REPORT OF

THE

STATE AUDITOR

University of Colorado Foundation

Follow-Up
Performance Audit
July 2007

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July 27, 2007

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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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University of Colorado Foundation
Follow-Up Performance Audit
July 2007

Authority, Purpose, and Scope

This follow-up performance audit of the University of Colorado Foundation (Foundation) was conducted in conjunction with an audit of the University of Colorado under 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 February through June 2007, was conducted in accordance with generally accepted government auditing standards. The purpose of the audit was to assess the Foundation's and the University of Colorado's (University's) implementation of the recommendations made in the *University of Colorado Foundation Performance Audit, October 2005* (2005 Audit). 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 University Board of Regents authorized the Foundation to receive gifts and bequests of money for the University's use. 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, and investment management, and guarantees certain faculty-housing loans. The Foundation is governed by a Board of Directors that is part of a larger Board of Trustees. The Foundation has 187 staff (including 35 Alumni Association staff) and is funded by investment earnings, fees from the University, alumni membership dues, and contributions. In Fiscal Year 2006 the Foundation held about $633 million in net assets and transferred about $52 million in gift monies to the University.

Key Findings

The Foundation and the University agreed with each of the 21 recommendations contained in the 2005 Audit report. During the 2007 follow-up audit we found that the Foundation and the University have made considerable progress in implementing 2005 Audit recommendations. Seventeen recommendations are *Implemented*, three are *Partially Implemented*, and one recommendation is *In Progress*. A complete list of recommendations from the 2005 Audit, along with the implementation status of each, is in Appendix A.

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. In 2005 we made recommendations concerning the Foundation's and the University's effectiveness in meeting donor intent in four areas: (1) the Foundation's management of cash contributions, (2) the Foundation's distribution of cash contributions to the University, (3) the University's expenditure of cash contributions, and (4) the Foundation's management of gifts in kind. During the 2007 follow-up we found that the Foundation and the University have fully implemented nine of the recommendations related to gift management and have partially implemented or were in the process of implementing the other two recommendations, as follows:

- The Foundation and the University implemented new policies and procedures to improve gift fund management and developed a new process to ensure Foundation gift funds have a corresponding University gift account. The University and the Foundation are in the process of implementing a direct relationship between all Foundation gift funds and University gift accounts to ensure that gift monies are properly deposited at the University. As of June 2007 the Foundation and the University had linked 3,359 gift funds worth about $151.1 million and still needed to link 637 funds worth about $2.2 million.

- The University has partially implemented the recommendation related to auditing controls over gift money expenditures. The University has included limited testing related to donor intent in its internal audits but has not conducted a comprehensive donor intent audit to ensure that the newly established system and controls work as intended and that staff expend gift monies in accordance with donor intent.

- The University has assumed responsibility for accepting most gifts in kind donated for the University's use. The Foundation may accept some gifts in kind that are intended to be used as investments or to be converted into cash for the University, such as real estate. During the follow-up we found that the Foundation and the University implemented policies and procedures for handling gifts in kind that address the concerns identified in the 2005 Audit.

Operations and Administration

In the 2005 Audit we reviewed the Foundation's internal controls over administrative expenses such as travel, meetings, meals, and club and membership dues and made two recommendations to strengthen Foundation policies and enforcement. During the 2007 follow-up we found that the Foundation has fully implemented one of the recommendations and partially implemented the other, as follows:

- The Foundation has partially implemented the recommendation related to improving controls over employee expense reimbursements and credit card purchases. The Foundation has strengthened its policies governing reimbursements and credit card purchases but does not consistently enforce its policies with respect to its Alumni Association staff. In 2 of the 25 Foundation expenses we reviewed, Alumni Association staff traveled and did not obtain pre-trip approval in accordance with Foundation policy. We also found that the Foundation has not documented its policy or process for approving travel expenses when Alumni Association staff attend special travel events.

The 2005 Audit also reviewed the relationship between the University and the Foundation and identified concerns related to University expenses paid through the Foundation, the quality and completeness of contracts between the University and the Foundation, undefined responsibilities and weak controls over special events, and a lack of controls over loans issued by the Foundation. We made eight recommendations to address these concerns. In the 2007 follow-up audit we found that the Foundation and the University have improved transparency and accountability by fully implementing seven of the eight recommendations; the University has partially implemented the remaining recommendation, as follows:

- During the follow-up we found that the University has prohibited transferring funds to the Foundation to pay University expenses and implemented policies prohibiting the Foundation from directly spending University gift monies or making payments to University employees. The Foundation also revised its policies to eliminate direct payments to and for University staff.

- In the 2007 follow-up we found that the University has improved accountability for contracted services by executing two new contracts with the Foundation defining all Foundation and University interactions. We found that the contract provisions comply with State Fiscal Rules and the University routinely evaluates the Foundation's performance based on standards and objective criteria set forth in the contracts.

- The University assumed full responsibility for special events in December 2005 and the Foundation no longer has any role in administering these events. During the 2007 follow-up we found that the University has taken steps to improve the management of special events. However, it has not yet finalized or implemented special event policies, related procedures, or staff training. We found that the University still has some of the same problems in operating special events that we identified in 2005, including a lack of cash controls and untimely accounting for events.

- In the 2005 Audit we questioned whether some loans made by the Foundation were consistent with its role of supporting the University. During the follow-up we found that the University and the Foundation reassessed the Foundation loan program and determined that the Foundation should only provide loans in limited circumstances. The Foundation also implemented a loan policy and procedures that address the concerns we identified in 2005.

- In the 2005 Audit we suggested the University reevaluate the Foundation's overall role. The University reported that it conducted a review of the Foundation's services and concluded that the Foundation should provide fund-raising, development, certain loans, and asset and investment management services. The two new contracts executed between the University and the Foundation delineate the Foundation's role and responsibilities.

Our recommendations and the Foundation's and the University's responses can be found in the Recommendation Locator and in the body of this report.

RECOMMENDATION LOCATOR

Rec. No.	Page No.	Recommendation Summary	Entity Addressed	Entity Response	Implementation Date
1	16	Continue following the linking process that was developed and implement a formal process to determine how to resolve unlinked funds and develop shared goals or benchmarks.	University of Colorado Foundation	Agree	November 2007
			University of Colorado	Agree	November 2007
2	19	Conduct a comprehensive donor intent audit to ensure the newly established system and controls work as intended and staff expend gift monies in accordance with donor intent.	University of Colorado	Agree	June 2008
3	25	Strengthen controls over Alumni Association travel while the Alumni Association remains part of the Foundation by enforcing existing administrative policies for Alumni Association staff and management and documenting any administrative policies and procedures that are specific to Alumni Association travel.	University of Colorado Foundation	Agree	September 2007
4	33	Strengthen special event administration by (a) finalizing and implementing a written policy that includes procedures for initiating new events; properly handling cash; and properly accounting for event revenues, expenses, and profits; and (b) providing special event training to all event organizers on event policies and procedures.	University of Colorado	Agree	January 2008

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Overview

The University of Colorado Foundation (Foundation) was established in 1967 to support the University of Colorado (University). The Foundation is a privately governed, Colorado nonprofit corporation and a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code. 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 Board of Regents of the University authorized the Foundation to receive gifts and bequests of money for the benefit of the University. The Foundation accepts individual gifts of cash to establish endowments as well as deferred (planned) giving arrangements, such as annuities and trusts. Most gifts of property (gifts in kind) to be used by the University are received directly by the University. The Foundation may accept gifts in kind that are intended to be used as an investment or converted into cash for the University, such as securities or real estate. In addition to gift management, the Foundation conducts fund-raising, donor cultivation, and investment management, and guarantees certain faculty-housing loans.

Foundation Organization and Services

The Foundation is governed by an 18-member Board of Directors that is part of a larger 71-member Board of Trustees. The University President, a member of the University's Board of Regents, and a University Vice President designated by the University, 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 Foundation's volunteer Board of Trustees provides leadership and guidance for fund-raising activities, and elects the Board of Directors. The Board of Trustees includes the Directors, the Foundation President, the University President, one University Regent, and the University campus Chancellors, among others. The University officials serve as nonvoting, ex-officio members.

Foundation operations are managed on a day-to-day basis by 187 staff (including 35 Alumni Association staff), who are located at Foundation offices in Boulder, Denver, and Colorado Springs. The Foundation is funded by investment earnings, fees from the University, alumni membership dues, and contributions. Foundation services include:

- **Gift Acceptance and Cultivation –** The Foundation serves as the University's primary fund-raising partner. The Foundation solicits and manages contributions, conducts donor outreach and cultivation, accepts and processes gifts, conducts research, and maintains University alumni and donor records.

- **Investment Management –** As of June 30, 2006, the Foundation had about $697 million in investments. Investments include endowments, callable funds (i.e., cash, current gifts, and endowment earnings held by the Foundation prior to their use or "call" by the University), and other investments such as real estate and securities.

- **Guaranteeing Loans –** The Foundation guarantees certain loans under the Faculty Housing Assistance Program (FHAP) up to a maximum of $80,000 per loan. This program is a faculty recruitment and retention tool for the University. As of April 2007, the Foundation held 29 outstanding FHAP loans valued at about $1.4 million.

- **Alumni Services –** The University of Colorado at Boulder Alumni Association (Alumni Association) is a division within the Foundation employing 35 staff. The President of the Alumni Association reports to the Foundation President, and the Alumni Association's Controller is also the Assistant Controller of the Foundation. The Foundation processes all Alumni Association expenses, and the Association is subject to Foundation administrative expense policies. In addition, the Alumni Association's financial information is reported as part of the Foundation's consolidated financial statements. The Alumni Association does have a separate Board of Directors comprising 51 members including 4 Foundation officers. The Alumni Association's expenses, totaling about $2.8 million in Fiscal Year 2006, are funded through membership dues, event fees, and support from the University.

Foundation Revenues and Expenses

As of the end of Fiscal Year 2006, the Foundation held about $633 million in net assets. The Foundation's primary source of revenue during Fiscal Year 2006 was investment earnings totaling about $69 million, followed by gifts and donor contributions of about $58 million. The Foundation also received about $7.5 million directly from the University for performing services to advance the University such as donor development and fund-raising. Annually the Foundation's largest distribution is the transfer of gift monies to the University in accordance with donors' wishes. In Fiscal Year 2006 the Foundation transferred about $52 million in gift monies to the University. The following table shows the Foundation's revenues and expenses for Fiscal Years 2005 and 2006.

University of Colorado Foundation
Revenues and Expenses
Fiscal Years 2005 and 2006 (In Thousands)

	2005	**2006**
Net Assets, Beginning of Year	**$559,034**	**$568,098**
Revenue & Fee Receipts		
Gifts & Contributions for the University	$50,054	$58,283
Gifts & Contributions for the Hospital [1]	1,844	910
Net Investment Income	51,954	68,548
University - Development Fees	8,247	7,462
Boulder Alumni Association	3,458	3,045
Student Housing [2]	8,268	8,592
Other Revenue [3]	2,623	3,181
Total Revenue & Fees	**$126,448**	**$150,021**
Expenses & Distributions		
Gifts & Income Distributed to the University	$48,496	$51,661
Gifts, Income, & Pledges Distributed to the Hospital [1]	37,368	-0-
Gifts & Income Distributed to Other Entities [4]	-0-	2,043
Development	10,864	9,638
Supporting Services [5]	8,036	8,883
Boulder Alumni Association	3,132	2,833
Student Housing [2]	9,488	9,569
Total Expenses & Distributions	**$117,384**	**$84,627**
Total Change in Net Assets	**$9,064**	**$65,394**
Net Assets, End of Year	**$568,098**	**$633,491**

Source: University of Colorado Foundation audited financial statements and other data for Fiscal Years 2005 and 2006.

[1] The University of Colorado Hospital Authority (Hospital) is a legally separate organization from the University. In Fiscal Year 2005 the Foundation and the Hospital agreed to transfer all Hospital assets from the Foundation to the Hospital. The transfer included current and endowed gifts as well as net contributions receivable totaling about $37 million. In Fiscal Year 2006 the Hospital returned about $910,000 to the Foundation following the mutual determination that the Foundation should manage the monies.

[2] Revenue and expenses for the Bear Creek I, LLC, student housing project.

[3] Includes change in value of split-interest agreements (trusts), net assets released from restrictions, athletic ticket seats and suites revenue, rental income, gift fee revenue, and net special event revenue.

[4] Fiscal Year 2006 distributions to the University of Colorado Real Estate Foundation and a one-time distribution of about $534,000 to the Children's Hospital Foundation at the request of the donor to consolidate two endowments funding a Health Sciences Center campus Chair position.

[5] Administrative and investment expenses not directly related to development activities.

Overall, the Foundation's operating expenses, which include development, supporting services, Alumni Association, and student housing expenses, totaled about $31 million in Fiscal Year 2006. Development expenses (which relate to gift acceptance, donor development, and cultivation services) decreased from about $10.9 million in Fiscal Year 2005 to about $9.6 million in Fiscal Year 2006. During that time, University development fees paid to the Foundation decreased from about $8.2 million to about $7.5 million.

Audit Scope and Methodology

This audit is a follow-up to the *University of Colorado Foundation Performance Audit, October 2005* (2005 Audit). The purpose of this follow-up audit was to determine the implementation status of the 2005 Audit recommendations. The follow-up reviewed each of the areas covered in the prior audit, which included the Foundation's management of donor contributions and nonmonetary gifts; administrative policies, procedures, and expenses; the services provided to the University; and the Foundation's overall structure and relationship with the University. The 2005 Audit also reviewed the University's expenditure of gift monies and compliance with donor intent. The 2005 Audit made 21 recommendations that addressed concerns in these areas. The Foundation and the University agreed with all of the recommendations in the 2005 Audit report. In the follow-up we found that the Foundation and the University have made significant progress in implementing the prior recommendations.

Management of Donor Gifts

Chapter 1

One of the primary functions of the University of Colorado Foundation (Foundation) is to raise funds and collect donations to support the University of Colorado (University). Donors may donate cash and nonmonetary gifts, such as securities; establish endowments or deferred (planned) giving arrangements, such as bequests and trusts; or make pledges to give over time. Nearly all contributions the Foundation receives for use by the University are restricted, meaning donors earmark the monies for specific purposes, such as to provide scholarships to students, or for particular programs, such as athletics or the law school. After accepting cash contributions, the Foundation reviews the donors' restrictions and either deposits the monies in an existing gift fund or establishes a new gift fund to reflect the intended use of the monies. The Foundation maintains and invests donated monies until the University requests them. Once the Foundation transfers donated monies to the University, it is the University's responsibility to ensure all expenditures using the gift monies comply with donor intent.

In the *University of Colorado Foundation Performance Audit, October 2005* (2005 Audit), we made recommendations concerning the Foundation's and the University's effectiveness in meeting donor intent in four areas: (1) the Foundation's management of cash contributions, (2) the Foundation's distribution of cash contributions to the University, (3) the University's expenditure of cash contributions, and (4) the Foundation's management of gifts in kind. To determine the implementation status of the recommendations for this follow-up audit, we requested information from the Foundation and the University, conducted interviews of Foundation and University staff, and reviewed samples of cash contributions, gift money distributions, gift fund expenditures, and gifts in kind. We found the Foundation and the University have made significant progress in implementing the recommendations related to the acceptance, distribution, and expenditure of gift monies, as well as the management of gifts in kind. The steps taken by the Foundation and the University in these areas, as well as the areas in which the Foundation and the University could continue to strengthen oversight of gift management, are described in this chapter.

Cash Contributions

To manage gift monies effectively, the Foundation must first record cash contributions in gift funds that reflect donor intent. In 2005 we found that the Foundation lacked documentation of donor intent for some gift funds, had recorded some donations to the incorrect gift funds, and had deposited checks that were made payable to the University. As a result, we made two recommendations.

First, we recommended the Foundation formalize written policies to (a) require written documentation from the donor for all gifts over a specified amount; (b) ensure the documentation from donors is maintained until the donated monies have been fully used or are no longer restricted; (c) implement a standard format to document verbal instructions for contributions below the specified amount; and (d) contact donors for any gift whose purpose is not clearly evident from information accompanying the donation (2005 Audit Recommendation No. 1).

Second, we recommended the Foundation and the University finalize, approve, and implement policies and procedures for handling checks received by the Foundation that are made payable to the University (2005 Audit Recommendation No. 2).

2007 Auditor Assessment: *Both Recommendations Implemented.*

During our 2007 follow-up we found that the Foundation and the University have improved their management of cash contributions. Specifically, in November 2006 the Foundation developed and implemented a Gift Acceptance policy and procedures that require staff to document all donations in writing, confirm verbal donor instructions, and contact donors to clarify any gift for which the purpose is not clearly evident. The Foundation also implemented a document retention policy that requires permanent retention of gift fund documentation.

In addition, both the Foundation and the University adopted policies and procedures requiring the Foundation to deliver to the University all checks made payable to the University for which the donor has not clearly and unequivocally expressed intent to donate to the Foundation.

We reviewed a sample of 10 cash contributions with a total value of about $1.2 million received by the Foundation in December 2006, after the new policies were implemented. Each of the sampled contributions we tested complied with Foundation and University policies and procedures.

Distribution of Cash Contributions

Another element of ensuring compliance with donor intent involves the transfer of gift monies from the Foundation into University gift accounts that correctly reflect donor restrictions. Prior to the 2005 Audit, the Foundation and the University used transfer request forms and a purpose coding system to help ensure compliance with donor restrictions. Each Foundation gift fund was assigned a "purpose code" describing the donor's restrictions. Similarly, each University gift account was assigned a purpose code. To request a transfer of gift monies from the Foundation, the University would complete a transfer request form describing the University's reason for requesting monies. The form also included the purpose code(s) associated with the Foundation gift fund from which the monies were requested and the University account to which they would be deposited.

Overall, the 2005 Audit found the purpose coding system and transfer process did not ensure that University gift accounts reflected donor restrictions and that University staff understood the restrictions imposed by donors. The audit also found a lack of adequate coordination of efforts and information between the University and the Foundation and a lack of controls to ensure gift monies were deposited in the correct University accounts.

To address the concerns related to the distribution of cash contributions noted above, the 2005 Audit made four recommendations. First, we recommended the Foundation maintain all transfer requests from the University to provide supporting documentation for monies sent to the University (2005 Audit Recommendation No. 3).

2007 Auditor Assessment: *Implemented.*

Along with establishing one-to-one links between Foundation gift funds and University gift accounts (discussed in detail in the next section of the report), the Foundation and University implemented a new gift transfer process in which most transfers of gift monies occur automatically and no longer require the use of transfer request forms. Specifically, most University expenditures of gift monies trigger an automatic wire transfer from a linked Foundation gift fund. These automated transfers generate an electronic record of the monies transferred, which is maintained in both the University's and the Foundation's financial systems. In a few rare instances, such as the liquidation of a quasi-endowment fund (i.e., a fund held by the Foundation that is not subject to any donor's stipulation that the gift be held in perpetuity), the automated process is not used. In these cases, the University completes a transfer request form that is manually reviewed by the University before being transmitted to the Foundation. Foundation staff then review the request for appropriateness and legal compliance before making the transfer and maintain the form. The manual review improves controls by helping to ensure that the University has approved unique requests and that the Foundation has authorized the transfer.

We reviewed a sample of 10 transfers of gift monies from the Foundation to the University that occurred during the final quarter of Calendar Year

2006 with a total value of about $600,000. The Foundation had copies of all gift transfer documentation in accordance with its new policies for all the transfers we reviewed.

Our second recommendation related to the distribution of cash contributions was that the Foundation and University work together to establish a direct relationship between all Foundation gift funds and University gift accounts to ensure that gift monies are properly deposited at the University (2005 Audit Recommendation No. 4).

2007 Auditor Assessment: *In Progress.*

The Foundation and University have implemented a system to establish a one-to-one relationship between Foundation gift funds and University gift accounts and are in the process of establishing links between funds. The one-to-one relationship is established by matching a Foundation gift fund with a University gift account that has the same purpose. The University also records gift restriction information (i.e., gift purpose) in its financial system. The one-to-one relationship ensures that the gift purpose codes recorded by the Foundation and the University match.

We reviewed a sample of 10 transfers of gift monies totaling about $600,000 from the Foundation to the University that occurred during the final quarter of Calendar Year 2006. We found that each sampled transfer was properly deposited into a University account with a purpose that was consistent with the purpose of the Foundation gift fund from which the monies were withdrawn.

The University and the Foundation began designing the current linked account structure in early 2006. First, the University reviewed each of its gift accounts to determine if there was a matching Foundation gift fund. The University deactivated any gift accounts that did not have a match to prevent spending from the accounts. Once this process was completed, the Foundation and the University began identifying and resolving unlinked accounts. In general, the Foundation and the University employed a risk-based approach when linking Foundation gift funds to University gift accounts by first linking gift funds with the highest dollar values, clear donor restrictions, and those that could be resolved most easily. As of June 2007, the Foundation and the University had linked 3,359 gift funds and accounts worth a total of about $151.1 million and had 637 funds worth about $2.2 million that were not yet linked, as shown below.

University of Colorado Foundation Unlinked Gift Funds as of June 2007		
Unlinked Foundation Gift Funds	**Number of Funds**	**Total Dollar Value**
With balances of $10,000 and under	574	$798,000
With balances over $10,000	63	$1,366,000
TOTAL	**637**	**$2,164,000**
Source: University of Colorado Foundation data.		

The Foundation will always have some temporarily unlinked accounts because it establishes about 30 new gift funds per month based on new gifts with donor restrictions that do not match any existing gift fund. We reviewed the 22 new accounts that the Foundation and University linked in May 2007 and found that, on average, the links were completed in a timely manner—that is, within about seven business days of the Foundation establishing the new gift fund.

However, there are also reasons why older Foundation gift funds have not yet been linked to University gift accounts. First, for some gift funds the donor's restrictions are no longer applicable and therefore, the University cannot use the gift funds as the donor intended. For example, one Foundation gift fund was established in 1992 to support a specific professor's research; however, the professor is now deceased, so the University has not established a corresponding University account. To complete the process of linking or otherwise disposing of these types of funds, the Foundation must contact the donor for authority to revise the gift restrictions. According to the Foundation, in cases in which the gift funds have been in existence for many years, the donors may be difficult to contact. If the Foundation cannot reach the donors, it must undergo legal proceedings to request the authority to release the monies to the University for other uses. Linking these types of Foundation gift funds to University gift accounts can be a lengthy process.

Another reason that some funds are not linked is that the University staff newly assigned with a fiscal responsibility for gift monies have not yet completed mandatory gift management training. Staff must complete training before the University will allow staff to access the gift account and spend donations. The University developed this control in response to the 2005 Audit.

The Foundation and the University have made significant progress in implementing the 2005 Audit recommendation by creating a new process for linking Foundation gift funds and University gift accounts. In addition, both entities monitor unlinked Foundation funds and University accounts on a monthly basis. However, the Foundation and the University have not yet determined how best to resolve each of the older unlinked funds. Until the Foundation and the University complete the process of linking the older gift funds, the monies in those unlinked funds are not available to the University. In addition, the Foundation and the University and have not developed shared goals or benchmarks for addressing the outstanding older accounts or for monitoring the linking of new accounts.

Recommendation No. 1:

The University of Colorado Foundation and the University of Colorado should continue following the linking process that was developed and implement a formal process to determine how to resolve unlinked funds. This should include developing shared goals or benchmarks for addressing the outstanding older accounts and for monitoring the linking of new accounts.

University of Colorado Foundation Response:

Agree. Implementation date: November 2007.

The Foundation will continue to work together with the University to link gift accounts. As mentioned in the audit report, at any given time there will always be some Foundation gift funds that are in the process of being linked to a University gift account. Within the next 90 days:

- The Foundation will document its processes relating to establishing linked account relationships, and researching and resolving unlinked accounts, and

- The Foundation and the University will work together to establish mutually agreed upon benchmarks relating to the number and age of unlinked accounts.

University of Colorado Response:

Agree. Implementation date: November 2007.

The University will continue to work together with the Foundation to maintain the gift link process. As mentioned in the audit report, at any given time there will always be some University gift accounts which are in the process of being linked to a Foundation gift fund. By November 2007, the University will:

- Formally document its processes relating to establishing linked account relationships, and researching and resolving unlinked accounts, and

- Work with Foundation to establish mutually agreed upon goals and metrics for monitoring these processes.

Our next two recommendations that related to the distribution of cash contributions were for the Foundation and the University to provide instructions to University departments regarding donor intent and develop processes to resolve conflicts when the gift purposes recorded by the Foundation and the University differ (2005 Audit Recommendation No. 5) and to train staff on processing gift fund transfers (2005 Audit Recommendation No. 6).

2007 Auditor Assessment: *Both Recommendations Implemented.*

The process of establishing one-to-one links between Foundation gift funds and University gift accounts is intended to ensure that any potential conflicts regarding the specified gift purpose are resolved before the links are finalized. In addition, the new transfer process described earlier ensures that both Foundation and University staff have instructions regarding gift restrictions because the restriction information is included in both organizations' financial systems. Further, to familiarize staff with the new transfer process, the University requires all staff with a fiscal role related to a gift account to complete gift management training. We reviewed the training materials and found they give clear guidance on the new process and staff responsibilities for complying with donor intent. The University enforces the training requirement by restricting staff access to the gift monies until they complete the training. The University also conducts ongoing reviews of training records to ensure appropriate staff comply with the requirement.

University Expenditure of Cash Contributions

The University is responsible for ensuring that it expends gift monies in compliance with donor intent. In the 2005 Audit we identified three conditions that created a risk that University gift expenditures would not meet donor intent: (1) a lack of clear guidance to University staff regarding their responsibilities for complying with donor intent, (2) a lack of Foundation and University processes to regularly monitor the expenditure of gift monies in accordance with donor restrictions, and (3) the University's commingling of monies with different purposes. To address these concerns, we made two recommendations. First, we recommended the Foundation and the University strengthen controls over gift monies by (a) providing University staff with adequate documentation of gift restrictions and (b) establishing plans to conduct specific internal audits of gift expenditures for compliance with donor intent and addressing audit concerns in a timely manner (2005 Audit Recommendation No. 7).

2007 Auditor Assessment: *Partially Implemented.*

The Foundation and University have implemented Part "a" of the recommendation. As discussed above, the one-to-one system of linking Foundation gift funds with University gift accounts allows authorized University staff to view gift restrictions in the University's financial system.

The Foundation has implemented Part "b" of the recommendation. In 2007 the Foundation completed donor intent audits that included a review of a sample of gift fund transfers to ensure that the Foundation's and the University's gift accounts were properly linked and established in compliance with donor restrictions. The audits also reviewed a sample of University expenditures to determine compliance with donor restrictions. The Foundation did not assess University systems or controls over gift fund expenditures.

The University has partially implemented Part "b" of the recommendation. The University added a donor intent audit of University expenditures, systems, and controls to its Fiscal Year 2007 audit plan but did not conduct the audit. The University reported it had not completed a donor intent audit in Fiscal Year 2007 because it is still in the process of linking Foundation gift funds to University gift accounts and the Foundation's audit, mentioned above, reviewed University gift account expenditures. In addition, the University has done some limited testing related to donor intent through its internal audits and the University Controller's Office is conducting a compliance review. Although the University reports that it plans to continue limited audit testing of gift money expenditures based on risk, it does not have a specific audit scheduled that would comprehensively review both gift account expenditures and the new system and processes put into place as a result of problems noted in the 2005 Audit by the Office of the State Auditor.

Concern over the University's compliance with donors' stated intent was the initial reason that the Office of the State Auditor was asked to conduct the 2005 Audit that reviewed the "chain of custody" from initial receipt of gifts by the Foundation to the actual expenditure of gifts by the University. By conducting a comprehensive donor intent audit, the University could demonstrate that it has systems and controls in place to ensure it is adhering to donor restrictions.

Recommendation No. 2:

The University of Colorado should conduct a comprehensive donor intent audit to ensure that the newly established system and controls work as intended and that staff expend gift monies in accordance with donor intent.

University of Colorado Response:

Agree. Implementation date: June 2008.

The University will ensure the comprehensive internal audit of the gift process is completed within Fiscal Year 2008.

Our second recommendation that related to the expenditure of cash contributions was that the University discontinue the practice of commingling gift monies with different purpose restrictions within a single gift account and develop written policies and procedures related to managing gift monies (2005 Audit Recommendation No. 8).

2007 Auditor Assessment: *Implemented.*

The one-to-one system of accounts, discussed above, as well as policies, procedures, and staff training related to gift account management and expenditures, prevents the University from commingling gift monies with various purpose restrictions. The University developed new policies that require staff with a fiscal role to have access to and comply with donor restrictions on the gift monies. In addition, University procedures require staff to attend training that outlines gift management procedures and emphasizes that staff comply with donor intent.

University Gifts In Kind

Donors may donate non-cash items in the form of property—such as equipment, software, and artwork—for use by either the University or the Foundation. Donations for the University, such as books for the Law Library or software for the Aerospace Engineering lab, are typically given to help specific departments or programs carry out their functions. Prior to the 2005 Audit, the Foundation accepted and recorded all gifts in kind donated for use by either the University or the Foundation and then forwarded the former to the University. In the 2005 Audit we identified weaknesses in the Foundation's management of gifts in kind in terms of (1) documenting that the University had determined the usefulness of a potential gift and approved its acceptance, (2) valuing the gifts, (3) evaluating the costs of maintaining the gifts, and (4) recording the gifts. Therefore, we made three recommendations as discussed below.

First, we recommended the Foundation and the University develop written policies for accepting gifts in kind that address the authority to approve gifts in kind, acceptable valuation procedures, evaluation of maintenance costs, and documentation of the need for each gift (2005 Audit Recommendation No. 9).

2007 Auditor Assessment: *Implemented.*

Since the 2005 Audit, the University has assumed responsibility for accepting most gifts in kind donated for the University's use. Occasionally, the Foundation may accept gifts in kind that are intended to be used as investments or to be converted into cash for the University, such as securities or real estate.

During the follow-up audit we found that the University has implemented a Gift In Kind Acceptance policy and procedures identifying the authority to accept gifts in kind, valuation methods, and processes for evaluating the need and maintenance costs for each gift. In accordance with this policy and with State Fiscal Rules relating to the recording of equipment, campus controllers approve and record gifts in kind valued over $5,000 in the University's financial system, and the University Treasurer maintains documentation showing the gift's value, any maintenance costs associated with the gift, and how the gift will benefit the University. We reviewed a sample of four gifts in kind the University received in Calendar Year 2006 with a total value of about $5.5 million and found that each sampled gift in kind complied with the University's policies. The Foundation also strengthened its Gift Acceptance policy as discussed in the section below.

Second, we recommended the Foundation clarify the tenure of its Gift Acceptance Committee and specify in policy how the Committee will document its acceptance or denial of gifts and report to the Foundation Board of Directors. We also recommended the policy require staff to collect and maintain documentation of how each gift was valued, its usefulness to the University, the analysis of any ongoing costs associated with the gift, and the amount of any consideration to be given to the donor (2005 Audit Recommendation No. 10).

<u>2007 Auditor Assessment</u>: *Implemented.*

The Foundation has improved its Gift Acceptance policy to address acceptance, valuation, and the recording of gifts in kind, and to clarify the role and responsibilities of its Gift Acceptance Committee. The Committee is also required to report its activities to the Foundation Board of Directors. As noted above, the University accepts most gifts in kind donated for its own use. The Foundation reports that it rarely receives gifts in kind, and we found that it did not receive any in Fiscal Year 2006. Therefore, we were unable to test the implementation of the Foundation's new policy.

Our third recommendation related to gifts in kind was for the Foundation to remove the $5.75 million pledge receivable recorded in 1999 related to leased property from its financial records, reclassify the property into land and building portions, and adjust its financial records to reflect amortization only on the building. We also recommended that the Foundation follow its policy on recording gifts of privately held securities as gifts in kind (2005 Audit Recommendation No. 11).

<u>2007 Auditor Assessment</u>: *Implemented.*

The Foundation adjusted its financial records in accordance with Financial Accounting Standards Board statements and Foundation policies to properly reflect the transaction we identified as improperly recorded in the 2005 Audit. The Foundation did not receive any gifts in kind, including gifts of privately held securities, for the University's use in Fiscal Year 2006. Therefore, we were unable to test for policy compliance in this area.

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Operations and Administration

Chapter 2

Foundation Administration

The Foundation's primary mission is to support the University. The Foundation performs various services for the University in line with this mission, including raising funds, cultivating donors, managing investments, and guaranteeing certain faculty-housing loans. The Foundation is organized into several departments including strategic planning and development, human resources, investments, administration, finance and accounting, annual campaigns and constituent development, legal, facilities management, and information services. In addition, as described in the Overview, the University of Colorado at Boulder Alumni Association (Alumni Association) is a division of the Foundation. In Fiscal Year 2006 the Foundation spent about $31 million in operating costs to support these various functions.

In the 2005 Audit we reviewed the Foundation's internal controls over administrative expenses such as travel, meetings, meals, and club and membership dues. At the time, we identified deficiencies in Foundation policies and procedures that led to unallowable and questionable expenses. We found the Foundation lacked consistent expenditure approval and review processes, failed to enforce expense documentation requirements, and did not hold staff accountable for expenses that violated Foundation policies. Specifically, the 2005 Audit found that about 45 percent of the staff expense reimbursements and credit card transactions we reviewed violated Foundation policies, contained errors, and/or lacked supporting documentation. To address these deficiencies, we made two recommendations.

First, we recommended that the Foundation strengthen and enforce its policies governing employee expense reimbursements and credit card purchases by (a) requiring staff to provide itemized receipts, a written explanation of the business purpose, and a list of participants for meals and entertainment, for all purchases over a specified amount; (b) requiring documented supervisory approval for all expenses, including those of top management; (c) requiring employees to pay for any unallowed expenses; and (d) requiring the President's approval and a justification for employees to purchase airline tickets directly and considering a prohibition on first-class and nonemployee travel (2005 Audit Recommendation No. 12).

2007 Auditor Assessment: *Partially Implemented.*

During the 2007 follow-up we found that the Foundation improved controls over employee expense reimbursements and credit card purchases. The Foundation revised its Travel and Expense Reimbursement Policy in October 2005 to include the specific elements noted in the recommendation. Specifically, the policy requires:

- Employees to submit itemized receipts for purchases over $25, written documentation of the business purpose of the trip, and a list of participants for all meals and entertainment. Staff must document whether the trip will involve personal travel, and whether a spouse or family member will accompany the employee.

- Supervisors to review all administrative and travel expenses, document approval for staff reimbursements, and provide written supervisory approval or denial of exceptional or unique travel.

- Supervisory pre-approval for all travel involving overnight accommodations, airline tickets, or car rentals.

- Staff to work with a travel coordinator to purchase airline tickets. Reimbursements for first-class tickets, personal expenses, and travel costs for family members are prohibited and staff must pay for any unallowed expenses.

We reviewed a sample of 25 staff expenses from the final quarter of Calendar Year 2006 totaling about $8,100 (10 expense reimbursements totaling about $3,000, 10 credit card purchases totaling about $5,000, and 5 staff-only travel meals totaling about $100). We found that 22 of the 25 expenses followed the new Foundation policy.

However, we identified two concerns regarding the Foundation's enforcement of existing policy for all staff as well as undocumented policies and procedures for unique travel events. First, we found that the Foundation has not enforced its revised policy with respect to its Alumni Association staff. These staff travel on staff-only trips and occasionally attend special travel events with alumni. In 2 of the 25 sampled expenses we reviewed, Alumni Association staff traveled and did not obtain pre-trip approval in accordance with the Foundation's policy. In addition, there was no documentation to determine whether spouses or family members accompanied Alumni staff or whether the two trips included personal travel. One trip totaling about $1,200 was for one staff member's out-of-town travel and accommodations for an Alumni Association Board of Directors meeting; the second trip totaling about $1,200 was for one staff member's out-of-town travel for donor cultivation. Foundation management agrees that these two trips should have been pre-approved in accordance with Foundation policy.

Second, the Foundation has not documented its policy or process for approving travel expenses when Alumni Association staff accompany alumni on special travel events and tours. These are unique travel events where alumni donors pay at least a portion of the costs. In 1 of the 25 sampled expenses we reviewed, Alumni Association staff traveled with alumni for a special travel event. The trip received donor contributions totaling about $5,800 but incurred expenses totaling about $8,900. According to the Foundation, these special travel events are not required to follow the standard travel policy and instead, are pre-approved through the budget process. We found that the item in our sample had been approved through the budget process but the policy and procedures for approving these trips is not documented.

Foundation management noted that the University is reviewing the placement of the Boulder Alumni Association to determine whether it should remain within the Foundation or become part of the University's Boulder campus. While the Alumni Association remains a part of the Foundation, the Foundation should require Association staff to follow existing policies and document any policies that are specific to unique Alumni Association travel events.

Recommendation No. 3:

The University of Colorado Foundation should strengthen controls over the University of Colorado Boulder Alumni Association travel while the Alumni Association remains part of the Foundation. Specifically, the Foundation should enforce existing administrative policies, as appropriate, related to pre-approval for travel for Alumni Association staff and management. In addition, the Foundation should document any administrative policies and procedures that are specific to Alumni Association travel, such as those for special travel events.

University of Colorado Foundation Response:

Agree. Implementation date: September 2007.

The Foundation and the University are currently implementing a plan to transition management of the Alumni Association to the University by September 1, 2007. Prior to this transition, the Foundation will enforce the pre-trip approval authorization process for all business travel involving overnight accommodations, airline tickets, or car rentals with the exception of travel expenses associated with special alumni travel events, which will be exempted from the standard approval process. Foundation management will document within the next 10 days its practice of approving travel expenses associated with special alumni travel events at the time that the event is budgeted rather than through the pre-trip authorization process, and enforce these rules without exception.

Our second recommendation related to administrative expenses was for the Foundation to improve its controls by (a) establishing maximum daily limits for travel costs, 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 for Board members and non-staff; and (c) requiring pre-approval for high-dollar credit card expenses in excess of established limits (2005 Audit Recommendation No. 13).

2007 Auditor Assessment: *Implemented*

The Foundation implemented the recommendation and improved controls over its administrative expenses by revising its Travel and Expense Reimbursement Policy, discussed above. The policy strengthens management's ability to prevent inappropriate travel expenses and details the expenses that are allowable and those that are prohibited. Specifically, the policy sets a maximum daily limit of $500 for travel (including lodging, transportation, meals, and other business-related expenses) unless a Foundation Senior Vice-President or above provides written approval. The policy requires President and Audit Committee approval for limousine use, prohibits reimbursements for non-business-related expenses and lodging reimbursements if staff travel less than 50 miles from home, and restricts the frequency and cost of staff-only meals. The policy also clarifies the types of expenses allowed by Foundation Board members and non-staff, and prohibits reimbursements for spouse and family travel.

On the basis of our review of a sample of 25 administrative expenses, the results of which are described in the previous section, we found the Foundation is enforcing its policy with respect to Foundation employees.

University and Foundation Relations

In the 2005 Audit we reviewed the financial relationship between the University and the Foundation and identified several concerns regarding the lack of accountability and transparency. We identified concerns with the complexity of the financial relationship between the two organizations, which involved funds flowing from the Foundation to the University in some instances and from the University to the Foundation in other instances. Due, in part, to the complicated arrangements between the Foundation and the University, we suggested the University reevaluate the Foundation's overall role. We also identified weaknesses in the contracts between the University and the Foundation and inadequate management of and accountability for special events. Finally, we questioned whether some loans made by the Foundation were consistent with its role of supporting the University. The sections below describe the actions taken by the Foundation and the University since 2005 to address our findings.

Financial Transparency and Accountability

In the 2005 Audit we found two practices whereby expenses incurred by University staff were paid through the Foundation, circumventing University purchasing controls and State Fiscal Rules. First, the University transferred monies to the Foundation to pay expenses incurred by University staff. During the course of our 2005 Audit, the University reported that it had eliminated this practice. Second, the University periodically requested the Foundation to use gift funds to make purchases or reimburse University staff for their expenses, some of which violated Board of Regents policies. As a result, we recommended the University increase transparency and accountability for all University and gift funds by continuing to prohibit the transfer of monies to the Foundation to pay expenses incurred by University staff and eliminating the practice of allowing the Foundation to use gift monies to reimburse or directly pay for expenses incurred by or on behalf of the University (2005 Audit Recommendation No. 14).

2007 Auditor Assessment: *Implemented.*

During the 2007 follow-up audit, we found that the University had continued its prohibition on transferring funds to the Foundation to pay University expenses and had implemented policies prohibiting the Foundation from directly spending University gift monies or making payments to University employees. In January 2006 the University also executed a new operating agreement with the Foundation specifying that the Foundation shall not directly pay or reimburse any University employee for any expenses. The Foundation revised its policies and procedures to eliminate direct payments to and for University staff. We reviewed the Foundation's general ledger and found that the Foundation has dissolved the accounts that held University funds used to pay University expenses. During our review we did not identify violations of these University and Foundation policies or of the operating agreement.

University Contracts

In our 2005 Audit we found that the University lacked adequate contracts with the Foundation, thereby limiting the University's capacity to monitor the Foundation's performance. Specifically, we found that the University had no contracts with the Foundation for some services, other contracts failed to meet State Fiscal Rules and were incomplete (i.e., the contracts lacked signatures, effective dates, and/or performance standards), and the University had inconsistent processes for monitoring contracts. We made the following two recommendations.

First, we recommended the University improve accountability for services contracted through the Foundation by (a) establishing formal contracts for such services; (b) including remedies in the contracts to address any failure to meet requirements or performance measures; (c) establishing a system to monitor contract services; and (d) assessing annually whether the mechanism for determining fees for Foundation services, as well as the fees themselves, are appropriate (2005 Audit Recommendation No. 15).

Second, we recommended that the Foundation and University develop performance standards in service contracts, that the Foundation report on the standards on an annual basis, that the University and Foundation evaluate the Foundation's performance over time, and that the Foundation continue to explore methods for comparing its performance with peer foundations (2005 Audit Recommendation No. 16).

2007 Auditor Assessment: *Both Recommendations Implemented.*

During our follow-up audit we found that the University has improved accountability for contract services. In early 2006 the University executed two new contracts with the Foundation defining all Foundation and University interactions: an operating agreement and a development services agreement. These two contracts cover all Foundation services, whereas in 2005 there were multiple agreements between the Foundation and University campuses and departments, and these agreements failed to address all Foundation activities. We reviewed the new contracts and found their provisions comply with State Fiscal Rules. We also found that the new contracts include performance standards and objective criteria to evaluate the Foundation's performance. For example, the contracts require the Foundation to:

- Establish fees for Foundation services provided to the University that reflect the Foundation's costs.

- Follow University systemwide and campus fund-raising priorities that have been jointly established by the University and Foundation.

- Develop a methodology to evaluate the cost to raise and manage a private gift dollar, and assess current performance against the previous year(s) and a comparable group of foundations.

- Report its performance, including its financial position, activities, and investment strategies, to the University at least twice per year, and provide a quarterly budget report and reconciliation/variance analysis to the University showing expenses and potential cost savings. The development services agreement details productivity measurements that the Foundation must report, including qualitative and quantitative analysis of donor development, planned giving, corporate giving, major gifts, Foundation giving, maintenance of donor records, major fund-raising campaigns, and education programs, as well as the methodologies used to determine productivity.

- Report involvement by University administrators in Foundation activities such as planning, goal setting, and fund-raising.

The development services agreement also includes remedies to address any failure by the Foundation to meet contract requirements. First, the University may stipulate specific remedial action to address the problem. If the Foundation fails to take immediate and adequate action, both parties must attempt to resolve disputes through negotiations and/or mediation. If dispute resolution fails and there is a material breach of contract, the University may terminate the agreement without further notice.

We found that the University has improved its contract monitoring procedures. We reviewed agendas and notes from three joint University and Foundation meetings held between November 2006 and March 2007, performance reports and analyses the Foundation provided the University between October 2006 and January 2007, and Foundation financial data and fees for Fiscal Years 2006 and 2007. We also interviewed University officials and Foundation management. We found that the University's Office of Vice President for Administration regularly meets with Foundation management to (1) review Foundation performance data by University campus to determine whether operations are efficient and in accordance with University goals, (2) review expense data by campus to ensure University fees paid to the Foundation are in line with the services provided, and (3) discuss and resolve issues concerning the relationship between the two entities. Since 2005 the Foundation's expenses have decreased, University fees paid to the Foundation have decreased, and the total value of endowments and investments held by the Foundation have increased. In addition, the Foundation's cost to raise a dollar has decreased from about 35 cents in Fiscal Year 2005 to about 19 cents in Fiscal Year 2007. We did not identify any concerns with the Foundation's meeting the performance measures or intent of the contracts.

Special Events

Special events are fund-raising official functions, such as golf tournaments, gala dinners, and silent auctions, held to benefit a particular University department or program. Individuals who attend special events must pay to attend or participate. A portion of the payment represents a gift, and the remainder (non-gift portion) of the payment is considered to be payment for the goods or services the attendees receive at the event. Prior to the 2005 Audit, the Foundation and the University jointly administered about 40 special events each year. The 2005 Audit found the division of responsibility between the University and the Foundation for event administration and accounting was unclear; management approvals were not obtained before events were held; the administrative fees the Foundation charged the University for assisting with events were inconsistent; cash controls over event funds were lacking; and accounting for event revenues, expenses, and profits was incomplete. To address these concerns, we made the following two recommendations.

First, the Foundation and the University should evaluate who should be responsible for special event administration and accounting. If the University and the Foundation decided to continue special events as a combined effort, we recommended they strengthen accountability by developing a written agreement that specifies the services the Foundation provides, the fees the University pays, and the specific responsibilities of all parties involved in special events (2005 Audit Recommendation No. 17).

2007 Auditor Assessment: *Implemented.*

The University and Foundation determined that the University would take responsibility for managing special events. In December 2005 the University assumed full responsibility for special events, and the Foundation no longer has any role in administering these events.

The second recommendation we made related to special events was for the Foundation and the University to strengthen management for special events by (a) implementing written policies and controls to record all revenues and expenses 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; and (d) establishing cash control policies and procedures for all situations in which staff handle cash, training staff on the controls, and including cash controls in internal audits on a periodic basis (2005 Audit Recommendation No. 18).

2007 Auditor Assessment: *Partially Implemented.*

Because the University has assumed responsibility for special events, this recommendation no longer applies to the Foundation. We found that the University has taken steps to improve the management of special events and has drafted a policy governing special event administration. However, it has not yet finalized or implemented policies, related procedures, or staff training.

During the follow-up audit we found that the University has made improvements in the administration of special events since it took responsibility for them in December 2005. The University designated a Special Events Compliance Coordinator (Compliance Coordinator) to work with University department organizers on proposed events and maintain general information for each event, including revenue, expense, and profit data. The Compliance Coordinator also discusses events with organizers throughout event planning and operations to help ensure compliance with federal and state fund-raising regulations. According to the University, the Compliance Coordinator is not responsible for approving or managing events; the University deans have authority over each college's budget. The University has also drafted a policy governing special event administration and established procedures to assess the cost-benefit of each special event. In addition, the University recently modified its internal audit plan to review controls over special events if the department held an event during the period of the audit.

We reviewed the University's administration of special events, examining the records for a sample of 6 of the 38 special events held in Calendar Year 2006—one Boulder campus event, four Denver and Health Sciences Center campus events, and one Colorado Springs campus event. The six sampled events incurred expenses totaling about $145,000 and raised a total of approximately $1.1 million. We also interviewed University department staff who were responsible for organizing each of the sampled events. We found that the University has some of the same problems in operating special events that we identified when the Foundation administered them, as described in the following sections.

Cash Controls. We identified weaknesses in cash controls in all six of the special events we reviewed, as follows (some events had more than one cash control weakness):

- Only one of the six events we reviewed issued any kind of cash receipt or written acknowledgment to donors for the amount paid at the time the donors paid the event fee. Written acknowledgment, such as pre-numbered cash receipts, provides a record of payment and helps safeguard cash against theft and misstatement.

- For two events, the responsibilities for collecting, recording, and depositing event funds were not divided among different individuals, and there were no compensating controls, such as supervisory review, to ensure all cash collected was appropriately recorded and deposited.

- For two events, organizers did not track each donor's name along with the amount received from the donor. The organizers had to re-create records after these events from deposit forms and check copies to issue receipts to donors.

- For one event, 11 of the attendees did not pay before or at the event. Instead, the University contacted these attendees as much as three months after the event to obtain payment. The University does not currently require event organizers to collect special event fees from attendees before or at the events.

The University has systemwide cash control policies that address the concerns we identified with special events, but the event organizers we interviewed were not aware of them. Cash controls are critical since a variety of individuals, including students and volunteers, often handle cash and checks collected for fund-raising events. The University should train organizers on established cash control policies and procedures.

Final Event Accounting. The University does not require event organizers to complete the accounting for an event in a timely manner. The final accounting, such as recording final expenses, revenues, and profits, for three of the six events we reviewed was not completed until more than seven months after they occurred. For example, the accounting for one event, which received about $997,000 in revenue, was not completed until eight months after the event occurred. Departments cannot spend event funds until the final accounting is complete. Prompt accounting helps to ensure records of event revenues and expenses are accurate and makes the funds available to departments in a timely manner.

Overall, the problems we identified are due to a lack of written policies and procedures at the University to guide special event planning, operations, and accounting. Event organizers we interviewed requested clear guidelines on administering events and special events training from the University. The University has drafted a special events policy and procedures intended to address the concerns we identified. Finalizing its draft policy and implementing a comprehensive training program would strengthen event management, reduce the risk of fraud or errors in event accounting, and help maximize event profits.

Recommendation No. 4:

The University of Colorado should strengthen special event administration by:

a. Finalizing and implementing a written policy that includes procedures for initiating new events; properly handling cash; and properly accounting for event revenues, expenses, and profits.

b. Providing special event training to all event organizers on event policies and procedures, including event accounting, cash controls, fraud prevention, and best practices.

University of Colorado Response:

Agree. Implementation date: January 2008.

The University is committed to improving its in-house oversight of University-sponsored special events. Since assuming this responsibility, the University was able to gain very valuable insight into the complex details required in the special events policy, procedures, and training as well as begin the policy review process with University stakeholders. We feel it is critical to the long-term success of this activity to allow University stakeholders to provide us comments on how to improve these draft policies and procedures before they are adopted. Our draft policies and procedures specify:

- Procedures for initiating new events;
- Procedures and controls over financial accounting;
- Cash controls; and
- Training programs and other educational resource guidance for departments.

When these policies and procedures are adopted, the University will begin a routine training program for departments and periodic reviews of controls over special events. The University will also undertake a review of its existing cash control policies and procedures, and related training programs, and expand them to address the issues raised in this report. All new policy and procedures as well as related training will be fully implemented by January 2008.

Foundation Loans

In the 2005 Audit we found that the Foundation was involved in supporting two types of loans: Faculty Housing Assistance Program (FHAP) loans, which were available to certain University faculty members to assist them in buying a primary residence in Colorado, and non-FHAP loans, which were made to various parties, including donors and University staff, on a case-by-case basis with the approval of the Foundation's Investment Policy Committee. We questioned whether the issuance of these non-FHAP loans was consistent with the Foundation's mission to provide support to the University. We also identified problems with these loans, including a lack of documentation of the deeds of trust securing the loans and/or of the borrowers' creditworthiness and a lack of policies and procedures to collect past due loans and write off loan debt. In 2005 we recommended the Foundation and the University reassess the Foundation's loan program and determine if it is a service the Foundation should continue to provide (2005 Audit Recommendation No. 19).

2007 Auditor Assessment: *Implemented.*

During the follow-up we found that the University and the Foundation reassessed the Foundation loan program and determined that the Foundation should only provide loans in limited circumstances. Specifically, the new operating agreement between the University and the Foundation, executed in January 2006, specifies that the Foundation shall not pay or provide loans of any kind to a University employee, official, or the spouse of an employee or official except under the FHAP program or with the prior written approval of the University President. The operating agreement states that the University President will report any such approvals to the University Board of Regents.

In October 2005 the Foundation Board of Directors implemented a new policy governing any loans the University approves. If the University requests that the Foundation make a loan, the recommendation and terms of the loan must originate from the University. The Foundation policy also allows the Foundation to make a loan if it determines it will advance University or Foundation objectives, and if a third-party loan is not available on reasonable terms. The Foundation policy specifies that it may only make loans to individuals affiliated with the University or the Foundation, including but not limited to employees, consultants, and University officers (provided that these individuals are not Foundation officers, Directors, or Trustees). The Foundation may only make such loans if recommended by the Foundation President and CEO and approved by the Foundation Board of Directors. The policy specifies that loans may not provide affiliated individuals an excess benefit or subject the Foundation to excessive risk, and requires documentation of the borrower's creditworthiness, status of security, and ability to repay the loan prior to the approval of the loan.

We reviewed the Foundation's general ledger for Fiscal Year 2006 and loan receivables as of April 2007. The Foundation made two Board-approved loans to University students in August 2006 based on the terms of an endowment established by a donor to assist business students. We did not identify concerns with these two loans. During the follow-up, we found no new or outstanding Foundation loans to donors or University employees, officials, or their spouses.

University and Foundation Financial Relationship

In 2005 we found that the financial arrangements between the Foundation and the University prevented a clear accounting for University monies and that the University had not evaluated the Foundation's role to determine if it provided the maximum benefit to the University. In part, we had concerns regarding various payments and the flow of monies between the two organizations. As a result, we made the following two recommendations.

First, the Foundation and the University should conduct a comprehensive assessment of the financial arrangements between the two organizations and consider ways to improve accountability and transparency (2005 Audit Recommendation No. 20).

Second, the University should conduct a comprehensive evaluation of the structure, role, and functions of the Foundation and consider options such as limiting the Foundation's functions to development services, limiting the Foundation's functions to investment management, or continuing the current arrangement, which includes both functions (2005 Audit Recommendation No. 21).

2007 Auditor Assessment: *Both Recommendations Implemented.*

During our 2007 follow-up audit, the University reported that it did conduct a review of the Foundation's services, structure, and role. On the basis of this review, the University concluded that the Foundation should provide fund-raising, development, FHAP loans, and asset and investment management services to the University while the University assumed responsibility for accepting gifts in kind for the use of the University and for operating special events.

The University and Foundation executed a comprehensive operating agreement that clearly delineates the role and responsibilities of the Foundation. Specifically, the operating agreement outlines the organization, purpose, and governance of the Foundation; specifies that the Foundation is an independent entity with all Foundation accounts and funds entirely separate from those of the University; and requires all transactions to meet normal tests of ordinary business transactions, including proper performance standards, documentation, and approvals. The agreement also requires the Foundation to establish an annual financial plan to underwrite the cost of Foundation programs and operations; promotes accountability and transparency of Foundation operations by requiring the University President to attend all Foundation Board meetings; specifies that the Foundation must provide semiannual financial and fund-raising reports to the University; and prohibits the Foundation from accepting gifts in kind or conducting special events on behalf of the University. The University details the Foundation's development and fund-raising responsibilities, performance measures, and reporting requirements in the separate development services agreement.

Appendix A

<table>
<tr><th colspan="2">Auditor Assessment of Implementation of
2005 Audit Recommendations</th></tr>
<tr><td colspan="2">2005 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; and (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 Implementation Date: January 2006</td></tr>
<tr><td>Reported Status January 2007</td><td>2007 State Auditor Evaluation</td></tr>
<tr><td>Foundation Update: Implemented.</td><td>Implemented.</td></tr>
<tr><td colspan="2">2005 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
University of Colorado Response: Agree Implementation Date: November 2005</td></tr>
<tr><td>Reported Status January 2007</td><td>2007 State Auditor Evaluation</td></tr>
<tr><td>Foundation Update: Implemented.
University Update: Implemented.</td><td>Foundation: Implemented.
University: Implemented.</td></tr>
<tr><td colspan="2">2005 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</td></tr>
<tr><td>Reported Status January 2007</td><td>2007 State Auditor Evaluation</td></tr>
<tr><td>Foundation Update: Implemented.</td><td>Implemented.</td></tr>
</table>

Appendix A

2005 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
University of Colorado Response: Agree **Implementation Date:** February 2006

Reported Status January 2007	2007 State Auditor Evaluation
Foundation Update: Implemented. **University Update:** Implemented.	Foundation: **In Progress.** University: **In Progress.** See Recommendation No. 1 in the 2007 report.

2005 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, and (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
University of Colorado Response: Agree **Implementation Date:** November 2005

Reported Status January 2007	2007 State Auditor Evaluation
Foundation Update: Implemented. **University Update:** Implemented.	Foundation: **Implemented.** University: **Implemented.**

2005 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, and (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
University of Colorado Response: Agree **Implementation Date:** February 2006

Reported Status January 2007	2007 State Auditor Evaluation
Foundation Update: Implemented. **University Update:** Implemented.	Foundation: **Implemented.** University: **Implemented.**

2005 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, and (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 **Implementation Date:** February 2006 **University of Colorado Response:** Agree **Implementation Date:** February 2006	
Reported Status January 2007	**2007 State Auditor Evaluation**
Foundation Update: Implemented. **University Update:** Implemented.	Foundation: **Implemented.** University: **Partially Implemented.** See Recommendation No. 2 in the 2007 report.
2005 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, and (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	
Reported Status January 2007	**2007 State Auditor Evaluation**
University Update: Implemented.	**Implemented.**
2005 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 **University of Colorado Response:** Agree **Implementation Date:** November 2005	
Reported Status January 2007	**2007 State Auditor Evaluation**
Foundation Update: Implemented. **University Update:** Implemented.	Foundation: **Implemented.** University: **Implemented.**

2005 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, and (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

Reported Status January 2007	2007 State Auditor Evaluation
Foundation Update: Implemented.	**Implemented.**

2005 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

Reported Status January 2007	2007 State Auditor Evaluation
Foundation Update: Implemented.	**Implemented.**

2005 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; and (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

Reported Status January 2007	2007 State Auditor Evaluation
Foundation Update: Implemented.	**Partially Implemented.** See Recommendation No. 3 in the 2007 report.

2005 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, and (c) requiring pre-approval 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	
Reported Status January 2007	**2007 State Auditor Evaluation**
Foundation Update: Implemented.	**Implemented.**
2005 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, and (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 **Implementation Date:** November 2005	
Reported Status January 2007	**2007 State Auditor Evaluation**
University Update: Implemented.	**Implemented.**
2005 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; and (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	
Reported Status January 2007	**2007 State Auditor Evaluation**
University Update: Implemented.	**Implemented.**

2005 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 **University of Colorado Response:** Agree **Implementation Date:** January 2006	
Reported Status January 2007	**2007 State Auditor Evaluation**
Foundation Update: Implemented. **University Update:** Implemented.	Foundation: **Implemented.** University: **Implemented.**
2005 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 **University of Colorado Response:** Agree **Implementation Date:** December 2005	
Reported Status January 2007	**2007 State Auditor Evaluation**
Foundation Update: Implemented. **University Update:** Partially Implemented.	Foundation: **Implemented.** University: **Implemented.**

2005 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; and (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 **Implementation Date:** December 2005
University of Colorado Response: Agree **Implementation Date:** December 2005

Reported Status January 2007	2007 State Auditor Evaluation
Foundation Update: Implemented. **University Update:** Partially Implemented.	Foundation: **Implemented.** University: **Partially Implemented.** See Recommendation No. 4 in the 2007 report.

2005 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
University of Colorado Response: Agree **Implementation Date:** January 2006

Reported Status January 2007	2007 State Auditor Evaluation
Foundation Update: Implemented. **University Update:** Implemented.	Foundation: **Implemented.** University: **Implemented.**

2005 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
University of Colorado Response: Agree **Implementation Date:** January 2006

Reported Status January 2007	2007 State Auditor Evaluation
Foundation Update: Implemented. **University Update:** Implemented.	Foundation: **Implemented.** University: **Implemented.**

<table>
<tr><td colspan="2">2005 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</td></tr>
<tr><th>Reported Status January 2007</th><th>2007 State Auditor Evaluation</th></tr>
<tr><td>University Update: In Progress.</td><td>Implemented.</td></tr>
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