February 23, 2015

President Rossbacher
Humboldt State University
1 Harpst St.
Arcata, CA 95521

Re: Athletic Department Scholarship Consulting

Dear President Rossbacher:

At your request, we have performed certain procedures on documentation provided to us by your staff, and made certain inquiries of your staff related to the processing of HSU athletic scholarship funds.

The procedures and inquiries we performed were conducted in accordance with the Statement on Standards for Consulting Services No. 1 of the American Institute of Certified Public Accountants.

The procedures we performed included:

1. Obtained the general ledger detail of athletic scholarships awarded, selected scholarships from each athletic team, and obtained supporting documentation to determine that the scholarship was awarded in accordance with HSU Athletic Department policies and the individual student was included either in the on-line team rosters or official squad lists, and that the scholarship awarded was appropriately credited to the student by tracing the awards to the individual student accounts.

2. Compared the scholarship donations received based on amounts recorded by the HSU Advancement Foundation and in the HSU accounting records to the scholarships awarded as recorded in the HSU accounting records to determine if scholarship donations are used for the purpose for which they were intended as evidenced by athletic scholarships awarded exceeding donations restricted to awarding of athletic scholarships.

3. Interviewed 21 members of HSU and HSU Advancement Foundation management, accounting staff and key Athletic Department staff to obtain an understanding of the internal controls involved in athletic department budgeting, financial accounting, and reporting, and the processing of athletic scholarship donations. We determined their awareness of key internal controls and developed an understanding of the internal controls surrounding the budgeting and financial accounting and reporting for the Athletic Department as it relates to donations, fundraising, scholarships and expenses, and developed recommendations for process and control improvements over the receipt and use of athletic funds.

The results of our procedures were as follows:

- Athletic scholarships tested were awarded in accordance with HSU policies and were appropriately credited to student accounts. Athletic scholarships awarded based on the HSU general ledger detail for the year ended June 30, 2014 totaled $809,050. Donations received restricted for athletic scholarships totaled $232,550 for the year ended June 30, 2014.
• We selected 25 donations from the population of monthly donations and fundraising for the year ended June 30, 2014, and verified the appropriate restriction of purpose, or gift processing designation as an athletic scholarship by tracing the donations to supporting receipts and verifying the donor designation in the appropriate year.

• We selected an additional 25 receipt transactions using data analysis software to identify large receipts or receipts with descriptions that could be athletic scholarships from the population of all receipts recorded for the year ended June 30, 2014 in the HSU accounting records for the HSU Athletic Department, and by reviewing supporting documentation noted no additional receipts that should have been recorded as restricted to athletic scholarships.

• We selected the two highest athletic scholarships per sport from the HSU general ledger for the year ended June 30, 2014, and verified with supporting documentation that the athletes were on the on-line team roster or the official squad list, in case of season ending injuries, and traced the awarded scholarship to the individual student athlete account as to date and amount awarded.

• We interviewed 21 key staff as identified by HSU within HSU Administration and Accounting, the HSU Advancement Foundation, and the HSU Athletic Department, and obtained an understanding of the internal controls surrounding the budgeting and financial accounting and reporting for the Athletic Department as it relates to donations, fundraising, scholarships and expenses. In general all personnel provided consistent understanding of budgeting, accounting and reporting.

We have the following observations as a result of our inquiries and procedures.

Internal controls are generally appropriately designed in the following areas:

• Budgeting process for sports teams within the HSU Athletic Department is generally strong. All budgets are determined by the Coaches and approved by the Athletic Director, and the Coaches are provided weekly reports of budgeted and actual revenues and expenses for their review and discussion with the Athletic Director.

• Disbursement of HSU Athletic Department funds is monitored appropriately. All travel is preapproved, budgeted, and requires documentation of actual expense and evidence of distribution to students, when applicable, and limits are imposed through the budget process.

• Procedures for awarding and disbursing of athletic scholarships are appropriate. Scholarships are governed by the NCAA, Title IX and HSU policies, and all awards and disbursements tested were monitored by the Athletic Director and Assistant Athletic Director of External Affairs/Compliance.

• Procedures over receipts of cash are properly designed through the use of HSU cashiering staff for recording fundraising, concessions and mailed cash donations.
  
  o Donations are submitted through the Advancement Foundation for receipt and recording.
  o Cash, except that received at banquets, is handled by cashiers with appropriate training and policies.
  o HSU Athletic Department key personnel expressed compliance with the requirement to immediately turn over checks and cash received in person to the HSU cashiering staff.
Internal controls could be enhanced in the following areas:

- The HSU Athletic Department currently considers donations and fundraising as contributions, and includes some exchange transactions, such as licensing of season tickets and sales of concessions, in fundraising. This can create confusion in the minds of donors. Contributions are defined in accounting literature by the Financial Accounting Standards Board, and the Athletic Department should consult with the HSU Advancement Foundation to ensure that the terminology used with external parties is consistent with industry standards.

- When the HSU Athletic Department and HSU Advancement Foundation define contributions under the same standards, communication between these areas can be improved, and the HSU Advancement Foundation and HSU Athletic Department should reconcile the total contributions received annually. The HSU Advancement Foundation should provide an annual report of restricted and unrestricted contributions which reconciles all contributions restricted for athletic scholarships and contributions restricted for the HSU Athletic Department for operating expenses to total HSU Athletic Department contributions received, the opening balance of restricted contributions and the ending balance of restricted contributions available.

- Additionally, the HSU Athletic Department should develop procedures to communicate the details of all corporate sponsorships to the HSU Advancement Foundation to ensure appropriate recording of any contribution or exchange transactions.

We have already discussed many of these comments and suggestions with various entity personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

Sincerely,

CliftonLarsonAllen LLP

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