accountable for the expenses because they were University-directed expenses. Moving University funds to the Foundation to pay University expenses reduces transparency and accountability.

Lack of Controls Over System Advancement Funds

As the following table shows, the University's System Advancement expenses totaled roughly $2.7 million over the four-year period of Fiscal Year 2002 through 2005.

University of Colorado
System Advancement Expenses Paid by the Foundation
Fiscal Years 2002 Through 2005

	2002	2003	2004	2005	Total
Donor Cultivation[1]	$554,000	$434,300	$443,300	$513,000	$1,944,600
Travel[2]	$46,600	$102,800	$14,700	$15,300	$179,400
Salaries & Personnel Costs[3]	$142,100	$57,100	$0	$0	$199,200
Office Supplies & Administration[4]	$29,800	$19,900	$16,900	$20,900	$87,500
Printing, Copying, & Advertising	$38,500	$21,500	$39,800	$11,700	$111,500
Dues, Fees, & Memberships[5]	$14,300	$6,300	$9,800	$6,700	$37,100
Other[6]	$7,500	$58,100	$17,300	$22,100	$105,000
TOTAL	**$832,800**	**$700,000**	**$541,800**	**$589,700**	**$2,664,300**

Source: University of Colorado Foundation General Ledger.
1 Includes donor-related food, beverages, entertainment, facilities/equipment rentals, awards, and gifts.
2 Includes airfare, meals, lodging, car rental, mileage reimbursement, parking, tips, taxis, tolls, trains, and miscellaneous expenses during travel.
3 Includes salaries and wages, employment tax, and benefits. In Fiscal Year 2004, the University ceased using System Advancement funds for personnel costs.
4 Includes office supplies, professional development, licenses, subscriptions, telecommunication services, photography, postage, parking permits, and meeting costs.
5 Includes dues, professional association fees and memberships, and social club dues.
6 Includes contracted services, consulting fees, rent, maintenance, storage, transfers between funds and net asset classes, and miscellaneous expenses.

University policy states: "**For all expenditures [paid with University funds], if more than one policy applies, the more restrictive policy is to be followed.**" [Emphasis added.] University funds are all monies received by the University regardless of their source. However, we found that the University followed neither its own policies nor State Fiscal Rules for System Advancement expenses. In addition, Foundation policies were not followed for these expenses. We found many System Advancement expenses that violated University policies and State Fiscal Rules. The general lack of controls over these funds contributed to the lack of accountability for their use.

In addition, although the Foundation's financial records for Fiscal Years 2004 and 2005 indicate that the University spent close to half a million dollars a year of System Advancement monies for "donor cultivation," there was no review of the purpose, impact, or outcomes of the spending. For the two year period we noted $3,600 spent for limousines, about $94,000 for flowers and gifts, about $15,200 for alcohol, and about $606,600 for food and catering, among other expenses. There was no evidence that the expenses were evaluated to determine if they actually increased the donor base or led to increased donations.

We reviewed a sample of 25 System Advancement payments, totaling about $49,200, made between July 1, 2001, and March 31, 2005. These payments included 68 individual purchases made by University staff. We identified only four of these purchases, totaling $2,500, that were originally processed through the University, as should have been the case for all of the purchases. The remaining 64 purchases, totaling about $46,700, were made outside of University policies and procedures, State Fiscal Rules, and Foundation policies. Examples of these purchases that raise concerns include:

- Seven purchases for alcohol totaling $4,200 had no University Official Function approval as required by University policies. Official Function forms document the purpose of the event and the number and type of expected participants, and must be reviewed and approved by a senior University official.

- Thirteen meals totaling about $500 for traveling University staff and/or spouses exceeded State Fiscal Rules limits. No donors were present at these meals.

- Seven purchases totaling about $500 for meal costs were split between the University and the Foundation. The portion charged to the University, about $240, complied with State Fiscal Rules. The University charged the remaining $260 that exceeded State Fiscal Rules to the Foundation.

- Five purchases totaling about $1,600 were for limousine services for University officials. In one case, $534 was paid for a limousine to transport a University official from an airport to a hotel, then to a donor's home where the limousine waited for several hours, then back to the hotel. University policies require staff to select the most economical means of travel.

Because these expenses are paid using monies from the University, are incurred by the University, and are intended to be for University business, they should be spent in accordance with University policies and State Fiscal Rules.

Other Questionable Expenses

In addition to using System Advancement funds to pay certain University expenses, the University sometimes requests that the Foundation use gift funds to make purchases or pay expenses for University staff. We identified one example in which gift funds were spent in a manner that violates Regent policy. Specifically, in Fiscal Years 2002 and 2003, the University asked the Foundation to use gift monies to pay about $5,000 per year for membership dues at a male-only golf club for a University coach. We reviewed correspondence regarding these payments in which University officials clearly stated that the University was asking the Foundation to pay for the dues because a Board of Regents policy prohibits the University from doing business with discriminatory organizations. On an ongoing basis, the University should require its expenses to be subject to its own controls.

Recommendation No. 14:

The University of Colorado should increase transparency and accountability for all University and gift funds by:

a. Continuing the prohibition on transferring monies to the Foundation to pay expenses incurred by University staff.

b. Eliminating the practice of allowing the Foundation to reimburse University employees or using gift monies to directly pay expenses incurred by or on behalf of the University.

University of Colorado Response:

Agree.

a. Implementation Date: July 2005. On July 1, 2005, the University suspended its practice of establishing System Advancement accounts at the Foundation.

b. Implementation Date: November 2005. On July 1, 2005, the University adopted a policy prohibiting direct spending of university gift monies at the Foundation. In addition, the University will adopt a policy to prohibit payments to University employees by the Foundation.

Contracts for Foundation Services

Strong, binding contracts promote accountability for services being purchased. State Fiscal Rules require state agencies and institutions of higher education to establish contracts for personal services over a specified amount (over $50,000 prior to August 2005; over $100,000 after that date). In addition, the chief executive officer or delegate of the agency or institution must sign all contracts. The State also provides direction on drafting and monitoring contracts in its *Contract Management Guide*, which states: "The most important provisions for monitoring are actual specific performance standards, and the measures of efficiency and effectiveness that are to be applied to evaluate the contractor's performance." The *Guide* notes that contract monitoring is intended to ensure that legal obligations are fulfilled and acceptable levels of services are provided.

We found deficiencies in the contracts between the University and the Foundation that indicate a substantial lack of accountability for the approximately $11.3 million the University pays the Foundation each year, as described below.

Lack of Contracts. We found the University had no written contracts for some of the services the Foundation provided during the period we reviewed. In other words, there was no written documentation of the specific services to be provided, the expected outcomes, or the fees to be paid for the following services:

- **Boulder Alumni services,** which include organizing activities such as game-day events for Boulder campus alumni and soliciting alumni donations. In 1996 the University developed an addendum to the Development Services agreement to cover the Boulder Alumni services the Foundation provides. However, the addendum has never been updated to reflect changes in Foundation services and/or fees. During Fiscal Years 2002 through 2005, the University paid the Foundation a total of about $3.7 million for these services. The alumni associations for the other University campuses in Denver, Colorado Springs, and the Health Sciences Center are managed by each respective campus, not the Foundation.

- **Parents Fund services,** which include activities specifically directed toward parents of students, such as coordinating fund-raising projects, conducting donor research, and maintaining donor records. The University did not establish contracts with the Foundation for these services for Fiscal Years 2002, 2003, or 2004, over which time it paid about $222,900. The University did draft a contract for Fiscal Year 2005.

- **The Annual Giving Program,** which is a fund-raising drive that involves contacting potential donors by phone and mail to solicit donations and maintaining donor records. This program is also meant to maintain and enhance the donor base of each campus. In Fiscal Year 2004 the University began paying the Foundation for the costs of these services but did not establish contracts for the over $1 million paid in each of Fiscal Years 2004 and 2005. Individual schools and colleges pay for Annual Giving Program services through a charge against the donations collected. These fees are based on the number of donors contacted during the fund-raising drive. Overall, the University spent an average of 42 cents for every dollar raised through the Annual Giving Program in Fiscal Year 2004, but the fees paid and donations received varied widely from campus to campus. These fees and services are not established in a formal contract, nor is the fee structure formally approved by the University.

Incomplete Contracts. In addition to not having contracts in place for some services, we found issues with the contracts that had been established, as follows:

- **Unsigned contracts.** Since Fiscal Year 2001, the University has updated its Development Services contract with the Foundation through annual amendments. However, neither the University nor the Foundation signed the amendments for Fiscal Years 2003 and 2004, and did not sign the Fiscal Year 2005 amendment until April 2005, almost 10 months after it became effective. Additionally, the University and the Foundation did not sign the Parents Fund contract established for Fiscal Year 2005.

- **Lack of contract effective dates.** State Fiscal Rules require state contracts to include effective dates for the services covered. The University's contract with the Foundation for management of its custodial endowments (described later in the chapter) became effective in May 2004 and states that it is subject to an annual review by both parties. The contract also states that in the absence of an express renewal, it will continue unless it is terminated. Under State Fiscal Rules this contract should include a date by which the University and Foundation will review the terms of the agreement. In Fiscal Year 2005 the University paid the Foundation about $750,000 for management and investment of the custodial endowments.

Lack of Contract Oversight. We identified weaknesses in the University's contracts with the Foundation related to performance measures, monitoring, and enforcement, as follows:

- **Lack of quantifiable performance measures.** The Development Services agreement and individual school and program service agreements between the University and the Foundation contain only one quantifiable performance measure, and instead contain general requirements and performance expectations. For example, the Development Services agreement requires the Foundation to provide development and fund-raising services but does not identify performance measures. The Foundation has recently developed performance standards and goals for its development staff and has begun monitoring whether staff accomplish productivity goals, such as the number of face-to-face contacts with donors. The University could use these goals and measures to assess development and fund-raising services for the Foundation as a whole. The one performance measure in the Development Services agreement is: To limit the costs to raise and manage private gift dollars to reasonable amounts that compare favorably with those of peer foundations. To measure this, the agreement requires the Foundation to calculate an annual cost-to-gift ratio and evaluate the ratio against peer institutional programs. The Foundation has only provided this calculation to the Boulder campus on one occasion. This measure can be useful for evaluating the Foundation's performance over time and identifying areas where improvements could be made. According to the University and the Foundation, providing development services is a collaborative effort, which makes it difficult to isolate the development outcomes achieved specifically by the Foundation. However, it is important that the University develop measurable outcome-based standards in its contracts to evaluate performance over time and to reconsider or adjust fund-raising responsibilities and goals.

- **Lack of comprehensive and consistent monitoring.** The University's monitoring of Foundation services is informal, decentralized, and undocumented. Various chancellors, deans, and faculty oversee the Foundation's fund-raising services pertaining to their particular campuses but do not follow an established standard for monitoring or documenting oversight. The Foundation presents reports to the University's Board of Regents on a semi-annual basis, however, without formal and consistent System-wide monitoring, the University cannot assess the quality and necessity of services provided by the Foundation.

The University's failure to establish contracts in compliance with State Fiscal Rules for services provided by the Foundation and to develop and monitor performance measures for the services limits its ability to ensure it obtains the appropriate level of services for the fees paid. Further, under Fiscal Rules, by having unsigned contracts, the contracts' payment liability shifts from the University to University employees involved in incurring the obligation. The University and the Foundation need to ensure that current, signed contracts are in place for all Foundation services and that the contracts include appropriate performance measures. In addition, the University should ensure that it has a comprehensive oversight function for its contracts.

Recommendation No. 15:

The University of Colorado should improve accountability for services contracted through the University of Colorado Foundation by:

a. Establishing formal contracts for services provided by the Foundation in accordance with State Fiscal Rules.

b. Including remedies in the contracts to address any failure to meet requirements or performance measures.

c. Establishing a system for monitoring contract services, such as assigning an office or individual to work with University schools and colleges to ensure performance requirements are met.

d. Assessing annually whether the mechanism for determining fees for Foundation services is appropriate and whether the fees paid are in line with the services provided.

University of Colorado Response:

Agree. Implementation Date: January 2006. The University, in collaboration with the Foundation, is negotiating a new service contract, which is expected to:

a. Be in accordance with State Fiscal Rules;

b. Include remedies in the contracts to address any failure to meet requirements or performance measures;

c. Be monitored by the Office of Vice President for Administration; and

d. Assess annually whether the fees paid to the Foundation are in line with the services provided.

Recommendation No. 16:

The University of Colorado Foundation and University of Colorado should develop performance standards in service contracts, and the Foundation should report on the standards on an annual basis. The University and the Foundation should use the established objective criteria to evaluate the Foundation's performance over time and identify and address areas for improvement. The Foundation should also continue to explore methods for comparing its performance with peer foundations.

University of Colorado Foundation Response:

Agree. Implementation Date: January 2006. The Foundation and the University are currently finalizing the Development Services agreement. This agreement will establish and define objective performance criteria to evaluate the Foundation's performance and require reporting from the Foundation on an annual basis. The Foundation and University will seek approval of this new agreement from their respective boards.

The Foundation is currently exploring methods for comparing its performance with peer foundations. This is a suggested topic of discussion for the University Foundation Financial Officers meeting in Ames, Iowa at the end of October.

University of Colorado Response:

Agree. Implementation Date: January 2006. The University is negotiating with the Foundation a new service contract (discussed in Recommendation No. 15) which will include specific performance standards and objective criteria to evaluate the Foundation's performance with reporting annually.

Special Events

Another area where the financial and programmatic responsibilities of the University and Foundation need to be evaluated and clarified is special events. Special events are fund-raising activities, such as golf tournaments, gala dinners, silent auctions, and international travel tours, held to benefit a particular University department or program. Events are intended to be self-funding and are typically developed, requested, and administered by University staff with Foundation assistance. Donors pay special event fees, which include a donation component in the form of cash, checks, and credit cards. University and Foundation staff, students and, at times, volunteers collect the event funds, and then either deposit them, send them to a Foundation office, or mail the funds to the Foundation's lockbox. Once the Foundation receives the event funds, it sends the donor an official receipt. The Foundation maintains individual funds or accounts for each special event to record expenses for the event, gifts in kind, and special event fees, which have gift and nongift components.

The Foundation charges the University a fee for administering special events. Until June 30, 2003, the Foundation charged a 5 percent fee on all gift revenue received for special events. Beginning in late March 2004, the Foundation modified the fee to be the greater of $500 or 5 percent of nongift revenue, up to a maximum of $2,500.

Between Fiscal Years 2002 and 2005, the University and Foundation jointly held about 35 to 40 special events each year. The table below shows the revenues and expenses recorded by the Foundation and the fees charged to the University for these years. As discussed later in the chapter, accounting for special events is incomplete, so the figures in the following table may underreport the total expenses and revenues.

University of Colorado and University of Colorado Foundation
Special Event Revenues and Expenses
Fiscal Years 2002 Through 2005

	2002	**2003**	**2004**	**2005**
Revenues	$2,018,500	$1,769,100	$2,188,000	$1,627,500
Expenses	$584,500	$682,600	$916,200	$719,500
Fees Charged to the University	$55,100	$47,100	$6,400[1]	$26,500
Estimated Net Proceeds[2]	**$1,378,900**	**$1,039,400**	**$1,265,400**	**$881,500**

Source: University of Colorado Foundation and University of Colorado special events data.
[1] In Fiscal Year 2004 the Foundation only assessed fees for four events and collected additional fees for 10 events held in Fiscal Year 2003 due to accounting errors.
[2] Some special event revenues and expenses are recorded by the University, not the Foundation. Net proceed figures are based on Foundation records and may not represent all revenues and expenses.

We reviewed eight special events held between July 1, 2002 and March 31, 2005. Using information from the Foundation, we estimated expenses as a percent of revenues for the special events in our sample, as shown in the table below.

Revenues, Expenses, and Net Proceeds for a Sample of Special Events July 1, 2002 Through March 31, 2005					
Fiscal Year	**Type of Event**	**Revenues**	**Expenses**	**Net Proceeds**	**Expenses as a % of Revenues**
2003	Dinner, Raffle, & Auction	$51,700	$25,500	$26,200	49%
2003	Dinner	$86,300	$39,900	$46,400	46%
2004	Bicycle Race	$120,200	$60,800	$59,400	51%
2004	Golf Tournament	$16,500	$16,500	$0	100%
2004	International Travel Tour	$52,200	$71,200	($19,000)	136%
2005	Golf Tournament, Barbeque, Auction	$24,700	$12,200	$12,500	49%
2005	Golf Tournament, Dinner, Auction	$154,600	$95,600	$59,000	62%
2005	International Travel Tour	$201,100	$189,700	$11,400	94%
TOTAL		**$707,300**	**$511,400**	**$195,900**	**72%**

Source: University of Colorado and University of Colorado Foundation financial information and special event documentation.

As the table shows, some events in our sample generated net proceeds, one lost money, and two cost nearly as much as they earned. We identified a number of issues with management of and accountability for special events that may limit their cost effectiveness.

Unclear division of responsibility. There is no written agreement between the University and the Foundation regarding special events. As a result, the roles and responsibilities of each organization are not clearly defined, and accountability for the success of the events has not been assigned. In particular, there is incomplete accounting for the events. For three of the eight events we reviewed, some revenues and expenses were either accounted for in University accounts or in an incorrect Foundation fund. For example, a fund established for a golf tournament included transactions for a separate dinner banquet not related to the tournament, and for one event, expenses were paid out of four different funds—a University gift account, the Foundation special event fund, and two other Foundation funds. Neither the Foundation nor the University compiles the revenue and expense data from both entities to calculate overall net proceeds or losses for every event.

Without complete, centralized accounting for special events, neither the University nor the Foundation can adequately monitor the success of individual events or the overall benefit of special event fund-raising. Special event expenses recorded by the Foundation increased about 44 percent between Fiscal Years 2002 and 2004—much more rapidly than special event revenues, which rose about 8 percent. The lack of complete financial information for special events prevents the University and Foundation from identifying these changes and determining the cause.

Lack of approvals. Foundation policy requires management approval of special events before they are held, although the policy does not establish any criteria for granting the approval. We found that five of the eight special events sampled had no evidence of approval by Foundation management, and three did not have a budget form on file at the Foundation, which shows the estimated expenses, revenues, and net proceeds for the event. In addition, if an event is held annually, it is typically only approved at the time the initial event is planned—not in subsequent years.

Inconsistencies in administrative fees. We evaluated the administration fees the Foundation charged the University for 66 special event funds that received gift revenue in Fiscal Years 2002 through 2005. We determined that the Foundation did not collect some fees owed by the University for 12 events, for a total of about $14,000, primarily due to the waiver of certain fees. In particular, events that benefitted the University's Boulder Athletic Department were exempt from all event administration fees. However, the Foundation has no written policy for waiving special event fees. In addition, the Foundation's current fee structure was established based on an estimate that Foundation staff would spend about 100 hours administering a special event at an average rate of $25 per hour. However, it is unclear how this estimate relates to the 5 percent fee, and Foundation staff do not track the time they actually spend on a given event.

Lack of cash controls. The Foundation does not have written cash control policies, either for special events or for other circumstances when cash is collected. We identified weaknesses in the cash controls for special events. For example, the Foundation does not track the locations from which all funds are received or require event staff to log the funds they collect. We learned of an instance of alleged theft when a student worker was asked to hand deliver a bank bag containing special event funds to the Foundation. The Foundation was not aware that the funds were missing until notified by a University staff member. A number of Foundation and University staff, as well as students and volunteers, may handle cash donations, so it is important to ensure that minimum cash handling standards and procedures are established. The Foundation and University should also train staff on cash handling, internal controls, and fraud prevention, and should periodically evaluate cash controls as part of the internal audit function.

Given the concerns we noted, which relate primarily to the coordinated arrangement for special events, the University should reassess whether the Foundation's role in special events is consistent with the Foundation's overall mission. If the University decides to continue the Foundation's involvement in special events, it should establish a written agreement for the services the Foundation will provide and the associated fees. The University and the Foundation should also strengthen policies and controls to ensure that all revenues and expenses are recorded in the appropriate special event accounts; implement cash handling controls; define the criteria for approving special events; and evaluate the cost-benefit of each special event on an ongoing basis.

Recommendation No. 17:

The University of Colorado Foundation and the University of Colorado should evaluate who should be responsible for special event administration and accounting. If the decision is to continue special events as a combined effort, the University and the Foundation should strengthen accountability for special events by developing a written agreement that specifies the services the Foundation will provide, the fees the University will pay, and the specific responsibilities of all parties involved in special events.

University of Colorado Foundation Response:

Agree. Implementation Date: December 2005. The Foundation and the University have agreed that effective December 1, 2005 the University will be responsible for special event administration and accounting.

University of Colorado Response:

Agree. Implementation Date: December 2005. The University will assume responsibility for university-sponsored special events.

Recommendation No. 18:

The University of Colorado Foundation and the University of Colorado should strengthen management for special events, regardless of who is responsible for overseeing and processing the events, by:

a. Implementing written policies and controls to ensure that all revenues and expenses are recorded in the appropriate special event accounts.

b. Developing criteria for approving special events in written policies.

c. Establishing procedures to assess the cost-benefit of each special event.

d. Establishing cash control policies and procedures for all situations in which staff handle cash, including special events; training staff on the controls; and having an internal auditor review cash controls on a periodic basis.

University of Colorado Foundation Response:

Agree. Administration of University sponsored special events will be the responsibility of the University effective December 1, 2005. The Foundation will work with the University to strengthen management in this area and develop transition plans for those special events currently administered and accounted for at the Foundation. There may be some special events initiated and sponsored by the Foundation. The responses for items a. through d., below, relate to any such Foundation-sponsored events.

a. Implementation Date: Implemented. The Foundation has implemented written policies and controls to ensure all revenues and expenses are recorded in appropriate special event accounts for any Foundation sponsored special event.

b. Implementation Date: Implemented. Criteria to approve special events are included in the policy noted in item a. above.

c. Implementation Date: December 2005. A written cost-benefit analysis will be submitted by the event coordinator within 20 business days of event conclusion to the Foundation senior management team and CEO.

d. Implementation Date: December 2005. For all situations in which Foundation staff handles cash, policies will be established. Staff training will be conducted and the Foundation Internal Auditor will review cash controls and staff training on a periodic basis to ensure adequacy and accountability.

University of Colorado Response:

Agree. Implementation Date: December 2005. The University has begun developing and will implement policies and procedures to govern the special event process (as discussed in Recommendation No.17), which will specify:

a. Procedures and controls over financial accounting;
b. Approval criteria and roles;
c. Cost-benefit assessment; and
d. Cash controls.

Accountability for Loan Program

The Foundation is involved in supporting two types of loans. First, it guarantees up to $50,000 for each loan under the Faculty Housing Assistance Program (FHAP). FHAP loans are available to University full-time tenured and tenure-track faculty members to assist them in buying a primary residence in Colorado. These loans are used as an incentive to attract tenure-track staff. The Foundation has a contract with the University of Colorado Federal Credit Union (Credit Union) outlining its responsibilities for the FHAP. The University pays the Foundation to guarantee the loans and the Foundation pays the Credit Union to administer the program. During the period July 1, 2001, through March 31, 2005, approximately 50 FHAP loans were issued or outstanding under this program. As of March 31, 2005, the Foundation had 38 outstanding FHAP loans worth about $1.8 million.

Second, the Foundation makes other loans to various parties on a case-by-case basis and with the approval of the Foundation's Investment Policy Committee. According to the Foundation, these loans are made to support University initiatives and programs and facilitate Foundation goals. Some are made at the request of the University. For example, the Foundation has made loans to the Coleman Institute and Sharp Point Properties, LLC, on behalf of the University's Real Estate Center. The only Foundation policy relating to loans is in the Foundation Bylaws, which state that the Foundation shall not make any loans to Foundation Directors or Officers. Between July 1, 2001, and March 31, 2005, the Foundation issued or had outstanding 12 of these other loans. The total loans receivable balance for the Foundation-issued loans ranged from about $2.7 million in Fiscal Year 2002 to about $740,800 in March 2005. As of March 31, 2005 five Foundation-issued loans were outstanding.

We reviewed a sample of nine loans that were outstanding at some time in Fiscal Years 2002 through 2005; two were FHAP loans guaranteed by the Foundation and seven were Foundation-issued loans. The Foundation issued four of the seven Foundation loans at the University's request. The nine loans sampled had a combined beginning balance of about $3 million and a combined ending balance of $664,100 at March 31, 2005. We reviewed the supporting documentation for each loan as well as the Foundation's loan procedures. We identified several issues related to the seven Foundation-issued loans, as follows:

- For all seven Foundation-issued loans, the Foundation could not provide evidence documenting the creditworthiness of the borrowers. The total combined amount of the original seven loans was about $2.9 million. A receivable of about $621,600 for one of these sampled loans remained outstanding as of March 31, 2005.

- For one loan, the Foundation extended a revolving line of credit for $75,000 to Colorado Golf for Charities in October 1999. According to the Foundation, Colorado Golf for Charities was originally a special event to benefit the University Health Sciences Center. Beginning in 1999, the Foundation decided to discontinue sponsoring the event. At that time, a former Foundation employee set up a not-for-profit entity called Colorado Golf for Charities to provide administrative services for golf tournaments organized as fund-raising events. Because Colorado Golf for Charities provided benefits to the Health Sciences Center, the Foundation set up a revolving line of credit to help with initial start-up costs. As of July 31, 2001, the outstanding loan balance was about $79,800 (principal plus interest). This amount remained outstanding throughout Fiscal Year 2003 and most of Fiscal Year 2004. After attempting collection procedures, the Foundation wrote off the loan in July 2004. The Foundation does not have any written policies or collection procedures for past due loans.

- For one loan totaling $875,000 that the Foundation made to a University employee in August 1997 at the University's request, we noted several concerns. First, the loan amount was $10,000 higher than the initial purchase price of the property for which the loan was made. Second, the University employee received about $27,600 in cash at the time of closing on the purchase of the property. Internal Foundation documentation suggested this cash should be returned to the Foundation, but we found no evidence that the funds were returned until the loan was paid off in Fiscal Year 2003. Third, the borrower made 13 monthly payments that were each $100 below the required monthly amounts in 1997 and 1998 and missed two monthly payments, one in November 2000 and one in June 2002. The borrower paid the 13 months of short payments in October 1998 and paid the two missed payments when the loan was paid off in September 2003, more than a year after they occurred. The Foundation did not exercise its option of assessing a 5 percent late charge penalty on the delinquent payments, nor did it exercise its acceleration option under the loan agreement. The low payments were identified by Foundation financial auditors in Fiscal Year 1998.

- For one loan, the Foundation recorded a loss at the time of the loan transaction. In January 2001 the Foundation received and recorded a gift of property at $1.25 million, although it had separate valuations of the gift for between $855,000 and $1.25 million. In September 2001 the Foundation sold the property to a limited liability company for $1.2 million ($300,000 in cash plus a $900,000 Foundation-financed loan). At the time of the sale, the Foundation recorded a $50,000 realized loss. This transaction raises concerns because the property sold had been given to the Foundation nine months prior to the sale by a donor who was also a member of the company that purchased the property.

- For three loans with original balances totaling about $688,100, the Foundation did not have copies of the deeds of trust securing the loans. All three loans had been paid in full as of March 31, 2005.

The University and the Foundation should work together to determine whether securing and issuing loans is within the Foundation's core mission. The Foundation is not a bank and does not have loan issuance systems and controls. In the interim, for the five Foundation-issued loans that remain outstanding, the Foundation should ensure it has systems in place to ensure accountability, including:

- Closely monitoring payment status.
- Clearly defining and implementing collection procedures for past due loans.
- Establishing and adhering to criteria for exercising late payment penalties or loan acceleration clauses.
- Gaining the Audit Committee's approval of any write-offs of debt.

Recommendation No. 19:

The University of Colorado Foundation and the University of Colorado should reassess the Foundation's loan program and determine if it is a service the Foundation should continue to provide.

University of Colorado Foundation Response:

Agree. Implementation Date: October 2005. On October 3, 2005 the Foundation's Board of Directors approved a policy governing loans. This policy provides due diligence criteria that must be addressed prior to approval of any loan including creditworthiness of the borrower, status of security, and the ability of the borrower to repay the loan.

University of Colorado Response:

Agree. Implementation Date: January 2006. The University's proposed contracts with the Foundation do not request any loan services other than the Faculty Housing Assistance Program which the University intends to continue. The University's proposed operating agreement with the Foundation (see Recommendation No. 21) provides that the Foundation will not provide loans to University employees. Further, the University's proposed operating agreement requires any loan program be provided pursuant to a University approved program or specifically approved by the President and reported to the Board of Regents.

Flow of Funds

The importance of transparency and accountability in the government arena cannot be overstated. Taxpayers and decision makers need to know that agencies are (1) properly accounting for and openly reporting expenditures, (2) using scarce resources in the interests of the public good, and (3) maximizing revenues while reducing administrative costs. Therefore, access to complete and comprehensive financial information at all levels of management is essential to sound decisionmaking. Similarly, such access is important to ensure the public trust essential to a large organization like the University.

We found that the financial arrangement between the University and the Foundation includes various fees, reimbursements, and transfers of funds. In addition, in some cases, the University makes payments to the Foundation using the University's unrestricted gift funds originally transferred from the Foundation. For example, in Fiscal Year 2004 the University used about $2.5 million in gift monies received from the Foundation to then pay fees to the Foundation. We are concerned that donors are unaware that the University returns a portion of donations to the Foundation to support Foundation operations.

As mentioned earlier in the chapter, the University pays the Foundation fees or reimbursements for the services it provides. From Fiscal Year 2002 through 2005, the University provided an average of about $11.3 million annually to the Foundation, either directly or indirectly, for various services. Over the same period, the Foundation distributed an average of $56.9 million annually to the University.

The flow of payments to and from the Foundation and the University illustrates an overly complex relationship that reduces transparency and accountability and raises concerns. First, it is unclear whether the University's annual payments to the Foundation, which was created to raise funds for the University, is the best method of supporting the Foundation at a time when the University's budget is constrained by decreasing state support. Second, when University contracts are not always in place or fully executed prior to services being rendered, the University loses control over services received from the Foundation. This is a concern in light of issues discussed in this chapter regarding the informal nature of the various financial arrangements between the University and the Foundation.

The University and the Foundation should undertake a comprehensive analysis of the flow of financial support between the two entities and the necessity and legitimacy thereof. This analysis should consider ways to simplify the financial arrangement between the University and the Foundation to clarify responsibilities and make the relationship more transparent. The University should conduct this analysis as part of the restructuring options discussed in Chapter 4.

Recommendation No. 20:

The University of Colorado Foundation and the University of Colorado should conduct a comprehensive assessment of the financial arrangements between the two organizations and consider ways to improve accountability and transparency as they simultaneously evaluate the restructuring options discussed in Recommendation No. 21.

University of Colorado Foundation Response:

Agree. Implementation Date: January 2006. The Foundation, in collaboration with the University, is conducting a comprehensive assessment of the financial arrangements between the two organizations with a development services contract. To improve accountability and transparency, an operating agreement between the two organizations is also being developed.

University of Colorado Response:

Agree. Implementation Date: January 2006. The University, in collaboration with the Foundation, has begun the assessment of its financial arrangements with the Foundation and is modifying them as indicated in the other recommendations of this report, most notably Recommendation Nos. 14, 15, 16, and 21.

The Relationship Between the University and the Foundation

Chapter 4

Background

The relationship between the University of Colorado (University) and the University of Colorado Foundation (Foundation) is complex and has evolved over the years since the Foundation was first established in 1967. The University Board of Regents authorized the Foundation to solicit, receive, hold, and invest funds for the University's benefit. The Foundation is a nonprofit corporation whose stated mission is to support the University of Colorado. Over the period we reviewed, the Foundation's responsibilities have included raising funds, cultivating donors, managing investments, administering special events, administering and guaranteeing various types of loans, and making payments for certain University expenses. The Foundation and the University often work together on activities such as running special events, attracting and maintaining large donors, making housing loans available to University faculty, and accepting gifts. Fund-raising and investment management are important functions that allow the University to sustain and expand the number, types, and quality of its programs.

Our audit of the Foundation and its relationship with the University raises questions about how the Foundation can best fulfill its core mission as well as its effectiveness and efficiency in supporting the University. Our report identifies concerns with the Foundation's handling of gifts and fulfillment of its fiduciary responsibility to ensure contributions are used in accordance with donor intent. It also reveals inefficiencies in the Foundation's daily operations and expenses that are unnecessary in furthering support of the University. Finally, the financial relationship between the Foundation and the University is overly complex, reducing transparency and accountability. We believe the University needs to evaluate the structure and mission of the Foundation and how the organizations should interrelate to best serve the University.

Evaluating the Relationship

We collected information on other higher education foundations around the U.S. and found that foundations have varying structures and relationships with their partner universities. Specifically, we surveyed foundations at 11 public universities: the University of Florida, the University of Indiana, the University of Iowa, Kansas University, Ohio State University, Oklahoma University, Oklahoma State University, the University of Texas, Texas A&M University, the University of Washington, and the University of Wisconsin. On the basis of our research, we identified three general structures for foundations, as follows:

- Those whose sole or primary purpose is to manage fund-raising efforts.
- Those whose sole or primary purpose is to manage investments.
- Those that serve as both fund-raising and investment managers.

We found that over half of the foundations on which we collected information (7 of the 11) are independent organizations with separate staff and funding and no direct oversight by their partner institutions. One foundation is part of the university it supports, operating with university staff and funding and following state and university rules. The last three foundations are hybrids; while they are separate nonprofit organizations with offices physically located off the university campus, they operate with university staff or have a university employee as the chief executive officer or president.

This is an opportune time for the University of Colorado to evaluate its relationship with the Foundation and the functions it expects the Foundation to carry out. The following sections discuss some of the options the University should consider in evaluating its relationship with the Foundation.

The Foundation as Development Services Provider

One option available to the University and the Foundation is to evaluate changing the Foundation's role to focus only on development services. The following issues, discussed earlier in the report, would need to be addressed:

- **Transparency of financial support.** The University should establish a mechanism for paying for Foundation services in a way that clearly identifies the full amount of support the University provides and the sources of monies used for such payments. The University should ensure that bona fide contracts for payment of services exist and that performance measures are well defined.

- **Controls to ensure reasonableness of Foundation expenses.** The University needs assurance that expenses incurred by the Foundation for fund-raising and donor cultivation purposes are reasonable and necessary.

The Foundation needs to implement controls as recommended earlier in the report.

- **Transparency and accountability for expenses.** To eliminate confusion and improve controls and accountability, University expenses should be paid through University-controlled systems.

- **Effective management of special events and acceptance of gifts in kind.** These functions are currently being transferred from the Foundation to the University. The University and the Foundation need to determine if this is the best long-term arrangement for these functions. Both areas need stronger policies and oversight.

- **Accountability for ensuring donor intent.** As long as both organizations have some involvement in accepting and managing donor monies, the University and the Foundation need to establish clear oversight and accountability and develop effective controls for ensuring donor intent is fulfilled.

- **Development of large and small donors.** Currently both the University and the Foundation have some responsibility for smaller-scale donor cultivation and fund-raising, such as through special events and fund drives, as well as for cultivating large donors. If the Foundation's services are limited to fund-raising, the University and the Foundation need to consider options such as having major donor cultivation handled by the Foundation and special events and alumni relations handled by the University, or alternatively, having the University take responsibility for cultivating large donors and the Foundation deal primarily with smaller fund-raising activities.

In addition, if the University discontinues its use of the Foundation as an investment manager and transfers its custodial endowments back from the Foundation, the University should consider the need to evaluate the University Treasurer's Office functions. Although we did not include an assessment of the University Treasury in our audit, this approach could require the University to reevaluate the long- and short-term goals of its operating pool and investments.

The Foundation as Investment Manager

A second option would be to focus the Foundation's mission only on investment management. The following issues would be critical to a restructuring that focused on investment management:

- **Full consideration of the investment portfolios.** According to the Foundation, it had about $553.4 million in its Long-Term Investment Pool as of June 30, 2005. About $87.5 million of this amount is University custodial endowments that the Foundation manages for the University in accordance with a written agreement. As of June 30, 2005, the University had about $672.5 million invested in its own Treasury Pool. We did not audit investments of either the Foundation or the University as part of this audit, however, financial statements indicate that the University and the Foundation have very different risk tolerances and time horizons for their investments, resulting in very different asset allocations, as shown in the following table.

University of Colorado Foundation Long-Term Investment Pool and University of Colorado Treasury Pool[1]
Investments by Category as of June 30, 2005
(In Millions)

	Foundation		University	
Investment Category	**Market Value**	**% of Total**	**Market Value**	**% of Total**
Domestic Equity	$204.8	37%	$170.4	32%
Alternatives	$188.1	34%	$0	0%
International Equity	$94.1	17%	$69.1	13%
Fixed Income	$55.3	10%	$295.9	55%
Real Estate	$11.1	2%	$0	0%
TOTAL	$553.4	100%	$535.4[1]	100%

Source: Financial information and investment data provided by the University of Colorado Foundation and the University of Colorado.

[1] The University's Treasury Pool is intended to maintain sufficient liquidity for day-to-day operations of the University. Therefore, to reflect only longer-term investments, $137.1 million in short-term fixed-income investments are excluded from the table.

The differences in the asset allocations reflect differences in the investment policies of the Foundation and the University. The Foundation's objective for its Long-Term Investment Pool is to seek the highest possible total return consistent with appropriate risk levels, and the investment time horizon is perpetuity. Conversely, the University has a lower risk tolerance with emphasis on preservation of principal.

The University Treasurer is a member of the Foundation's Investment Policy Committee and is responsible for overseeing the custodial endowments managed by the Foundation. The Treasurer reviews quarterly reports on the

Foundation's investments and informs the University Board of Regents of the investment performance and investment policies of the Foundation.

The Foundation charges the University a fee to cover the costs it incurs for administrative and managerial duties related to the custodial endowments. The fees cover the Foundation's custodial, investment consultant, and investment management costs as well as costs for various Foundation duties such as overseeing the investment managers, working with donors to establish new endowments, and communicating with donors about their endowments. In Fiscal Year 2005 the University paid the Foundation a fee of 1 percent of the value of the custodial endowments.

If the Foundation were to serve solely as an investment manager, the University and the Foundation would need to consider how best to manage the investment allocations and ensure that the University's goals and risk tolerance are adequately accounted for.

- **Full involvement of the Board of Regents.** It is critical that the Regents have access to complete, accurate, and independent information on investment risks and performance for all University monies managed by the Foundation. Therefore, the Regents need to ensure that mechanisms for their active and ongoing involvement in investments continue to operate effectively.

- **Investment in Loans.** The University and the Foundation need to consider whether the Foundation should continue to offer and guarantee loans.

The Foundation as Both Development Services Provider and Investment Manager

A third option would be to maintain the status quo, in which the Foundation's role includes both development services such as fund-raising and gift management, and investment management. In this case, all issues cited in the previous two sections would need to be addressed.

Our report points out a variety of concerns that highlight the importance of adequate oversight, clear communication, and defined duties between the two organizations. Given the issues we raise, we believe the University should conduct a comprehensive assessment of the Foundation's role and structure and the related financial arrangement, and consider the options and issues discussed above.

Recommendation No. 21:

The University of Colorado should conduct a comprehensive evaluation of the structure, role, and functions of the Foundation along with the assessment of the financial arrangement with the Foundation as suggested in Recommendation No. 20. The evaluation should consider options such as (a) limiting the Foundation's functions to development services, (b) limiting the Foundation's functions to investment management, or (c) continuing the current arrangement, which includes both functions. In addition, the evaluation should address the issues discussed throughout the report in accordance with the role determined for the Foundation.

University of Colorado Response:

Agree. Implementation Date: January 2006. The University has determined that it should continue its current arrangement with the Foundation as a legally separate entity that provides development and investment management services as defined in separate agreements. To ensure this continued relationship has the appropriate level of transparency and accountability, the University is negotiating an operating agreement to govern its relationship with the Foundation as well as a new service contract, as described in Recommendation No. 15. The University intends the proposed contracts to be effective January 1, 2006.

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