Minnesota STATE COLLEGES & UNIVERSITIES

College, University and System Affiliated Foundations

Office of Internal Auditing
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Members of the MnSCU Board of Trustees
Chancellor James H. McCormick.

In December 2007, the Audit Committee approved my office conducting a study of college, university and system affiliated foundations. This report focuses on the matters of most interest to the Board of Trustees. In addition, we have communicated additional operational issues to presidents and the Chancellor for corrective action.

We conducted this study in compliance with the *Institute of Internal Auditors: Standards for Professional Practice of Internal Auditing*.

We appreciate the excellent cooperation and assistance that we received from employees in the Development Division of the Office of the Chancellor and all MnSCU colleges and universities.

John Asmussen, CPA, CIA, CISA, MBA
Executive Director

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Carolyn Gabel, Northwest Regional Audit Coordinator, had lead responsibilities for this project.

Executive Summary

In fiscal year 2007, 43 foundations were affiliated with the Minnesota State Colleges & Universities (MnSCU). These foundations generated over $20 million of program benefits.

- From a donor perspective, cumulatively, 83% of the spending by these foundations went into program benefits – surpassing the expectations of donor watchdog groups.
- From the perspective of the Board of Trustees, overall, it cost 39 cents to raise $1 of public benefits – also surpassing the expectations of current board policy. The board, though, may wish to reconsider whether its current policy provides a sufficiently robust test for operational efficiency.

Foundations varied considerably in size, scope, and maturity. As a result, some foundations are challenged to comply with board policy and adhere to donor accountability standards. Thus, the Board of Trustees should consider the following policy matters:

1. What should be the economic tests, if any, used to evaluate foundations affiliated with MnSCU?
2. To what extent, if any, should foundations be subject to oversight provisions beyond the basic requirements for non-profit charitable organizations?
3. What should be the ramifications for foundations that cannot meet board requirements?
4. To what extent, if any, should board policy be broadened to address relationships with other private, non-profit organizations, such as booster clubs and alumni associations?

Section I: Introduction

Audit Scope and Methodology

The full study had the following objectives:

- To study compliance with Board Policies 7.7 and 8.3, and Procedure 8.3.1. (see Appendix A for a summary of relevant board policies).
- To provide useful information to assist the Board of Trustees with its decision about the terms of its contract renewal with the Minnesota State Colleges & Universities (MnSCU) System Foundation, and
- To facilitate the policy review of the provisions contained in Board Policy 8.3.

The study was completed in two phases:

Phase 1 – Focused on the MnSCU System Foundation and was intended to provide information to the Board of Trustees to assist with its decision regarding renewal of the contract with the MnSCU System Foundation. A preliminary report was shared with the Board of Trustees in April 2008.

Phase 2 – Focused on gathering information from foundations affiliated with MnSCU colleges and universities to assist with the five year review of Board Policy 8.3.

Internal Auditing conducted fieldwork for the project at the Office of the Chancellor and all 37 colleges and universities from March 2008 to July 2008. Primary features of the methodology included:

- Conducted interviews of key staff at each college and university to gather information on the foundations and other fundraising activities.

- Completed a cost benefit analysis on each foundation for fiscal years 2006 and 2007.

Internal Auditing worked closely with staff from the Office of the Chancellor Development Division on designing the methodology and interpreting final results. In particular, we wish to recognize the assistance and support provided by Ms. Catherine McGlinch, former Executive Director; Ms. Maria McLemore, Interim Executive Director; and Ms. Joyce Petsch, Assistant Development Director.

Background on Foundations

MnSCU is affiliated with 43[1] individual foundations (see Appendix B for a list). Typically, there is one foundation that supports a college or university. However, a few colleges have more than one foundation; these foundations are more closely aligned to a particular campus within the college.

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[1] The Minnesota State Community and Technical College Foundation was added as the 44th foundation in 2008, but was not included in the scope of this study.

Each foundation has its own board of directors that have fiduciary responsibilities for governance and overseeing the activities of the foundation. Board members are typically alumni or representatives from local communities, organizations, and businesses.

The foundations are private, non-profit organizations legally incorporated under Internal Revenue Code 501(c)(3) which provides exemption from federal income taxes. This status is important since it allows most contributions from individuals or organizations to be tax deductible. Appendix B documents the year foundations received their 501(c)(3) status. Note that in some cases, a foundation may have existed for many years, but was essentially in a dormant state until recently.

Table 1: MnSCU Affiliated Foundations – Key Financial Resources
For the Fiscal Year Ended June 30, 2007

	Foundation Affiliation		
	State University	**College** (1)	**All**
Contributions:			
Total Value at 6/30/2007	**$24,898,000**	**$11,864,000**	**$36,762,000**
Highest Institutional Amount	$11,182,000	$1,058,000	$11,182,000
Lowest Institutional Amount	$1,295,000	$7,000	$7,000
Average Amount	$3,557,000	$330,000	$855,000
Investments:			
Total Value at 6/30/2007	**$94,345,000**	**$44,359,000**	**$138,704,000**
Highest Institutional Amount	$25,174,000	$4,429,000	$25,174,000
Lowest Institutional Amount	$2,599,000	$0	$0
Average Amount	$13,478,000	$1,232,000	$3,226,000
Endowments:			
Total Value at 6/30/2007	**$65,283,000**	**$25,656,000**	**$90,939,000**
Highest Institutional Amount	$19,129,000	$3,764,000	$19,129,000
Lowest Institutional Amount	$1,856,000	$0	$0
Average Amount	$9,326,000	$713,000	$2,115,000
Investment Income:			
Total Investment Income for FY 2007	**$12,294,000**	**$4,631,000**	**$16,925,000**
Highest Institutional Amount	$3,048,000	$647,000	$3,048,000
Lowest Institutional Amount	$287,000	$0	$0
Average Amount	$1,756,000	$129,000	$394,000

(1) The MnSCU System Foundation is included in this column.

Source: Audited financial statements or Internal Revenue Service 990 forms.

What Functions do Foundations Perform?

Foundations provide a place where donors can make gifts. Types of activities that are common to foundation fundraising efforts include: annual fund drives, capital campaigns, major gift solicitation, and golf tournaments. In addition, many foundations solicit for equipment or other materials that are useful to colleges and universities. Table 1 shows the distribution of the $36.7 million in contributions collected in fiscal year 2007.

Colleges and universities in some cases also rely on foundations to conduct alumni relations (newsletters, alumni tracking, social events) and advancement (public relations including; web, marketing, communications, and publications) activities. However, in most cases these specific activities were conducted by the colleges and universities themselves.

What Value do Institutions get from Foundation Contributions and Investments?

Foundations provide both quantitative and qualitative value to the system, colleges and universities. Table 2 shows the distribution of the $20.7 million in measurable benefits received during fiscal year 2007, including:

- **Student scholarships** which both help students finance their education and serve as a recruiting and retention tool for institutions. In fiscal year 2007, foundations provided $8.7 million in scholarships to students.
- **Program operating funds** provide funds for faculty grants, specialized equipment, College for Kids programs, libraries, and emergency student loan programs. In fiscal year 2007, foundations provided $8.8 million in operating funds to institutions.
- **In-kind contributions** provide equipment and materials for use at colleges and universities. This is particularly important for technical college programs. In fiscal year 2007, foundations provided over $3.0 million in-kind donations to institutions.

Also, only looking at benefits directly coming to colleges, universities, or the system does not consider fully the effects of assets accumulated by foundations. Two of the more important assets managed by foundations are:

- **Property Acquisition**: Ten foundations owned $37.6 million in capital assets as noted on the fiscal year 2007 financial statements. Of the total, $35.8 million is owned by six of the seven state university foundations and includes resident halls, recreation centers and wellness centers. The four college foundations with capital assets are Riverland Community College Foundation (apartment building); Minnesota State College, Southeast Technical Foundation (office building); Alexandria Technical College Foundation (bookstore building); and Minnesota West Community and Technical College Foundation (apartment building).

- **Investment Management**: As shown in Table 1, foundations had over $139 million in investments as of June 30, 2007, including $91 million in endowments. These investments generated $16 million in income during fiscal year 2007.

Table 2: MnSCU Affiliated Foundation – Program Benefits
For the Fiscal Year End June 30, 2007

	Foundation Affiliation		
	State University	**College** (1)	**All**
Scholarships:			
Total Benefit for FY 2007	**$4,799,000**	**$3,905,000**	**$8,704,000**
Highest Institutional Amount	$1,164,000	$389,000	$1,164,000
Lowest Institutional Amount	$56,000	$500	$500
Average Amount	$686,000	$108,000	$202,000
Operating Programs:			
Total Benefit for FY 2007	**$6,265,000**	**$2,489,000**	**$8,754,000**
Highest Institutional Amount	$1,704,000	$692,000	$1,704,000
Lowest Institutional Amount	$393,000	$0	$0
Average Amount	$895,000	$69,000	$204,000
Equipment:			
Total Value for FY 2007	**$1,229,000**	**$1,816,000**	**$3,044,000**
Highest Institutional Amount	$532,000	$530,000	$532,000
Lowest Institutional Amount	$0	$0	$0
Average Amount	$176,000	$50,000	$71,000

(1) The MnSCU System Foundation is included in this column.

Source: Audited financial statements or Internal Revenue Service 990 forms.

Finally, quantitative analyses do not capture important qualitative benefits, including:

- **Outreach**: Foundations serve as a mechanism for outreach to alumni, employees, and the local community of the college or university and can help enhance the institution's image. Over 700 volunteers currently serve on the governing boards of MnSCU foundations. Since board members are usually local to the community and also may be alumni, they are advocates who encourage people to attend institutions or give money to foundations. They are knowledgeable about campus issues and view the institution as a source of pride in the community and throughout the region.

  Types of outreach activities include: business development, public speaker series, mentor programs, and campus celebrations (e.g. Martin Luther King Day celebrations, presidential inaugurations, commencements and homecoming). According to foundation leaders outreach activities lead to businesses hiring students, using services to educate their employees and volunteer opportunities for students and employees.

- **Purchasing Flexibility**: Foundations are not subject to the same regulations as governmental agencies and have more latitude on the use of their resources.

How are Foundations Administered and Staffed?

Table 4, in Section II, provides a comprehensive summary of administrative and fundraising costs. It shows that MnSCU spent $8 million and foundations spent $4 million on these costs in fiscal year 2007. Foundations are administered and staffed in a variety of ways. As shown in Table 3, most foundations exclusively rely on college or university employees to provide administrative support[2] activities for the foundation. Of the 41 foundations that rely on state employees to complete foundation activities, twenty foundations reimburse colleges or universities for at least a portion of employee salaries. The amount reimbursed varies significantly. For example, one foundation reimburses the institution for the entire cost of its administrative support, while another reimburses a flat amount of $6,000 per year.

Table 3: Analysis of How Foundations are Staffed

Only state employees	36
Both state and foundation employees	5
Only foundation employees	2

In some cases, foundations rely heavily on volunteers to accomplish activities. Examples may include:

- Board members raise funds or monitor finances.
- Members of the community serve on scholarship committees.
- Businesses provide pro bono services such as legal or auditing services.

The knowledge and experience of a foundation's executive director is critical to its success. We found that some foundations have had difficultly finding qualified, experienced executive directors, and that others have had turnover in the position. Foundations staffed only by an executive director and a support staff employee are dependent on the experience, competency, and longevity of the director. If turnover occurs, the success of the foundation may be significantly impacted in its fundraising and outreach efforts. Finally, we noted that two small foundations rely on a college president to act as the executive director of the foundation.

Office of the Chancellor – Development Division

The Office of the Chancellor has a development division that is lead by Ms. Maria McLemore the Interim Executive Director. The division is responsible for:

- Providing administrative and fundraising support for the MnSCU System Foundation.
- Serving as a resource for development and alumni professionals working on behalf of the system's 32 colleges and universities, including coordinating and hosting professional

[2] Administrative support is defined in Board Policy 8.3, and may include the use of college or university or system employees, equipment, and facilities that are needed to carry out foundation policies and authorizations. The foundation board is responsible for managing its financial resources, including authorizing fundraising strategies, budgeting the use of funds, and establishing investment policies.

development opportunities and initiating improvements to constituency management and reporting processes.
- Ensuring required contracts are in place between colleges and universities, foundations, and the Office of the Chancellor.
- Maintaining documentation on all foundations.
- Compiling and disseminating the annual gifts and grants report to the Board of Trustees and the broader system community.

National Accountability Standards for Donors

Two recognized watchdog organizations[3] have established accountability standards to assist donors in making informed giving decisions.

- **Charities Review Council of Minnesota** - is a non-profit organization located in Minnesota that encourages donors to make independent thoughtful decisions about charitable giving by researching organizations of interest. According to the council's website, no other state has a similar independent resource for donors. A summary of the organizations Standards of Accountability is located in Appendix C.

- **Better Business Bureau Wise Giving Alliance** (the Alliance) - According to its website[4], the Alliance helps donors make informed giving decisions and advances high standards of conduct among organizations that solicit contributions from the public. The Alliance was formed in 2001 through the merger of the National Charities Information Bureau with the Council of Better Business Bureau's Foundation (which housed the Philanthropic Advisory Service.) The merger partners offer over a century of combined experience in charity evaluation. A summary of the organizations Standards for Charitable Accountability is located in Appendix D.

The Charities Review Council believes that the governing board is one of the most important elements of well-functioning nonprofit organizations, including foundations. The board is supposed to set the strategic agenda for the organization and has overall responsibility for its mission and programs. The Office of the Chancellor Development Division has encouraged foundations to adhere to the Charities Review Council Accountability Standards, to the extent practicable.

[3] The Council for Advancement and Support of Education (CASE) also has created a "Management Checklist for Institutionally Related Foundations" that advises foundations on best management practices. It offers a more detailed list of management considerations that goes well beyond the primary interests of donors.
[4] http://us.bbb.org/WWWRoot/SitePage.aspx?site=113&id=cf401757-e890-4352-8d73-829eb595de21

Section II: Economic Analysis

Members of the Board of Trustees requested this study largely because they wanted some basis to assess the cost-benefits of the relationships between MnSCU colleges and universities and foundations. Traditionally, information shared with the board cited only the gifts and grants generated each year and did not provide any cost data. Accordingly, we worked closely with MnSCU and foundation accountants to develop estimates and match costs with revenues associated with foundations.

Figure 1 shows how funds flow through the foundations and MnSCU. The figure distinguishes operations that occur within the control of colleges and universities from those operations that are controlled by the foundations. Some notable features of the figure include:

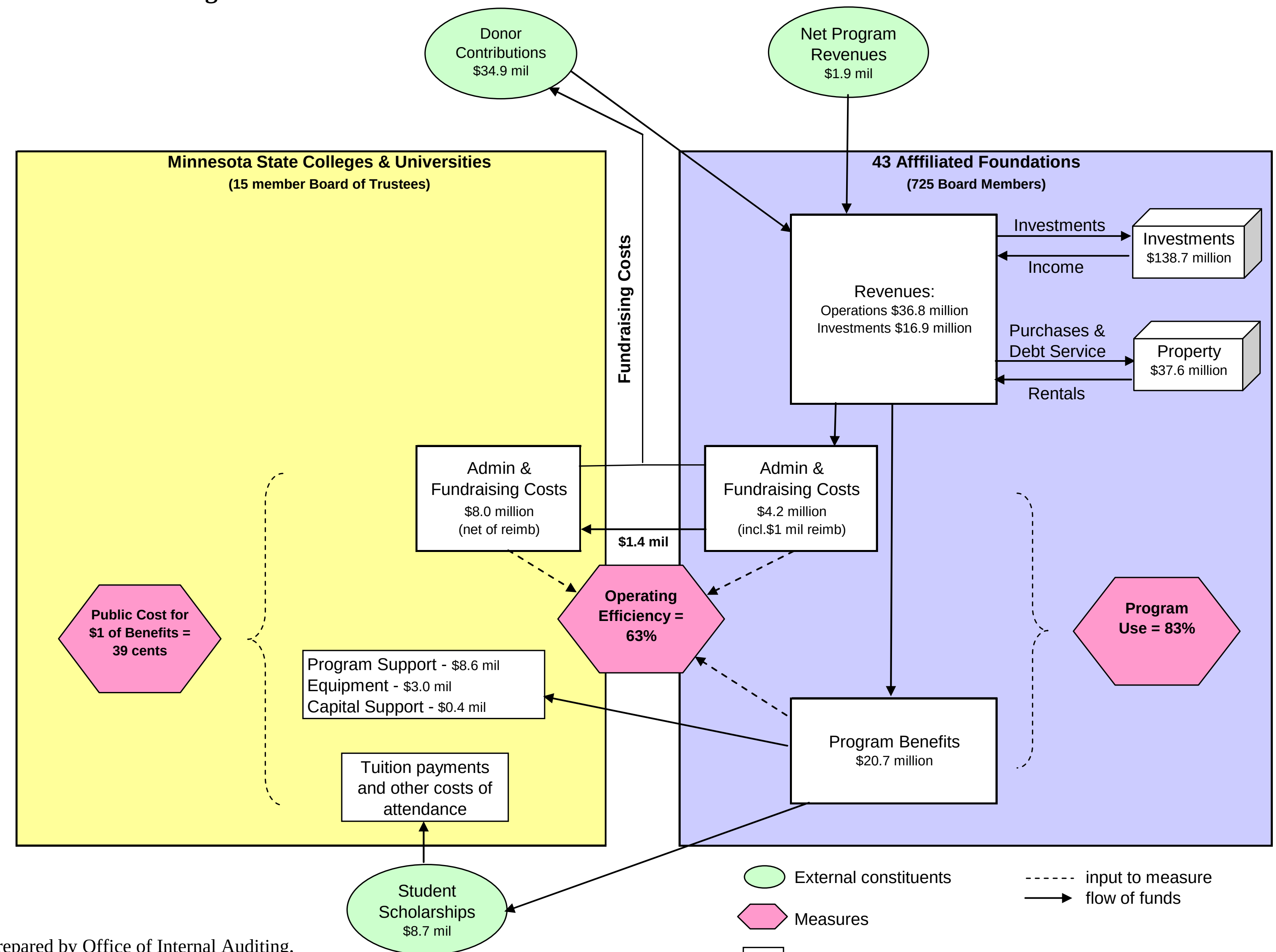
- Donor contributions are from outside sources, including alumni, community members, and businesses. These contributors feel an allegiance to their local college or university; thus, are located on the MnSCU side of the diagram. The foundations, though, cultivate these relationships, receive the contributions, and fulfill the donor wishes within the protection of the foundation's structure.

- Administrative and fundraising costs are shared between MnSCU and the foundations. In fiscal year 2007, MnSCU financed over $8 million of these costs, compared to $4 million financed by the foundations. The negotiations over the distribution of these costs are vital decisions. The foundation costs must be held low enough to assure donors that the vast majority of their contributions will be used for program benefits. At the same time, the MnSCU investments must produce sufficient rates of return. The three measures shown in the diagram are explained later.

- Although the foundations generated over $50 million in operating revenues (contributions, net program revenues and investment income), only $25 million was spent on operating costs (fundraising/administrative costs and program benefits). The residual represents endowment growth, investments in real property, and an increase in net assets.

- Student scholarships are counted fully as a program benefit for purposes of calculating the Public Cost Index (see definition on page 10). It should be noted, though, that scholarship dollars do not replace operating dollars spent to support foundations. Various econometric assumptions could be made to project the value that scholarships produce for MnSCU institutions. One could assume that they help attract students who otherwise might not attend and help generate new revenue. Conversely, one could assume that they replace loan funds that students otherwise would have needed to obtain. For purposes of this analysis, the amount paid in scholarships was recognized as the value of the public benefit.

Figure 1: MnSCU Affiliated Foundations – Flow of Funds for Fiscal Year 2007



Source: Prepared by Office of Internal Auditing.

We then explored the types of economic tests that have been used to evaluate the effectiveness of foundations. A common method of testing charities is to examine fundraising ratios. Fundraising tests, however, are wrought with definitional problems and have been criticized as being highly subjective. For example, 17 of the 43 foundations showed zero fundraising costs on their audited financial statements or tax filings. Guidance from the Better Business Bureau suggests that showing no fundraising costs could be interpreted as an incomplete allocation of costs. For these reasons, we do not intend to recommend the use of fundraising ratio tests.

Ultimately, we applied three economic tests based on the spending side of foundation finances. Table 3 shows the result of these tests for the system as a whole. The basis for the three tests is as follows:

- **Current Board Test (The Public Cost Index) –** Board policy currently permits colleges and universities to provide administrative support services to foundations so long as the foundation returns equal or greater value to the institution and its students each year. In other words, it should cost colleges and universities less than $1 for every $1 of benefit provided by the foundation. This calculation, though, does not consider administrative and fundraising costs incurred directly by foundations. This test addresses the question: Did MnSCU receive sufficient benefits to cover amounts expended to support foundations?

- **Donor Test –** As introduced in Section I, two watchdog organizations, the Minnesota Charities Review Council and the Better Business Bureau (BBB) Wise Giving Alliance, have developed guidelines for donors to use when evaluating charities. Both organizations have developed an economic test which assesses the percentage of foundation costs that are devoted to program benefits. The council recommends that at least 70% should be spent on program benefits; the BBB sets a threshold of 65%. The calculations are based on audited financial statements and tax forms filed by foundations. Quite often these reports do not account for administrative support costs born by the college or university. This test addresses the question: Was a sufficient amount of donor contributions spent on program benefits, rather than administrative and fundraising costs?

- **Operating Efficiency Test –** Internal Auditing developed this test to overcome the limitations of the other two tests, namely not considering support costs paid by the other party. This test consolidated administrative and fundraising support costs from both MnSCU and the foundation to consider a total cost of operating a private fundraising entity. In essence, it allows for a more comprehensive method of testing the rate of return associated with private fundraising efforts. This test addresses the question: How efficient is it to raise funds through a private entity?

Table 4: All Affiliated MnSCU Foundations Combined Consolidated Foundation Operating Expenses Fiscal Years 2006 & 2007

	Fiscal Years		
	FY 2006	FY 2007	2-Year Total
Administrative & Fundraising			
MnSCU Costs			
Direct Salaries	$5,732,201	$6,750,139	$12,482,340
Other Direct Costs	1,250,974	1,235,278	2,486,252
Indirect Costs	1,252,341	1,463,540	2,715,881
Reimbursements from Foundations	(1,172,007)	(1,423,106)	(2,595,113)
Net MnSCU Costs	$7,063,509	$8,025,851	$15,089,360
Foundation Costs (incl. reimb. to MnSCU)	3,997,963	4,161,644	8,159,607
Subtotal - Administrative & Fundraising	$11,061,472	$12,187,495	$23,248,967
Program Benefits			
Scholarships	$7,368,467	$8,704,608	$16,073,075
Operating Programs	8,613,549	8,753,983	17,367,531
Equipment	2,075,060	3,044,109	5,119,169
Capital Costs	8,000	211,391	219,391
Subtotal - Program Benefits	$18,065,075	$20,714,091	$38,779,166
Total Expenses	$29,126,547	$32,901,586	$62,028,133

Economic Analyses Based on Spending Ratios

	FY 2006	FY 2007	2-Year Total
Current Board Test (1):			
Public Cost per $1 of Benefits	$0.39	$0.39	$0.39
Pass Test?	37 of 43 pass	39 of 43 pass	
Donor Test (2):			
% Foundation Spent on Program Benefits	82%	83%	83%
Pass BBB Test (> 65%)?			35 of 43 pass
Pass MN Charity Review Council Test (> 70%)?			32 of 43 pass
Operating Efficiency Test (1):			
% Total	62%	63%	63%
Pass at 65% threshold?			14 of 43 pass

(1) Compares only net institutional costs to program benefits.
(2) Compares only foundation costs to program benefits.
(3) Compares combined MnSCU and foundation costs to program benefits.

Source: Internal Auditing analysis from MnSCU accounting records and foundation reports.

Limitations of Economic Analyses

The nature of fundraising activities makes them amenable to quantifiable measurements, but there are some important limitations to measurements that should not be overlooked.

- Temporal mismatches may occur because costs and benefits occur in different time periods, e.g. costs in the current period may generate revenues in future periods or revenues of the current period may be the result of efforts from past periods. The risk from the mismatch of cost and revenue streams diminishes as foundations become more mature. One expert[5] estimated that it takes foundations 2-3 years to realize the return on fundraising investments made in the current period.

- Small foundations or foundations dependent on large, infrequent private grants (such as the MnSCU System Foundation) are prone to greater variation in results from year to year. Thus, the Minnesota Charities Review Council recommends that three years of data should be combined for economic tests. This study, though, only had financial information for two years, fiscal years 2006 and 2007. Data for fiscal year 2008 will be available later this year; we suggest that the data for fiscal years 2006 through 2008 be used as the initial base for evaluating the efficiency of the individual foundations.

As discussed in Section I, foundations also provide important qualitative benefits.

Finding 1 – Seven foundations have not met the return of investment requirement in Board Policy.

Board Policy 8.3 requires in return for administrative support, foundations need to contribute to the system, college, or university an amount equal to or more than the value of the administrative support provided by the system, college, or university to the foundation (referred to herein as the Public Cost Index). Table 5 documents the Public Cost Index for six colleges and the MnSCU System Foundation that did not meet the requirement in at least one of the fiscal years examined.

In January 2004, the Board of Trustees amended Board Policy 8.3 to permit waivers of the requirement that foundations return at least as much in benefits as public support costs. Waivers can be granted for up to three consecutive years if foundations demonstrate that an annual return-on-investment is not possible due to start-up costs of new or reconstituted foundations. No waiver requests have been made on behalf of these seven foundations. Although there was discussion with the Board of Trustees that the reconstituted MnSCU System Foundation would be a candidate for a waiver in the first few years of its new structure, a waiver application was never filed. Staff at one college thought because their foundation was newly formed, it had three years before needing to request a waiver. At another college, the president signed a letter to the foundation's auditors. It indicated the college would waive all liability resulting from the foundation not being able to sufficiently cover the value of services received by the foundation**.**

[5] Hedgepeth, R. C. *How public college and university foundations pay for fund-raising.* Published by the Association of Governing Boards of Universities and Colleges and the Council for Advancement and Support of Education.

Table 5: Summary of Affiliated Foundations that did not meet the Public Cost Index in Fiscal Year 2006 or 2007

Foundation Name	Fiscal Year 2007			Fiscal Year 2006		
	MnSCU Support	Total Benefits	Public Cost Index	MnSCU Support	Total Benefits	Public Cost Index
Detroit Lakes Area College Foundation	$10,305	$500	**$20.61**	$4,010	$6,000	$.67
Fond du Lac Tribal & Community College Foundation	$57,352	$8,000	**$7.17**	$64,569	$12,250	**$5.27**
Mesabi Range College Foundation	$14,370	$100,758	$.14	$12,990	$3,118	**$4.17**
Northwest Technical College - Bemidji Foundation	$56,776	$17,875	**$3.18**	$15,521	$0	**No benefits**
Riverland Community College Foundation	$192,952	$122,040	**$1.58**	$178,912	$94,490	**$1.89**
Vermilion Community College Foundation	$24,623	$22,364	**$1.10**	$3,135	$18,671	$.17
MnSCU Foundation	$208,375	$72,268	**$2.88**	$159,217	$263,473	$.60

Source: Office of Internal Auditing analysis.

Recommendation

- *As required by Board Policy 8.3, colleges, universities and the Office of the Chancellor need to ensure that foundations, at a minimum, return benefits that exceed the cost of the administrative support provided by the college, university or Office of the Chancellor. If it is not feasible, then a timely waiver request must be submitted for approval.*

How do foundations measure-up against other economic tests?

Table 6 shows the extent to which foundations conformed to the economic tests defined earlier. The Better Business Bureau test of program use efficiency (at least 65% spent on program activities) compared to conformance to the Internal Auditing test of operating efficiency (at least 65% spent of combined institutional and foundation costs related to the foundation were spent on program activities). Although 35 foundations met the Better Business Bureau test, only 14 foundations met the Internal Auditing test when combining fiscal years 2006 and 2007.

Table 6: MnSCU Affiliated Foundation – Economic Test Summary
For the Two Fiscal Years Ended June 30, 2007

	Foundation Affiliation		
	State University	**College** (1)	**All**
Donor Tests:			
Overall Percent	83%	82%	83%
> 90%	2	11	13
80 – 89%	2	8	10
70 – 79%	2	7	9
65 – 69%	0	3	3
50-64%	1	6	7
Less than 50%	0	1	1
Operating Efficiency:			
Overall Percent	62%	63%	63%
> 80%	0	3	3
70 – 79%	2	7	9
65 – 69%	0	2	2
50 – 64%	4	14	18
Less than 50%	1	10	11

(1) The MnSCU System Foundation is included in this column.

The results in Tables 4 and 6 are based only on two years of activity. A better test would be to consider three years of activity, so that unusual annual variations do not distort the picture. The Office of the Chancellor will be collecting data on fiscal year 2008 so that the analysis may be conducted for a three-year period.

In Chapter IV, we encourage the Board of Trustees to consider whether it wishes to revisit the economic tests associated with foundations.

Section III: Governance and Accountability

Accountability for foundations is affected by a combination of board policy, system procedures and external standards suggested by donor watchdog groups. Colleges and universities are expected to comply with board policies and procedures. The Office of the Chancellor recently began encouraging adherence, to the extent practicable, with the Minnesota Charities Review Council Accountability Standards. Accordingly, we tested for compliance with board policy and system procedures and adherence with external donor guidelines.

Finding 2 – Several colleges were not in compliance with some provisions within Board Policy and System Procedure.

In addition to the economic test provided in board policy, addressed in Section II, the study tested for compliance with other requirements imposed by Board Policy 8.3 and related Procedures. The system-wide results of those compliance tests are shown in Table 7. The Office of the Chancellor Development Division has been working with college and universities to improve compliance. It has had particular difficulty in ensuring that complete audit results were filed. On several occasions, the division indicated to a college or university representative that all reports had been filed when, in fact, a key component, such as a management letter, was missing. As a result, the division recently clarified its expectations for filing audit reports.

Recommendation

- *All colleges and universities should comply with Board Policies and System Procedures.*

What do the results of foundation financial audits show?

Financial audits are a fundamental accountability feature required by board policy and the Minnesota Attorney General's Charities Division. The audits must be conducted annually if revenues are expected to exceed $350,000; otherwise board policy requires an audit every three years.

The audit reports, consisting of an opinion on the financial statements and a separate management letter, provide indicators of the administrative capacity of foundations. Although the foundations are governed by independent boards, they manage, at least in part, a valuable MnSCU asset – raising funds based on the college or university brand and reputation. Thus, colleges and universities should not be content to allow foundations to accept major problems indicated by the independent audits. In fiscal year 2007, 38 foundations should have obtained an annual audit, but audited financial statements were submitted to the Office of the Chancellor for only 35 foundations and management letters were submitted for only 30 foundations. Of the 30 management letters, 26 letters cited either a significant deficiency or a material weakness. Many of these audit findings resulted from the implementation of more vigorous audit standards in 2007. Common problems included an inadequate segregation of duties and relying on auditors to prepare financial statements.

Table 7: Summary of Board Policy and System Procedure Compliance Issues

Policy or Procedure Reviewed	System-wide Status
Procedure 8.3.1, Part 3. C: Except as defined in the procedure, no employee of a college, university or the Office of the Chancellor shall participate as a voting member or officer of the board of directors of a college- or university-related foundation.	42 of 43 foundations complied. Fond du Lac Tribal & Community College Foundation has one voting member that is an employee of the college.
Procedure 8.3.1, Part 3. E: No college, university or Office of the Chancellor employee shall handle funds on behalf of the foundation unless the foundation has established policies and procedures governing the activities authorized for each employee, including writing checks, accepting donations, making deposits or making other financial transactions on the foundation's behalf.	36 of 43 foundations had established policies and procedures and complied. 7 foundations had not established these policies: Anoka Technical College Foundation, Anoka Ramsey Community College Foundation, Cambridge Community College Center Foundation, Inver Hills Community College Foundation, Moorhead Technical College Foundation, Wadena Area College Foundation and Northland Community and Technical Foundation.
Procedure 8.3.1 College, University and Office of the Chancellor Related Foundations, Part 3. B: Colleges, universities and the Office of the Chancellor are prohibited from providing to their related foundations services that involve managerial, discretionary or policy-making responsibilities. The foundation board is responsible for managing its financial resources, including authorizing fundraising strategies, budgeting the use of funds, and establishing investment policies.	34 of 43 foundations complied. 6 foundations did not have an approved budget: Anoka Ramsey Community College Foundation, Cambridge Community College Center Foundation, Fond du Lac Tribal & Community College Foundation, Hibbing Community College Foundation, Rainy River Community College Foundation, and Rochester Community and Technical College Foundation. 2 foundations had neither an approved budget nor an investment policy: Moorhead Technical College Foundation and Wadena Area College Foundation. 1 foundation did not have an investment policy: Detroit Lakes Area College Foundation.
Board Policy 8.3, Part 2, subpart E: Contracts shall require that the foundation annually provide to the college or university and the system office a copy of its most recent financial report filed with the attorney general pursuant to Minn. Stat. Ch. 309. Foundations receiving less than $350,000 in revenues annually shall submit a copy of an external financial audit at least every three years.	22 of 38 foundations which had required audits in FY 2007 were submitted timely. 3 foundations had not yet completed required audits: Cambridge Community College Center Foundation, Moorhead Technical College Foundation, and Rainy River Community College Foundation. 13 audits were late or incomplete: Alexandria Technical College Foundation, Anoka Ramsey Community College Foundation, Dakota County Technical College Foundation, Inver Hills Community College Foundation, Minneapolis Community and Technical College Foundation, Minnesota State Collegez Southeast Technical College Foundation, Detroit Lakes Area College Foundation, Mesabi Range College Foundation, North Hennepin Community College Foundation, Ridgewater College Foundation, Riverland Community College Foundation, St. Cloud State University Foundation, and South Central College Foundation - Mankato.

Table 8 summarizes the auditors' conclusions from the fiscal year 2007 audits. The inability to resolve exceptions noted in audit opinions or material weaknesses in internal controls should be considered a red flag. Presidents should voice their expectations that any such problems be resolved promptly by foundation governing boards. Particular attention should be given to any issues from fiscal year 2007 that reappear in the upcoming fiscal year 2008 audits. The policy considerations of this matter are discussed further in Section IV.

Table 8: Summary of Fiscal Year 2007 Foundation Audit Conclusions

Components of Audit Conclusions	System-wide Status
Opinion on Financial Statements – The opinion indicates whether the financial statements are prepared in conformance with generally accepted accounting principles. There should be no tolerance for exceptions.	32 of 35 foundations received clean audit opinions; auditors cited exceptions for 3 foundations.
Material Weaknesses in Internal Controls - Management letter comments that indicate fundamental weaknesses in financial controls or procedures that subject the foundation to adverse consequences. There should be little tolerance for any material weaknesses.	Auditors cited material weaknesses in 12 of 30 foundation management letters.
Significant Deficiencies in Internal Controls - Management letter comments that indicate less serious, but still noteworthy concerns with financial controls or procedures. Any significant deficiencies deserve serious consideration and depending on the risks revealed, should either be remedied or monitored closely with mitigating processes.	Auditors cited significant deficiencies in 17 of 30 management letters.
Other Matters Communicated in Management Letter – Management letter comments that indicate good ideas worth considering, but implementation is left to the discretion of foundation management.	Auditors communicated other matters in 11 of 30 management letters.

Finding 3 – The Annual Gifts and Grants Report does not provide useful information. In addition, foundation financial statements contained differing interpretations of accounting principles which made comparisons among them difficult.

Board Policy 7.7 requires colleges and universities to maintain a list of gifts and grants for submission each fiscal year to the Office of the Chancellor to be incorporated into a comprehensive report to the Board of Trustees. The report, referred to as the Annual Gifts and Grants Report, compiled by the Development Division, does not provide useful information for the Board of Trustees. There are several flaws with the current report structure;

- The report does not contain any expenditure data. Therefore, readers cannot determine the cost of raising the gifts, grants and in-kind contributions received.
- The report contains inconsistent data that does not tie back to IRS 990's or financial statements. The former executive director of the Development Division stated that limited guidance has been given to colleges and universities about how to accumulate the information for the report.

Audited financial statements provide the most reliable source of information about foundations. We noted, however, that some significant inconsistencies existed in how the accounting principles were interpreted and applied in the financial statements. Examples of these inconsistencies included:

- Thirteen foundations recognized donated institutional administrative support as an in-kind revenue and administrative expense, including the two largest foundations that each recognized above $1 million for this activity. For fiscal year 2007, these thirteen foundations recognized a total of $3.3 million of donated institutional administrative support in their audited financial statements. Most of the other 30 foundations also received administrative support services from their college or university, but did not recognize any value for these services in their financial statements. Recognizing this activity makes contributions look more favorable, but also makes it more difficult to meet economic measures. From the perspective of the MnSCU Board of Trustees, donated administrative support services do not represent new revenues available to provide program benefits to institutions and students. Accordingly, these amounts should not be included in contributions reported on the Annual Gifts and Grants Report. On the other hand, the value of the services represents a legitimate expense that should be considered by the board when evaluating the effectiveness of the foundations.

- Twenty-one foundations are used as the vehicle for colleges and universities to accept in-kind equipment donations. The other 22 foundations did not recognize any in-kind equipment donations. The accounting principles permit foundations to recognize in-kind equipment if the foundation is responsible for soliciting and processing the gift. The inclusion or exclusion of these in-kind gift revenues can have a dramatic effect on the operating efficiency ratio of two-year colleges, particularly technical colleges.

- The accounting principles permit foundations to allocate management expenses to functional program expenses. As a result, scholarship amounts presented in the audited financial statements may include some portion of allocated management expenses and may not represent only payments to students. For the schedules presented in this report, all scholarship amounts were adjusted to represent only payment to students.

Recommendation

- *To gather consistent and meaningful data for the Annual Gifts and Grants report, the Office of the Chancellor must be aware of the inconsistencies in the application of accounting principles and offer clear guidance on what should be reported and how it should be reported.*

Finding 4 – MnSCU fundraising performance targets in fiscal year 2007 were largely unrecognized or unaccepted at colleges and universities.

In fiscal year 2007, three performance targets associated with development were set for each college and university as part of the strategic action plan. Institutions were to increase public grants, increase private grants, and increase alumni participation. We spoke to college and university employees about the target-setting process and monitoring progress toward the targets and found:

- Employees were generally unaware of the fundraising goals established by the strategic action plan.
- Employees at a few institutions stated that the base information used for setting targets was inaccurate.
- Employees at many institutions felt the targets set for their college or university were unattainable.
- Specifically, related to the alumni participation target, many employees disagreed that it was a meaningful goal.

Because of the concerns about the integrity of the data underlying these targets, the Chancellor discontinued them in 2008.

Recommendation

- *The Development Division should collect data for fiscal year 2008 and aggregate it with the data collected as part of this study. The three years of data should then be used to assess the performance of foundations.*

Beyond existing board policy, how do foundations measure-up to other accountability standards?

The two watchdog organizations introduced in Section I, the Better Business Bureau and the Minnesota Charities Review Council, have developed accountability standards for donors to evaluate the stewardship of charitable organizations (see Appendices C and D for a summary of these standards). Although board policy does not require observance of these standards, the standard contract required by the Office of the Chancellor encourages foundations to adhere to the Minnesota Charities Review Council standards to the extent practicable. The board may wish to evaluate the ramifications of requiring foundations to adhere to these standards. In addition to the economic tests discussed in Section II, we tested for adherence with the following standards recommended by these organizations. The results are shown in the Table 9.

Table 9: Review of Accountability Standards to MnSCU Affiliated Foundation Practices.

Standard Reviewed	System-wide Status
A board of directors with a minimum of five voting members. (Better Business Bureau)	43 of 43 foundations met this standard.
A minimum of three evenly spaced meetings per year of the full governing body with a majority in attendance, with face-to-face participation. (Better Business Bureau) Board Meetings: The governing board meets at least three times per fiscal year with a quorum present, and maintains written minutes of each meeting. (Charities Review Council)	41 of 43 foundations met this standard. Two governing boards only meet twice per year.
Board Term Limits: No elected member of the governing board serves for more than five years without standing for re-election. (Charities Review Council)	39 of 43 foundations met this standard.
Have a board-approved annual budget for its current fiscal year, outlining projected expenses for major program activities, fund raising, and administration. (Better Business Bureau) Board Fiduciary Oversight: The governing board approves an operating budget prior to the beginning of each fiscal year and receives financial reports, at least quarterly, comparing actual to budgeted revenue and expenses. (Charities Review Council)	32 of 43 foundations met this standard. 8 foundations do not have budget to actual reports; 3 foundations receive budget to actual reports less than quarterly.
Have a board policy of assessing, no less than every two years, the organization's performance and effectiveness and of determining future actions required to achieve its mission. (Better Business Bureau) Accomplishments: Through the annual report or other communications available to donors, the organization provides specific, objective information about its accomplishments related to its stated mission. (Charities Review Council)	33 of 43 foundations met this standard. 6 foundations have not adopted strategic plans; 3 foundations have adopted neither a strategic plan or mission statement; and 1 foundation has not adopted a mission statement.
Conflict Of Interest Policy: The organization addresses director, officer, and key staff conflicts of interest pursuant to a written policy that prohibits the interested party from approving or voting on the conflicted transaction and requires full disclosure of all material facts to the appropriate decision makers. (Charities Review Council)	33 of 43 foundations met the standard. 10 foundations had no conflict of interest policies.
Not more than one or 10% (whichever is greater) directly or indirectly compensated person(s) serving as voting member(s) of the board. Compensated members shall not serve as the board's chair or treasurer. (Better Business Bureau) Board Compensation: Board members receive no compensation for board service other than reimbursement of expenses incurred as a result of board participation. (Charities Review Council)	42 of 43 foundations met the standard. The bylaws of one foundation permitted the payment of stipends to board members, but no payments had been made.

Section IV: Policy Implications and Issues

The relationships between the Minnesota State Colleges and Universities (MnSCU) and its foundations evoke several important policy implications for the Board of Trustees to consider. First, it is essential to recognize that there are fundamental differences between affiliated foundations and other private foundations. The 43 foundations in this study have exclusive relationships with a MnSCU college, university, or Office of the Chancellor. They are not allowed to raise or use funds for other organizations or purposes, only their MnSCU affiliate. The formal relationships with affiliated foundations are established through contractual agreements. Although the board is not able to exercise direct control over the affiliated foundations, it may establish the conditions under which the Chancellor and presidents are able to enter into contracts with them.

Two aspects of the current relationships, underscore the need for establishing clear expectations with the foundations. First, MnSCU provides substantial administrative support, over $8 million dollars in fiscal year 2007, to support their efforts. Second, the foundations have been entrusted with using a valuable asset -- the brands and reputations of MnSCU colleges and universities. As a result, the board needs to establish its expectations for colleges and universities to exercise adequate oversight of the foundation operations.

At the same time, though, it is important to remember that the success of the foundations also depends on the efforts of the 725 volunteers who serve on their governing boards. If the Board of Trustees imposes oversight provisions that are too onerous, it risks damaging the motivation and innovation of this volunteer effort. In addition, if oversight provisions are too rigorous, the independent status of the foundations may be impaired. Loss of their independent status would deprive MnSCU of the advantages associated with the foundations' freedom and flexibility to act in securing benefits and may subject MnSCU to unwarranted legal exposures. Accordingly, the Office of General Counsel should be used to ensure that the board policy preserves sufficient independence for foundations.

MnSCU colleges and universities have statutory authority to accept gifts directly; hence, fundraising can be conducted without establishing a relationship with a private, non-profit entity. Fundraising through a private, non-profit entity, though, has several advantages:

- Assigning fundraising authority to a separate legal entity presumably is based on the theory that it will leverage college or university fundraising capacity to higher levels. It is a widely shared belief that donors and grantors may be more willing to contribute funds to a private non-profit entity than a governmental organization.

- Private charitable organizations are subject to stringent legal requirements for managing their assets in a manner that protects the interests of donors and grantors.

- Private entities enjoy more flexibility in their ability to invest and expend funds as opportunities arise. For example, private non-profit entities may act expeditiously to acquire or improve real property. Colleges and universities must act more deliberately and submit such action to the Board of Trustees for approval in a public meeting.

- Relationships with private non-profit organizations provide the opportunity for colleges and universities with a formal channel to cultivate support from alumni and community leaders.

Relationships with private non-profit organizations also have risks. Assigning fundraising authority to a separate legal entity introduces the following challenges:

- Governance becomes more diffused and complicated. Members of the foundation governing boards are provided with a forum to express their opinions about college and university operations and priorities. In a few cases, MnSCU college and university presidents have encountered conflicts with foundation board members who believed they should have greater influence on presidential actions. Indeed, in extreme cases, foundation boards have acted as though they function as a local governing board for a college or university.

- Roles and responsibilities for college or university employees assigned to support foundations also may become confused. Executive directors of foundations often have dual lines of reporting: to the college or university president and the foundation governing board. In a few instances, presidents and foundation boards have not agreed on the performance of these employees. Inevitably, negotiating and managing shared services arrangements require additional time and attention from both parties.

- The creation of separate foundations results in additional administrative costs. The MnSCU system had affiliations with 43 separate foundations, meaning 43 separate annual filings with the U.S. Internal Revenue Service, the Minnesota Office of Attorney General's Charities Division, and usually acquiring the services of a public accounting firm for an annual audit.

- Some private, non-profit entities, particularly smaller ones, may not garner the administrative capacity to reduce operational risk to an acceptable level. As shown in Section III, 26 of 30 foundations that had received annual audit reports in fiscal year 2007 were cited by their auditors for having either significant deficiencies or material weaknesses in their internal controls.

The tradeoffs between the advantages and challenges of delegating fundraising authority to private, non-profit organizations is at the heart of the public policy decision faced by the Board of Trustees. Board Policy 8.3 was reviewed most recently in December 2003. Accordingly, it is scheduled for a five-year review, as required by Board Policy 1A1, Part 6, Subpart H, later this calendar year. To assist the Board of Trustees, this study has identified four important policy matters that could be considered during its review of the policy.

1. What should be the economic tests, if any, used to evaluate foundations affiliated with MnSCU?

Section II provides an analysis of applying three economic tests to foundations. Existing board policy only applies one of the three tests, the Public Cost Index. The Board of Trustees needs to determine whether it is content with retaining just this test or whether it wishes to expand this provision in board policy.

The Public Cost Index showed overall that it was costing MnSCU 39 cents to raise each $1 of benefits in fiscal year 2007. Seven of the smaller foundations, though, did not meet the test and should be developing business plans and submitting waiver applications to the Chancellor as required by board policy. The purpose behind this board provision seems to be that public funds are not spent, on a net basis, for the benefit of private organizations. In essence, the provision structures the arrangement with foundations as a break-even exchange transaction. It is not an indicator of operating efficiency or an adequate statement of expected rate of return. Thus, Internal Auditing developed a more robust test of operating efficiency for the board to consider.

Also, current board policy does not provide guidance for meeting donor standards of accountability. National watchdog organizations have established various economic guidelines for donors to consider when deciding where to direct their gifts. The standards established by the Minnesota Charities Review Council and the Better Business Bureau Wise Giving Alliance were introduced earlier in the report. Overall, the statistics provide strong evidence of good stewardship of donor contributions. Based on information for 2006 and 2007, 83% of foundation spending was for program benefits. The Minnesota Charities Review Council test, the more rigorous of the two tests, sets a threshold of 70% for spending on program benefits. Applying the test to individual foundations, though, shows that 11 foundations may have difficulty passing it. That conclusion would be premature, though, because only two years of data were available for the analysis. When the Office of the Chancellor gathers data for fiscal year 2008, a full analysis will be possible.

Finally, it must be noted that achieving an 83% rate for spending foundation funds on program benefits is achieved at a rather significant cost for MnSCU. The 83% rate does not consider that MnSCU spends an additional $8 million on administrative and fund raising costs to support the foundations. The operating efficiency test developed by Internal Auditing takes these extra costs into account and shows that the overall efficiency rate is 63% which is slightly below the thresholds established by the two watchdog organizations. Furthermore, only 14 foundations are able to meet the threshold established by the Better Business Bureau of 65% and only 12 foundations would meet the 70% threshold of the Minnesota Charities Review Council. Again, only two years of data were available for this analysis and the final results should await the addition of the fiscal year 2008 data being gathered by the Office of the Chancellor.

2. To what extent, if any, should foundations be subject to oversight provisions beyond the basic requirements for non-profit charitable organizations?

Board Policy 8.3 and procedure 8.3.1 were crafted in an attempt to preserve the legal independence of the private foundations, while providing mechanisms for colleges and universities to oversee the efficacy of their fundraising authority. The procedure precludes colleges and universities from providing services that involve “managerial, discretionary or policy-making responsibilities.” Prohibited services include making investment policy decisions, establishing budgets, determining the scope and return of fundraising campaigns, and participating in foundation governance. Part 3C of the procedure allows part-time employees who are not administrators to serve on a foundation governing board under certain circumstances. The procedure also requires foundations to maintain separate bank accounts and establishes a few other ground rules for the relationship.

Because the foundation is carrying out an important college or university function, fundraising, it is necessary for colleges and universities to exercise some degree of oversight. To establish these oversight rights, policy 8.3 requires colleges and universities to execute contracts with any foundations. The Office of the Chancellor Development Division recently developed a standard contract template that it expects will be used to establish the relationships between all foundations and their colleges and universities.

Procedure 8.3.1 and the standard contract language establish that the college or university may have access to certain foundation records, as necessary. It also requires foundations to file audited financial statements and IRS Form 990 with the college or university and the Office of the Chancellor.

College and university presidents often take additional steps to stay abreast of foundation activities. Presidents usually attend foundation board meetings and work to develop cordial working relationships with foundation board members, particularly the foundation chair. Executive directors of development most often are college or university employees who may report to the president and serve on the president's cabinet. Thus, presidents are able to intervene, to some degree, if they sense that foundation activities may not align well with college or university priorities.

Despite these existing oversight safeguards, there were occasions when foundations have exercised their independence and taken or considered actions that may have been in conflict with college or university interests. Accordingly, we reviewed policies established by other higher education systems to identify possible provisions for strengthening oversight of foundations. As the Board of Trustees considers these provisions, though, it must remain mindful that it will be essential to develop a policy that preserves the legal separateness of foundations. With that in mind, some of the provisions worth considering include:

- Require foundations to adhere to recognized accountability standards. Two sets of standards deserve close consideration – the Minnesota Charities Review Council Standards of Accountability and the Better Business Bureau Wise Giving Alliance Standards for Charity Accountability. Section III of this report examined the extent to which foundations currently adhere with these standards. The current MnSCU contract template encourages foundations to meet the standards of the Minnesota Charities Review Council, to the extent practicable.

- Require that foundation by-laws include a dissolution clause that transfers any net assets from a foundation to the sponsoring college or university if the foundation dissolves. Affiliated foundations are supposed to have exclusive relationships with a MnSCU college, university or the Office of the Chancellor any net assets upon dissolution should be rightfully claimed by a MnSCU entity. Without a specific dissolution clause in a foundation's by-laws, though, such a transfer of assets may be delayed or even contested.

- Require that the college or university president or a member of the MnSCU Board of Trustees serve as a member of the governing board of an affiliated foundation. This provision is specifically prohibited by existing board policy, but it is a standard component of other higher education policies, including those of the University of Minnesota. The University of Minnesota's policy further stipulates that the president shall be a member of "any executive or similar committee empowered to act for the governing board." Direct representation by presidents on the foundation governing board provides greater assurance that they will be present for important strategy discussions that may impact the college or university. Under current board policy, foundation boards are able to meet in private without including any MnSCU representatives.

- Require that the foundation adopt a strategic plan that is in alignment with the MnSCU system and college or university strategic plans.

- Require foundations to comply with state and federal laws and regulations, including Internal Revenue Code.

- Require foundations to disclose MnSCU support costs in their external audit reports. The present arrangements may confuse accountability and hampers full disclosure to donors and grantors about the impact of their contributions on program benefits.

- Require that foundations submit an approved budget to MnSCU before the start of each fiscal period.

- Require presidents to notify the Office of the Chancellor about any new affiliations that are being explored with foundations.

- Preclude foundations from accepting any governmental grants, without explicit authorization from its affiliated college, university, or Office of the Chancellor.

- Indicate explicitly that foundation gifts are subject to acceptance by the affiliated college, university, or Office of the Chancellor.

- Require that foundations must remedy audit exceptions satisfactorily. As shown in Section III, three foundations received audit opinions that cited exceptions and 12 of 30 foundation management letters cited material weaknesses. Failure to resolve serious audit citations may be cause for concern.

3. What should be the ramifications for foundations that cannot meet board requirements?

Current board policy allows for a college or university to apply for a waiver of up to three years, if it anticipates that a foundation will be unable to return at least $1 for every $1 of its administrative support. Similarly, the Chancellor may seek such a waiver from the Board of Trustees for the MnSCU System Foundation, if warranted. Although, we noted in Section II that seven foundations had not provided sufficient benefits to cover the administrative support costs, no waivers had been filed. The Office of the Chancellor Development Division has since strengthened its procedures in order to obtain waiver applications when necessary. Nonetheless, the board may wish to reconsider the effectiveness of the waiver process.

Beyond the waiver process, board policy or procedure could be amended to anticipate other difficulties that may be encountered with compliance. Possibilities include:

- Providing for a process to request an extension when required reports, such as audit reports, cannot be filed by deadlines.

- Requiring that any instances of non-compliance or not adhering to prescribed accountability standards be reported to the Board of Trustees on an exception basis. Reporting could occur as part of the annual Gifts and Grants report to the board.

- Encouraging the use of alternative administrative structures, such as umbrella foundations, to gain efficiencies in administrative costs.

There are alternative structures for foundations affiliated with other higher education systems. For example, the University of Minnesota has one centralized umbrella foundation that receives and manages donations for all five of its universities. Although a centralized foundation would provide greater administrative efficiency, the trade-off would be loss of local flexibility and potentially diminished engagement by community members. A centralized umbrella foundation may have appeal as an alternative for smaller college foundations that struggle with covering administrative costs. Potentially, the MnSCU System Foundation may be interested in reconstituting itself to serve as a fiduciary umbrella for some of the smaller foundations.

4. To what extent, if any, should board policy be broadened to address relationships with other private, non-profit organizations, such as booster clubs and alumni associations?

Board Policy 8.3 currently applies only to relationships with private organizations that have fundraising as a core mission. MnSCU universities, in particular, also have relationships with other private non-profit organizations, such as booster clubs and alumni associations. In some cases, booster clubs and alumni associations do not have separate legal standing; they serve as an appendage to the college or university foundation or are internal to the operations of the college or university. In other cases, though, university booster clubs and alumni associations are structured as separate legal entities, but have not been subjected to the restrictions of Board Policy 8.3. MnSCU board policy currently does not contain any provisions that pertain to these other types of affiliated organizations.

Other higher education systems, notably the University of Minnesota and the University of Maryland, have policies that require any external entity that wishes to be associated with it to be "recognized" by the system's governing board. Recognition as an affiliated organization requires that certain minimum criteria be met and that the organization agrees to adhere to ongoing provisions.

Athletic booster clubs may pose particular risks to universities that have Division I intercollegiate sports. Although we are aware that some of these booster clubs exist in the system, it was beyond the scope of our project to examine whether the relationships comply with National Collegiate Athletic Association (NCAA) rules. Universities that sponsor Division I sports, though, are subject to separate NCAA compliance audits.

Next Steps

On September 16, 2008, the Audit Committee will review this report. It may choose to refer certain policy matters to the Advancement Committee for further consideration or initiate other action.

Appendix A: Summary of relevant Board Policies and System Procedures

Board Policy 7.7 Gifts and Grants Acceptance, Part 4	**Accountability/Reporting**. No proposal shall be submitted to any funding authority without the signature of the president (for institutional grants) or the chancellor (for office of the chancellor grants), or a person designated by the president or chancellor. The Board of Trustees will be periodically updated on the nature and the amount of all gifts and grants with a value in excess of $5,000 accepted by the colleges, the universities, and the system. The chancellor may also report on other gifts and grants. The colleges and universities shall maintain a list of gifts and grants for submission each fiscal year to the office of the chancellor to be incorporated into a comprehensive report to the Board of Trustees.
Board Policy 8.3 College, University and System Related Foundations, Part 2, subpart B	The contract must require that, in return for administrative support, the foundation will contribute to the system, college, or university an amount equal to or more than the value of the administrative support provided by the system, college, or university to the foundation. This requirement may be waived for a limited time for new foundations or foundations undergoing structural or mission change pursuant to the conditions set forth in Procedure 8.3.2.
Board Policy 8.3, Part 2, subpart E	Contracts shall require that the foundation annually provide to the college or university and the system office a copy of its most recent financial report filed with the attorney general pursuant to Minn. Stat. Ch. 309). Foundations receiving less than $350,000 in revenues annually shall submit a copy of an external financial audit at least every three years.
Procedure 8.3.1 College, University and Office of the Chancellor Related Foundations, Part 3. B	**Nonallowable Services**. Colleges, universities and the Office of the Chancellor are prohibited from providing to their related foundations services that involve managerial, discretionary or policy-making responsibilities. The foundation board is responsible for managing its financial resources, including authorizing fundraising strategies, budgeting the use of funds, and establishing investment policies. College, university and Office of the Chancellor personnel shall not: 1. Make investment policies or decisions on behalf of the foundation 2. Establish foundation board policy and budget directives 3. Determine or authorize awards or expenditures of foundation resources, except as permitted above 4. Determine the scope and nature of foundation fundraising campaigns 5. Execute contracts on behalf of the foundation 6. Participate in foundation governance
Procedure 8.3.1, Part 3. C	**Foundation Board Members**. Except as provided below, no employee of a college, university or the Office of the Chancellor shall participate as a voting member or officer of the board of directors of a college- or university- related foundation, as defined in Board Policy 8.3. A part-time employee may participate as a voting member or officer of a related foundation's board of directors if: 1. The employee is not employed as an administrator by the college, university or Office of the Chancellor; and 2. The employee is employed by MnSCU less than half time or ten semester credits teaching time each year; and 3. The college, university or Office of the Chancellor does not select the employee to be a foundation board member or officer; and 4. The employee's role as a foundation board member or officer is not included as part of the employee's job duties; and 5. The number of MnSCU employees serving as foundation board members constitutes less than a majority of a quorum of the foundation board.
Procedure 8.3.1, Part 3. E	Handling Foundation Funds. No college, university or Office of the Chancellor employee shall handle funds on behalf of the foundation unless the foundation has established policies and procedures governing the activities authorized for each employee, including writing checks, accepting donations, making deposits or making other financial transactions on the foundation's behalf.

Appendix B: System, College and University Affiliated Foundations

College or University	Foundation Name	Ruling Year[6]
Alexandria Technical College	Alexandria Technical College Foundation	1976
Anoka Technical College	Anoka-Hennepin Technical College Foundation	1987
Anoka-Ramsey Community College	Anoka-Ramsey Community College Foundation	1974
Anoka-Ramsey Community College	Cambridge Community College Center Foundation	1993
Bemidji State University	Bemidji State University Foundation	1970
Central Lakes College	Central Lakes College Foundation	1968
Century College	Century College Foundation	1980
Dakota County Technical College	Dakota County Technical College Foundation	1984
Fond du Lac Tribal & Community College	Fond du Lac Tribal & Community College Foundation	1997
Hennepin Technical College	Hennepin Technical College Foundation	1999
Hibbing Community College	Hibbing College Foundation	1969
Inver Hills Community College	Inver Hills Community College Foundation	1982
Itasca Community College	Itasca Community College Foundation	1973
Lake Superior College	Lake Superior College Foundation, Inc.	1984
Mesabi Range Community & Technical College	Mesabi Range College Foundation	1984
Metropolitan State University	Metropolitan State University Foundation	1973
Minneapolis Community & Technical College	Minneapolis Community & Technical College Foundation	1977
Minnesota State College - Southeast Technical	Minnesota State College, Southeast Technical Foundation	1988
Minnesota State Colleges & Universities	Minnesota State Colleges & Universities Foundation	1969
Minnesota State University Moorhead	Minnesota State University Moorhead Alumni Foundation, Inc.	1971
Minnesota State University, Mankato	Minnesota State University, Mankato Foundation, Inc.	1959
Minnesota West Community & Technical College	Minnesota West Foundation	1984
MN State Community & Technical College	Minnesota State Community and Technical College Foundation	2008
MN State Community & Technical College	Fergus Area College Foundation	1967
MN State Community & Technical College	Detroit Lakes Area College Foundation	1981[7]
MN State Community & Technical College	Moorhead Technical College Foundation	1985
MN State Community & Technical College	Wadena Area College Foundation	2008
Normandale Community College	Normandale Community College Foundation, Inc.	1977
North Hennepin Community College	North Hennepin Community College Foundation	1983
Northland Community & Technical College	Northland Community & Technical College Foundation	1977
Northwest Technical College	Northwest Technical College - Bemidji Foundation	2005
Pine Technical College	Pine Technical College Foundation	1999
Rainy River Community College	Rainy River Community College Foundation	1994
Ridgewater College	Ridgewater College Foundation	1997
Riverland Community College	Riverland Community College Foundation	1977
Rochester Community & Technical College	Rochester Community & Technical College Foundation	1996
Saint Paul College	Saint Paul College Foundation	1987
South Central College	South Central College Faribault Campus Foundation	1983
South Central College	South Central College Mankato Campus Foundation	1990
Southwest Minnesota State University	Southwest Minnesota State University Foundation	1965
St. Cloud State University	St. Cloud State University Foundation, Inc.	1960
St. Cloud Technical College	SCTC Foundation	1995
Vermilion Community College	Vermilion Community College Foundation	1979
Winona State University	Winona State University Foundation	1971

[6] Information obtained from www.guidestar.org. The ruling year is the year that the IRS granted the foundation 501(c)(3) status. Information on the guidestar website comes directly from IRS 990 filings and the organizations themselves.
[7] This is the year the foundation was incorporated, unable to determine 501(c)(3) status year.

Appendix C: Minnesota Charities Review Council Standards of Accountability[8]

Legal Compliance: For the year under review and the preceding two years, the organization has not violated any applicable provisions of Minnesota or federal law relating to the organization's tax exempt status, registration with and reporting to governmental agencies and the public or fundraising practices.

Financial & Annual Reporting: The organization provides the following upon request:

- An annual report that includes: a description of the organization's purpose, a description of its program activities, accomplishments and geographic area served, a summary of the total cost of each major program (to the extent required in the IRS Form 990), and a list of the organization's board of directors.
- Annual financial statements prepared in conformance with generally accepted accounting principles, and audited when required by federal or state law or contracts to which the organization is a party.

Accomplishments: Through the annual report or other communications available to donors, the organization provides specific, objective information about its accomplishments related to its stated mission.

Reporting Consistency: Program names, activities and financial information listed in the annual report, audited financial statement and IRS Form 990 are consistent.

Board Meetings: The governing board meets at least three times per fiscal year with a quorum present, and maintains written minutes of each meeting.

Conflict Of Interest Policy: The organization addresses director, officer, and key staff conflicts of interest pursuant to a written policy that prohibits the interested party from approving or voting on the conflicted transaction and requires full disclosure of all material facts to the appropriate decision makers.

Board Compensation: Board members receive no compensation for board service other than reimbursement of expenses incurred as a result of board participation.

Board/Staff Positions: Not more than one member of the governing board is a paid staff person of the organization; no paid staff person serves as board chair or treasurer.

Board Term Limits: No elected member of the governing board serves for more than five years without standing for re-election.

Use of Funds: At least 70 percent of the organization's annual expenses are for program activity and not more than 30 percent for management/general and fundraising combined.

Reserve Limits: Unrestricted net assets available for current use are not more than twice the current or next year's budgeted operating expenses.

Financial Health: The organization does not have persistent or increasing operating deficits.

Board Fiduciary Oversight: The governing board approves an operating budget prior to the beginning of each fiscal year and receives financial reports, at least quarterly, comparing actual to budgeted revenue and expenses.

Ethical Fundraising: Solicitations and information materials clearly describe the purpose or programs for which the contributed funds will be used and identify the charity that will receive the contribution. The donor is provided with the address or phone number of the charity. All information provided in connection with solicitations is accurate and not misleading.

Voluntary Charitable Giving: Solicitations do not cause donors to feel threatened or intimidated. The charity maintains a written policy to discontinue contacting any person upon that person's oral or written request directed to the charity, its professional fundraiser or other agent.

Soliciting Practices: Solicitors who are not employees or volunteers of the charity identify themselves in each solicitation as professional fundraisers and, upon request, provide the name and address of their employer or contracting party. Upon request, persons authorized by the charity to utilize the charity's name in connection with the sale or marketing of goods or services provide accurate information about the percentage of gross revenue that is paid to the charity.

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[8] *See the following website for the complete document http://www.smartgivers.org/AccountabilityStandards.html*

Appendix D: Better Business Bureau Standards for Charitable Accountability[9]

1. A board of directors that provides adequate oversight of the charity's operations and its staff.
2. A board of directors with a minimum of five voting members.
3. A minimum of three evenly spaced meetings per year of the full governing body with a majority in attendance, with face-to-face participation.
4. Not more than one or 10% (whichever is greater) directly or indirectly compensated person(s) serving as voting member(s) of the board. Compensated members shall not serve as the board's chair or treasurer.
5. No transaction(s) in which any board or staff members have material conflicting interests with the charity resulting from any relationship or business affiliation.
6. Have a board policy of assessing, no less than every two years, the organization's performance and effectiveness and of determining future actions required to achieve its mission.
7. Submit to the organization's governing body, for its approval, a written report that outlines the results of the aforementioned performance and effectiveness assessment and recommendations for future actions.
8. Spend at least 65% of its total expenses on program activities.
9. Spend no more than 35% of related contributions on fund raising.
10. Avoid accumulating funds that could be used for current program activities. To meet this standard, the charity's unrestricted net assets available for use should not be more than three times the size of the past year's expenses or three times the size of the current year's budget, whichever is higher.
11. Make available to all, on request, complete annual financial statements prepared in accordance with generally accepted accounting principles.
12. Include in the financial statements a breakdown of expenses (e.g., salaries, travel, postage, etc.) that shows what portion of these expenses was allocated to program, fund raising, and administrative activities.
13. Accurately report the charity's expenses, including any joint cost allocations, in its financial statements.
14. Have a board-approved annual budget for its current fiscal year, outlining projected expenses for major program activities, fund raising, and administration.
15. Have solicitations and informational materials, distributed by any means, that are accurate, truthful and not misleading, both in whole and in part.
16. Have an annual report available to all, on request, that includes: the organization's mission statement, a summary of the past year's program service accomplishments, a roster of the officers and members of the board of directors, financial information that includes (i) total income in the past fiscal year, (ii) expenses in the same program, fund raising and administrative categories as in the financial statements, and (iii) ending net assets.
17. Include on any charity websites that solicit contributions, the same information that is recommended for annual reports, as well as the mailing address of the charity and electronic access to its most recent IRS Form 990.
18. Address privacy concerns of donors by: providing in written appeals, at least annually, a means (e.g., such as a check off box) for both new and continuing donors to inform the charity if they do not want their name and address shared outside the organization, and providing a clear, prominent and easily accessible privacy policy on any of its websites that tells visitors (i) what information, if any, is being collected about them by the charity and how this information will be used, (ii) how to contact the charity to review personal information collected and request corrections, (iii) how to inform the charity (e.g., a check off box) that the visitor does not wish his/her personal information to be shared outside the organization, and (iv) what security measures the charity has in place to protect personal information.
19. Clearly disclose how the charity benefits from the sale of products or services (i.e., cause-related marketing) that state or imply that a charity will benefit from a consumer sale or transaction. Such promotions should disclose, at the point of solicitation: the actual or anticipated portion of the purchase price that will benefit the charity (e.g., 5 cents will be contributed to abc charity for every xyz company product sold), the duration of the campaign (e.g., the month of October), any maximum or guaranteed minimum contribution amount (e.g., up to a maximum of $200,000).
20. Respond promptly to and act on complaints brought to its attention by the BBB Wise Giving Alliance and/or local BBBs about fund raising practices, privacy policy violations and/or other issues.

[9] *Entire document at http://us.bbb.org/WWWRoot/SitePage.aspx?site=113&id=1bce9b1f-74e9-4c94-96e8-1ee2b519b0c4*