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The purpose of this study was to determine the degree to which public universities are providing subsidies to tax-exempt, non-profit, legally distinct corporations which serve as university-affiliated foundations. Specifically, this investigation sought to determine (a) the percentage of universities providing subsidies, (b) the types of subsidies provided, (c) the dollar value of subsidies provided by the universities, and (d) whether statistically significant differences exist among the categories of the value of the foundations' endowed funds, university size, and the amounts of foundation unrestricted and restricted expenditures with respect to the presence, type, and dollar ranges of subsidies provided by universities to their affiliated foundations.

A survey instrument was developed for purposes of gathering data for this study. The accessible population surveyed consisted of all four-year public universities and colleges with an enrollment exceeding 2,500 full-time students which were members of the National Association of College and University Auditors. Of the selected sample size of 125, a total of 83 usable responses were received, resulting in a completion rate of 66 percent.

Based on the results of the study, the following information was obtained: (a) 94 percent of the universities provided at least one type of subsidy to their foundations; (b) 73 percent of the universities provided staff and 80 percent of the universities provided office space to their foundation; (c) 50 percent of the universities provided subsidies of $50,000 or more, 33 percent provided $100,000 or more, and 20 percent provided $250,000 or more to their foundation; and (d) foundations that received the lowest subsidies (zero) had the highest means for endowment values, student enrollments, and expenditures.

An Examination of Subsidies Provided by Public Universities to Affiliated Foundations

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An Examination of Subsidies Provided by
Public Universities to Affiliated Foundations

CHAPTER I

INTRODUCTION

Public universities and colleges have become increasingly dependent upon affiliated foundations for operating funds. The literature indicates that prior to 1930, "only four university related foundations existed" (Reilley, 1980, p. 62). Between 1959 and 1978, the total number of foundations affiliated with public four-year universities grew from 63 foundations to 149, an increase of more than 136 percent in just 18 years. Concomitant with this increase in absolute numbers, there has been an equally marked increase in private funding support for public universities. Private gifts, grants, and contracts to public four-year universities increased from $616 million in 1975-1976 to $2.5 billion in 1987-1988, representing a 400 percent increase in just 11 years (Council for Aid to Education, 1989).

The fact that in a single decade foundations affiliated with public colleges and universities have spent over $10 billion (Council for Aid to Education, 1989) on behalf of their sponsoring institutions without the benefit of public scrutiny has contributed to a growing concern over the relationship between these two legally separate entities (Sansbury, 1984). This concern has been heightened recently by reports of fraud, abuse, and deception perpetrated by officials from both universities and their affiliated foundations (Cattanach, 1988; Hayes, 1987; Miles, 1988; Nobles, 1988; Scott, 1987). Yet, despite these concerns, more often than not neither the

concerned states nor the internal auditors for the universities have been able to gain access to the records of the foundations in question. This is because the foundations are chartered by the state corporate commissioners as non-profit entities, legally separated from the public universities to which they are affiliated. This separate legal status provides the autonomous foundations with legal freedom from the rules and regulations governing the public universities, in effect providing the foundations with an exemption from the purview of state and university auditors (Miles, 1988). Thus, despite the fact that the foundations receive and spend monies on behalf of their affiliated public universities, the foundations have historically been viewed as beyond the scrutiny of both state and the university auditors.

In 1988, however, state auditors in Oregon, prompted by allegations of the misuse of foundation funds, gained access to the records of a legally separate foundation affiliated with a large urban public university (Miles, 1988). Access was achieved because the state claimed that the financial transactions of the foundation were so closely intertwined with those of the university that the independence of the foundation was subverted sufficiently to enable the state to "pierce the corporate veil" of the separately incorporated foundation. In their report, State of Oregon auditors concluded that the level of financial subsidies provided the foundation by the university was sufficient to classify the foundation as a "State-aided activity." The auditors noted that (Miles, 1988)

> in addition to clerical staff, the [institution] supplied administrative, accounting, and other support. Support for the Foundation was so substantial that it covered most of the Foundation's operating expenses. This situation, in our opinion, precludes any real independence between the two organizations .... Thus, the degree of support provided the Foundation by the [university] has resulted in the Foundation becoming a State-aided institution subject to audit by the Secretary of State under ORS 297.210. (pp. 3-4)

In support of this position, the Oregon Department of Justice ruled that "state-aided" simply means "supported by State funds" that are received through "direct or indirect appropriations of State funds to it" (Thomas, 1986, p. 8).

This conclusion is of particular interest, given that a previous study revealed that over one-half of 100 public universities surveyed across the nation admitted that their separately incorporated foundations were partially integrated into the university due to the level of influence exerted by university officers in the foundation's governance (Worth, 1982). While this study did not specifically address university provided subsidies as part of the criteria determining integration, it did suggest, given the close interaction between the two entities, that universities may be providing financial subsidies in the form of free office space and other in-kind provisions to their foundations.

In view of the recent increase in substantial funding raised and spent on behalf of public universities by affiliated foundations without benefit of public scrutiny, the tremendous growth in the number of these public university-affiliated foundations, the size of their financial contributions to the universities, and widespread concerns expressed about foundation management and accountability, it is essential that the issue of public accountability and the public right to audit be addressed.

It is apparent that it would assist in the resolution of this issue if descriptive data regarding subsidies were made available to both the universities and state auditors. Information regarding the prevalence of subsidies and classification of the most common types of support, as well as approximations of the dollar values of the subsidies provided, would greatly facilitate assessments of the reasonableness of university provided subsidies and the development of "model legislation or guide-

lines which would maximize the effectiveness of such foundations while protecting legitimate public interests" (Worth 1982, p. 172).

Statement of the Problem

Despite the evidence of improprieties, and the fact that foundations are spending billions of dollars on behalf of public universities, there are no comprehensive normative data available which would enable state officials and the courts to decide whether foundations affiliated with public universities are truly independent, self-supporting entities beyond public scrutiny, or are in fact dependent, publicly supported entities subject to state audit.

Purpose of the Study

The purposes of this study were threefold:

1) To determine whether or not foundations are receiving support from public universities and colleges;
2) To describe the types of subsidies provided, if any, and;
3) To identify the dollar ranges of subsidies universities are providing to their foundations.

It was the expectation of this study to provide both the states and their public institutions with descriptive and comparative data which could serve as a basis for the development of benchmarks or guidelines for the clarification of both the propriety of the subsidies and the rights of the states to audit the records of university-affiliated foundations.

In the context of this expectation, the following research questions were explored:

1) Do the universities subsidize their foundations?
2) What are the types of subsidies provided to the foundations by the universities?
3) What are the dollar ranges of the subsidies provided to the foundations by the universities?
4) Are there any statistically significant differences among categories of selected university and foundation characteristics with respect to the presence, type, and dollar ranges of the subsidies provided?

Objectives

The principal objectives of this study were:

1) To review existing research literature related to subsidies provided by public universities to affiliated foundations;
2) To design and administer a survey instrument to all study participants;
3) To determine the percentage of universities that provide subsidies, as well as the types of subsides provided and their dollar ranges;
4) To determine if statistically significant differences exist among categories of selected university and foundation characteristics with respect to the presence, type, and dollar ranges of the subsidies; and
5) To utilize the findings of this study as a basis for offering recommendations relative to the development of model guidelines pertaining to state audit jurisdiction and the provision of subsidies by universities to their affiliated foundations.

Significance of the Study

This study is the first investigation designed to focus specifically on the identification of the types and dollar ranges of subsidies provided by four-year public universities and colleges to their affiliated foundations. Prior to the initiation of this study, there were no sources for the following relevant information:

1) The percentage of public universities that provide subsidies to their foundations;
2) The types of subsidies provided by public universities; and,
3) The dollar ranges of those subsidies.

Worth (1982) recognized the absence of literature and research in the area of university-foundation relationships and recommended that this area be studied in the future:

> The relationship between university foundations and State government is highly significant and bears further investigation. The study reported here encountered numerous instances in which the laws or policies of states affected the organization of foundations and their relationships with their host institutions. Research could be aimed at identifying the benefits which university-related foundations provide to states and at developing model legislation which would maximize the effectiveness of such foundations while protecting legitimate public interests.
>
> . . . . . .
>
> The broad implications of growing private support for public universities should receive further consideration. What are the implications of this trend for autonomy, accountability, and the entire dual public/private system in American higher education? (pp. 172-173)

The results of this study provide critical and previously unavailable data about the extent and types of subsidies universities provide their foundations. Moreover, this study is intended to further the understanding of the university-foundation relationship, while providing foundations, universities, state administrators, and legislatures with a useful basis for the evaluation of the propriety and reasonableness of the university-foundation relationship and for the development of

model legislation or guidelines that "would maximize the effectiveness of such foundations while protecting legitimate public interests" (Worth, 1982, p. 172).

In addition, the data derived from the current study provide a basis for future studies of four-year public universities. It could also be used to conduct trend analysis or to compare operating costs with private universities and private foundations, as well as be included as part of the cost-benefit analysis of foundations. Insofar as the data provided in this study reveals the significant nature of the subsidies, universities may be motivated to more closely monitor these subsidized or "hidden" costs in order to more accurately measure the rate of return on their fund raising efforts.

Background

Given that most foundations affiliated with public universities have been established since the 1960s, university-affiliated foundations are a relatively recent development in higher education. Reilley's (1980) national survey of 501 public universities and colleges revealed that

> flexibility of operations was chosen as the primary reason for initiating the foundations on all three levels of institutional size .... A total of 45.3% of the small universities [student enrollments of less than 5000] chose this as the primary reason for beginning their foundation while 43.3% of the medium size universities [student enrollments between 5000 and 19,999] and 36.4% of the large universities [student enrollments of 20,000 and more] also chose this reason as primary. (p. 66)

In addition, in a study by Gailey (1980), 91 percent or 41 out of 45 of the responding foundations identified flexibility as one of the primary reasons for establishing a foundation. As Worth (1982) observed, this response is

> explainable in terms of the existence in some states of laws or policies which prohibit fund raising activity by public colleges and universities, or which could result in the benefit of private gifts being diverted from the university to the State, as in Kansas. (p. 4)

Worth added that "some states have policies which restrict universities to investments in government bonds and other highly conservative securities" (p. 4). The perceived benefit, then, of a separately incorporated and legally distinct entity such as a university-related foundation is that it provides "a degree of freedom from State procedural controls, a level of autonomy more resembling that enjoyed by private institutions" (p. 4).

However, this quest for greater autonomy, be it in the realm of investment decisions or in terms of purchasing activities at public universities, has "raised the concern of attorneys general, legislatures, and other State officials and agencies" (Worth, 1982 p. 16). Typically, the attention of the state agencies has been drawn toward the foundation when there are allegations of improprieties involving the foundation or the university (Sansbury, 1984). Indeed, from the evidence presented by the accounting firm of Peat, Marwick, Main and Company (PMM) (1985), there appears to be sufficient cause for concern regarding university management of endowments.

A comprehensive survey of current accounting and reporting practices used in higher education, based upon the American Institution of Certified Public Accountants' Audit Guide for Colleges and Universities (Audit Guide) and the National Association of College and University Business Officer's College and University Business Administration manual (CUBA), was undertaken by PMM. The survey, mailed to the 2,011 members of the National Association of College and University Business Officers, was conducted not only to "provide a data base for analyzing the state of the art in college and university financial accounting and reporting," but also to "indicate those areas, if any, in which practice differs from the current authoritative guidance" (PMM, 1985, p. iv). The survey found widespread instances of noncompliance with both the CUBA Manual and the Audit Guide. The

seriousness of these instances of noncompliance was conveyed as follows: "Such misstatements affect the fairness of presentation in the financial statements and may also give rise to questions about how well the institution is carrying out its fiduciary responsibility in managing these assets" (p. 27).

One of the more serious violations revealed in the survey pertained to the borrowing of endowment funds in order to fund current operations. The fact that this practice occurred at 22 percent of the public universities surveyed, and that 84 percent of these universities indicated that they did not repay interest to the originating fund for interfund borrowing, has suggested the possibility of serious legal consequences to PMM (1985):

> To use these funds for other than the stipulated purpose may violate the intent of the donor, federal government, or other third party, and could constitute a clear violation of a fiduciary responsibility, possibly with legal implications for the institution. (p. 34)

Both the seriousness of the cited violations and their pervasiveness argues strongly that the management of endowments and gifts at public universities and colleges requires improvement and could benefit from further studies, or as more circumspectly stated by PMM, "additional guidance in this area is necessary" (p. 25).

In addition to these studies, recent reports by state auditors of fraud and abuse in the management of foundation funds have raised concerns about the activity of the foundations themselves (Cattanach, 1988; Hayes, 1987; Miles, 1988; Nobles, 1988; Scott, 1987). The majority of these reports contended that the foundation officials did not exercise due care in performing their fiduciary responsibilities. The auditors cited numerous incidents of poor recordkeeping, missing receipts, conflicts of interest, questionable disbursements to businesses, violations of federal, state and university regulations, and extravagant expenditures.

Sansbury (1984), the chancellor of the University of South Carolina at Spartanburg, recognized the seriousness of the improprieties occurring at foundations

and warned they could result in increased criticism by state officials as well as the public. He concluded that

> those of us who benefit from private philanthropy have to be careful that we do not invite attempts at restrictive regulation by the way we operate or as a result of the purposes for which we use private resources .... We simply must become more diligent. (pp. 17-18)

From the evidence presented by the PMM survey as well as state audits, it is readily apparent that at least certain universities and foundations could benefit from what Sansbury refers to as more "diligence" or oversight.

It was the expectation of this study that the determination of the extent, occurrence, types, and dollar value of subsidies provided by public universities to their affiliated foundations will contribute to the clarification of the oversight role, if any, that the states exercise or are entitled to exercise with respect to university-affiliated foundations.

Delimitation of the Study

This study was concerned only with four-year public universities and colleges with full-time student enrollments of 2,500 or more in the United States, excluding from consideration all private and religious universities insofar as the focus of this study was directed at public subsidies to foundations. In addition, this study investigated only principal university-affiliated foundations, excluding from consideration those foundations affiliated with state systems of higher education, student foundations, alumni programs, or other campus-based foundations not identified as a principal fund raising university-affiliated foundation.

Limitations of the Study

Generalization of the findings may be limited by:

1) The extent to which the sample was representative of public universities and their foundations; and
2) The extent to which the responses are accurate and truthful.

Definitions of Terms

Endowment value of foundation: The market value of the principal and any accrued interest associated with restricted funds donated to the foundation.

Fund raising programs or fund raising activities: Those activities which can be conducted by universities, alumni offices, individuals, and/or foundations. These terms include such activities as placing fund raising solicitation calls, identifying potential donors, and cultivating potential donors at social gathering (Worth, 1982).

Restricted funds: Those funds donated to foundations which are specifically designated for a particular purpose. Fund custodians must observe these restrictions according to trust law.

Subsidy: Assistance or support provided by the university to an affiliated foundation, including but not confined to the provision of office space, the use of university facilities, or the provision of university personnel for the regular performance of foundation activities and functions.

University, public university, or institution: A four-year college or university that is either fully or partially funded by state funds and is considered a public university falling under the governance of the state. References to "private" colleges or universities are specifically identified as such.

University-affiliated or university-related foundation; foundation: An independent, separately incorporated not-for-profit fund raising organization affiliated with a university, the primary purpose of which is the acceptance, investment, and expenditure of gifts from private sources for the overall benefit of the university, as recognized in the U.S. Internal Revenue Code, Section 501(c)(3). In addition, this type of foundation is typically allowed the use of the university's name or logo, has named the university as its primary beneficiary, and has empowered the university to dissolve the foundation and retain its net assets.

Unrestricted funds: Those funds donated to foundations without restrictions on how they may be expended.

CHAPTER II

REVIEW OF LITERATURE

The literature related to the current investigation was reviewed in six basic areas: fund raising programs in higher education, university-foundation relationships, authoritative pronouncements, compliance reviews addressing university endowments, audits of university foundations, and subsidies and state jurisdiction.

Fund Raising Programs in Higher Education

Worth (1982) conducted one of the most comprehensive and recent studies of foundations in order to identify their characteristics, roles, and relationships to both the presidents and the governing boards of universities. Prior to 1970, there were no significant investigations directed at fund raising activities within higher education. However, since that time, this issue has increasingly attracted attention and has correspondingly become the focal point of a number of monographs or investigations.

Pray (1981) was primarily concerned with the practical aspects of raising funds, essentially providing a "how-to" study for the recommendation of specific fund raising techniques. In addition, several dissertations have examined various elements of fund raising activities at public universities. Studies of private universities are not applicable because these universities solicit gifts directly for themselves rather than through foundations. This should be expected from private universities, given that these institutions are not subject to state jurisdiction and do not have a

need for an affiliated foundation in order to operate unencumbered by state policies and regulations. Nor are private universities concerned, as are the public universities, with state legislative reduction of state appropriations in parity with public donations received, unless the gifts are sheltered under a separately incorporated legal entity (Sansbury, 1984).

McGinnis (1980), Sherratt (1975), and Stout (1978) conducted investigations directed at fund raising within the structures of public universities. McGinnis examined the organization of fund raising programs at 32 State universities that had been recognized as among the most successful fund raisers in the country. While his study has provided valuable insights into university organizational structures, it did not include comment upon university-provided subsidies or upon the validity of foundation claims to independence from state jurisdiction. Sherratt examined fund raising programs at eight prominent public universities, including descriptions of each university-affiliated foundation. While he listed both the advantages and disadvantages of university-related foundations, it was only in the context of their function as fund raising entities and only in general terms. Sherratt did not comment upon the presence of subsidies, or the degree of independence possessed by the foundations studied. Stout studied the relationships between development offices associated with campuses and those affiliated with centralized administrations for 16 multibased campus systems. However, this study was confined to the need for prioritization and coordination and did not address the nature of the university-foundation relationship or the presence of subsidies.

University-Foundation Relationships

The investigation conducted by Daniels, Martin, Eisenberg, Lewallen and Wright (1979) is of particular interest to the issues raised in the current study in that

it was directed at the characteristics of research foundations affiliated with universities. Though Daniels *et al.* were concerned with research foundations, rather than the primary fund raising foundations directly affiliated with universities, their insights pertaining to the legal ramifications associated with the levels and types of interactions between universities and their foundations provide relevance to the current study.

The primary issue raised by Daniels *et al.* (1979) of relevance to this investigation was a discussion of the legal concept referred to as "piercing the corporate veil." According to this concept a legally separate entity can lose its identity when it fails to substantively operate as a separate entity. Thus, if "a foundation is administered as if it exists in name only, a court might very well deny it the protection of separate corporate powers, and such denial could possibly be made retroactive" (p. 98). This judicial concept is important because it suggests that states and universities could establish "benchmarks" or guidelines regarding university-provided subsidies that would balance the need for some degree of integration between the university and its affiliated foundation and the importance of public accountability. As Daniels *et al.* noted, the entire relationship between universities and their foundations is problematic. On the one hand there is the separately incorporated and legally distinct entity called a foundation, while on the other hand there is the university that is the primary beneficiary and sponsor of the foundation and which can legally dissolve the latter when so required. In view of the broad powers a university president exercises with respect to such a foundation, the potential for subversion of the independence of the foundation is enormous. Nonetheless, while Daniels *et al.* did raise this issue as a matter of serious concern, the study did not establish a basis for determining when foundation independence would be

subverted or when the state could objectively "pierce the corporate veil" and be entitled to claim jurisdiction.

Reilley (1980) has indirectly suggested that many foundations affiliated with public universities have already become state-aided activities as a direct result of the managerial support provided to affiliated foundations by their universities. Based on the *Directory of Higher Education*, Reilley surveyed state-controlled, four-year universities in the United States to determine the number of foundations associated with universities and to describe the operational and organizational structures of the foundations in question. The study revealed that 339 (68 percent) of the 501 responding public universities had separately incorporated foundations for fund raising purposes.

In addition, the survey revealed that in the majority of cases, university administrators (other than university presidents) served on the boards of the legally separate foundations (Reilley, 1980). According to this study, 71.9 percent of the small universities, 85.1 percent of the medium-sized universities, and 86.4 percent of the large universities (with enrollments, respectively, of less than 5,000 students, 5,000 to 19,999 students, and 20,000 or more students) had placed university administrators on the boards of their affiliated foundations.

While there is an abundance of literature pertaining to the leadership role played by institutional governing boards in fund raising for private universities (Frantzreb, 1981; Knudsen, 1981), with the exception of an article by Worth (1983), there is little specific advice offered the governing boards or the presidents of public universities on the issue of independence. The little that is available on this subject is limited in scope and is typically presented in generalized terms, such as Worth's observation that with respect to the legally separate corporations that function almost totally within a university's structure, "there is the danger that the flow-

through foundation will appear to State legislators and officials as a subterfuge and that its independence will be threatened" (p. 44).

As Worth (1982) noted in his comprehensive survey, "the fund raising role of governing boards at public universities has received little specific attention, and the role of university-related foundation boards in the public sector has received almost none" (p. 27). Worth suggested that the noticeable void of literature in these areas may be because the establishment of foundations at public universities is a "relatively recent phenomenon" (p. 27).

Nason (1980) has suggested that the absence of studies pertaining to the propriety of the use of university administrators and staff for the performance of foundation-related duties could be due to the uncertainties associated with the propriety of a public activity exerting influence within a private and legally separate corporate entity. However, this dilemma, rather than serving to justify the absence of investigations of these topics, in actuality serves to underline a critical need for the development of appropriate guidelines and further investigations addressing these subject areas.

Nason's (1980) observations, coupled with the fact that foundations are receiving and spending billions of dollars on behalf of public universities, supports the contention that there are serious information gaps with respect to what has recently become a major source of funding for public higher education. Clearly, additional studies are required to determine the relationships between universities and their foundations and how those relationships affect the foundations' claims to exemption from public oversight.

Authoritative Pronouncements

Review of authoritative pronouncements by authorized agencies or governing bodies regarding the management of university endowments has revealed that guidelines for the prudent management of endowed funds, as well as appropriate accounting practices and methods of financial statement presentation, have been developed. However, no parallel guidelines have been developed that have addressed the appropriateness of university provision of subsidies to affiliated foundations.

The most widely cited authoritative sources for foundation management, CUBA and the Audit Guide, were briefly considered in the introduction to this study. The first is a manual issued by the National Association of College and University Business Officers (1974) which provides extensive coverage of such critical foundation topics such as the administration of endowments, investment management, and reporting requirements. The Audit Guide, issued by the American Institute of Certified Public Accountants (1975), addresses similar topics to those considered in the CUBA manual.

A more specific source of guidance for educational institutions which have endowment funds may be found in the *Uniform Management of Institutional Funds Act*, adopted in 1972 by the National Conference of Commissioners on Uniform State Laws. The purpose of the proposed act, according to the subsequently issued CUBA, "was to remove uncertainties with respect to the nature of charitable corporations, particularly colleges and universities, and to the powers of their governing boards in the area of investment management" (National Association, 1974, p. 1). The principle benefit to be derived from legislation enacted in keeping with the purpose of the act would be the authorization of the expenditure of fund apprecia-

tion, subject to a standard of business care and prudence that would not be possible according to the legal concept of the "Prudent Man Rule" that has been applied to the trustees of private institutions.

Compliance Reviews Addressing University Endowments

As noted in the introduction, Peat, Marwick, Main and Company (1985) conducted a comprehensive survey of current accounting and reporting practices, drawing upon the authoritative sources cited in the previous section as audit guides, of the members of the National Association of College and University Business Officers. While the survey questions were not specifically directed to officers of university-affiliated foundations, several of the questions were related to the administration of university endowment funds. A review of the literature in this area indicates that this survey represents the most comprehensive examination of appropriate issues that has been conducted during the past 20 years. The survey was conducted not only to "provide a data base for analyzing the state of the art in college and university financial accounting and reporting, but also to indicate those areas, if any, in which practice differs from the current authoritative guidance" (p. iv). Of the 2,011 member universities, 889 completed the questionnaire. A total of 200 two-year colleges and 232 public and 457 private four-year colleges and universities responded to the survey.

The survey found wide-spread instances of noncompliance with the guidelines provided in both the CUBA manual and the Audit Guide. The seriousness of the instances of noncompliance was conveyed by the statement that "such misstatements affect the fairness of presentation in the financial statements and may also give rise to questions about how well the university is carrying out its fiduciary

responsibility in managing these assets" (PMM, 1985, p. 27). The more serious violations revealed in the survey relating to endowment funds were as follows:

1) More than 87 percent of the public universities did not disclose their investment portfolio performance despite Audit Guide and CUBA suggestions that such information be disclosed;
2) More than 56 percent of the public universities did not use the recommended methods of allocating gains and losses for their investment pools;
3) More than 48 percent of the public universities did not automatically add the investment income (from other than endowment funds) earned on restricted funds back into the respective restricted fund balances, despite indications by the CUBA manual and the Audit Guide that this is a required practice; and
4) More than 22 percent of the public universities borrowed endowment funds in order to fund current operations, despite indications in the Audit Guide that this would be an inappropriate activity. Furthermore, 84 percent of the universities engaged in this practice also failed to pay the originating fund any interest for the use of its monies.

The gravity of these violations was underscored by the statement that

> to use these funds for other than the stipulated purpose may violate the intent of the donor, federal government, or other third party, and could constitute a clear violation of a fiduciary responsibility, possibly with legal implications for the institution. (p. 34)

Audits of University Foundations

Recent reports by state auditors concerning fraud and abuse with the administration of foundation funds have raised concerns about the activities of the

foundations (Cattanach, 1988; Hayes, 1987; Miles, 1988; Nobles, 1988; Scott, 1987). The majority of these audit reports have contended that the foundation officials failed to exercise due care in the performance of their fiduciary responsibilities. The auditors cited numerous incidents of poor recordkeeping, missing receipts, conflicts of interest, questionable disbursements, violations of federal, state and university regulations, and extravagant expenditures.

The Oklahoma State Auditor and Inspector conducted an investigation of the administration of the Southeastern Oklahoma State University foundation and discovered that the foundation officials failed to exercise due care in the performance of their fiduciary responsibilities with regard to the disbursement of hundreds of thousands of dollars (Scott, 1987). In general, it was noted that there was inadequate substantiation and an apparent conflict of interest involving a number of disbursements. The state auditors stated that many of the transactions cited appeared to have violated state laws prohibiting members of a non-profit corporation from affording pecuniary gain, incidental or otherwise, from their administrative acts, as well as regulations prohibiting trustees from receiving compensation for their services in addition to normal reimbursements for reasonable and commonly accepted expenses. The serious nature of some of these charges merited their referral to the Office of the Oklahoma Attorney General for possible criminal prosecution. Specifically, the following observations were included in the audit report:

- Foundation officials paid a member of the family of the university president more than $48,000 over an 18-month period for his service as the foundation's executive secretary. The auditors argued that these payments were excessive, given that the previous executive secretary had received only $25 per month, or a total of $450, for an equivalent 18-month period for the performance of essentially the same duties;

- Foundation officials paid $19,000 for unsubstantiated expenses to a company owned by a family member of the university president;
- Foundation officials paid over $20,000 to a member of the family of the university president without providing any supporting documentation or justification; and
- Foundation officials paid $84,000 to a member of the family of the university president for what the foundation claimed was the administration of one of the foundation's trust funds. The audit observed that no contract, agreement, or other information was available which indicated the nature and extent of services performed, if any, by the individual in question.

The California State Auditor conducted an investigation into the activities of foundation affiliated with the University of California at Santa Barbara and found that the foundation had failed to adhere to required university practices in the award of consulting contracts valued at more than $180,000 to eight individuals (Hayes, 1987). The audit report noted the following exceptions to sound managerial practices:

- The foundation did not obtain or solicit competitive bidding for the contracted services;
- The foundation did not obtain a billing or invoice from the consultants prior to payment of their fees;
- The foundation did not have a signed agreement with several of the consultants to whom it issued payments; and
- The foundation paid fees to the consultants before any work was performed.

The Wisconsin State Auditor, in a review of the administration of the University of Wisconsin's foundation, found that over $100,000 in fees earned by a state university laboratory had not been deposited in state accounts, as statutorily required (Cattanach, 1988). Rather, the funds in question were improperly deposited in foundation accounts. In Minnesota, in a review of the administration of the University of Minnesota's foundation, state auditors found that the president of the university used $1.5 million of foundation and university funds to remodel the state-owned president's house without following the university's procurement procedures (Nobles, 1988). In Oregon, an Attorney General's investigation of Portland State University determined that the university-affiliated foundation had used interest earned from certain restricted funds to pay for unrestricted expenditures. This practice occurred whenever a donor provided monies for designated purposes, but failed to explicitly state in the contract what should be done with any interest earnings from the donation. Over the life of the foundation, thousands of dollars of interest earned from these types of restricted donations were spent in manners which differed from the purposes designated by the donor for the principle. The Attorney General stated that while this practice could not be regarded as an illegal act, it nevertheless presented the appearance of intent to deceive (Frohnmayer, 1988).

O. B. Sansbury (1984), chancellor of the University of South Carolina at Spartanburg, in response to improprieties such as those just cited, has stated that this type of questionable foundation activity could result in an erosion of donor confidence and in increased regulation by the states. This suggests, he added, that "it may be time to consider some form of self-regulation" (p. 18). The impetus for Sansbury's remarks was a report issued by the South Carolina Legislative Audit Council, an agent of the General Assembly, which recommended 10 major reforms, including the following two significant recommendations:

1) Public agencies affiliated with tax-exempt corporations should identify all forms of subsidies they have provided to these corporations (office space, clerical help, etc.) and obtain reimbursement for the full value of these subsidies.
2) Public employees should not work during state time nor use state resources for the solicitation of contributions or other funds for tax-exempt corporations that are legally separate entities.

While Sansbury noted that these recommendations had not been legislatively mandated, it was his opinion that had they been required they would "severely impair the capacity of public education in South Carolina to develop and effectively manage valuable private resources for the benefit of institutions and students" (p. 19).

Subsidies and State Jurisdiction

Simic (1985) analyzed the variety of structural, administrative, and supportive relationships that can exist between a university and its foundation, and concluded by warning universities about the possible legal ramifications of those relationships: "The foundation should seek to be independent because the State could claim jurisdiction and expenditure authority over foundation assets if it is governed, even partially, by university employees" (p. 28).

Earlier, the Worth (1982) investigation surveyed 100 foundations belonging to member universities of the American Association of State Colleges and Universities and the National Association of State Universities and Land Grant Colleges to determine the level of involvement of university trustees, the university president, and foundation board members in fund raising and other related activities. Based on the data generated by this study, Worth observed that the role of the governing board of the university and the president of the university varied from dominance,

to participation, or noninvolvement in a wide range of foundation activities, including the selection of foundation board members, fund raising activities, decisions regarding the priorities for the funds, and the hiring of foundation employees. Worth concluded that 12 percent of the foundations studied were tightly controlled, 32 percent were independent of controls exercise by their universities, and 56 percent fell somewhere in between, in that their parent universities exercised a degree of institutional control that was less than total.

Similar observations were made by Gailey (1980) in a survey he conducted of 111 major public universities in order to identify the types of tax-exempt auxiliary corporations present on their campuses. Gailey obtained data from 150 university-affiliated, tax-exempt corporations from 80 different public universities, which he in turn classified in 16 different types of corporations. Among these types of corporate classifications were fund raising, research, and alumni foundations, as well as bookstores, housing, and auxiliary services. Gailey's finding that the salaries of the chief fiscal officer of 30 of the corporations surveyed were funded by their parent universities is of particular relevance to the current study. Unfortunately, since the survey results reflected only the totals for all corporations combined, the degree to which this occurrence was specifically true of university-affiliated foundations was not given. Nonetheless, Gailey's study does lend support to Worth's (1982) observation that the administration of many foundations was closely intertwined with that of their universities.

State of Oregon auditors recently gained access to the records of a separately incorporated foundation affiliated with a public university because the amount of subsidies provided by the university to its foundation was sufficient to enable the state to "pierce the corporate veil" of the foundation (Miles, 1988, p. 5). The audit report concluded that the level of subsidies provided the foundation by

the university was sufficient to classify the former as a "State-aided activity," thereby subjecting it to the audit authority of the State. The report noted that

> In addition to clerical staff, the [institution] supplied administrative, accounting, and other support. Support for the Foundation was so substantial that it covered most of the Foundation's operating expenses. This situation, in our opinion, precludes any real independence between the two organizations . . . Thus, the degree of support provided the Foundation by the [university] has resulted in the Foundation becoming a State-aided institution subject to audit by the Secretary of State under ORS 297.210. (pp. 3-4)

While the auditors did state in general terms the types of subsidies to which they objected, they did not specify the dollar amounts involved or otherwise categorize the subsidies they were citing. Nor did they comment on whether there was a range or type of subsidy that would enable the foundation to maintain its independence. This recent development (i.e., 1988), coupled with the results of the investigations cited in this chapter, strongly suggest that additional research into the character of the subsidies in question is of critical importance in arriving at a determination whether foundations affiliated with public universities are truly independent entities beyond public scrutiny or, in fact, they are dependent, publicly supported entities subject to state audit.

CHAPTER III

METHODOLOGY

Population and Sample

The target population surveyed consisted of all four-year public universities and colleges that had affiliated foundations and that had enrollments of at least 2,500 full-time students. The accessible population was defined as those public universities with enrollments of 2,500 full-time students, which also were members of the National Association of College and University Auditors (ACUA). Membership in ACUA includes most major public universities in the nation. These requirements delimited the population for this study to a total of 284 individual universities.

Since the specified population could be completely identified from the ACUA annual membership list, which is comprised of the directors of university offices of internal audit, a systematic sampling procedure was employed to draw a representative sample from among the member directors. First, all public universities with enrollments of less than 2,500 full-time equivalent students were eliminated, accomplished by consulting the *Peterson's Annual Guides to Undergraduate Study* for 1988. Next, it was decided to systematically sample 50 percent of the remaining population by the selection of every other university on the list (i.e., the list of universities was randomized and the first university selected was by random selection) . The minimum student enrollment level of 2,500 was selected because the sponsoring agency, ACUA, was only interested in institutions of this minimum size.

This procedure produced a sample of 142 selected universities from 48 states for the mail survey.

Development of the Instrument

Two basic questions were developed for the purpose of collecting data for this study. These questions were then incorporated into a 31-question mail survey instrument, consisting of a single-page set of instructions and a 12-page survey booklet (Appendix A), intended to solicit information on the characteristics of the accounting practices of university-affiliated foundations. This opportunity occurred because at the time this study was initiated the investigator was a member of ACUA Research and Publications Committee and was previously involved with the design and development of a questionnaire pertaining to the accounting and managerial practices of foundations. Internal audit directors were chosen as the contacts for the survey because they were considered to be the most reliable and appropriate contacts within universities for information regarding subsidies to foundations and because they were easy to contact through the ACUA directory. Furthermore, it was determined that if there was a single source that either knew the answers to appropriate survey questions, or had the resources and technical competence to find the answers, it would be the internal audit director of the university or state system in question.

The first draft of the instrument was reviewed for content and clarity by a panel of eight experts who were familiar with either university or foundation operations. The personnel of this committee included the past-president of the ACUA, who was a director of internal audit for a large multi-campus state system of higher education, three university vice presidents of finance and administration, a director and an associate director of business affairs for a large public research university,

and two auditors--one from the Office of the Attorney General of the State of Oregon and the other from a university. Both of the auditors were specialists in foundation audits. The observations of the members of the committee of experts were incorporated into the questionnaire.

In order to minimize misunderstandings or misinterpretations by the respondents and reviewer, essay or opened-ended questions were precluded. Rather, closed-ended questions with both ordered and unordered choices were used. Additionally, in an effort to minimize respondent burden, screen or filter questions (i.e., directions which instruct the reader to skip the following questions that would not apply to them, given their response to the filter question) were used when appropriate (Dillman, 1978).

Recognizing that universities could be sensitive to questions concerning subsidies to their affiliated foundations (e.g., their responses could conceivably lead to criticism of their subsidization practices by state regulatory agencies or the subsidies revealed could even be considered violations of some state laws), sensitivity to the topic was reduced by using a technique referred to by Dillman (1978) as the serial format. This technique establishes a context for consideration of the topic and consequently softens its impact. The purpose of this technique is to raise the issue in a neutral manner that will not influence the respondent.

Furthermore, double questions were eliminated and presented as two separate questions in order to minimize ambiguity in the questions and in the responses. In addition, the level of knowledge requisite to understand the questions was tested by both the committee of experts and by the respondents selected for pretesting the instrument.

In order to reduce the possibility that the questionnaire might be completed for an organization other than the university's affiliated foundation, such as a foun-

dation for a department or school, or a booster club, the first question on the survey was used to determine eligibility. Additionally, clear directions on how to answer the questions were provided for each separate question (Dillman, 1978).

The survey questionnaire was pretested (i.e., field-tested) at eight universities known to have affiliated foundations. These universities were selected from the ACUA listing and included small, medium, and large universities, as previously defined in the literature. Responses were received and reviewed with no obvious or significant wording problems or ambiguities reported. In addition, subsequent discussions with the pretest respondents revealed that the questions pertaining to subsidies were clear and unambiguous.

Effort was made to keep the survey questionnaire to a reasonable length in order not to discourage respondents from completing the survey. As advised by Dillman (1978), whose research indicated that "there is not much difference in the response rates for questionnaires of less than 12 pages" (p. 55), the total survey instrument did not exceed 12 pages. To further reduce the possibility of discouraging respondents from replying to the questionnaire, all the dry background data on university and foundation characteristics concerned with the size of the foundation and university were included only as the final questions on the survey.

The questions pertaining to subsidies appear on the third page of the survey instrument as questions 7 and 9. For the reasons stated above, these questions were first introduced in a context designed to minimize defensiveness on the part of the respondents. Question number 7 begins by stating, "The table below presents some ways a university can help support its foundation. Please indicate whether or not your university provides each of the following." The choices offered were office space, personnel, mailing services, printing services, computer services, utilities, and other. In order to ensure a well-thought out and complete response and to mini-

mize the chances of misinterpreting the data, the format of this question was such that the respondents were asked to indicate "yes" or "no" for each type of support specified.

Question number 9 asked for a total value of all university services and facilities provided to the foundation, or exchanged for services in kind. The respondent was directed to select one of six ranges offered: (a) nothing provided; (b) $1 to $24,999; (c) $25,000 to $49,999; (d) $50,000 to 99,999; (e) $100,000 to $249,999; and (f) $250,000 and up. Possible responses were confined to value ranges in order to minimize the likelihood that the question would go unanswered because the respondent felt the question was too demanding, probing, or embarrassing, given the highly sensitive and confidential nature of the data. It was believed that a range higher than $250,000 might be sufficiently inflammatory to spur a "recall bias," a phenomenon which occurs when respondents are tempted to underreport their situation or not to respond at all because of the negativism or stigma attached to the issue (Courtney, 1986). The remaining questions on the survey instrument addressed various accounting and managerial practices of interest to the ACUA members, and were not directly related to the study of subsidies.

Data Collection

The survey instrument was mailed to members of ACUA, who for the most part are directors of offices of internal audit for either a state system of higher education or for an individual university. The cover letter asked the addressees, whose mailing addresses were obtained from the ACUA membership listing, to either complete the survey themselves or to route the survey to the individuals who could provide the appropriate information. The survey was sent via first class mail during the week of July 6, 1988. Each mailing included a cover letter with an ACUA let-

terhead on high quality bond off-white paper and was addressed to the "ACUA Member" and signed by the investigator, who was a member of the ACUA Research and Publication Committee (Appendix B). In order to elicit the respondents' sense of obligation to return a rapid reply to the survey, the names of the two co-chairpersons of the ACUA Research and Publication Committee were mentioned in the cover letter as being supportive of the survey. In addition, the cover letter stated that the data derived from the survey would be shared with all ACUA members when the data analysis was completed, and that the preliminary data would be discussed at the national ACUA conference to be held in September, 1988, if available by that time. Furthermore, each letter was individually signed in blue ink and provided the incentive of a free summary of the results to those requesting it in their response.

To further encourage responses, the survey was announced one month in advance in the ACUA quarterly newsletter. This announcement was prominently displayed and encouraged all members to respond if surveyed. In addition, the packet included a preaddressed envelope affixed with the correct return postage. Given the highly sensitive nature of the questions pertaining to subsidies, as well as some of the other questions, it was determined that the respondents had to be assured anonymity and the strictly confidential nature of their responses (Dillman, 1978). This special commitment was clearly stated in the cover letter and reinforced by the use of an independent agency specializing in survey research. Thus, the reader was clearly informed that all responses were to be returned to the Oregon State University Survey Research Center and not to the ACUA or to the investigator.

In order to highlight the sponsoring association, each packet mailed contained a large sticker indicating that the packet was from the ACUA Research and

Publication Committee. The Oregon State University Survey Research Center pre-numbered each survey questionnaire in order to monitor returns and enable the dispatch of follow-up letters to nonrespondents to the first mailing without burdening those universities which already had replied. This fact was also disclosed in the cover letter.

Four weeks after the first mailing a second mailing was issued to the nonrespondents. A new cover letter was prepared, emphasizing the importance of the survey to ACUA members as well as to foundation management (Appendix C). The letter, directed to the same addresses used in the first mailing, was also issued on ACUA letterhead bond, accompanied by another copy of the survey, and a return envelope affixed with the correct return postage. After a waiting period of two weeks, the remaining nonrespondents were phoned. Those contacted stated that they had no information about the affiliated foundation at their universities or could not obtain information due to foundation policies.

Response Rate

Responses to both the first and second mailings were coded and for purposes of tabulation and statistical analysis were entered into a computer data base by the Oregon State University Survey Research Center. By September 1, 1988, of the original sample of 142 public universities, 100 had responded to the survey. Of this number of respondents, 17 indicated they did not have a foundation, resulting in an adjusted sample size of 125. The number of usable returns was therefore 83, resulting in an adjusted completion rate of 66 percent.

Data Analysis

Toward the accomplishment of the purposes of this investigation, as stated in the research questions posed in Chapter I, "Purpose of the Study," the presentation of descriptive data included the percentages, means, and variances for most of the responses. In addition, the data were grouped into one of three commonly recognized enrollment categories, either small (2.500 to 9,999 students), medium (10,000 to 19,999 students), or large (20,000 or more students), in order to facilitate comparative analysis (Reilley, 1980). The data analyses consisted of t-tests and analyses of variance (ANOVA) for university and foundation characteristics with respect to the presence, type, and dollar ranges of subsidies.

The data from the first question regarding subsidies (i.e., yes, the foundation is subsidized; or no, the foundation is not subsidized) were measured on a nominal scale. The data from the second question ranked respondents by the degree to which they subsidized their foundations, indicated by the dollar ranges established in the "Development of the Instrument" section of this chapter and measured by ranking or ordinal scale. In addition, the responses to the questions regarding the student enrollment at the university, the most recent valuation of the foundation's endowed funds, and the amount of the foundation's annual 1986/87 academic year unrestricted and restricted expenditures were measured by a ratio scale since the intervals between the numbers were equal and the data could be precisely measured.

The data were analyzed by testing eight hypotheses, using either t-tests or one-way ANOVAs. For the first four null hypotheses, a t-test was conducted for each of the six different types of subsidies considered in the question. For this purpose, there were two independent samples: universities which did provide sub-

sidies and universities which did not. The independent variable was whether or not each type of subsidy was provided and the dependent variables were the university's student enrollment, the amount of the foundation's unrestricted and restricted expenditures, and the most recent valuation of the foundation's endowed funds.

Hypotheses Tested

The four null hypotheses tested were:

Ho_1 There is no significant difference between universities which provide subsidies and those which do not with respect to the student enrollment (size) of the university.

Ho_2 There is no significant difference between universities which provide subsidies and those which do not provide subsidies with respect to the unrestricted expenditures of the foundation.

Ho_3 There is no significant difference between universities which provide subsidies and those which do not provide subsidies with respect to the restricted expenditures of the foundation.

Ho_4 There is no significant difference between universities which provide subsidies and those which do not provide subsidies with respect to the endowment value of the foundation.

For each of the four null hypotheses, rejection of the null (F-statistic at the .05 level of significance for the assessment of differences) would suggest that a relationship existed between the independent and dependent variables.

Because the data regarding the dollar amounts of subsidies were measured categorically for four different dollar ranges, an ANOVA was conducted to test for differences among these four groups with respect to the four university and foundation characteristics of student enrollment, amount of the foundation's 1986/87 aca-

demic year unrestricted and restricted expenditures and the most recent valuation of the endowed funds of the foundations. The four independent groups were: (a) no subsidy is provided; (b) $1 to $49,000 is provided; (c) $50,000 to $99,999 is provided; and (d) $100,000 or more is provided.

The four null hypotheses tested by ANOVA were:

Ho_5 There are no significant differences among universities in the dollar ranges of subsidies with respect to the value of the foundation's endowments.

Ho_6 There are no significant differences among universities in the dollar ranges of subsidies with respect to student enrollment.

Ho_7 There are no significant differences among universities in the dollar ranges of subsidies with respect to the unrestricted expenditures of the foundation.

Ho_8 There are no significant differences among universities in the dollar ranges of subsidies with respect to the restricted expenditures of the foundation.

The statistical analysis was performed in consultation with the Oregon State University Survey Research Center. For all four null hypotheses, rejection of the null (F-statistic at the .05 level of significance for the assessment of differences) would suggest that a relationship existed between the independent and dependent variables.

CHAPTER IV

PRESENTATION OF THE DATA

This chapter presents information resulting from an analysis of the questionnaires returned by university and foundation officials. The information is organized into six sections, described as follows:

1) The position status and length of employment for each survey respondent;
2) A comparison of the sample and population distributions by geographic region;
3) The types of subsidies provided by universities to their foundations, including the percentage of universities that provided subsidies;
4) The dollar amounts of subsidies provided to the foundations;
5) The computational findings for hypotheses 1 through 8; and
6) An overview of the findings presented in summary form.

Position Status and Length of Employment of Survey Respondents

The integrity, position knowledge, and authority of the individuals answering the survey questionnaires are among the most important factors regarding the validity of the responses. The last two questions on the survey, numbers 29 and 30 respectively, asked "What is your title?" and "How many years, altogether, have you served in this position?" Overall, 73 percent of the respondents were either auditors or fiscal officers and the remaining 27 percent were associated with foundation

development and relations. Overall, the respondents held their reported positions for 5.7 years. University internal auditors averaged 7.2 years, vice presidents of finance and administration averaged 7.2 years, and executives associated with foundation development and relations averaged 5.7 years in their positions.

As indicated in Table 1, the questionnaires were completed by nine different classes of university positions.

Table 1. Titles of Individuals Completing the Survey.

Title	N	Percent
University Internal Auditors	23	28
Vice Presidents of Finance and Administration	14	17
Controllers	8	10
Treasurers	7	8
Business Officers	8	10
Vice Presidents of Development	3	4
Development Officers	12	14
Foundation Presidents	3	3
Assistants to the Foundation President	5	6
TOTAL:	83	100

The position status of the respondents and average length of years on the job indicate a high level of integrity, position knowledge, and authority regarding foundation activities. This data suggests a high level of content validity for the completed surveys as well as the resulting data analyses.

Sample and Population Distribution by Geographic Region

Characteristics of Universities Studied

For the purposes of this study, the United States was divided into 10 regions (Figure 1), with the universities including in this survey located as indicated in Table 2. Survey results included respondents from each of the 10 geographical areas and from 42 states in the United States.

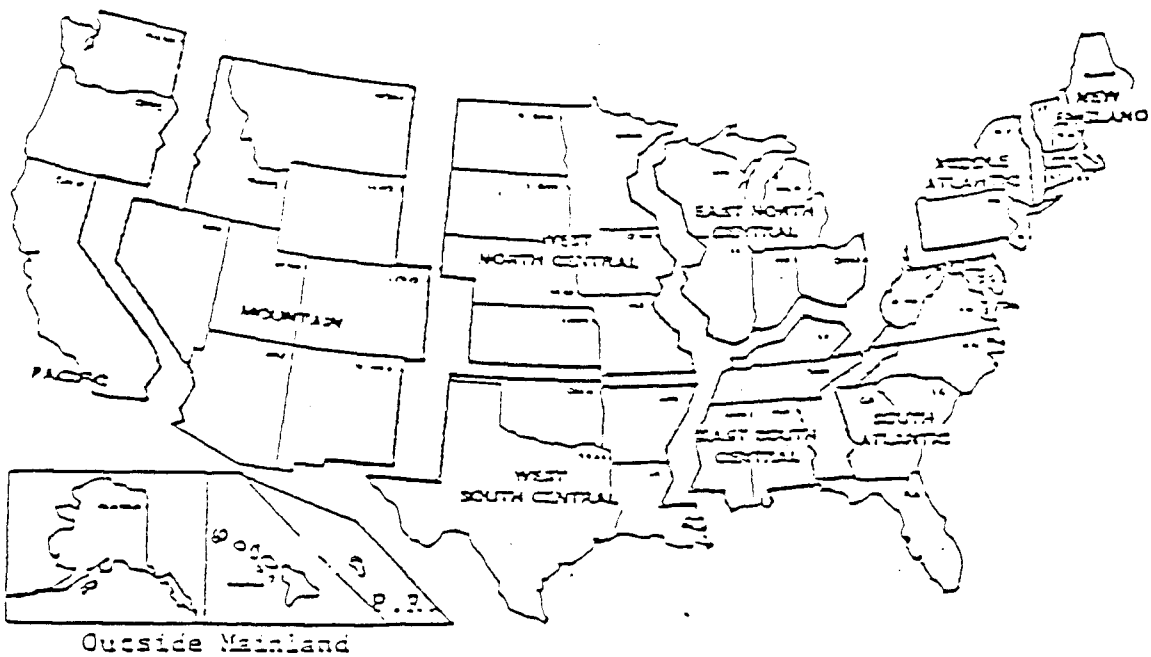

Figure 1. Geographical Regions for the Universities Studied (U.S. Chamber of Commerce, 1987).

Table 2. Comparison of Sample and Population Distributions by Geographical Region.

		Percent of Total*			
Geographical Region	N	R	NF	NR	P
New England	6	3	12	5	4
Middle Atlantic	17	12	6	14	12
South Atlantic	29	20	0	29	20
East North Central	30	20	34	17	21
East South Central	13	7	12	12	9
West North Central	6	7	0	0	4
West South Central	14	6	24	12	10
Mountain	11	10	6	5	8
Pacific	14	12	6	6	10
Outside Mainland	2	3	0	0	2
TOTAL:	142	100	100	100	100
(Number):		(83)	(17)	(42)	(142)

* Percent of total within each response categories: R = usable responses; NF = no foundation; NR = nonrespondents; P = sample population.

Based on these responses, there does not appear to be any one geographical region that had a disproportionate number of nonresponses. Larger percentages of responses and nonresponses associated with a given geographical region appear to be due to the relative size of the sample drawn from the region.

Characteristics of Foundations Studied

Among the universities studied, foundations had endowed funds ranging from a minimum of $21,000 to a maximum of $200,000,000. The overall mean value of endowed funds was $22,478,218. The mean endowments with respect to student enrollment categories are presented in Table 3.

Table 3. Value of the Foundations' Endowed Funds by University Size (based upon student enrollment).

Student Enrollment	N	Mean (dollars)	STD DEV (dollars)
Small	38	4,203,987	9,545,974
Medium	21	11,013,952	13,611,474
Large	19	52,243,716	58,960,570

There were wide variations among the foundations within each university size category with respect to the value of their endowed funds. The standard deviation exceeded the mean for foundations affiliated with each of the three student enrollment categories, with the widest variation (i.e., more than twice the mean) found for foundations affiliated with small universities. This data suggest that there is no truly representative or typical foundation with respect to the value of endowed funds as classified by university size with respect to these size categories.

Among the universities studied, affiliated foundations had unrestricted expenditures ranging from a minimum of $14,000 to a maximum of $7,709,500. The overall mean value of unrestricted expenditures was $1,695,491. The mean unrestricted expenditures with respect to student enrollment categories are presented in Table 4.

Table 4. Total Unrestricted Expenditures by University Size (based upon student enrollment).

Student Enrollment	N	Mean (dollars)	STD DEV (dollars)
Small	35	889,011	3,366,203
Medium	19	1,358,747	3,820,187
Large	17	2,838,718	2,534,751

There were wide variations among the foundations within each university category with respect to the foundations' unrestricted expenditures. The standard deviation for unrestricted expenditures exceeded the mean for foundations affiliated with both small and medium-sized universities and approached the mean for foundations affiliated with large universities. This data suggest that there is no truly representative or typical foundation with respect to amounts of unrestricted expenditures as classified by university size with respect to these size categories.

Among the universities studied, affiliated foundations had restricted expenditures ranging from a minimum of $2,800 to a maximum of $32,338,000. The overall mean value of restricted expenditures was $4,468,244. The mean restricted expenditures with respect to student enrollment categories are presented in Table 5.

Table 5. Total Restricted Expenditures by University Size (based upon student enrollment).

Student Enrollment	N	Mean (dollars)	STD DEV (dollars)
Small	34	915,759	2,452,803
Medium	20	2,214,535	2,308,078
Large	16	10,272,438	9,550,315

There were wide variations among the foundations affiliated with each university size category with respect to the foundations' restricted expenditures. The standard deviation for restricted expenditures exceeded the mean for foundations affiliated with both small and medium-sized universities and approached the mean for foundations affiliated with large universities. This data suggest that there is no truly representative or typical foundation with respect to amounts of restricted expenditures with respect to these size categories.

Types of Subsidies Provided

Overall, 94 percent of the adjusted sample indicated that they supported their university foundations by providing one or more of the six types of subsidies measured in this study. Overall percentages of universities providing subsidies are reported in Table 6. Percentages of universities providing subsidies with respect to student enrollment categories are presented in Table 7. Note that five of the respondents indicted that their university provided other forms of support.

Table 6. Types of Subsidies Provided.

Type of Subsidy	N	Percent Providing Subsidy
Office space	83	80
Personnel	83	73
Mailing Services	83	61
Printing Services	83	55
Computer Services	82	64
Utilities	82	82

Overall, almost three-quarters of the public universities provided the use of state employees to their independent and legally separate foundations free of all charges. Furthermore, four-fifths of the public universities provided free office space to their foundations.

Table 7. Types of Subsidies Provided Categorized by University Size (based upon student enrollment).

	Small		Medium		Large	
Type	N	Percent Providing Subsidy	N	Percent Providing Subsidy	N	Percent Providing Subsidy
Office Space	42	88	21	76	20	65
Personnel	42	79	21	62	20	75
Mailing	42	69	21	43	20	65
Printing	42	67	21	38	20	50
Computer	41	63	21	67	20	65
Utilities	41	88	21	77	20	75
Other	42	7	21	10	20	0

Large universities were almost as likely (75 percent) to provide the use of state employees to their independent and legally separate foundations as small universities (79 percent). Moreover, though only 65 percent of the large public universities provided office space to the affiliated foundation, as compared to 88 and 76 percent, respectively, for small and medium-sized universities, 65 percent still represents more than three-fifths of the sample for large universities.

Dollar Range of Subsidies Provided by Universities To Foundations

Overall, 90 percent (70) of the respondents indicated that they provided some level of financial support to their foundations. The distribution of subsidies provided to foundations is presented in Table 8. To facilitate the ANOVA tests, the six dollar ranges were consolidated into four larger cells sizes with a broader dollar range, as indicated in Table 9. Table 10 provides a summary of subsidy dollar ranges as categorized by university size.

Table 8. Distribution of Dollar Amount of Subsidies Provided.

Dollar Range	N	Percent
Nothing Provided	8	10
$1 to $24,999	21	27
$25,000 to $49,999	10	13
$50,000 to $99,999	13	17
$100,000 to $249,999	10	13
$250,000 or more	16	20
TOTAL:	78	100

Table 9. Distribution of Consolidated Dollar Ranges of Subsidies Provided.

Consolidated Dollar Range	N	Percent
Nothing provided	8	10
$1 to $24,999	21	27
$25,000 to $99,999	23	30
$100,000 or more	26	33
TOTAL:	78	100

Table 10. Distribution of Dollar Ranges of Subsidies by University Size (based upon student enrollment).

Student Enrollment	N	Mean* (dollars)	STD DEV (dollars)
Small	40	67,187	73,417
Medium	20	86,250	93,180
Large	18	163,889	110,803

* = These means were calculated using the midpoint of the three categories.

Overall, 50 percent of the universities provided subsidies of $50,000 or more to their foundations; 33 percent of the universities provided subsidies of $100,000 or more; and 20 percent of the universities provided subsidies of $250,000 or more (Table 8). Only 8 universities, or 10 percent, stated that no subsidy was provided. Note that the mean value of the subsidy to the foundation increased with the size of the university.

Findings Relative to the Hypotheses

Significant Difference Tests

For the first four hypotheses, t-tests were conducted to determine if there were differences between universities which provide subsidies and those who do not provide subsidies with respect to university enrollment, the unrestricted and restricted expenditures of affiliated foundations, and the valuation of the endowed funds of affiliated foundations. The .05 level of significance was used as the criteria for the determination of differences.

Hypothesis Number 1

HO_1 There is no significant difference between universities which provide subsidies and those which do not with respect to the student enrollment (size) of the university.

Analysis was conducted to determine whether or not there were significant differences between universities which do provide subsidies and those which do not with respect to the student enrollments of the universities. Results are presented in Table 11.

Table 11. Relationship Between Types of Subsidies Provided and Student Enrollment.

Subsidy	Provider Mean (students)	Nonprovider Mean (students)	P-Value
Office Space	14,911	18,305	.3278
Personnel	15,150	16,872	.6804
Mailing Services	14,789	16,908	.5761
Printing Services	13,208	18,588	.1649
Computer Services	15,063	16,945	.6292
Utilities	14,648	20,555	.2187

Analysis of the data indicated that there were no statistically significant differences in mean enrollment between providers and nonproviders of subsidies. Therefore, the null hypothesis was retained for all types of subsidies provided. These results suggest that the decision to provide or not to provide subsidies was made irrespective of the size of the university and the corresponding alumni base.

Hypothesis Number 2

Ho_2 There is no significant difference between universities which provide subsidies and those which do not provide subsidies with respect to the unrestricted expenditures of the foundation.

Analysis was conducted to determine whether or not there were significant differences between universities which do provide subsidies and those which do not with respect to amounts of foundation unrestricted expenditures. Results are presented in Table 12.

Table 12. Relationship Between the Types of Subsidies Provided and Amounts of Foundation Unrestricted Expenditures.

Subsidy	Provider Mean (dollars)	Nonprovider Mean (dollars)	P-Value
Office Space	1,153,340	2,817,814	.2056
Personnel	1,103,162	2,683,470	.0918
Mailing Services	1,517,597	1,419,150	.9066
Printing Services	1,351,838	1,639,628	.7230
Computer Services	1,322,091	1,794,372	.5805
Utilities	1,070,155	3,523,700	.1082

Analysis of the data indicated that there were no statistically significant differences in mean unrestricted foundation expenditures between providers and nonproviders of subsidies. Therefore, the null hypothesis was retained for all types of subsidies provided. These results suggest that the decision to provide or not to provide subsidies was made irrespective of the amounts of the foundation unrestricted expenditures.

Hypothesis Number 3

Ho_3 There is no significant difference between universities which provide subsidies and those which do not provide subsidies with respect to the restricted expenditures of the foundation.

Analysis was conducted to determine whether or not there were significant differences between universities which do provide subsidies and those which do not with respect to amounts of foundation restricted expenditures. Results are presented in Table 13.

Table 13. Relationship Between the Types of Subsidies Provided and Amounts of Foundation Restricted Expenditures.

Subsidy	Provider Mean (dollars)	Nonprovider Mean (dollars)	P-Value
Office Space	2,555,026	7,242,230	.0130
Personnel	2,283,801	7,278,762	.0575
Mailing Services	2,877,318	4,353,211	.3404
Printing Services	2,014,956	5,200,070	.0461
Computer Services	2,659,813	4,956,083	.2125
Utilities	2,267,737	9,737,163	.0438

Analysis of the data indicated that there were statistically significant differences between providers and nonproviders of office space, printing service, and utility subsidies. The means of the foundations' restricted expenditures for the nonproviders were significantly larger, by factors of 2.8, 2.6, and 4.3, respectively, than the means of the providers. These results suggest that the wealthier foundations, as measured in terms of restricted expenditures, were less likely to receive these three subsidies than their less wealthy counterparts. Therefore, the null hypothesis was rejected for these three types of subsidies, but retained for personnel, mailing services, and computer services. These results suggest that the decision to provide or not to provide office space, printing services, and utilities was influenced by the amounts of foundation restricted expenditures.

Hypothesis Number 4

Ho_4 There is no significant difference between universities which provide subsidies and those which do not provide subsidies with respect to the endowment value of the foundation.

Analysis was conducted to determine whether or not there were significant differences between universities which do provide subsidies and those which do not with respect to the value of foundation endowed funds. Results are presented in Table 14.

Table 14. Relationship Between the Types of Subsidies Provided and Value of Foundation Endowed Funds.

Subsidy	Provider Mean (dollars)	Nonprovider Mean (dollars)	P-Value
Office Space	11,983,623	41,913,786	.0584
Personnel	11,384,508	38,922,477	.0657
Mailing Services	15,790,308	21,032,758	.5385
Printing Services	10,956,567	26,072,648	.0860
Computer Services	12,818,246	26,322,077	.1974
Utilities	11,279,335	48,440,838	.0718

Analysis of the data indicated that there were no statistically significant differences with respect to the amounts of foundation endowed funds between providers and nonproviders of subsidies. Therefore, the null hypothesis was retained for all types of subsidies provided. These results suggest that the decision to provide or not to provide subsidies was made irrespective of the values of the foundation endowed funds.

Least Significant Difference Tests

Because the information pertaining to the dollar amount of subsidization was measured categorically in four dollar ranges, ANOVA tests were conducted to test for differences among these four ranges of university subsidies with respect to student enrollment, the amount of the foundation's unrestricted and restricted

expenditures, and the most recent valuation of the endowed funds of the foundations. The least significant difference (LSD) was used to test for differences between all pairs of categories. The LSD was chosen because it controls the type I, comparisonwise, error rate and is appropriate for unequal cell sizes (Snedecor & Cochran, 1974). The F-ratio at the .05 level of significance was used as the criteria for the determination of differences.

Hypothesis Number 5

Ho_5 There are no significant differences among universities in the dollar ranges of subsidies with respect to the value of the foundation's endowments.

An ANOVA was conducted to test for differences among four dollar ranges of university subsidies with respect to foundation endowment values. The results of this test indicated that all groups were not the same. The calculated P-value was $p = .0034$, resulting in the rejection of the null hypothesis. The LSD revealed that those foundations that received no subsidies from their universities had mean endowment values that were statistically greater than those foundations that received subsidies from their universities. Mean figures for foundation endowment values for the four subsidy categories are reported in Table 15. These results suggest that the wealthiest foundations, as defined by the value of their endowed funds, are less likely to receive a subsidy from their university than those foundations with smaller endowments.

Table 15. Mean Endowment Values by Subsidy Category.

Level of Subsidy	N	Mean* Endowment Values (dollars)
≥ $100,000	25	16,401,600 b
$50,000 - $99,999	12	12,593,900 b
$1 - $49,999	30	9,124,000 b
No Subsidy	7	62,909,500 a

P-Value = .0034
* = Mean followed by same letters are not statistically different for LSD with p = .05.

Hypothesis Number 6

Ho_6 There are no significant differences among universities in the dollar ranges of subsidies with respect to student enrollment.

An ANOVA was conducted to test for differences among four dollar ranges of university subsidies with respect to student enrollment. The results of this test indicated that all groups were not the same. The calculated P-value was p = .0062, resulting in the rejection of the null hypothesis. The LSD revealed that those universities that provided no subsidies to their foundations and those that provided the largest subsidies, $100,000 or more, were significantly larger in enrollment than those universities that provided subsidies in the remaining two categories. Mean enrollment figures for the four subsidy categories are reported in Table 16. These results suggest that foundations affiliated with large universities are perceived to have either a need for a large subsidy or none whatsoever.

Table 16. Mean Enrollment by Subsidy Category.

Level of Subsidy	N	Mean* Enrollment
≥ $100,000	26	22,801[a]
$50,000 - $99,999	13	11,038[b]
$1 - $49,999	31	9,281[b]
No Subsidy	8	23,771[a]

P-Value = .0062
* = Mean followed by same letters are not statistically different for LSD with p = .05.

Hypothesis Number 7

Ho_7 There are no significant differences among universities in the dollar ranges of subsidies with respect to the unrestricted expenditures of the foundation.

An ANOVA was conducted to test for differences among four dollar ranges of university subsidies with respect to foundation unrestricted expenditures. The results of this test indicated that all groups were not the same. The calculated P-value was p = .0130, resulting in the rejection of the null hypothesis. The LSD revealed that those foundations that received no subsidies from their universities had mean unrestricted expenditures that were statistically greater than those foundations which received $1 to $49,999 or those which received $100,000 or more from their universities. There were no statistical differences between the group which received subsidies between $50,000 and $99,999 and the groups which received either no subsidy, $1-49,999, or $100,000 or more. Mean figures for foundation unrestricted expenditures for the four subsidy categories are reported in Table 17.

Table 17. Mean Unrestricted Expenditures by Subsidy Category.

Level of Subsidy	N	Mean* Unrestricted Expenditures (dollars)
≥ $100,000	24	1,332,500 b
$50,000 - $99,999	12	2,150,100 ab
$1 - $49,999	26	426,700 b
No Subsidy	6	5,256,600 a

P-Value = .0130
* = Mean followed by same letters are not statistically different for LSD with p = .05.

These results suggest that the wealthiest foundations, as defined by the level of unrestricted expenditures, are less likely to receive a subsidy from their university than are those foundations of lesser wealth.

Hypothesis Number 8

Ho_8 There are no significant differences among universities in the dollar ranges of subsidies with respect to the restricted expenditures of the foundation.

An ANOVA was conducted to test for differences among four dollar ranges of university subsidies with respect to foundation restricted expenditures. The results of this test indicated that all groups were not the same. The calculated P-value was p = .0020, resulting in the rejection of the null hypothesis. The LSD revealed that those foundations that received no subsidies from their universities had mean restricted expenditures that were statistically greater than those foundations that received subsidies from their universities. Mean figures for foundation restricted expenditures for the four subsidy categories are reported in Table 18.

Table 18. Mean Restricted Expenditures by Subsidy Category.

Level of Subsidy	N	Mean* Restricted Expenditures (dollars)
≥ $100,000	24	4,066,200 [b]
$50,000 - $99,999	12	2,509,900 [b]
$1 - $49,999	26	1,626,200 [b]
No Subsidy	5	12,879,000 [a]

P-Value = .0020
* = Mean followed by same letters are not statistically different for LSD with p = .05.

These results suggest that the wealthiest foundations, as defined by the level of restricted expenditures, are less likely to receive a subsidy from their university than are those foundations of lesser wealth.

Summary

The central purpose of this study was to determine whether universities subsidized their foundations and, if so, to provide descriptive data regarding the types of subsidies, their prevalence, and the dollar ranges of those subsidies. In addition, the central problem of the study was to determine if any statistically significant differences exist among categories of selected university and foundation characteristics with respect to the presence, type, and dollar ranges of the subsidies provided.

The results of the survey revealed that 94 percent of the 83 universities responding provided at least one type of subsidy to their foundations. Eighty-two percent of the universities provided utilities, 80 percent provided office space, 73 percent provided personnel, 64 percent provided computing services, 61 percent provided mailing services, and 55 percent provided printing services.

Overall, 10 percent of the 78 responding universities indicated they did not provide any dollar subsidies, 27 percent provided $1 to $24,999, 13 percent provided $25,000 to $49,999, 17 percent provided $50,000 to $99,999, 13 percent provided $100,000 to $249,999, and 20 percent provided $250,000 or more. This information, when consolidated, revealed that 50 percent of the public universities provided public subsidies of $50,000 or more to legally separate and independent foundations. Consolidated to an even greater degree, 33 percent, or one third, of the public universities provided public subsidies of $100,000 or more to legally separate and independent foundations.

For purposes of this study t-tests were conducted for analysis of the first four null hypotheses. The null hypotheses Ho_1, Ho_2, and Ho_4 were retained because the t-tests revealed there were no significant statistical differences between universities that provided and universities that did not provide subsidies with respect to student enrollment, the amounts of the foundation unrestricted expenditures, and the value of foundation endowed funds. The t-tests revealed there were statistical differences between universities that provided and universities that did not provide subsidies with respect to the amounts of foundation restricted expenditures for office space, printing services, and utilities. For these tests, the means of the foundations' restricted expenditures for the nonproviders were 2.8, 2.6, and 4.3 times as large, respectively, than the means of the providers. These results suggest that the wealthier foundations, as measured in terms of restricted expenditures, were less likely to receive these three subsidies than their less wealthy counterparts.

The results of the ANOVA used to test hypotheses five through eight revealed there were statistically significant differences among universities in the dollar ranges of subsidies provided with respect to the value of foundation endowed funds, student enrollments, and the amounts of foundation unrestricted and restricted

expenditures, resulting in the rejection of the null hypotheses Ho_5, Ho_6, Ho_7, and Ho_8. The LSD tests further revealed that there were statistical differences among the four different dollar ranges of subsidies provided with respect to the valuation of foundation endowed funds, student enrollments, and the amount of foundation unrestricted and restricted expenditures.

CHAPTER V

SUMMARY, FINDINGS, CONCLUSIONS, AND RECOMMENDATIONS

Summary

This study was designed to disclose the degree to which public universities that were members of the National Association of College and University Auditors (ACUA) provide subsidies to tax-exempt, non-profit, and legally separate corporations serving as college or university foundations. The investigation included a description of the major types and the valuation in dollar ranges of institutional subsidies to foundations. In addition, analyses were conducted to determine if there were statistically significant differences among categories of selected university and foundation characteristics with respect to the presence, types, and dollar ranges of subsidies.

Of the 142 institutions selected from the 1988 ACUA membership roster for sampling, 100 responded to the request for data, resulting in 83 usable surveys. Responses with respect to the provision of subsidies and the university and foundation characteristics associated with the 83 institutions were analyzed and the principal results were summarized. These research findings, with reference to the major objectives and procedures adopted for this study, are summarized as follows.

1) To review existing research literature related to subsidies provided by public universities to affiliated foundations:

A close review of the literature revealed little information relative to subsidies provided by universities to their foundations. The few studies related to this is-

sue reflected investigations in which an interest in subsidies was incidental to the thrust of the research and therefore of limited dimensions. However, the research conducted did disclose that there was close integration of university and foundational administrative activities, suggesting that it was likely that many universities provided some form of subsidy to their related foundations.

2) To design and administer a survey instrument to all study participants:

A questionnaire was designed, pre-tested, and mailed in June, 1988 to a selected group of 142 public universities. Of 100 responses, 17 institutions indicated that they had no relationship to a legally separte foundation. Therefore, the adjusted sample size was based on a survey of 125 institutions, with an adjusted completion rate of 66 percent.

3) To determine the percentage of universities that provide subsidies, as well as the types of subsides provided and their dollar ranges:

This survey revealed that of the 83 usable responses, 94 percent of the institutions provided some form of subsidy to their foundation: 82 percent provided utilities, 80 percent provided office space, 73 percent provided personnel, 64 percent provided computer services, 61 percent provided mailing service, and 55 percent provided printing services. Of the 78 responses to the survey item concerning the dollar value of support to foundations, 8 (10 percent) did not provide support, 21 (27 percent) provided $1 to $24,999, 10 (13 percent) provided $25,000 to $49,999, 13 (17 percent) provided $50,000 to $99,000, 10 (13 percent) provided $100,000 to $249,999, and 16 (20 percent) provided $250,000 or more. Overall, one-half (50 percent) of the institutions surveyed provided subsidies of $50,000 or more to their foundations, while one-third (33 percent) provided subsidies of $100,000 or more.

4) To determine if statistically significant differences exist among categories of selected university and foundation characteristics with respect to the presence, type, and dollar ranges of the subsidies:

As discussed in Chapter IV, eight hypotheses were analyzed. For the first four hypotheses, t-test analyses at the .05 level of significance were performed for the relationship between six subsidy types and (Ho_1) the student enrollment (size) of the universities, (Ho_2) unrestricted and (Ho_3) restricted foundation expenditures, and (Ho_4) the valuation of the endowed funds of the foundations during the academic year 1986-1987.

No significant differences were noted between universities that provided and universities that did not provide subsidies with respect to the student enrollment of the institutions, foundation unrestricted expenditures, or the valuation of foundation endowed funds. Therefore, the null hypotheses Ho_1, Ho_2, and Ho_4 were retained. However, the findings were differentiated for Ho_3, the relationship between universities that did provide and universities that did not provide office space, printing service, and utility subsidies with respect to foundation expenditures of restricted funds. The mean of restricted expenditures for those foundations which did <u>not</u> receive these subsidies was statistically different (2.8, 2.6, and 4.3 times higher) from the mean for foundations receiving these subsidies. Therefore, the null hypothesis was rejected with respect to these subsidies. There were no significant differences between universities that provided and universities that did not provide the remaining three subsidy types for personnel, mailing services, and computer services with respect to restricted expenditures. Therefore, the null hypotheses was retained with respect to these subsidies.

The remaining four hypotheses were tested by ANOVA to determine if there were significant differences between the dollar ranges of the subsidies and the

value of foundation endowed funds (Ho_5), university enrollment (size, Ho_6), and unrestricted (Ho_7) and restricted foundation expenditures (Ho_8). Results were as follows: (1) There were significant differences between the mean value of the foundation endowed funds and the dollar ranges of subsidies provided, resulting in the rejection of the null hypothesis Ho_5. In addition, the LSD revealed that those foundations that received the lowest subsidy (zero) had mean endowment values that were statistically greater than those foundations that received subsidies from their universities. (2) There were significant differences between the mean student enrollments of the universities and the dollar ranges of subsidies provided, resulting in the rejection of the null hypothesis Ho_6. In addition, the LSD revealed that those universities that provided no subsidies to their foundations and those that provided the largest subsidies ($100,000 or more) to their foundations were statistically larger in enrollment size than those universities in the remaining two categories ($1 to $49,999 and $50,000 to $99,999). (3) There were significant differences between the mean amount of unrestricted expenditures of the foundations and the dollar ranges of subsidies provided, resulting in the rejection of the null hypothesis Ho_7. In addition, the LSD revealed that those foundations that received the lowest subsidy (zero) had mean unrestricted expenditures that were statistically greater than those foundations which received $1 to $49,999 or $100,000 or greater. There were no statistical differences between the category $50,000 to $99,999 and the remaining three subsidy categories. (4) There were significant differences between the mean amount of restricted expenditures of the foundations and the dollar ranges of subsidies provided, resulting in the rejection of the null hypothesis Ho_8. In addition, the LSD revealed that those foundation that received the lowest subsidy (zero) had mean restricted expenditures that were statistically greater than those in the remaining subsidy categories.

5) To utilize the findings of this study as a basis for offering recommendations relative to the development of model guidelines pertaining to state audit jurisdiction and the provision of subsidies by universities to their affiliated foundations:

Based on the statistical analysis of the data, suggestions are included in both the conclusions and recommendations sections of this chapter relative to the nature of the university-foundation relationship.

Findings

The following findings were drawn from this study:

1. Nearly all (94 percent) of the 83 universities that responded to the study provided at least one type of subsidy to their foundations. In addition, the vast majority of universities (80 percent) provided office space, while 73 percent provided personnel for staffing their foundations.

2. Nearly all (90 percent) of the 78 universities that responded to the question regarding the dollar value of subsidies provided indicated they subsidized their foundations in dollar values ranging from $1 to $250,000 or more. Of these respondents, 63 percent indicated the total value of all university services and facilities provided to their foundations exceeded $25,000; 50 percent provided subsidies of $50,000 or more; 33 percent provided subsidies of $100,000 or more; and 20 percent provided subsidies of $250,000 or more to their foundations.

3. The t-statistics revealed there were no significant differences between universities that did provide subsidies and universities that did not provide subsidies with respect to student enrollment and to both the unrestricted expenditures and the endowment values of foundations. The null hypotheses for Ho_1, Ho_2, and Ho_4 were therefore retained. Significant differences were found between universities

that provided and those that did not provide subsidies for office space, printing services, and utilities with respect to the amount of the foundation unrestricted expenditures, resulting in the rejection of the null hypothesis (Ho_3) for these subsidies.

4. One-way ANOVA tests revealed that there were significant differences between the mean numbers or amounts for university enrollment size, foundation restricted and unrestricted expenditures, and foundation endowment values and the dollar range of subsidy provided.

5. LSD tests revealed that those foundations that received the lowest subsidy (zero) had the highest means for the value of their endowed funds, student enrollments, and unrestricted expenditures or restricted expenditures when compared with the means associated with foundations receiving the other three levels of subsidies, $1 to $49,999, $50,000 to $99,999 or $100,000 and greater. This suggests that once a foundation reaches a solid financial basis, as directly and indirectly indicated by its level of expenditures, endowment value, and its donor base as reflected in student enrollment figures, the foundation is less likely to receive subsidies from its university. The results also suggest that this occurrence is rare (94 percent of the universities received at least one type of subsidy) and that the majority of foundations have not yet reached this level of financial strength.

6. Given that 50 percent of the respondents indicated that their legally separate and independent, not-for-profit foundations received $50,000 or more in subsidies from their affiliated public universities, and that overall 73 percent of the universities provided personnel while 80 percent of the universities provided office space, the results of this survey suggest that many foundations affiliated with public universities could be considered state-aided entities, as defined by Miles (1988). As

such, these foundations could be subject to the audit jurisdiction of the states in which they are chartered. As Miles observed,

> this situation . . . precludes any real independence between the two organizations. . . . Thus, the degree of support provided the Foundation by the [University] has resulted in the Foundation becoming a State-aided institution subject to audit by the Secretary of State under ORS 297.210. (pp. 3-4)

At a minimum, the fact that several foundations have been recently criticized for serious professional breaches by state investigators strongly suggests that regardless of the issue of subsidies, closer public oversight of foundation activities seems advisable.

Conclusions

It is essential to the continued support for higher education that the public's confidence be maintained in the integrity of the universities' affiliated foundations. Foundations present themselves to the public as separate, self-contained entities. Typically, the foundations contend that this status places them beyond the audit jurisdiction of both the universities and state audit agencies. Contrary to these popular assurances, this study reveals that the vast majority of foundations are not separate and self-contained entities. Over 94 percent of the foundations received at least one subsidy from their public university. Moreover, the subsidy value was at least $25,000 a year for 63 percent and over $100,000 a year for 33 percent of the foundations surveyed.

In light of the current study, the public's confidence and trust in public higher education could be severely undermined if officials from either the universities or the foundations were to continue to maintain that foundations affiliated with public universities are separate, independent, self-contained entities that are beyond state and university jurisdiction. A reasonable expectation arising from this investigation

is that it should serve to stimulate meaningful and constructive dialogue on the issues of the propriety of subsidies, foundation independence, and audit jurisdiction. It is hoped that this study will contribute to the resolution of these issues to the degree that public confidence can be maintained in the integrity of public universities and their foundations, while assuring the continuation of private financial support for public education.

Recommendations

On the basis of the findings of this study, it is recommended that officials from universities, foundations, and appropriate state agencies use this study as a basis for developing guidelines regarding the propriety of university-provided subsidies to affiliated foundations. These guidelines should endeavor to delineate the types and levels of subsidies that are permissable (if any). In addition, the issue of audit jurisdiction by the state should be related to the provision of subsidies and clearly specified.

In addition, the survey results have raised several questions regarding foundations which remain to be answered. Directions for further research concerning university related foundations are recommended as follows:

1) Continue with research efforts that attempt to determine the precise dollar values of each type of subsidy, as are practical to obtain, provided by the universities to their foundations.
2) Initiate research to determine the university's justification and basis for awarding public subsidies to legally separate and independent foundations. Determine if subsidies are awarded on the basis of financial need or upon some other basis.

3) Initiate research designed to determine the continued need of the foundations to maintain their status as legal entities separate from the university, based upon consideration of the following questions. Do state regulations restrict or hinder universities from accomplishing their legitimate purposes? If so, what percentage of foundation activities involve transactions either prohibited or hindered by state law? Will the continuation of foundation status as a separate and distinct legal entity be required to meet future university needs, or should universities dissolve their foundations and perform these function for themselves?
4) Initiate research to determine the legality of a public agency providing subsidies to legally separate, independent entities.
5) Initiate research to determine the legality of state payment of the salaries of public employees who are directly employed by legally separate, independent entities.
6) Initiate research to determine how public disclosure laws impact foundations that are staffed with university (public) employees. Does the public have the right to access foundation records if public employees oversee foundation activities

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APPENDICES

Appendix A

Survey Instrument

ASSOCIATION OF COLLEGE AND
UNIVERSITY AUDITORS

(ACUA)

FOUNDATION MANAGEMENT SURVEY

SPONSORED BY THE
ACUA PUBLICATIONS AND RESEARCH COMMITTEE

CONDUCTED BY THE

SURVEY RESEARCH CENTER

OREGON STATE UNIVERSITY
CORVALLIS, OR 97331

This survey contains questions about various aspects of the Foundation's operations. Your cooperation and insights are greatly appreciated.

FOUNDATION MANAGEMENT SURVEY

→ Is your university affiliated with a separately incorporated non-profit foundation which exists for the purpose of encouraging voluntary private gifts, trusts and bequests for the benefit of the university? (Circle one number)

1 YES, AFFILIATED WITH A FOUNDATION (PLEASE COMPLETE THIS SURVEY)
2 NO, NOT AFFILIATED WITH A FOUNDATION: Since you are NOT affiliated with a foundation, this survey does not apply to you. Please return it in the enclosed envelope. Thank you for your help.

I. The first section of this survey asks about audit practices and policies for foundations. . .

1. Does the university have any written policies and/or regulations pertaining to the establishment and/or operation of foundations? (Circle one number)

   1 YES, HAS WRITTEN POLICIES
   2 NO, DOES NOT

2. Do university internal auditors have the right to audit their foundation? (Circle one number)

   1 NO, THEY DO NOT (SKIP TO QUESTION 3)
   2 YES, THEY HAVE THE RIGHT TO AUDIT

   → 2a. Is this right specifically stated in a policy, contract or agreement? (Circle one number)

   1 YES, SPECIFICALLY STATED
   2 NO, NOT SPECIFICALLY STATED

   2b. Within the past five years, have university auditors conducted any reviews or audits of the foundation? (Circle one number)

   1 NO, THEY HAVE NOT (SKIP TO QUESTION 3)
   2 YES, HAVE CONDUCTED REVIEW OR AUDIT

   → 2c. Are these internal audits conducted annually, periodically, or upon request? (Circle one number)

   1 ANNUALLY
   2 PERIODICALLY
   3 UPON REQUEST

(PLEASE GO ON TO THE NEXT PAGE)

3. Is the foundation audited by external CPA's? (Circle one number)

1 NO, IT IS NOT (SKIP TO QUESTION 4)
2 YES, AUDITED BY EXTERNAL CPA's

3a. For how many years, altogether, have the present external auditors been retained by the university to conduct audits of the foundation? (Circle one number)

1 ONE TO FIVE YEARS
2 SIX TO TEN YEARS
3 ELEVEN TO FIFTEEN YEARS
4 SIXTEEN OR MORE YEARS

3b. Please indicate whether or not each of the following receives copies of the external auditors' report. (Circle one number for each)

	RECEIVE REPORTS	DO NOT RECEIVE
a. University President . .	1	2
b. University Trustees. . .	1	2
c. University Controller .	1	2
d. University auditors . .	1	2
e. Foundation donors . . .	1	2
f. Other (Specify_____)	1	2

3c. Do the current external auditors donate their services, bill full cost, or bill only partial cost? (Circle one number)

1 DONATE SERVICES (SKIP TO QUESTION 4)
2 BILL AT FULL COST
3 BILL AT PARTIAL COST

3d. What is the typical range of audit costs? (Circle one number)

1 LESS THAN $10,000
2 $10,000 TO $24,999
3 $25,000 TO $34,999
4 $35,000 TO $44,999
5 $45,000 AND OVER

(PLEASE TURN THE PAGE)

4. Is the university foundation audited by State auditors? (Circle one number)

1 NO, IT IS NOT (SKIP TO QUESTION 5)
2 YES, AUDITED BY THE STATE

4a. Please indicate whether or not each of the following receives copies of the State auditors' report. (Circle one number for each)

	RECEIVE REPORTS	DO NOT RECEIVE
a. University President . .	1	2
b. University Trustees . .	1	2
c. University Controller .	1	2
d. University auditors . .	1	2
e. Foundation donors . . .	1	2
f. Other (Specify_____)	1	2

II. This section concerns foundation membership and university support...

5. Please indicate whether university officials other than the university president can or can not serve in each of the following capacities. (Circle one number for each)

	YES, CAN SERVE	NO, CAN NOT
a. As voting officers of the foundation . .	1	2
b. As nonvoting officers of the foundation.	1	2
c. As a member of the foundation board . .	1	2

6. Does the university have written policies addressing who may or may not serve on the board? (Circle one number)

1 YES, HAS WRITTEN POLICIES
2 NO, DOES NOT

(PLEASE GO ON TO THE NEXT PAGE)

7. The table below presents some ways a university can help support its foundation. Please indicate whether or not your university provides each of the following. (Circle one number for each)

	YES, PROVIDED	NO, NOT PROVIDED
a. Office space	1	2
b. Personnel.	1	2
c. Mailing services	1	2
d. Printing services	1	2
e. Computer services	1	2
f. Utilities	1	2
g. Other (Specify_____)	1	2

8. Does the university have an accounting or reporting mechanism to identify the costs of university services and facilities provided to, or exchanged for services in kind to the foundation? (Circle one number)

1 YES, HAS MECHANISM
2 NO, DOES NOT

9. Approximately what is the total value of all university services and facilities provided to, or exchanged for services in kind to the foundation? (Circle one number)

1 NOTHING PROVIDED OR EXCHANGED
2 $1 TO $24,999
3 $25,000 TO $49,999
4 $50,000 TO $99,999
5 $100,000 TO $249,000
6 $250,000 OR MORE

10. Please indicate whether or not the university or foundation assesses donations or their interest earnings a service fee to support foundation operations. If "YES", also give the percentage that is assessed.

	Assess a fee? NO	YES		PERCENTAGE ASSESSED
a. On the principal	1	2	→	_____%
b. On the interest	1	2	→	_____%
c. Other (Specify_____)	1	2	→	_____%

(PLEASE TURN THE PAGE)

III. The next section asks about supplemental salaries and fund accounting...

11. Does the foundation ever pay supplemental salaries? (Circle one number)

1 NO, IT DOES NOT (SKIP TO QUESTION 12)
2 YES, PAYS SUPPLEMENTAL SALARIES

11a. Please indicate whether or not each of the following types of approval are required for supplemental salary payments. (Circle one number)

	APPROVAL REQUIRED	NOT REQUIRED
a. Trustee approval for payments made to the President	1	2
b. Presidential approval for payments made to University employees. .	1	2
c. Other (Specify_____)	1	2

11b. Does the university require supplemental salaries to be paid through university accounts? (Circle one number)

1 NO, IT DOES NOT (SKIP TO QUESTION 12)
2 YES, REQUIRES PAYMENT THROUGH UNIVERSITY ACCOUNTS

11c. Does the university assess fringe benefits on these salaries? (Circle one number)

1 YES, ASSESSES BENEFITS
2 NO, DOES NOT

12. Does the foundation allow capital gains or interest made from current restricted funds to be used for non-designated purposes? (Circle one number)

1 YES, ALLOWS USE OF CAPITAL GAINS OR INTEREST
2 NO, DOES NOT

(PLEASE GO ON TO THE NEXT PAGE)

13. Is the foundation ever permitted to temporarily use current restricted funds for non-designated purposes? (Circle one number)

1 NO, NOT PERMITTED (SKIP TO QUESTION 14)
2 YES, NON-DESIGNATED TEMPORARY USES PERMITTED

13a. Please indicate whether or not written approval is required by any of the following for making temporary use of current restricted funds for non-designated purposes? (Circle one number for each)

	Written approval required?	
	YES, REQUIRED	NO, NOT REQUIRED
a. Foundation officers.	1	2
b. Foundation Board	1	2
c. University officials	1	2
d. Other (Specify_____)	1	2

13b. Do policies or practices require the establishment of an interest rate for all temporary uses of current restricted funds for non-designated purposes? (Circle one number)

1 YES, ESTABLISHMENT OF INTEREST RATE REQUIRED
2 NO, NOT REQUIRED

13c. Do policies or practices require the preparation of a formal journal entry documenting the temporary use of restricted funds for non-designated purposes? (Circle one number)

1 YES, JOURNAL ENTRY REQUIRED
2 NO, NOT REQUIRED

14. Does the foundation segregate restricted funds from unrestricted funds by depositing them in separate bank accounts, or are all funds deposited and maintained in one bank account? (Circle one number)

1 ALL FUNDS ARE DEPOSITED IN ONE BANK ACCOUNT
2 RESTRICTED AND UNRESTRICTED FUNDS DEPOSITED SEPARATELY

15. Does the foundation co-mingle restricted funds with unrestricted funds for investment purposes, or does it maintain separate investment accounts? (Circle one number)

1 CO-MINGLES FUNDS FOR INVESTMENT PURPOSES
2 MAINTAINS SEPARATE INVESTMENT ACCOUNT

(PLEASE TURN THE PAGE)

16. Is the foundation required to report certain levels of expenditures per project to either the president or university trustees? (Circle one number)

1 NO, NOT REQUIRED TO REPORT (SKIP TO QUESTION 17)
2 YES, REQUIRED TO REPORT

16a. At what level of expenditure is the foundation required to report? (Circle one number)

1 $25,000 OR LESS
2 $25,001 TO $50,000
3 $50,001 TO $100,000
4 OVER $100,000

17. Does the foundation, the university, or an external auditor prepare the IRS 1099 Supplemental Income form for payments made by the foundation on behalf of university employees? (Circle one number)

1 FOUNDATION PREPARES
2 UNIVERSITY PREPARES
3 EXTERNAL AUDITOR PREPARES

IV. This section discusses public interest in foundations and foundation loan policy...

18. In the last 12 months has anyone, either inside or outside the university, expressed any concerns about the operation or management of the foundation on your campus? (Circle one number)

1 NO ONE HAS EXPRESSED CONCERN (SKIP TO QUESTION 19)
2 YES, THERE HAVE BEEN CONCERNS EXPRESSED

18a. Please indicate if any of the following have expressed concern about the operation or management of the foundation on your campus. (Circle one number for each)

	YES, HAVE	NO, HAVE NOT
a. University Trustees	1	2
b. University Presidents	1	2
c. Faculty/ staff.	1	2
d. Donors.	1	2
e. The general public	1	2
f. The press/media	1	2
g. Other (Specify _____)	1	2

(PLEASE GO ON TO THE NEXT PAGE)

18b. Below is a list of possible areas of concern about the management or operation of university foundations. Please indicate whether or not each is a concern expressed about the foundation on your campus. (Circle one number for each)

	YES, A CONCERN	NO, NOT A CONCERN
a. Improper use of restricted funds . . .	1	2
b. Failure to comply with sound purchasing practices.	1	2
c. Public perception of excessive or extravagant expenditures	1	2
d. Need for greater public accountability.	1	2
e. Other (Specify_____	1	2

19. Is the foundation at your university permitted to make loans to individuals or businesses? (Circle one number)

1 NO, NOT PERMITTED (SKIP TO QUESTION 21)
2 YES, PERMITTED TO MAKE LOANS

19a. Please indicated if your foundation can or cannot make loans to each of the following. (Circle one number for each)

	YES, CAN	NO, CANNOT
a. To foundation Board members	1	2
b. To foundation officers	1	2
c. To foundation employees	1	2
d. To university officials	1	2
e. To family relations of foundation members or university officials . . .	1	2
f. To businesses in which either foundation members or university officials or their relatives have an ownership interest .	1	2
g. Other (Specify_____)	1	2

19b. Do policies or practices require the foundation to obtain independently verified collateral prior to granting a loan? (Circle one number)

1 NO, NOT REQUIRED (SKIP TO QUESTION 19e)
2 YES, VERIFIED COLLATERAL IS REQUIRED

(PLEASE TURN THE PAGE)

19c. Generally, how much collateral must the borrower provide in order to obtain a loan? (Circle one number)

1 GREATER THAN 100 PERCENT OF THE LOAN
2 100 PERCENT OF THE LOAN
3 BETWEEN 75 PERCENT AND 100 PERCENT OF THE LOAN
4 OTHER (Specify_____)

19d. Please indicate whether or not policies or practices require each of the following concerning collateral pledged by the borrower. (Circle one number for each)

	YES, REQUIRED	NO, NOT REQUIRED
a. Listing the foundation as a secured title holder to property pledged . . .	1	2
b. Obtaining expert appraisal	1	2
c. That the foundation physically retain property (i.e., coins, jewels) . . .	1	2

19e. Can the foundation forgive or write off interest or principle owed to it by a borrower? (Circle one number)

1 NO, CANNOT FORGIVE OR WRITE OFF (SKIP TO QUESTION 20)

2 CAN FORGIVE OR WRITE-OFF INTEREST ONLY
3 CAN FORGIVE OR WRITE-OFF PRINCIPLE ONLY
4 CAN FORGIVE OR WRITE-OFF BOTH INTEREST AND PRINCIPLE

19f. At which level are such decisions made? (Circle one number)

1 FOUNDATION BOARD
2 FOUNDATION TREASURER
3 OTHER (Specify_____)

19g. Are there written policies requiring the foundation to document in writing all decisions pertaining to forgiving or writing off a debt? (Circle one number)

1 YES, THERE ARE WRITTEN POLICIES
2 NO, THERE ARE NOT

(PLEASE GO ON TO THE NEXT PAGE)

20. The following is a list of practices and procedures associated with loans. Please indicate whether or not your foundation follows each procedure and, if "YES", also indicate whether the practice is governed by a formal written policy (which includes internal, university or state policies), or an unwritten informal policy.

	Do you follow this practice?			If YES, is this practice...	
	NO	YES		WRITTEN, FORMAL	UNWRITTEN, INFORMAL
a. Charge interest on all loans	1	2	→	1	2
b. Charge the prevalent banking market rate of interest	1	2	→	1	2
c. Document borrower's reason for the loan . .	1	2	→	1	2
d. Document the terms of repayment	1	2	→	1	2

IV. The last section asks for general information about your foundation and your institution ...

21. Does the foundation at your institution have written manuals describing or documenting its internal accounting procedures and policies? (Circle one number)

    1 YES, HAS WRITTEN MANUALS
    2 NO, DOES NOT

22. Must expenditures made by the foundation on behalf of the university comply with university regulations pertaining to bidding requirements? (Circle one number)

    1 YES, MUST COMPLY
    2 NO, NEED NOT COMPLY
    3 UNIVERSITY DOES NOT HAVE BIDDING REQUIREMENTS

23. Please indicate whether or not each of the following is a way in which the foundation at your university can select board members (Circle one number for each)

	YES, IS A WAY	NO, IS NOT
a. Appointed by vote of board members . .	1	2
b. Appointed by university president . .	1	2
c. Elected by faculty	1	2
d. Elected by donors	1	2
e. Other (Specify_____)	1	2

(PLEASE TURN THE PAGE)

24. What is the length of a board member's term? (Circle one number

    1 FROM ONE TO THREE YEARS
    2 FROM FOUR TO SIX YEARS
    3 LONGER THAN SIX YEARS

25. What is the most recent valuation of the endowed funds?

    $_____ENDOWMENT VALUE

26. Please give the total unrestricted expenditures, and the total current restricted expenditures for the 1986/87 academic year.

    $_____UNRESTRICTED EXPENDITURES

    $_____CURRENT RESTRICTED EXPENDITURES

27. Is your university public or private? (Circle one number)

    1 PUBLIC
    2 PRIVATE

28. What was your approximate student enrollment for the 1987/88 academic year?

    _____STUDENT ENROLLMENT

29. What is your title?

    _____TITLE

30. How many years, altogether, have you served in this position?

    _____YEARS

31. Is there anything else you would like to say about the operation or management of the foundation at your institution?

(THANK YOU FOR YOUR COOPERATION)

Appendix B

Cover Letter, First Request

ASSOCIATION OF COLLEGE AND UNIVERSITY AUDITORS

July 6, 1988

Dear ACUA Member:

Enclosed is a questionnaire seeking information about the accounting practices used at your institution's fund raising foundation. This survey is sponsored by the *Association of College and University Auditors (ACUA)* with the cooperation of Kathleen Kelley and Charles Jefferis of the Publications and Research Committee. Please see page 2 of the questionnaire for a more complete definition of a foundation to determine if this survey applies to you. Many of the survey's questions are based on issues currently receiving both public and legislative scrutiny across the nation. This survey is designed to not only generate data for comparisons sake, it is also designed to help management identify crucial issues in foundation management that may warrant additional consideration.

We appreciate the proprietary nature of the information requested, and we will preserve the confidentiality of your response both during the processing of the survey and the reporting of the results. Towards this objective, the Survey Research Center at Oregon State University will process the data and help analyze the results.

This survey is being mailed to institutions based upon a statistical sample, therefore, each response is crucial to maintaining the validity of the study. Your cooperation in routing this survey to the appropriate individuals for completion is greatly appreciated.

Please note that your questionnaire is prenumbered. This is to enable the Survey Research Center to send reminders, if necessary, to those who have not returned their questionnaire.

If interested, we will mail you a summary of results. Just note on the back of the return envelope that you would like to receive one. Please return the completed questionnaire in the pre-addressed envelope. No postage is necessary. If you have any questions or insights, please call me at (503) 754-2193.

Thank you for your cooperation.

Sincerely,

Redacted for Privacy

Peter Hughes
Director of Internal Audit
Oregon State System of Higher Education

PH:mb

Appendix C

Cover Letter, Second Request

ASSOCIATION OF COLLEGE AND UNIVERSITY AUDITORS

August 3, 1988

Dear ACUA Member:

About three weeks ago I wrote to you seeking input on a questionnaire pertaining to your institution's foundation. As of today we have not received your completed questionnaire.

The Publications and Research Committee has undertaken this study because it believes the information obtained from the survey will be of great value to officials from both the institution and the foundation.

I am writing to you again because of the significance each questionnaire has to the usefulness of this study. Because the questionnaire has been sent to only a small, but representative, sample of ACUA contacts, it is extremely important that yours also be included in the study if the results are to accurately represent the practices of the profession.

In the event that your questionnaire has been misplaced, a replacement is enclosed for your convenience. Please complete the questionnaire and return it in the enclosed envelope.

If your institution is not affiliated with a separately incorporated not-for-profit fund raising foundation, please indicate this on the questionnaire and return it so you can be removed from the mailing list.

Your cooperation is greatly appreciated.

Redacted for Privacy

Peter Hughes
Director of Internal Audit
Oregon State System of Higher Education